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# ECONOMIC OUTLOOK

April, 2018

## SUMMARY

*During the 1<sup>st</sup> Quarter of 2018, the climate and confidence indicators for Portugal and the Eurozone were slightly lower than the maximum levels of the previous year, but better than the respective year-on-year values.*

*The ISEG global activity trend indicator de-accelerated in January and February, giving rise to the probability that the year-on-year growth of the 1<sup>st</sup> Quarter will be less than that recorded for the previous year.*

*Whilst remembering that information is still missing for March, it is estimated that during the 1<sup>st</sup> Quarter of 2018, GDP grew by 2.3% year-on-year, and by 0.6% in relation to the previous Quarter.*

## 1. ECONOMIC CLIMATE AND CONFIDENCE INDICATORS IN MARCH

In **March**, as can be seen in Graph 1, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT), which is a weighted average of the business and consumer confidence indicators, decreased again in relation to the previous month<sup>1</sup>. As can be seen in the same graph, during the 1<sup>st</sup> Quarter of 2018, this indicator registered an average which is lower than that of the last Quarter of the previous year, although higher than the other Quarterly averages of the series shown.

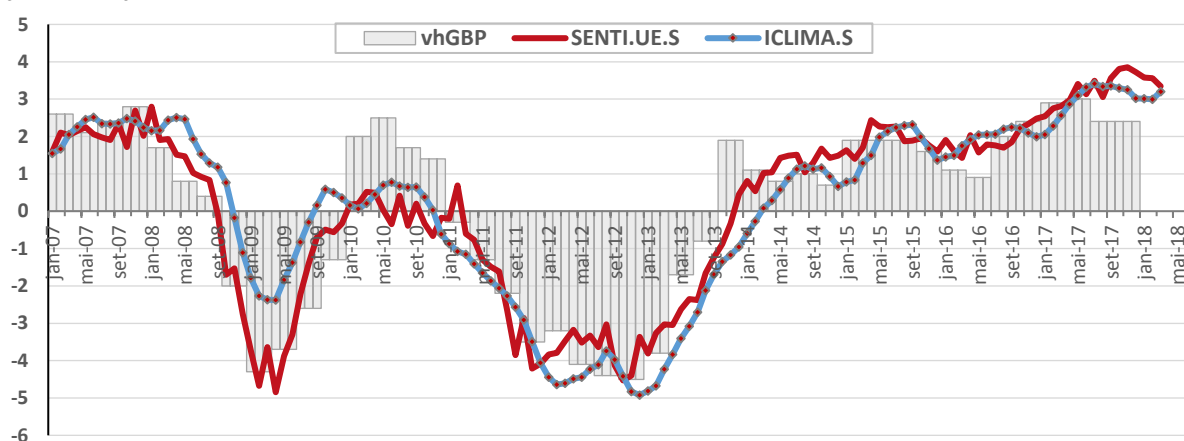
For the same month, the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) - based on information from the last three months, *but not incorporating consumer opinion* - rose again, after some stagnation during the previous months. In this case, the average for the 1<sup>st</sup> Quarter of 2018 is higher than that of the last Quarter and of the 1<sup>st</sup> Quarter of 2017, but is slightly lower than that of the 2<sup>nd</sup> and 3<sup>rd</sup> Quarters of the previous year.

By sector of activity – using seasonally-corrected values from EUROSTAT - the **confidence indicator** for Construction increased again in March, whereas the **confidence indicators** for Retail and Industry decreased slightly, with that of Services decreasing even more.

In relation to **consumers**, the respective confidence indicator rose in March, just as in February, which partly offset the decreases in December and January.

In summary, on average, the confidence and the economic climate indicators did not rise during the 1<sup>st</sup> Quarter of 2018, however the fall in relation to the maximum values of the previous year was not very significant, and the current levels clearly exceed the year-on-year values.

