



Lisbon School  
of Economics  
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# *ISEG Economic Outlook*

June / 2021

# *Economic*

*Economic Analysis Group*

## SUMMARY

*During the 2<sup>nd</sup> Quarter, owing to the end of the lockdown and the advance of the vaccination campaign, the Climate and Economic Sentiment indicators registered relevant increases and reached positive and maximum values not seen since before the crisis, being even higher in some cases than those registered during the period immediately before the start of the pandemic. A certain de-acceleration was registered in June, despite the existence of a more significant improvement in confidence in the Services sector during this month.*

*The data available for the quantitative indicators during the 2<sup>nd</sup> Quarter show substantial improvements when compared with the previous quarter, together with very pronounced positive changes in year-on-year terms, as a result of the sharp drop in activity during the first lockdown.*

*Based on the incomplete quantitative data available for the 2<sup>nd</sup> Quarter of 2021, quarterly GDP is estimated to have grown between 15% to 16% in year-on-year terms, and 4.6% to 5.5% in quarter-on-quarter terms. The forecast for annual growth remains unchanged at 3.5% to 4.5%.*

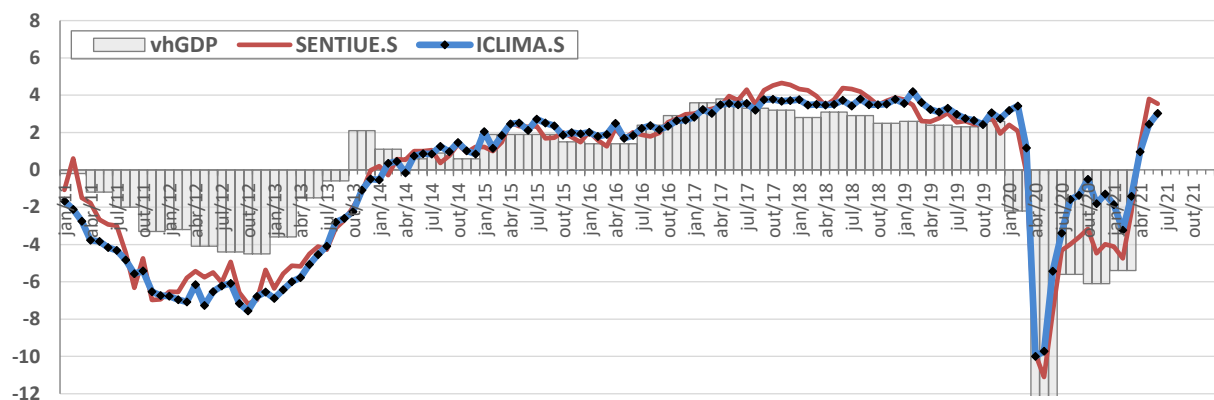
## 1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR JUNE

In **June**, the **monthly Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE, which only includes businessmen's opinions) increased, albeit less, and the **Economic Sentiment Indicator** of EUROSTAT (SENTIUE.S, EUROSTAT, which includes the opinions of both businessmen and consumers) decreased slightly (see Graph 1<sup>1</sup>)<sup>2</sup>.

By **sectors of activity**, using the INE data, a slight increase was recorded for the **confidence indicators for the Industry sector**, a significant increase for **Commerce and Retail trade**, and a **very pronounced increase for Services**. On the contrary, the **confidence indicator for Construction** (INE) decreased significantly, with a certain degree of volatility. Overall, the latest confidence indicators by sector of activity are comparable with those observed before the onset of the crisis.

Consumers remain more pessimistic, and yet, even after the improvements seen in the previous months and the fact that the **Consumer confidence indicator** did not worsen in June, the current level of this indicator still remains somewhat below pre-crisis levels, which demonstrates a certain lack of trust.

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, following the pronounced increases of the previous months, the **Economic Sentiment** indicator increased to a reasonable level in June. Among the countries with the greatest economic weight, Germany recorded the largest increase, France and Italy had moderate increases, and Spain registered a slight decrease. Similar to the case of Portuguese, the economic sector that experienced the greatest increase in confidence in June was that of Services.

Among **consumers**, the confidence indicator for the Euro Area also increased, albeit less intensely, maintaining a slightly negative level, contrary to the positive levels of the business indicators. Among the countries with the greatest economic weight, consumer confidence increased in Germany, France, and Italy, but decreased in Spain which, similar to Portugal, recorded more negative levels than the EA19 average.

