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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

November, 2020

SUMMARY

Following the new restrictive measures of economic and social activity which have been imposed to control the evolution of the pandemic, signs are emerging that, at both the qualitative and quantitative level, the recovery of economic activity registered during the 3rd Quarter will be interrupted during the 4th Quarter.

Although still very incomplete, the qualitative and quantitative information for the 4th Quarter shows a tendency for both Internal Demand and Net External Demand to develop more negatively than during the 3rd Quarter. Accordingly, GDP is expected to decrease in relation to the 3rd Quarter, to a probable level of about 3%. Based on these conditions, the year-on-year variation during the 4th Quarter is expected to be around -9%.

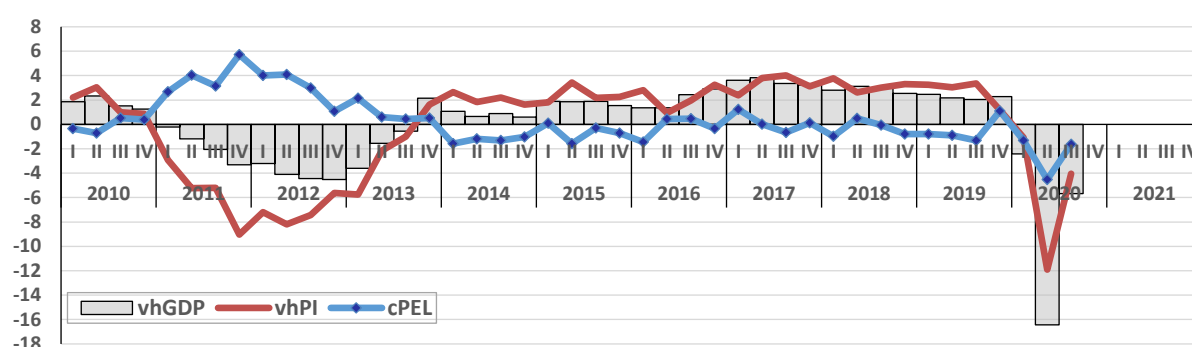
For the whole of 2020, given the accumulated decrease of -8.2% during the first three quarters, a year-on-year variation of around -8.5% is forecast.

0. EVOLUTION OF GDP DURING THE 3RD QUARTER

According to data from the third estimate of the National Statistics Institute (provisional data, 30th of November), GDP decreased in volume by 5.7% during the 3rd Quarter in year-on-year terms (-16.4% in the 4th Quarter) and increased 13.3% in quarter-on-quarter terms, as a result of the end of the lockdown and the almost total reopening of economic activity.

According to the values supplied in this first quantified estimate, the year-on-year decline in GDP during the 3rd Quarter resulted from a contribution of -4.0 p.p. of Internal Demand (ID) and a contribution of -1.6 p.p. of Net External Demand (NED, see Graph 0 below), which are much less negative values than those of the 2nd Quarter, but with similar relative weights during the two quarters with regards the year-on-year decrease in GDP.

Graph 0 | Year-on-year % variation of quarterly GDP and Internal Demand and Net External Demand



The decrease in ID during the 3rd Quarter was due to the year-on-year changes of -4.3% in Private Consumption (-14.3% during the previous quarter) and -8.2% in Investment (-10.1% during the 2nd Quarter), penalised by the negative weight of the Variation of Inventory (in this case, the consumption of the previously-accumulated production, INE), and a positive variation of 1.7% in Public Consumption (-4.1% during the previous quarter).

For Private Consumption, mention should be made of the growth of Consumption of Durable Goods (2.1%, after -26.2% during the 2nd Quarter) and Food Goods (3.7%, which was also positive during the previous quarters), as well as the substantial decrease in the Consumption of Non-Durable Goods and Services (-5%), with the biggest decrease likely to have occurred in the consumption of Services. With regards Investment, it needs to be highlighted that the GFCF was slightly positive, due to the year-on-year growth in Construction and less accentuated year-on-year decreases in the other areas (transport material, machinery, and intellectual property products).

