



LISBON  
SCHOOL OF  
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# ECONOMIC OUTLOOK

February, 2019

## SUMMARY

*According to the Flash Estimate of INE, Portugal's economy grew 2.1% in 2018, which represents a de-acceleration of 0.7 percent in relation to 2017, which was a result of less growth in Investment and a more negative contribution of Net External Demand (due to lower growth in Exports in comparison to Imports). In the Euro Area growth was 1.8% in 2018, after having been 2.4% in 2017.*

*Based on the current available information, namely that growth in the Euro Area and in the world is expected to continue to de-accelerate in 2019 and the prevalence of various sources of risk originating from unresolved political, social and economic tensions, the growth of the Portuguese economy is expected to continue to de-accelerate in 2019, albeit moderately, maintaining a growth rate slightly above that of the Euro Area.*

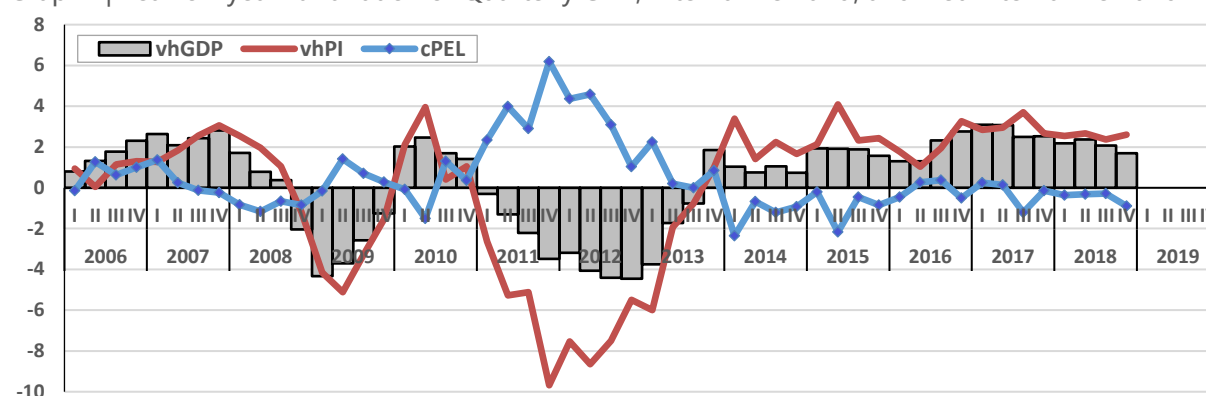
*Based on the current external scenario of lower growth and assuming that levels of growth for the different components of aggregate demand will be generally lower than those of 2018, it is most probable that growth in GDP for 2019 will de-accelerate again, and that it will be between 1.6% and 2.0%.*

## 1. EVOLUTION OF GDP DURING THE 4<sup>TH</sup> QUARTER OF 2018

According to the information supplied by the National Statistics Institute (Quarterly National Accounts - Flash Estimate), GDP grew by 1.7% in volume in year-on-year terms during the 4<sup>th</sup> Quarter of 2018 (2.1% during the 3<sup>rd</sup> Quarter) and 0.4% in relation to the previous Quarter (0.3% during the 3<sup>rd</sup> Quarter).

As can be seen in the graph below, in Quarterly year-on-year terms, the de-acceleration of growth which began during the second half of 2017 continued. According to INE, during the 4<sup>th</sup> Quarter of 2018 there was greater growth in Internal Demand (ID), which was a result of the acceleration of Investment and Private Consumption. The direct cause of this lower growth in GDP was a more negative contribution of Net External Demand (NED), where the decrease in volume of Exports of Goods had a considerable effect. The direction of the evolution of ID and NED during the 4<sup>th</sup> Quarter was expected, although its impact in terms of de-acceleration was greater than anticipated.

Graph 1| Year-on-year % variation of Quarterly GDP, Internal Demand, and Net External Demand



For the whole of 2018, the growth in GDP was 2.1% (2.8% in 2017). This value, which represents a reduction of 0.7%, is below the forecasts presented by ISEG about a year ago. Internal fiscal policy having remained stable, this more significant de-acceleration in the Portuguese economy, which started to become more evident as from the 1<sup>st</sup> Quarter of 2018, was mainly caused by the de-acceleration of growth in the Euro Area, which was a result of uncertainty arising from the international trade tensions, lower world growth, and also problems in European, such as Brexit. In addition, the lower growth of the Portuguese economy was also caused by a lower demand from our non-EU customers.

