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ISEG Economic Outlook

March / 2021

Economic

Economic Analysis Group

SUMMARY

The data from the quantitative indicators available for the 1st Quarter suggest a further decrease in activity in January and February, owing to the restrictions of activity imposed by the second lockdown, followed by a relative improvement in March, after the beginning of a partial easing of the lockdown, and also due to the base effect of the first lockdown in the year-on-year comparison.

Reflecting the start of the easing of the lockdown from the middle of the month, the Climate and Economic Sentiment indicators registered a relevant increase in March. The confidence indicators by sectors of activity grew significantly in Industry, Retail Trade, and Services. In the Euro Area, there was a very pronounced and widespread rise in the Economic Sentiment indicator in March, however at the end of the month a setback in some countries' lockdown occurred, which might have dampened expectations yet again.

Based on the incomplete quantitative data available for the 1st Quarter, quarterly GDP is estimated to have decreased by between 3.5% and 2.5% in relation to the 4th Quarter of 2020, and year-on-year variation in GDP is expected to decrease by between 5.6% and 4.6%.

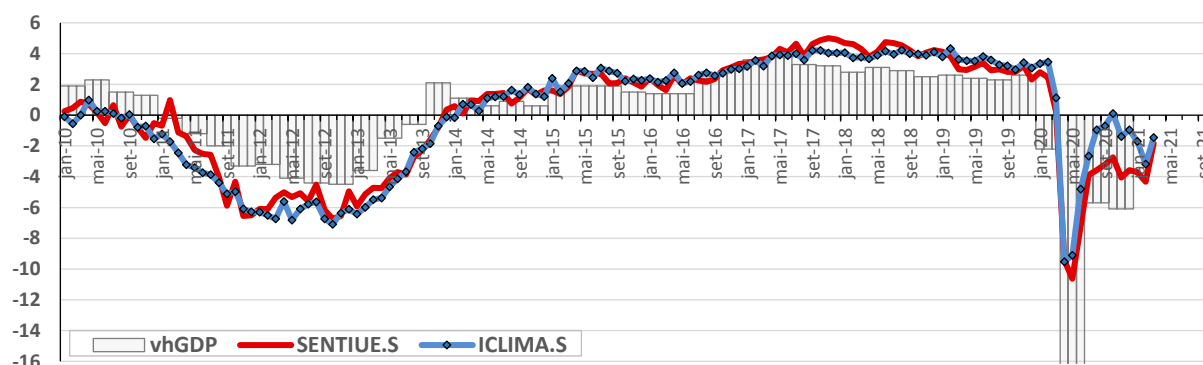
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR MARCH

In **March**, which was a month of transition between the stricter lockdown and the beginning of some measures to ease the lockdown, the **monthly Economic Climate Indicator** of the National Statistics Institute (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 in an impressive way, recuperating the more negative values of the previous two months (see Graph 1¹).

By **sectors of activity**, significant increases were recorded for the **confidence indicators for the Industry sector** (with the highest levels since February 2020), **Commerce and Retail trade** (where the level of confidence was better in the 3rd and 4th Quarters of 2020), and **Services** (which, since the beginning of the pandemic only saw higher levels of confidence in last September and November). The **confidence indicator for Construction** (INE) did not improve, although the level for the 1st Quarter of 2021 was the best since March 2020.

Despite being more negative when compared with the group of sectors of activity, the **Consumer confidence indicator** also rose significantly in March, attaining values which have not been seen since March 2020.

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



For all of the **Euro Area (EA19)** countries, the **Economic Sentiment** indicator also increased very significantly in March. The positive evolution of the indicators was generalised among the countries with the greatest economic weight, with Germany being the country with the largest increase, which once again was driven by the growth of confidence in Industry. However, these results were collected before the worsening of the pandemic situation and the subsequent announcement of the stopping or reversal of the measure for easing the lockdown in some countries at the end of March (France and Germany, among others). This could have contributed to the dampening of confidence and to the slowdown of the expected recovery of economic activity.

