



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

November, 2017

SUMMARY

According to the Flash Estimate of INE, Portugal's GDP grew during the 3rd Quarter by 2.5% year-on-year in volume, and 0.5% in relation to the previous Quarter. In year-on-year terms, these values represent a de-acceleration when compared with the 2nd Quarter (3.0%) and, in Quarterly terms, an acceleration when compared with that recorded for the 2nd Quarter (0.3%).

Very little information is already available regarding the 4th Quarter. However, qualitative-wise, most of the climate and sectoral confidence indicators increased in October, as did the aggregate indicators.

Given the year-on-year growth in GDP during the 3rd Quarter, it is most likely that the annual growth for 2017 will be in the interval of 2.6% to 2.8%.

GROWTH OF GDP DURING THE 3RD QUARTER OF 2017

According to the **Flash Estimate** of the National Statistics Institute, during the 3rd Quarter of 2017, Portuguese GDP grew by 2.5% in year-on-year terms, and 0.5% in comparison to the previous Quarter. On a year-on-year basis, these figures reflect a de-acceleration in growth compared to the 2nd Quarter (3%), however, when compared to the previous Quarter, there has been an acceleration in growth (with growth of 0.3% during the 2nd Quarter compared to the 1st Quarter).

The value estimated by INE was lower than anticipated in the October report (2.9%). Although still unquantified, the INE's comments refer to an increase in private consumption, a decrease in investment, and a negative contribution of net external demand - due to a de-acceleration in exports of goods and services and an acceleration of imports.

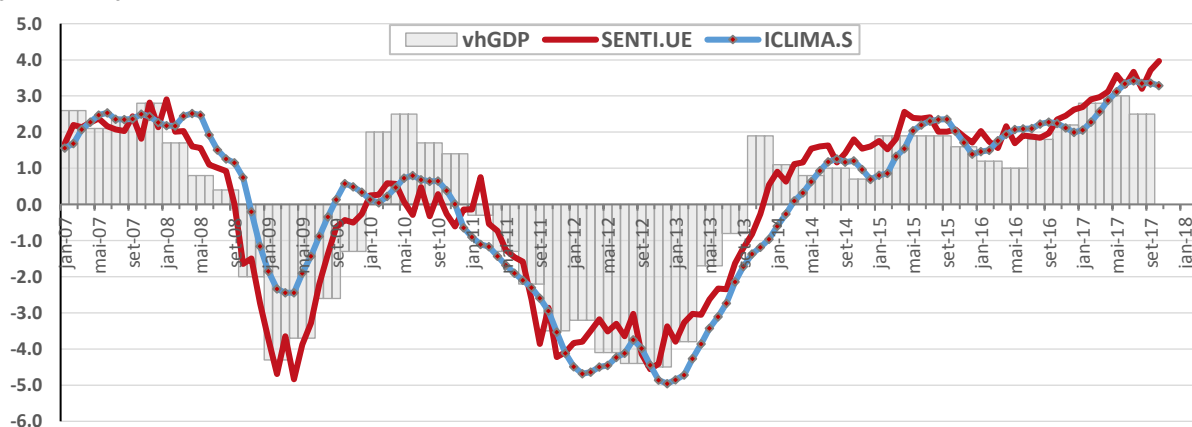
During the same period, GDP grew 2.5% in year-on-year terms in the Eurozone (2.3% during the 2nd Quarter), and 0.6% when compared to the previous Quarter (0.7% during the 2nd Quarter). By country, in year-in-year terms, GDP grew by 2.8% in Germany, 3.1% in Spain, 2.2% in France, and 1.8% in Italy. Year-on-year growth was 1.5% in the United Kingdom, and 2.3% in the United States.

2. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN OCTOBER

In October, as shown in Graph 1, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) increased again, attaining the highest level of the last years. Based on information from the last three months - without including consumer opinions, the **Economic Climate Indicator of the National Statistics Institute** (ICLIMA.S, INE) stabilised. By sectors (EUROSTAT, monthly data, corrected for seasonality), the confidence indicators increased for industry and retail, and decreased for construction and services. In relation to **consumers**, the respective confidence indicator (INE and Eurostat) increased significantly, recuperating the falls of the last three months, attaining a new maximum level.

