Lisbon School of Economics & Management
Universidade de Lisboa

ISEG Economic Outlook

February / 2021

Economic

Economic Analysis Group

iseg.ulisboa.pt

LISBOA | UNIVERSIDADE DE LISBOA

SUMMARY

*According to the (revised) estimates of INE, Portugal's **GDP** decreased in volume by 6.1% year-on-year during the 4th Quarter of 2020 and increased 0.2% in relation to the previous quarter. The negative contribution of Net External Demand (NED) was greater than that of Internal Demand during this quarter, due to the less negative evolution of Investment. For the year, GDP decreased by 7.6%, with contributions of -4.7 percentage points (pp) from Domestic Demand, and -2.9 pp from NED.*

The Climate and Economic Sentiment indicators decreased in January and February – more sharply in February – which was a result of the lockdown and closure of activities that was re-instigated in mid-January. By sector of activity, the confidence indicators declined sharply for Retail Trade and Services, but not for Industry. For the Euro Area Euro, there was a recovery in the Economic Sentiment indicator in February, which was mainly sustained by Germany, especially in terms of an improvement in confidence for Industry.

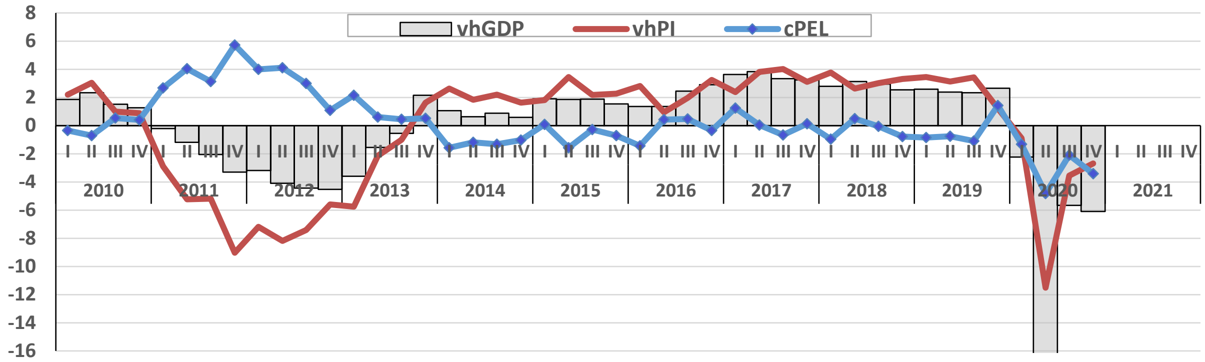
The scarce already-available data for the 1st Quarter of 2021 points to a visible fall in activity in comparison to the 4th Quarter of 2020, especially in Private Consumption, with a very uncertain behaviour for the remaining sectors of the ID and NED. Either way, the data also suggest a lower decrease in GDP than that registered for the 2nd Quarter of 2020, when the first lockdown period was in full force.

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

According to INE, during the 4th Quarter – which was characterised by attempts to control the evolution of the pandemic through partial or localised restrictions of economic activities – the year-on-year variation of GDP was -6.1% (-5.7% during the 3rd Quarter), while the quarter-on-quarter variation was + 0.2%, despite the greater restrictions imposed[1].

In terms of the determinants of demand, the year-on-year variation in Internal Demand (ID) of -2.7% was less negative than that of the 3rd Quarter and also than that of Net External Demand (NED), with a more negative contribution of -3.4 p.p. (see the graph below). In terms of ID, the larger year-on-year decrease in Private Consumption (-4.8%) is relevant, as is the much reduced negative contribution of Investment (-0.3% versus -7.2% for the 3rd Quarter). Similar to the 3rd Quarter, the annual growth of Public Consumption (3.1%) assumed values well above those observed during the pre-crisis period. In terms of NED, of note is the negative contribution caused by the widening of the difference between the decrease in Exports (-14.1%) compared with the decrease in Imports (-6.5%), which is due to the lower demand for Tourism during a period of a flare up of the pandemic, particularly in Europe.

