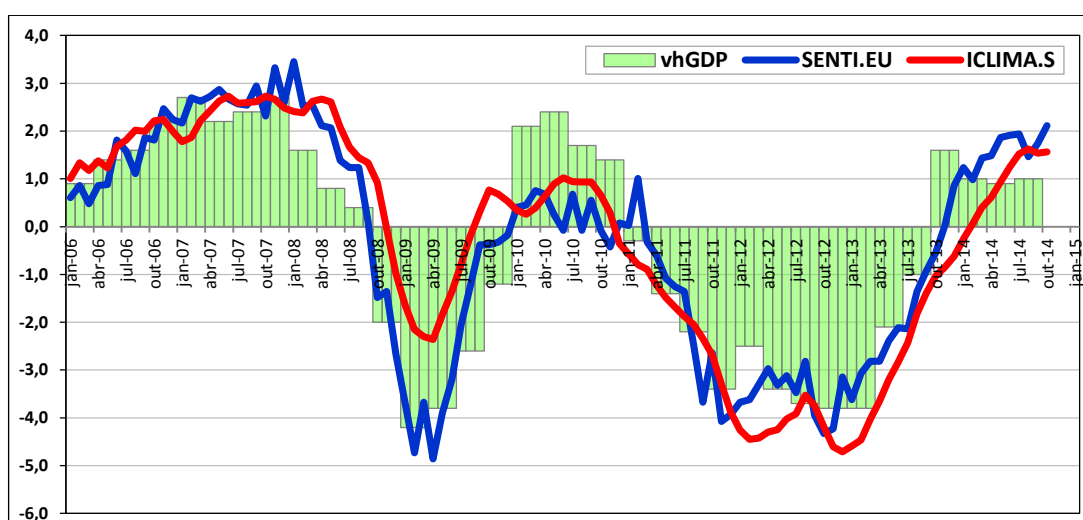


MONTHLY ECONOMIC CONFIDENCE INDEX

1 – EVOLUTION OF CLIMATE INDICATORS - OCTOBER

As can be seen in the graph below, the Economic Sentiment Indicator for Portugal (EUROSTAT, Senti.UE) rose in **October**. The INE Climate Indicator (Clima_INE), smoothed by construction, remained stable. Amongst the sectorial indicators, the more pronounced rise in both the Construction and Consumer Confidence indicators stood out. At the European level, the Economic Sentiment Indicator for the Eurozone also rose in October, as did that of the 28 EU countries, however both are below the levels reached from March to July.

Evolution of the Confidence and Economic Trend¹ Indicators



The **flash estimate** (INE) of the Quarterly National Accounts for the 3rd Quarter of 2014 was published later. The values presented showed that, in terms of volume, quarterly GDP grew 1.0% year-on-year, and 0.2% relative to the 2nd Quarter, which was driven by the growth of Final Household Consumption.

In Europe, according to EUROSTAT, the year-on-year growth of the Eurozone (EZ18) was 0.8%, and 0.2% relative to the previous Quarter. For the European Union (EU28), year-on-year growth was 1.3%, and 0.3% relative to the previous Quarter. In both cases, growth was less than that initial forecast for the year, especially for the Eurozone.

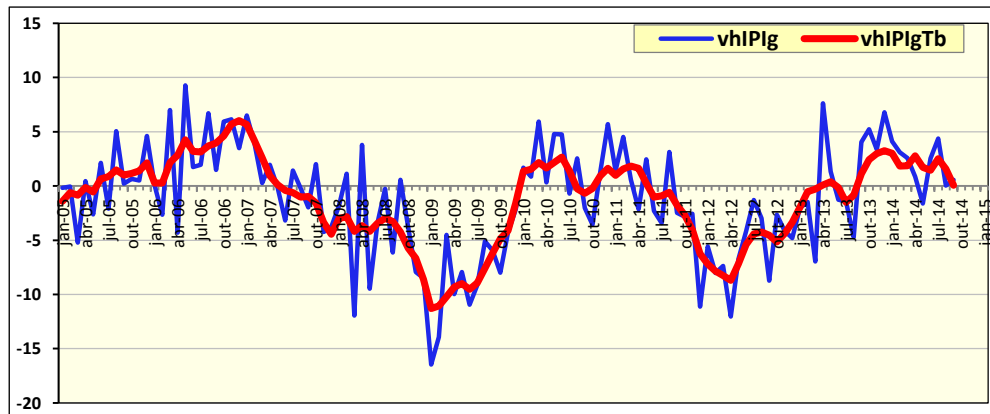
Meanwhile, as is summarised below, the most recent information for the majority of the quantitative indicators for Portugal showed some degree of slowing down in comparison to September, with the exception of Private Consumption.