During the same month, for the **Eurozone**, the **Economic Sentiment Indicator** also rose again. By country, the more pronounced increase in Germany is worth highlighting.

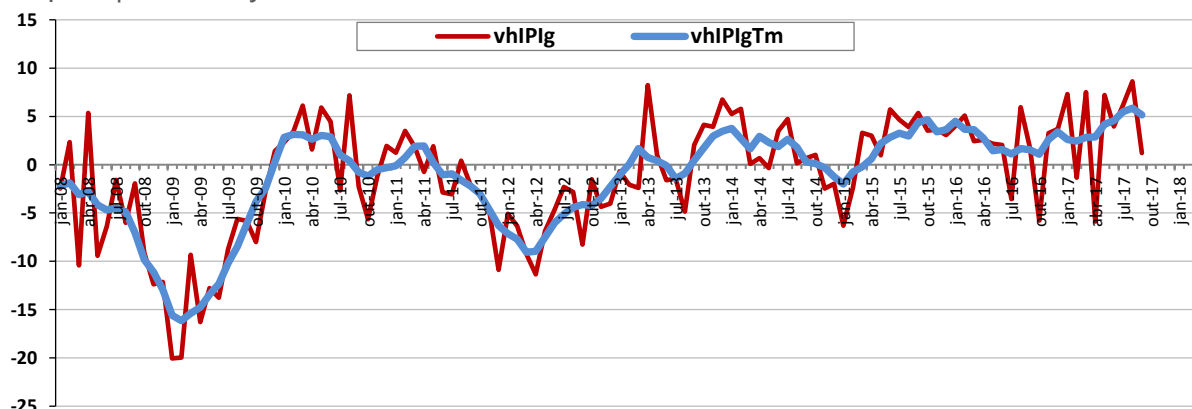
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



3. INDUSTRIAL PRODUCTION

In **September**, with one less working day, the **Industrial Production Index** registered a year-on-year variation of 1.2% (gross values, **vhIPIg** series in Graph 2; the variation in manufacturing being 0.5%). During the 3rd Quarter, the year-on-year variation was 5.2% (gross values, 1.8% during the 2nd Quarter). Corrected for seasonal and calendar effects, the estimated trend (**vhIPIgTm**) recorded year-on-year variations (**vhIPIgTm**) greater than 5% during the 3rd Quarter and at the end of the period. In October, car production in Portugal increased by 74.7% in year-on-year terms (ACAP).

