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ISEG Economic Outlook

August / 2021

Economic

Economic Analysis Group

SUMMARY

*According to the flash estimates of INE, Portugal's **GDP** increased in volume by 15.5% year-on-year, and 4.9% in relation to the previous quarter during the 2nd Quarter of 2021, which was a period that was affected by a progressive coming out of lockdown and that compares with the quarters most penalised economically by the pandemic. Year-on-year variation in Internal Demand was 14.8% during the quarter, mainly due to growth in Private Consumption (17.5%), with Public Consumption and Investment increasing by about 10%. The contribution of Net External Demand to the year-on-year variation in GDP was nil.*

The Climate and Economic Sentiment indicators decreased with the onset of the new wave of the pandemic, with the increased in August being due to the progress of the vaccination programme and the end of the more restrictive measures. In the Euro Area, the Economic Sentiment indicator decreased slightly in August, after having steadily increased since January.

Based on the trend of the already-available data, and bearing in mind the year-on-year base, GDP is expected to grow year-on-year by between 3.5% and 4.0% during the 3rd Quarter of 2021, and between 1.7% and 2.2% in quarter-on-quarter terms. Growth in GDP for the whole year has been revised upwards to between 4% and 5%.

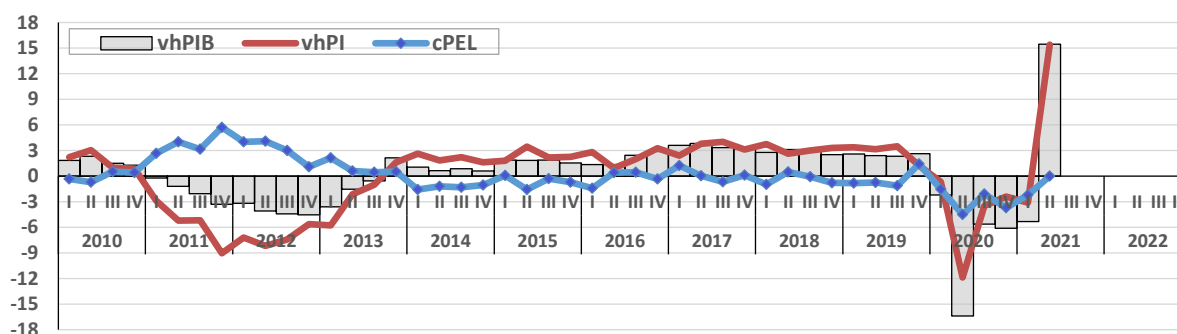
0. THE EVOLUTION OF GDP AND ITS COMPONENTS DURING THE 2ND QUARTER OF 2021

According to the preliminary forecast of 31/08/21 of the INE Quarterly National Accounts, during the 2nd Quarter of 2021, a period which was characterised by a worsening of the pandemic and the restrictive measures, year-on-year variation of GDP increased by 15.5%, and by 4.9% in comparison to the 1st Quarter of 2021. The magnitude of the two variations reflects the significant base effects: in year-on-year terms, the 2nd Quarter of 2020 was the most economically affected, as it was virtually subject to the same restrictive measures as those of the first lockdown during the whole quarter, whereas the month-on-month variation during the 1st Quarter of 2021 suffered a strong economic impact, especially in terms of Private Consumption, due to the worsening of the pandemic and yet another prolonged lockdown.

In year-on-year terms, the variation in GDP was based on a year-on-year increase in Domestic Demand (14.8%), fuelled by the strong growth in Private Consumption (17.5%), which can be explained both by the low year-on-year growth in consumption and by the decrease in consumption during the 1st Quarter which generated an expansion in demand after the lockdown (mainly for durable goods and services). Additionally, Public Consumption and Investment also saw variations in year-on-year growth of approximately 10%, due to the base effect. Concurrently, the contribution of Net External Demand to the volume of year-on-year growth was nil after having been reasonably negative, due to the erosion of tourism exports that has been experienced since the emergence of the health crisis (see graph).

