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Economic Comment

Construction resilient to virus, unlike retail sales

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April retail sales in constant prices fell by 22.9% y/y, more or less in line with our forecast and market consensus. Durable goods suffered more than non-durables. Sales are likely to improve in May, but remain in the negative territory. The erosion of households' incomes is likely to put negative pressure on consumer consumption in the months to come. Construction output surprised positively in April, showing only a marginal y/y decline of 0.9% vs +3.7% previously, thanks to robust civil engineering performance, while the housing market clearly stepped on the brakes in April. Sectoral business climate indicators rebounded in May on improved expectations, but current assessment indexes deteriorated further.

Retail sales constrained by the pandemic

April retail sales in constant prices fell by 22.9% y/y, more or less in line with our forecast and market consensus (-23.8% y/y and -19.0% y/y) and versus -8.9% y/y in March. The strongest blows were felt in clothing (-73.4% y/y) and car sales (-54.4% y/y). As it was already visible in industrial output data, durable goods suffered more than non-durables as the former fell by 36.3% y/y and the latter by 20.4% y/y.

Covid-19 restrictions galvanized the internet sales, which advanced by 27.7% m/m and were responsible for 11.9% of total sales (vs. 8.1% in March). As much as 61.3% of clothing merchandise was sold in the internet. Total contribution of internet sales to retail sales growth was at approximately 2 percentage points.

We expect retail sales to improve in May, as reopening of shopping malls encouraged consumers to return to clothing and furniture shops. Still, sales are likely to remain in the negative territory. However, epidemic-related restrictions do not tell the whole story, as the erosion of households' incomes, as shown by April's data on wages and employment, is likely to put a negative pressure on private consumption in the months to come.

Construction output showed resilience...

Construction output surprised positively in April, showing only a marginal y/y decline of 0.9% vs +3.7% previously. Civil engineering was the backbone of a relatively good result, rising 9.3% y/y and offsetting the 8.9% y/y decline in housing construction. Construction works were focused more on maintenance (+6.7% y/y in April) rather than investment projects (-5% y/y). The resilience of the construction output to the pandemic is even more surprising after the yesterday data on collapse of industrial output, partly caused by employee absences which were also reported by building contractors. While private investments may be cut severely this year, we believe that public investments will prevent a substantial decline in construction sector activity, with ambitious plans in transport infrastructure for this year.

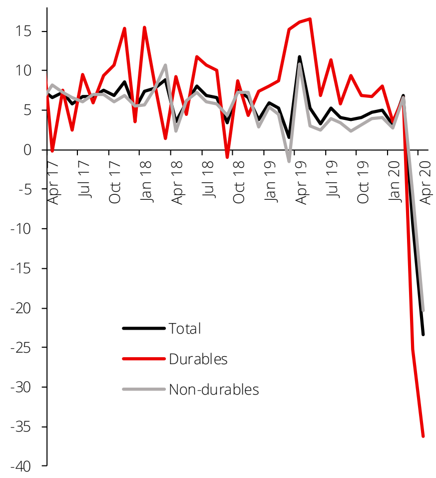
... but not in housing

The housing market clearly stepped on the brakes in April. The epidemic restrictions clearly discouraged households from purchasing flats. The number of completed flats fell by 16.6% y/y. While developers were determined to finish their projects (their output fell by mere 4% y/y) individual investors clearly held back and showed a decline of completed buildings by 33.8% y/y. The number of new building permits fell by 23.1% y/y and new house starts declined by 27.3% y/y. Interestingly, in this category developers were main laggards, as they recorded a decline by 44.8% y/y. Developers' construction starts of houses for rent declined by as much as 65.9% y/y.

Business expectations improved in May

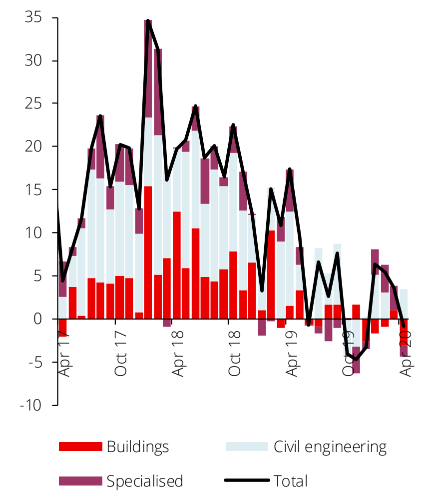
Most of sectoral business climate indicators rebounded in May by about a fifth of the unprecedented April drop. Current assessment components of these indicators dropped further in all sectors, the most in hotels and restaurants (which was already the most struck sector). However the expectations components all improved significantly, with hotels and restaurants showing the largest rise, followed by industry -

Retail sales, % y/y



Source: GUS, Santander

Construction output, y/y growth structure



Source: GUS, Santander

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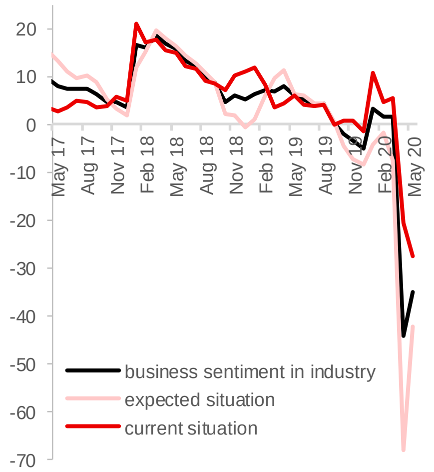
which may be due to the gradual easing of lockdown restrictions and the distribution of anti-crisis shield support.

As regards additional Covid-19 questions, there was a further slight increase m/m of the share of companies seeing serious negative or stability-threatening consequences of the pandemic (for industry from 60.2% to 64.8%). The reported share of unplanned absences and quarantines among employees went down slightly (for industry from 13.8% to 11.6%). Most sectors continue to report that their purchases from suppliers and expected client orders are down by 20-40%.

Business sentiment indicators for industry



Source: GUS, Santander

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