



Lisbon School  
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# *ISEG Economic Outlook*

**April / 2021**

# *Economic*

*Economic Analysis Group*

## SUMMARY

*According to the flash estimate of INE, Portugal's **GDP** decreased in volume by 5.4% in year-on-year terms during the 1<sup>st</sup> Quarter of 2021, and 3.3% in comparison to the previous quarter. These results were more negative than those recorded for the average the Euro Area, as a consequence of the worsening of the health crisis and the imposition of the general lockdown.*

*With the soon-to-be-expected or real progress in controlling the health crisis, there was a notable recovery of confidence in EU countries in April, just as in March, with the economic sentiment indicator for the EA19 increasing to values clearly above their historical average. In Portugal, the recovery in confidence was similar, albeit slightly less extensive than the EA19 average.*

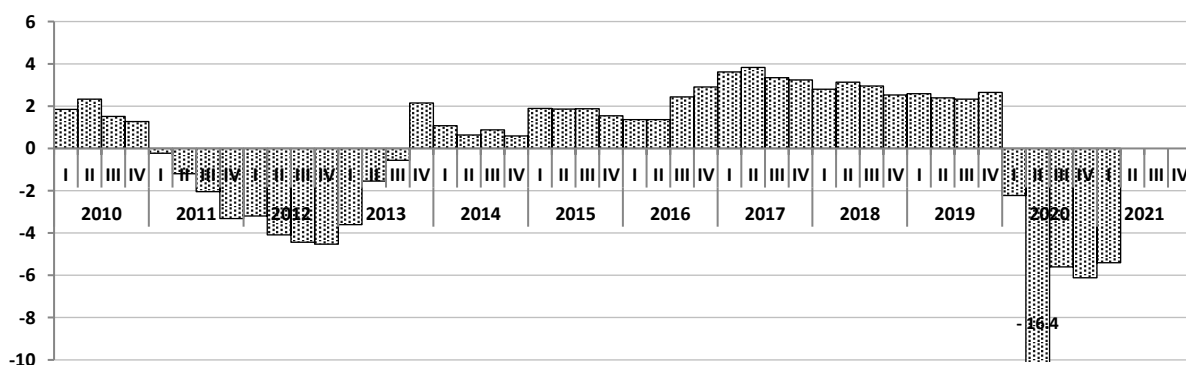
*As expected, as a result of the base effect, the first data for the 2<sup>nd</sup> Quarter are characterised by highly positive year-on-year variations. On first analysis, it is more realistic to expect an annual growth during the 2<sup>nd</sup> Quarter of between 10% and 15%. Assuming that the health situation remains under control, it is now assumed that growth for the whole year is likely to be between 3.5% and 4.5%.*

## 0. VARIATION OF GDP DURING THE 1<sup>ST</sup> QUARTER OF 2021

According to the flash estimate of the National Institute of Statistics (INE), the Portuguese economy decreased 3.3% quarter-on-quarter during the 1<sup>st</sup> Quarter of 2021, and 5.4% in year-on-year terms (after a decrease of 7.6% in 2020). The values registered during the 1<sup>st</sup> Quarter suffered from the negative effects of the worsening of the health crisis, which resulted in the imposition of a general lockdown for about two months, which is demonstrated in a negative variation of the comparison over a longer time period. Nevertheless, the year-on-year variation is already benefitting from the base effect, due to the fact that the first lockdown was imposed back in mid-March 2020, which explains why the year-on-year variation during the 1<sup>st</sup> Quarter was lower than that registered during the 4<sup>th</sup> Quarter of 2020 (see the graph).

In year-on-year terms, counting with the lack of quantified data, for the reasons cited by INE described above, a qualitative assessment shows that the following were responsible for the year-on-year variation in GDP during the 1<sup>st</sup> Quarter, as expected: a sharp decrease in Private Consumption and the consequent more negative contribution of Internal Demand (ID). Similarly, a less negative contribution from Net External Demand (NED) would have been expected, despite the fact that the decrease in Exports continued to be greater than the decrease in Imports, due to the dramatic reduction in external tourist demand.

