



LISBON
SCHOOL OF
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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

January, 2021

SUMMMARY

*According to the Flash Estimate of INE, Portugal's **GDP** decreased in volume by 5.9% year-on-year during the 4th Quarter of 2020 and increased 0.4% in relation to the previous quarter. As a consequence, the annual contraction in the economy in 2020 was 7.6%. In terms of the impact of the health crisis on GDP, Portugal was in a worse position than the Euro Area average (-6.8%) and Germany (-5.4%), but was better than France (-8.4%), Italy (-8.9%), and Spain (-11%).*

Confidence levels returned to negative levels in the EU in January. On account of the worsening of the health situation, Portugal one again imposed the closure of activities and a more restrictive lockdown is currently in effect for an indefinite term. Due to these conditions, economic activity is expected to contract during the 1st Quarter, although to a lesser degree than that recorded during the 2nd Quarter of 2020.

With the start of the progressive and sustained improvement in the attempt to control the pandemic during the 1st Quarter, the forecast is that in annual terms, it is most likely that growth in 2021 will be in the range of 2.5% to 4.5%, with the lower limit being a result of the country experiencing greater difficulties on the health front, while the upper limit assumes a more favourable evolution of the control of the pandemic.

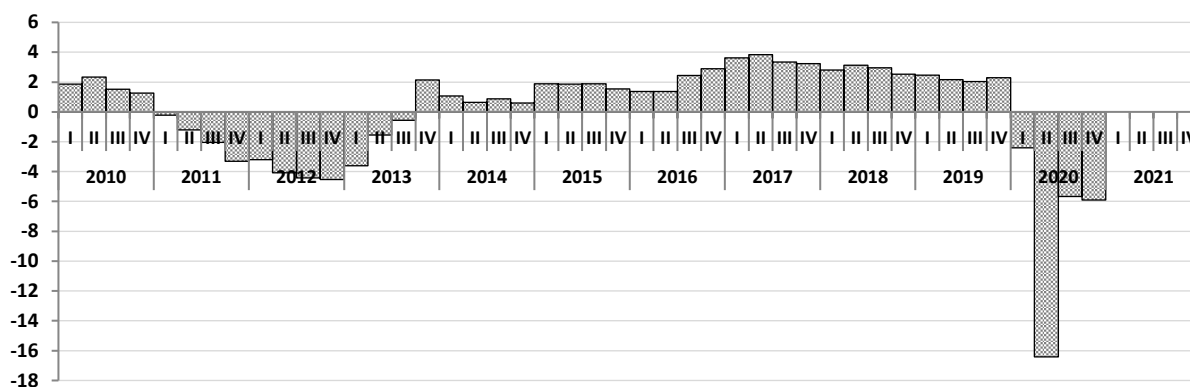
0. THE EVOLUTION OF GDP DURING THE 4TH QUARTER OF 2020

According to the Flash Estimate of the National Statistics Institute (INE), the Portuguese economy grew 0.4% during the 4th Quarter of 2020 in comparison to the previous quarter and the year-on-year variation was -5.9% (following a decrease of 5.7% during the 3rd Quarter). These values correspond to a year-on-year variation of -7.6% for the whole of 2020. Bearing in mind the generalised nature of the forecasts, both the volume of GDP for the 4th Quarter and its year-on-year variation are much better than expected, especially when taking into account the limitations imposed on the activity of certain sectors since the beginning of November.

According to INE, compared to the 3rd Quarter, the 4th Quarter of 2020 registered a less negative decrease in Internal Demand (ID) and a more negative variation in Net External Demand (NED). The less negative decrease in ID during the 4th Quarter was due to Investment, as Private Consumption registered a more accentuated decrease. No information is available for the evolution of Public Consumption. With regards the more negative evolution of NED, this was due to a more pronounced drop in Exports when compared to Imports, which is presumably due to the negative effect of tourism,

The annual variation of -7.6%, turned out to be slightly less negative than both the forecast and what was feared at the end of the 2nd Quarter. Despite the clearly negative contribution of NED, the size of the annual decrease in GDP was mainly due to the weight of the decrease in Private Consumption and Investment.

