



LISBON
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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

January, 2018

SUMMARY

During the 4th Quarter of 2017 the Economic Sentiment Indicator for the Eurozone attained its highest levels of the year, indicating an acceleration of the year-on-year growth of economic activity at the end of last year. In Portugal, the performance of the confidence indicators was more varied, with slight decreases or stagnation at the end of the year, albeit close to the maximum values of 2017.

Based on the evolution of the main quantitative indicators, it is estimated that the Portuguese economy has grown by 2.5% in year-on-year terms (0.8% in relation to the previous Quarter) during the 4th Quarter of 2017.

For the whole of 2017 it is estimated that the growth in GDP will have been 2.7%.

1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN DECEMBER

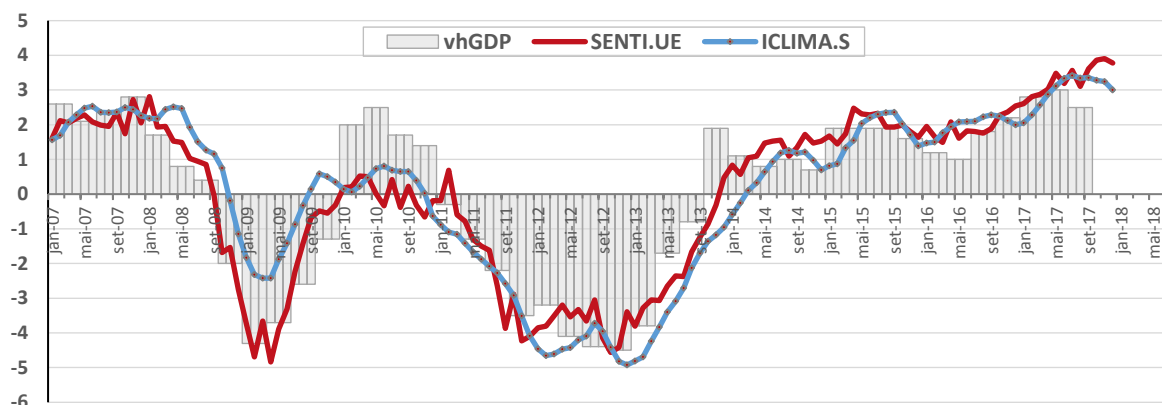
In **December**, the **Economic Sentiment Indicator** for Portugal (EUROSTAT; SENTIUE.S, in Graph 1), as well as the **Economic Climate Indicator of the National Statistics Institute** (Graph 1, ICLIMA.S) decreased, although both maintained high levels.

As can be seen in the graph, the **Economic Climate Indicator of the National Statistics Institute** (ICLIMA.S, INE) - based on information from the last three months, which does not include the opinion of consumers, but exclusively represents the opinion of the business sectors – decreased more obviously in December, after the less-accentuated decrease since September.

The **Economic Sentiment Indicator** of EUROSTAT – exclusively based on the month's information, which is not only based on the opinion of the business sectors, but also that of consumers – decreased slightly during December, having increased during the previous months. Nevertheless, the Quarterly average of this indicator during the 4th Quarter was the highest of the year, constituting a maximum for the period considered in the graph.

By sector of activity, focusing just on the data for December (EUROSTAT, seasonally-corrected values) the **confidence indicators** rose for Industry, Construction, and Retail, but decreased for the Services sector. Using Quarterly averages, there was a relatively steep upward trend between the 1st Quarter and the 4th Quarter in all sectors. The **consumer** confidence indicator registered a decrease during the month of December, however the average for the 4th Quarter was also the highest for 2017, and the upward trend during the year was substantial.

Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP), 2007-2017

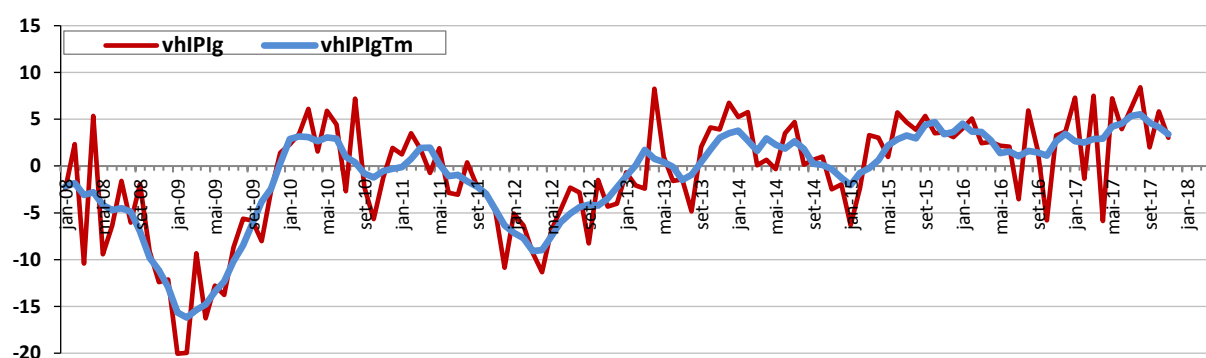


For the **Eurozone**, the **Economic Sentiment Indicator** (EUROSTAT) rose again in **December**, attaining its highest value of the year. By country, this indicator increased in Germany and France, stabilised in Italy, and decrease a little in Spain. In terms of Quarterly averages, there has been a pronounced increase in the level between the 1st Quarter and the 4th Quarter. The **Consumer Confidence Indicator** for the Eurozone, which also improved significantly along the course of 2017, increased again in December. These data suggest further growth in the Eurozone during the 4th Quarter and higher levels of confidence at the beginning of 2018.

2. INDUSTRIAL PRODUCTION

In **November**, with the same number of working days, the **Industrial Production Index** registered a year-on-year variation of 3.0% (gross values, **vhIPIg** series in Graph 2). The variation in manufacturing was 4.6%). Corrected for seasonal and calendar effects, the estimated trend (**vhIPIgTm** series) recorded year-on-year variations greater than 3% at the end of the period, although growth has been decelerating since August. In 2017, car production in Portugal (95.9% of which was exported) grew by 22.7%, with a growth of 72.9% during the 4th Quarter (ACAP).

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



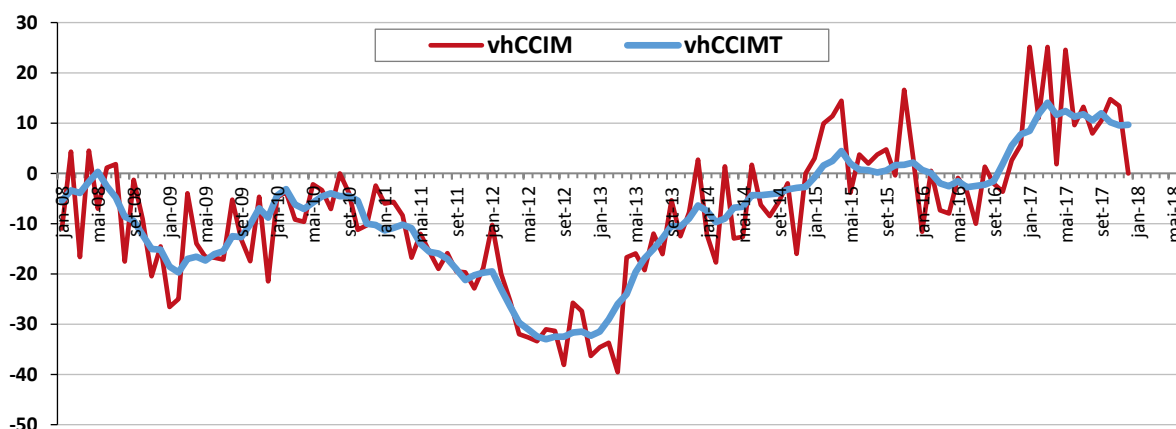
For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 9.8% (with 6.7% for the national market, and 14.1% for the external market). During this month, the year-on-year variation of industrial production prices was 3.2%.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **December**, with two less working days, the year-on-year variation of sales of cement was virtually zero, and, with this, the year-on-year variation of the **4th Quarter** was about 11%, and the growth during 2017 reached 13%. The estimated trend of year-on-year variations (**vhCCIMT**, in Graph 3), adjusted for calendar and precipitation effects, stabilised, showing values close to 10% at the end of the period.