<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.

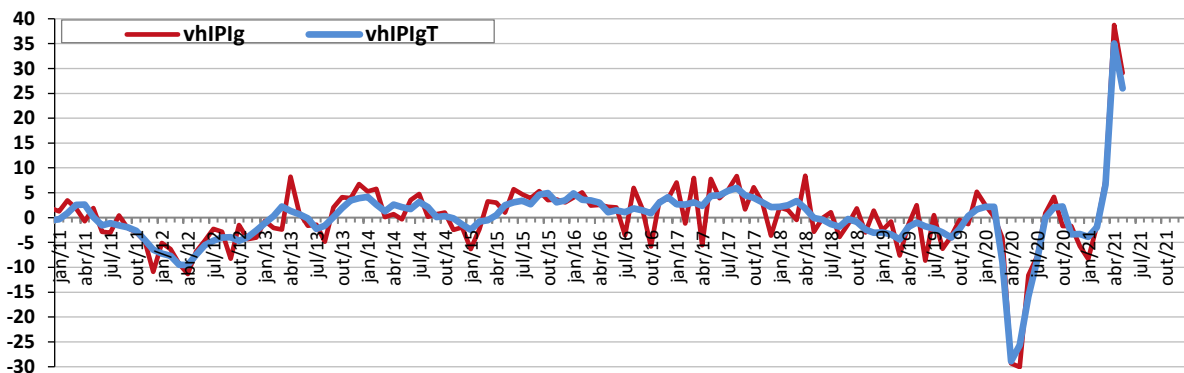
<sup>2</sup> The discrepancy between the two indicators is probably related to differences brought about by the adjustment for seasonality.

## 2. INDUSTRIAL PRODUCTION

In **May**, with one more working day, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of 29.1% (vhIPIg series in Graph 2), with the variation in Manufacturing being 34%, whose large variations were mainly due to the base effect of the lockdown of 2020. After June, the size of base effects is expected to decrease substantially in this sector. When compared with 2019, there was an overall 6% decrease in April and May. According to the INE surveys, the industry confidence indicator for Manufacturing increased again in June, attaining its maximum level since January 2018.

Electricity consumption recovered substantially (7.9%, gross data) during the 2<sup>nd</sup> Quarter with respect the decreases of 2020, although they were below (-3.7%) the levels of 2019. In addition, the data for the total value of operations carried out in the SIBS network during the period of the 2<sup>nd</sup> Quarter of 2021 up until the 27<sup>th</sup> of June showed a year-on-year increase of 31%, albeit this value was approximately the same as that of the same period of 2019.

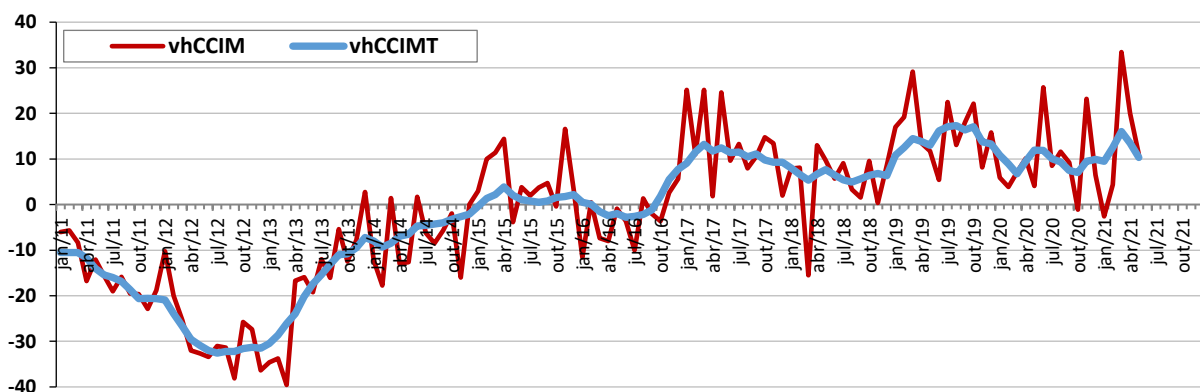
Graph 2 | Year-on-year variation of Industrial Production



## 3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **May**, with one more working day, the annual variation in cement sales was approximately 11%, after growth peaked in March and April. The estimated trend of year-on-year variations (vhCCIMT, in Graph 3) de-accelerated to levels of around 10%, which continues to suggest robust growth. The sector's confidence declined in June, although the quarterly average is the least negative recorded since Q1, 2020.