The negative year-on-year contribution of Net External Demand became substantially less when compared with the 2nd Quarter, with Exports (in volume) decreasing by 15.2% (-39.4% during the 2nd Quarter), while Imports decreased by 11.4% (-29.2% during the 2nd Quarter). As for Exports, the export of goods decreased by only 2.8%, however exports of services (mainly due to tourism) continued to manifest a substantial negative year-on-year change (40.8%).

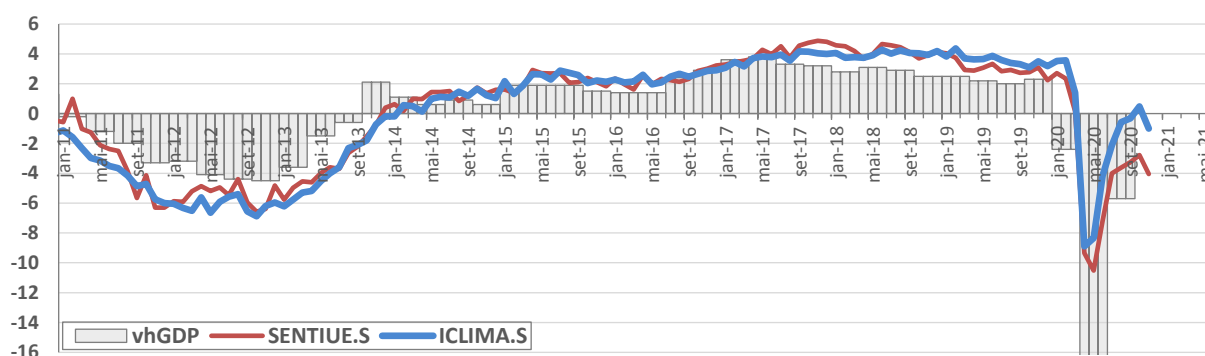
Comparatively, the EURO AREA (EA) countries recorded a year-on-year decrease of 4.4% during the 3rd Quarter. In terms of the accumulated result for the current year, Portugal registered a decrease in GDP which was slightly more than that of the total EA19 group, and greater than that of Germany, but less than that of Italy, France, and Spain.

1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR NOVEMBER

In **November**, both the monthly **Economic Sentiment Indicator** and the **Economic Climate Indicator** (SENTIUE.S and ICLIMA.S, Eurostat and INE, represented in Graph 1¹) returned to decreasing values, after having recovered during the previous five months. This decline was expected, given the imposition of a new series of restrictions on economic and social activity at the beginning of November in an attempt to stop the acceleration of the second wave of the Pandemic. These new restrictions, which were less restrictive and not as generalised as those imposed in March and April, have, up to now, had a comparatively moderate impact on the aggregated indicators of climate and economic sentiment when compared with April.

By **sectors of activity**, the **confidence indicators** decreased in all the business sectors (Industry, Construction, Retail Trade, and Services), which, after the lows of April/May, attained highs in October, with the exception of Industry. The **consumer** confidence indicator, which has been the slowest to recover from the accentuated decrease in April – which explains the difference in level between SENTIUE.S and ICLIMA.S² – also decrease.

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



For reasons similar to the case of Portugal, the **Economic Sentiment Indicator** for the **Euro Area** countries also decreased in **November**. By country, the decreases were worst in France and Italy and were slightly lower than the EA19 average in Germany and Spain (where the indicator has not increased since July and has been relatively stable ever since). Comparatively, the decrease in Portugal was slightly worse than the EA19 average.

In the Euro Area, the **consumer confidence indicator** decreased in November, after having also decreased in October. It should be remembered that this indicator decreased in April relatively less than the business indicators, although it increased relatively less afterwards. Taking into account the decreases in October, it has now returned to the levels of April in some countries (Spain, France) and it is slightly better in other countries. In other words, the confidence of European and Portuguese consumers remains relatively negative in the face of the development of the economic and social crisis, and, above all, it is more negative than most of the business sectors.

