



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

July, 2018

SUMMARY

At the close of the 2nd Quarter, the values of the climate and confidence indicators for Portugal showed an improvement in general, after a less positive evolution during the 1st Quarter. Having worsened over the previous months, the ISEG global activity trend indicator improved in May.

The quantitative indicators, which were essentially for April and May, led to a forecast of a probable acceleration of Gross Fixed Capital Formation during the 2nd Quarter and a positive contribution from Net External Demand, based on a higher growth of Exports of Goods, compared to Imports.

Based on the quantitative indicators available, a year-on-year growth in GDP of 2.6% is forecast for the 2nd Quarter of 2018 (0.8% in relation to the previous Quarter).

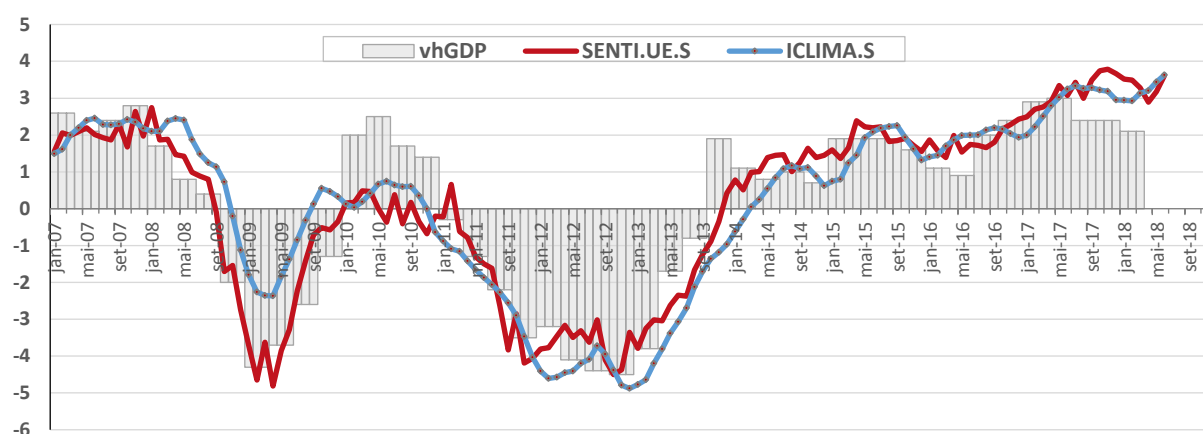
1. ECONOMIC CLIMATE AND CONFIDENCE INDICATORS IN JUNE

In **June**, the Economic Climate Indicator of the National Statistics Institute (ICLIMA.S, INE) – an average, based on information from the surveys of April to June – increased again (see Graph¹), prolonging the increase that started at the beginning of this year, attaining a new high since 2002. During the same month, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT), based only on information from June, also increased, having recuperated a substantial part of the decrease manifested between December and April. However, in terms of quarterly average, this indicator is still lower than the levels attained during the previous two months.

By sector of activity – just using seasonally-corrected values for June (EUROSTAT) - the **confidence indicator** for Retail decreased, whereas the **confidence indicators** for Services, Construction and Industry increased in relation to the previous month. On an average quarterly basis, with the exception of the Construction confidence indicator, which rose sharply, the other sectoral indicators decreased from the 1st to the 2nd Quarter, albeit slightly overall.

The **consumer** confidence indicator decreased in June, in comparison to the previous month, however, in average quarterly terms, it recorded an increase between the 1st and 2nd Quarters, returning to historically high values.

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



For the **Eurozone**, the **Economic Sentiment Indicator** decreased slightly in June, and, in quarterly terms, the values of the 2nd Quarter of 2018 were lower than those recorded during the previous two Quarters, although they were higher than the year-on-year values. This downward trend in economic sentiment in Europe was more pronounced in Germany, France and Italy, and almost nil in Spain. The **Consumer Confidence Indicator** for the Eurozone also decreased in June, especially in Germany and France, although it increased in Spain and Italy.