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



In annual terms, 2020 registered a decrease in GDP of 7.6%, with contributes of -4.7 p.p. for ID, and -2.9 p.p. for NED. With regards ID, Private Consumption decreased by 5.9% and Investment decreased by 4.9%, albeit only by -2.2% for Gross Fixed Capital Formation). The variation in Public Consumption was only 0.5%, based on the fact that despite having grown by approximately 3% during the second half of the year, it decreased sharply during the 2nd Quarter (-4%). With regards NED, the volume of Imports decreased 12% in annual terms, and Exports by 18.6%. In nominal terms, Exports of Services decreased by 34.4%, with the positive result of the balance of Services falling to around half of that recorded in 2019, which gave rise to a negative external balance of approximately 2% of nominal GDP. No negative external balances have been recorded since 2012, however their size in relation toGDP was much smaller in 2020 than the negative balances recorded before 2012.

In the EURO AREA (AE19), the year-on-year variation in the 4th Quarter of 2020 was -5.0%, with a quarter-on-quarter variation of -0.6%. For the whole year, the initial estimate of EUROSTAT indicates a variation of -6.8% in the AE19. Among the larger countries, Germany recorded an annual decrease of 5.4%, France decreased by 8.4%, Italy by 8.9%, and Spain by 11%.

---

[1] Based on the publishing of the most recent data from the National Accounts, INE revised the values of its Flash estimate for the 4th Quarter of 2020 downwards (-0.2 pp) and the values for the 1st and 2nd Quarters upwards, maintaining the annual estimate for 2020. The annual growth of 2019 was also increased from 2.2% to 2.5%.

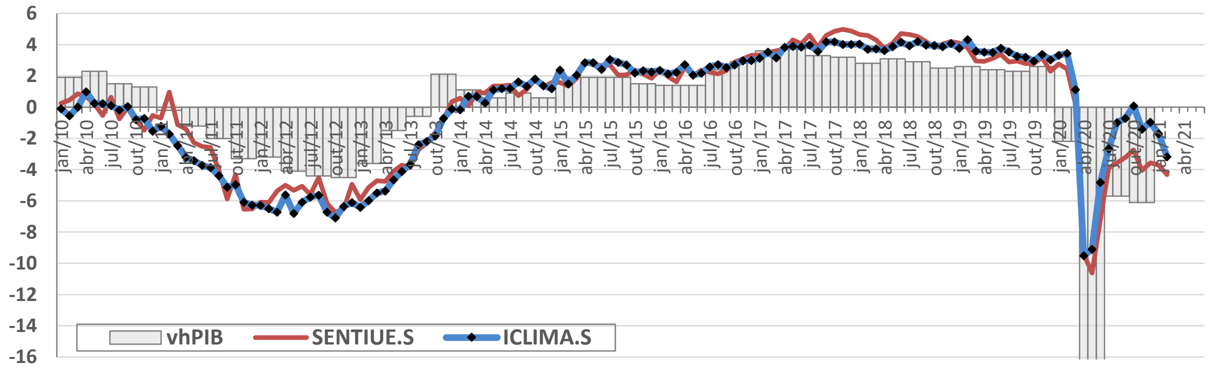
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR FEBRUARY

In **February**, a month of lockdown and the closure of many sectors of activity, a decrease was seen in both the monthly **Economic Sentiment Indicator** of the National Statistics Institute (ICLIMA.S, INE, which only includes the opinions of business) and the **Economic Climate Indicator** of EUROSTAT (SENTIUE.S, EUROSTAT, which includes the opinions of both business and consumers), just as in the previous month, but this time in a more pronounced form (see Graph 1[2]). Either way, as can be seen in the graph, the decreases and negative values are far from those attained in April last year, which is mainly a result of the situation comparatively being less of novelty and of the more efficient action carried out by those companies that were not subject to restrictions.

By **sectors of activity**, significant decreases were recorded for the **confidence indicators for the retail trade and services sectors**, which were those most affected by the lockdown and closure of activities. Even so, the values recorded are far from the lows of April or May. The **confidence indicator for construction** also decreased to a certain degree, although it is one of the least negative ones. Conversely, the **confidence indicator for industry**, which has remained relatively stable since July, albeit with some small fluctuations, rose moderately in February, which to a degree defines the greater resilience of this sector in the present context.

The **consumer confidence indicator** also decreased in February, but remained close to the average level that it has been recording since June, demonstrating a relatively more negative behaviour than that of the business sectors.

