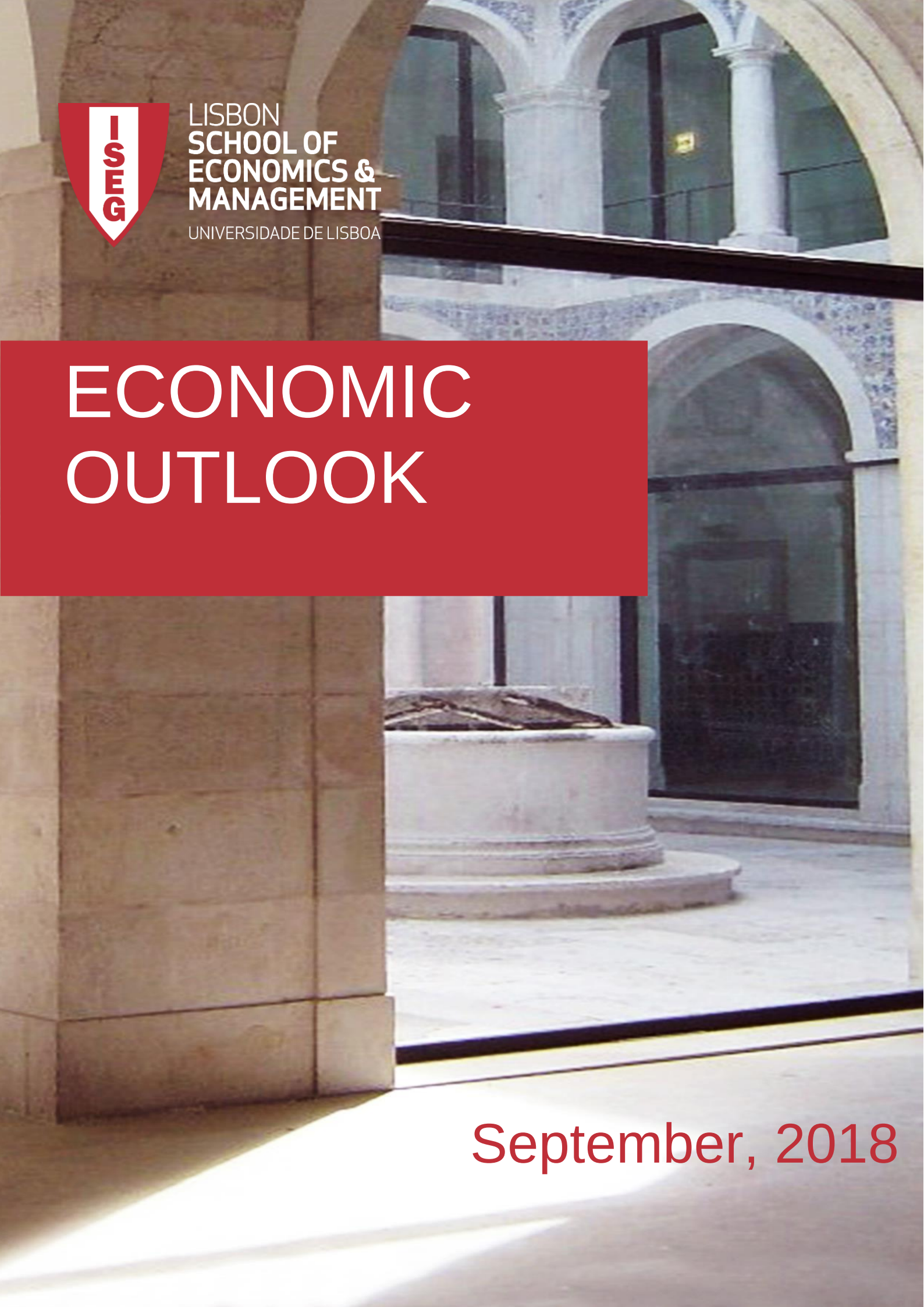


LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

September, 2018

SUMMARY

*During the 2nd Quarter of 2018, Portuguese **GDP** grew 2.4% in volume, in year-on-year terms, and 0.6% in comparison to the previous Quarter. This growth, which is slightly more than the growth of the 1st Quarter, was based on a slight increase in the growth of Internal Demand (originating from Private Consumption) and the less negative contribution of Net External Demand.*

During the 3rd Quarter, confidence levels remained high in the business sectors, but fell among consumers. The first quantitative data for the 3rd Quarter, which are still very scarce, show a certain de-acceleration, but do not put into question a year-on-year growth of GDP of the same magnitude as that of the 1st Semester.