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



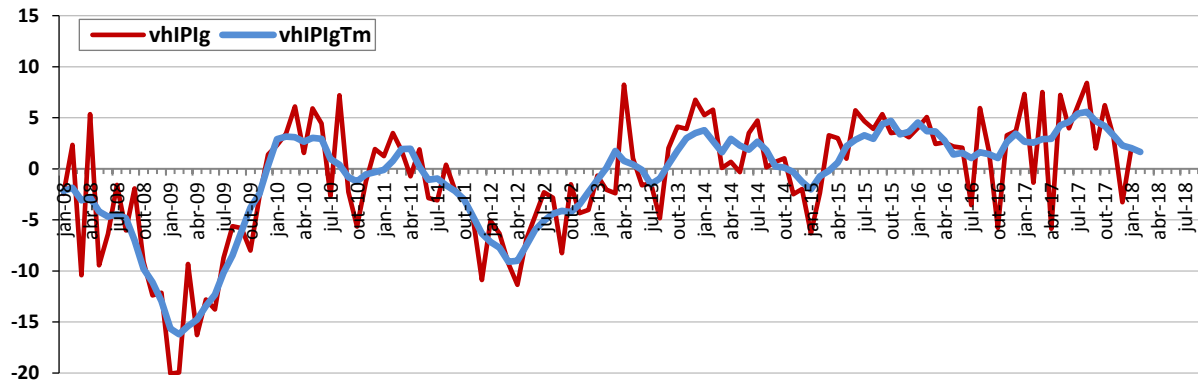
For the **Eurozone (EA19)**, the **Economic Sentiment Indicator** decreased in March. The average for the 1<sup>st</sup> Quarter is slightly less than that of the 4<sup>th</sup> Quarter of 2017, but is clearly more than that recorded during the other Quarters of last year. The **Consumer Confidence Indicator** of the EA19 stagnated in March. The average of this indicator for the 1<sup>st</sup> Quarter increased and surpassed that of the successive quarters of 2017.

<sup>1</sup> In the graph, the original values of the indicators were adjusted for the average and for the standard deviation of the year-on-year variations of GDP (vhGDP).

## 2. INDUSTRIAL PRODUCTION

In **February**, the **Industrial Production Index** registered a year-on-year variation of 1.7% (gross values, vhIPIg series in Graph 2) and the variation in manufacturing was 3.0%). Adjusted for seasonal and calendar effects, the estimated trend (vhIPIgTm) has recorded positive, but de-accelerating year-on-year variations since the 3<sup>rd</sup> Quarter of 2017. Car manufacturing has maintained a strong year-on-year percentage change during the 1<sup>st</sup> Quarter of 2018 (almost 90%).

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

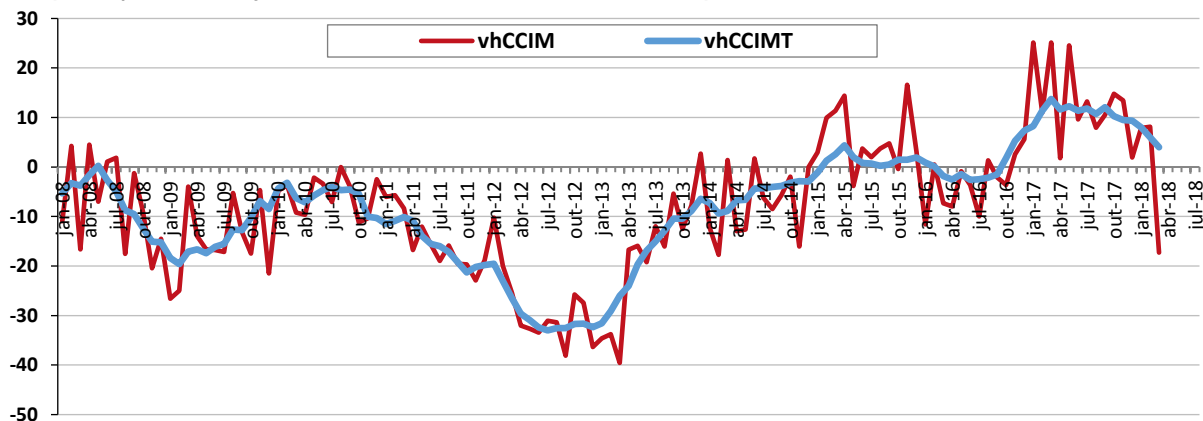


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 6.7%, with 7.3% for the national market, and 5.9% for the external market. When excluding the Energy grouping, the growth of this indicator was 8.9%. The industrial production price index grew by 1.4%.

