The state of the Portuguese economy during the Covid-19 pandemic

30 July 2020

This recession threatens to break the record of the previous recession, which was the worst since 1980. The special simplified layoff system makes it difficult to compare the employment data with previous data. In the first half of 2020, the Portuguese economy went into a sudden, severe recession. The real GDP per capita fell 3.9% in the first quarter compared to the previous quarter. This was followed in the second quarter by a knock-on fall of 14.1% – the two steepest falls since records began (1977). Several monthly economic activity indicators show significant declines between February and March and historic declines the following month. For example, the industrial production index, corrected for seasonality, which began by falling 6.5% from February to March, dropped to over 23% between March and April. Between April 2019 and April 2020, this indicator fell by more than 28%. Likewise, the European Commission economic sentiment indicator for Portugal fell 32% between March and April 2020, the steepest monthly fall in the history of this series.

The Committee uses a retrospective approach in the identification and dating of business cycles, based on data that are published after a certain period of time has gone by. This economic contraction was so fast and so deep that it is now safe to say that the Portuguese economy went into recession. The last recession, 2010-2013, had more amplitude than all the recessions since 1980, but the recession that the country now finds itself in is threatening to beat that record.

When compared to other recessions in Portuguese history, the unexpected nature of the crisis stands out. Unlike the other recessions dated by the Committee since 1980, almost nobody foresaw this crisis until three months before it occurred. Like the recessions in 1992-1993 and 2008-2009, the crisis had an external initial source, with net exports contributing 1.7 percentage points of the fall of 3.9% in the real GDP per capita in the first quarter of 2020. Consumption contributed another 1.9 p.p., partly due to a slowdown in family activities, which began even before the state of emergency was decreed on 22 March. This was followed by the national lockdown, whether decided on voluntarily or imposed by policies, which explains the slowdown. Its direct impacts were mitigated by the adoption of the simplified layoff system, which makes it difficult to compare the employment data with previous data.

Comparatively speaking, the Committee highlights the fact that investment did not fall as much in Portugal as in other countries. This seems to be partly explained by a smaller decline in investment in equipment and particularly by the construction industry, which remained active during the first quarter, with a relatively stable order portfolio. The Committee determined that the peak of the business cycle in Portugal came in 2019 Q4.)