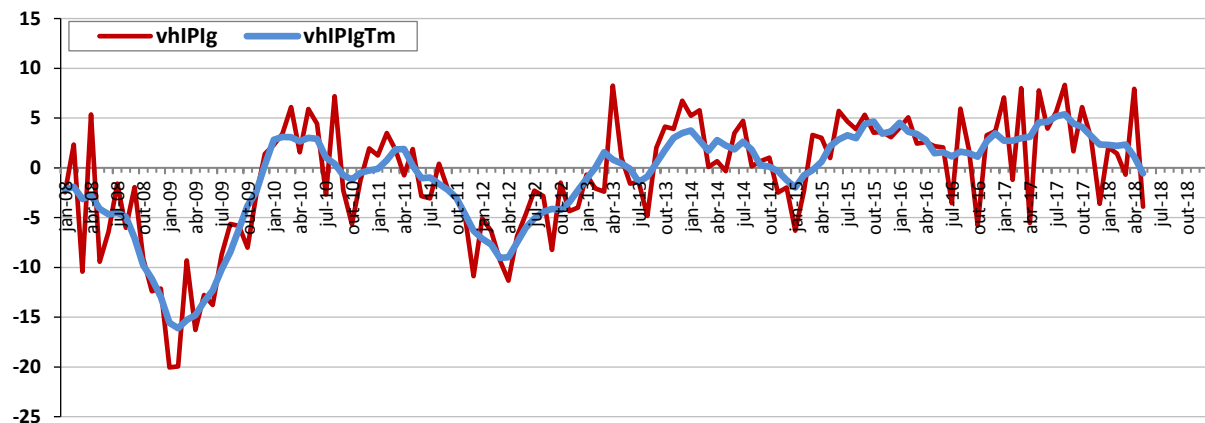
In summary, the Eurostat economic sentiment indicators decreased in the Eurozone and in Portugal, albeit less in the case of Portugal, which turned around after April. INE's economic climate indicator continues to increase since the beginning of the year.

¹ In Graph 1, the original values of the Economic Climate and Sentiment Indicators were adjusted for the average and for the standard deviation of the year-on-year variations of GDP (vhGDP).

2. INDUSTRIAL PRODUCTION

In **May**, with less one working day, the **Industrial Production Index** registered a year-on-year variation of -3.9% (gross values, **vhIPIg** series in Graph 2, with a variation in manufacturing of -3.7%). Adjusted for seasonal and calendar effects, the estimated trend (**vhIPIgTm**) showed zero growth in May, although the confidence indicator of this sector recuperated slightly in June. The contribution of car manufacturing continued to be noteworthy – increasing by 104.7% in June, and 89.3% during the 1st Semester.

