

Economic Comment

Sales recovering, construction disappointing

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Retail sales advanced by 8.6% y/y in June, roughly in line with forecasts (we: 7.6%, market: 9.0%). Retail sales volume is still below pre-pandemic trend, but we are positive about sales and private consumption in the months to come, as households' disposable incomes remain strong and consumer confidence is improving. Construction output rose by 4.4% y/y in June, below expectations (we: 7.0%, market: 6.8%). In seasonally-adjusted terms output declined by 1.5% m/m. Despite this disappointment we remain fairly positive about construction output in the months to come given full orders books of construction companies, strong growth of house starts and building permits in the housing sector and the upswing in investment.

Retail sales supported by travels

Retail sales advanced by 8.6% y/y in June, roughly in line with forecasts (we: 7.6%, market: 9.0%). Decline vs 13.9% y/y in May was caused by base effect, but numbers rebased to reflect changes versus corresponding month of 2019 show a slight acceleration to 7.0% from 5.1% in May. Retail sales volume is still below pre-pandemic trend.

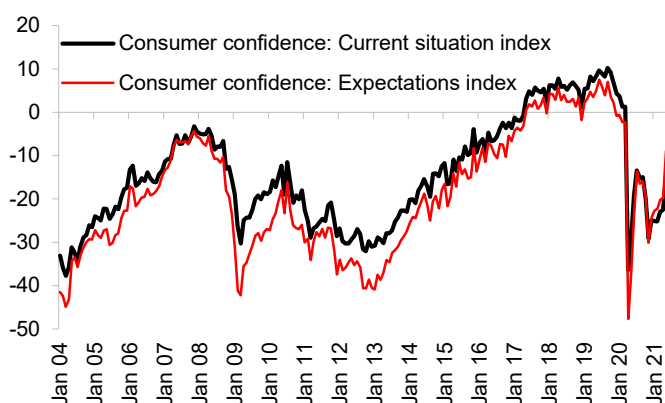
Improvement versus May was mostly driven by higher fuel sales (-4.3% vs June 2019 as compared to -10.0% in May), as it seems that loosening of restrictions and summer season encouraged car travels. On the other hand, sales of clothing eased after a surge in demand shortly after reopening of malls in May. Some improvement was also recorded in sales of cars, food and pharmaceuticals, while other categories were fairly stable, with sales of household appliances remaining strong, by 21.9% higher than in June 2019.

We are positive about retail sales and private consumption in the months to come, as households' disposable incomes remain strong and consumer confidence is improving (see below).

Consumer confidence further up

Consumer confidence improved in July with current indicator up to -13.5pts from -14.8pts in June and leading indicator up to -8.2pts from -9.0pts. Both measures are still markedly below pre-pandemic levels. All sub-indicators improved with an exemption of expected economic situation. Covid-19 fears subsidised a bit, but still remain significant (32.5% of respondents see it as a major threat to population's health).

Consumer confidence, pts

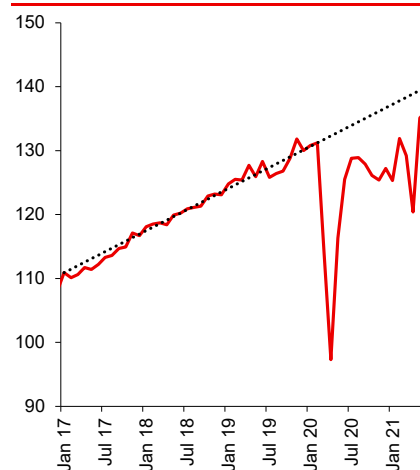


Source: GUS, Santander

Construction disappointed but is expected to accelerate

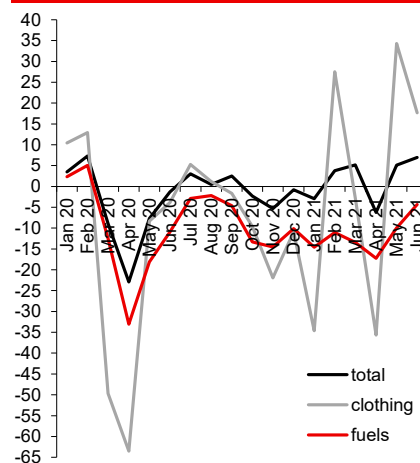
Construction output rose by 4.4% y/y in June, below expectations (we: 7.0%, market: 6.8%). In seasonally-adjusted terms output declined by 1.5% m/m. Disappointing results were mostly due to weaker results of civil engineering (correlated with public

Retail sales – seasonally-adjusted volumes and pre-pandemic trend



Source: GUS, Santander

Retail sales - % change versus corresponding period of 2019



Source: GUS, Santander

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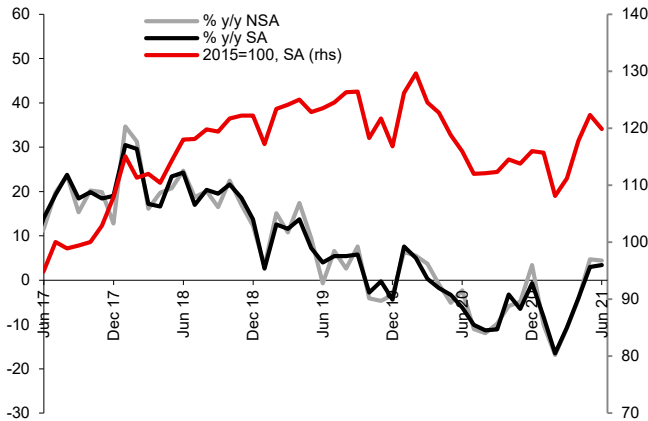
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investment), which slowed to 0.4% y/y from 4.7% y/y). Both investment and repair works expanded by 4.4% y/y.

Housing market remains strong, with number of finished flats up by 7.3% y/y, number of building permits up by 11.9% y/y and numbers of house starts up by 37.2% y/y. Running projects indicator (12M permits minus 12M finished) went further up.

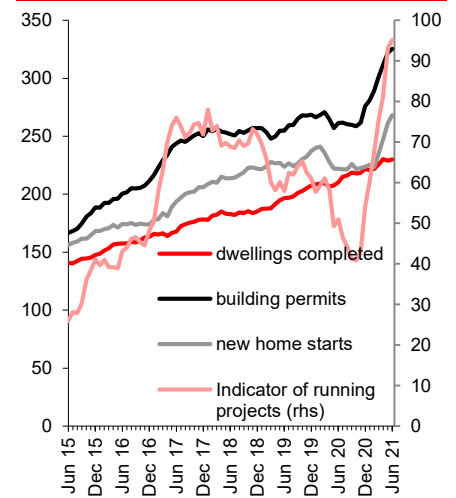
Despite this disappointment we remain fairly positive about construction output in the months to come given full orders books of construction companies, strong growth of house starts and building permits in the housing sector and the upswing in investment. The sector is negatively affected by rising costs and difficulties with finding staff, though.

Construction output



Source: GUS, Santander

Housing market statistics, 12M sums in thousands



Source: GUS, Santander

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