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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

October, 2020

SUMMARY

*According to the first Flash Estimate of INE, Portugal's **GDP** decreased in volume by 5.8% year-on-year during the 3rd Quarter of 2020, and increased 13.2% in relation to the previous quarter. In terms of the impact of the health crisis on GDP, the accumulated year-on-year decrease up until the 3rd Quarter (-8.2%) positions Portugal in a worse position than the Euro Area average and Germany, but better than Italy, France and Spain.*

Confidence levels improved in Portugal and stabilised in the Euro Area in October, at the beginning of the 4th Quarter. However, the general worsening of the health crisis during this month, together with the actions taken to control it, make it likely that economic activity will decrease in comparison to the previous quarter, albeit at a much more reduced rate than that recorded during the 2nd Quarter.

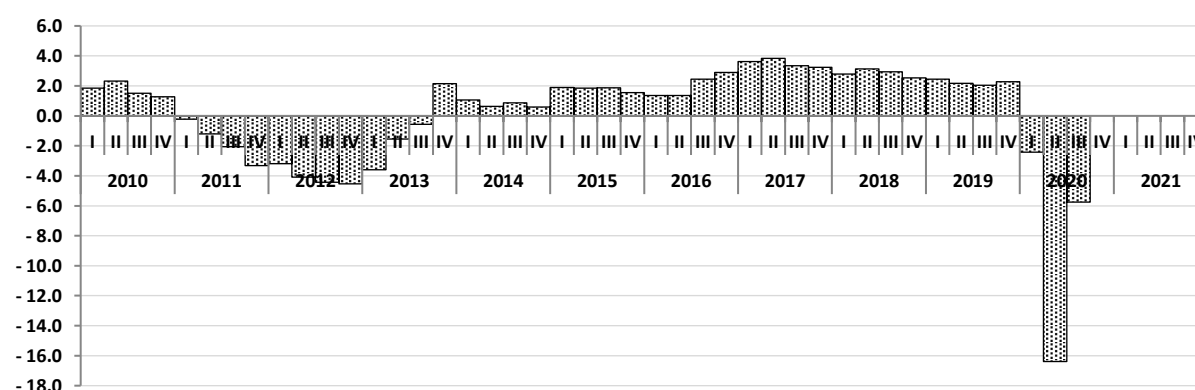
Based on the information available up until the 3rd Quarter and the forecast for the 4th Quarter, the final forecast for the variation in GDP this year will be between -9% and -8%.

0. THE EVOLUTION OF GDP DURING THE 3RD QUARTER

The current health crisis and the measures being implemented to combat it have created a situation of volatility for overall production, which presents variations of an uncharacteristic dimension. According to INE, production increased 13.2% during the 3rd Quarter in quarter-on-quarter terms. This result, which is not unexpected, appears to be a direct consequence of the re-opening of economic activity after the lockdown and restriction of economic activity during the 2nd Quarter, which in turn had caused a respective decrease in production of 13.9% during the 2nd Quarter.

This year-on-year variation of GDP was -5.8% for the 3rd Quarter (after -16.4% for the 2nd Quarter, and -2,4% for the 1st Quarter; see Graph 0). It can thus be seen that as a result of the health crisis, the Portuguese economy declined overall by about 8.2% during the first three quarters of 2020.

Graph 0 | Year-on-year % variation of quarterly GDP



The very negative year-on-year variation that was recorded during the 3rd Quarter results from the contraction of both Internal Demand (ID) and Net External Demand (NED), despite the decompression and improvement of both indicators in relation to the 2nd Quarter – a period that was affected by the lockdown and closure of activities. This improvement during the 3rd Quarter could have been mainly due to the strong recovery of Private Consumption in the case of ID, and an increase in growth in Exports of goods in the case of NED. However, in spite of being less accentuated, the year-on-year contraction of the economy during the 3rd Quarter remains greater than is normal during a traditional economic crisis – especially regarding the values attained in 2012 (see Graph 0). On the other hand, the prospects for future recovery – which are conditioned by the evolution of the health crisis – indicate that it will be slower from now on, given the weight that some of the sectors most affected by the health crisis assume in the Portuguese economy.

