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Economic Comment

Decent growth rate of retail sales

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In July, retail sales were stronger than expected, rising by 4.8% y/y, compared to our and market expectations of 3.5% y/y and June's result of 2.2% y/y. The improvement was mainly driven by sales of durable goods, in supermarkets and clothing stores. The stronger July data come right after disappointing statistics from June, which in our opinion shows that the underlying trend in retail sales growth sits at about 3-4% y/y, a robust result that supports our forecasts that private consumption will remain the backbone of GDP growth in the coming quarters.

According to the financial results of non-financial enterprises, gross profit declined slightly year-on-year in 2Q, with a slight increase in profitability from 4.3% to 5.3%. Investment growth, after five quarters of decline, recorded a positive result. Investment expenditures increased thanks to transport and information and communications, while they remained weak in manufacturing.

Sales surprised upwards in July after a weaker June

In July, retail sales were stronger than expected, rising by 4.8% y/y, compared to our and market expectations of 3.5% y/y and June's result at 2.2% y/y. Seasonally adjusted sales were stable (0.0% m/m).

Sales of durable goods stood out in particular, accelerating to 12.9% y/y from 8.8% y/y in June. It is worth noting that in Jun, durable goods surprised significantly downwards. Car sales accelerated to 10.7% y/y from 7.7% y/y, and furniture and household appliances to 15.3% y/y from 10.2% y/y.

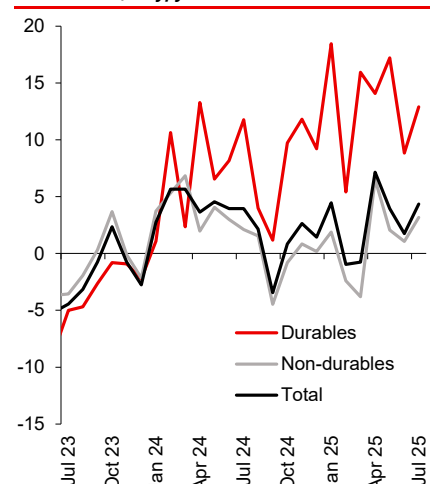
Sales of non-durable goods also improved, to 3.2% y/y from 1.1% y/y in June. This was mainly due to other retail sales in non-specialised stores (which interpret as sales in supermarkets, discount stores, etc.), which showed 14.0% y/y after -3.6% y/y in June. Clothing sales also looked strong, accelerating to 14.7% y/y from 11.8% y/y and showing the highest growth rate since January 2023. Fuel sales, on the other hand, looked weaker (0.7% y/y after 5.7% y/y in June).

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Minor changes in corporate profitability

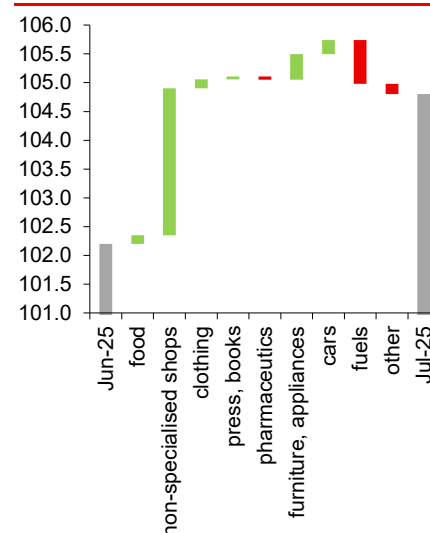
According to the financial results of companies employing 50 or more people, gross financial result in 2Q2025 decreased by 1.0% y/y, slowing after the exceptionally high reading in 1Q (+13.9% y/y). Revenue increased by 5.1% y/y, and costs by 5.5% y/y. The financial result relative to revenue, i.e. gross margin, increased to 5.3% compared to 4.3% in 1Q. Averaging margin changes over recent quarters, it appears to be stabilizing at a moderate level between 4 and 5%, suggesting that there may not be much room for investment demand in enterprises' finances. The increase in total costs was largely due to increased costs of materials (1.8% y/y, compared to a 3.6% decline in the previous quarter) and external services (9.7% y/y, after a 4.1% y/y decline in 1Q). The rate of decline in tax costs slowed to 13.6% after a 22.5% y/y decline in 1Q, which contributed to higher total cost growth. The wage bill also generated a fairly strong increase in costs, rising by 11.2% y/y after 5.0% in 1Q. Its weight in the total cost structure increased from 17.0% to 17.2%, and we expect it to continue growing in the coming quarters.