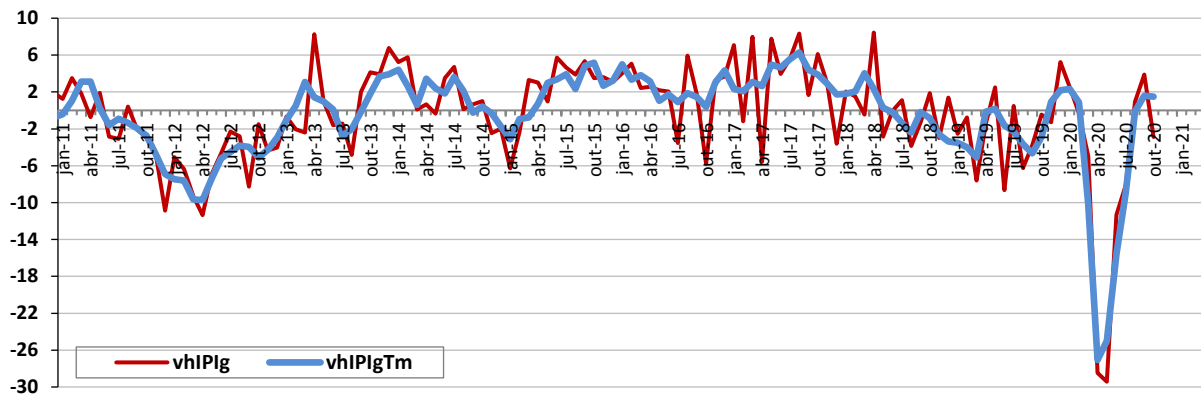
¹ In Graph 1, the original values of the Climate and Sentiment indicators were adjusted for the average and for the standard deviation of vhGDP during the period under analysis in the graph.

² The Economic Sentiment indicator of Eurostat includes the consumer confidence indicator, while the Climate indicator of INE does not, and is solely based on the confidence indicators of the business sectors.

2. INDUSTRIAL PRODUCTION

In **October**, with two less working days, the **Industrial Production Index** registered a year-on-year variation of -2.9% (gross values, **vhIPIg** series in Graph 2; the variation in Manufacturing being -5.0%). Adjusted for seasonal and calendar effects, the year-on-year variations of estimated trend (**vhIPIgTm**) remained stable and were slightly positive in October, having been mainly sustained by the growth registered by the Energy grouping (as in the previous month). Subsequently, the **confidence indicator**

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

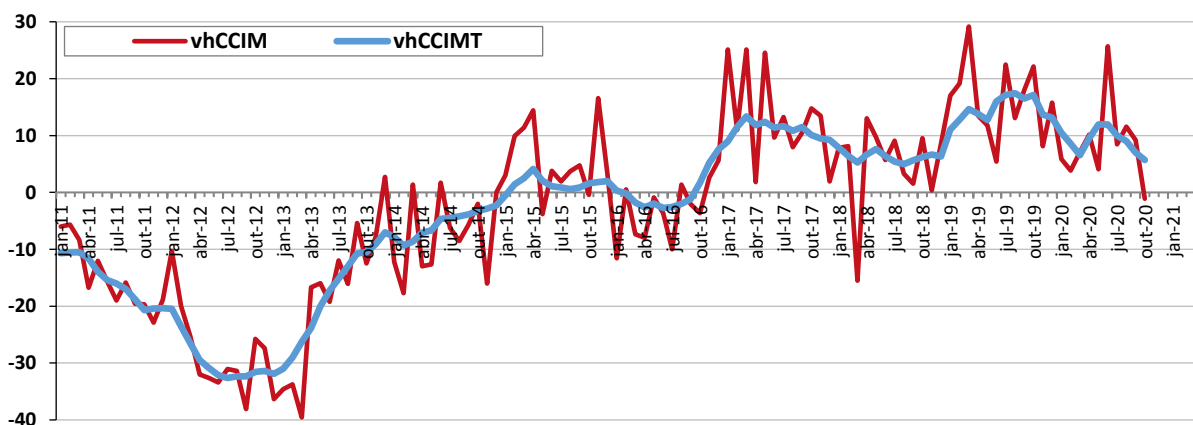


of this sector decreased **in November**, although it was the indicator which decreased least among the business sectors.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **October**, with two less working days, the year-on-year variation in cement sales was marginally negative. After adjustment for calendar and precipitation effects, the estimated trend of year-on-year variations (**vhCCIMT**, in Graph 3) decreased in November, but maintained a positive growth greater than 5%. Afterwards, the **confidence indicator** of the sector decreased moderately, **in November**.