¹ In comparable values with the year on year variations of GDP (vhGDP)

2 – INDUSTRIAL PRODUCTION

In **September**, the **Industrial Production Index** showed a year-on-year variation of 0.6% (gross values, vHIPIgTb series in the graph below). The variation in manufacturing was 0.5%. The year-on-year variation of the 3rd Quarter was 1.8%, which was greater than that registered for the 2nd Quarter in terms of both gross values and values corrected for seasonal and calendar effects (INE). However, in terms of estimated trend, the respective year-on-year variations (vHIPIgTb series in the graph below, corrected for seasonal and calendar effects) fell in September, to only very slightly positive values.

Year-on-year variations of industrial production (vh)

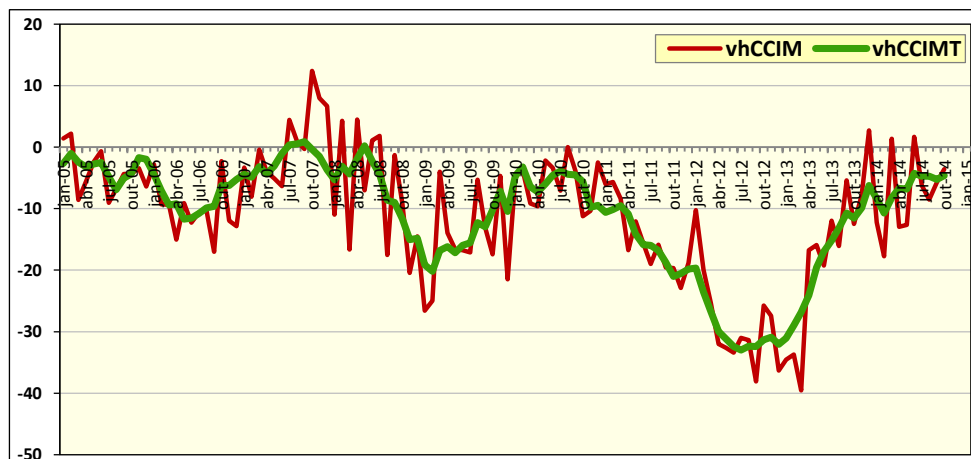


In **September**, the (nominal) **Industry Turnover Index** had a marginally positive year-on-year variation (0.2%), due to the external market (1.4%). The year-on-year variation of the 3rd Quarter was negative (-1.5%) and similar to that recorded for the 2nd Quarter. The **Industrial Production Price Index** has shown negative year-on-year variations over the last months (around -1%), which explains in part the negative evolution of industry turnover for the current year.

3 – CEMENT CONSUMPTION AND CONSTRUCTION/CIVIL ENGINEERING ACTIVITY

In **October**, cement consumption *fell* by about 3% in year-on-year terms, which was less than the 3rd Quarter (7%). Year-on-year trend variations continued to be negative and the activity of the sector continues to decrease, however the confidence level of the sector has been less negative over the last months.

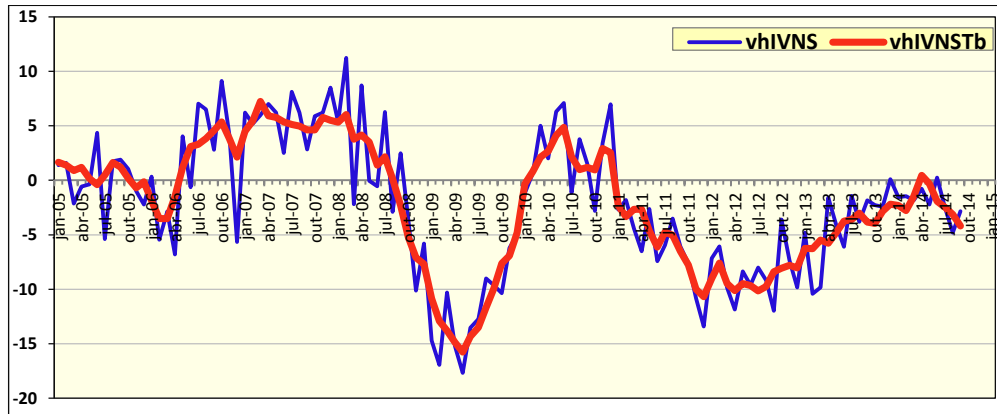
Year-on-year cement consumption



4 – TURNOVER IN THE SERVICES SECTOR

In **September**, the (nominal) **Services Turnover Index** showed a year-on-year variation of -2.8% (vhIVNS series, gross values). The year-on-year variation of the 3rd Quarter (-3.4%) was worse than that registered for the first two Quarters. The year-on-year variations in estimated trend - vhIVNST adjusted for seasonal and calendar effects – have gone back to falling since April, and are more negative.