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



For the EURO AREA (AE19), with a lack of data in relation to some of the countries, the quarter-on-quarter variation was -0.7% and the year-on-year variation was -5.1%. Compared to the previous quarter, GDP decreased in France (-1.3%) and Italy (-2.0%), and increased slightly in Germany (0.1%) and in Spain (0.4%). In year-on-year terms, the variation of GDP for the 4th Quarter was -9.1% in Spain, -6.6% in Italy, -5% in France, and -3.9% in Germany.

In annual terms, also with scarce data, GDP decreased by 6.8% in the AE19. The decrease in Germany was 5.4%, in France 8.4%, in Italy 8.9%, and in Spain around 11%, with Spain being the worst-affected country in this context. In terms of the impact of the economic crisis caused by Covid-19 on GDP in 2020, Portugal was more affected than the AE19 average, although it was less affected than France, Italy, and Spain.

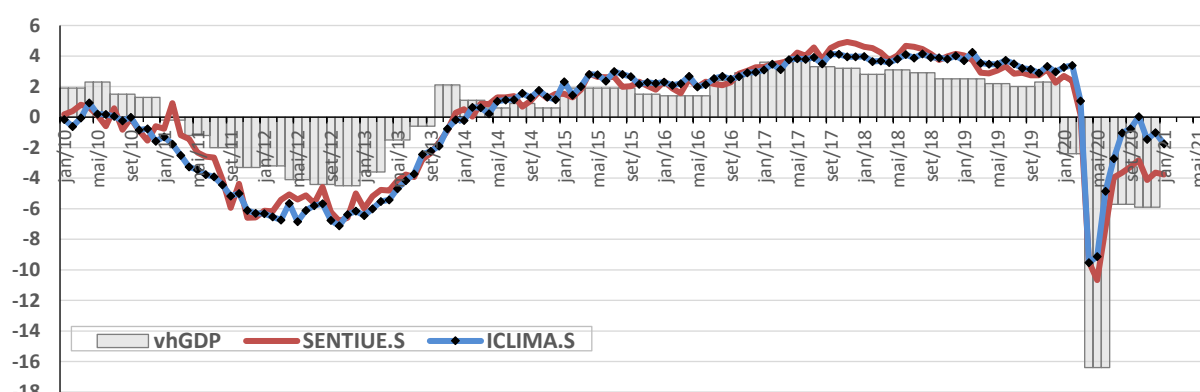
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR JANUARY

In **January**, both the **monthly Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) and the **Economic Sentiment Indicator** decreased (see Graph 1¹) – more slightly in the case of the INE indicator (which does not include consumers' opinions), and rather more pronounced in the case of the Eurostat indicator (which includes consumers' opinions).

By **sectors of activity**, the evolution of the **confidence indicators** in January was positive in the construction and services sectors, and negative in the industry and retail sectors².

The **consumer confidence indicator** also increased in January, most likely solely due to the fact that the information was only collected up until the 15th – before the onset of the current lockdown measures.

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



For the **Euro Area (AE)** countries, the **Economic Sentiment** indicator decreased in January, having increased in December to levels close to those of the maximum during the crisis. Among the countries with the greatest economic weight, this indicator decreased more notably in France and Germany, and increased slightly in Italy – and significantly in Spain, where it attained its highest level since the start of the crisis.

The Euro Area **consumer confidence indicator** decreased in January. This decrease was slight in the case of countries such as Portugal, although a slightly increase was experienced in countries such as Spain and Italy. However, in Germany and France a sharp decrease was registered, with Germany's values being close to those of the initial period of the health crisis. In summary, overall it can be said that the AE19 ended 2020 with a greater level of confidence, although this confidence was lost again during the first month of 2021.