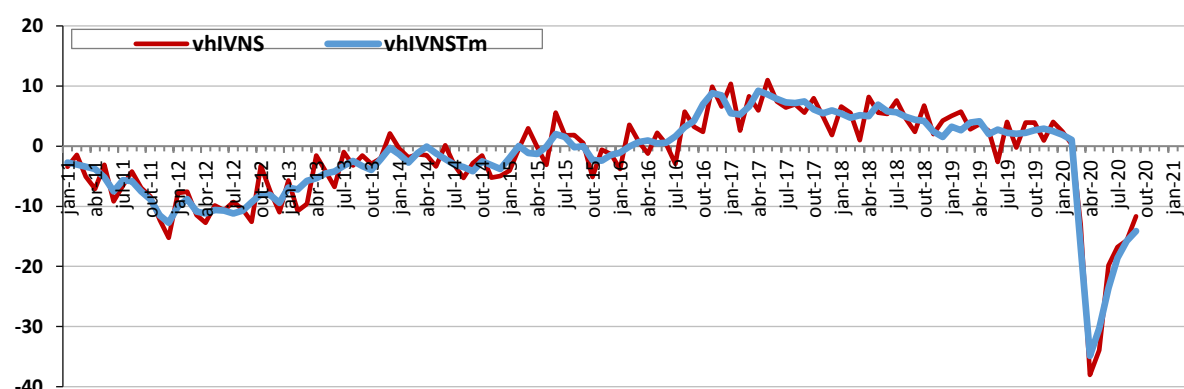
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **September**, with one more working day, the **Services Turnover Index** (nominal) showed a year-on-year variation of -11.7% (vhIVNS series, Graph 4, gross values). The estimated trend of negative year-on-year variations (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) continued to increase, albeit more slowly.

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

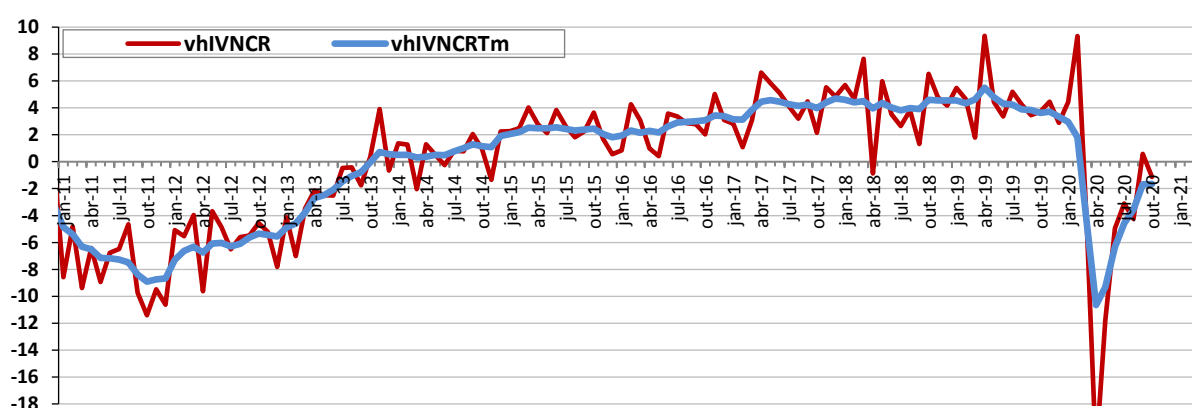


For the tourism sector, the indicator for **Overnight Stays in Hotels in October** decreased by 63% in year-on-year terms, following a year-on-year variation of -53.4% in September. The reduction is greater than 70% for *Non-residents*. In year-on-year terms, these two months were more negative than August (-47.1%).