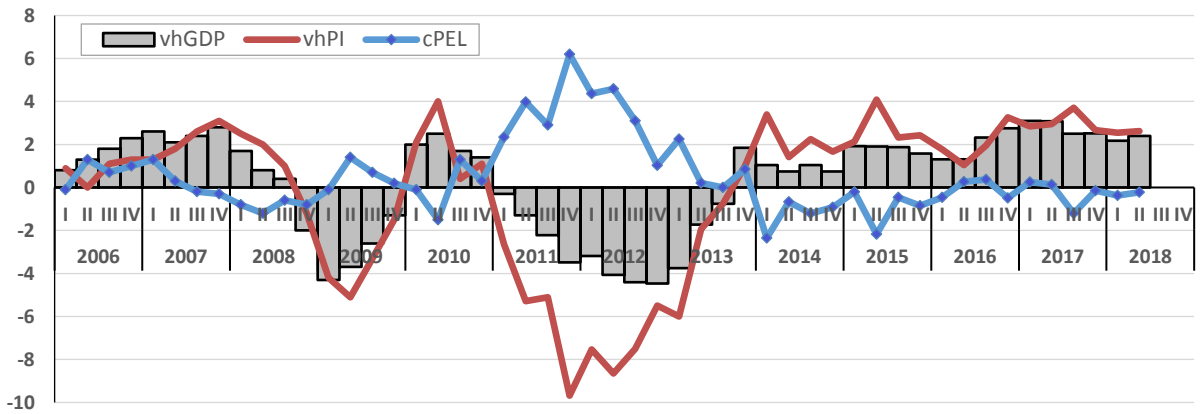
Based on the growth registered during the 1st Semester and the evolution of the main components of demand, the forecast growth in GDP for the whole of 2018 has been re-set to between 2.2% and 2.5%.

0. GROWTH OF GDP DURING THE 2ND QUARTER OF 2018

According to the most recent information of the National Statistics Institute[1], during the 2nd Quarter of 2018, GDP grew in volume by 2.4% in year-on-year terms (2.2% during the 1st Quarter) and 0.6% in relation to the previous Quarter (0.4% during the 1st Quarter).

The acceleration in growth from the 1st to the 2nd Quarter of this year was based on an increased year-on-year growth in Domestic Demand (originating from Private Consumption) and a less negative contribution of Net External Demand (originating from a less negative trade balance). However, to a certain degree, this increase in growth also arises from the absence of some of the adverse factors that were present during the 1st Quarter.

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



Compared with the growth registered during the first half of 2018, just as in 2017, there has been a moderate de-acceleration of GDP in relation to the growth of 2017 (2.8%), albeit it is less accentuated in relation to the second half of 2017, when growth was 2.5%. With regards to the components of demand, it can be verified that, based on the current data, the main reason for the de-acceleration of GDP lies in the de-acceleration of growth in Gross Capital Formation, which decreased from a growth of 9.2% in 2017, to around 5% during the first half of 2018. For the remaining components of the demand, the differences in growth between years are less relevant and likely refer to a slight acceleration in Public Consumption and a slightly more negative contribution of Net External Demand in real terms. It should also be noted that the external balance, although negative in real terms, remains positive in nominal terms.

For the EURO AREA, growth during the 2nd Quarter of 2018 was 2.1% in year-on-year terms (2.4% during the 1st Quarter, and 2.7% during the 4th Quarter of 2017). By country, there was an overall de-acceleration of growth in GDP during the 2nd Quarter: to 1.9% in Germany, 1.7% in France, 1.2% in Italy, and 2.7% in Spain. For these countries the negative variance is higher in relation to growth during the second half of 2017, when stronger growth was evidenced. The European Commission's forecast for growth in 2018 was revised downwards, to 2.1% (July).

