



LISBON  
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UNIVERSIDADE DE LISBOA

# ECONOMIC OUTLOOK

December, 2020

## SUMMARY

*The data from the qualitative surveys for December are characterised by an improving trend for the climate and confidence indicators in relation to the pronounced decrease that was recorded in November.*

*The quantitative data for the 4<sup>th</sup> Quarter confirms the downward trend in activity during the 4<sup>th</sup> Quarter, which is an expected consequence as a result of the imposition of increased restrictions of activity to combat the worsening pandemic.*

*Based on the available data, the forecast for the year-on-year decrease in GDP for the 4<sup>th</sup> Quarter is 9% (-2.9% in Relations to the previous Quarter), which corresponds to an annual decrease of 8.4% when compared to 2019.*

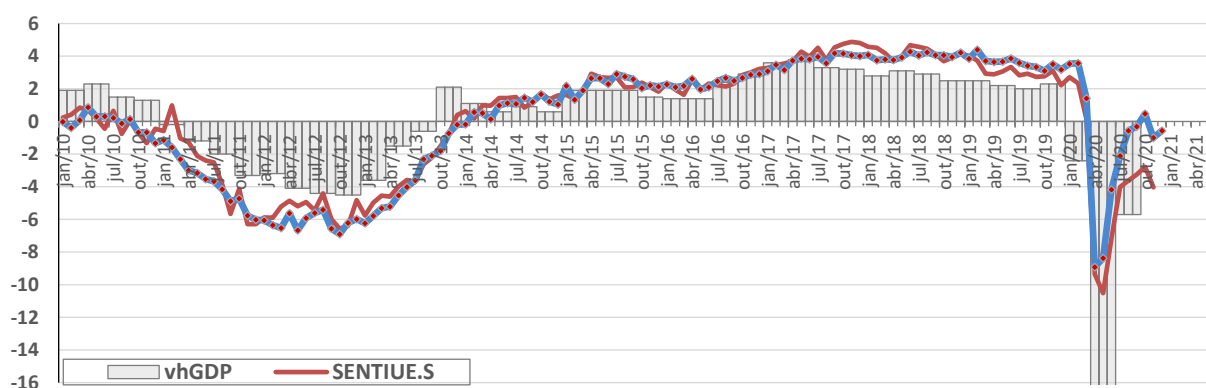
## 1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR DECEMBER

In **December**, the **Economic Climate** indicator of the National Statistics Institute (ICLIMA.S, INE) – which is based on the information collected from the company sector surveys – recovered part of the decrease recorded during the previous month (see Graph 1<sup>1</sup>)<sup>2</sup>. With this value, the average of this indicator during the 4<sup>th</sup> Quarter was above the average level of the 3<sup>rd</sup> Quarter, although, according to the information available, it is anticipated that a reduction in GDP was recorded during the 4<sup>th</sup> Quarter when compared to the 3<sup>rd</sup> Quarter.

By **sectors of activity**, albeit focussed on the data from December, the **confidence indicators** for Industry and Construction increased, while those of Retail Trade and Services decreased. In quarterly terms, a similar average level was recorded for both Industry and Construction during the 3<sup>rd</sup> and 4<sup>th</sup> Quarters and an increase in the level for Retail Trade and Services, despite the decrease recorded during December.

The **consumer confidence indicator** also increased in December, completely recovering the significant decrease of November. This indicator maintained the same average level during the 3<sup>rd</sup> and 4<sup>th</sup> Quarters and remained relatively pessimistic, after having recovered just over a third of the decrease recorded during the 2<sup>nd</sup> Quarter.

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



The **Economic Sentiment (EUROSTAT)** indicator for all of the **Euro Area (EA)** countries is still not available for December. Qualitative information of the same type suggests that the Economic Sentiment indicator may also have improved in the Euro Area in December: the PMI (Purchasing Manager's Index) indicator for the Production Composite (industry and services) in the Euro Area increased in December (after a sharp decrease during November); the IFO Business Climate Index indicator for Germany increased in December, after having decreased in October and November.