For the same reasons, the EURO AREA (EA) countries also recorded a strong quarter-on-quarter growth during the 3rd Quarter (12.7%), while the year-on-year variation was -4.3% (following -14.8% for the 2nd Quarter). The accumulated result for the year, from January to September, for the EA countries showed a year-on-year decrease of 7.5%, with Portugal being affected worse than the AE average, with a fall of 8.2%. Germany, in particular, experienced a decrease of 5.8%, although worse decreases were recorded in Italy (9.4%), France (9.7%), and Spain (11.5%), the latter being the worst affected country.

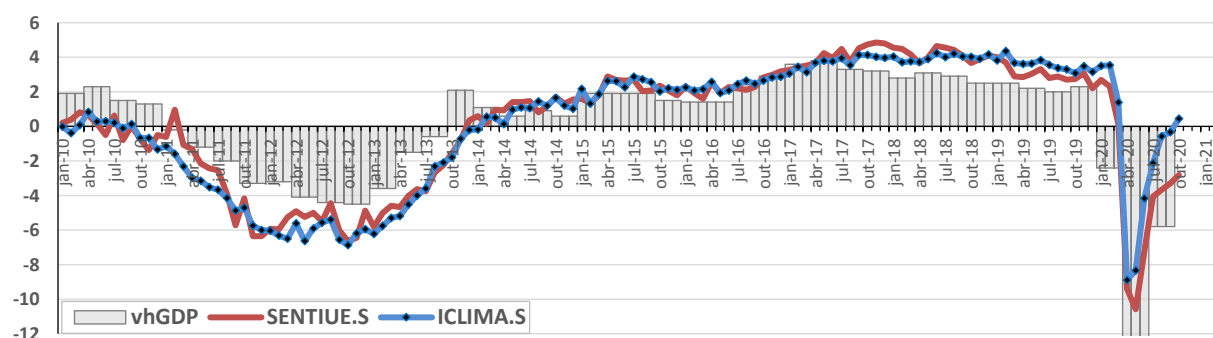
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR THE 3RD QUARTER

In **October**, both the **monthly Economic Climate Indicator** (ICLIMA.S, INE, which only includes businessmen's opinions) and the **Economic Sentiment Indicator** of EUROSTAT (SENTIUE.S, EUROSTAT, which includes the opinions of both businessmen and consumers) increased again, albeit at a more moderate rate (see Graph 1¹). In October, the ICLIMA indicator had recovered around 75% of the decrease recorded between February and April, while the SENTIUE indicator only recovered 60% of the maximum decrease recorded, as it is largely influenced by consumers' opinions.

By **sectors of activity**, the evolution of the **confidence indicators** during October was positive in all the sectors considered (industry, construction, retail trade and services), albeit slightly less so in industry, where the confidence indicator has remained relatively stable since July. In accumulated terms, it is the services sector that continues to be the one where confidence levels have recovered less.

After having decreased in September, the **consumer confidence indicator** increased in October. In general terms, it has been oscillating since June, the month in which it reached the maximum after the crisis. As mentioned in a previous report, this indicator, which was not the one that decreased the most, only partially recovered in May and June and accumulates less increases in confidence than the business indicators.

Graph 1 | Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



For all of the AE countries, the **Economic Sentiment** indicator, which has been on the increase since May, was stable during **October**, having recovered to date about two thirds of the decrease caused by the crisis. Among the countries with the greatest economic weight, this indicator was closer to the previous pre-crisis levels (March) in Germany, where sentiment improved. However, it worsened significantly in France, whereas in Spain and in Italy it was close to the September values. Given the worsening of the health crisis throughout Europe over October, the evolution of these indicators would probably have been more negative if the information had been collected at the end of the month.

