



LISBON  
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UNIVERSIDADE DE LISBOA

# ECONOMIC OUTLOOK

November, 2018

## SUMMARY

According to the Flash Estimate of INE, Portugal's GDP grew by 2.1% year-on-year in volume during the 3<sup>rd</sup> Quarter, and 0.3% in relation to the previous Quarter. These values represent a de-acceleration, both in year-on-year terms (from 2.4% to 2.1%) and in Quarterly terms (from 0.6% to 0.3%).

With the information available, the likely trend is a slight de-acceleration of year-on-year growth in Portugal, especially bearing in mind the international context of a widespread slowdown in economic growth.

Based on the year-on-year growth in GDP up to the 3<sup>rd</sup> Quarter, the most likely annual growth for the whole of 2018 will be between 2.1% and 2.3%.

## 1. THE GROWTH OF GDP DURING THE 3<sup>RD</sup> QUARTER

According to the **Flash Estimate** of the National Statistics Institute, during the 3<sup>rd</sup> Quarter of 2018, Portuguese GDP grew in volume by 2.1% in year-on-year terms, and 0.3% in comparison with the previous Quarter. These values reflect a de-acceleration in both year-on-year and quarterly growth of 0.3% in relation to both the year-on-year variation of 2.4%, and the previous period variation of 0.6% for the 2<sup>nd</sup> Quarter. The value estimated by INE confirms the expected de-accelerating trend, although this was more accentuated than was anticipated in the report for October. Although still unquantified, in year-on-year terms, INE's comments for the Quarter refer to a de-acceleration in private consumption, a more accentuated slight increase in investment, and the same negative contribution of net external demand as that of the previous Quarters.

During the same period, GDP grew 1.7% in year-on-year terms in the **Euro area** (2.2% during the 2<sup>nd</sup> Quarter) and 0.2% when compared to the previous Quarter (0.4% during the 2<sup>nd</sup> Quarter). By country, GDP grew in year-in-year terms by 1.2% in Germany, 2.5% in Spain, 1.2% in France, and 0.8% in Italy.

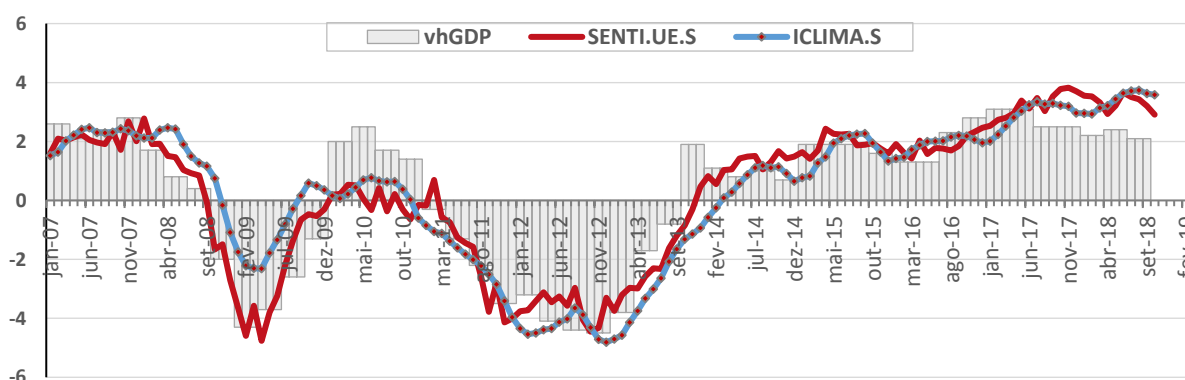
## 2. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN OCTOBER

As shown in Graph 1, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) attained its highest level a year ago, and ever since then it has been oscillating. In **October**, the indicator decreased to the level of values last seen in May and at the beginning of 2017. The **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE), which is based on information from the last three months, without incorporating consumer opinions, stabilised in October and is close to the maximum of July/August. According to the graph, it can be seen that the level of economic "sentiment" and "climate" has, in relative terms, been greater than the actual growth in GDP for more than a year.

By sectors (EUROSTAT, monthly data, corrected for seasonality), the confidence indicators increased for construction and retail, and decreased for industry and services. In relation to **consumers**, the respective confidence indicator (INE and EUROSTAT) increased slightly in October, but is now slightly less than the maximum of May.