[1] We use the revised provisional data provided by INE on 21 September for the final National Accounts of 2016. At the closing of the accounts for 2016, the definitive real growth in GDP was set at 1.9% in 2016, which led to the upward revision of growth in 2017 (from 2.7% to 2.8%) and also for the first two Quarters of 2018 (also by one decimal).

1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN AUGUST

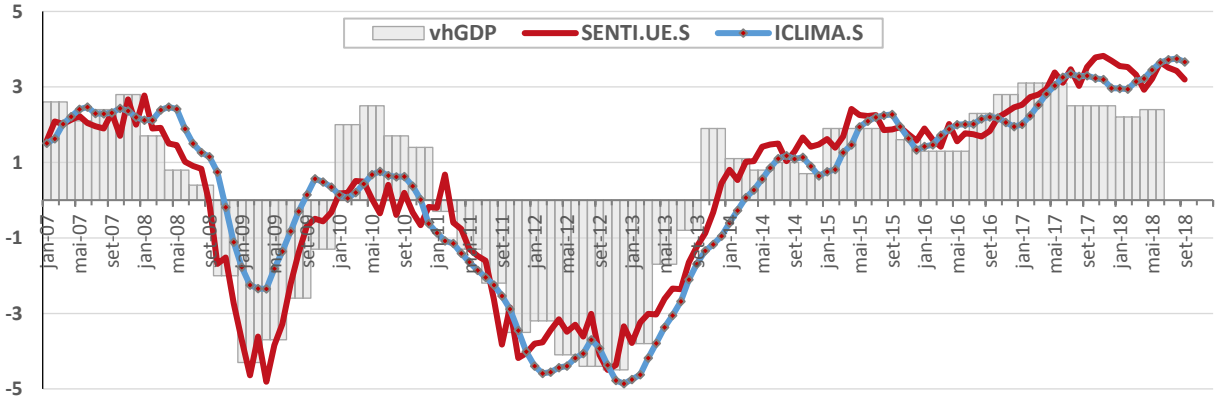
In **September**, the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) fell slightly, having stabilised after attaining maximum levels in August (for the period under analysis in Graph 1, 2007-2018). The level of September (which corresponds to the average of the 3rd Quarter) is the same as that of June (the average of the 2nd Quarter). For the same period, the **Economic Sentiment Indicator** of EUROSTAT (SENTIUE.S, EUROSTAT) fell again (see Graph 1[2]), although it maintained a relatively high level.

The main reason for the discrepancies between these two indicators lies with the behaviour of the **consumer confidence indicator**, whose information is used to construct the **Economic Sentiment Indicator** of EUROSTAT and which is not included in the INE **Economic Climate Indicator**. Contrary to the average of the business confidence indicators, the consumer confidence indicator decreased during the last four months, the value of the 3rd Quarter being lower than that registered during the 2nd Quarter and it had a negative influence on the **Economic Sentiment Indicator** of EUROSTAT.

By **sector of activity**, the evolution of the sectorial **confidence indicators** continues to be mixed in **September,** recording a decrease for Industry and an increase for Services, together with marginal differences for Retail and Construction (EUROSTAT, seasonally-corrected values).

In summary, during the 3rd Quarter, the levels of confidence remained high for the business sectors, but fell in the case of consumers.

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



For the **Euro Area**, the **Economic Sentiment Indicator** fell in September, prolonging the relatively smooth decrease that has been in evidence since January. By country, the more accentuated decreases were seen in France and Spain, with a lower decrease in Italy and Germany. Since January, Germany was the country that registered the lowest decrease.