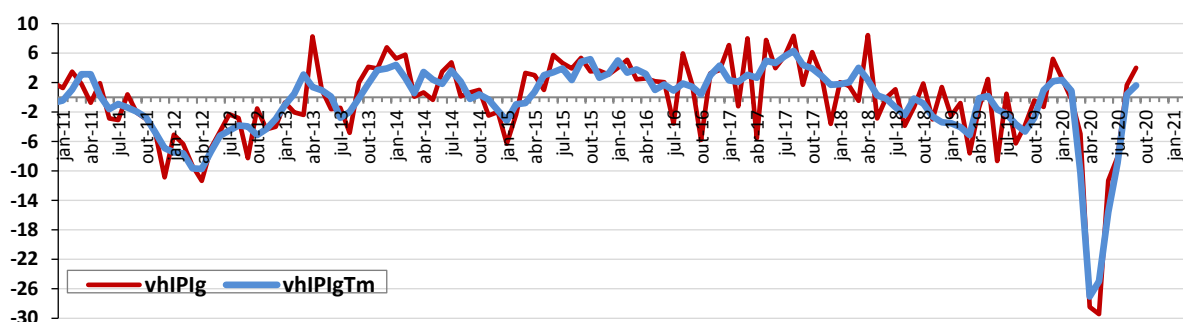
The Euro Area **consumer confidence indicator** decreased in October, having decreased in Germany, France, Italy and Spain, just as in the case of Portugal. This indicator has recovered relatively little from the fall registered in April, representing a more negative assessment of the conjuncture by consumers.

¹ In Graph 1, the original values of the Climate and Sentiment indicators were adjusted for the average and for the standard deviation of vhGDP during the period under analysis for calculating the ICLIMA.S and SENTIUE.S.

2. INDUSTRIAL PRODUCTION

In **September**, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of 4% (vhIPIg series in Graph 2; the variation in Manufacturing was 2.2%). During the 3rd Quarter, the year-on-year variation was -1.3% (-23.4% during the 2nd Quarter). With positive year-on-year variations during August and September, this is the productive sector with the quickest recovery, although this could be affected by the re-introduction of restrictive measures (internal and external) to combat the new phase of the pandemic in the current quarter. In the end, these measures will have a negative effect on demand and production overall, at least indirectly.

Graph 2 | Year-on-year variation of Industrial Production

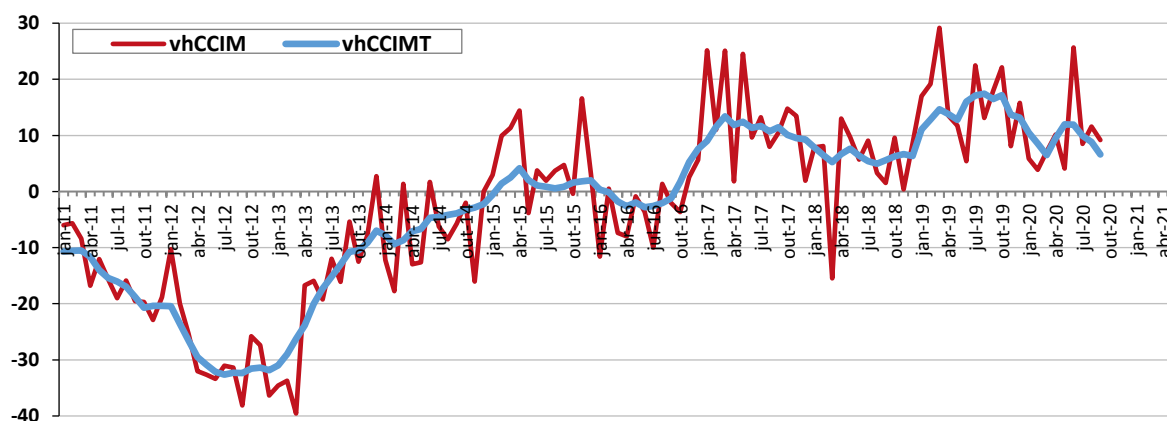


In **August**, the **Industry Turnover Index** showed a year-on-year variation of -5.6% (nominal values; with -6.3% for the national market, and -4.3% for the external market). The industrial production prices index decreased 5% in August (representing a decrease of 1.5% if energy products are not counted).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

The year-on-year variation in cement sales was about 9.6% during the 3rd Quarter, having been 12.8% during the 2nd Quarter. The estimated trend of year-on-year variations (vhCCIMT, in Graph 3) is around 6.5% for the end of September. As can be seen in the graph, this indicator continues to always show positive values: it slowed down in March, with the first impact of the epidemic, but then recovered. Over the last few months there has been a certain de-accelerating trend, however cement consumption has maintained a relatively robust growth, with a positive evolution of the most recent opinions from the economic outlook surveys.

