



LISBON
SCHOOL OF
ECONOMICS &
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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

June, 2020

SUMMARY

For most of the Euro Area, the climate and confidence indicators were characterised by a sharp decrease in April, and slight improvements in May and June. The improvement of these indicators in Portugal were similar in size to the European average, although this only became more evident in June.

The quantitative data for May shows a very slight recovery in economic activity during that month after the abrupt decrease experienced in April. The qualitative data and scarce quantitative data for June suggest a more relevant recovery. The year-on-year variation in GDP will have attained an all-time low during the 2nd Quarter, maintaining the expected value of -20% and -15%.

The current slow recovery in 2020 suggests that the downturn in the economy could be even more profound than previously predicted. This estimate will be formally reviewed in the next report.

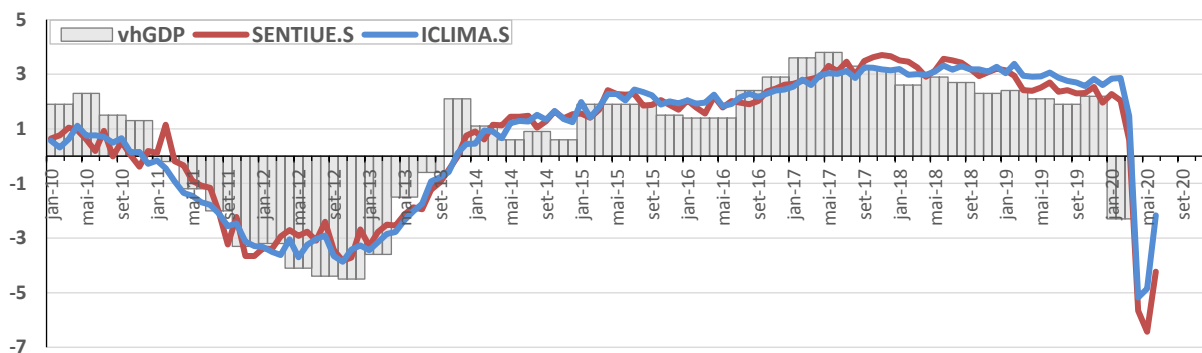
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR JUNE

In **June**, both the **Economic Sentiment Indicator** (EUROSTAT, SENTIUE.S, in Graph 1¹) and the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S) increased in Portugal².

By **sectors of activity**, after having attained minimum values during April or May, the evolution of the **confidence indicators** (EUROSTAT, values adjusted for seasonality) increased in June in all sectors to less negative values, albeit maintaining very negative levels.

After the minimum levels of April, the **consumer confidence indicator** increased again in June to less negative values, just as it did in May.

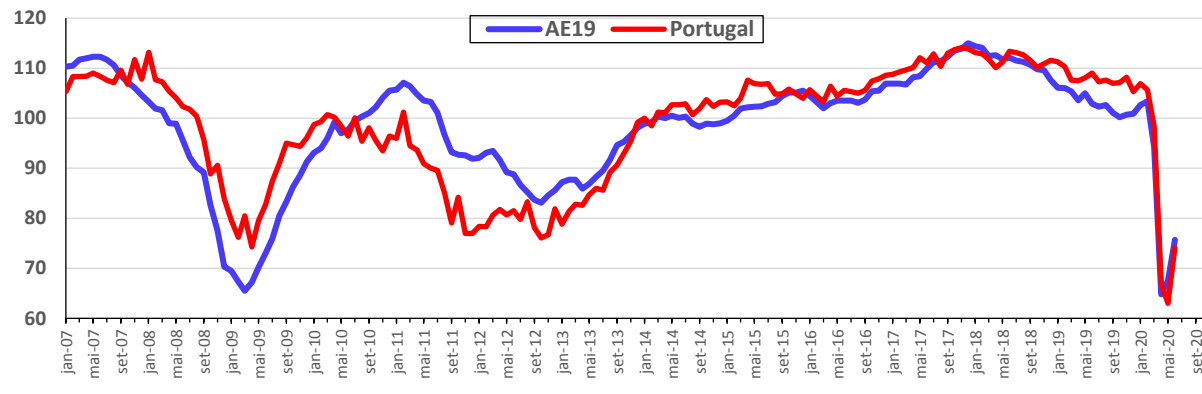
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



For the EURO AREA (EA19), the **Economic Sentiment Indicator** increased slightly in May and more pronouncedly in June. It should be noted that in Portugal this indicator only recovered in June, although the extent of its recovery was similar to that of the EA19 for the two months (Graph 2).