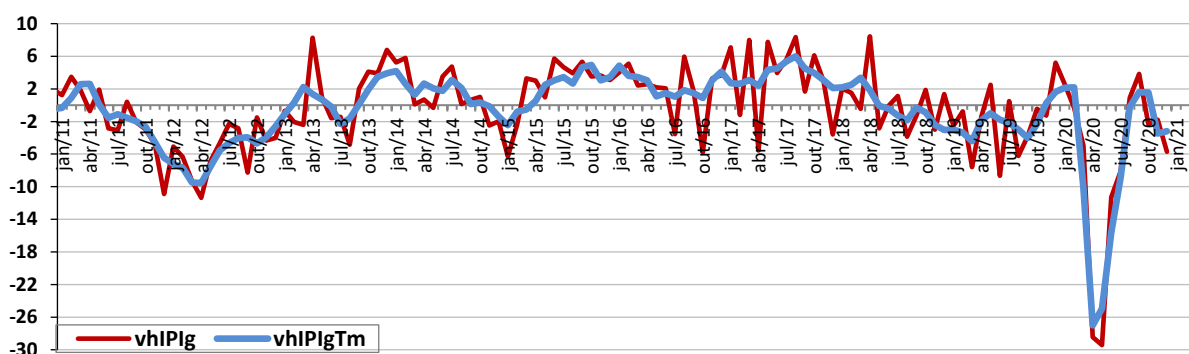
¹ In Graph 1, the original values of the Economic Climate and Sentiment indicators were adjusted for the average and for the standard deviation of vhGDP during the period under analysis for calculating the ICLIMA.S and SENTIUE.S.

² According to INE, the information for these surveys was collected up until the 15th of January in the case of consumers, and between the 2nd and 22nd of January in the case of companies. Bearing in mind that it was only after the 15th of January that new limitations on activity and a stricter lockdown was imposed due to the worsening of the pandemic crisis, it is natural that this new situation is not reflected in most of the responses in the surveys.

2. INDUSTRIAL PRODUCTION

In **December**, with one less working day in year-on-year terms, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of -5.7% (vhIPIg series in Graph 2; the variation in Manufacturing was -3.6%). During the 4th Quarter, with one less working day, the year-on-year variation was -3.2% and -7.4% for the whole year. After a decrease of 23.4% during the 2nd Quarter, this sector demonstrated a performance which can be considered positive in the present context, despite being slightly negative, although it continues to be subject to the restrictions imposed by the health crisis, which have had an overall negative impact on demand, even though they are not currently applied directly.

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

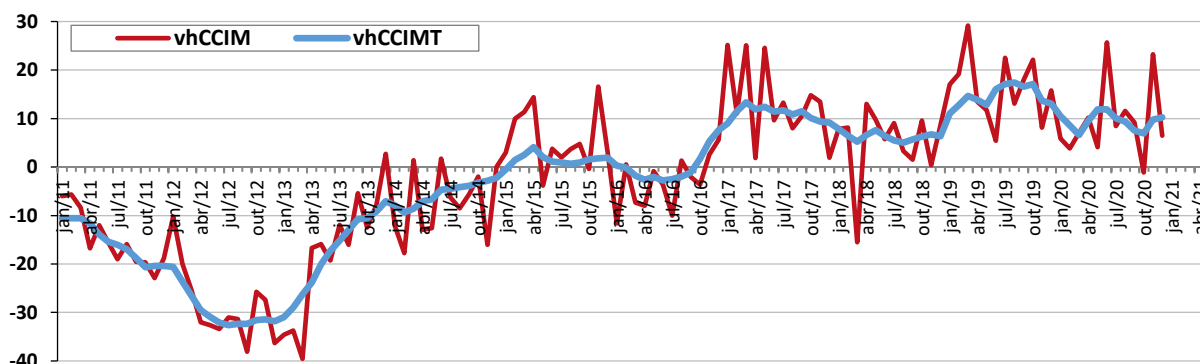


In **January**, electricity consumption (corrected for temperature and number of working days, REN) registered a year-on-year change of -1.8%, which was slightly more negative than that recorded in December (-1.4%).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

The year-on-year variation in cement sales was about 9% during the 4th Quarter, with less two working days, which represented an increase close to that registered during the 3rd Quarter. The year-on-year variations of the estimated trend (vhCCIMT, in Graph 3) are around 10% for the end of December. As can be seen in the graph, this indicator always registered growth, with some fluctuations throughout the year, and it does not seem to have been affected very negatively by the crisis. It appears that there was some change in the breakdown of the type of work, with civil engineering works gaining weight in the total.