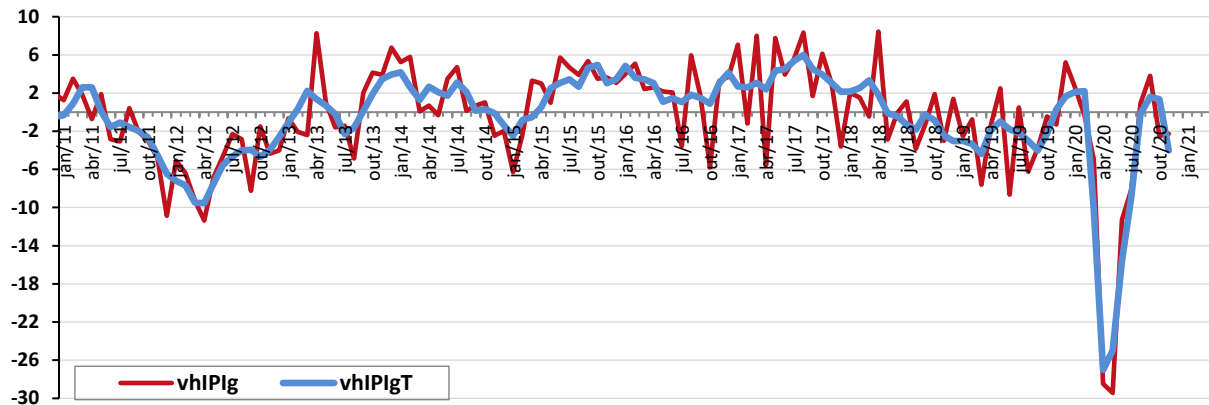
<sup>1</sup> In Graph 1, the original values of the Climate and Sentiment indicators were adjusted for the average and for the standard deviation of vhGDP during the period under analysis.

<sup>2</sup> The Economic Sentiment indicator of Eurostat for December has not yet been published at the time of the completion of this report, however it will have demonstrated a similar evolution (reinforced by the rise in the consumer confidence indicator which it also includes).

## 2. INDUSTRIAL PRODUCTION

In **November**, with one more working day in year-on-year terms, the **Industrial Production Index** registered a year-on-year variation of -2.3% (gross values, **vhIPIg** series in Graph 2; the variation in Manufacturing being -0.5%). The results for November were penalised by the Energy grouping, contrary to what occurred from August to October, where they were benefitted. Corrected for seasonal and calendar effects, the year-on-year changes in the estimated trend (**vhIPIgTm** series), which were positive in September and October, decreased in November to negative values.

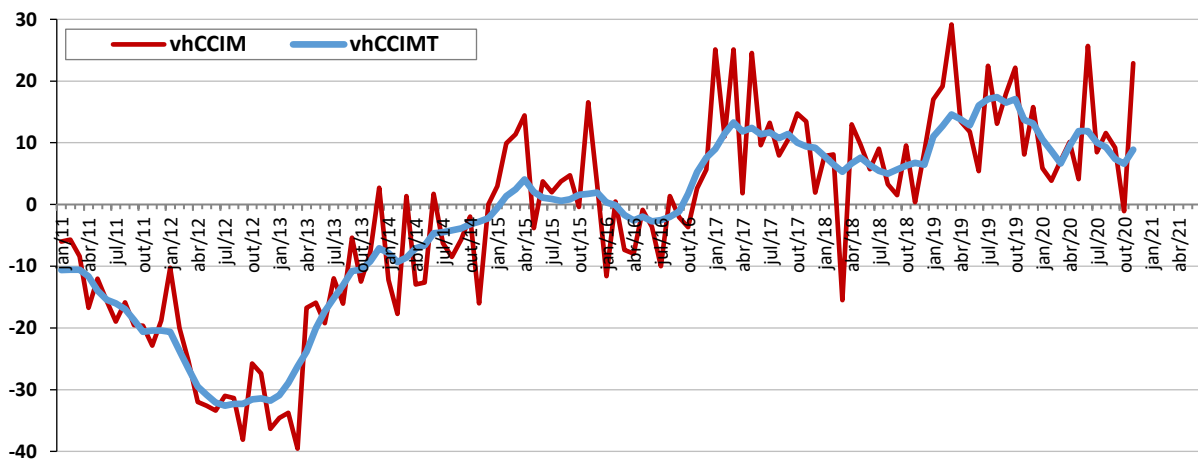
Graph 2 | Year-on-year variation of Industrial Production



## 3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **November**, with one less working day and precipitation below the average for the month, the annual variation in cement sales was approximately 23%. The estimated trend of year-on-year variations (**vhCCIMT**, in Graph 3), corrected for calendar effects and precipitation, increased in November, although they maintained a level of growth of less than 10%. The year-on-year variation in cement consumption during the 4<sup>th</sup> Quarter of 2020 should be less than that recorded during the 3<sup>rd</sup> Quarter (9.6%).

