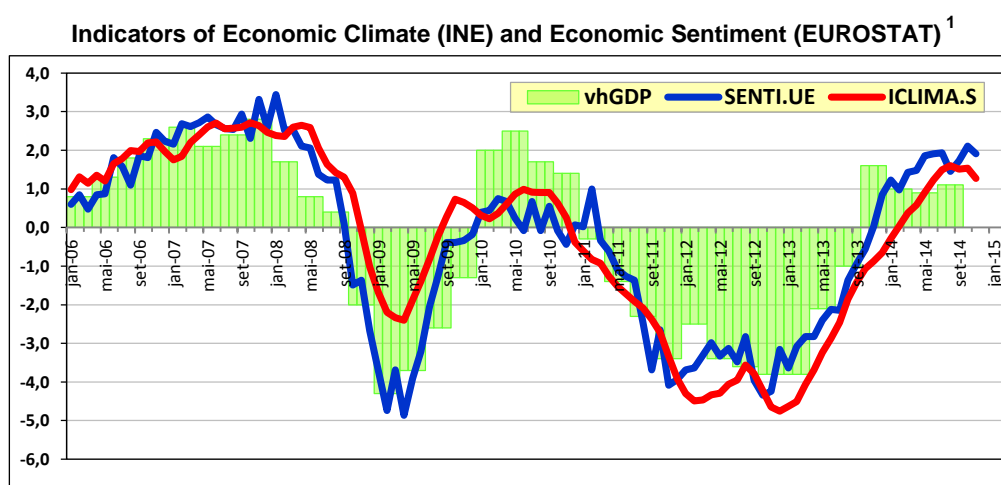


## 1 – EVOLUTION OF CLIMATE INDICATORS - NOVEMBER

In **November** the results of the INE economic climate survey of businesses resulted in a worsening of the **Economic Climate (ICLIMA.S, INE)** indicator, and also of the indicator for **Economic Sentiment (SENTI.UE, EUROSTAT)**. Despite this fall, as can be seen in the graph below, after two years of improvement, in comparison with other periods, the current levels of these indicators are relatively better than those registered for economic growth (see **vhGDP**, year-on-year variations of GDP). A degree of stagnation, or reduced growth in these indicators over the last months suggests that economic performance will not improve over the short-term.



By sector, for the month of November, the **sectorial confidence indicators** (EUROSTAT, sa) for **businesses** show pronounced falls in the confidence indicators for the **services** and **building and construction** sectors, a relative stagnation for those of **industry** and reasonable growth for those of **retail and trade**. Either way, one should not forget that these indicators are highly volatile.

For **consumers**, the respective confidence indicator improved again in November. On average, this indicator has been rising since the end of 2012 and this continuing improvement suggests that household consumption will continue to rise in the short-term.

At the end of November, the second estimate of the **Quarterly National Accounts** for the 3<sup>rd</sup> Quarter was published, which raised the growth in Quarterly GDP to 1.1%, in year-on-year terms, and -0.3% relative to the 2<sup>nd</sup> Quarter. As expected, this growth was sustained by Internal Demand, and especially Private Consumption, whilst Investment grew less than the previous Quarter. The contribution of Net External Demand was negative, but had a similar level to that of the previous Quarter.

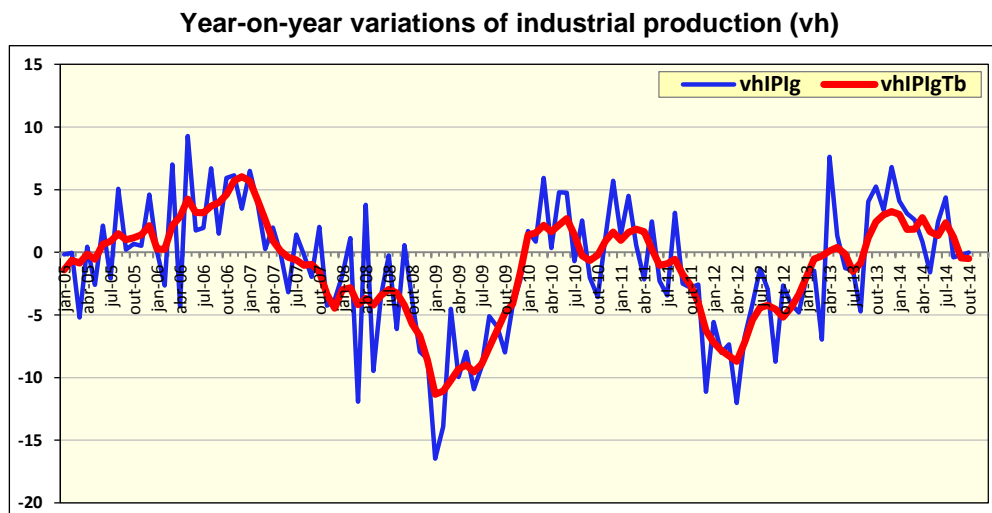
Simultaneously, according to EUROSTAT, the growth in Europe during the 3<sup>rd</sup> Quarter was a year-on-year growth of 0.8% in the Eurozone (EZ18), and 0.2% relative to the previous Quarter. In the European Union (EU28), year-on-year growth was 1.3%, and 0.3% relative to the previous Quarter. In both cases growth was less than that originally forecast for this year, especially in the case of the Eurozone.