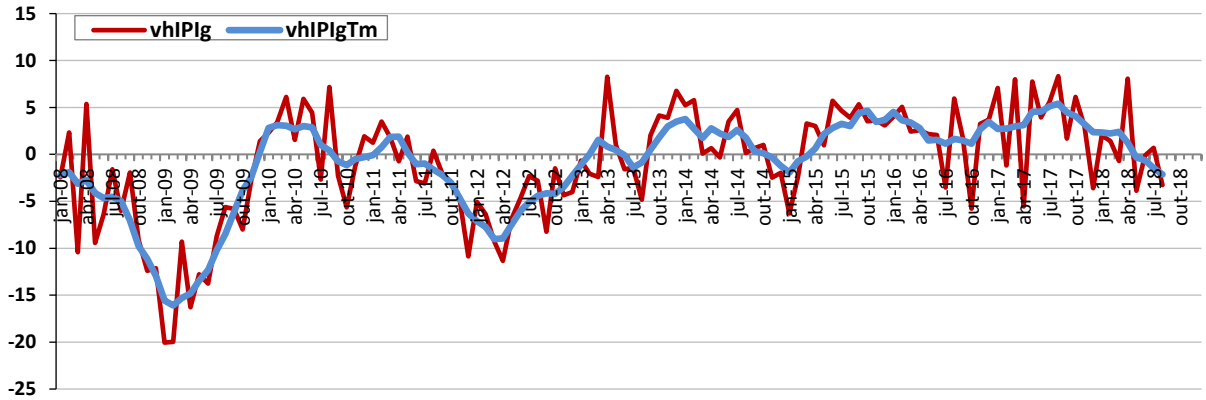
The **Consumer Confidence Indicator** of the Euro Area registered decreases during the months of August and September, increasing the lack of confidence when compared with the beginning of the year. By country, the Consumer Confidence Indicator fell more profoundly during September in Spain and France, and did not fall in Italy and Germany, both of which are the countries that have demonstrated greater resistance to a decrease.

[2] In Graph 1, 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. PRODUCTION

In **August**, with the same number of working days in year-on-year terms, the **Industrial Production Index** (INE, gross values) registered a year-on-year variation of -3.3% (vhIPIg series in Graph 2; the variation in manufacturing being -2.5%). Corrected for seasonal and calendar effects, the estimated trend shows a significant de-acceleration since April (vhIPIgTm series). Between January and July, the growth of this index was 0.4%. (3.4% for the total of 2017), despite an increase of 85% in car production (ACAP).