With regards the quarter-on-quarter variation, the 4.9% growth recorded during the 2nd Quarter can be interpreted as being a combination of compensating for the 3.2% decrease in GDP brought about the 1st quarter lockdown and additional growth of about 1.7% in GDP since the end of the previous year. This value represents an approximation of the current dynamics of month-on-month growth, and also the effect of the recovery, which has partially annulled the effects of the lockdown and other restrictions on activities.

Graph 0 | Year-on-year variation in GDP and the contributions of Internal Demand and Net External Demand



The year-on-year variation for all the EURO AREA (EA19) during the 2nd Quarter of 2021 was 13.6%, with a variation of 2.0% compared to the previous quarter. During this quarter, the year-on-year positive quarterly variation in GDP in Portugal was only surpassed by that of Spain, France, and Italy (which were the countries that experienced the largest decrease during the 2nd Quarter of 2020). The quarter-on-quarter variation registered by Portugal was the highest among the EU countries, after having been the lowest during the previous quarter. Nevertheless, comparisons based on these growth rates need to be put into perspective, owing to the differences in the timing of the waves of the pandemic in each country, and the range of restrictive measures adopted.

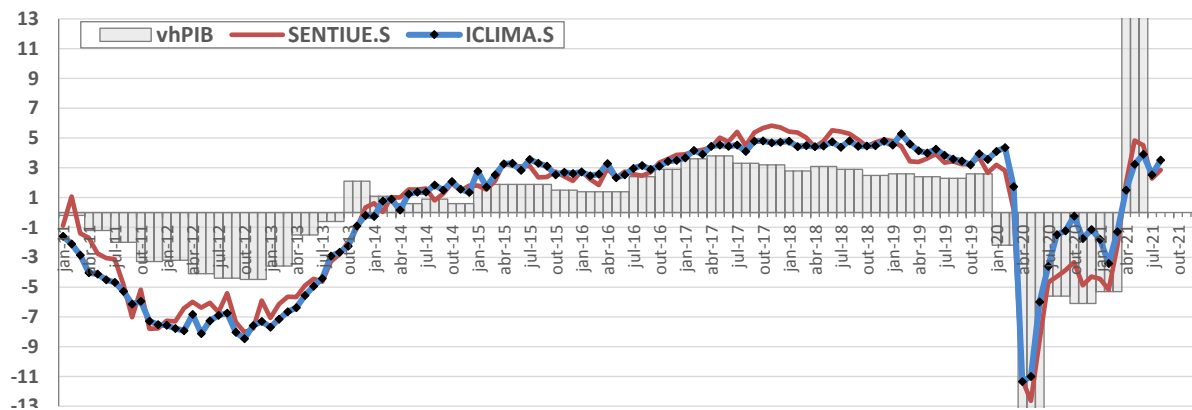
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS FOR AUGUST

In **August**, which saw an improvement in the progress of vaccination and the lifting of the restrictions on activities, both 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 again, partially recovering the decreases experienced in July that had accompanied the growth of a new wave of infections, which subsequently stabilised. The latest values of these indicators is similar to those of the recent highs of May and June (see Graph 1¹).

By **sectors of activity**, increases were registered for the **confidence indicators for the Construction sector** (with the highest levels since January 2020), **Commerce and Retail trade** (partially recovering some of the decrease in July and establishing a level similar to that of the pre-crisis values), and **Services** (with positive values during the past three months, albeit slightly less than the pre-crisis values). The **confidence indicator for Manufacturing**, which had already surpassed pre-crisis levels, has decreased significantly over the last two months, and is now at pre-crisis levels.

The **Consumer confidence indicator** recovered the losses of July and August, attaining values greater than those from February 2020 onwards, albeit slightly less than the previous pre-crisis values.

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



For all of the **Euro Area (EA19)** countries, the **Economic Sentiment** indicator, which had always been on the increase since January, decreased in August, although its value continues close to the maximums attained in July. Among the countries with greater economic weight, this indicator decreased in Germany (very slightly), Spain, and Italy. Among **consumers**, the confidence indicator for the Euro Area also decreased slightly in July and August.

