



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

December, 2017

SUMMARY

The de-acceleration of growth in GDP during the 3rd Quarter (2.5% in year-on-year terms) resulted from the negative contribution of Net External Demand (based on a larger growth of imports, in relation to exports), despite there being an increase in the growth of internal demand.

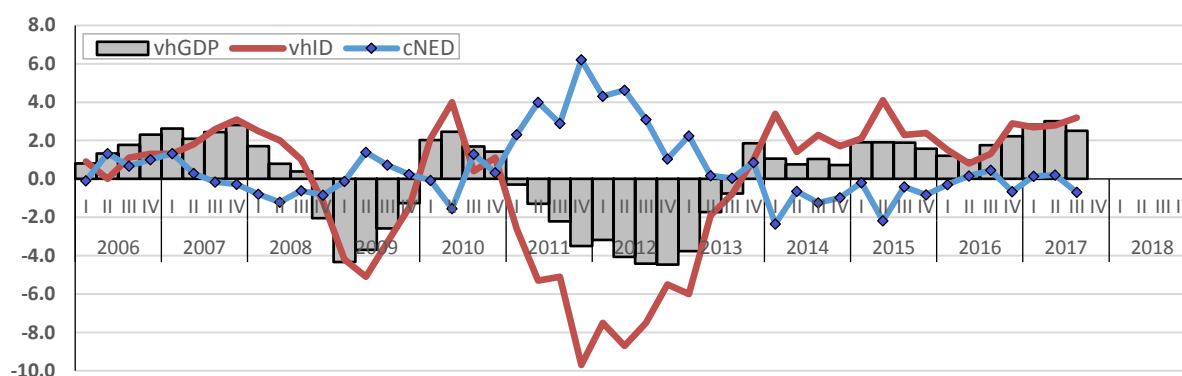
The first quantitative data for the 4th Quarter (almost exclusively for October) suggest some de-acceleration in the growth of the main indicators, however the evolution of the economic confidence and climate indicators for October and November was not heading in the same direction, but rather remained positive.

For the whole of 2017, the forecast for the growth in GDP remains between 2.6% and 2.8%, but is more likely to be closer to the lower value.

0. GROWTH OF GDP DURING THE 3RD QUARTER OF 2017

According to the first Quantified Estimate of the National Statistics Institute¹, during the 3rd Quarter of 2017, GDP grew in volume by 2.5% in year-on-year terms (3.0% during the 2nd Quarter), and 0.5% in comparison to the previous Quarter (0.3% during the 2nd Quarter), which were the same values as those of the Flash Estimate that was published fifteen days earlier. At the same time as the publication of this estimate, quantified values were also made available for the various components of GDP, which enables an analysis of the main reasons for the de-acceleration in growth during the 3rd Quarter.

Graph 0 | Year-on-year % variations of Quarterly GDP, Internal Demand, and Net External Demand



The growth in GDP during the 3rd Quarter was driven by a 3.2% growth in Internal Demand (ID), as well as the negative contribution of Net External Demand of -0.7% (NED, see chart above). Growth in ID exceeded that of the previous Quarter (0.4% more), being the highest of the year. By components, Private Consumption grew by 2.5% (more than the previous two Quarters), growth of Public Consumption went from being negative (-0.6%) to slightly positive (0.2%), and Investment grew by 9.6% (10.1% during the previous Quarter).

The negative contribution of -0.7% of Net External Demand for the growth in GDP volume was the fundamental justification for the de-acceleration in growth in GDP, which was a result of an acceleration of the growth of Imports (8.1%, against 7.1% during the previous Quarter), and a de-acceleration in the growth of Exports (6.8%, versus 7.9% during the previous Quarter). The lower growth of Exports mainly originated from the Services sector, in particular Tourism, as year-on-year growth rates during the 3rd Quarter were lower than those of the other Quarters (due to a much larger volume of tourists, resulting from beach tourism, which had an impact during the 3rd Quarter, but whose potential for growth is more limited).

For the EUROZONE, growth during the 3rd Quarter of 2017 was revised upwards to 2.6% in year-on-year terms (equally being 2.6% for the EU28). During this year, from **January to September**, in cumulative terms, GDP grew 2.4% in Germany, 3.1% in Spain, 1.5% in Italy, 1.7% in France, and 1.6% in the United Kingdom. The United States grew by 2.2%, whilst Portugal grew by 2.8%.

¹ We use the revised provisional data provided by INE on the 30th of November.