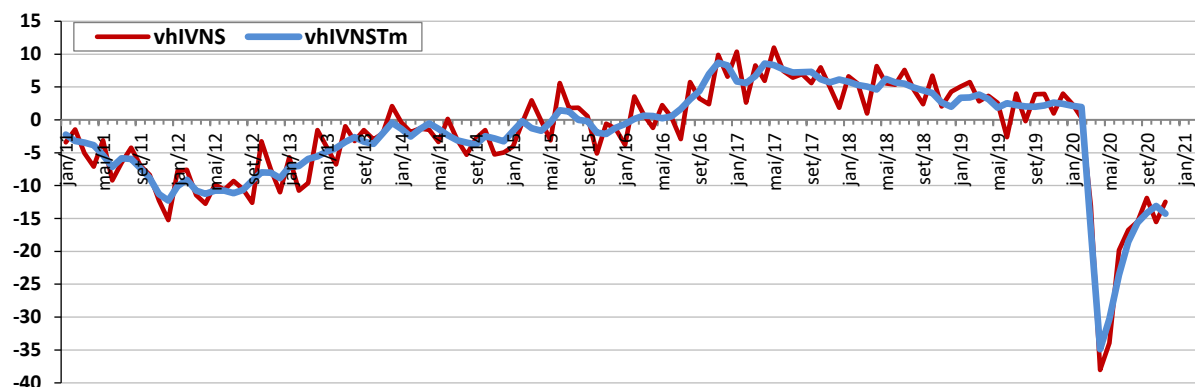
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **November**, with one less working day, the **Services Turnover Index** (nominal, gross values) showed a year-on-year variation of -12.5% (vhIVNS series, Graph 4, gross values). The recovery which was gravitating towards higher levels of activity appears to have come to a halt in November

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

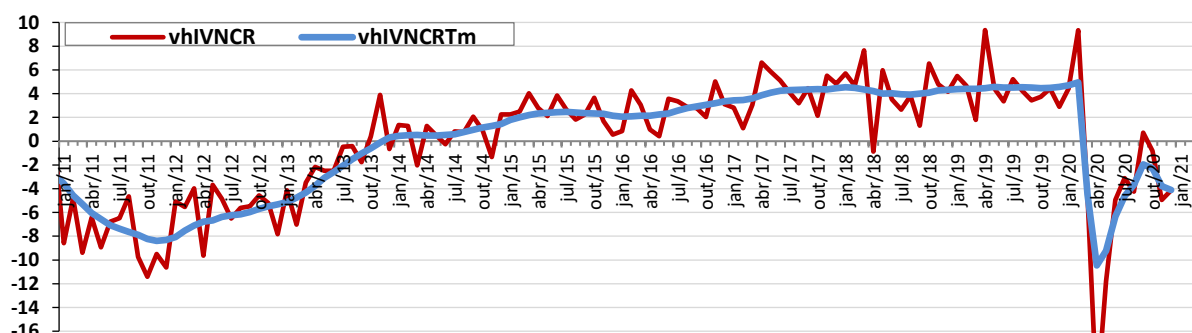


For the tourism sector, the INE flash estimate for **Hotel Turnover** registered a decrease of 72.3% in overnight stays in **December**, although this was better than the previous month (-76.9%). The decrease in terms of non-residents was 82.9%. For the whole of the year, total overnight stays decreased by 63%, and by 74.9% for non-residents.