In terms of the main macroeconomic aggregates, the lower growth in 2018 compared to 2017 is due to a more negative contribution from NED (with exports growing less than imports, although both are de-accelerating) and also less growth in investment when compared to 2017. Growth of Private Consumption will have remained similar to the level of 2017 and that of Public Consumption will have increased slightly.

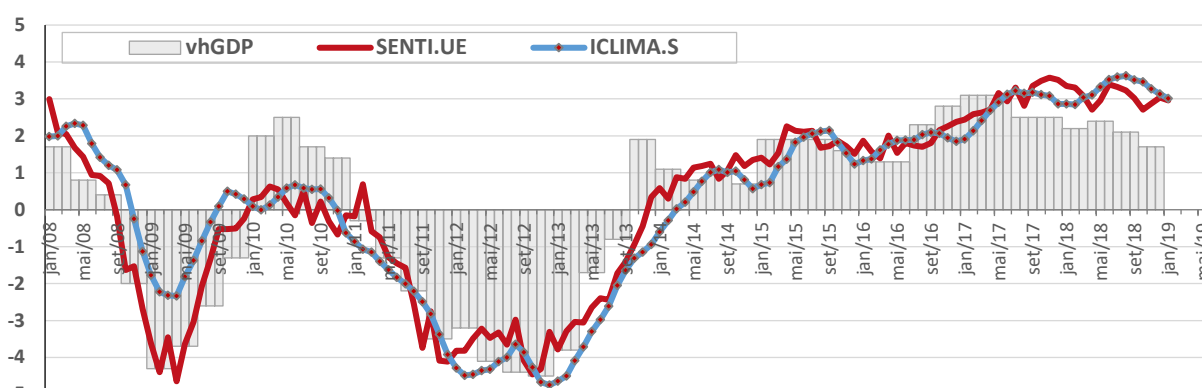
For the Euro Area (AE19) – EUROSTAT, the flash estimate showed a year-on-year growth during the 4<sup>th</sup> Quarter of 2018 of 1.8% (0.2% compared to the previous Quarter), leading to an annual growth of 1.8% (2.4% in 2017), which was less than that recorded in Portugal. By country, the pronounced de-acceleration during the second half of the year in Germany, France, and Italy needs highlighting. In annual terms, Germany grew by 1.5% (0.6% during the 4<sup>th</sup> Quarter), France by 1.5% (0.9% during the 4<sup>th</sup> Quarter), Italy by 0.8% (0.1% during the 4<sup>th</sup> Quarter), and Spain by 2.5% (2.4% during the 4<sup>th</sup> Quarter).

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

In **January**, as can be seen in Graph 2, both the **Economic Sentiment Indicator** for Portugal (SENTI.UE.S<sup>1</sup>, EUROSTAT) and the **Economic Climate Indicator** (ICLIMA.S, INE) decreased slightly. The Climate Indicator of INE has also decreased since last August – which was the month that recorded the highest level during the period under analysis. The Sentiment Indicator, which is more volatile (by definition), achieved its maximum level in November of 2017 and since then it has oscillated, with a tendency to de-accelerate slowly. As the graph shows, the level of these indicators at the end of the period suggests the prevalence of a relatively more positive economic outlook than that predicted for the real growth of economic activity during this period.

With respect to the **confidence indicators**, the results of **January** – using the seasonally-corrected EUROSTAT values – decreased for Industry and Construction, but increased for Services and Retail. With regards to **Consumers**, the EUROSTAT confidence indicator decreased in January, which in this case, represents a trend that has been in evidence since the end of 2017.

Graph 2 | Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP), 2008-2019



For the **Euro Area**, the **Economic Sentiment Indicator** (EUROSTAT) also decreased in **January**, following a trend that has been sustained since it attained its maximum values during the last Quarter of 2017. By country, this indicator decreased in Germany and Italy in January, stagnated in Spain, and increased slightly in France. Comparing the levels of January, 2019 with those of January, 2018, this indicator decreased by 7.8% in the Euro Area, 6.6% in Germany, 5.9% in Spain, and 1.9% in Portugal.

With regards to the **Consumer Confidence Indicator** for the Euro Area, this indicator increased slightly in January, having stagnated in Germany and increased in France and Spain (albeit very slightly).