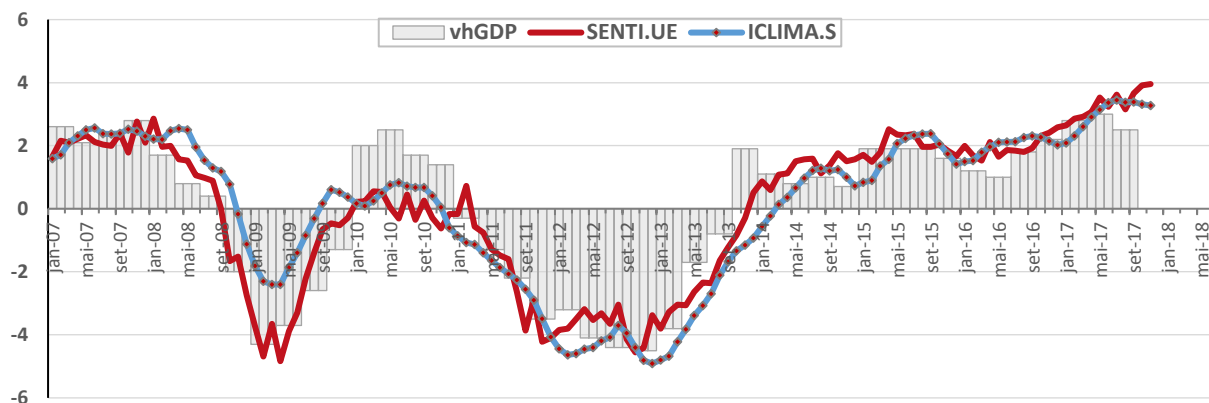
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN NOVEMBER

In **November**, the **Economic Sentiment Indicator** for Portugal published by EUROSTAT (SENTIUE.S, in Graph 1 below), based only on information for the month, rose slightly. The values recorded for October and November were the highest of the year.

The **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) – which uses information from the last three months and does not include consumer information – fell slightly (see Graph ²). This indicator attained its maximum value in July, and since September it has remained relatively stagnant. As can be seen in Graph 1, the comparison of the level of these indicators – both in standardised values and for the period covered in Graph 1 – with year-on-year changes in GDP, shows a situation whereby the overall confidence level at the end of the period is more optimistic than the rate of year-on-year growth in real terms.

By **sector of activity**, focussing just on the data for the month of November (EUROSTAT), the **confidence indicators** only increased in the case of the Construction and Services sectors, whilst they stagnated for Retail and decreased for Industry. In general, the average values of the last two months were the highest of the year. Among **consumers**, there was a slight fall in the respective confidence indicator, although the average of the last two months is the highest of the year, and remains at a record high.

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



For the **Eurozone**, the aggregate **Economic Sentiment Indicator** rose in **November**. This indicator rose from a level of 108 points at the beginning of the year to 114.6 in November. During the last month, this indicator rose in Spain, France, and Italy, and it fell slightly in Germany.

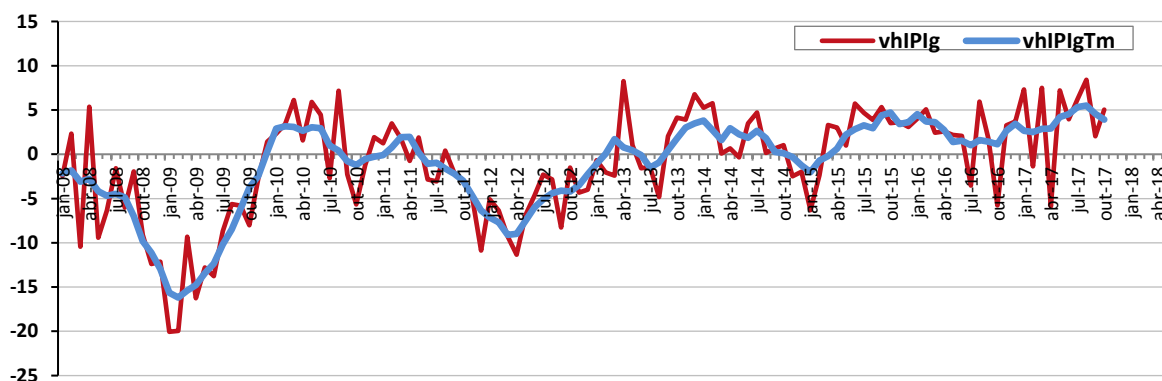
Also in the Eurozone, the **Consumer Confidence Indicator** rose substantially in November, attaining its highest value of the year. By country, in November, this indicator rose significantly in France, and marginally in Germany, and fell in Spain and Italy.

² In the graph, the original values of the Climate and Economic Sentiment indicators were adjusted for the average and for the standard deviation of the year-on-year variations of vhGDP, during the period under analysis.