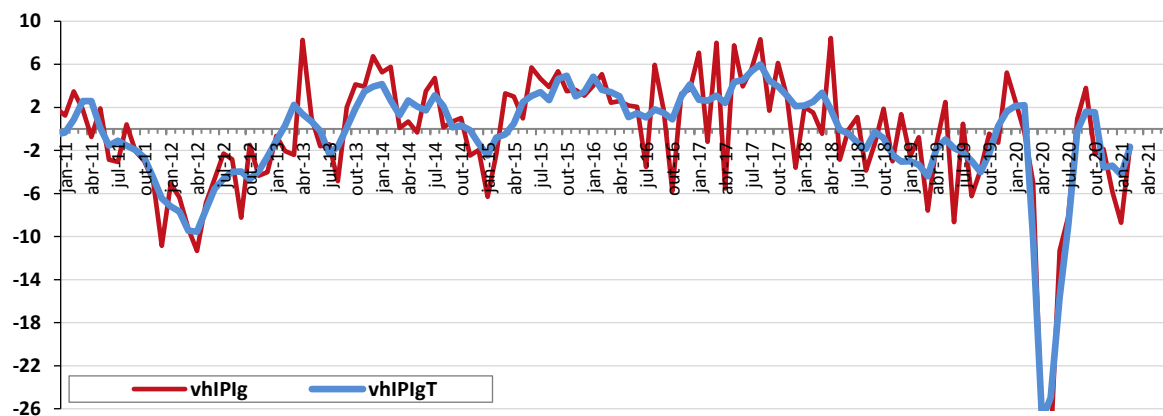
Among **consumers**, the confidence indicator for the Euro Area also increased, although less intensely than most sectors of activity, just as it did in Portugal.

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 **February**, with the same number of working days, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of -1.6% (vhIPIg series in Graph 2). For the same month, the variation in Manufacturing was -5.3%, with the variation in Electricity Production being +18.2%, on account of the cold weather conditions of the month. As can be seen in the graph below, the variation in annual industrial production, which was positive in September, has been on the decrease since October, although, after discounting the effects of working days, this decrease has been moderate and relatively less affected by the lockdown measures introduced as from the middle of January. According to INE's economic surveys, the confidence indicator for Industry improved significantly in March, attaining its highest level since February 2020.

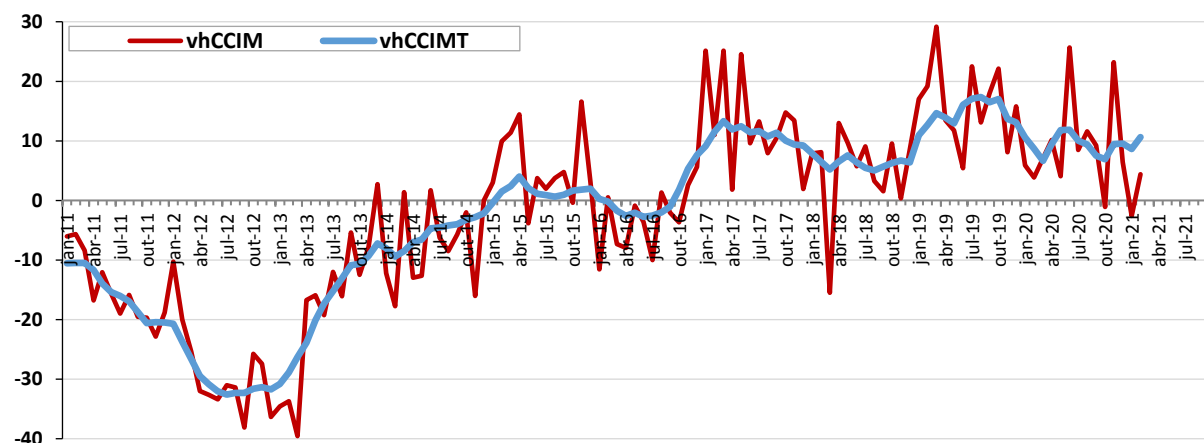
Graph 2 | Year-on-year variation of Industrial Production



3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **February**, the annual variation in cement sales was approximately 4%, after a decrease of 2% in January. The estimated trend of year-on-year variations (vhCCIMT, in Graph 3) increased to levels closed to 10% during the bad weather which hampered activity. Subsequently, the sector's confidence indicator remained relatively stable in March, with the quarterly average for the 1st Quarter of 2021 being the highest since the year-on-year quarter of 2020.

