An incomplete recovery following the historical fall in Portuguese economic activity in Q2

GDP contracted by 16.3% year-on-year and by 13.9% quarter-on-quarter in Q2, a historic drop but slightly less negative than the indicators had suggested. Domestic demand contributed –11.9 pps to the decline, reflecting the sharp contraction in household consumption (–14.5% year-on-year) and investment (–10.8%), while external demand contributed –4.4 pps due to the profound decline in exports (–39.5%). As for Q3, there is an incomplete recovery in economic activity. In August, the confidence indicators suggested an improvement in all sectors, albeit still a far cry from the levels prior to the COVID-19 outbreak. Other indicators available up to July paint a similar picture. These include car sales (–16.9% year-on-year, versus –54% in June), spending registered on POS terminals (–9.7% year-on-year in July, versus –14.4% in June), and electricity consumption (–3.4% in July, versus –8.7% in June). Some indicators even slowed down following the boost from the initial rebound. For instance, the coincident economic activity indicator decreased in July to –11.9% year-on-year (–10.8% in June). In this context, it should also be recalled that the outlook will largely be determined by how the pandemic develops over the autumn and winter.

The pandemic hits unemployment. In Q2, employment fell by 185,500 people, a decline largely concentrated in the services sector (–130,700) and particularly in retail, accommodation and catering, sectors that depend heavily on tourism activity. In July, unemployment registered in job centres reached 407,000 (+100,000 year-on-year and +91,000 compared to February). At the same time, job openings fell by 34.2% year-on-year in July and the unemployment rate deteriorated to 8.1% (+1.6 pps year-on-year). Over the coming months, unemployment is likely to continue to rise due to the pandemic continuing to hold back the economic recovery.

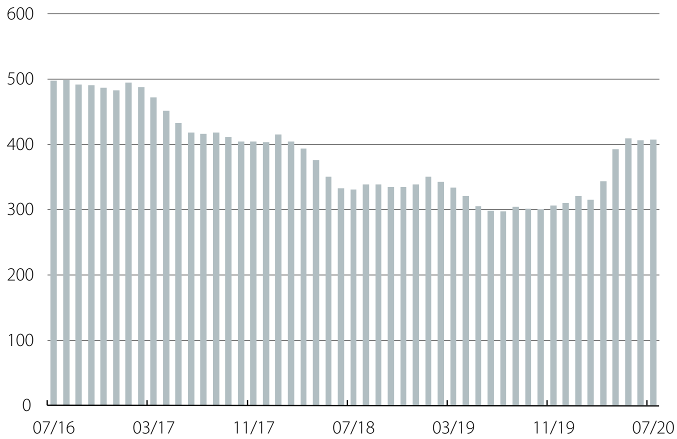
Sharp increase in the fiscal deficit to combat the coronavirus crisis. The general government's budget balance reached –7.6% of GDP on a cumulative basis up to July (it had been –0.4% in the same period of 2019). This larger deficit reflects both the substantial decline in revenues (–10.5% year-on-year) and the increase in expenditure (+5.3%). The decline in revenues was due not only to the measures to defer or suspend the payment of taxes (equivalent to 672 million euros up to July), but also to the progress of the economy, the impact of which was particularly visible in the fall in the collection of VAT, the tax on oil products and the tax on vehicles. As for expenditure items, the measures to support

Portugal: GDP
Year-on-year change (%)

	Q3 2019	Q4 2019	Q1 2020	Q2 2020
GDP	1.9	2.2	–2.3	–16.3
Private consumption	2.6	1.9	–1.0	–14.5
Public consumption	1.2	1.5	0.4	–3.4
Investment	8.2	–2.0	–3.5	–10.8
Exports	2.2	6.2	–5.1	–39.5
Imports	5.7	3.6	–2.5	–29.9

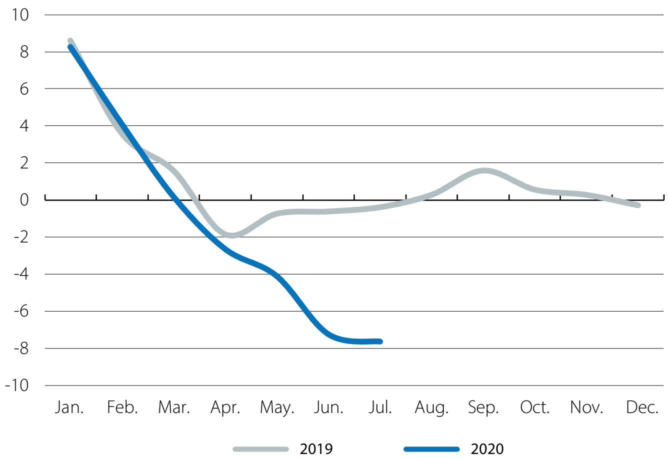
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: unemployment registered in job centres
(Thousands of people)



Source: *CaixaBank Research, based on data from the IEFP.*

Portugal: general government balance *
(% of GDP)



Note: ** Public accounting data.*
Source: *CaixaBank Research, based on data from the DGO.*

firms and households and expenditure related to the health sector totalled 1,599 million euros, of which around 752 million relates to expenditure on furlough schemes.