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

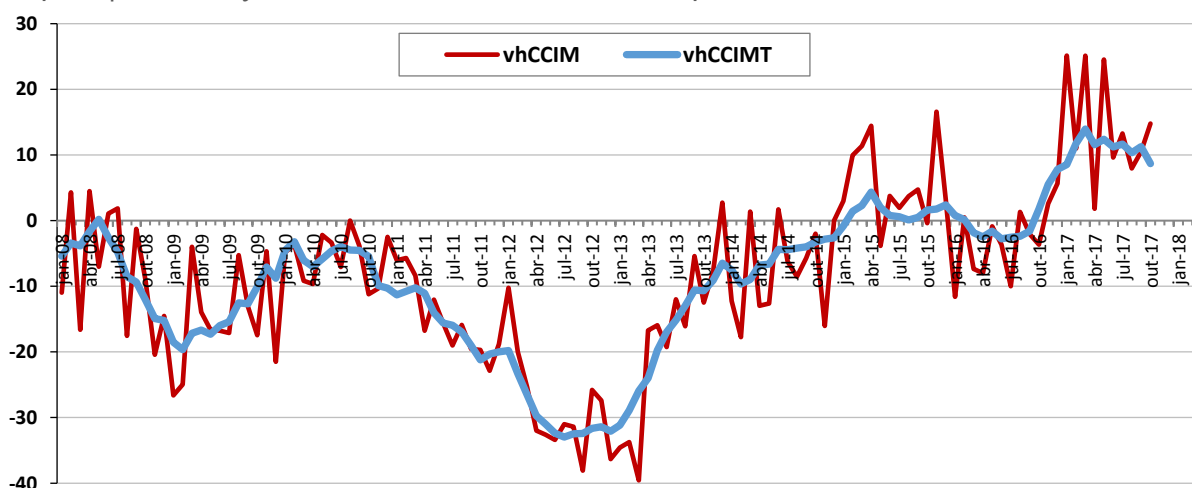


In **September**, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 6.7% (7.3% in the 3rd Quarter, and 7.1% in the 2nd Quarter). This nominal series has been inflated by the increase in industrial production prices (2.4% in the 3rd Quarter and 3.9% in the 2nd Quarter).

4. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **October**, with one more working day and favourable climatic conditions, the year-on-year variation of sales of cement was about 15%. Based on the estimated trend - after being corrected for seasonal, calendar, and climatic effects - the average growth rate of cement consumption increased in September and decreased in October to around 9% (**vhCCIMT** series, in Graph 3)

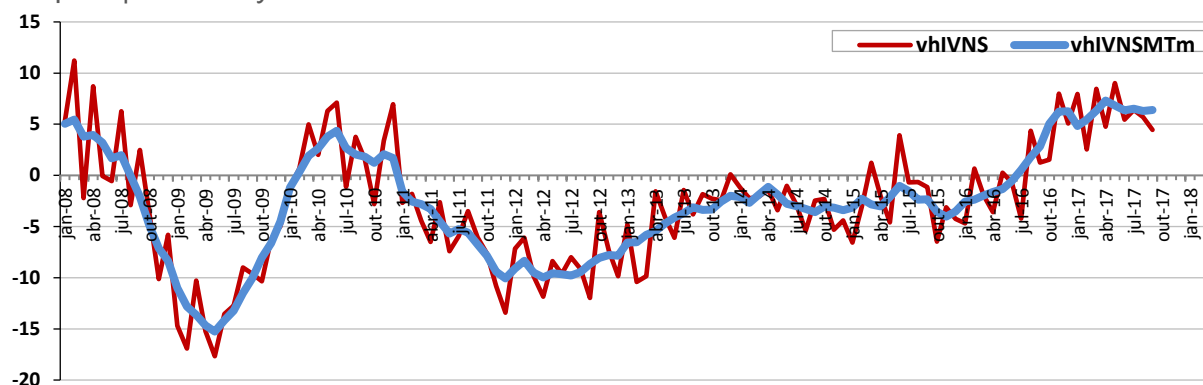
Graph 3 | Year-on-year variation of Cement Consumption



5. TURNOVER IN THE SERVICES SECTOR

In **September**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 4.5% (vhIVNS series, Graph 4, gross values). For the 3rd Quarter, the year-on-year variation was 5.5% (6.4% during the 2nd Quarter). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) has been relatively stable during the last months, with values over 5%.

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

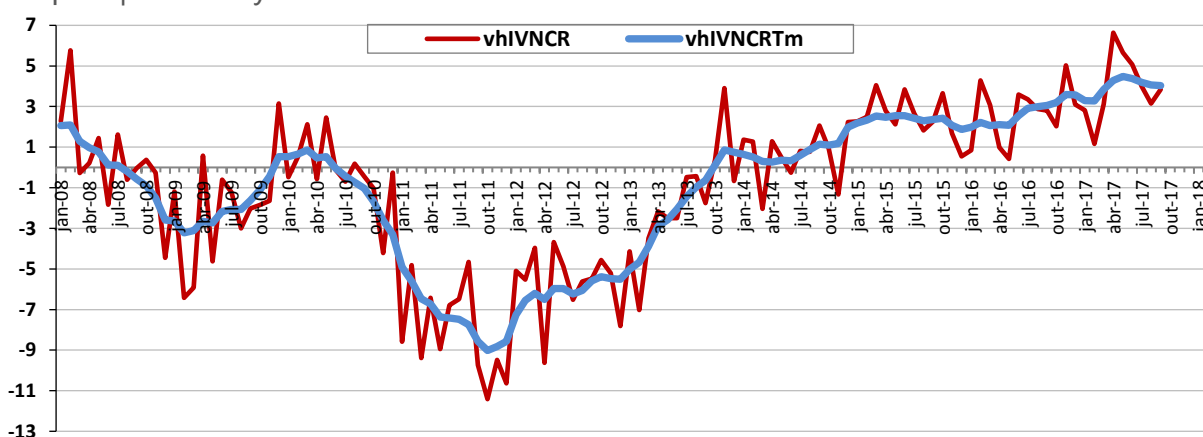


For the tourism sector, the indicator for **Hotel Turnover** – INE, registered a year-on-year variation of 16.0% in September (16.1% since the start of the year).