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

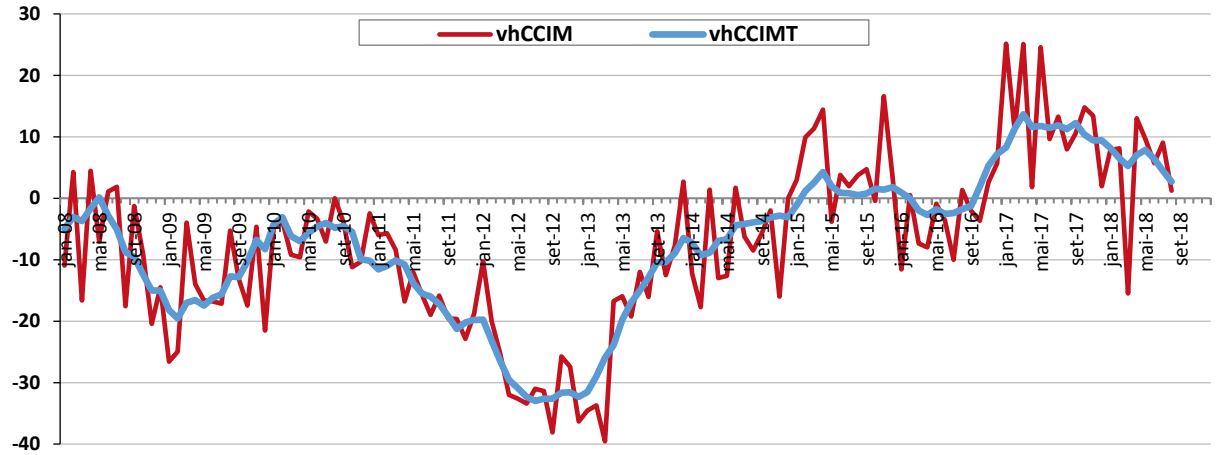


In **July**, the **Industry Turnover Index** (INE) showed a year-on-year variation of 9.7% (nominal values; with 7.8% for the national market and 12.5% for the external market). The year-on-year growth of Industrial Production prices was 4.5% in July (1.9%, excluding the Energy grouping). From January to July, the increase in turnover was 6.1% (which includes an average growth of about 2.5% for industrial production prices).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **August**, with the same number of working days as last year, the variation of sales of cement was only marginally positive. The estimated trend of year-on-year variations (vhCCIMT, in Graph 3) remains positive, but has de-accelerated again. However, other indicators from this sector, especially building licences, have remained positive and are on the increase.

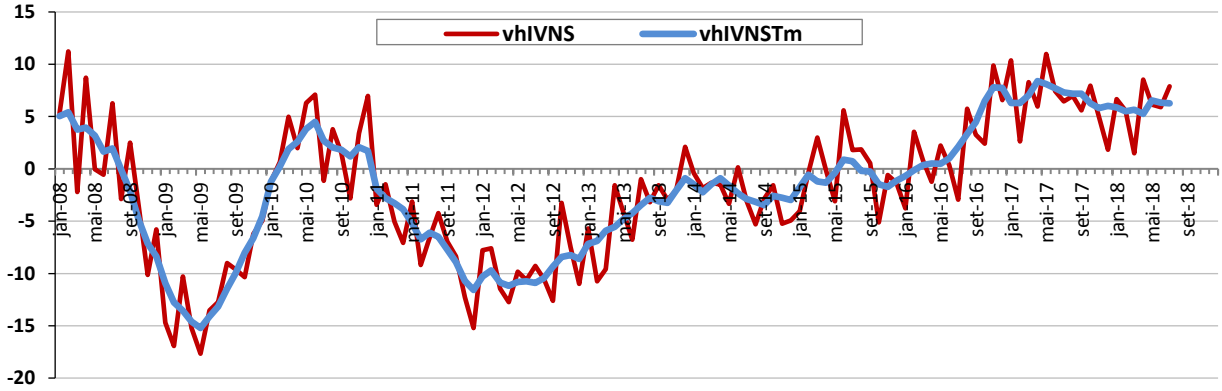
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **July**, the **Services Turnover Index** (nominal series) registered a year-on-year variation of 7.9% (vhIVNS series, Graph 4, gross values). The rate of growth of the estimated trend of variations (vhIVNSTm, corrected for seasonal and calendar effects, Graph 4) was more than 6%, which is greater than the values registered for the beginning of the year and has remained relatively stable since May.

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

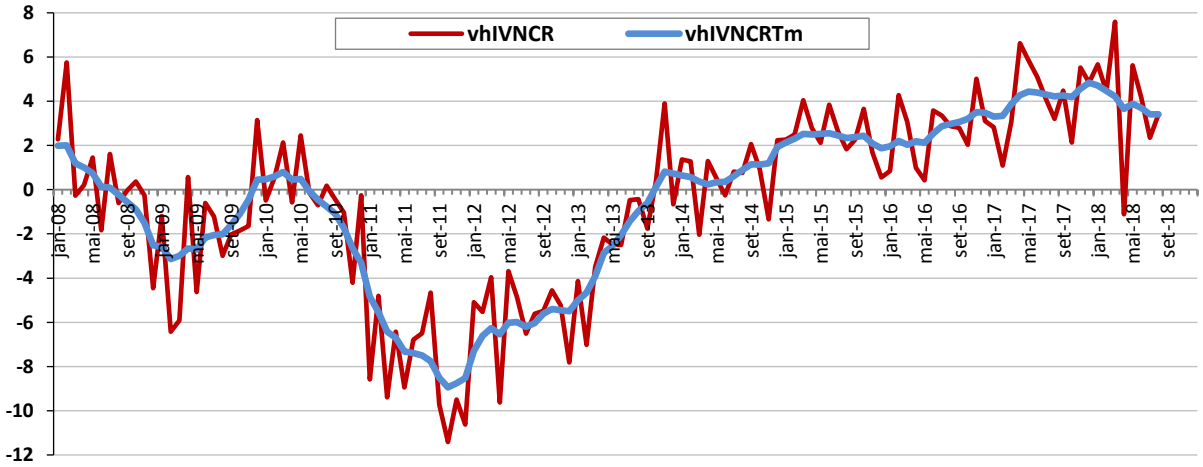


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 6.0% in July, which has de-accelerated since the beginning of the year.