2. INDUSTRIAL PRODUCTION

In **October**, with one more working day in year-on-year terms, the **Industrial Production Index** registered a year-on-year variation of 5.0% (gross values, vhlPIg series in Graph 2; the variation in manufacturing being 6.8%). In cumulated values from January to October, the growth of this indicator is 4%. Corrected for seasonal and calendar effects, the estimated trend shows positive year-on-year variations (vhlPIgTm) of about 4% in October. Car production grew by more than 70% in October and November, in year-on-year terms (ACAP).

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

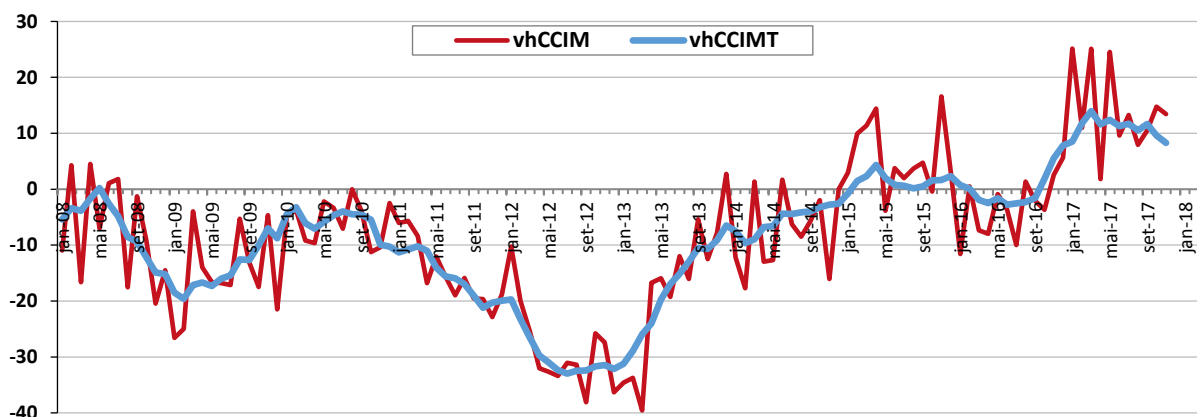


For the same month, the **Industry Turnover Index** showed a year-on-year variation of 11.4%, (nominal values; with 8.8% for the national market, and 15.2% for the external market). The rise of Industrial Production prices was 2.7%.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **November**, the year-on-year variation of sales of cement was more than 13%. During the last two months, despite effective year-on-year variations greater than 14%, the estimated trend year-on-year variations after correction for calendar and precipitation effects (vhCCIMT, in Graph 3) have de-accelerated somewhat, although the level of growth in the construction and public works sector remains high.

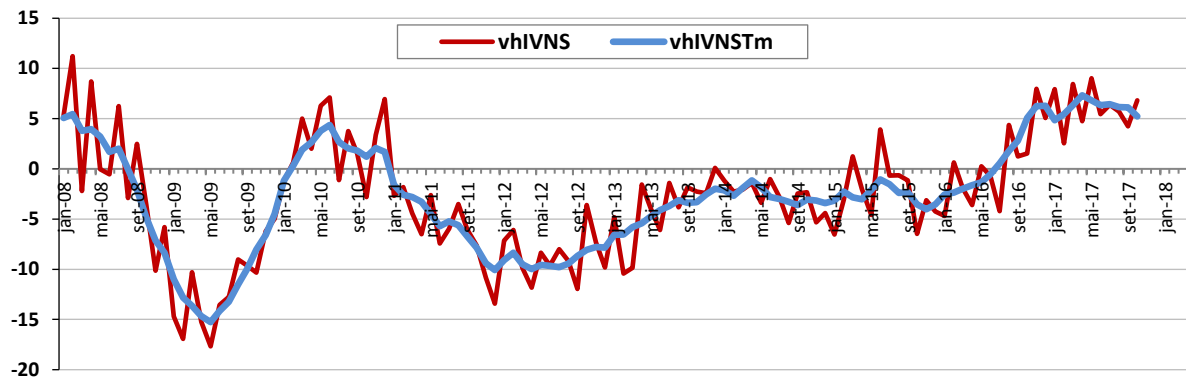
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **October**, with one more working day, the **Services Turnover Index** (nominal series) showed a year-on-year variation of 6.8% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) showed some de-acceleration, but grew by more than 5%. The sector with most growth is *accommodation, restaurants, and the like*.