The Construction Production Index (INE) recorded its highest year-on-year growth in October and **November**. According to this indicator, during the 2nd Semester, the engineering works sector has experienced more intense growth than that recorded in the buildings construction sector.

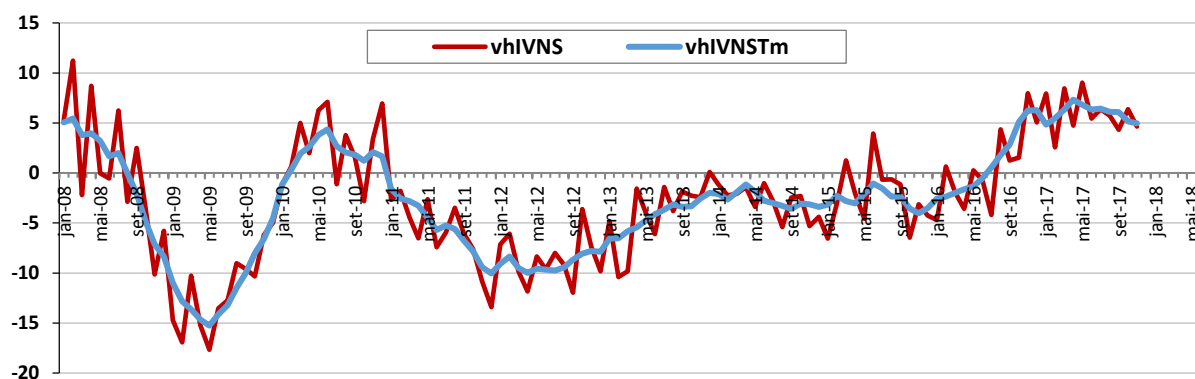
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **November**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 4.6% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) were about 5% in November, however, as can be seen in the graph, they have decreased a little.

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

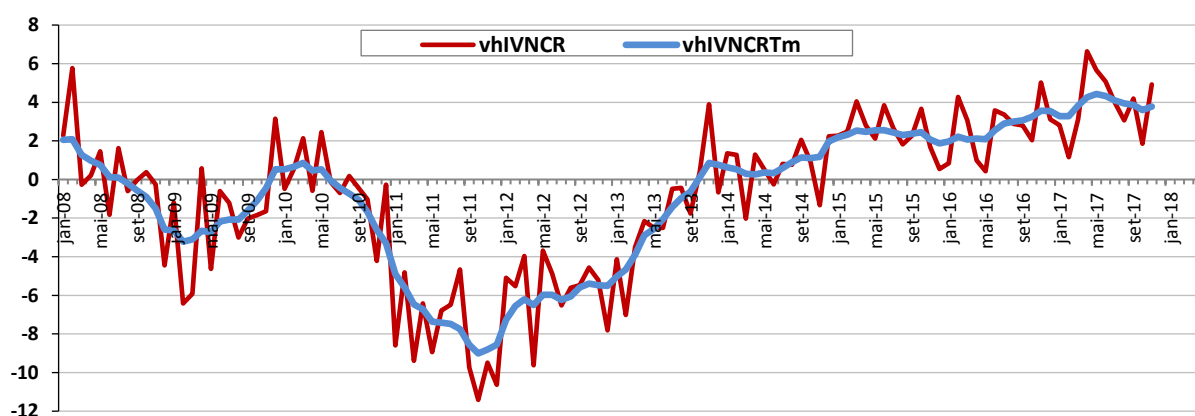


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 17.2% during October and November, which was greater than that seen during the 3rd Quarter (14.2%).

