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Economic Comment

Retail sales up y/y, construction depressed

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Retail sales grew by 3.0% in July versus -1.3% in June, in line with our forecast (2.8%) and above the market consensus (-0.7% y/y). Retail sales turned positive on an annual basis for the first time since pre-epidemic February. We think however that some factors pushing sales up are temporary and effects of end of stimulus are likely to jump in, making us expect the retail sales to show only a slight improvement in the months to come. Construction output dropped much more than expected, 10.9% y/y vs 5.5% consensus. While housing construction output was still recording high growth rates, the indicator of running projects in housing was also depressed. August business sentiment indexes improved again in all sectors, but with some expectations components deteriorating.

Retail sales higher than a year ago

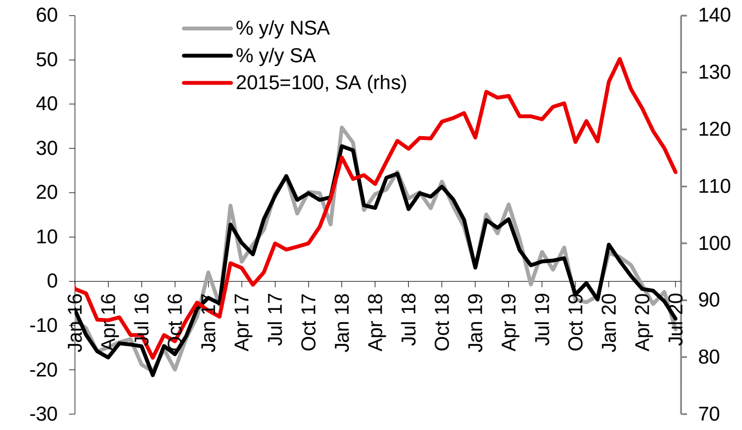
While improvement in sales was generally broad-based, the acceleration of the headline figure was mostly due to a recovery in car (+0.7% y/y vs -7.4% y/y in June) and fuel sales (-3.8% y/y vs -10.9% y/y). Total sales of durables advanced by 8.2% y/y with non-durables expanding by 1.4% y/y. Strong sales of durables are in our view due to realisation of postponed demand and to creation of new needs, triggered by longer presence in home (remote work, remote schooling). Both factors are temporary and likely to be waning in the months to come. Moreover, as the government fiscal stimulus is coming to an end, enterprises may be forced into layoffs and bankruptcies over the medium term. Thus, we are expecting the retail sales to show only a slight improvement in the months to come.

Internet sales accounted for 6.5% of total sales. In most categories the prevalence of internet returned to pre-covid level, with only sales of household appliances still retaining some more presence in the internet (11.1% in July vs 9.8% average in January-February). Clearly, the epidemic did not cause permanent effects on median consumer behaviour.

Construction sector responds with a lag

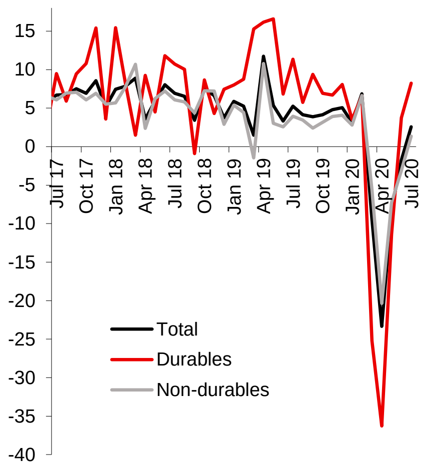
In July construction output dropped by 10.9% y/y, which is a much worse outcome than was expected (-5.5% market consensus, -4.5% our forecast). In seasonally adjusted terms the decline deepened to -8.5% y/y from -4.5%. Civil engineering was responsible for the negative surprise with output dropping by 16.9% y/y. Construction of buildings also did not performed well, at -7.6% y/y. Construction sector tends to react slower to the pandemic shock and the support measures (like Next Generation EU) provide a positive outlook. Yet, the negative surprise in the initial month of 3Q may make us less eager to upgrade much the whole GDP path (more than required by the positive surprise with flash 2Q reading).

Construction output



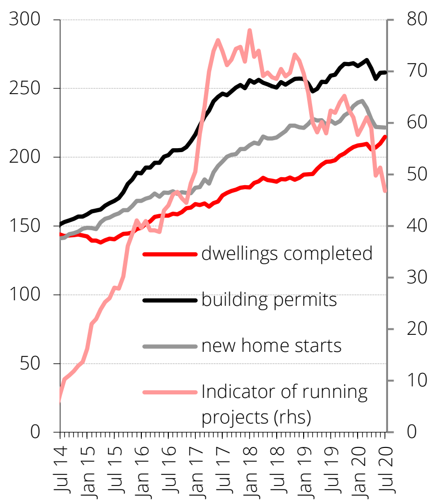
Source: GUS, Santander

Retail sales in main categories, % y/y



Source: GUS, Santander

Housing market data, 12 sums, thousand



Source: GUS, Santander
Indicator of running projects = 12m sum of permits – 12m sum of completions

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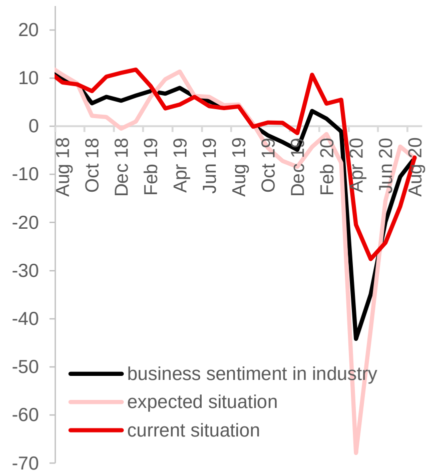
In contrast to other construction sectors, housing output was posting high growth rates. Number of completed flats rose in July by 28.7% y/y, driven both by high activity of developers (37.7% y/y) and individual investors (22.7% y/y). Meanwhile, number of new permits is rather stagnating (1.2% y/y) and new home starts even falling (-1.2% y/y). Investors are very active in finishing current projects, but not so eager to start new ones and this is likely to weigh on housing output in the following quarters (12 month lag could serve as a proxy here). This has brought the running projects indicator to the lowest level since 2016.

Business sentiment: still up, but with reservations

In August, sectoral business sentiment indexes all improved again. Current assessment components all rose m/m, especially in horeca, industry and retail trade. However, these were also the sectors which negatively corrected their expectations the most. This hesitation about the outlook is something new, as in the previous three readings all sectors were pushing up their expectations.

The Covid part of the GUS survey shows similar doubts about further normalisation. The share of construction and wholesale trade companies feeling the pandemic may threaten their existence rose in August (to 10.2% from 9.1% and to 8.4% from 8.3%, respectively) and another 25.1% of wholesale trade firms expects serious consequences (up from 23.2%). Despite a rebound in infection statistics, the shares of employees on remote work, quarantined and on unplanned leaves for family care kept going down, but with some exceptions (share of the quarantined up among construction and wholesale trade employees, transport companies relying more on remote work). There was an additional question on 2020 investment plans compared to 2019 expenditures with answers ranging from -5.6% for industry to -20.8% in construction and -33% in hotels and restaurants.

Business sentiment indicators: industry



Source: GUS, Santander

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