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Economic Comment

Another delivery of weak June numbers

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June retail sales advanced by 3.2% y/y and this is a major miss versus our and market expectations at 5.8% y/y. In seasonally-adjusted terms sales declined by 2.8% m/m. We are expecting retail sales growth to remain muted in the months to come, given low or even negative growth in consumers' real incomes. Construction production rose 5.9% y/y in June, below our forecast (8.7%) and well below market consensus (11.3% y/y). In seasonally-adjusted terms, output declined by 3.5% m/m and reached the lowest level since the end of 2021. Some improvement was recorded in housing market indicators, but in our view this was only temporary. Today's numbers are yet another sign of clearly weakening momentum of economic growth, which confirms our expectations that we are approaching a technical recession in 2H2022.

Retail sales weaken

June retail sales advanced by 3.2% y/y and this is a major miss versus our and market expectations at 5.8% y/y. In seasonally-adjusted terms sales declined by 2.8% m/m. The most significant underperformance was recorded by two categories: fuel sales (-12.6% y/y vs -0.3% y/y in May), most probably caused by very high prices and in sales of household appliances (-7.0% y/y vs -4.0% y/y in May), as households seem to postpone big-item purchases given high inflationary pressure and weaker economic outlook. Both these categories have shown the weakest monthly advance in June since comparable data are available (2014). Durable goods sales declined by 8.7% y/y after falling by 7.1% y/y in May.

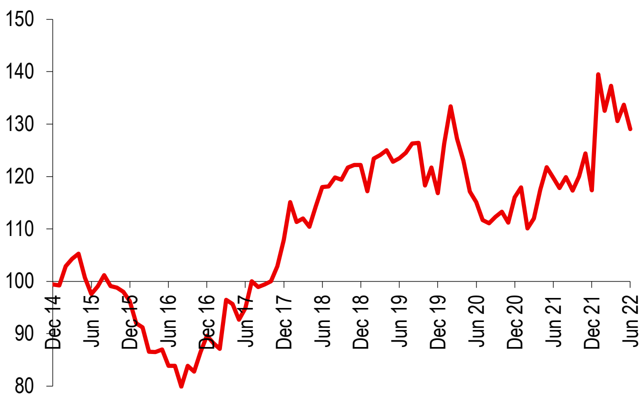
Interestingly, a similar negative record was posted also by sales of food and other sales in non-specialised stores (i.e. in regular supermarkets), in basic goods.

We are expecting retail sales growth to remain muted in the months to come, given low or even negative growth in consumers' real incomes.

Construction slowing down

Construction production rose 5.9% y/y in June, below our forecast (8.7%) and well below market consensus (11.3% y/y). In seasonally-adjusted terms, output declined by 3.5% m/m and reached the lowest level since the end of 2021. The biggest rise was recorded in construction of buildings (15.2% y/y), while output in civil engineering rose 5% y/y and specialised works fell 3.1% y/y.

Construction output, seasonally-adjusted level

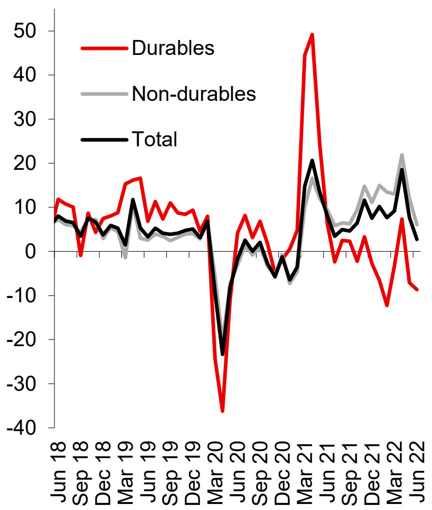


Source: GUS, Santander

Housing market showing some improvement, but it is likely to be temporary

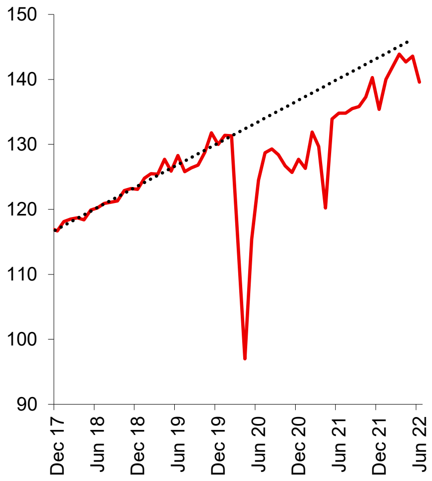
Data from the housing market showed a slight recovery in activity, after an earlier period of deceleration. In June, 18.2k dwellings were completed (up 3.6% y/y), building permits were

Retail sales, % y/y



Source: GUS, Santander

Retail sales, seasonally adjusted level vs pre-covid trend



Source: GUS, Santander

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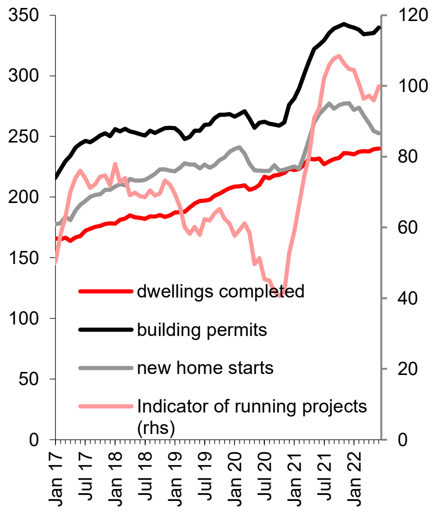
issued for 34.8 new dwellings (+15% y/y) and construction started on 24k new buildings ('only' -6.9% y/y after three months of declines by over 20% y/y). Our estimate of the running projects indicator rebounded slightly, to levels recorded in February/March this year. However, it is difficult to count on a sustained improvement in this market given an environment of high interest rates, stalled lending, cooling labour market and a looming recession. We expect a further deceleration in new housing construction in the coming quarters.

Housing market data, annual sums



Source: GUS, Santander