6. RETAIL TRADE TURNOVER

In **September**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.8% (Graph 5, **deflated** gross values). During the 3rd Quarter, the year-on-year variation was 3.7% (5.8% during the 2nd Quarter). However, as can be seen in the graph below, trend-wise, the rate of growth of this indicator (vhIVNCRTm) slowed down only slightly, maintaining a value greater than 4%. This year, the growth of this indicator has been based on a stronger level of growth in the grouping of *non-food products*.

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



Car sales increased 10.1% during the 3rd Quarter, and 6.5% in **October**.

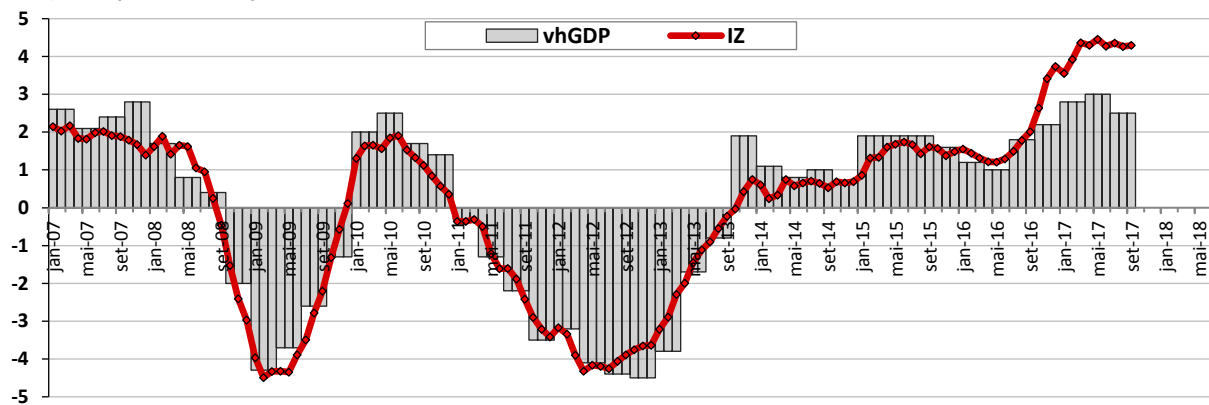
7. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator** (IZ) - which is a weighted average of the information analysed above, has demonstrated a relatively stable level during recent months, with no signs of an acceleration in growth, neither any evident de-acceleration. Therefore, the main reason for the de-acceleration of growth in GDP during the 3rd Quarter is related to the real growth of exports and imports of goods and services, which, at first analysis, INE considered to have negatively contributed to GDP, in contrast to the performance during the previous quarters. However, in nominal terms, the Banco de Portugal statistics for the balance of Goods and Services show a positive balance up until the end of the 3rd Quarter, which is only slightly lower than that of last year.

With regards to the 4th Quarter, the quantitative information is still scarce and localized, and does not permit one to draw conclusions about the evolution of the economy as a whole. In fact, the most comprehensive information originates from qualitative economic outlook surveys, where the evolution of climate and confidence indicators for October, referred to in section 2 above, shows a slight improvement in the majority of sectors and also in aggregate terms, when compared with the 3rd Quarter.

In relation to the growth rate for the whole of 2017, largely taking into account the results for the 3rd Quarter, the previously forecast interval is revised to a now more probable final value in the interval of 2.6% to 2.8%.

Graph 6 | Year-on-year variation in GDP and the IZ trend indicator



Compiled with information available as of the 23rd of November.