During the same month, for the **Euro area**, the **Economic Sentiment Indicator** also decreased, in line with the tendency observed since the start of the year, which was more accentuated since July. This downward trend in national economic sentiment indicators is widespread.

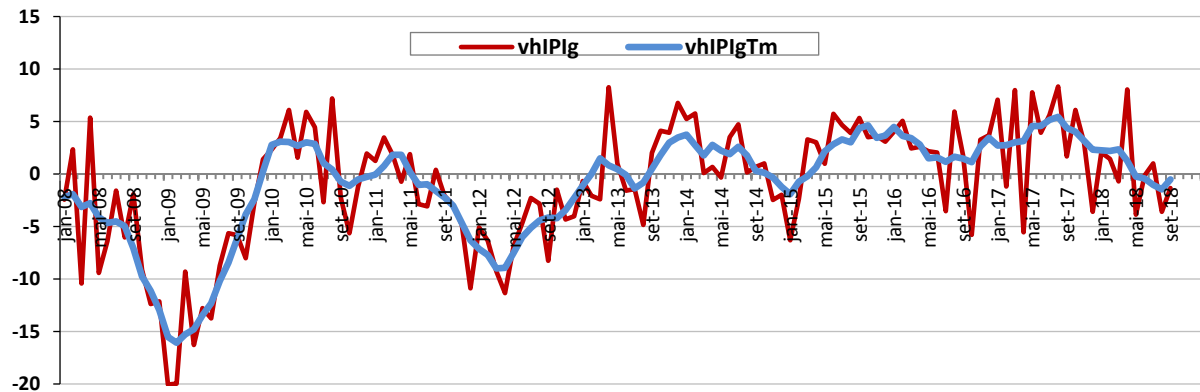
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



### 3. INDUSTRIAL PRODUCTION

In **September**, with one less working day, the **Industrial Production Index** registered a year-on-year variation of -1.4% (gross values, vhIPIg series in Graph 2; the variation in manufacturing being 0.5%). During the 3<sup>rd</sup> Quarter, the year-on-year variation was -1.2% (gross values, 1.0% during the 2<sup>nd</sup> Quarter). Corrected for seasonal and calendar effects, the estimated trend recorded negative year-on-year variations during the 3<sup>rd</sup> Quarter (vhIPIgTm) which were less accentuated at the end of the period.

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

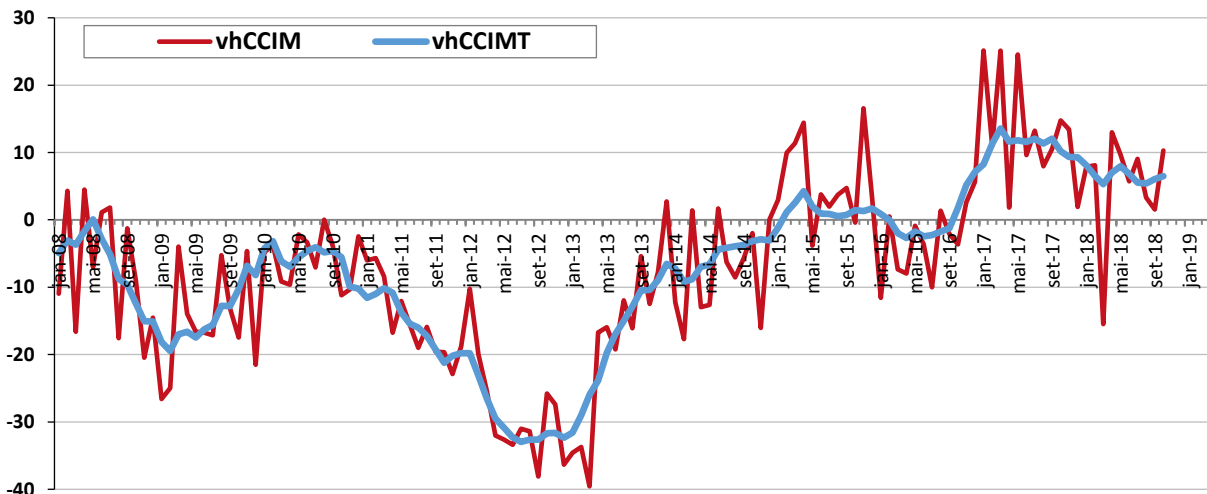


In **September**, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 2.1% (5.1% during the 3<sup>rd</sup> Quarter). This nominal series has been inflated by the increase in industrial production prices (4.7% during the 3<sup>rd</sup> Quarter), mainly due to the increase in the price of crude oil.