5. RETAIL TRADE TURNOVER

In **November**, the **Retail Trade Turnover Index** registered a year-on-year variation of 4.9% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise (vhIVNCRTm), the rate of growth of this indicator rose again to about 4%.

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



Car sales increased 0.4% in **December**, and 4.5% during the **4th Quarter** (as opposed to 11.8% and 10.1% during the two previous Quarters) and **7.1% in 2017**. The lower growth during the 1st and 4th Quarters was affected by the relatively high base values in 2016.

6. EVOLUTION OF THE Z TREND INDICATOR

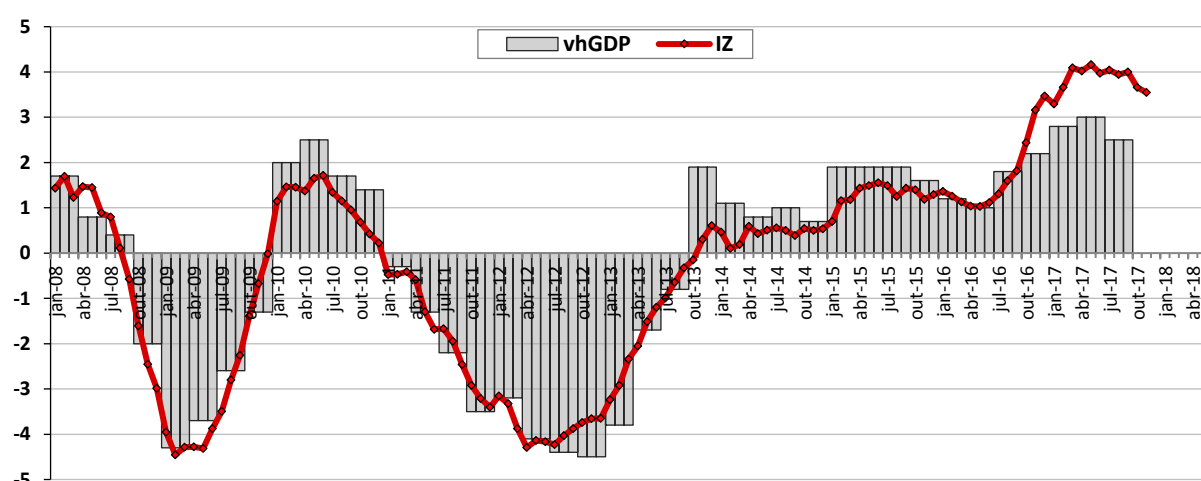
As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a compilation of the information analysed above, has decreased slightly during the last two months. This decrease was mainly driven by a de-acceleration in the growth of the indicators for Industrial Production and Services Turnover. In the case of Cement Consumption and Retail Trade Turnover, this de-acceleration slightly inverted at the end of the period under analysis.

Therefore, following the de-acceleration in year-on-year growth of GDP from 3.0% in the 2nd Quarter to 2.5% during the 3rd Quarter, there is no indication of a recovery in growth during the last Quarter, although, despite the decrease of the Z trend indicator, it is not estimated that year-on-year growth of GDP has slowed down any more. In fact, it should be remembered that the de-acceleration in growth of GDP during the 3rd Quarter was mainly due to the relatively strong negative contribution of Net External Demand (NED, with -0.9) in a Quarter during which the growth of Internal Demand (ID) accelerated strongly (to 3.4%). During the 4th Quarter, the partially-available information points to less growth in Domestic Demand, but also to a less negative contribution from NED (mainly due to the fact that year-on-year growth in exports of goods and services was greater than that of the 3rd Quarter). It is therefore likely that the combination of these two movements will maintain overall growth at the same level as that of the previous Quarter.

Overall, based on the available data for the 4th Quarter (which is incomplete in relation to December), it is estimated that year-on-year growth in GDP during the 4th Quarter of 2017 was 2.5%, and that the growth in relation to the previous Quarter was 0.8%.

For the whole of 2017, the growth in GDP will have been 2.7%.

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



Compiled with information available as of the 19th of January.