## 3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **March**, with less two working days and constant rain, the consumption of cement decreased by about 17% in year-on-year terms. Accordingly, despite the growth of the previous months, the accumulated year-on-year variation during the 1<sup>st</sup> Quarter was slightly negative. After adjustment for seasonal, calendar and precipitation effects, the year-on-year variations of estimated trend – vhCCIMT, in Graph 3 –continued to be positive at the end of the previous Quarter, but shows signs of de-acceleration. The indicators for this sector suggest that it is likely that there will be a return to higher growth over the coming months.

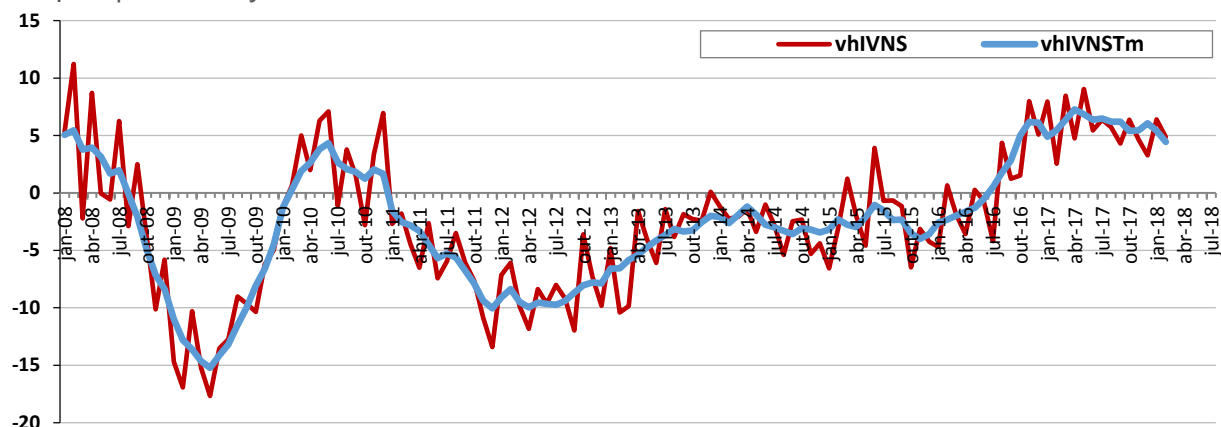
Graph 3 | Year-on-year variation of Cement Consumption



## 4. TURNOVER IN THE SERVICES SECTOR

In **February**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 4.9% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) showed strong growth, albeit with some de-acceleration.

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

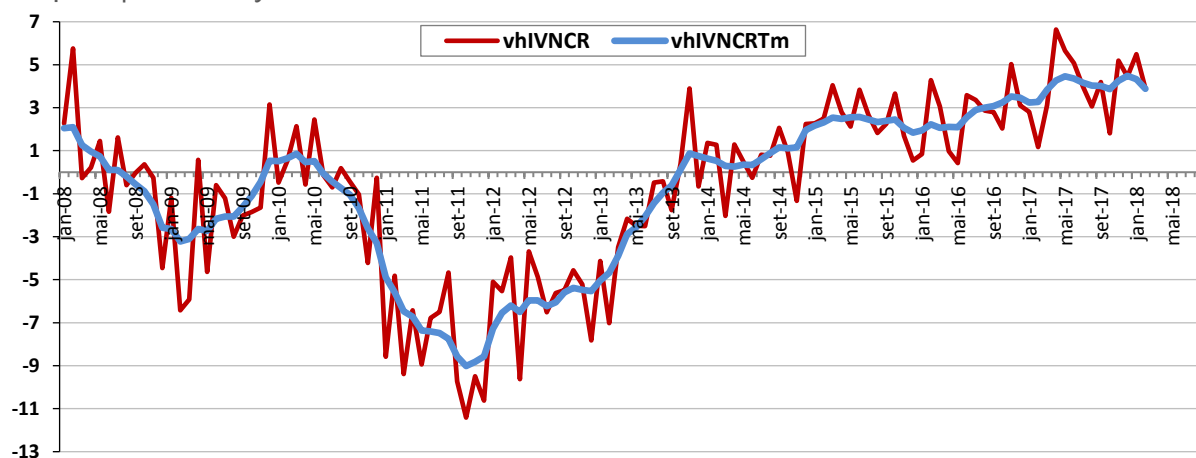


For the tourism sector, the nominal indicator for **Hotel Turnover** (Tourism Activity, INE) increased 11.8% during the first two months of the year, which is a lower value than that of the average growth of last year (16.6%).