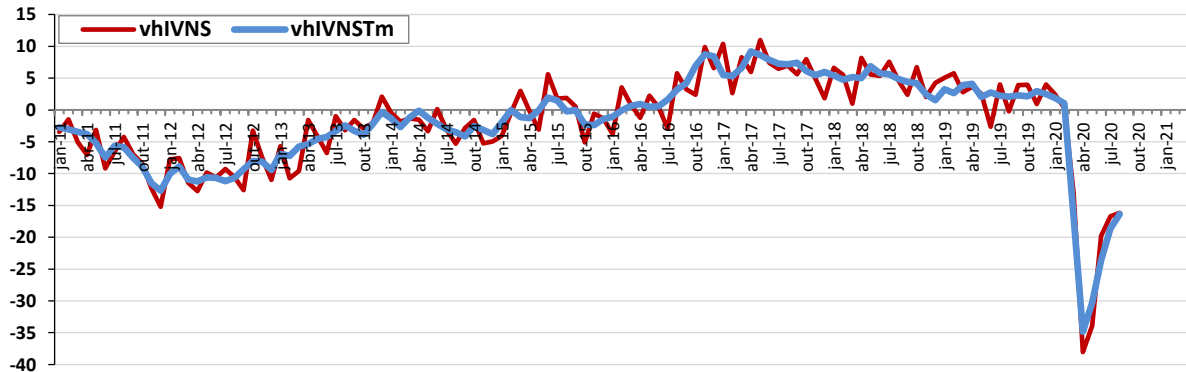
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **August**, the **Services Turnover Index** (nominal, gross values) showed a year-on-year variation of -16.2% (vhIVNS series, Graph 4, gross values). Recovery continued to be seen during that month, albeit at a slower rate. However, in some sectors, year-on-year decreases of over 30% continued to be recorded (*transport*, *administrative activities and support services*, and *accommodation and restaurants*).

Graph 4 | Year-on-year variation for the Services Sector

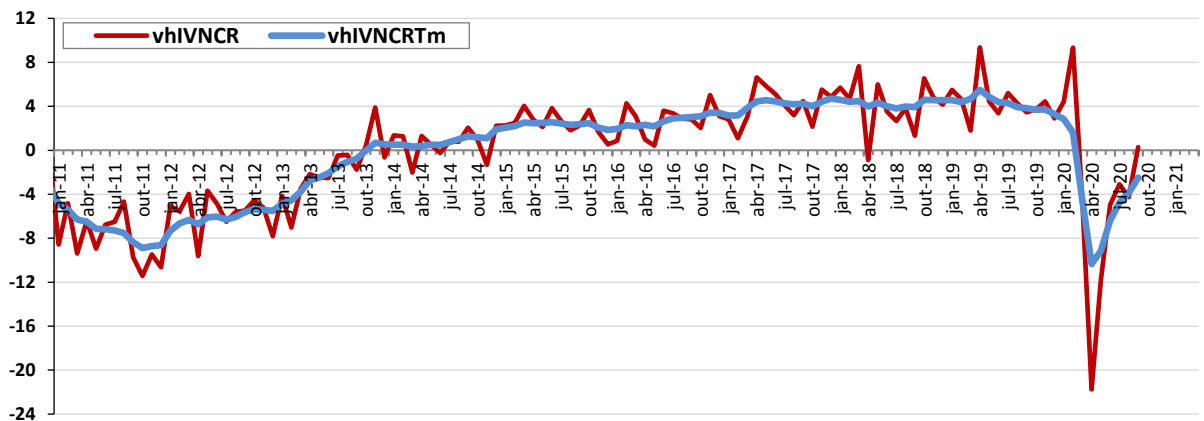


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of -48.9% in **August**, and a decrease of 47.1% in *overnight stays*. Tourism failed to recover in **September**: the year-on-year change in *overnight stays* decreased to -53.4%, with -8.5% for residents, and -71.9% for non-residents.