### 4. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **October**, with one more working day and favourable climatic conditions, the year-on-year variation of sales of cement was about 10%. Based on the estimated trend - after being corrected for seasonal, calendar, and climatic effects - the average growth rate of cement consumption increased to about 6.5% in October (vhCCIMT series, in Graph 3). The growth in the **Construction Index** of INE increased to 4.2% during the 3<sup>rd</sup> Quarter, anchored in the growth of the Building Construction sector.

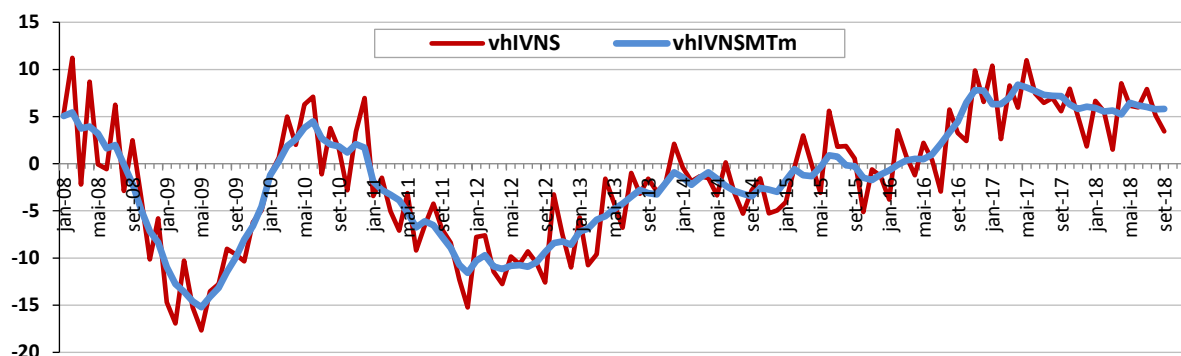
Graph 3 | Year-on-year variation of Cement Consumption



## 5. TURNOVER IN THE SERVICES SECTOR

In **September**, with one less working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of 3.4% (vhIVNS series, Graph 4, gross values). For the 3<sup>rd</sup> Quarter, the year-on-year variation was 5.5% (6.8% during the 2<sup>nd</sup> Quarter). The year-on-year variations in estimated trend (vhIVNSMTm, adjusted for seasonal and calendar effects, Graph 4) remained relatively stable during the last two months, with values close to 6%.

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

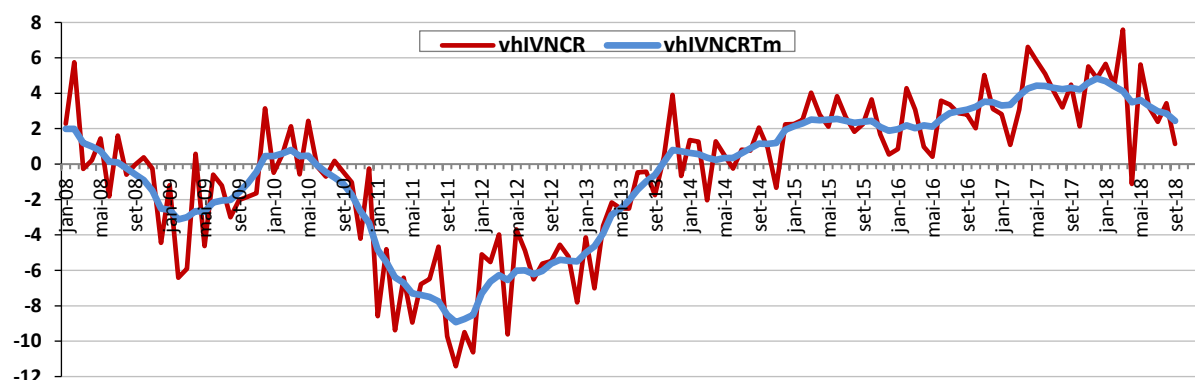


For the tourism sector, the indicator for **Hotel Turnover** (nominal, INE) has been decreasing, registering a year-on-year variation of 1.2% in **September** (3.4% during the 3<sup>rd</sup> Quarter and 6.3% since the start of the year). The growth in (nominal) exports of “tourism trips” from January to September was greater: 11.4% (Banco de Portugal).