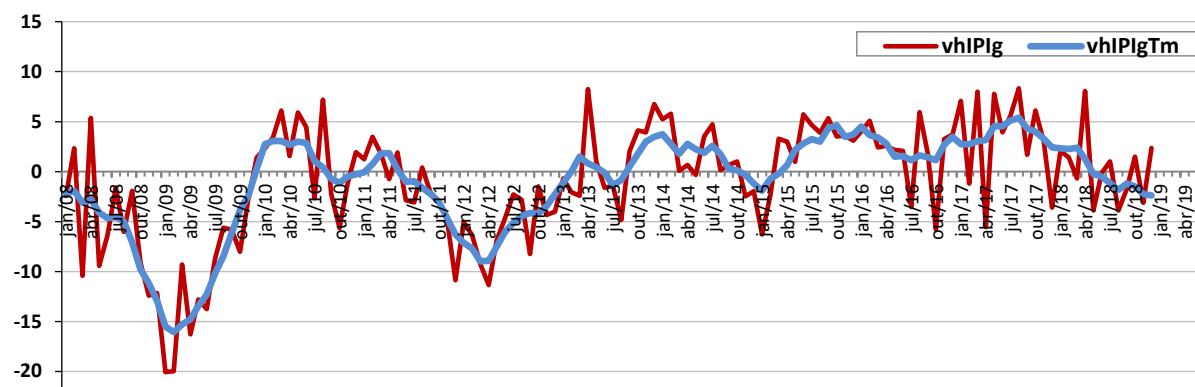
In summary, although there has been a decreasing trend in Portugal with regards to the evaluation of the economic outlook, so far this has been more controlled and lower than that recorded in the Euro Area, which reflects and suggests a momentum in growth which is slightly greater than that of the Euro Area.

<sup>1</sup> The original values of the indicators were adjusted for the average and for the standard deviation of the year-on-year variations of GDP (vhGDP) during the period under analysis.

### 3. INDUSTRIAL PRODUCTION

In **December**, with two more working days, the **Industrial Production Index** registered a year-on-year variation of 2.4% (gross values, vhlPIg series in Graph 3). The variation in Manufacturing was 2.7%. During the 4<sup>th</sup> Quarter of 2018, the year-on-year variation of the gross value was 0.1%. Annual growth was 0.2% (3.4% in 2017). Corrected for seasonal and calendar effects, the year-on-year variations (vhlPIgTm, see graph) of estimated trend have de-

Graph 3 | Year-on-year variation of Industrial Production



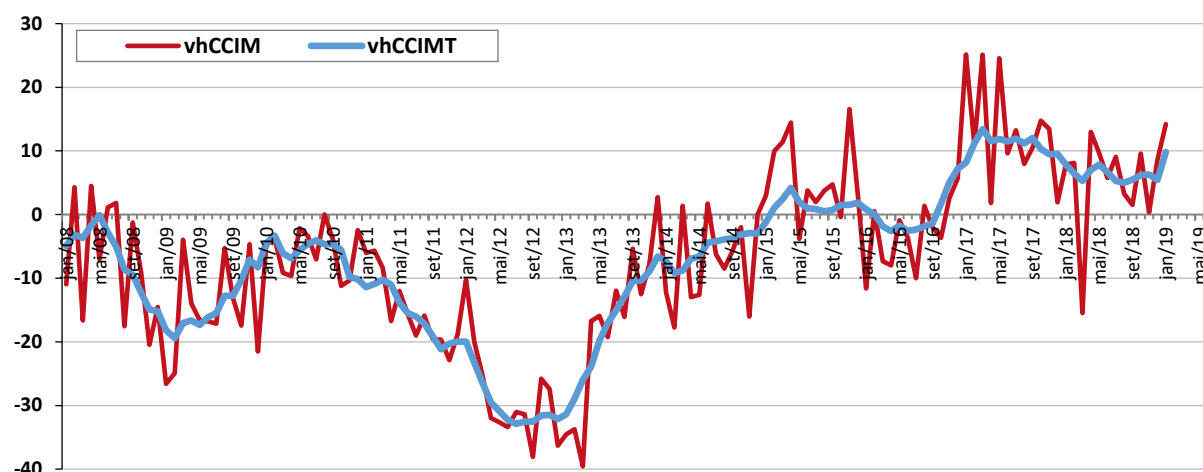
accelerated since August, 2017, and have been negative since the middle of 2018, having remained so in January.