Variation in Service turnover (vh)

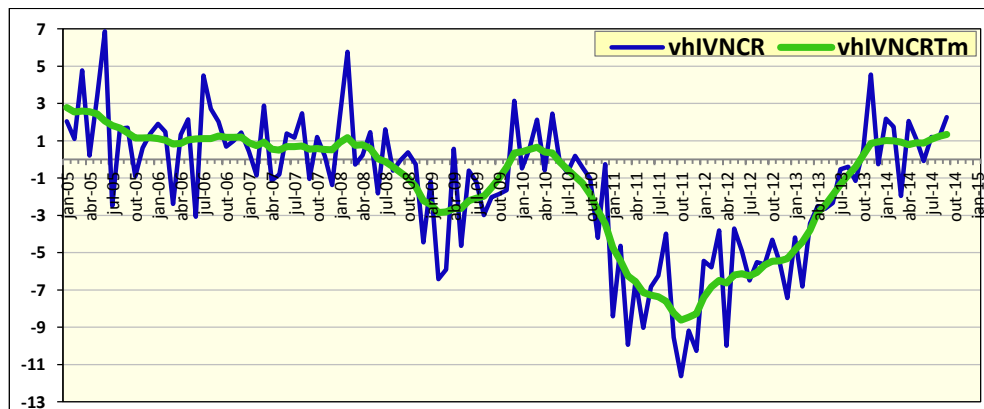


Tourist Activity (the hotel industry) continued to show good growth in **September**, and “total revenue” (nominal values, INE) grew 13.3% in year-on-year terms. This indicator has grown 12.4% from January to September.

5 – RETAIL TRADE TURNOVER

In **September** the **Retail Trade Turnover Index** recorded a year-on-year variation of 2.3% in deflated gross values. In **nominal gross values, the index decreased by 0.7%**. During the 3rd Quarter, the year-on-year variation of this indicator was greater than the previous Quarters, which was a result of greater growth in the retail of *non-food products*. The trend analysis also showed an increase in the year-on-year rate (deflated) to values greater than 1%. The evolution of the *Consumer Confidence* indicator in October suggests that private consumption could grow even more in year-on-year terms during the last Quarter of the year.

Variation in Retail trade turnover (vh)



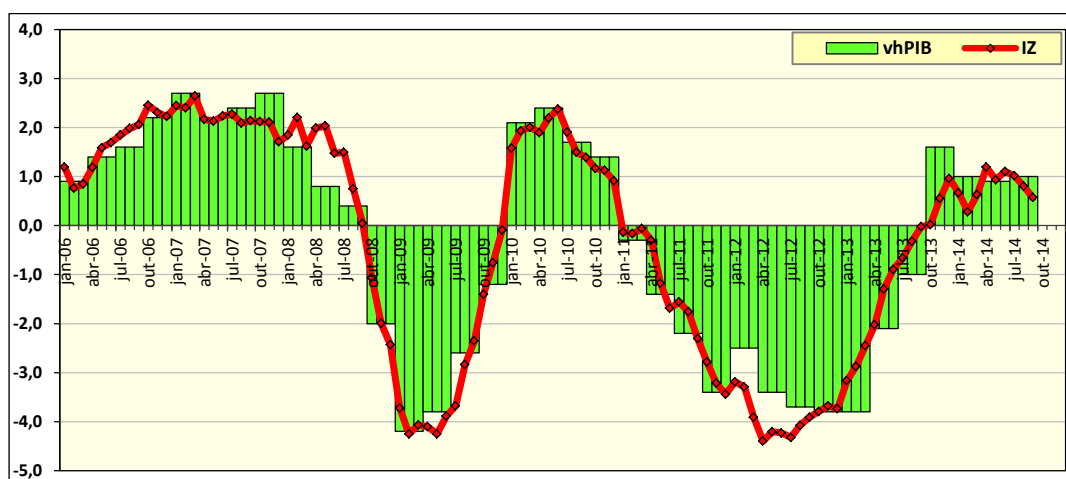
In year-on-year terms, **car sales** grew 29.6% in October (29.8% during the 3rd Quarter), and this high level should be maintained over the next months.

6- EVOLUTION OF THE Z INDICATOR

As can be seen in the graph below, the *global activity indicator* (IZ) has remained positive, but has decreased over the last months, which reflects the less positive dynamics of industrial production and the more negative ones for the turnover of the already-mentioned services. Thus, the evolution of GDP in the last Quarter of the year could turn out to be lower than that of the previous ones, despite the likely higher growth in Private Consumption. With regard to net external demand, its evolution should maintain a negative trend. On the one hand this is because growth in consumption generates imports, but on the other hand it is because there is a slowdown in exports due to weak external growth. However, the size of the external deficit may be mitigated if the fall in the price of oil continues. Additionally, the present positive phase of tourism can continue to support the overall external balance, but it is insufficient on its own to act as the driving force of the Portuguese economy.

For next year, given the weak outlook for external growth, particularly in the Eurozone, and the unlikely acceleration of the growth of Internal Demand relative to the present, it is still considered unlikely that growth in GDP will be greater than that of this year.

Year-on-year variation in GDP and IZ trend



Compiled with information available up to the 14th of November.

António A. Costa

17/11/2014