5. RETAIL TRADE TURNOVER

In **December**, the **Retail Trade Turnover Index** registered a year-on-year variation of -4.1% (Graph 5, **deflated** gross values), with -9% for the grouping of *non-food products* and a year-on-year increase of 2.4% for *food products*. The year-on-year variation during the 4th Quarter was -3.4% and -4% for the whole year, with 1.8% for the grouping of *food products*, and -8.4% for the grouping of *non-food products*.

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



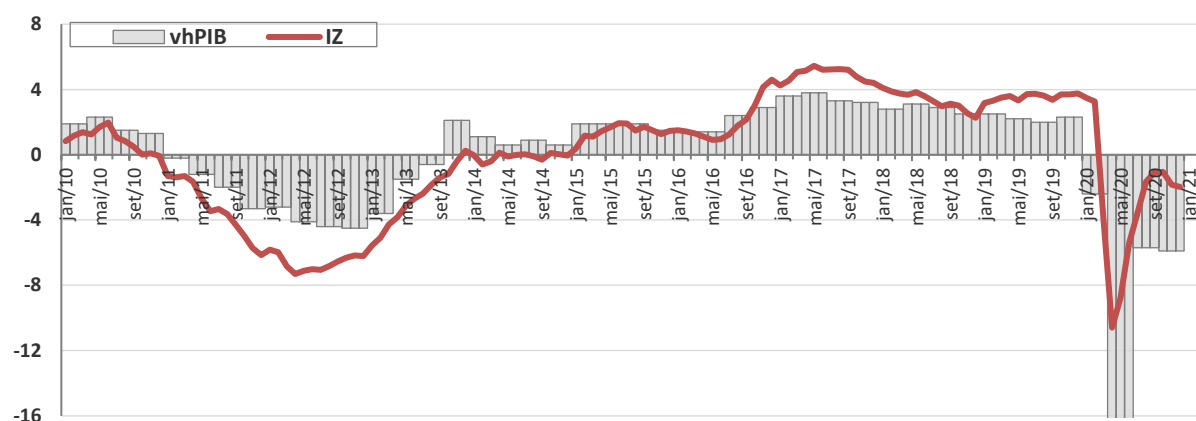
Car sales registered a year-on-year variation of -30.5% in **January** (-20.1% during the 4th Quarter of 2020).

6. EVOLUTION OF THE Z TREND INDICATOR AND THE FORECAST FOR 2021

As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is produced based on the year-on-year the sectorial indicators analysed above, showed a slightly negative evolution during the final months of 2020: However, despite the imposition of restrictions on activity as from November, there was no subsequent contraction, and the year-on-year decrease remained about the same. However, starting in the 1st Quarter of 2021, the intensity of the pandemic crisis has worsened as from the middle of January, as a result of the stricter lockdown and the obligatory closure of certain activities – with the tendency to register a more negative impact economic-wise. Yet, the expected negative economic impact of these measures is expected to be far from that recorded during the 2nd Quarter of 2020.

In fact, whereas on the one hand these measures are relatively similar to those implemented in March 2020, the result is expected to be an overall reduction in production, as they will have a greater impact on economic activity than those that remained in force between November and January. On the other hand, however, companies have now gained sufficient experience and knowledge to be able to continue to function and are more prepared to both deal with these situations efficiently and avoid the stoppages and disruptions in the production chain that occurred during the first lockdown. Accordingly, assuming that it is likely that there will be a decrease in GDP during the 1st Quarter – both in comparison to the previous quarter and in year-on-year terms – this decrease is expected to be relatively more moderate.

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



Starting with the 1st Quarter, in a plausible scenario of progressive and sustained improvements in the control of the pandemic, the economy should return to presenting quarterly growth in a more regular and sustained manner. It is thought that the economy's response will initially be relatively quick and robust, however the pace of growth will most likely be marked by either a greater or lesser control over the evolution of the pandemic. In this scenario, it is assumed that, in annual terms, it is likely that growth in 2021 will be between 2.5% and 4.5%, with the lower limit being a result of the country experiencing greater difficulties on the health front, while the upper limit assumes a more favourable evolution of the control of the pandemic.

Compiled with information available as of the 3rd of February.