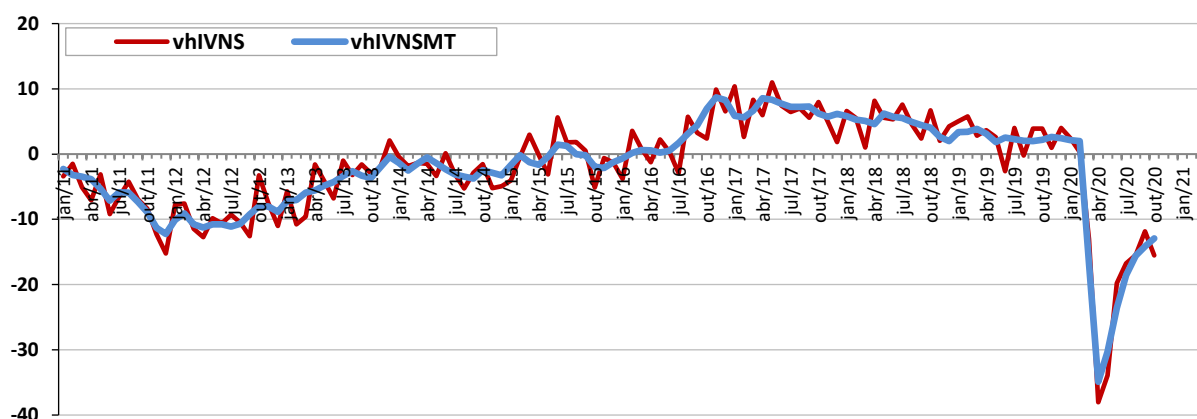
Graph 3 | Year-on-year variation of Cement Consumption



## 4. TURNOVER IN THE SERVICES SECTOR

In **October**, with one less working day, the **Services Turnover Index** (nominal series) showed a year-on-year variation of -15.5% (vhIVNS series, Graph 4, gross values). The year-on-year changes in the estimated trend – corrected for calendar and seasonal effects (vhIVNSMT, Graph 4) – continued very negative, although they are on the increase, albeit it slowly (to about -13% in October).

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

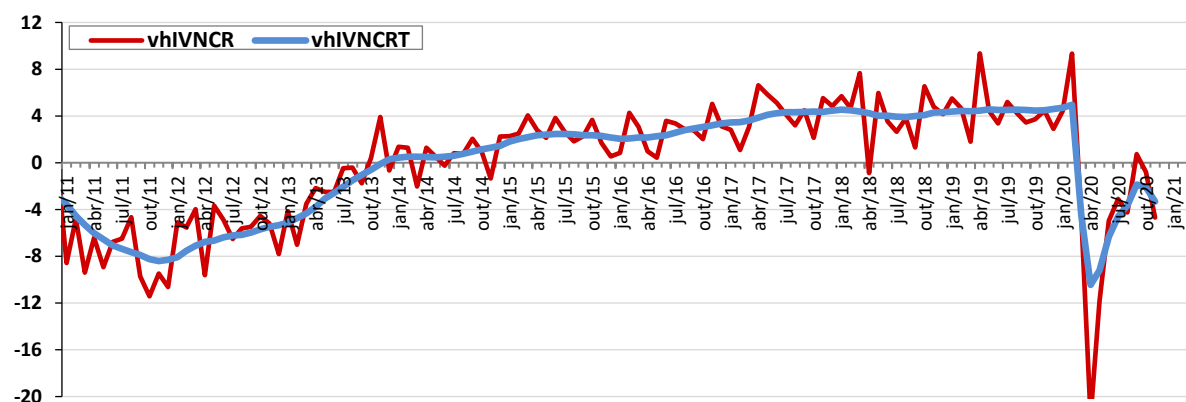


With regards the tourism sector, the number of hotel overnight stays (Tourism Activity, flash estimate, INE) decreased more in November: 76.7% (85.2% for non-residents) after a decrease of 63.3% in October (76.4% for non-residents). Comparatively, the decrease in the number of overnight stays was 55.7% during the 3<sup>rd</sup> Quarter and 92.5% during the 2<sup>nd</sup> Quarter.

