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ECONOMIC OUTLOOK

October, 2018

SUMMARY

During the 3rd Quarter there were no improvements in the confidence levels, which remained high in the business sectors, but fell among consumers. Up until August, the quantitative data has shown a de-acceleration.

Based on the available quantitative data, it is estimated that the year-on-year growth in GDP for the 3rd Quarter was 2.3% (0.5% in relation to the previous Quarter).

The forecast growth in GDP for the whole of 2018 continues to be between 2.2% and 2.5%.

1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN SEPTEMBER

Note: This section is exactly the same as that of the previous report, as no additional information has been published.

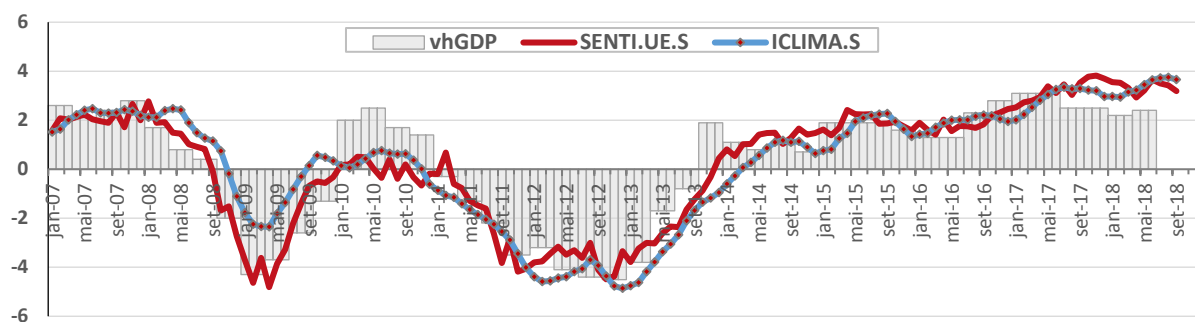
In **September**, the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) fell slightly, having stabilised after attaining maximum levels in August (for the period under analysis in Graph 1, 2007-2018). The level of September (which corresponds to the average of the 3rd 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 1¹), 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 de-acceleration 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.

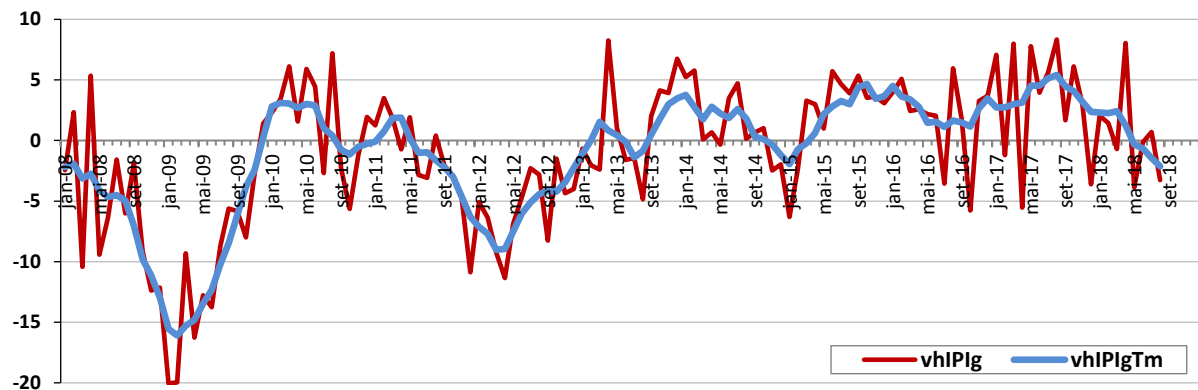
The **Consumer Confidence Indicator** of the Euro Area registered decreases during the months of August and September, increasing the lack of confidence when compared with the beginning of the year. By country, the Consumer Confidence Indicator fell more profoundly during September in Spain and France,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

¹ 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. INDUSTRIAL PRODUCTION

In **August**, 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 also shows negative year-on-year variations (vhIPIgTm series), with an accentuated de-acceleration since March. Car production decreased in August, due to factory shutdowns (-11%), but attained previous levels in September (101%). During the 3rd Quarter, car production grew 83% (89% during the 1st Quarter).

