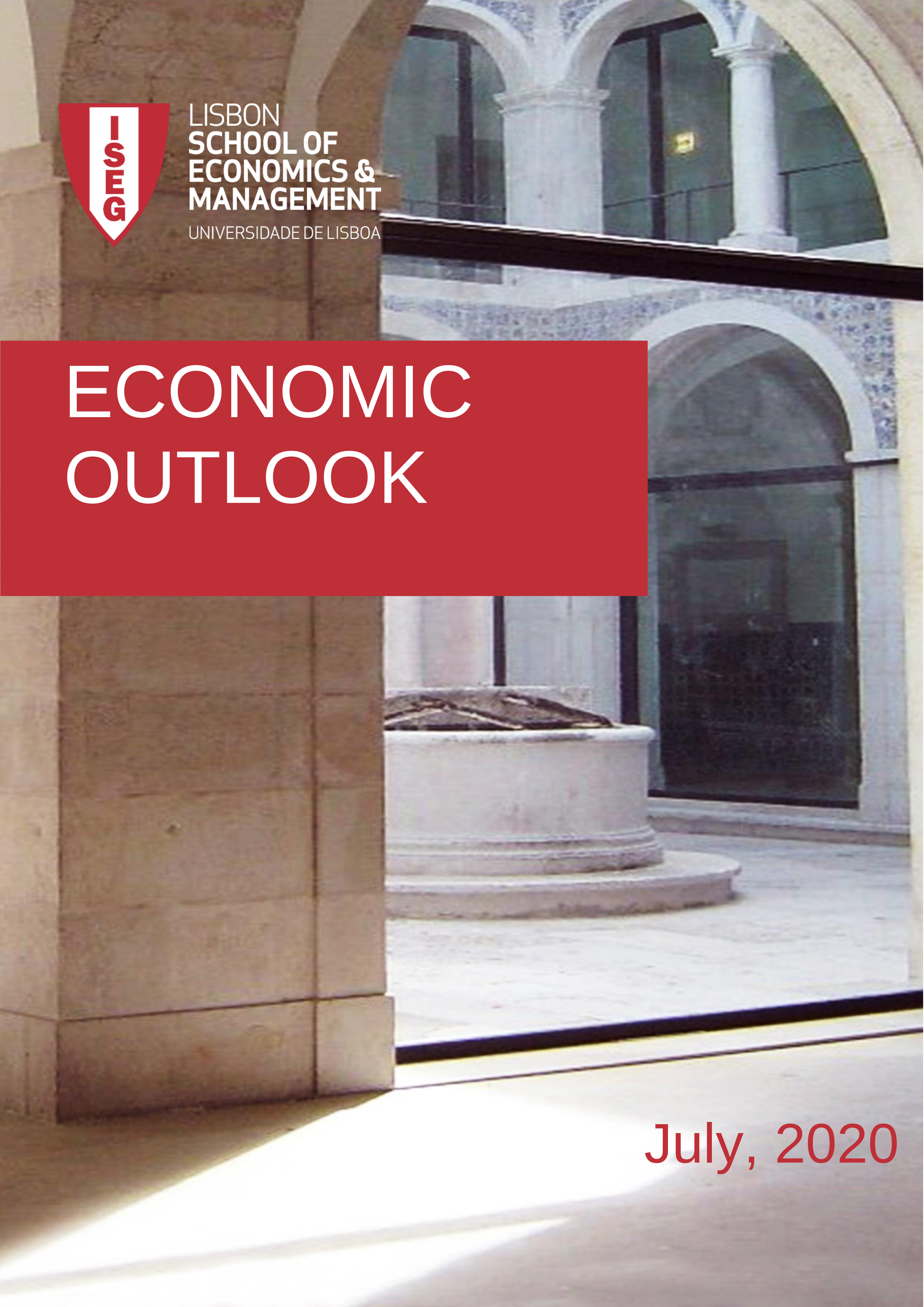


LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

July, 2020

SUMMMARY

According to the preliminary Flash Estimate of INE, Portugal's ***GDP*** *decreased in volume by 16.5% year-on-year and 14.1% in relation to the previous quarter during the 2nd Quarter of 2020, which was the period of greatest restrictions of activity imposed by the combat against Covid-19. The year-on-year decrease during the first half of the year was 9.4%. The year-on-year quarterly variation in the Euro Area was -15%, with -11.7% in Germany, -22.1% in Spain, -19.0% in France, and -17.3% in Italy.*