## 5. RETAIL TRADE TURNOVER

In November, the **Retail Trade Turnover Index** registered a year-on-year variation of -4.7% (Graph 5, **deflated** gross values). As can be seen in the graph below, the growth rate of the estimated trend for this indicator (vhIVNCRTm), which has been recovering since April, stabilised in October, and then decreased in November.

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



**Car sales** experienced a decrease in year-on-year variation of 19.6% in December. The year-on-year variation was -20.1% during the 4<sup>th</sup> Quarter (-10.2% during the 3<sup>rd</sup> Quarter).

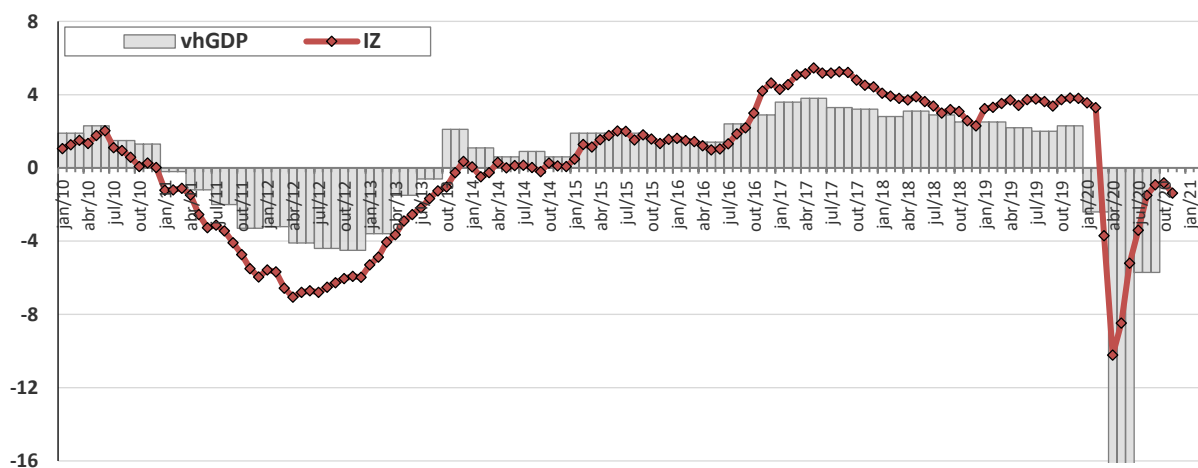
## 6. EVOLUTION OF THE Z TREND INDICATOR

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 – **decreased in November**, after having stabilised in October. This result was determined by a more negative trend for Industry and for Retail Trade Turnover in November, and it is expected that the same will have occurred for the Services Turnover. Even though the qualitative indicators were less negative in December, the 4<sup>th</sup> Quarter will prove to be – inevitably as a result of the greater restrictions of activity — a quarter which recorded a decrease in Domestic Demand when compared to the previous quarter, with a year-on-year decrease which is greater than that of the 3<sup>rd</sup> Quarter.

In the domain of Net External Demand, there should also be no change in terms of the negative contribution. The data for external trade during October continues to show a year-on-year improvement in the external deficit in Goods, with Exports of Goods decreasing less than Imports. However, at the same time, the lower positive balance of Services, which is mainly due to the fall in demand from foreign tourists, is expected to deteriorate again during the 4<sup>th</sup> Quarter.

In summary, the quantitative information which has been collected since the previous report does not contradict the expected trajectory for the 4<sup>th</sup> Quarter. Thus, in essence, the forecasts from the previous report remain the same, namely that there will be a 9% year-on-year decrease in GDP during the 4<sup>th</sup> Quarter, which, based on the INE estimates for previous quarters, corresponds to a variation of -2.9% when compared to the previous quarter, and an annual decrease of 8.4% compared to 2019.

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



Compiled with information available as of the 4th of January.