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Activity & growth

Sectoral impact of the

COVID-19 pandemic in Portugal

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The outbreak of the pandemic in March led to a significant reduction in activity in many sectors.
We estimate that the lockdown measures in the second half of March caused a decline in economic activity of approximately 20%, with the figure rising to around 40% in sectors such as retail, transportation and hospitality, and leisure and cultural activities.

The impact of the COVID-19 pandemic has been felt across all sectors through multiple channels: supply chain disruption, a decline in exports due to lower foreign demand, and weak demand (both because of the mobility restrictions themselves and due to declines in confidence and incomes). However, the pandemic is not affecting all sectors in the same way. Below, we look at which ones have been the most and least affected so far and we will give some clues as to which ones might be more vulnerable in what remains of the year.

Sectoral impact: what the available data tell us

Firstly, according to a survey by the National Statistics Institute of Portugal (see first chart), in the first half of June 36% of companies were still experiencing declines of more than 50% in their turnover (46% in the first week of April, when the lockdown measures were more restrictive). The accommodation and catering sector was still the hardest hit, with 71% (82% in April) of companies registering declines of more than 50%. Furthermore, according to the same survey, 35% of companies do not expect to recover pre-COVID levels of turnover in the next six months.

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Secondly, data on the number of workers affected by furlough schemes[1] also show significant differences between sectors. As of mid-June, around 17% of all workers were affected by such schemes, while the hardest hit sectors were retail, transport and hospitality (more than 25%), industry and professional activities[2] (more than 20%) and real estate.

1. These temporary suspensions of employment involve extraordinary financial assistance being granted to companies to cover staff salaries during the period in which they reduce their staff working hours or suspend employment contracts. The aid corresponds to 70% of two-thirds of the ordinary gross remuneration of each employee, up to a limit of 1,333.50 euros per employee. The remaining third must be covered by the company. This support initially lasts for up to one month and can be extended up to a maximum of three months.

2. This is a highly diverse sector that encompasses business tax consultancy services, accountancy services, architecture, engineering, translation and interpretation services, veterinary services, tourism activities, etc.

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Finally, the macroeconomic data already indicated significant sectoral differences in Q1 2020. In particular, aggregate gross value added (GVA) fell by 2.4% quarter-on-quarter in Q1. However, the sectors most sensitive to mobility restrictions suffered much sharper declines. Specifically, as the third chart shows, the biggest declines in GVA were registered in artistic and recreational activities (–5.8%), retail, transport and hospitality (–5.6%) and professional activities (–5.0%).

Moreover, the information on GVA by sector allows us to estimate the scale of the impact of the lockdown measures on each sector in the second half of March. If we assume that prior to the coronavirus outbreak (in January, February and the first half of March) all sectors were growing at a rate similar to their average for 2019,[3] then we can infer the drop in activity in each sector in the second half of March that is implicit in the change in GVA registered in the first quarter as a whole. In the fourth chart we summarise this implicit impact on each of the sectors during the first two weeks of the lockdown.

3. More specifically, with year-on-year growth equal to the 2019 average of each sector.

This exercise also suggests that the retail, transport and hospitality sector and the leisure and cultural activities sector were the hardest hit. In these two sectors, the estimated decline in activity in the last two weeks of March was around 40%. These were followed by the professional activities sector, with a contraction of slightly more than 35% in the second half of the month, having been particularly affected by the sharp drop in tourism services. Industry came fourth (–17%), affected by disruptions in the supply of materials originating in countries with a higher incidence of COVID-19 or by restrictions on demand. Finally, the agricultural, financial, insurance and real estate sectors would have suffered smaller impacts.

What will the rest of the year look like?

The economic environment is surrounded by an unusually high degree of uncertainty, and the performance of the economy and its various sectors will largely depend on how the pandemic develops and the degree to which domestic and foreign demand are affected. However, the estimates of the impacts suffered in the second half of March and the sensitivity of each sector to social distancing measures give us a clue as to the magnitude of the declines in economic activity that we can expect to see in 2020 (see fifth chart).[4] This suggests that recreational and leisure activities, as well as retail, catering and hospitality, will be the sectors hardest hit in the whole year. The performance of these sectors will be determined by the persistence (to a lesser or greater degree) of social distancing measures, as well as by restrictions affecting the revival of tourism. In the specific case of recreational activities, their relative weight in the total GVA and employment is comparatively low (2.7% and 5.7%, respectively), so the effect on their aggregate impact should be relatively small (less than 1 pp). Nevertheless, retail accounts for around 25% of GVA and employment, so it will have a significant impact on aggregate GVA. Thirdly, professional activities, which account for around 8% of total GVA and 12% of employment, will be particularly affected by the drop in the tourism services that they include, and according to our illustrative exercise their difficulties could subtract some 2 pps from total GVA.

4. Based on their historical relationship with GDP and their sensitivity to social distancing measures, we classify the various sectors into three groups in terms of how fast they can be expected to recover: those that will return to pre-coronavirus levels faster than the economy as a whole (sectors less affected by the pandemic, such as agriculture), those that will rebound more slowly (the sectors that have already been heavily affected and that are also sensitive to social distancing measures, such as retail or hospitality) and the rest (those that will recover roughly at the average speed of the

economy as a whole).

The productive capacity of industry (18% of GVA and 17% of employment) could also continue to be restricted by social distancing measures and an incomplete recovery in demand, especially in the durable consumer goods industry. In any case, the industrial sector could receive a slight boost if imports are replaced by domestic production.

The real estate sector (12% of both GVA and employment) has been less affected so far, although the impact could be felt further down the line if investment decisions are postponed, among both the Portuguese population and non-residents. As a result, construction (which accounts for around 4.5% of GVA and 6% of employment), and residential construction in particular, will be affected. That said, the shortage in the supply of new housing may limit the extent of the COVID-19 pandemic's impact on the sector this year.

Finally, agriculture, the information and communication sector and general government activities will likely help to mitigate losses in all the other sectors, with moderately positive contributions to GVA.

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