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



In the **EURO AREA (AE19)** the **Economic Sentiment Indicator** increased significantly in February. Among the countries with the greatest economic weight, this indicator increased slightly in France and more significantly in Germany and Italy, but decreased slightly in Spain. By sector, the sector that was largely responsible for the improvement of the Economic Sentiment of the AE19 was Industry, particularly in Germany.

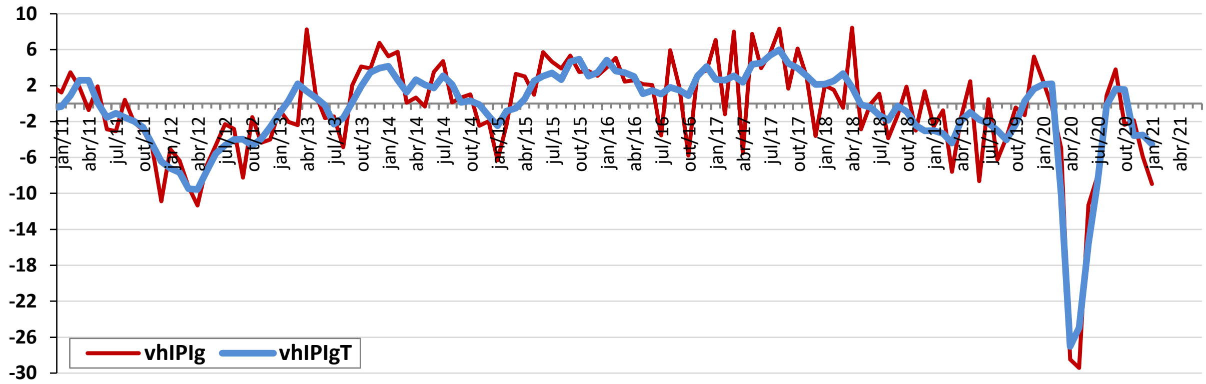
The **consumer confidence indicator** of the EURO AREA increased slightly in February, being also driven by Germany and Italy.

[2] 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. INDUSTRIAL PRODUCTION

In **January**, with two less working days, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of -9% (vhIPIg series in Graph 2; the variation in Manufacturing being -8.3%), although the year-on-year variation of estimated trend, adjusted for working days and seasonal effects (vhIPIgT series in Graph 2) is less pronounced. As can be seen in the graph below, year-on-year industrial production has been decreasing since October. This decrease was accentuated in January, probably due to the indirect effect of some of the lockdown measures that took effect during the middle of the month. However, for now, the negative impact on Industry is moderate, and, as mentioned above, the Industry confidence indicator was less negative in February.

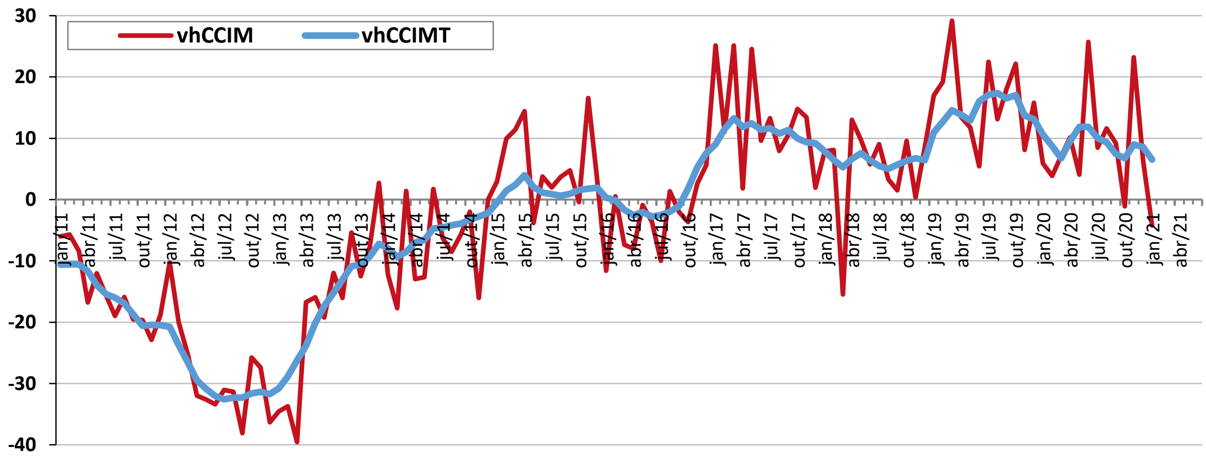
Graph 2 | Year-on-year variation of Industrial Production