## 6. RETAIL TRADE TURNOVER

In **September**, the **Retail Trade Turnover Index** registered a year-on-year variation of 1.1% (Graph 5, **deflated** gross values). During the 3<sup>rd</sup> Quarter, the year-on-year variation was 2.4% (5.8% during the 2<sup>nd</sup> Quarter). As can be seen in the graph below, trend-wise, the rate of growth of this indicator (vhIVNCRTm) has been de-accelerating, but has maintained year-on-year growth rates greater than 2%. The most recent de-acceleration has been in the grouping of *non-food products*.

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



**Car sales** decreased 12.2% in **October**, which counterbalanced a large one-off increase in August, according to ACAP.



## 7. EVOLUTION OF THE Z TREND INDICATOR

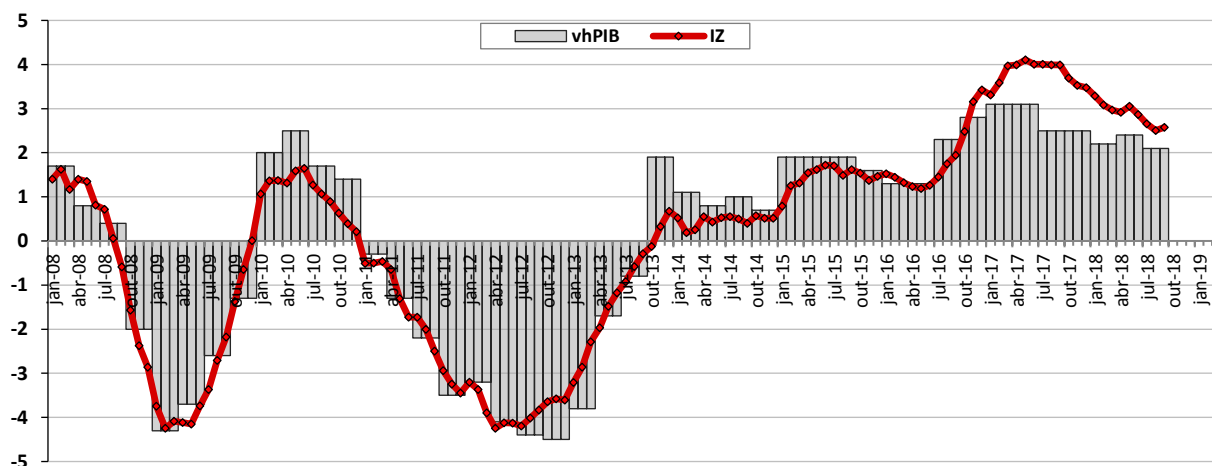
As can be seen in Graph 6, the **global activity trend indicator** (IZ) - which is a weighted average of the information analysed above, has demonstrated a de-accelerating trend during the last months, which indicates a de-acceleration in the actual growth of GDP. This de-acceleration of growth was more pronounced during the middle of the previous year (from 3.1% to 2.5%) and has been less accentuated since (from 2.5% to 2.1%). During September, this activity indicator slightly inverted its direction, influenced by the impulse of the construction indicator and by the smaller decrease in industrial production. This inversion could represent a more sustained level of global activity, although it is too early to be too conclusive.

In terms of Net External Demand, despite the slowdown in export growth due to the slowdown in world trade, it is important to note that, in nominal terms, the Banco de Portugal statistics for the Balance of Goods and Services shows a positive balance from January to September, which is slightly lower than that of 2017. This slowdown was significantly influenced by the price of crude oil during the current year (which, on average, was about 30% higher than the same period for the previous year).

With regards to the 4<sup>th</sup> Quarter, the quantitative information is still scarce and does not permit drawing conclusions about the evolution of the economy as a whole. On the basis of the available information, and taking into account the expected de-acceleration of growth in EU growth, a trend of slight de-acceleration seems most likely, which does not exclude minor oscillations or stabilisation. However, growth during the 4<sup>th</sup> Quarter may be favourably influenced by the fact that there are three extra business days in year-on-year terms.

In relation to the growth rate for the whole of 2018, taking into account the results for the 3<sup>rd</sup> Quarter, the previously forecast interval is revised to a now more probable interval of 2.1% to 2.3%.

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



Compiled with information available as of the 21<sup>st</sup> of November.