In most of the Euro Area and also in Portugal, the business climate and confidence indicators in ***July*** *were largely characterised by renewed increases, moving further from the lows of April or May. The improvements have been greater in the Construction and Industrial sectors, and less in Retail and, even more so for Services. The* ***consumer confidence*** *indicator decreased marginally in the Euro Area, and slightly in Portugal. In general, the recovery of consumer confidence is being comparatively slower.*

For 2020, based on the result of the first half of the year and the progressive resumption of most activities after the greater restrictions on activities in April and May, the estimation for the final variation in GDP is more likely to be -10% to - 8%. This result assumes that the pandemic crisis will not become substantially worse before the end of this year.

1. ECONOMIC CLIMATE AND CONFIDENCE - JULY INDICATORS

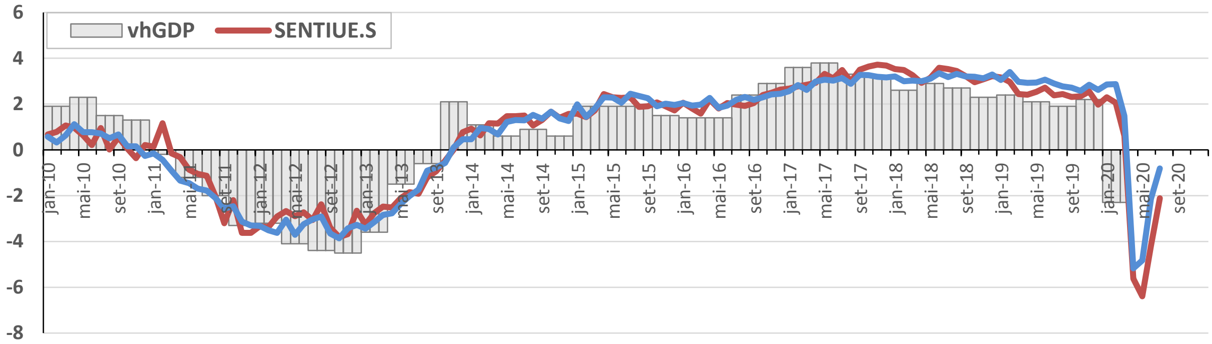
In **July**, both the **Economic Sentiment** Indicator (EUROSTAT, SENTIUE.S, in Graph 1[1]) and the **Economic Climate** Indicator (INE, ICLIMA.S) in Portugal increased again to less negative values, distancing themselves from the lows of April or May[2]. The INE indicator (ICLIMA. S), which does not include consumer confidence, is the least negative, reflecting the more substantial recovery in business confidence .

By **sectors of activity** (EUROSTAT, seasonally-adjusted values), having attained lows in April or May, the **confidence indicators** increased in June and July in all sectors, having recovered more in the Construction and Industry sectors and less so in Retail Trade and Services.

After attaining minimums in April, the **consumer confidence** recovered in May and June and then decreased slightly in July. In general terms, it has been oscillating since June, the month in which it reached the maximum after the crisis

With the exception of the Services sector, this indicator has recovered less than the business indicators.

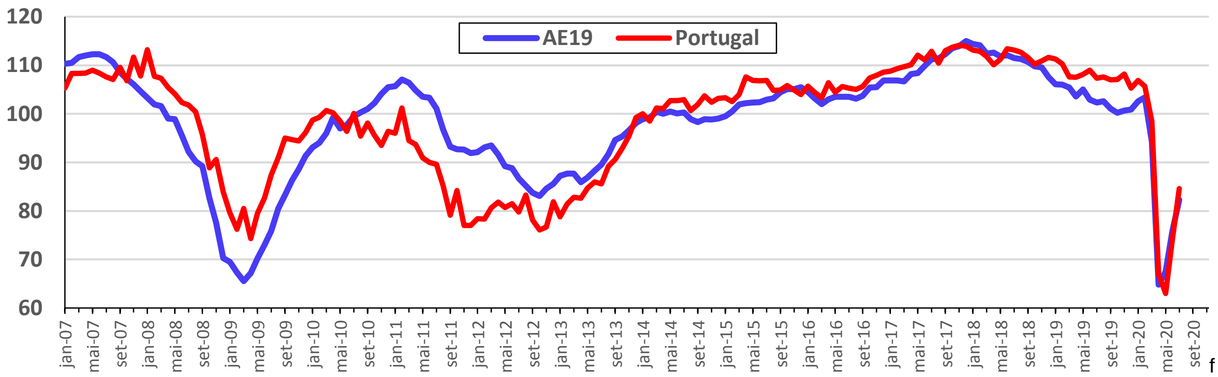
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



In the **Euro Area** (EA19), the **Economic Sentiment** increased again in July, albeit slightly less pronounced than in Portugal (Graph 2).