For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -0.1%, with 0% for the national market, and -0.2% for the external market. Accordingly, the growth during the last Quarter of 2018 was 1.0%, whereas for the whole of 2018 this indicator increased by 4.2% (8.7% in 2017). The average increase of prices in industrial production was 3.3% and 3.2% in 2017 and 2018 respectively.

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

In **January**, sales of cement increased by approximately 16% in year-on-year terms (approximately 6% during the 4<sup>th</sup> Quarter of 2018). The estimated trend year-on-year variations adjusted for calendar and precipitation effects - vhlCCIMT, in Graph 4 - increased to nearly 10%, suggesting a possible acceleration of production in this sector.

Graph 4 | Year-on-year variation of Cement Consumption

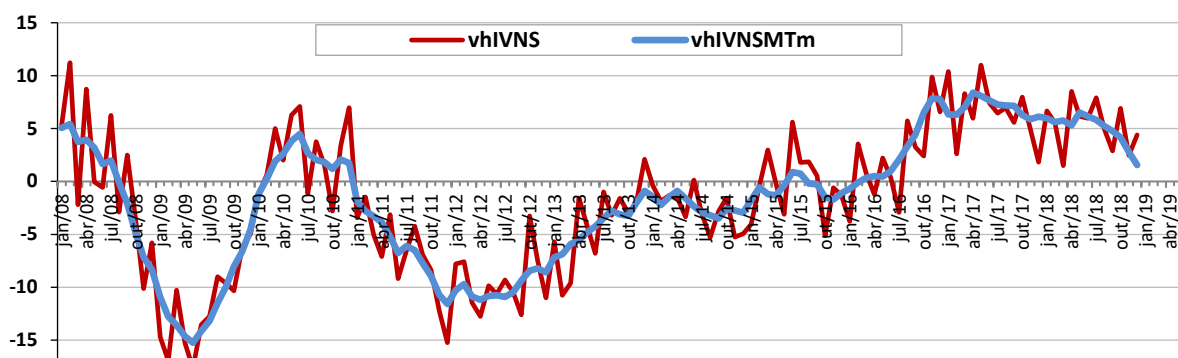




## 5. TURNOVER IN THE SERVICES SECTOR

In **December**, with two more working days, the (nominal) **Services Turnover Index** showed a year-on-year variation of 4.4% (vhIVNS series, Graph 5, gross values). The year-on-year variation for the 4<sup>th</sup> Quarter of 2018 was 4.6% and was 5.3% for the whole year (6.6% in 2017). At the end of the year, the year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 5) demonstrated a more pronounced de-acceleration.

Graph 5 | Year-on-year variation for the Services Sector

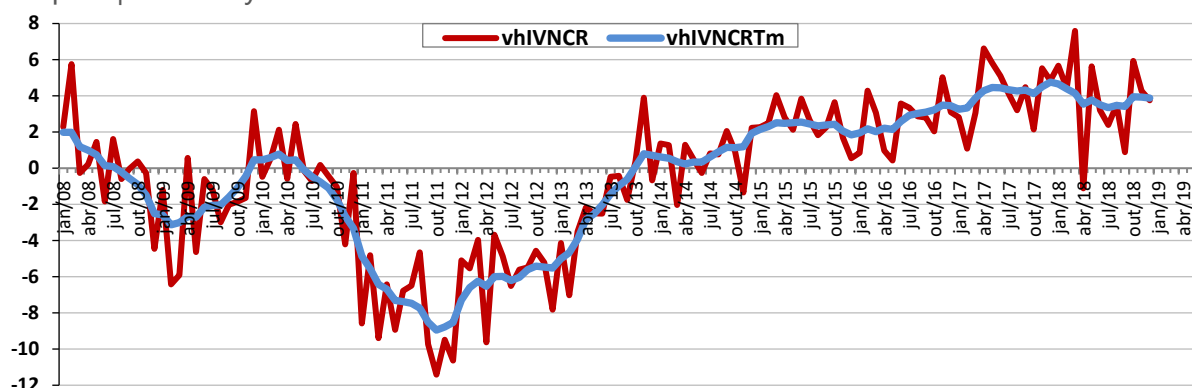


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 7.3% in **December**, and an increase of 6.0% in 2018 (16.9% in 2017).

