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## Economic Comment

### Sales still below zero, but do not seem bad

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In March, retail sales fell by 0.3% y/y against market expectations of +0.6% y/y and our forecast of -0.9% y/y. Seasonally adjusted real retail sales increased by 1.9% m/m and 1.0% y/y.

In our view, the data look pretty good and we think that the consensus was actually too optimistic, given the Easter effect (last year it was in March, this year in April) and fewer shopping Sundays than a year ago. The negative headline reading was caused by the fall in food sales, while other categories looked solid, especially sales of durable goods.

We think that today's data will not discourage the MPC from cutting interest rates at its next meeting in May.

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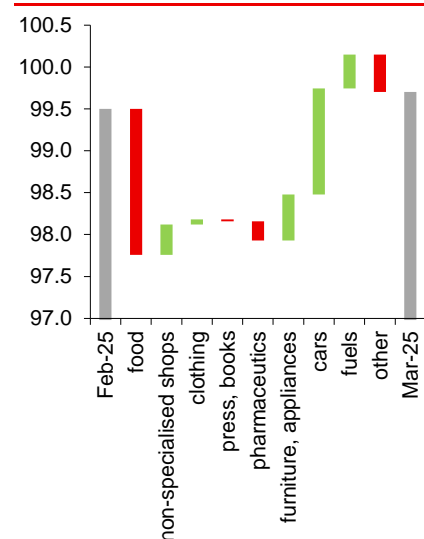
In our view, the data look pretty good and we think that the consensus was actually too optimistic, given the Easter effect (last year it was in March, this year in April) and fewer shopping Sundays than a year ago. However, it is worth remembering that February retail sales were almost 4 percentage points weaker than forecast, so the March result does not change the overall picture too much. We think that today's data will not discourage the MPC from cutting interest rates at its next meeting in May.

Food sales fell by 9.4% y/y in March, compared to a 2.2% y/y decline in February. This category therefore reduced total sales growth by almost 2 percentage points, while sales excluding food increased by 2.4% y/y after a 0.6% y/y decline in February. This is, in our view, primarily dictated by the fact that in 2024 Easter shopping was done in March and this year in April. Thus, a strong rebound in this category is expected next month.

We have been positively surprised by durable goods, whose overall sales rose by 15.9% y/y, with sales of vehicles increasing 18.4% y/y (after 5.1% y/y in February, though the March rebound was likely in no small part a result of the low base in March 2024), and sales of household appliances rising 12.9% y/y (after 5.8% y/y in February). Strong results were registered also in the case of fuel, clothing, and sales in non-specialised shops. A rebound after the weak February was partially visible in these categories.

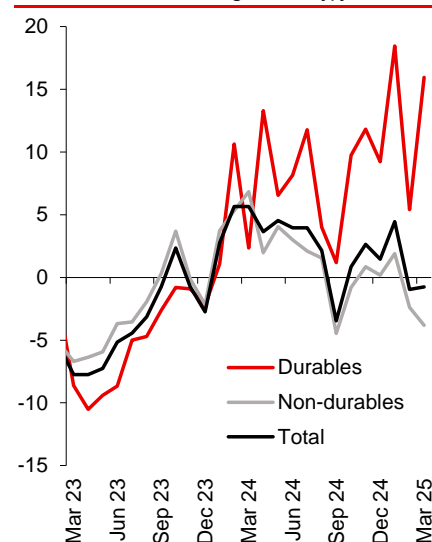
We think that the outlook for retail sales remains moderately good. Although wage growth has been slowing, it remains solid in real terms, and unemployment remains low. However, trade wars may cause consumer confidence to weaken (new consumer confidence data will be released tomorrow).

Retail sales, breakdown of change in annual growth rate



Source: GUS, Santander

Retail sales in main categories, % y/y



Source: GUS, Santander

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