After the increases of the last two month, the EA19 **consumer confidence indicator** decreased slightly in July. It decreased in Italy, stabilised in Spain, and increased slightly in Germany and France.

Graph 2 | Economic Sentiment Indicators in EA19 and Portugal (EUROSTAT, 2007-2020)



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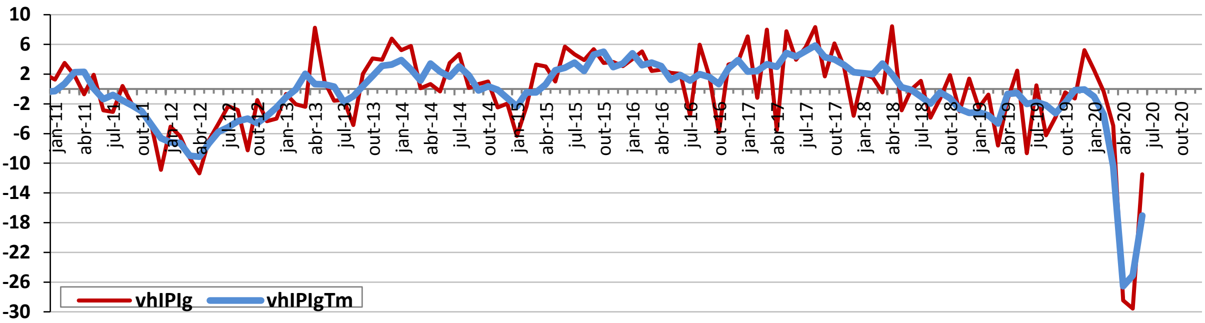
vhGDP during the period under analysis in the graph.

[2] INE's monthly economic climate indicator is used, rather than the floating quarterly one. The difference between the INE and Eurostat indicators only refers to the incorporation of consumer information (Eurostat) and technical data processing issues.

2. INDUSTRIAL PRODUCTION

In **June**, the **Industrial Production Index** (IPI) registered a year-on-year variation of -11.5% (-29.6% in May, vhIPIg series in Graph 3). The variation in Manufacturing was -12.0% (-32.4% in May).

Graph 3 | Year-on-year variation of Industrial Production

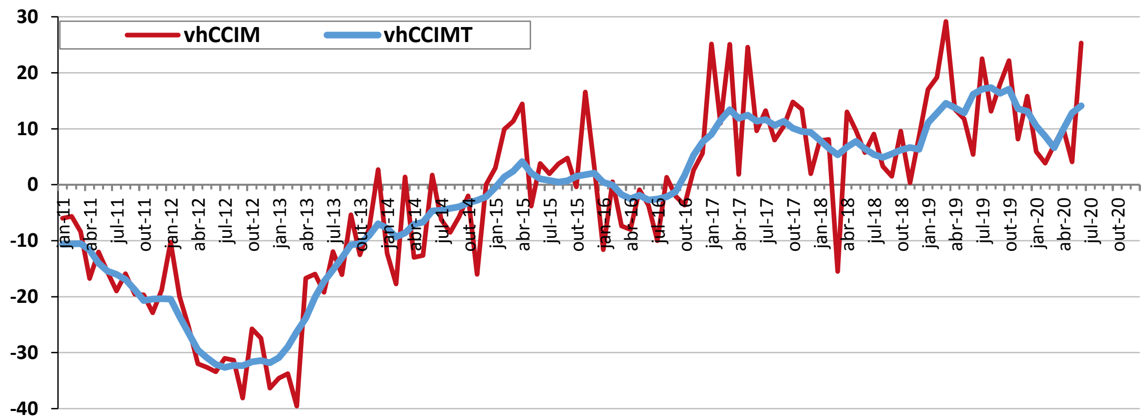


In **July**, the qualitative results of the **Industry Turnover Index** (ICIT) continued to improve: the Manufacturing confidence indicator increased by 10 points (with an accumulative increase from 24 points since May), the Production evaluation carried out during the last three months increased by 16 points, and Production expectations for the next three months show an extremely positive balance of responses amounting to 16.2 points (vcs, INE, Economic Outlook surveys).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

The year-on-year variation in cement sales in **June**, with two less working days, was approximately 25%. Growth during the 2nd Quarter was 13% (5.6% during the 1st Quarter). After adjustment for calendar and precipitation effects, the year-on-year variation in estimated trend – vhCCIMT, Graph 4 – accelerated during the 2nd Quarter. These results are surprising, as they do not reflect the crisis situation caused by the epidemic and are in contradiction to the answers given in the qualitative surveys for the sector. However, having started out being very negative, these answers then improved, particularly in the civil engineering segment, where some of the indicators have almost returned to pre-pandemic levels.