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



In the EURO AREA (EA19), with the lack of data for certain countries, the quarter-on-quarter variation was -0.6%, with a year-on-year variation of -1.8%, representing results which are much less negative than those of Portugal, which can be explained by the intensity of the health crisis in Portugal at the beginning of this year, and also by the existence of a stricter and more prolonged general lockdown, which was deemed necessary.

Among the larger countries, in quarter-on-quarter terms, GDP decreased 1.7% in Germany and 0.5% and 0.4% in Spain and Italy, respectively. GDP increased in France, by 0.4%. In year-on-year terms, Spain experienced growth in GDP of -4.3%, -3.0% in Germany, and -1.4% in Italy. A positive year-on-year variation in GDP of 1.5% was recorded for France, albeit France was one of the countries that decreased the most the year before (-5.6%, q-o-q).

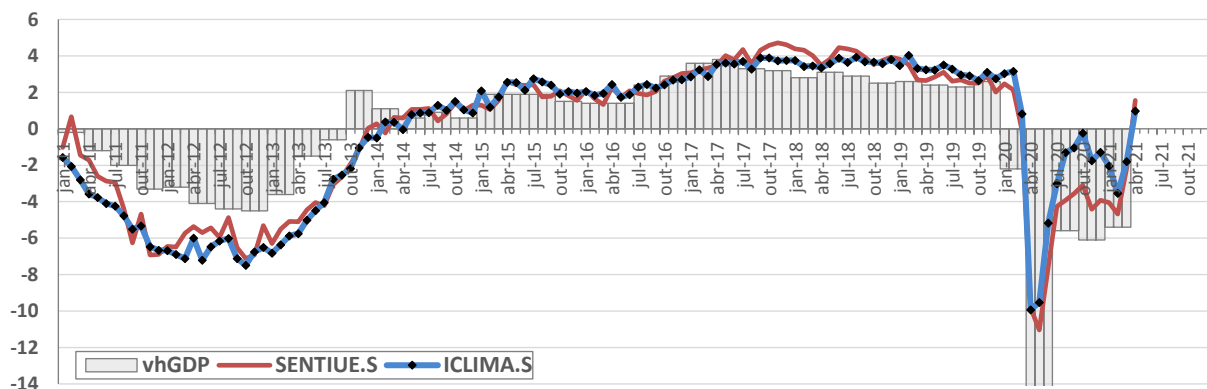
## 1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR APRIL

In **April**, just as in the previous month, both the **monthly Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) and the **Economic Sentiment Indicator** of EUROSTAT (SENTIUE.S, EUROSTAT) increased in a pronounced way (see Graph 1<sup>1</sup>), attaining positive standardised values for the first time since the start of the health crisis, which generally accompany positive year-on-year growth in the economy as a whole.

By **sectors of activity**, the evolution of the **confidence indicators** in April was positive in all the sectors considered (Industry, Construction, Retail, and Services), having progressed considerably during the last two months. However, the level of confidence overall in April 2021 is still reasonably below that registered during the pre-crisis period, with the exception of Industry, where it is very close to the pre-crisis level.

Although it continues to be more negative than the business confidence indicators, the **Consumer confidence indicator** also improved in March and April, having finally recovered a significant part of the confidence lost during the initial months of the crisis.

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 (EA)** countries, the **Economic Sentiment** indicator increased considerably during the recent months, having nearly attained pre-crisis levels in March and clearly surpassing these levels in April. However, this is not yet the case in Portugal, which remains more pessimistic. Among the countries with the greatest economic weight, only Germany is very close to the EA19 average, with Spain France and Italy being below the average.