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

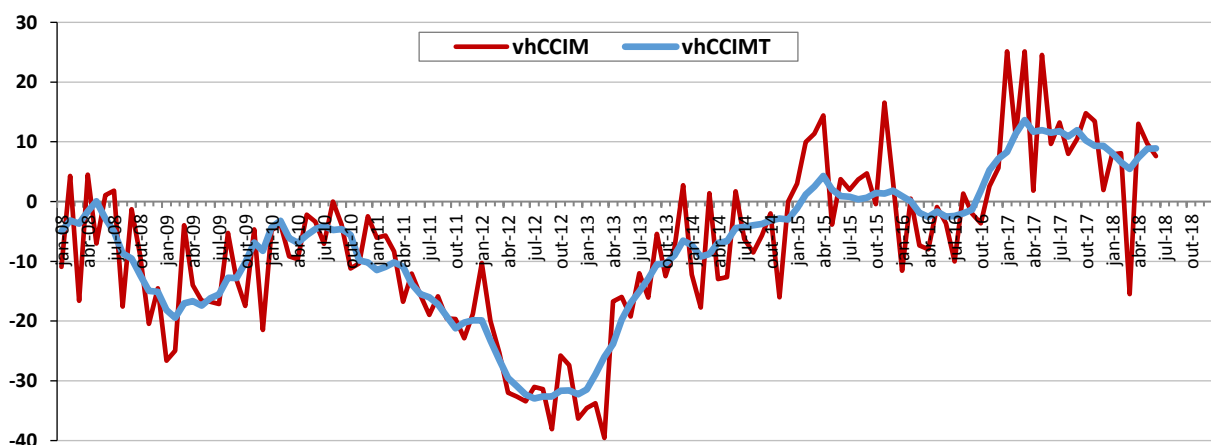


In **May**, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 5.9% (4.9% for the national market, and 7.4% for the external market). During the same month, the year-on-year variation of industrial production prices accelerated to 3.1% (1.5% excluding the Energy grouping).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **June**, year-on-year variation of the consumption of cement was about 6.5%. During the 2nd Quarter, year-on-year variation was nearly 10%, after a decrease of 1% during the 1st Quarter, caused by calendar and climatic effects. The variations of estimated trend (**vhCCIMT**, in Graph 3) presented levels of year-on-year growth of approximately 9% at the end of the 1st Semester.

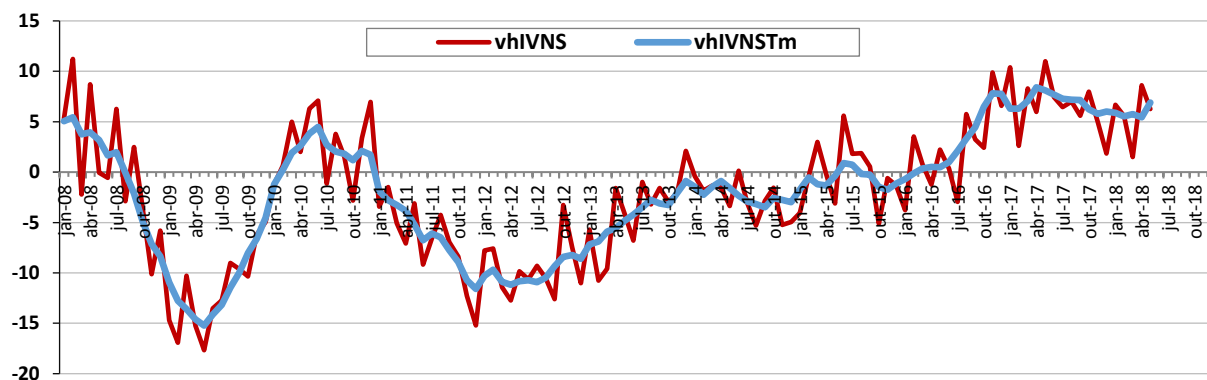
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **May**, with less one working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of 6.3% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) increased.

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

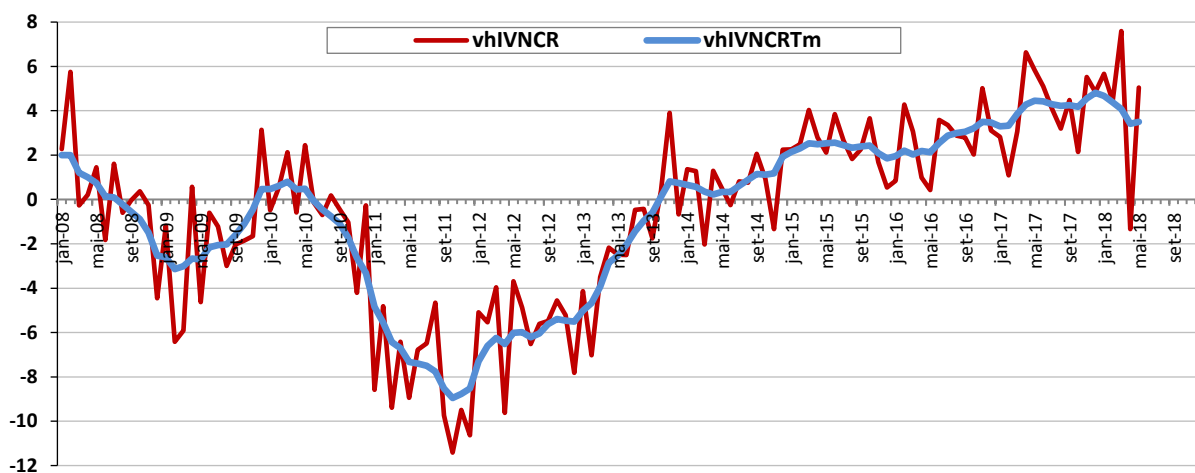


For the tourism sector, the nominal indicator for **Hotel Turnover** (Tourism Activity, INE) increased 6% during the months of April and May, the value being affected by calendar effects. From January to May, this indicator increased by 9.5%, which was less accentuated than the growth of the previous year (16.6%). Of note is the fact that the growth of this indicator was much higher than that of **overnight stays** for the same period (1.6%).

