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Economic Comment

More positive September data

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September retail sales accelerated to 2.5% y/y from 0.5% y/y in August (we: 0.3% y/y, market: 2.4%). In October and in the upcoming months retail sales are likely to be negatively hit by wider range of COVID-19 restrictions and in our view it is likely to move back into negative territory. Construction output fell in September 9.8% y/y, less than expected (we: -15%, consensus: -11.2% y/y), joining the streak of positively surprising September's data. We think that the activity in the construction sector will remain subdued in the next few quarters and will be recovering at much slower pace than in manufacturing.

Sales higher, but slowdown is ahead

The September acceleration of retail sales was mostly driven by sales of food (+4,8% y/y vs -0,1% y/y in August) and cars (+4.9% y/y in September vs -5.0% y/y in August). These two categories were basically underpinned by a rather low statistical base effect. Meanwhile, other categories seem to lose steam, with clothing down by 1.7% y/y vs +1.2% in August and furniture/household appliances up by 8.6% y/y vs 10.2% y/y in August. While in general sales in most categories were better than we assumed, in general the numbers confirmed our call that the signal stemming from postponed demand is running out. Retail sales ex autos and food rose by 1.9% y/y vs 1.8% in August. We are expecting retail sales to slide back in the negative territory in October or November under impact of wider COVID-19 restrictions.

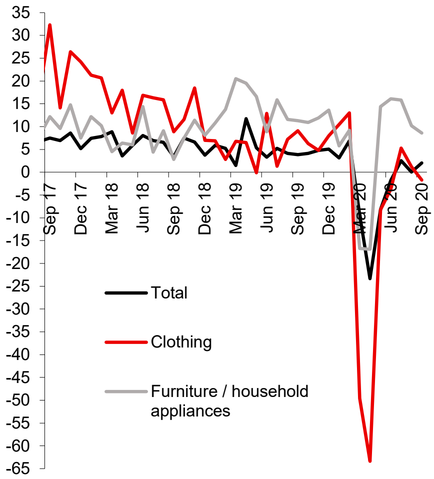
Data adjusted for seasonality saw a decline by 1.0% m/m. Share of internet sales went up to 6.8% from 6.1% in August, mostly thanks to higher sales of clothing (18.2% of sales vs 15.7% in August).

Construction weak but above expectations

Even though construction output was slightly better than expected, the seasonally adjusted production fell -10.6% y/y, which is the lowest reading since late 2016 and confirms that the sector is not out of the woods yet. Output declined in all areas, with the deepest drop in construction of buildings (-21.1% y/y) and civil engineering (-14.4%). Interestingly, the data suggest a solid pickup in investment works (-5.3% y/y vs -15.9% y/y in August). We think that the activity in the construction sector will remain subdued in the next few quarters and will be recovering at much slower pace than in manufacturing.

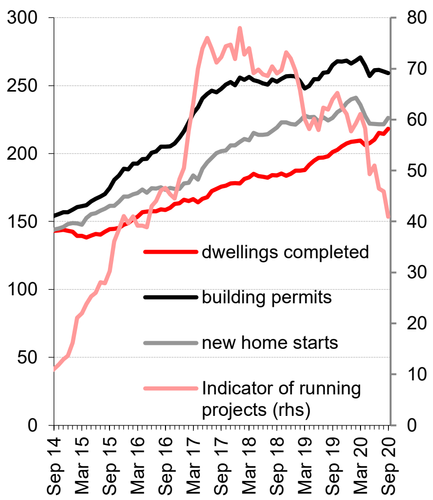
Housing market saw a high activity with finished flats up by 21.9% y/y and new home starts up by 22.1% y/y (the latter revived after three months of stagnation). Still, building permits fell by 5% y/y, dragging down the running projects indicator to the lowest level since 2016 and suggesting that the housing market activity is likely to slow down in the upcoming quarters.

Retail sales, % y/y



Source: GUS, Santander

Housing market data, 12M sums, thousand



Source: GUS, Santander
Running projects indicator is a 12M difference of building permits and finished flats

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