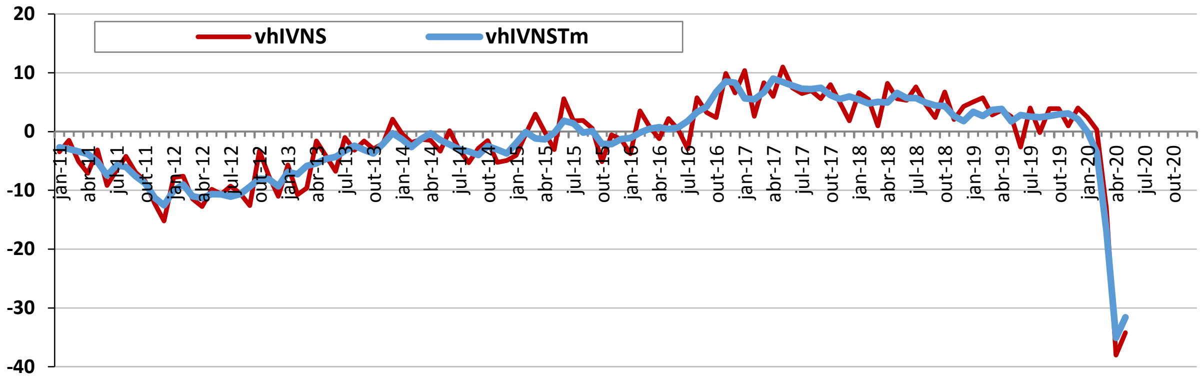
Graph 4 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **May**, the month when the easing of the lockdown started, the **Services Turnover Index** (nominal series) showed a year-on-year variation of -34.2% (-38% in April; vhIVNS series, Graph 5, gross values), with -73.2% for Accommodation and Restaurants, and -7.3% for IT and Communication. Responses to the INE economic survey indicate improvements in **June** and **July**, albeit slower than in other sectors in terms of activity, but yet more significant in terms of current turnover (much less negative) and demand (positive) for the next three months. Overall, this is an extremely diversified sector, typified by segments whose activity has been most affected and whose recovery will be slower.

Graph 5 | Year-on-year variation for the Services Sector

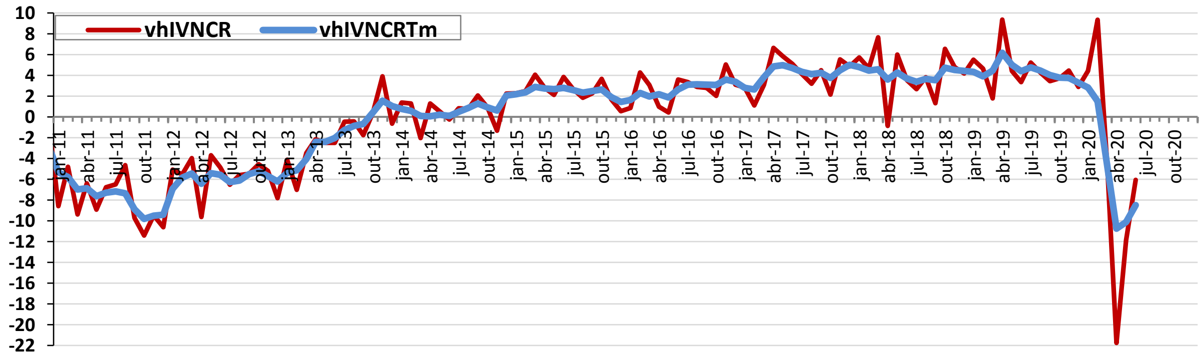


For Tourism Activity (INE), the Total Income of the **tourist accommodation** sector decreased in year-on-year terms, from 98.5% in April, to 97.2% in May.

