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ECONOMIC OUTLOOK

January, 2019

SUMMARY

During the 4th Quarter of 2018, the sectorial confidence indicators and both the aggregate Economic Climate Indicator (INE) and Economic Sentiment Indicator (EUROSTAT) continued to demonstrate a certain de-acceleration (with the exception of the confidence indicator for construction), although they both remain historically high. This overall trend of less optimism was also in evidence for the Euro Area, which is more pronounced than in Portugal.

Based on the evolution of the main quantitative indicators (which are not yet complete for December), it is estimated that the Portuguese economy has grown by 2.0% in year-on-year terms (0.7% in relation to the previous Quarter) during the 4th Quarter of 2018. Furthermore, it is estimated that growth in GDP for the whole of 2018 was 2.2%.

With regards to 2019, bearing in mind the current increased pessimism and the forecasts of a de-acceleration of international economic growth and growth for the Euro Area, a de-acceleration in growth of GDP in Portugal is expected. The size of this de-acceleration is currently very uncertain, as its origin is derived from unresolved nuclei of instability, which could be either insignificant, or very significant.

1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN DECEMBER

In **December**, as can be seen in Graph 1, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S; EUROSTAT) increased, and the **Economic Climate Indicator** (National Statistics Institute, ICLIMA.S) decreased. The **Economic Climate Indicator** – which is based on information from the last three months, which does not include the opinion of consumers, but exclusively represents the opinion of the business sectors – has decreased since August. The value for December, which corresponds to the average of the 4th Quarter, is below the values of the 2nd and 3rd Quarter and is slightly above that observed during the 1st Quarter. The **Economic Sentiment Indicator** – which is exclusively based on the month's information and which is based on both the opinion of the business sectors and also that of consumers – increased in November and December, after having decreased during the previous months. Even so, the quarterly average of this indicator for the 4th Quarter is the lowest for 2018. In both cases, although there has been a de-accelerating trend throughout 2018, the levels of these indicators at the end of the year remain relatively high (see the graph).

By **sector of activity, in December** (EUROSTAT, seasonally-corrected values) the **confidence indicators** rose for Construction, Services and Retail, but decreased for Industry. Using quarterly averages, only the construction sector demonstrated a clearly positive evolution throughout 2018, with the remaining sectors under analysis showing ups and downs, with a decreasing trend.

The **Consumer Confidence Indicator** has also decreased steadily since May, especially during December, when it attained its lowest value of the year. The average for the 4th Quarter was also the lowest of the year. However, the recent levels remain historically high and exceed the values of 2017.

Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP), 2007-2018
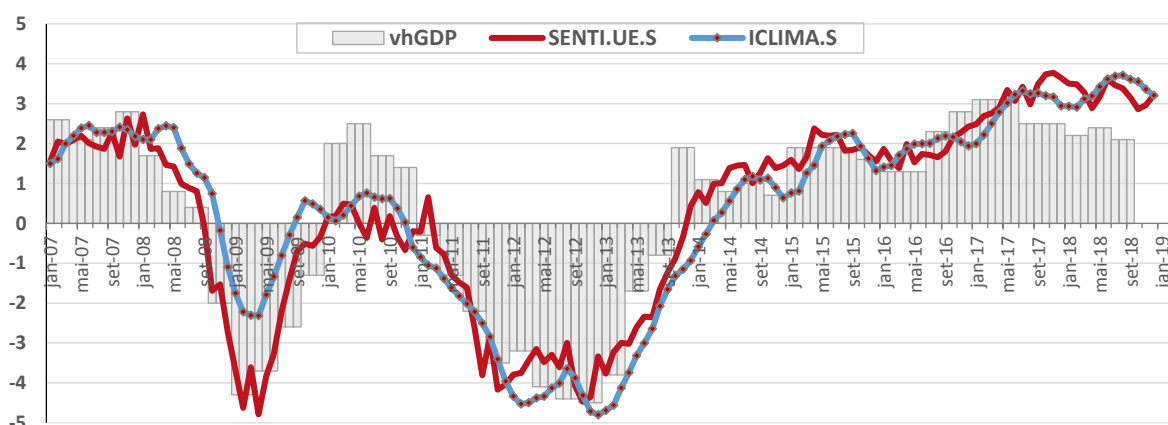

For the **Euro Area**, the **Economic Sentiment Indicator** (EUROSTAT) decreased again in **December**, attaining its lowest value of the year. It also decreased in the main Euro Area countries. In terms of quarterly averages, this indicator has decreased from an average of 114 during the 1st Quarter, to 108.8 during the 4th Quarter, demonstrating a more pronounced fall than that recorded for Portugal. The **Consumer Confidence Indicator** also attained its lowest value of the year in December, having dropped 4.8 points from the 1st to the 4th Quarter. In this case, the size of the fall of this indicator for Portuguese was similar to that of the Euro Area.