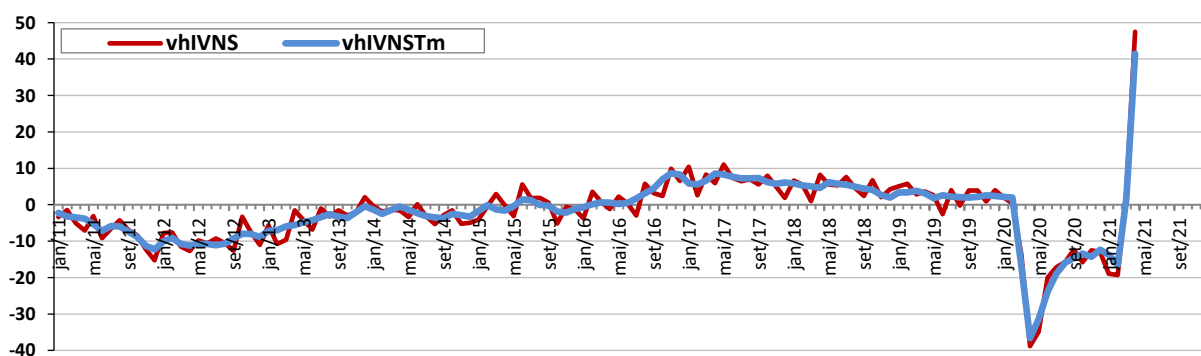
Graph 3 | Year-on-year variation of Cement Consumption



## 4. TURNOVER IN THE SERVICES SECTOR

In **April**, based on both the 2021 lockdown and the base effect of the 2020 lockdown, the **Services Turnover Index** (nominal series) showed a year-on-year variation of 47.5% (vhIVNS series, Graph 4, gross values). Bearing in mind the results of the economic outlook surveys, increases of the same magnitude must have occurred during May and June, having been influenced by the base effect. Nevertheless, the comparison with 2019 is still not very favourable (-10% in April), with this sector being comparatively more depressed due to the results for the accommodation and restaurants grouping.

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

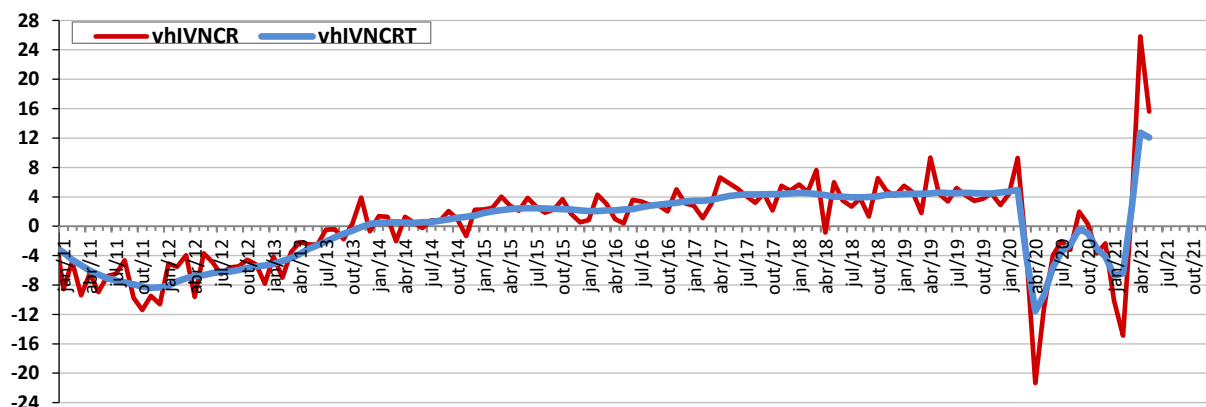


With regards the tourism sector, the number of **overnight stays** in hotels in **April** and **May** increased four and eight times respectively in comparison to 2020, when the sector virtually came to a standstill, with the year-on-year variation for the *non-residents* grouping remaining more negative than the average variation (INE, Tourism Activity, flash estimate).