5. RETAIL TRADE TURNOVER

In **May**, the **Retail Trade Turnover Index** registered a year-on-year variation of 5.0% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise, the rate of growth of this indicator (vhIVNCRTm) de-accelerated up until April, but rose slightly in May.

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



Car sales grew by 5.3% in June, and 5.7% during the 2nd Quarter, or in other words, at the same rate of the 1st Quarter (5.6%).

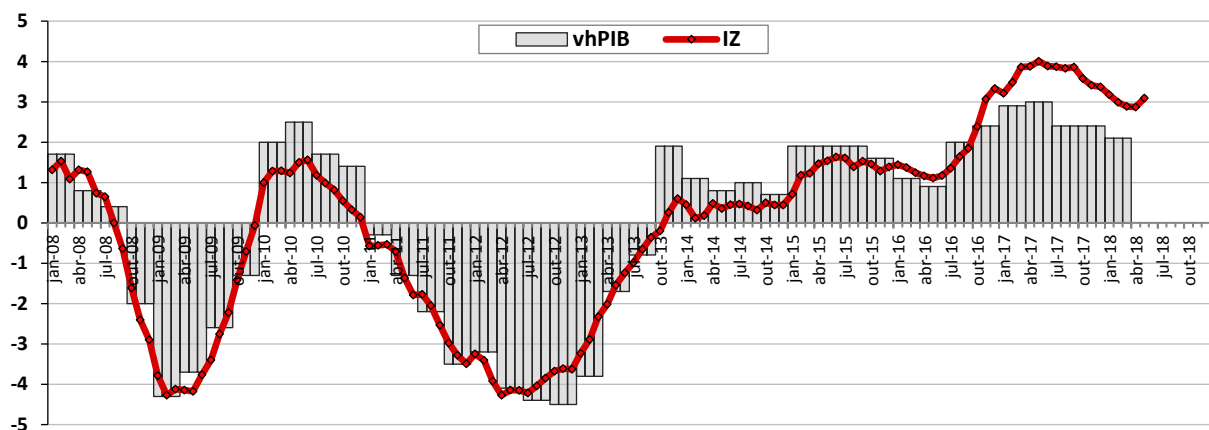
6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator** (IZ) – which is a weighted average of the indicators analysed in the points above – accelerated in May, after having de-accelerated from September to April. Of those indicators analysed, only Industrial Production de-accelerated in May.

In terms of Internal Demand, the evolution evidenced in April and May suggests that, during the 2nd Quarter, Gross Fixed Capital Formation will have increased more than during the 1st Quarter, mainly due to the Construction component, whose growth was limited during the 1st Quarter, due to calendar and climatic effects. With respect to Private Consumption, the most likely outcome is that the growth rate will be equal to, or slightly lower than that of the 1st Quarter. Therefore, unless there is a negative surprise in terms of Public Consumption, the growth of Internal Demand during the 2nd Quarter will have been close to that recorded during the 1st Quarter (2.5%).

Simultaneously, the date for the evolution of Net External Demand (NED) during April and May is much more favourable in nominal terms than that observed during the 1st Quarter. Furthermore, whereas Imports (of goods) grew significantly more than Exports during the 1st Quarter, the opposite occurred during the first two months of the 2nd Quarter. Therefore, even with the lack of information for June, and with a certain de-acceleration in external tourist demand, it is most likely that the contribution of NED to the growth of GDP during the 2nd Quarter will have been positive, in contrast to the 1st Quarter.

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



As a result of the above, it is expected that growth in GDP during the 2nd Quarter will have been 2.6% in year-on-year terms, and 0.8% in relation to the previous Quarter. In annual terms, the forecast for annual growth remains in the range of 2.2% to 2.6%, which will only be reviewed in September, after INE publishes more detailed information regarding growth during the 2nd Quarter.

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