3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **January**, with two less working days, the year-on-year variation in cement sales was approximately -3%, after an increase of nearly 9% during the 4th Quarter of 2020. The year-on-year variations of estimated trend (vhCCIMT, in Graph 3) were always positive throughout 2020, although the pace of growth in cement consumption has fluctuated and has shown some de-acceleration. It seems more likely that the overall activity of this sector will continue to de-accelerate in 2021, despite the expected growth of the sector for civil engineering works.

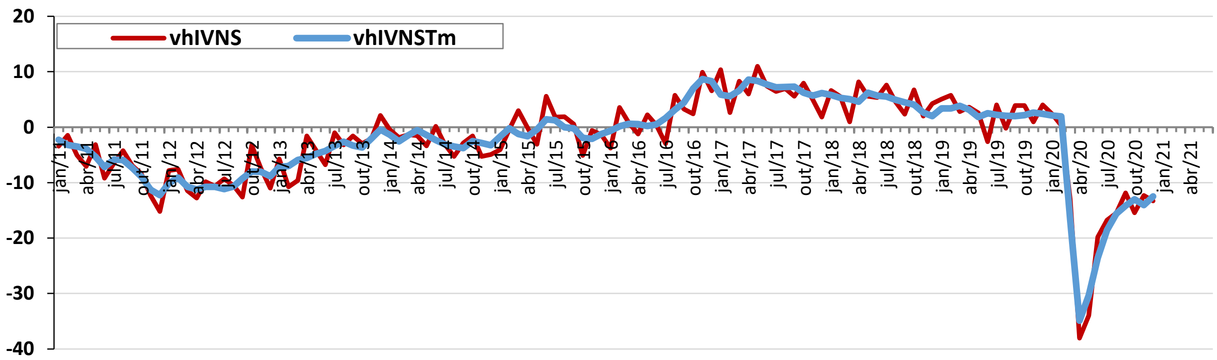
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **December**, with one more working day, the **Services Turnover Index** (nominal) showed a year-on-year variation of -13.3% (vhIVNS series, Graph 4, gross values). The year-on-year decrease during the 4th Quarter of 13.7% was slightly less than that recorded for the 3rd Quarter. As can be seen in the graph below, the size of the year-on-year decrease in this indicator remains high, although, contrary to expectations, it did not worsen during the 4th Quarter, given the restrictions in activity imposed in certain sectors. However, it is forecast that it might have decreased again in January, due to the obligatory closure of certain activities.

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

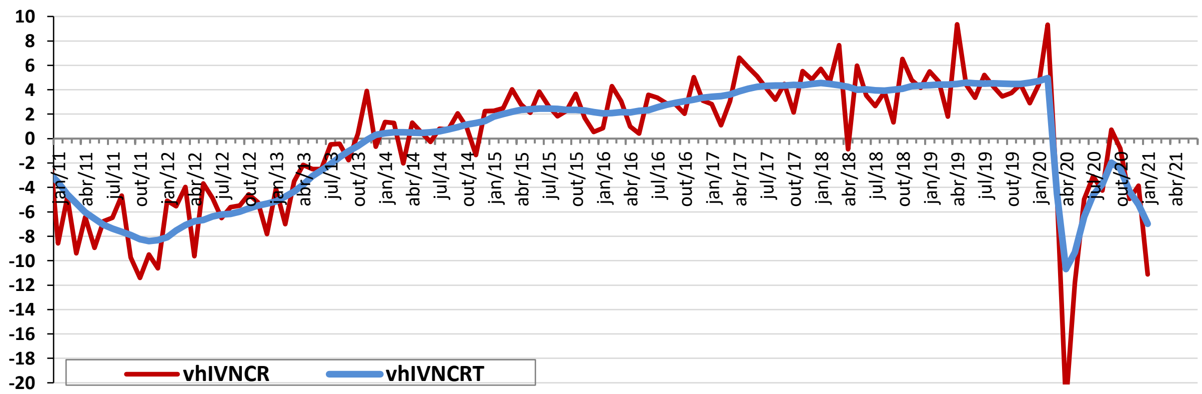


For the tourism sector, the indicator for overnight stays in hotels in **January** recorded a year-on-year variation of -78.2% (-72.6% in December, and -69.9% during the 4th Quarter of 2020; INE, Tourism Activity, flash estimate). The year-on-year variation for *Non-residents* was -87%.