The **Consumer Confidence Indicator** also increased in June in the Euro Area. Spain was the country where this indicator recovered less when compared to the minimum of April. In general, the opinions in Portugal were more reactive at this Economic Outlook. In Germany they were less reactive.

Graph 2 | Economic Sentiment Indicators for the EA19 and Portugal (EUROSTAT; 2007-2020)



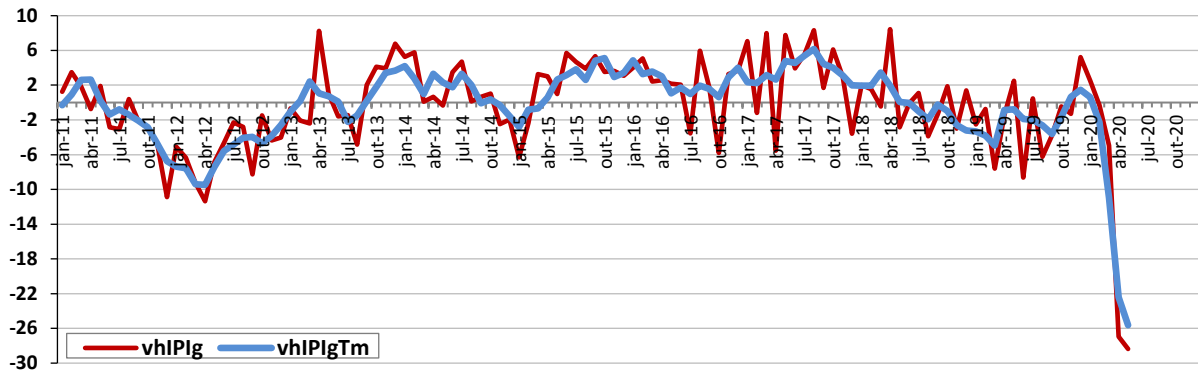
¹ In Graph 1, the original values of the Climate and Sentiment indicators were adjusted for the average and for the standard deviation of vhGDP during the period under analysis for calculating the ICLIMA.S and SENTIUE.S.

² INE now publishes the month's climate indicator, rather than just the mobile quarterly one. The INE indicator corrects thus its "delay". The difference between the two indicators now only lies with consumer information (for EUROSTAT) and technical data processing issues.

2. INDUSTRIAL PRODUCTION

In **May**, the **Industrial Production Index (IPI) INE,** registered a year-on-year variation of -28.4% (-27% in April; gross values, **vhIPIg** series in Graph 3). The variation in Manufacturing was -31.1%. In practice, the size of the negative year-on-year variation of the IPI for both April and May was very similar. In **June**, the results of the economic outlook surveys for Manufacturing (ICIT), qualitative data, were slightly less negative and suggest that a certain level of activity in this sector has started to recover:

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

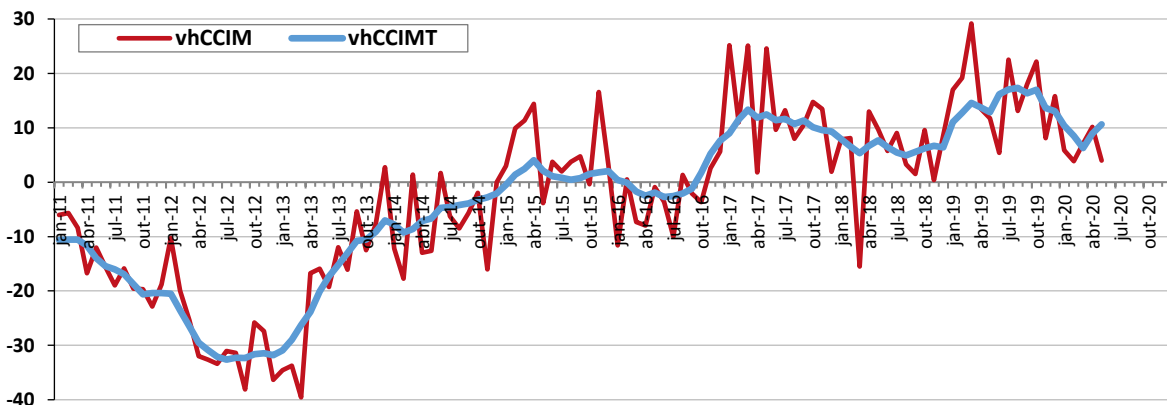


the confidence indicator for Manufacturing increased by 14 points, and the production evaluation carried out in the last three months rose by 8 points, whereas the expectations for production for the next three months increased by 37 points and were clearly positive (INE, economic outlook surveys).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **May**, with two less working days, the annual variation in cement sales was approximately 4%. After adjustment for calendar and precipitating effects, the estimated trend of year-on-year variations (**vhCCIMT**, Graph 4) increased by more than 10%, which was a surprising result in the current context. According to the responses of the economic outlook survey in **June**, construction activity presents differentiated outlooks: opinions regarding confirmed orders were slightly less negative, yet remain very negative for both the real estate sales/construction and specialised activities segments; in the civil engineering works segment, opinions regarding confirmed orders were not only less negative, but are less negative than those of January and February (and less than those of 2001!).

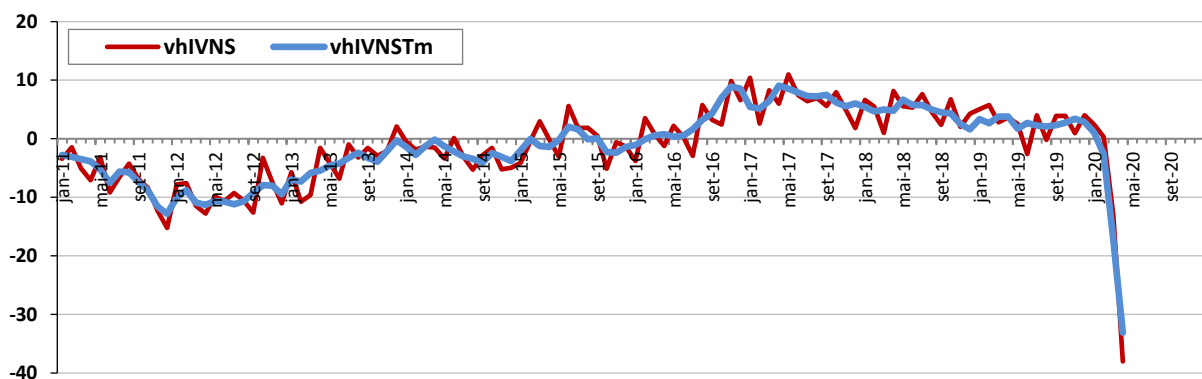
Graph 4 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **July**, which was characterised by a period of stricter lockdown and greater restriction of activity, the **Services Turnover Index** (nominal series) registered a year-on-year variation of -38% (vhIVNS series, Graph 5, gross values), with -84.6% for the Accommodation and Restaurants section, and -6.7% for Information and Communication. Responses to INE's economic outlook survey show that May might be very negative, albeit opinions improved in June: little in terms of activity, but more significantly in terms of current sales volume (less negative) and demand for the next three months (positive).

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

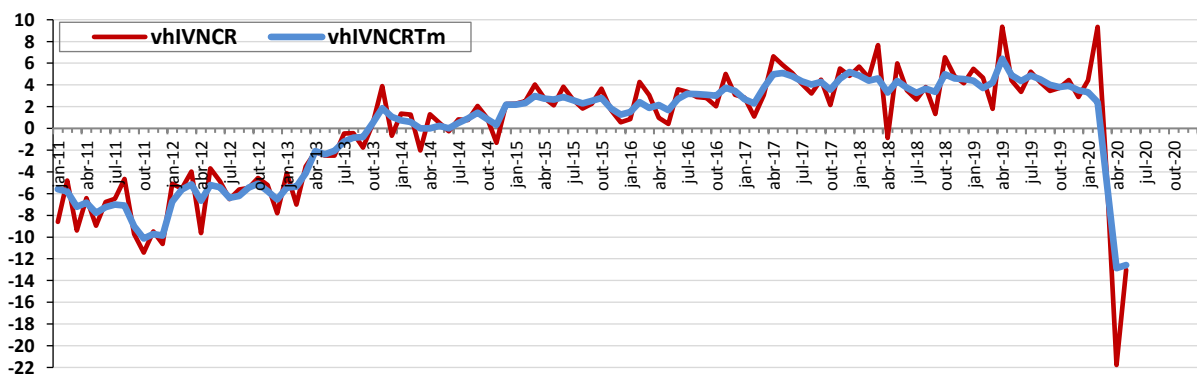


With regards the **tourist accommodation** sector, according to INE's flash estimate, the number of overnight stays decreased by 97% in year-on-year terms in April, and 95% in May.