2. INDUSTRIAL PRODUCTION

In **November**, with the same number of working days, the **Industrial Production Index** registered a year-on-year variation of -2.9% (gross values, vhIPIg series in Graph 2). The variation in manufacturing was -4.9%. Corrected for seasonal and calendar effects, the estimated trend indicates negative year-on-year variations (-2.0%) at the end of the period, continuing a trend which started back in May (vhIPIgTm series). From January to November, the year-on-year growth of this indicator was nil. To the contrary, car production in Portugal increased, in units, by 67.7% in 2018, with 28.1% during the 4th Quarter (ACAP). The lower result during the 4th Quarter is due to the partial depletion of the base effect, in year-on-year terms, which will tend to disappear in 2019.

Graph 2 | Year-on-year variation of Industrial Production
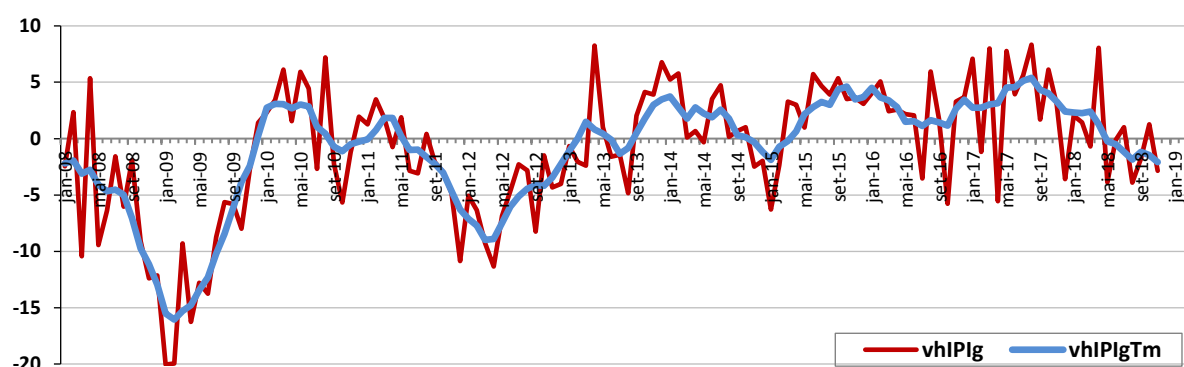
For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -2.2% (with 1.6% for the national market, and -7.3% for the external market).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **December**, with two more working days, the year-on-year variation of sales of cement was approximately 12%. Accordingly, the year-on-year variation of the **4th Quarter** was about 6.5%, and the annual growth for 2018 was 5%. The estimated trend of year-on-year variations (vhCCIMT, in Graph 3), adjusted for calendar and precipitation effects, registered values of between 5% and 6% during the last months.

The Construction Production Index (INE) increased sustainably throughout 2018. According to this indicator, during the 1st Semester, the engineering works sector grew more that the buildings construction sector, although this evolution was inverted during the 2nd Semester.