## 5. RETAIL TRADE TURNOVER

In **February**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.9% (Graph 5, **deflated** gross values). Trend-wise, the rate of growth of this indicator (vhIVNCRTm) maintained high levels, and, on average, it remains at a similar level to that registered during the last Quarter of 2017.

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



For durable goods, **car sales** rose by 5.6% in year-on-year terms during the 1st Quarter of 2018 (4.5% during the 4<sup>th</sup> Quarter of 2017, and 7.1% in 2017).

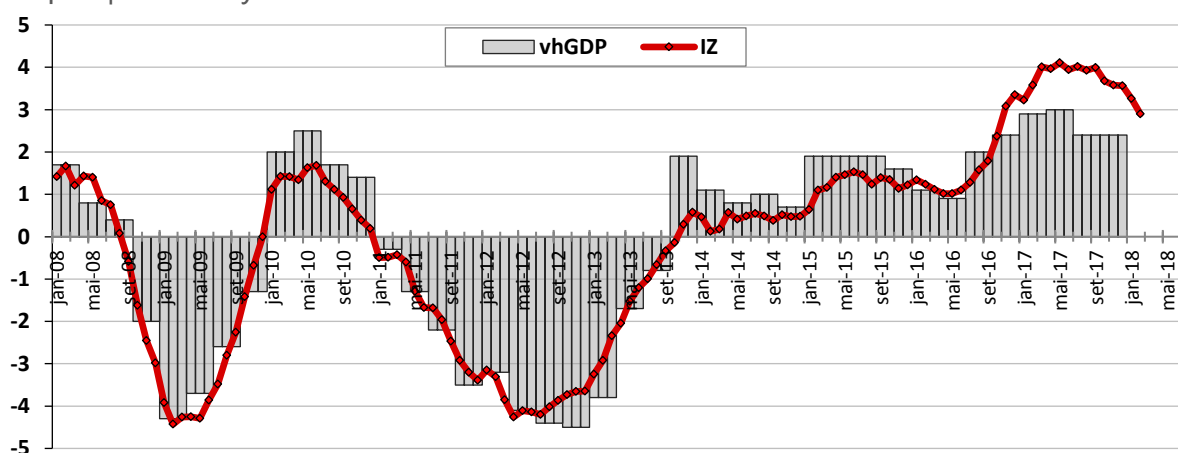


## 6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)** – which reflects the year-on-year evolution of the sectorial quantitative indicators – shows a de-acceleration in comparison to both the previous Quarter and the average value of the previous year. As can be seen above, this is due to a sharp de-acceleration in Construction during the 1<sup>st</sup> Quarter (mainly due to less working days and the abnormal rainfall in March, a de-acceleration in the growth of the Industrial Production Index (during the first two months), and less-accentuated de-accelerations in the year-on-year growth of Retail Trade and Services Turnover (also during the first two months). Overall, in terms of the components of Internal Demand, and in relation to the previous Quarter, the evolution of the indicators suggests that growth in Private Consumption may have remained the same, or increased slightly, while the level of Investment has grown to a lesser degree, mainly due to a decreased growth in Construction.

With regards to external trade in goods and services, it should be pointed out that the nominal worsening of the balance of trade of goods *during the first two months of 2018*, together with the improvement in the balance of trade of services led to a slightly worse total balance of trade of goods and services. However, if *fuels and lubricants* were to be excluded, then the balance of trade of goods and services would not have worsened. Accordingly, it appears that during these two months, the contribution to

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



growth in GDP of Net External Demand during the 1<sup>st</sup> Quarter will have been relatively neutral.

Overall, the available information suggests that the 1<sup>st</sup> Quarter of 2018 registered a rate of a year-on-year growth lower than that of the end of the previous year. By components, it appears that there has been a better performance for Private Consumption, less growth in Investment, and some uncertainty in terms of Net External Demand. Based on the information available, and bearing in mind that the information for March is very incomplete, it is estimated that GDP will have grown by 2.3% during the 1<sup>st</sup> Quarter of 2018 in year-on-year terms, and 0.6% compared to the previous Quarter.

Compiled with information available as of the 18<sup>th</sup> of April.