5. RETAIL TRADE TURNOVER

In **August**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.4% (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 de-accelerated, even though it was close to 3.5% during July and August. From January to July, this indicator grew by 4.0% (at the same level as 2017).

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



Car sales increased by approximately 20% in **July and August** (5.7% during the 2nd Quarter).

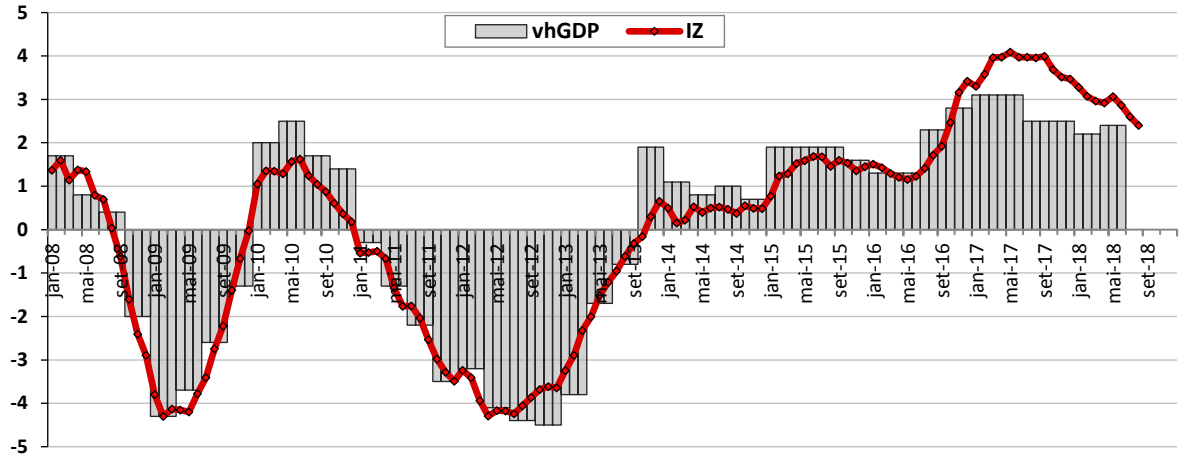
6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **Global Activity Trend Indicator** (IZ), which is a weighted average of the information analysed above, has returned to a decreasing trend since May. For the last month that data is available (August, incomplete), the indicator decreased again, due to the influence of the indicators for industrial production and cement consumption.

With the scarce data available, it is not possible to be very conclusive with regards to the evolution of the economy during the 3rd Quarter: for despite the higher growth during the 2nd Quarter when compared to the 1st Quarter, there has not been an accelerating trend, but rather de-acceleration or stabilisation, which is related to internal supply and demand. However, during the 3rd Quarter, this de-acceleration could be partially offset by the positive contribution of Net External Demand, as the real external balance was very negative during the 3rd Quarter for the same year-on-year period. Therefore, if the real external balance has not deteriorated significantly in relation to the first half of the year, during the 3rd Quarter, it seems reasonable to expect that the same level of growth as that of the 2nd Quarter will be maintained. A quantified estimate for growth during the 3rd Quarter will be presented in the next report, once the data for the main indicators for August are known.

Based on the performance of the 1st Semester, as well as the evolution of the sectoral indicators and the more negative forecasts for growth in the Euro Area in 2018, growth in GDP for the whole of 2018 has been re-forecast to be between 2.2% and 2.5%.

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



Compiled with information available as of the 28th of September.

Economic Analysis Group