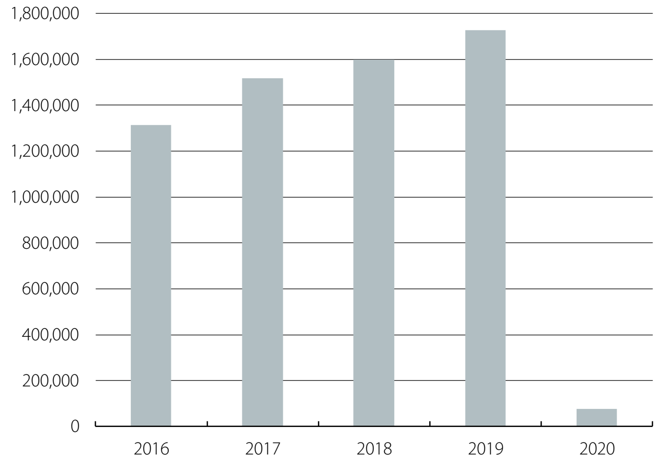
The recovery of tourism is delayed and the external accounts deteriorate. In June, the current account deficit reached –0.5% of GDP (12-month cumulative balance), compared to –0.1% at the end of 2019. On the one hand, the deficit in the balance of goods improved to –7.4% (–8.1% at the end of 2019), but on the other hand the surplus in services fell to 6.8% of GDP, its worst record since early 2016. This reduction is mainly explained by the performance of the tourism balance, with the number of foreign tourists falling by more than 95% year-on-year in June. At the same time, the average revenue per available room fell significantly (–79% year-on-year) to 13 euros, and 46.3% of tourist accommodation establishments were either closed or did not register any movement of guests (74.1% in May). Similarly, in June the level of mobility at domestic airports (around 318,000 passengers) was 94.6% lower than in June 2019, reflecting a very slow revival of activity at domestic airports following the lockdown. However, the outlook is more positive for the months of September and October, with the opening of the British air corridor and the increase in bookings for this period.

Strong credit flows in response to the demand from firms. In particular, new lending to the non-financial private sector increased by 21.3% year-on-year in the first half of the year, with a 32.0% rise in the business segment and a slowdown, for the fifth consecutive month, in the case of households (4.4%). Analysing the month of June in isolation, new lending to firms increased by 43.5% year-on-year, while it fell by 8.1% in the case of households. This divergence is explained by the greater need for liquidity among firms in a context of low activity, while households accumulate savings faced with the fear of a loss of income and the heightened economic uncertainty. Furthermore, according to data up to the end of June, credit moratoriums have been applied to 741,623 contracts, 70% of which related to households; of these, more than 62% are loan contracts for housing and other mortgage loans.

The real estate market gradually cools. The average value of bank appraisals continued to rise in July (+8.0% year-on-year, reaching 1,127 euros per square metre), albeit at a gentler pace than in previous months. However, there has been a decline in appraisal requests related to potential housing loans (–15.9%), consistent with the reduced buoyancy noted in new lending. On the other hand, the construction sector continues to show greater resilience than other economic sectors, with cement sales increasing by 10.7% year-on-year in July.

Portugal: arrivals of foreign tourists in June

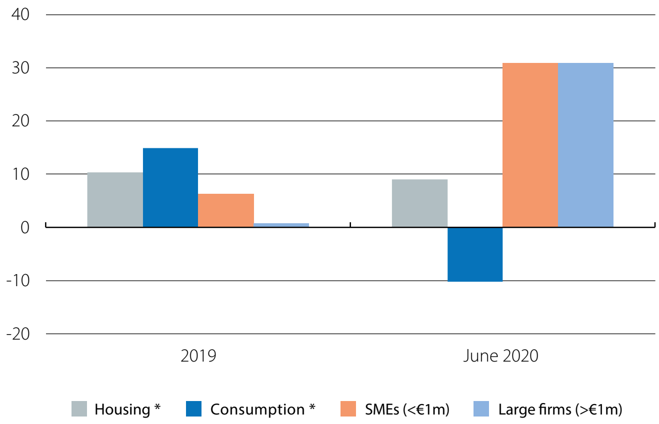
(Number of people)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: new lending

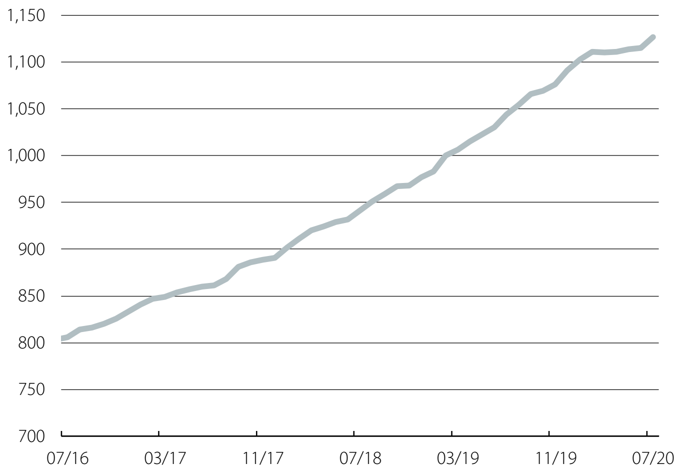
Year-on-year change in the year-to-date amount (%)



Nota: ** Excludes renegotiations.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*

Portugal: real estate appraisal prices

(Euros per square metre)



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*