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Economic Comment

Construction output up, weak retail sales

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Construction output surprised to the upside, adding 6.5% y/y in January 2020 (while market expected a decline by 3.6% y/y). This was one of the mildest Januaries by means of the average temperature in many years. Real retail sales rose by 3.4% y/y vs 4.1% market expectations and the previous print of 5.7%. The weakness was mostly seen in durable goods sales. Broad-based decline of GUS sectoral business sentiment indicators continued in February.

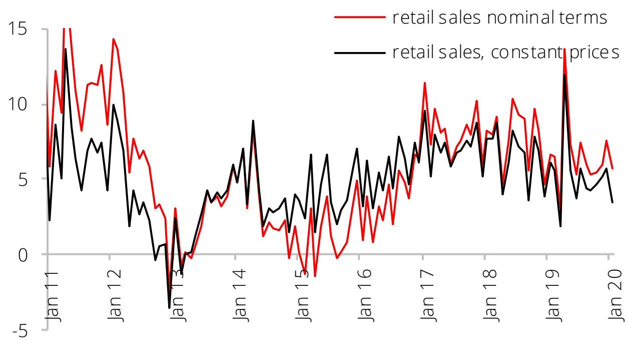
Stronger-than-expected construction output in January

Construction output surprised to the upside, adding 6.5% y/y in January 2020 (while market expected a decline by 3.6% y/y). The positive contribution was secured by civil engineering (+17.0% y/y) as well as by specialised works (+10.7% y/y), while construction of buildings declined by 4% y/y. This was one of the mildest Januaries in many years: average temperature in January 2020 was by 3.5 Celsius degrees higher y/y, and there were hardly any days with temperature below 0°C (see side chart). While the sector could have benefitted from the favourable weather conditions, we could also see some rebound in construction-related industries, like manufacture of mineral products, so maybe the sector is trying to recover. We will be able to say more on this after February, when the y/y difference in weather conditions was less significant. The housing sector was a bit slower in January, with a 0.5% y/y increase in ready flats, -11.0% y/y in new permits and +18.2% y/y in new home starts

Retail sales weakness

Real retail sales rose by 3.4% y/y vs 4.1% market expectations and the previous print of 5.7%. The categories that surprised us negatively are durables: cars, furniture, consumer electronics, white goods. Taken together, durable goods sales were up only 3.5% y/y, which is the lowest print since September 2018. ESI consumer confidence indicator is suggesting a collapse of appetite for major purchases recently while the GUS one is showing a lesser decline – the retail sales data confirm some weakness in the demand for durables, which in turn points to further slowdown of the whole private consumption. The weaker pace of retail sales is consistent with slower real wage bill growth and declining consumer sentiment.

Retail sales, %y/y



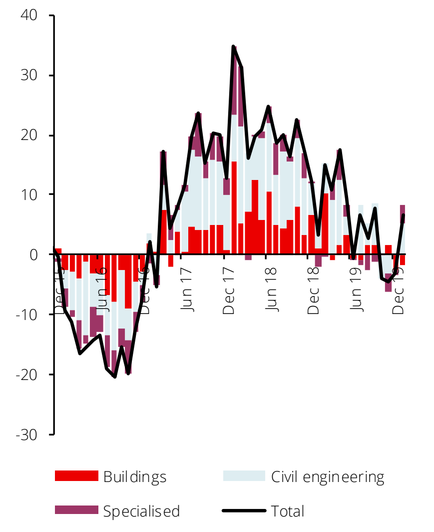
Source: GUS, Santander

The non-durable goods components of real retail sales grew 3.1% y/y, slightly less than the 2H19 average. The category "newspapers, books and sales in other specialised stores" recorded the worst growth for at least six years, but on the other hand the sales of clothing and footwear were surprisingly strong at +10.5% y/y.

The retail sales deflator rose from 1.7% y/y to 2.2%, the highest since August 2018. The deflator for car sales showed the highest value since the start of 2017, indicating another item that might have been responsible for the surprisingly strong January CPI (GUS does not release detailed data for January inflation until mid-March).

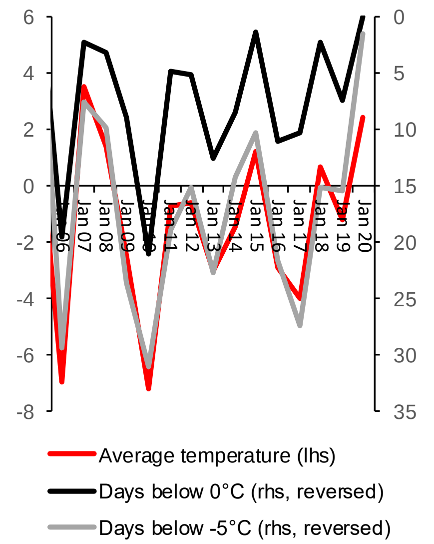
Business sentiment still heading down in February

Construction output, % y/y



Source: GUS, Santander

Weather data for Januaries



Source: GUS, Santander

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In February, all GUS sectoral business sentiment indicators declined m/m, except ICT. The sudden rise of optimism in industry in January (unconfirmed by other surveys) was almost entirely removed in the February print, bringing the index back to more less the 2H19 average. The indicator for the construction sector kept declining and is now the lowest in almost three years and the one for hotels and catering dropped to the lowest level in five years. The broad-based m/m deterioration of business sentiment came from the current assessment part of the survey, while some improvement was recorded in the forward looking components across sectors.

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