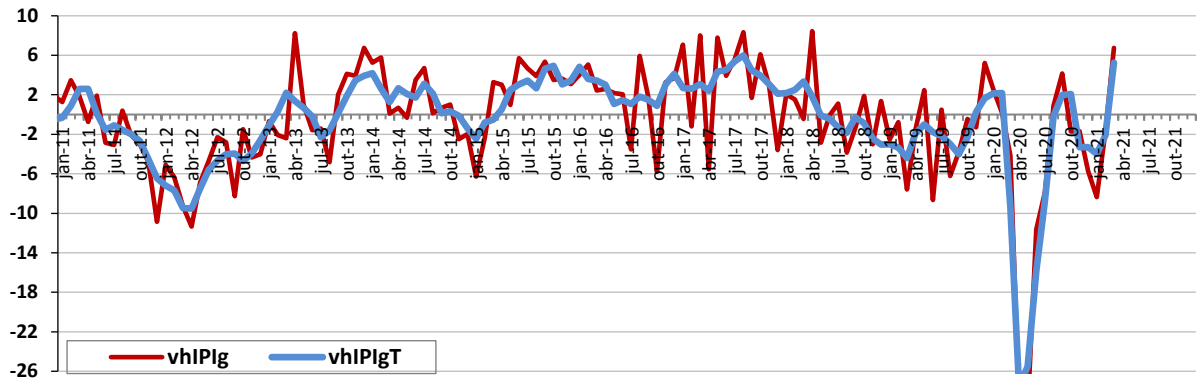
The **consumer confidence indicator** of the **Euro Area**, albeit still negative, also increased in the last two months, but more so in March than in April. Of the countries with the greatest economic weight, consumers in Germany and France are close to the EA19 average, and are slightly more negative in Italy and Spain. Consumer confidence in Portugal is more negative than in any of the previously-mentioned countries.

<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 for calculating the ICLIMA.S and SENTIUE.S.

## 2. INDUSTRIAL PRODUCTION

In **March**, with one more working day than the same month last year, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of 6.8% (vhIPIg series in Graph 2; the variation of Manufacturing being 7.5%). These values are affected by the base effect resulting from the start of the first lockdown in mid-March, 2020. For the same reason, especially high year-on-year variations in this and other indicators are forecast for the 2<sup>nd</sup> Quarter.

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

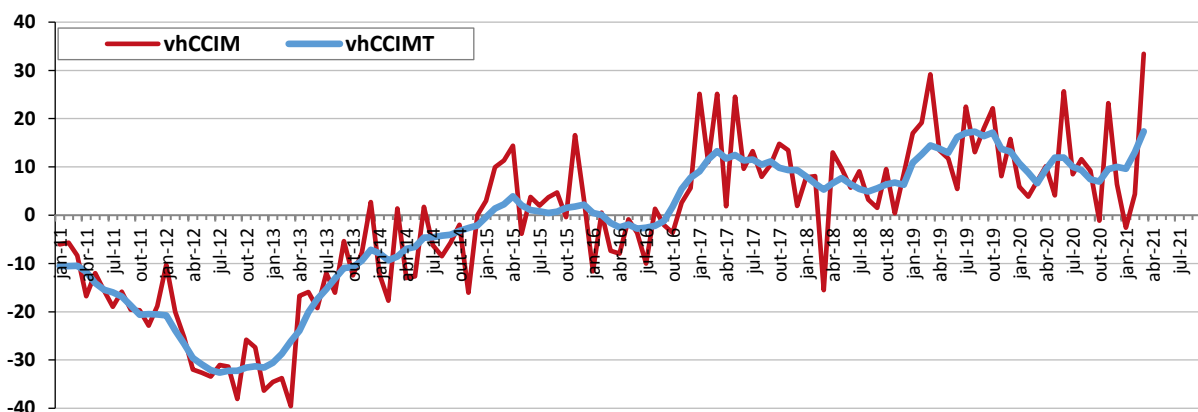


Electricity consumption (adjusted for temperature and working days, REN) registered a year-on-year variation of 10.4% in April, which compares with -13.7% in April, 2020, during the first lockdown, which meant that electricity consumption in April remained significantly below the level of 2019.

## 3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

Cement sales increased by more than 30% in **March**, however this value was partially inflated by specific aspects, although the main origin is due to the growth of the construction and public works sector, particularly the latter. The increase in cement sales during the 1<sup>st</sup> Quarter was approximately 13%. One needs to be reminded that the construction sector experienced significant growth in 2020, despite the health crisis, with cement consumption increasing by around 9.5% last year.