Graph 3 | Year-on-year variation of Cement Consumption
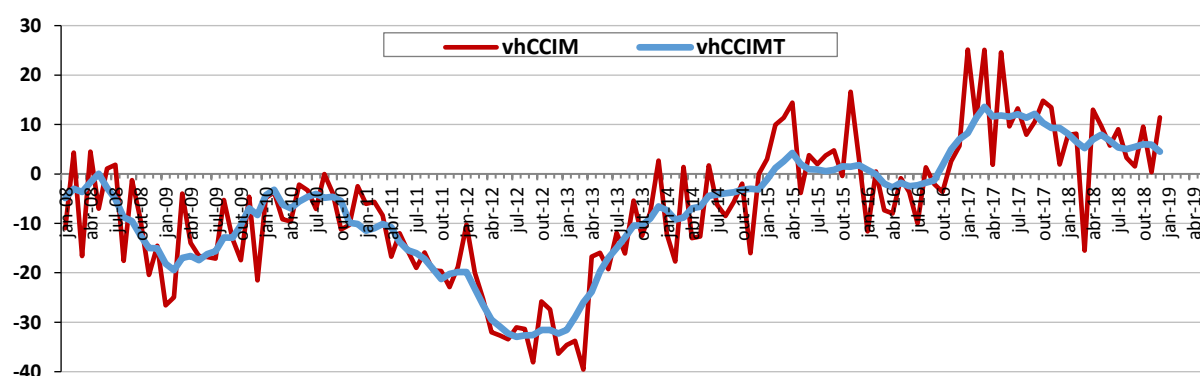
4. TURNOVER IN THE SERVICES SECTOR

In **November**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 2.6% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) were about 3.5% in November, however, as can be seen in the graph, they have been decreasing.

Graph 4 | Year-on-year variation for the Services Sector
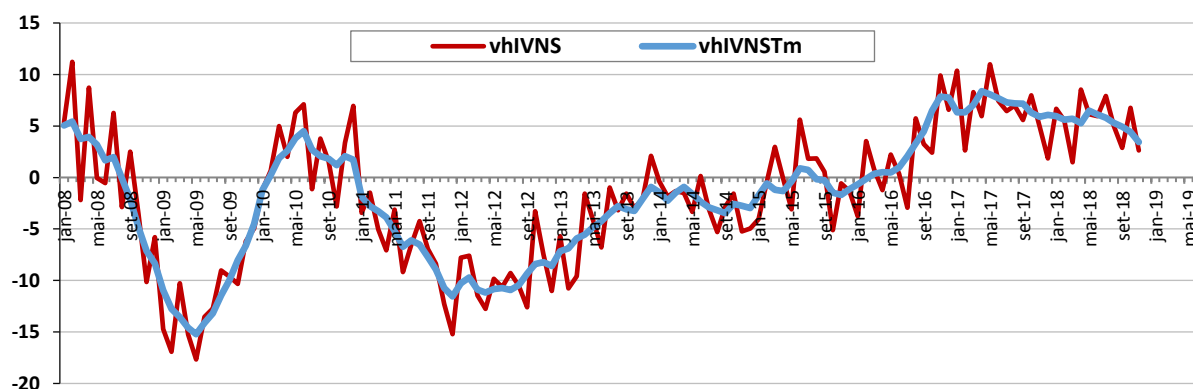
For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 6.3% during November, and 4.1% for the combined period of October and November. These values were greater than the growth registered during the 3rd Quarter (3.5%), which was the lowest value for the year, and they confirm the de-acceleration in growth of this activity in relation to the initial Quarters of 2017 and 2018.

5. RETAIL TRADE TURNOVER

In **November**, the **Retail Trade Turnover Index** registered a year-on-year variation of 4.5% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise (vhIVNCRTm), the rate of growth of this indicator remained relatively stable, being close to 4%.

Graph 5 | Year-on-year variation in Retail Trade turnover
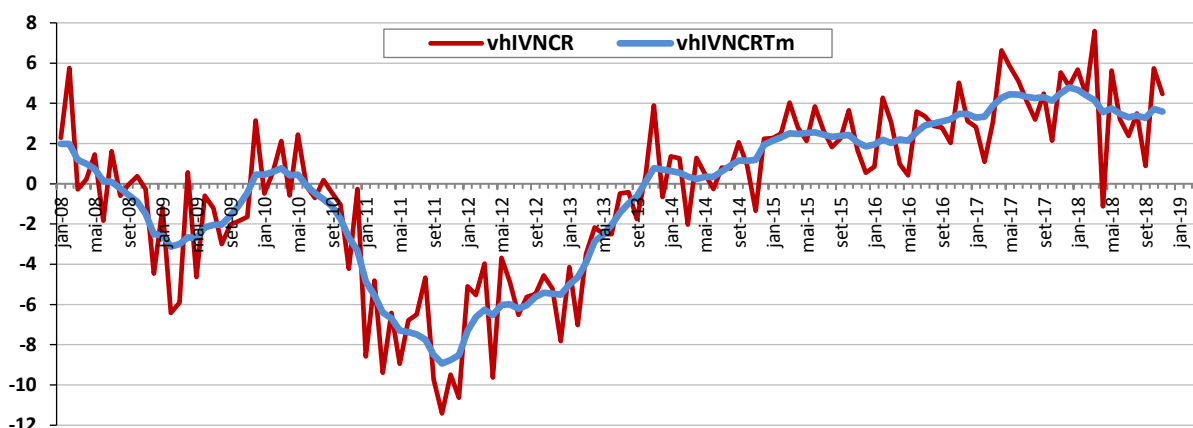
The year-on-year variation in **Car sales** was -5.3% in **December**, and -9.9% during the **4th Quarter** (as opposed to +8.5% during the previous Quarter). The overall growth for 2018 was positive: 2.8%. The negative values observed since September result more directly from previous anticipated purchases due to changes in market conditions (emissions regulation).