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

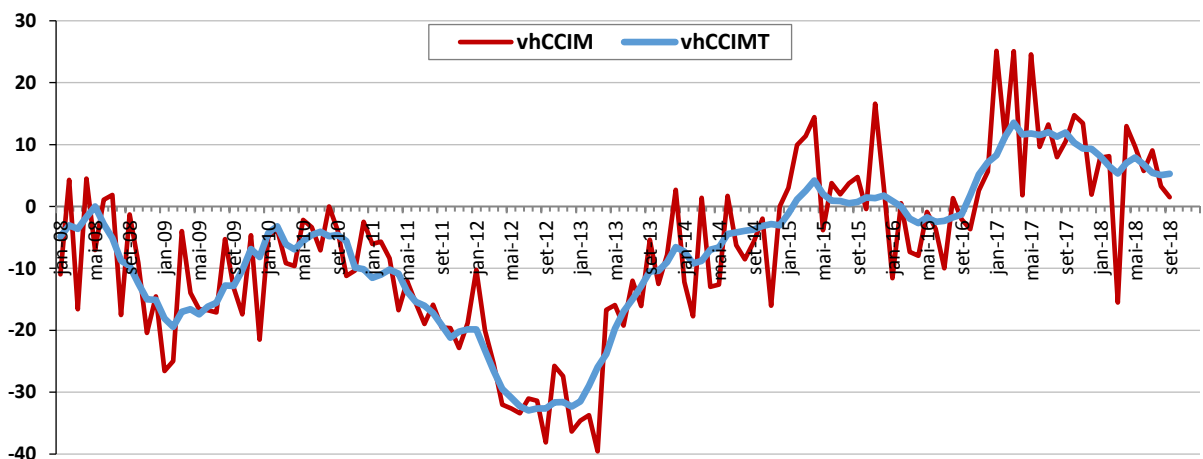


In **August** the **Industry Turnover Index** (nominal series) showed a year-on-year variation of 3.1% (with 4.3% for the national market and 1.0% for the external market). The year-on-year growth of Industrial Production prices was 4.7% in August (1.9%, excluding the Energy grouping).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **September**, with one less working day, the variation of **sales of cement** was about 1%. During the 3rd Quarter, the year-on-year variation of sales of cement was about 4.5%, half that recorded during the 2nd Quarter. The estimated trend of year-on-year variations (vhCCIMT, in Graph 3) was greater than 5% at the end of the Quarter and appears to be more sustainable after the previous de-acceleration.

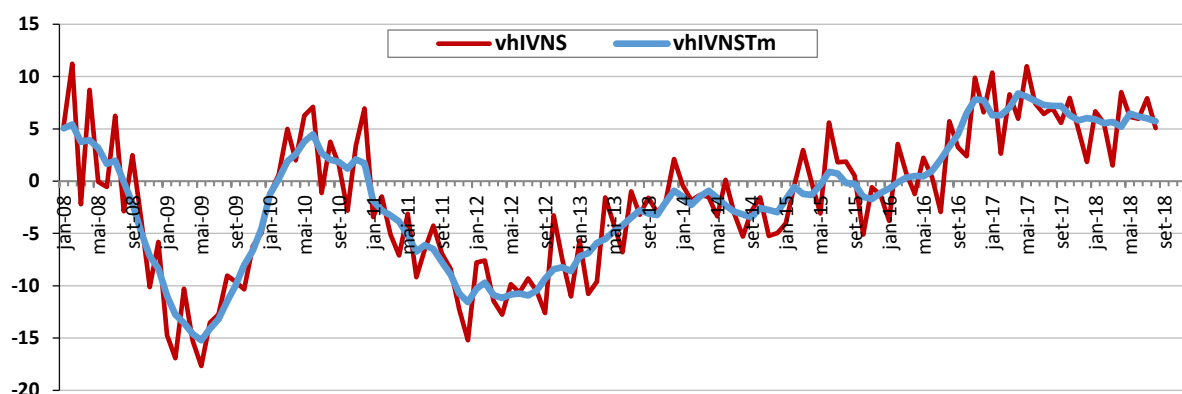
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **August**, the **Services Turnover Index** (nominal series) registered a year-on-year variation of 5.1% (vhIVNS series, Graph 4, gross values). The variations of the estimated trend of variations (vhIVNSTm, corrected for seasonal and calendar effects, Graph 4) de-accelerated slightly, but maintained a relatively high average level.