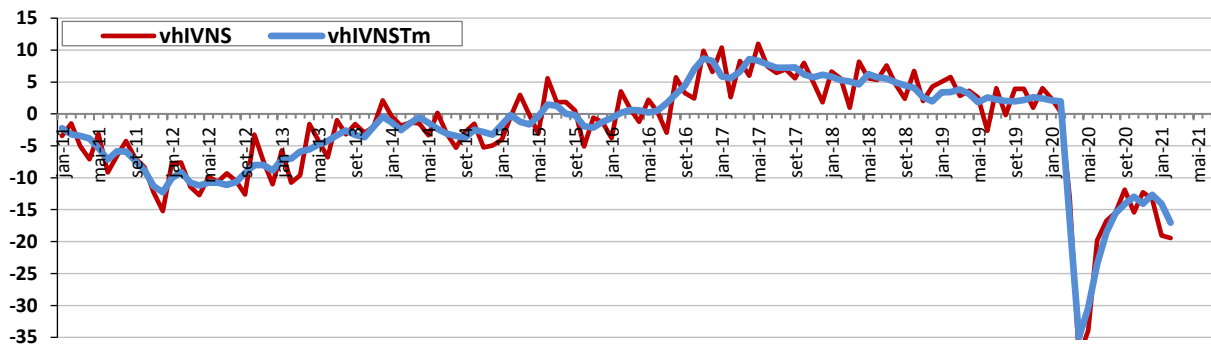
Graph 3 | Year-on-year variation of Cement Consumption



## 4. TURNOVER IN THE SERVICES SECTOR

Back in **February** (which is the most recent monthly information currently available), the **Services Turnover Index** (nominal series, gross values) showed a year-on-year variation of -19.4% (vhIVNS series, Graph 4, gross values), with this large decrease being attributed to the lockdown during the month. The evolution of this indicator is expected to have recovered during March, owing to the partial easing of the lockdown, together with the base effect of last year's lockdown.

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

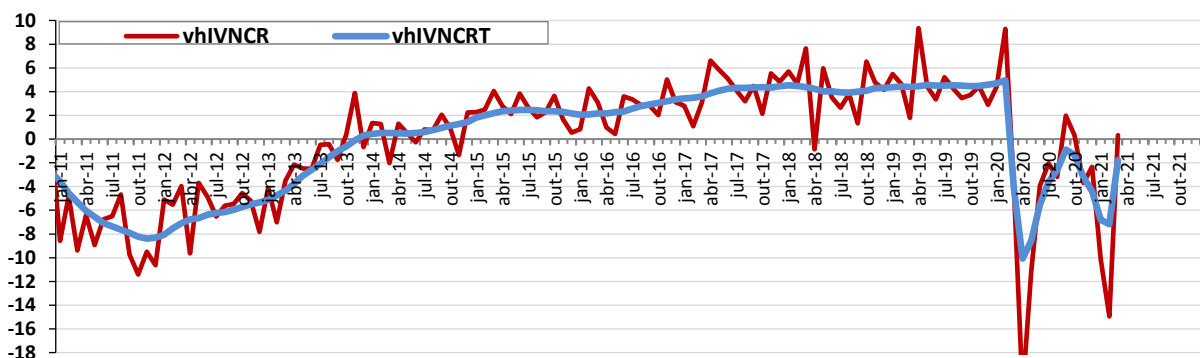


With regards the tourism sector, the INE flash estimate for tourism activity registered a 66.5% decrease in **overnight stays** in hotels in **March**, which was an improvement on the previous month (-87.8%), albeit benefitting from the base effect of the start of the pandemic. The decrease in the *non-residents* grouping was 86.2%. The total number of overnight stays during the 1<sup>st</sup> Quarter of 2021 decreased by 80% (-90.0% for *non-residents*).