Retail sales, % y/y



Source: GUS, Santander

Breakdown of change in annual growth rate of retail sales, corresponding month of the previous year = 100



Source: GUS, Santander

Investment growth among large companies has returned to above zero.

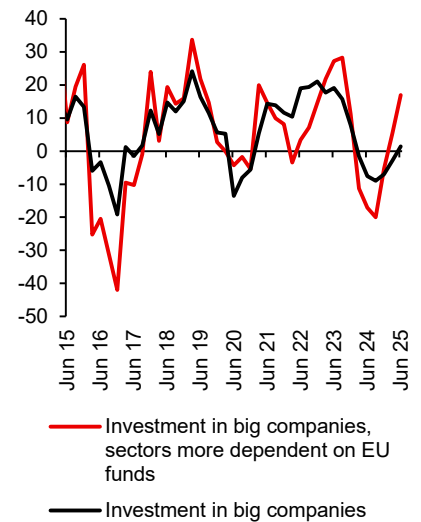
In 2Q, investment in enterprises employing 50 or more people increased by 0.8% y/y at constant prices. This is the first positive growth after five quarters of decline, with a decline of 3.6% y/y in 1Q.

The improvement resulted from an increase in real expenditure on transportation (+6.5% y/y in 2Q, compared to -8.1% y/y previously) and machinery and equipment (+2.9% y/y, compared to -0.4% in 1Q). Buildings also contributed slightly more to the overall investment growth, but the growth in expenditure within this category remained negative (-4.3% y/y in 2Q, compared to -5.5% y/y in 1Q).

By sector, capital expenditures in 2Q turned positive (in nominal terms) primarily due to two sectors: transport (29.9% y/y vs. 4.3% y/y in 1Q 2025) and information and communications (51.2% y/y vs. 12.0% y/y), while in manufacturing they remained weak (-9.7% y/y vs. -11.9% y/y). Expenditures in sectors that benefit most from EU funding improved significantly, to 16.9% y/y from 5.3% y/y in 1Q 2025, while growth in other sectors was -4.5% y/y vs. -5.7% y/y in 1Q 2025. This is another signal confirming the acceleration of EU spending, although, as we have written in other reports, we had hoped for a more dynamic rebound.

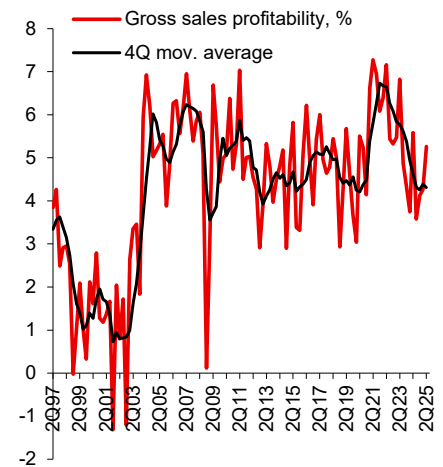
We expect investment growth across the economy to have slowed slightly in 2Q from 6.3% y/y in 1Q, but to accelerate again in subsequent quarters, likely exceeding 10% y/y in 4Q2025 and 1Q2026. Detailed GDP data for 2Q will be released on 1 September.

Investment in big companies (employing 50+), % y/y, nominal



Source: GUS, Santander

Gross profitability of non-financial enterprises (%)



Source: GUS, Santander

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