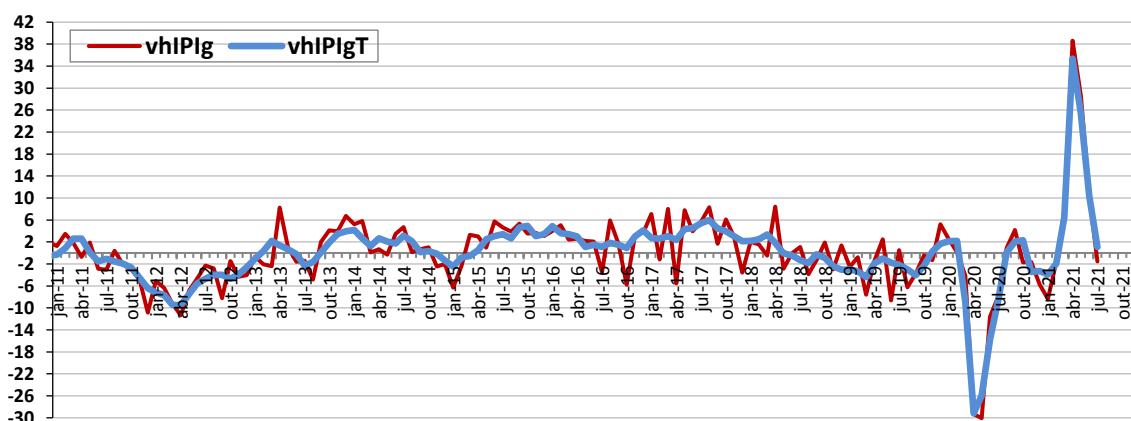
¹ In Graph 1, the original values of the Climate and Sentiment indicators were adjusted for the average and for the standard deviation of vhGDP during the period under analysis for calculating the ICLIMA.S and SENTIUE.S.

2. INDUSTRIAL PRODUCTION

In **July**, with one less working day, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of -1.5% (vhIPIg series in Graph 2). For the same month, the variation in Manufacturing was -2.4%. Compared to 2019, the year-on-year variation of the IPI for July was -9.3%, following -5% for the 2nd Quarter, and -1.5% for the 1st Quarter. The industrial confidence indicator improved significantly up until June, and decreased thereafter. This reversal of expectations, together with that of production, is related with the ongoing lack of certain industrial components in the international market.

In July and August, electricity consumption experienced marginal year-on-year increases (REN, monthly statistics, adjusted values for temperature and working days), with levels that were not much different from those of 2020 and 2019.

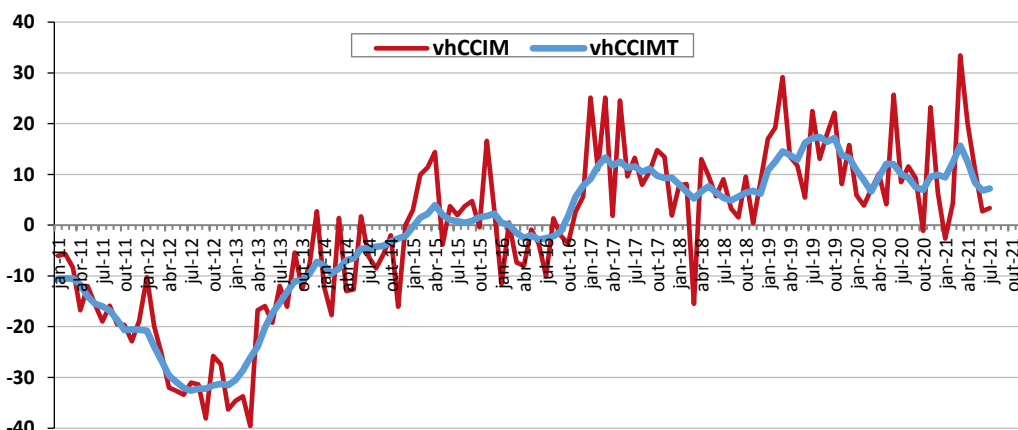
Graph 2 | Year-on-year variation of Industrial Production