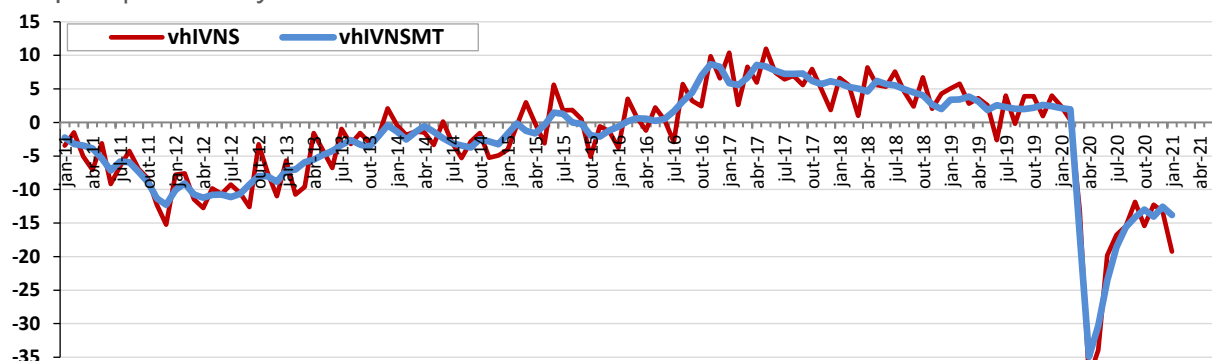
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **January**, with two less working days, the **Services Turnover Index** (nominal series) showed a year-on-year variation of -19.2% (vhIVNS series, Graph 4, gross values). As can be seen in the graph below, after correction for calendar effects, the year-on-year decrease of this indicator did not worsened substantially in January (vhIVNSMT series), despite half a month of strict lockdown. However, it is likely that this decrease worsened in February.

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

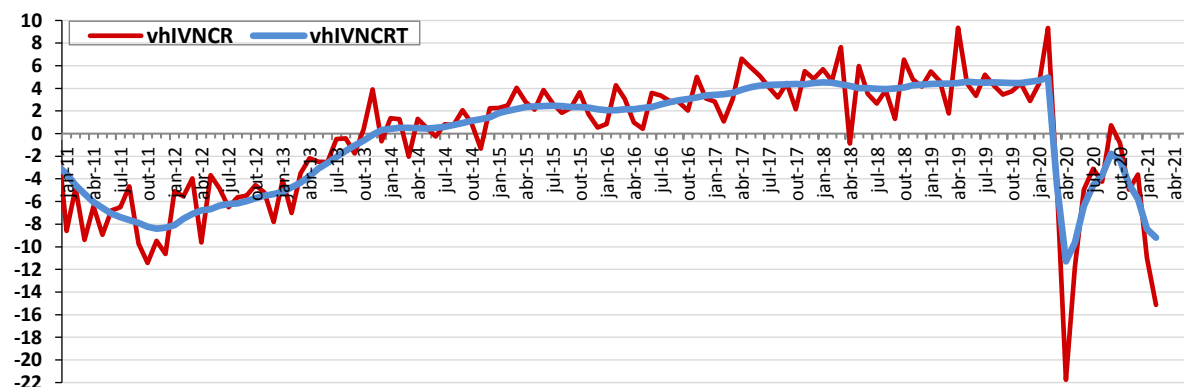


With regards the tourism sector, the number of **overnight stays** in hotels in **January** and **February** registered a year-on-year variation of -78.5% and -87.7% (INE, Tourism Activity, flash estimate). The year-on-year variation for the total of both these months for *non-residents* was worse, being -91.1%.

