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Economic Comment

Retail sales and construction rebound

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Retail sales declined by 0.8% y/y in December as compared to -5.3% y/y in November (market consensus at -0.9% y/y, our forecast at -3.8% y/y). We think that January retail sales are likely to deteriorate again given shopping malls were closed. Still, as the labour market situation remains quite robust, in our view epidemic restrictions are the main obstacle for a major rebound in retail sales and private consumption so we are expecting a quick normalisation as soon as these end. Construction output beat forecasts in December rising 3.4% y/y instead of falling 3.2% as we expected or by 0.6% seen by the market. All subsectors contributed to the rebound but mostly the construction of buildings, probably due to to a major jump in housing market activity. There was a further rise of business confidence in January, but more selective than in December.

Retail sales supported by reopened malls

In December retail sales rebounded in annual terms in all categories. It seems, however, that two factors were prevailing: (1) temporary reopening of shopping malls on 28 November, which boosted sales of clothing (-10.9% y/y vs -21.9% y/y in November) and household appliances (+3.5% y/y vs -0.6% y/y in November) and (2) Christmas. True, Christmas is a regular event, but this year it was feared that epidemic restrictions will discourage the population from lavish celebrations and travelling. As food sales rebounded to +0.7% y/y from -2.9% y/y and fuel sales to -10.3% y/y from -14.7% y/y, it seems that these fears were unfounded.

We think that January retail sales are likely to deteriorate again given shopping malls were closed again on 28 December. Still, as the labour market situation remains quite robust, we think epidemic restrictions are the main obstacle for a major rebound in retail sales and private consumption so we are expecting a quick normalisation as soon as these end.

Rise of construction output

Construction output beat forecasts in December, rising 3.4% y/y instead of falling 3.2% as we expected or by 0.6% seen by the market. The rise was caused by investment works (+7.7% y/y), while the repair and maintenance component was down by 3.1% y/y.

All subsectors contributed to the rebound but mostly the construction of buildings, adding 5pp more to the headline output growth than in November. Construction of buildings rose by 4.1% y/y as compared to -12% y/y in November and this was the first positive annual reading since March. This could be partially linked to a major jump in housing market activity, which saw a rise in finished houses by 15.7% y/y, in house starts by 7.9% y/y and in building permits by whopping 72.1% y/y.

In SA terms the 7.1% y/y decline of total construction output from November was reduced to just 2.1% y/y in December, which is the best reading in seven months.

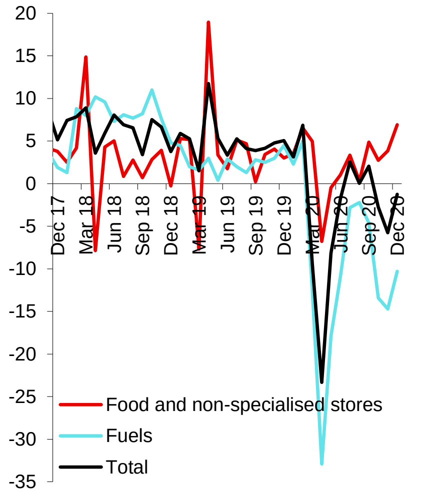
Despite the surprisingly strong December print, we expect the next readings to be negative again in y/y terms and see an average 1H21 growth around 0% y/y.

Mixed changes of business sentiment in January

The rise of business confidence in January was more selective than in December, when all sectors had shown more optimism. Trade sector felt the largest improvement in current conditions while the index for financial and insurance services dropped to the lowest reading in 11 years. Industry saw the largest rise of expectations index, which however is still lower than in 3Q – the period after the first Covid wave, but before the second one.

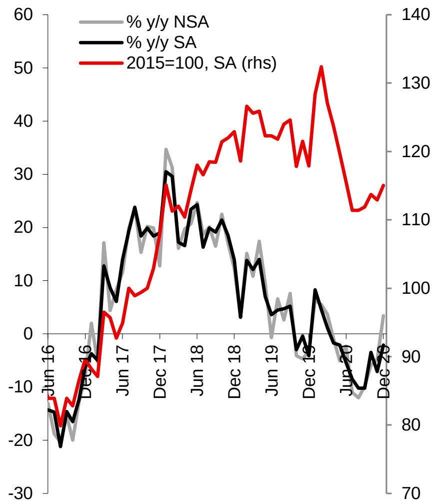
In most sectors the share of companies fearing about business stability increased (e.g. to 12.4% in construction, 14.4% in transport and to 49.5% in hotels and restaurants), but at the same time there were more industrial and construction firms claiming the pandemic did not affect them at all (9.2% and 11.6%, respectively). Construction sector

Retail sales, % y/y



Source: GUS, Santander

Construction output



Source: GUS, Santander

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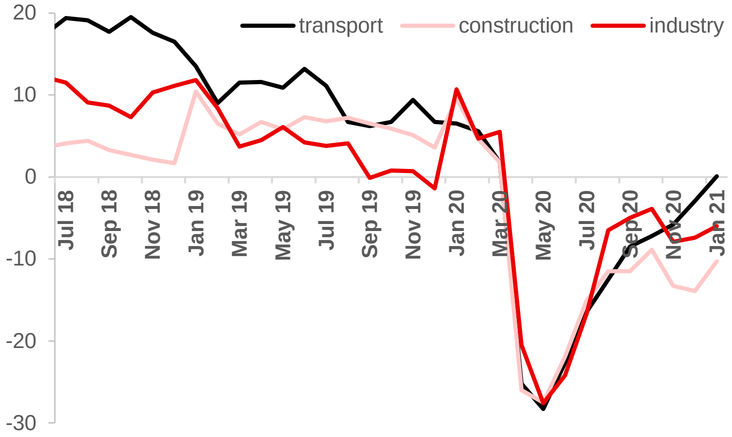
also recorded a significant rise of the share of employees absent due to quarantine or other pandemic-related restrictions, to 9.3% (the highest so far).

Selected current assessment indicators of business confidence



Source: GUS, Santander