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator** (IZ), which is a compilation of the information contained in the confidence indicators analysed above, decreased in November, after having remained relatively stable between August and December. This decrease was mainly driven by a de-acceleration in the growth of the indicators for Industrial Production and Services Turnover. It is possible however, that a certain correction occurred later on, as November experiences some isolated events which had a one-off economic impact.

Overall, for Internal Demand (ID), it is expected that the 4th Quarter experienced stronger growth for Gross Fixed Capital Formation, although it is less certain whether growth accelerated for Private Consumption. In terms of Net External Demand (NED), the overall evolution observed for October and November was negative: in the case of Goods, the nominal external balance was very negative in November, partly due to the negative impact on exports of a port strike; in the case of Services, the growth in the positive balance could have been better than the growth recorded during the 3rd Quarter. Similarly, in the case of NED, a certain degree of correction is likely to have occurred during December, although its quarterly contribution to real growth in GDP is expected to remain negative.

In summary, based on the available data for the 4th Quarter, which is still incomplete in relation to December, it is estimated that year-on-year growth in GDP during the 4th Quarter of 2018 was 2.0%, and that the growth in relation to the previous Quarter was 0.7%. For the whole of 2018, the growth in GDP will have been 2.2%.

Graph | Year-on-year variation in GDP and the Z trend indicator
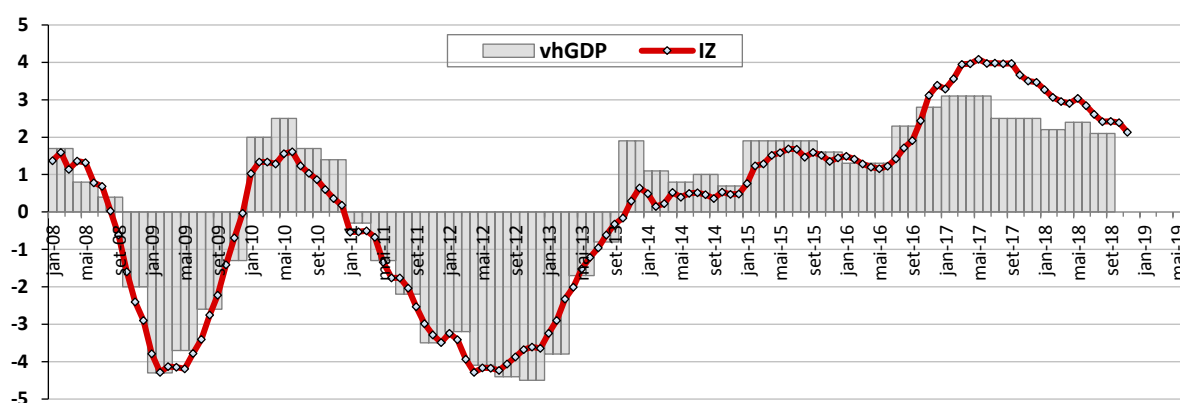
With regards to 2019, bearing in mind the current increased pessimism and the forecasts of a de-acceleration of international economic growth and of the Euro Area, a slowdown in growth of Portugal's GDP is expected. The size of this de-acceleration is currently uncertain, due to the fact that its origin is derived from unresolved nuclei of instability, and thus it could be relatively small, or more pronounced. The forecast for growth in GDP during 2019 will be presented in the next report, after the release of the first official estimate for 2018.

Compiled with information available as of the 18th of January.

Economic Analysis Group