## 5. RETAIL TRADE TURNOVER

In **March**, the **Retail Trade Turnover Index** registered a year-on-year variation of 0.3% (Graph 5, **deflated** gross values), with a year-on-year variation of -0.5% for the *food products* grouping, and 1.2% for the *non-food products* grouping, where the lockdown gave rise to an average decrease of more than 20% during the previous two months. Also due to the lockdown, the year-on-year variation during the 1<sup>st</sup> Quarter was -8.3%, representing a decrease that has only been superceded by that of the 2<sup>nd</sup> Quarter of 2020 (-12.0%).

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



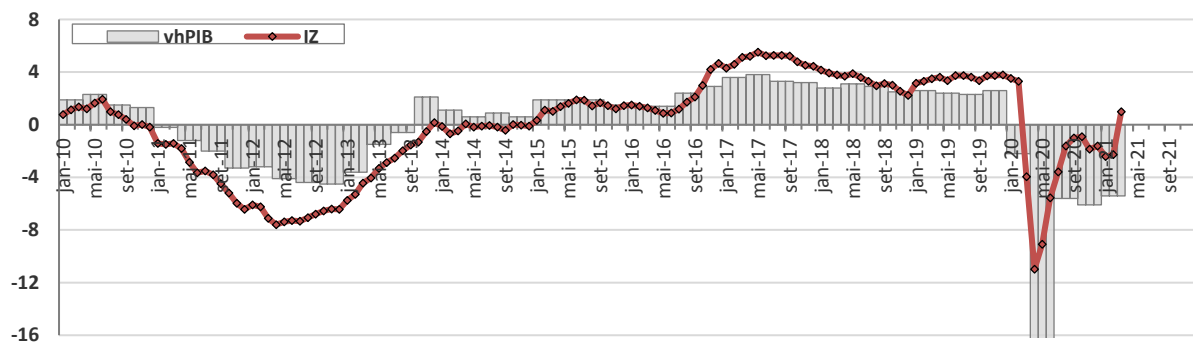
**Car sales** registered a year-on-year variation of 438.7% in **April**, due to the base effect of the first lockdown, however, the sales of April nevertheless represent a decrease of 29.9% in relation to 2019.

## 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 a summary of the year-on-year estimated trend variations of all the sectorial indicators analysed above, presents a pronounced increase in March, originating from the positive effect of the easing of the lockdown and the reopening of hitherto closed activities, as well as the impact of the base effect produced by the start of the health crisis and the first lockdown in mid-March 2020.

With the resumption of economic activity, the impact of the base effect on growth will be extraordinarily amplified during the 2<sup>nd</sup> Quarter, bearing in mind that GDP contracted the most during the 2<sup>nd</sup> Quarter of 2020. The scarce data available for April tend to indicate the following: a significant growth in car sales (5.4 times more) and light goods or heavy vehicles (200% and 300%); an increase in electricity consumption (10.4%); and an increase in the number of **SIBS cashpoint withdrawals and payments**, which in April registered a year-on-year increase of 61% in payments and 42.8% in withdrawals, however, when compared with the same period in 2019, this represents a decrease of 8.1% in payments

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



and 3.1% in withdrawals. Accordingly, all the indicators point to a strong year-on-year growth in GDP during the 2<sup>nd</sup> Quarter of more than 10%, maybe closer to 15%. However, as the data also suggests, the level of GDP for the 2<sup>nd</sup> Quarter of 2021 will still be somewhat below the level of the same quarter in 2019.

Assuming the plausible scenario of control over the pandemic, the economy is expected to return to more regular and sustained growth as from the 2<sup>nd</sup> Quarter. The response of the economy is forecast to initially be relatively quick and robust, albeit from among the main sectors of the Portuguese economy, the evolution of the tourism sector is expected to be more uncertain, with its recovery possibly being slower than that of other sectors, especially when taking into account pre-crisis levels. In this scenario, and based on the expectations for a continued control of the health crisis, it is forecast that growth in 2021 is more likely to be in the range of 3.5% to 4.5%.

Compiled with information available as of the 5<sup>th</sup> of May.