5. RETAIL TRADE TURNOVER

In **October**, the **Retail Trade Turnover Index** registered a year-on-year variation of -1.1% (Graph 5, deflated gross values). The grouping of *non-food products* – the most volatile in situations of crisis – registered a negative year-on-year variation (-5.5%) once again. As can be seen in the graph below, the growth rate of the estimated trend of this indicator (vhIVNCRTm), which remains negative, stabilised and interrupted the recovery of the previous months.

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



Car sales decreased again, this time more pronouncedly, with year-on-year decreases of 12.6% and 27.9%, in **October** and **November**, respectively, after registering a year-on-year variation of -10.2% during the 3rd Quarter (-71.7% and -23.8% during the previous quarters).

6. EVOLUTION OF THE Z TREND INDICATOR

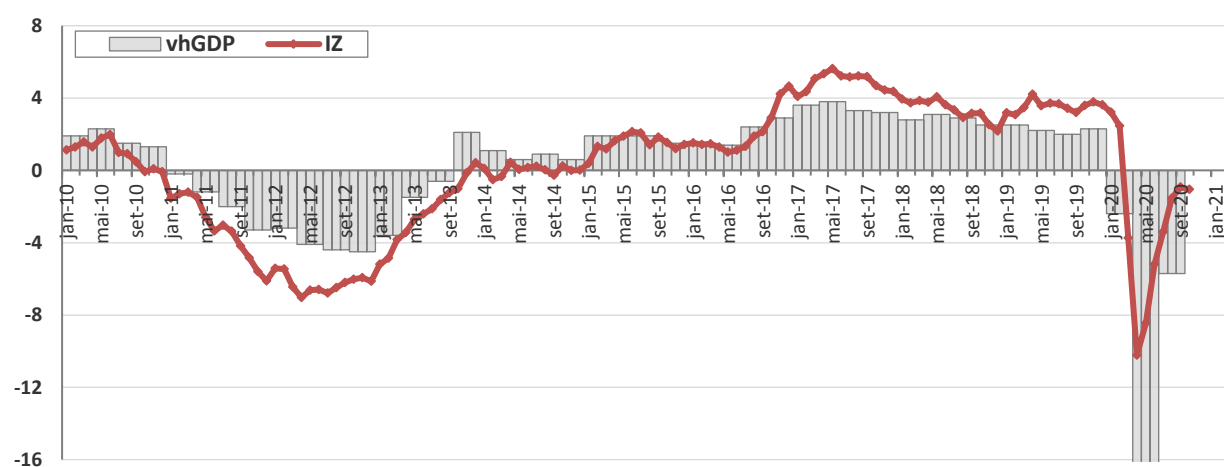
As can be seen in Graph 6, the **global activity trend indicator (IZ)** - which is a summary of the year-on-year evolution of the sectorial indicators analysed above, indicates **a slight decreases in activity during October**. This result occurred, in part, before the introduction of a new series of health measures which had a negative impact on economic activity, which were imposed in November in Portugal, and successively through October in Europe. This negative impact is reflected in the Confidence and Climate and Economic Sentiment indicators, which decreased in November. With regards the quantitative data for November, the year-on-year decreases in the sales of light passenger cars became worse, as did the consumption of electricity, which in this case was certainly due to the imposition of greater restrictions on the activity of commerce and some services.

In any case, the decrease in economic activity during the 4th Quarter is expected to remain relatively contained when compared with the 2nd Quarter. From the data available, it seems that industrial activity, construction, and some services will tend to maintain their levels of activity and suffer less of a decrease. Conversely, the decrease in the tourism, catering and accommodation, transport, and cultural activities sectors will tend to increase and decrease more.

Accordingly, the qualitative and quantitative information for the 4th Quarter, albeit incomplete, leads us to believe that the tendency will be for both Internal Demand and Net External Demand to register a more negative evolution than that of the 3rd Quarter, and that GDP will decrease in relation to the 3rd Quarter, with a probable reduction of around 3%. In these conditions, the year-on-year variation during the 4th Quarter is expected to be approximately -9%.

For 2020 as a whole, given the accumulated decrease of -8.2% during the first three quarters, a year-on-year variation of around -8.5% is forecast.

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



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