5. RETAIL TRADE TURNOVER

In **February**, the **Retail Trade Turnover Index** registered a year-on-year variation of -15.1% (Graph 5, **deflated** gross values), as a consequence of the lockdown and the closure of most of commercial establishments which has been in force since mid-January. The year-on-year variations of *non-food products* was -25.9% (-19.5% in January, bearing in mind that the maximum decrease registered was 34.8% in April, 2020), while the *food products* grouping registered a decrease of just 1.1% (after an increase of 1.2% in January).

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



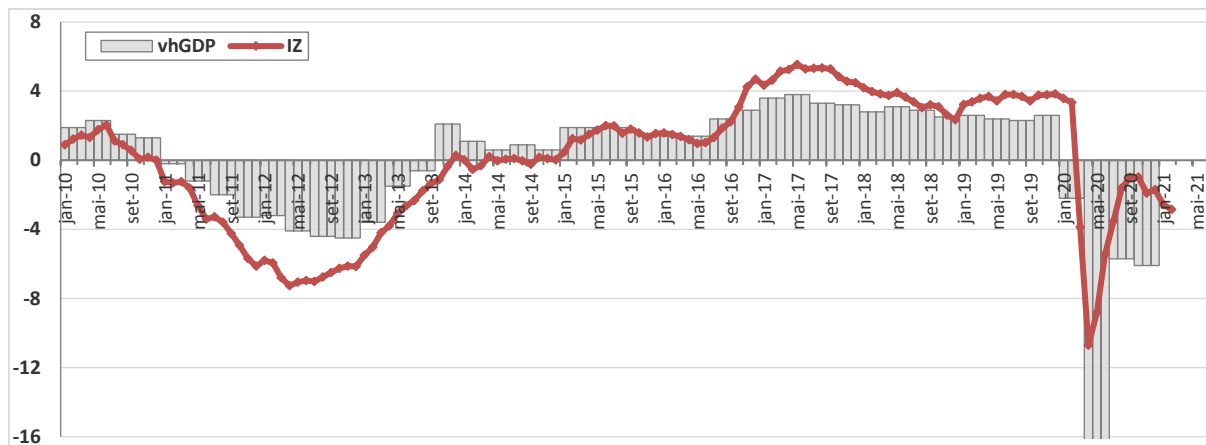
Car sales registered a year-on-year variation of 19.8% in March, partly due to half a month of the easing of lockdown, and partly due to the base effect of the year-on-year comparison. The year-on-year variation for the 1st Quarter was -31.5% (-20.2% for the 4th Quarter of 2020).

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, presents a renewed decrease in February, which must have been reversed in March with the partial easing of the lockdown and also on account of the base effect of the year-on-year comparison. However, overall, the 1st Quarter of 2021 will have been characterised by a decrease in activity in relation to the 4th Quarter of 2020, owing to the more restrictive lockdown which remained in force during two thirds of the quarter.

In terms of Internal Demand (ID), the main effect of the lockdown is expected to be a substantial decrease in Private Consumption, which will have been reasonably more pronounced than that of the 4th Quarter of 2020, and a probable year-on-year growth in Public Consumption, in line with the values registered during the previous two quarters, as well as a slightly more negative evolution in Investment, where the Construction component should have remained positive, although it may have grown less. The contribution of Net External Demand (NED) to quarterly GDP is expected to remain negative, due to Exports of services, i.e., external tourist demand, although it will probably be less negative than during the 4th Quarter, also on account of the base effect. Overall, in terms of year-on-year variation, the contribution of ID is expected to have been more negative than during the 4th Quarter, and that of NED will have been slightly less negative.

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



After taking all the above into account, and based on fact that the available information for March is still very scarce, it is expected that quarterly GDP for the 1st Quarter varied between -3.5% and -2.5% when compared to the previous quarter, and between -5.6% and -4.6% in quarter-on-quarter terms. The forecast for the year will be reviewed in the next report after the publishing of INE's flash estimate for the 1st Quarter.

Compiled with information available as of the 5th of April.