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

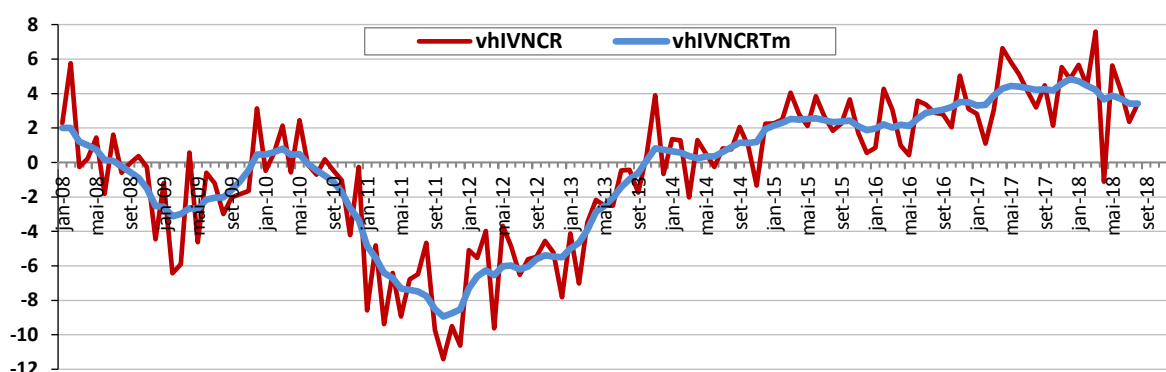


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 5.4% in July, and 3.5% in **August** (7.1% since the start of the year).

5. RETAIL TRADE TURNOVER

In **August**, the **Retail Trade Turnover Index** recorded 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 slightly de-accelerated since the start of the year, even though it was close to 3.5% in August. From January to August, this indicator grew by 4.0% (4.1% for the previous year).

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



Car sales increased by approximately 8.5% during the **3rd Quarter** (6.0% during the **2nd Quarter** and 5.6% during the **1st Quarter**).

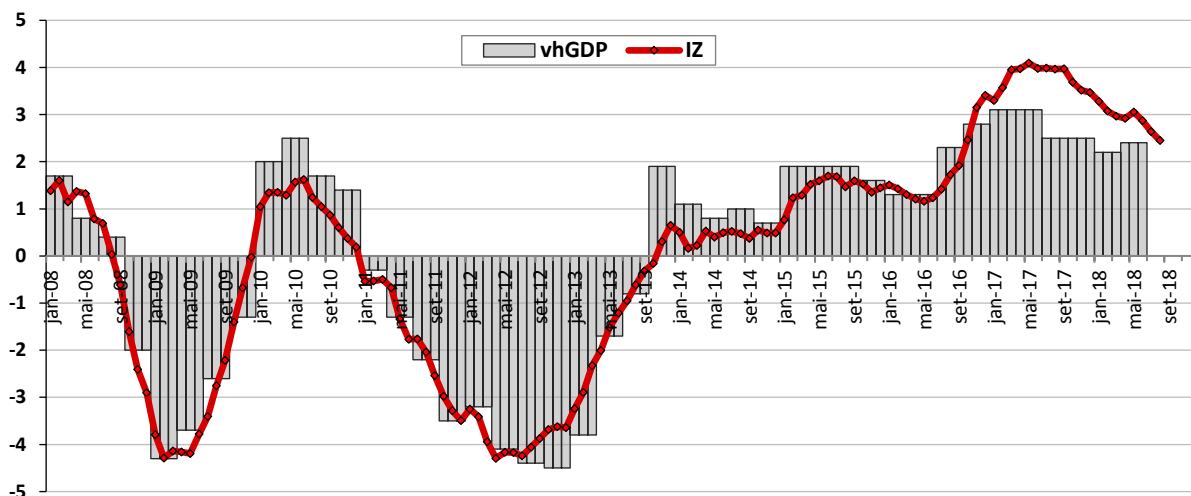
6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **Global Activity Trend Indicator (IZ)**, which is a weighted average of the information analysed above, has de-accelerated during the last months, largely due to the fall in industrial production. This suggests a trend of the de-acceleration of overall productive activity, although, in each Quarter, the effective year-on-year variations could be affected by factors that are not included in these indicators.

Based on the information available, in terms of the main aggregates of demand, it seems that the 3rd Quarter was characterised by a year-on-year growth which was characterised by a slight de-acceleration in Internal Demand, both of Private Consumption and Gross Fixed Capital Formation. However, it is still possible that, in terms of volume, the balance of Net External Demand may have improved in relation to the same year-on-year Quarter. It should be noted that this can occur even though there was a lower nominal External Balance, which was caused by the rise in the price of crude oil.

In conclusion, the information recorded for the 3rd Quarter means that it is highly likely that the year-on-year growth in GDP for the 3rd Quarter remains close to that of the 2nd Quarter, with a forecast growth of 2.3%. Growth for the whole of 2018 continues to be forecast at 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 19th of October.