## 5. RETAIL TRADE TURNOVER

In **May**, the **Retail Trade Turnover Index** registered a year-on-year variation of 15.6% (Graph 5, **deflated** gross values), which represents a de-acceleration in comparison to the previous month, and it continues to be influenced by the base effect of last year's lockdown. The year-on-year variations of the *non-food products* grouping was 31.6% (46% in April), while the *food products* grouping registered a zero variation (after an increase of 8.7% in April).

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



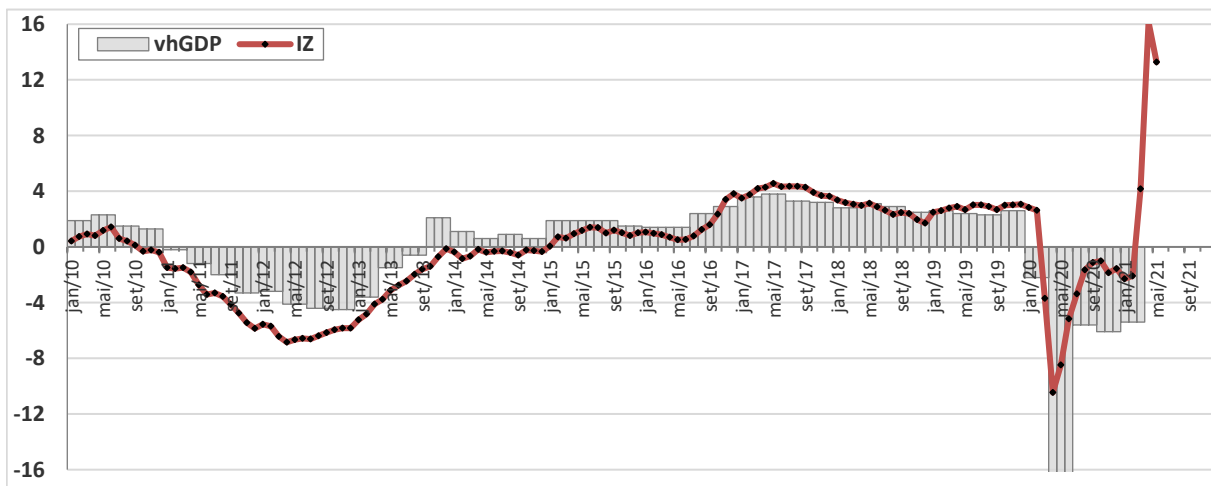
**Car sales** registered a year-on-year variation of 157.6% during the 2<sup>nd</sup> Quarter, remaining less than those of 2019.

## 6. EVOLUTION OF THE Z TREND INDICATOR AND EXPECTATIONS FOR THE 2<sup>ND</sup> QUARTER

As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a summary of the sectorial indicators analysed above, shows a strong increase in April and May, mainly due to the 2021 lockdown and the corresponding lockdown in 2020. The size of the growth forecast for the 2<sup>nd</sup> Quarter reflects the negative result of the 2<sup>nd</sup> Quarter of 2020, with the exception of the losses brought about by a still abnormal public health situation and some of the more lasting economic impacts of the ongoing crisis. As a result, the value of the indicators are still some way off those of the corresponding period of 2019.

In terms of the usual components of demand, growth in GDP will reflect the growth of Domestic Demand (ID). A substantial growth in Private Consumption is expected for its durable goods and services components. Gross Fixed Capital Formation is also expected to grow more than during the previous quarter, due to the fact that, in addition to Construction, the preliminary indications for GFCF for Transport, Machinery, and Equipment are all fairly positive. An evolution similar to that of previous quarters is expected for Public Consumption, albeit with an amplification of the year-on-year variation as a result of the base effect. The contribution of Net External Demand (NED) to GDP is more uncertain, as the growth of demand for external tourism could be insufficient to ensure a positive result, although at least a less negative contribution from NED than that recorded during the 1<sup>st</sup> Quarter is expected.

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



After taking all the above into account, despite the fact that the available information for June is still very scarce, it is expected that quarterly GDP varied between 4.6% and 5.5% when compared with the previous quarter, and between 15% and 16% in quarter-on-quarter terms. The forecast for 2021 remains for a growth of between 3.5% and 4.5%.

Compiled with information available as of the 2<sup>nd</sup> of July.