CATÓLICA-LISBON Forecasting Lab | NECEP

July 8th, 2020

# Executive Summary

Publishing quarterly GDP estimates in real time is bold in the current economic context, so NECEP presents its quarterly growth estimates in two scenarios. In the **base scenario**, **the Portuguese economy might have contracted 13%** in the second quarter of 2020 after a drop of 3.8% in the first quarter. This scenario is justified by less pronounced declines in some sectors, such as **construction**, as well as by the recovery already seen in retail trade and ATM/POS operations, though partial and still far from the peak observed at the end of 2019.

In the **alternative scenario**, the Portuguese economy might have **contracted around 20%**. This estimate is supported by the very high proportion of the active population, around 25%, who were absent from the workplace during the second quarter. This scenario is also signalled by some indicators, such as vehicle sales or the number of overnight stays in tourist establishments.

As far as **annual GDP growth** is concerned, NECEP maintains the **central scenario**, announced in March, of a **10% decline in GDP in 2020.** This projection was calculated using several scenarios that allow GDP declines between 5% and 17% this year. Thus, the GDP contraction of 7% indicated in the Supplementary Budget Plan 2020 seems optimistic since it assumes a very favourable second half of the year. The NECEP's central scenario is compatible with an **unemployment rate of 9%** for the whole year of 2020.

The **downside scenario** now points to a **GDP drop of 17%**, being associated with a contraction around 20% of economic activity in the second quarter. The **unemployment rate** is expected to be **over 10%** if this scenario would be confirmed in 2020.

The **upside scenario**, on the other hand, represents a **GDP drop of only 5% in 2020**, a benign prospect that would require a mild fall in the second quarter, around 10%, followed by a strong recovery until the end of the year, with the **unemployment rate** remaining up by **7.6%**.

As in the previous newsletter, NECEP maintains the perspective that **the Portuguese economy would decline more strongly compared to the euro area in 2020**. Thus, the euro area's GDP is expected to contract 8.3% this year, with extreme scenarios between -11.5% and -4.0%.

For **2021 and 2022**, the foresight visibility is still limited. NECEP's analysis suggests that the **Portuguese economy should remain below the 2019 GDP level in the next year**, with a gap close to 8% in the central scenario. However, **a complete recovery compared to 2019 is possible in the upside scenario, as well as in the 2022 horizon (+ 2.5%)**, with the central scenario pointing to a loss close to 5% two years after the pandemic outbreak.

More important than the dimension of the drop in GDP this year will be the **extent of the loss of economic activity in the last quarter of 2020.** If this would be less than 5% compared to 2019, a **short recession with rapid recovery** into normality cannot be excluded. However, if the fall would be much more than 5% then the destruction of productive capacity, employment and income will only allow a slow and painful recovery to the levels observed in late 2019. It is still too early to anticipate, based on the available data, the state of the Portuguese economy at the end of the year.

## *Forecasts from Católica Lisbon Forecasting Lab – NECEP*

| Region | Indicator | 2020 Q1 a) | 2020 Q2 | 2019 | 2020 scenarios | | |
|---|---|---|---|---|---|---|---|
| | | | | | Downside | Central | Upside |
| Portugal | GDP (% change on previous quarter) | -3.8 | -13.0 | - | - | - | - |
| | GDP (year on year % change) | -2.3 | -15.5 | 2.2 | -17.0 | -10.0 | -5.0 |
| | Unemployment rate (%) | 6.7 | 7.1 | 6.5 | 10.7 | 9.0 | 7.6 |
| | Consumer prices (annual % change) | 0.3 b) | 0.1 b) | 0.3 | -0.2 | 0.2 | 0.6 |
| Euro Area | GDP (% change on previous quarter) | -3.6 | -8.0 | - | - | - | - |
| | GDP (year on year % change) | -3.1 | -11.0 | 1.2 | -11.5 | -8.3 | -4.0 |

a) Official values (Statistics Portugal – INE/Eurostat); b) Values at the end of the quarter.

NECEP/CEA/CLSBE/UCP – Quarterly Newsletter 61 (Year XVI) – 2020, 2nd Quarter (Q2)
Next Quarterly Newsletter (62, Year XVI – 2020, 3rd Quarter) available on October 7th, 2020