3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **July**, with one less working day than the previous year, the annual variation in cement sales was slightly positive (3%), after an increase of nearly 11% during the 2nd Quarter. Over the last months, the estimated trend of year-on-year variations (vhCCIMT, in Graph 3) decreased to average levels of less than 10%. However, the confidence indicator for the Construction and Public Works sector increased significantly, after the relapse of the previous months.

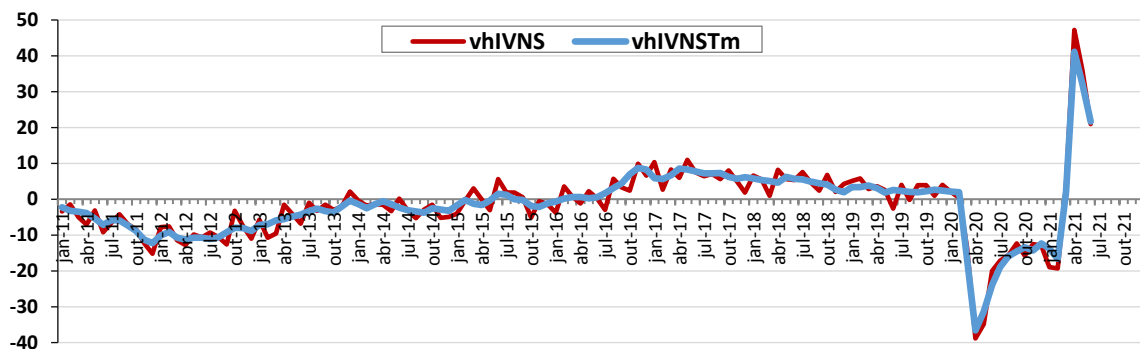
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **June**, the **Services Turnover Index** (nominal series) registered a year-on-year variation of 20.9% in relation to 2020 (vhIVNS series, Graph 4, gross values) and a variation of -3% in relation to 2019, albeit the latter was much less pronounced than that of the previous months, which saw decreases of more than 10% in comparison to 2019. This was due to both the continuation of the coming out of lockdown and

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



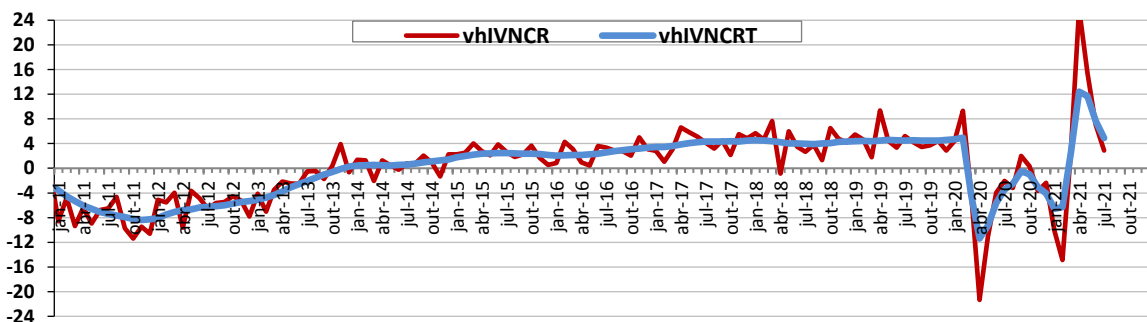
the intensity of the year-on-year decrease. The confidence indicator for this sector has improved significantly since May.

With regards the tourism sector, the number of **overnight stays** in tourist accommodation in **July** (INE, Tourism Activity, flash estimate) registered a year-on-year variation of 17.9% compared to 2020, and -45% in relation to 2019, which represented a much less dramatic reduction than that of the previous months. The year-on-year variation for *residents* compared to 2019 was positive.