5. RETAIL TRADE TURNOVER

In **September**, the **Retail Trade Turnover Index** registered a year-on-year variation of 0.3% (Graph 5, **deflated** gross values). The year-on-year variation during the 3rd Quarter was -2.5% (-12.7% during the 2nd Quarter). The indicator for the grouping of *non-food products*, decreased 35% during April, but has been recovering, with a decrease of only 0.3% in September.

Graph 5 | Year-on-year variation in Retail Trade turnover



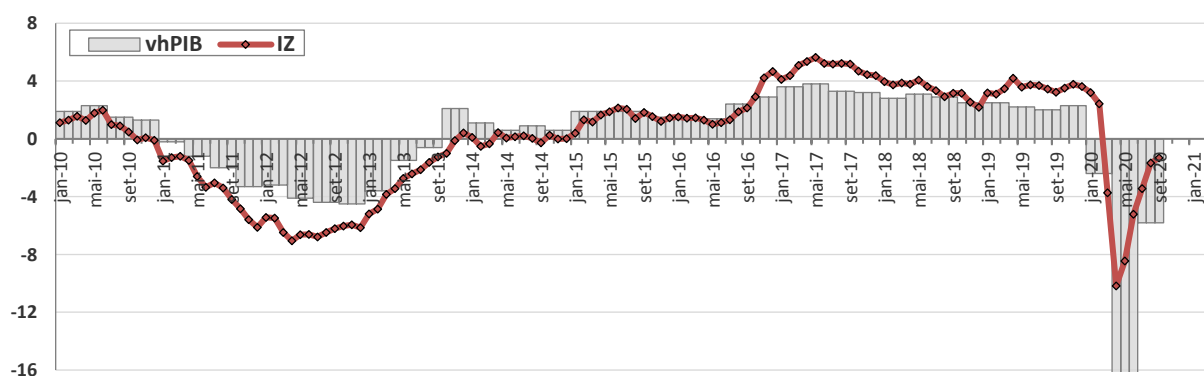
Car sales registered a year-on-year variation of -12.6% in **October** (-10.2% during the 3rd Quarter).

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)** - which is a summary of the year-on-year evolution of the sectorial indicators analysed above, shows a sustained recovery after the April lows, but already with some de-acceleration in September. Should the health situation get no worse, then the most likely scenario for the future would be: continued quarter-on-quarter growth, but with a de-acceleration. However, it is likely that the process of economic recovery that has been seen during the 3rd Quarter will be interrupted, given the current situation of the health situation in Europe, and the measures being taken to control it, which, albeit not as restrictive as those adopted during the first phase of the pandemic, will still have a negative economic impact.

Thus, with regards the evolution of the economy during the 4th Quarter, it is thought likely that GDP will show a certain decrease in comparison to the previous quarter (with a slightly more negative year-on-year variation). In principle, this decrease in growth will be comparatively small, as most of the measures implemented to combat the epidemic in different countries do not directly affect economic activity (with the exception of certain service sectors). However, it is inevitable that private consumption and productive investment will suffer and that GDP will decrease as a consequence of the health situation and the associated economic environment.

Graph 6 | Year-on-year variation in GDP (vhPIB) and the Z trend indicator



In relation to the year as a whole, considering that the year-on-year variation seen during the past three quarters of the year is -8.2%, and bearing in mind the outlook for the 4th Quarter, the previous forecast for the variation in GDP for 2020 needs to be slightly revised to between -9% and -8%. This range is compatible with a negative quarter-on-quarter variation of GDP of up to -5% during the 4th Quarter.

Compiled with information available as of the 2nd of November.