Graph 5 | Year-in-year variation in Services sector turnover

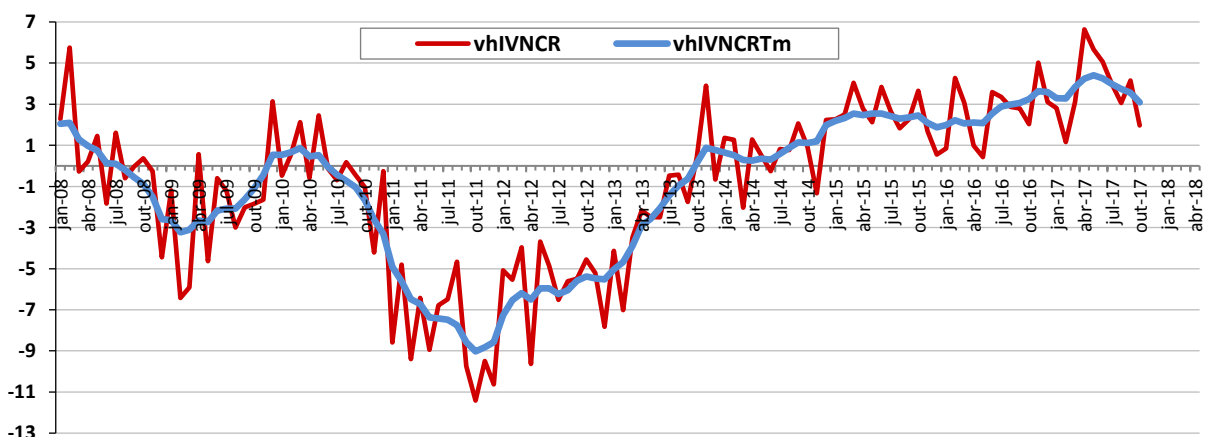


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 18.6% in October (14.2% during the 3rd Quarter).

5. RETAIL TRADE TURNOVER

In **October**, the **Retail Trade Turnover Index** registered a year-on-year variation of 2.0% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise (vhIVNCRTm), the rate of year-on-year growth of this indicator has been falling, but was more than 3% at the end of the period. The *non-food products* group continues to grow more than the *food products* group.

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



Car sales increased by 6.5% and 7.0% respectively on **October** and **November**, which were lower values than those for growth during the 3rd Quarter (10.1%).

6. EVOLUTION OF THE Z TREND INDICATOR

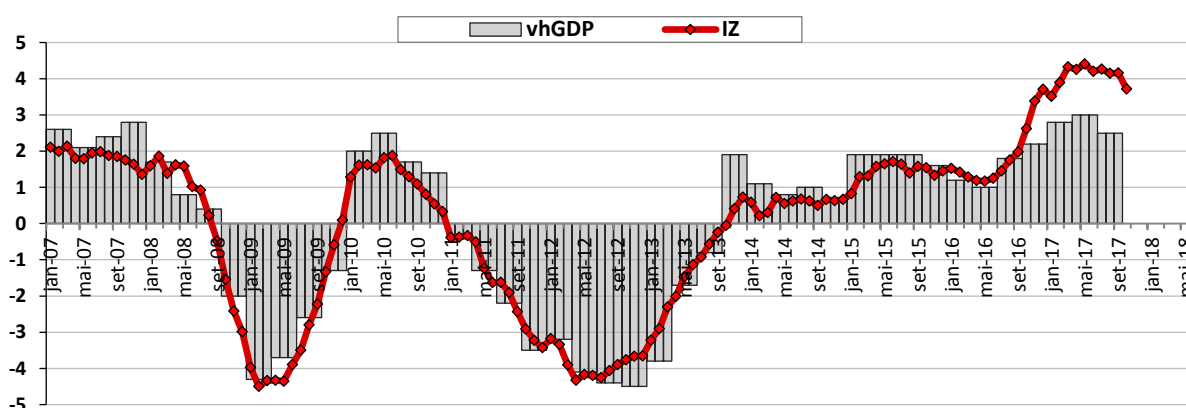
As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a weighted average of the information analysed above, **de-accelerated in October**. This decrease was caused by a deceleration in all the sectoral indicators previously analysed, after correction for calendar and seasonal effects, and occurs after the de-acceleration of growth in GDP during the 3rd Quarter. However, as seen in Point 1, the Sentiment and Economic Climate indicators did not fall in October and November, but rather either rose slightly, or stagnated.

With regards to External Trade, nominal growth of 11.8% for exports, and 21.4% in imports (or 13.0% and 19.9% excluding fuels) was recorded in October. This worsening of the balance of trade was offset by the balance of Services in October, but if this continues, it may contribute to generating a negative contribution of Net External Demand for growth in GDP during the 4th Quarter.

In summary, the quantitative information for October shows a degree of de-acceleration in the growth of the main sectoral indicators at the beginning of the 4th Quarter. The aggregate information of the confidence indicators for October and September shows stabilisation at least. Given the very partial nature of the available information for the Quarter, it is still uncertain whether annual growth in GDP for the 4th Quarter will demonstrate stabilisation, or de-acceleration.

For the whole of 2017, the forecast for growth remains in the range of 2.6% to 2.8%, but it is more likely to be in the lower band of the range.

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



Compiled with information available as of the 20th of December.