5. RETAIL TRADE TURNOVER

In **July**, the **Retail Trade Turnover Index** registered a year-on-year variation of 2.9% (Graph 5, **deflated** gross values). The year-on-year growth of this indicator has been de-accelerating after having attained a high in April, as a consequence of the evolution of the effects of the 2020 lockdown. When compared with 2019, this index increased by 0.8% in July (having increased 1.5% during the 2nd Quarter, and decreased by 4.9% during the 1st Quarter, due to the lockdown). Thereinafter, ever since the 1st Quarter, the average levels of this indicator have exceeded not only the year-on-year levels of 2020, but also those of 2019.

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



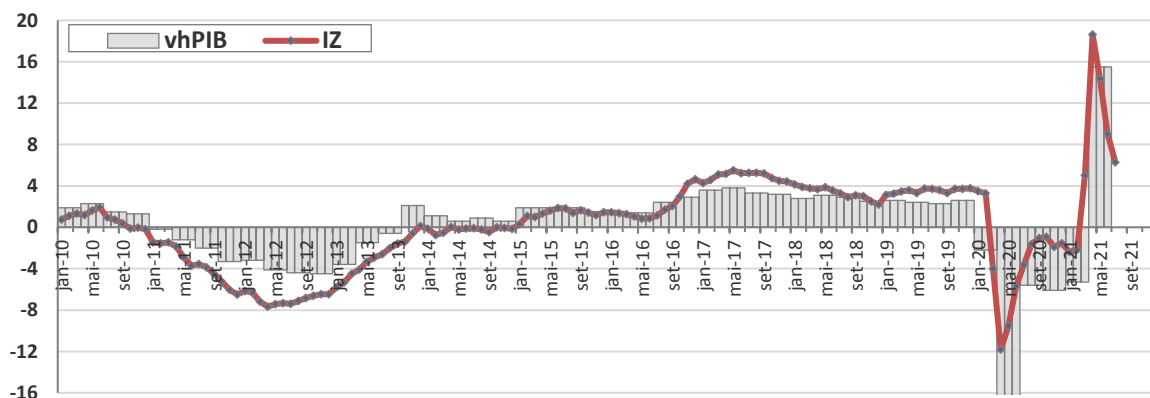
Car sales decreased by 19% and 35.8% in year-on-year terms respectively in July and August. These decreases are likely to be related with the crisis in the supply of semiconductors to the automotive industry and the consequent reduction in the production of new cars.

6. EVOLUTION OF THE Z TREND INDICATOR AND EXPECTATIONS FOR THE 2ND QUARTER

As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a summary of the sectorial indicators analysed above, continues to evolve in accordance with the greater, or less intense economic impacts of the pandemic experienced in the recent past. After a quarter of high year-on-year growth, a quarter of more moderate growth is thus expected to follow, which, in turn, will be inflated by the base effect of the negative impact of the pandemic during the previous year.

In general, during the 3rd Quarter, which was characterised by a progressive normalisation of activity, a strong growth in Services should have seen, with some de-acceleration in Construction, and an uncertain, but more likely negative evolution in Industry, resulting from the crisis in the supply of semiconductors. In terms of Internal Demand (ID), despite the restrictions affecting the car industry, Private Consumption will continue to grow month-on-month, especially in terms of the demand for Services. For Investment, it is likely that there will be a de-acceleration in investment in Construction, although an acceleration may well be seen in other areas. For Net External Demand, a positive contribution to GDP growth is expected after several quarters, driven by the partial recovery of external demand for tourism.

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



Based on the above, with the expected maintaining of the progress regarding the public health situation and the trend of the currently-available information, it is expected that the year-on-year variation of GDP will be an increase of between 3.5% and 4% during the 3rd Quarter, and between 1.7% and 2.2% in quarter-on-quarter terms. Growth in GDP for the whole year has been revised upwards to between 4% and 5%.

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