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# Economic Comment

## Restrictions dent sales

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October retail sales contracted by 2.3% y/y, somewhat stronger than expected (we: -0.6%, market: -0.7%) and versus +2.5% y/y in September. A slowdown was widely expected due to resurgence of pandemic restrictions in October. Thus, in November retail sales are likely to slow down even further. Results of companies employing 50+ improved in 3Q20, mainly thanks to cost-cutting amid falling revenues, while investment improved somewhat versus 2Q20, but mostly due to strong rebounds in a few sectors. Construction output declined in October a bit more than expected (-5.9% y/y), but much less than in September (-9.8%).

### Sales below expectations

The most considerable declines in annual growth rates versus September were witnessed by car sales (to -8.0% y/y from +4.9% y/y, but this category was also undermined by high statistical base effect), fuels (to -13.4% y/y from -4.6% y/y) and clothing/footwear (to -9.7% y/y from -1.7% y/y). Sales of pharmaceuticals and in non-specialised stores (mostly supermarkets) remained robust, while sales of furniture and electrical appliances even accelerated, to 11.9% y/y from 8.6% y/y. The latter category was also the leader as regards internet sales (+16.3% m/m) so it seems that the renewed lockdown again encouraged consumers to buy furniture and/or electrical appliances. Internet sales amounted to 7.3% of total retail sales as compared to 6.8% in September.

We are expecting sales to slow down further in November, given stricter epidemic limitations, including closure of shopping malls effective since 7<sup>th</sup> November. As malls are planned to reopen on 28<sup>th</sup> November, December could provide some breather for retail sales.

### Companies results improve on cost-cutting

3Q20 results of non-financial companies employing 50 and more people showed a decline in revenues by 2.1% y/y and in costs by 2.7% y/y (as compared to -13.9% and -13.8% in 2Q20, respectively), resulting in an improvement in gross financial results by 11.4% y/y (vs. -16.6% in 2Q20). Bigger companies managed to improve their results despite falling revenues and this was possible thanks to cost-cutting, mostly in materials (-4.6% y/y) and third-party services (-6.6% y/y). 4Q average profit margins improved to 4.4% from 4.2% in 2Q20.

### Investment up but driven by only a few sectors

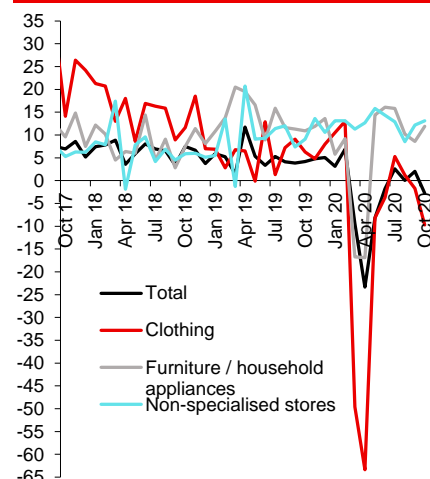
Investment outlays in the biggest firms fell by 9.0% y/y in 3Q20 versus -14.0% y/y in 2Q20 (fixed prices). The improvement was driven mostly by purchases of transport vehicles and machinery, while outlays on buildings fell by 3.4% y/y from +1.6% y/y recorded in 2Q20. This is in line with our expectations, as construction projects have a higher inertia.

That having said, most economic sectors have actually recorded a slowdown in investment, including mining, manufacturing, energy and utilities, construction or trade. Improvement in the headline figure was generated by real estate activities (+181% y/y), transport and storage (+21.5% y/y) and administrative/supporting activities (+15.2% y/y). We guess that this strong investment activity in these sectors may be connected to the epidemic effects, higher internet sales and changes in logistics.

### Construction output still lower than a year ago

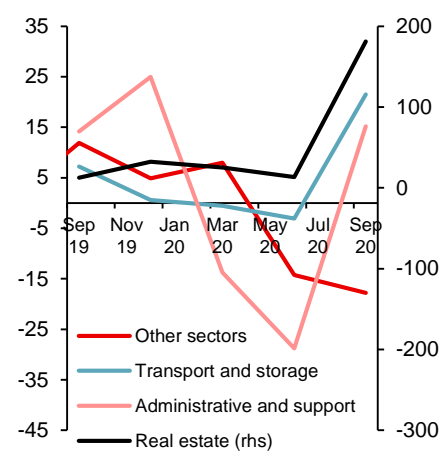
In October, construction output growth was at -5.9% y/y vs -5.8% market consensus and our -5.3% forecast. In SA terms the decline was 3.4% y/y vs -10.6% previously. This is quite a decent result given that the sector is reporting staffing issues due to increased sick leaves and quarantine. The largest decline was seen in construction of buildings, which includes housing (-11.3% y/y), while civil engineering was down 4% y/y

Retail sales, % y/y



Source: GUS, Santander

Investment outlays, % y/y (current prices)



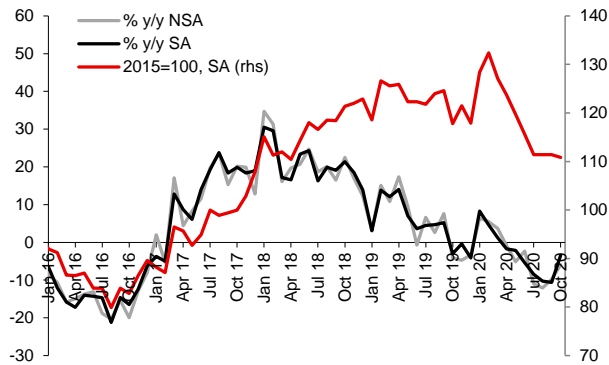
Source: GUS, Santander

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and specialized works -1.8% y/y. The current EU budget issues are a major concern for the future activity of the sector.

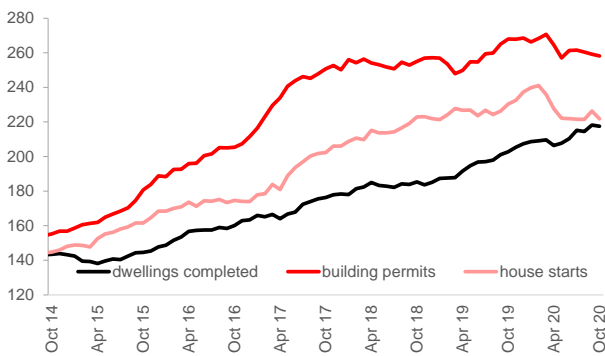
**Construction output**



Source: GUS, Santander

Housing data kept pointing in October to quite high activity, but loss of momentum is becoming more and more visible in the data. While the number of completed houses in 12M moving sum terms is still not far from the record set a month earlier, our proxy of running projects is already the lowest in 4-5 years – this could put downside pressure on construction results in the quarters to come.

**Housing data, 12M moving sum, in thousands,**



Source: GUS, Santander

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