5. RETAIL TRADE TURNOVER

In **May**, the **Retail Trade Turnover Index** registered a year-on-year variation of -13.0%, (-21.8% in April; Graph 6, **deflated** gross values, with +2.6% for *food products* and -25.1% for *non-food products*).

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

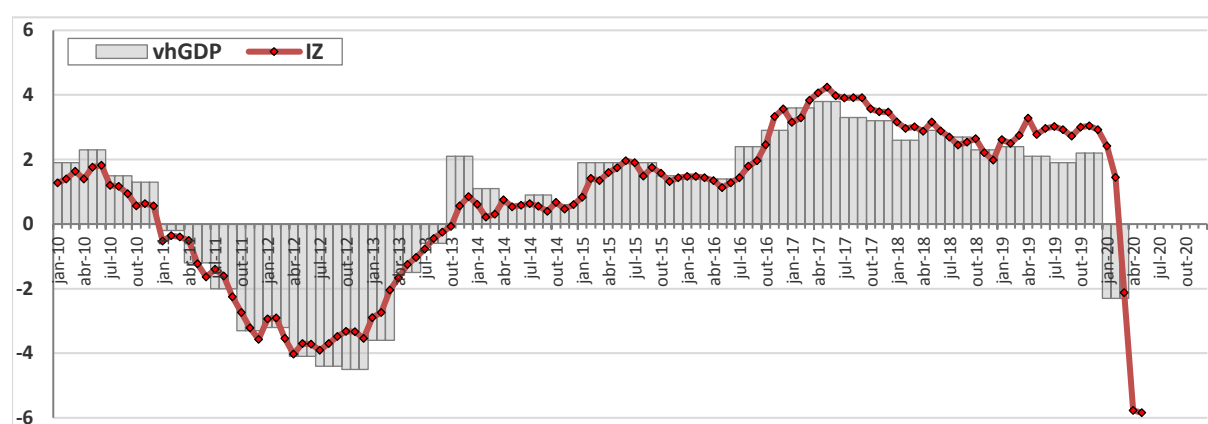


Car sales decreased by 87% in April, by 74.7% in May, and by 56.2% in June.

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 7, updated for May, the habitual **global activity trend indicator (IZ)** – which is a preliminary result yet to incorporate the real values of one of its component indicators (Services turnover) – evidences the abrupt fall in activity during the month of April, carried through to May, with virtually no recovery. A subsequent lower year-on-year decrease in electricity consumption (with a year-on-year variation of -13.3% in May, and -8.8% in June, adjusted for working days and temperature) and the data from June's economic outlook surveys suggest that the decrease in activity as a consequence of the health crisis could have been less in June, although this will not change the reality that such a large decrease in the level of activity as that registered for the 2nd Quarter has never been seen before.

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



Turning to the main aggregates of demand, the expectations for the 2nd Quarter are the same as those advanced in the previous report, namely: a steep decline in Domestic Demand, with the decrease in Private Consumption slowly levelling off after April, and a worsening decrease in Gross Fixed Capital Formation (where only Construction will have demonstrated a positive, or almost positive performance). In terms of Public Consumption, although an acceleration is expected, this will have a limited impact owing to the level of the expected falls in the other components of Domestic Demand.

With regards Net External Demand (NED), April's data reflect the expected: namely that there was a reduction of the negative balance in trade in goods together with a much larger reduction in the positive balance of services, due to the virtual disappearance of tourism. As a consequence, the contribution of NED to the variation in GDP will also be more negative during the 2nd Quarter, albeit the negative contribution of ID overall will outweigh that of NED.

Based on the above, the forecast remains unaltered, with a year-on-year variation in GDP of between -20% and -15% during the 2nd Quarter, where this range reflects the uncertainty arising from the incomplete nature of the available data and the novelty of the real consequences of this crisis.

For 2020 as a whole, ISEG's previous forecast will be formally revised in the next report, although it can be anticipated in advance that as the signs are that the recovery will initially be slower than originally thought, the global downturn in the economy will also be slightly worse than previously forecast.

Compiled with information available as of the 2nd of July.