## 6. RETAIL TRADE TURNOVER

In **December**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.8% (Graph 6, **deflated** gross values). The year-on-year variation of the 4<sup>th</sup> Quarter of 2018 was 4.6% (2.3% during the previous Quarter), with an annual value of 3.8% (4.2% in 2017). Trend-wise, the rate of year-on-year variation (vhIVNCRTm) increased from the 3<sup>rd</sup> Quarter to the 4<sup>th</sup> Quarter and has remained stable during the current Quarter. The growth of this indicator during 2018 is divided between a growth of 3.6% for the grouping of *food products* and 4.0% for the grouping of *non-food products* (with respective growths of 2.4% and 5.5% in 2017).

Graph 6 | Year-on-year variation in Retail Trade turnover



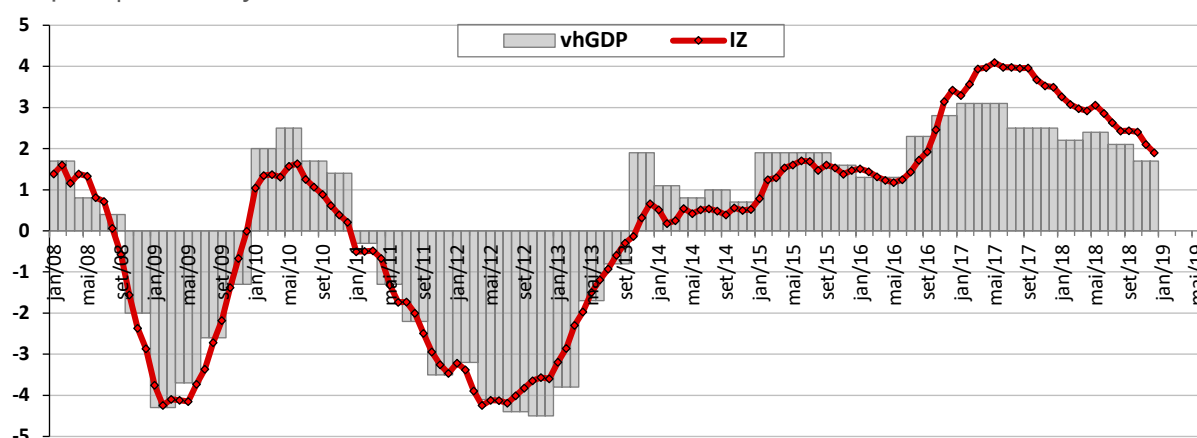
Following a decrease of 9.9% during the 4<sup>th</sup> Quarter, the year-on-year variation in **Car sales** registered an increase of 8.3% in **January**.

## 7. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 7, the **global activity trend indicator (IZ)** - which is a summary of the year-on-year evolution of the confidence indicators analysed above - decreased notably during the 4<sup>th</sup> Quarter of 2018, which corresponds to a greater de-acceleration of growth of GDP, although it should be mentioned that specific aspects contributed towards this situation which can be corrected in the future.

At present, the trend towards the de-acceleration of the growth of the Portuguese economy continues to be predominant and may even intensify. This is particularly linked to the de-acceleration in European and world growth and also to the contraction of external demand in the Portuguese economy. However, the size of this de-acceleration over 2019 remains uncertain and is highly dependent on external factors, and it could be less, or more pronounced, depending on the persistence and resolution of risk factors related to world trade tensions and Brexit. Bearing this in mind, the greatest support for growth in 2019 is expected to originate from Internal Demand, particularly Private Consumption, which tends to be more stable, and also from Investment, whose perspectives are more favourable, although it is more volatile, as some of its components can be penalised by the performance of External Demand.

Graph 7 | Year-on-year variation in GDP and the Z trend indicator



In terms of quantification, bearing in mind the uncertainty factors mentioned above, the forecast outlook is not considered to be either very pessimistic, neither very optimistic. In this case, assuming levels of growth which are considered to be plausible for the different components of aggregate demand in 2019, which in general will be lower than those recorded in 2018, with levels of growth of approximately 2.2% for Private Consumption, 0.5% for Public Consumption, 4.5% for Investment, 3% for Exports, and 4.0% for Imports, it is expected that the growth of GDP in volume during 2019 will be in the range 1.6% to 2.0%, which, on average, is slightly greater than the levels currently forecast for the Euro Area.

Compiled with information available as of the 22<sup>nd</sup> of February.