5. RETAIL TRADE TURNOVER

In **January**, the **Retail Trade Turnover Index** registered a year-on-year variation of -11.1% (Graph 5, **deflated** gross values), which reflects the lockdown and the closure of many commercial establishments which has been in force since mid-January. The year-on-year variation for the grouping of *non-food goods* was -20.4%, whereas it was +1.7% for the grouping of *food goods*.

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



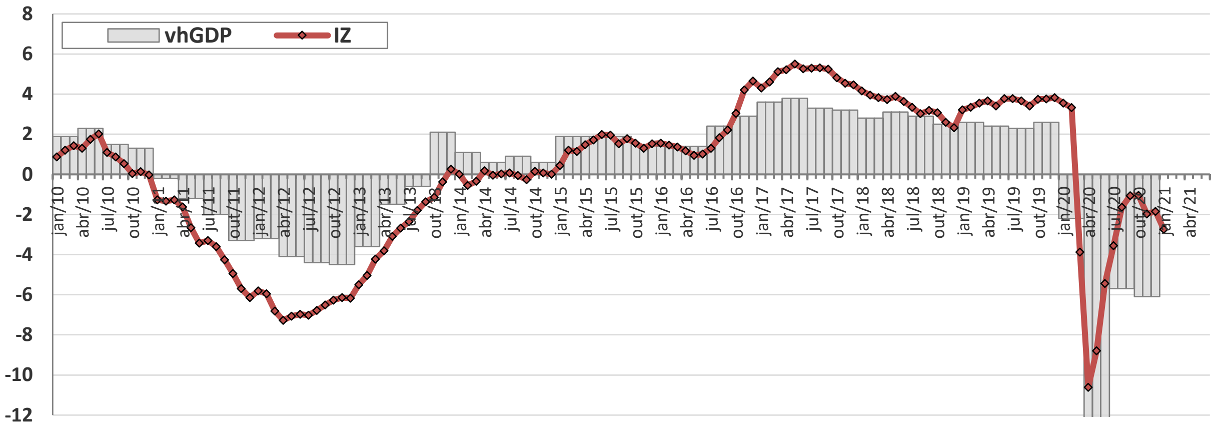
Car sales recorded year-on-year decreases of 59% in **February** and 47.1% in the sum of **January** and **February**. Nevertheless, these decreases are less pronounced than those recorded in the 2nd Quarter of 2020 (-71.7%).

6. EVOLUTION OF THE Z TREND INDICATOR AND EXPECTATIONS FOR THE 1ST QUARTER

As can be seen in Graph 6, the **global activity trend indicator** (IZ) – which is a summary of the sectorial indicators analysed above – indicates a notable decrease in January after a slight decrease in December, which is predictably due to the new lockdown and the closure of activities that took effect from mid-January.

This confinement will affect the performance of economic activity in the current quarter. For now, the available information points to a substantial decrease in Private Consumption, as indicated by indicators such as the Retail Trade Turnover of non-food products, car sales, fuel consumption, and the value of purchases through the SIBS cashpoint network. In any case, the decreases in these indicators are not as large as those recorded in April and May of last year, while equally there are areas of activity that will be significantly less affected, namely Industry and Construction. The evolution of electricity consumption in January and February recorded a very slight year-on-year decrease (of approximately 1.3%, adjusted for working days and temperature effects, which is comparable with a drop of around 13% in April and May of last year), which acts as a representative indicator of a comparatively lesser decrease in activity.

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



In summary, the very limited available suggests that the 1st Quarter of 2021 will see a fairly significant quarter-on-quarter decrease in GDP and a still significant year-on-year decrease, although this will be limited by the fact that the economy has already contracted during the 1st Quarter of 2020. The main factor to take into consideration when analysing this decrease in GDP will be Private Consumption. Similar to the previous two quarters, the expectation is that Public Consumption will have a reasonably positive contribution, however the evolution of Investment is unpredictable at the moment, as is the contribution of NED. A quantified estimate for the variation in GDP during the 1st Quarter will be presented in the next report.

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