5. RETAIL TRADE TURNOVER

In **June**, the **Retail Trade Turnover Index** registered a year-on-year variation of -6.1% (-11.9% in May; Graph 6, **deflated** gross values), with -3.6% for *food products* and -8.1% for *non-food products*. The decrease in April (a variation of -21.8%) is in effect reduced to about a quarter, as a fraction of this decrease can be attributed to the decrease in purchases by non-residents (tourists). The year-on-year variation for the 2nd Quarter was -13.1%, with -1.9% for *food products* and -22.2% for *non-food products*.

Graph 6 | Year-on-year variation in Retail Trade turnover

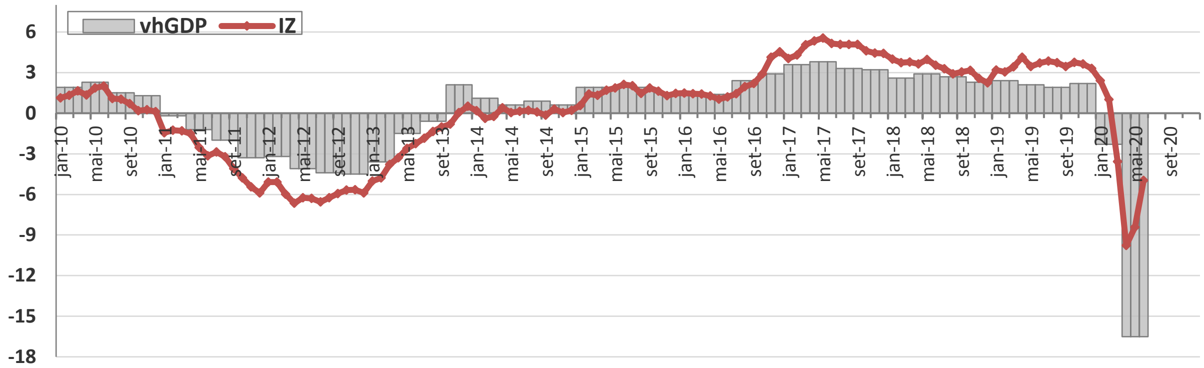


Car sales decreased 87% in April, 74.7% in May, and 56.2% in June, which in total amounts to -71.7% during the 2nd Quarter.

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 7, the usual **global activity trend indicator** (IZ), updated until June – which represents a preliminary result that has yet to incorporate the real values of one of its component indicators (Services Turnover) – shows an abrupt fall in activity in April, with a subsequent partial recovery in May and June. According to INE's flash estimate, this all corresponded to a year-on-year decrease of 16.5%, with the largest contribution originating from Internal Demand (ID), albeit the contribution of Net External Demand (NED) was also negative, due to the drop in tourist Exports[3]. With a 1st Quarter year-on-year variation of -2.3%, the first half ended with a year-on-year decreases of 9.4%.

Graph 7 | Year-on-year variation in GDP (vhPIB) and the Z trend indicator



As the origin of the slowdown of the economy during the 2nd Quarter was the lockdown and the closure of activities, both in Portugal and abroad, it is expected that with the reopening of activities and with the progressive resumption of the national and international sectoral economic interdependence networks that the economy will naturally start to grow quarterly, albeit not so early in year-on-year terms. Indeed, this is proven by the evolution of the qualitative indicators and July's electricity consumption. However the pace of this recovery may not be as fast as desired, partly because the health problem has yet to be solved – whose control necessarily implies a loss of productivity – and party because the restrictions of activity have generated problems of a lack of income and a weakening of demand, because, above all, consumer confidence remains low. In addition, despite the fall in ID, the Portuguese economy will still be penalised by the negative contribution of NED this year, due to uncertainty regarding the resumption of external tourist demand and the fall in tourist exports. Even with the advent of policies to the contrary, negative social consequences from the economic crisis are still expected, which will worsen for a few months, especially in terms of employment and bankruptcies.

Despite a probable worsening of the social consequences of the crisis, growth in value chains is expected in terms of GDP. Accordingly, based on the result of the first half of the year and the gradual recovery of most activities after the lifting of the greater restrictions of April and May, the final variation in GDP for 2020 is estimated to be between -10% and -8%. This result assumes that the health crisis will not evolve in a substantially more negative way until the end of this year.

Compiled with information available as of the 31st of July.

[3] Apparently, those countries where tourism has the highest structural weight in GDP are those which experience the highest decreases in GDP and consequently are those that could experience a slower recovery.