With regards to the last Quarter of the year, we summarise below the most recent information for the principal sectorial indicators for Portugal, which mainly refer to October.

<sup>1</sup> Values that are comparable with the year-on-year values for GDP (vhGDP)

## 2 – INDUSTRIAL PRODUCTION

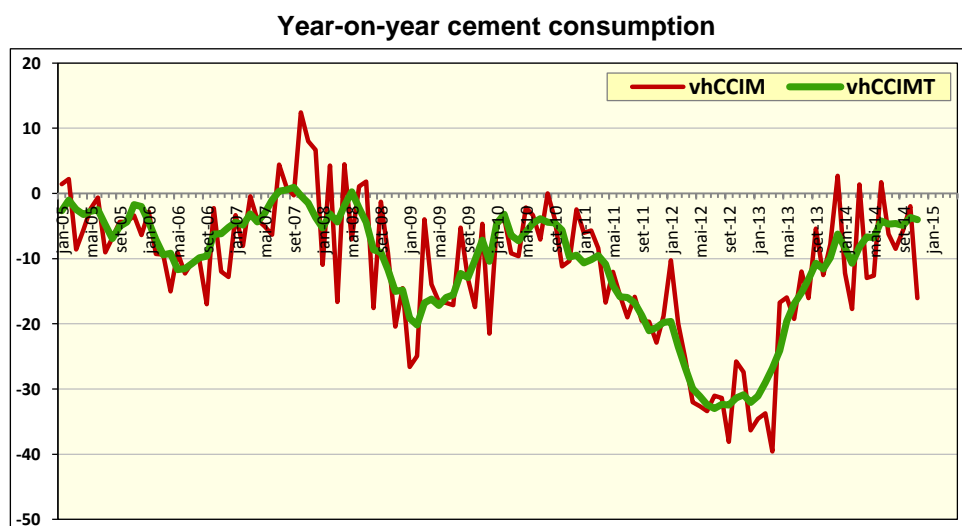
In **October**, the **Industrial Production Index** showed a zero year-on-year variation (gross values, vhlPIgTb series in the graph below). The variation in manufacturing was -0.3%. In terms of estimated trend, the respective year-on-year variations (vhlPIgTb series in the graph below, corrected for seasonal and calendar effects) fell in September and October to slightly negative values, after nearly a full year of positive values.



In **October**, the (nominal) **Industry Turnover Index** showed a positive (2.2%) year-on-year variation, with more growth in the domestic market (2.9%). Overall, the average variation of the last 12 months was practically zero (-0.1%), and was not much different for both the domestic (-0.2%) and external (-0.1%) markets. It should be pointed out that this sector is in a situation of deflation: the **Industrial Production Price Index** has shown negative year-on-year values for over a year (with an average year-on-year variation of -1% during the last months).

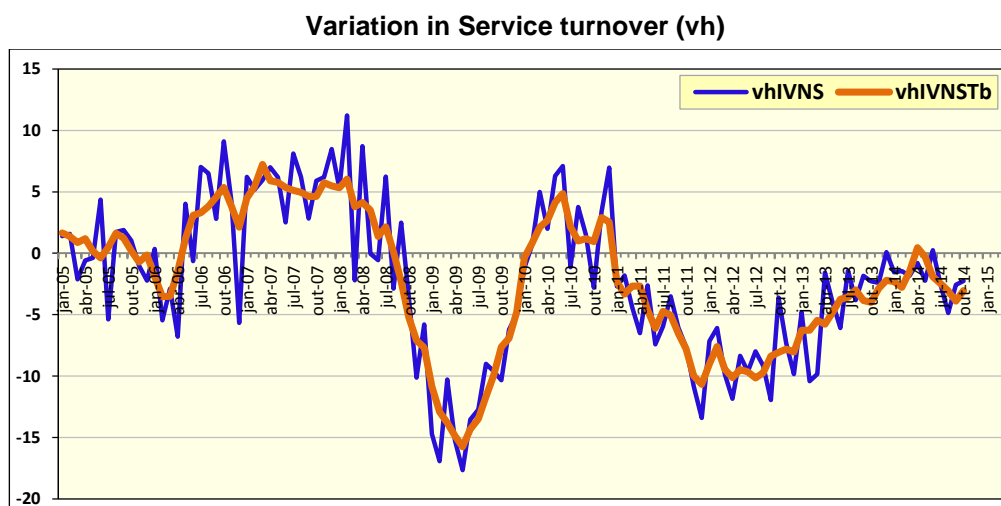
## 3 – CEMENT CONSUMPTION AND CONSTRUCTION/CIVIL ENGINEERING ACTIVITY

In **November**, cement consumption had a year-on-year variation of -16%. This fall was partly explained by this month having one less working day and also by the excessive rainfall. Year-on-year estimated trend variations continued to be negative, but stable for the last months. Construction and public works continued to fall, although much less than recently (INE, Construction Production Index, October).



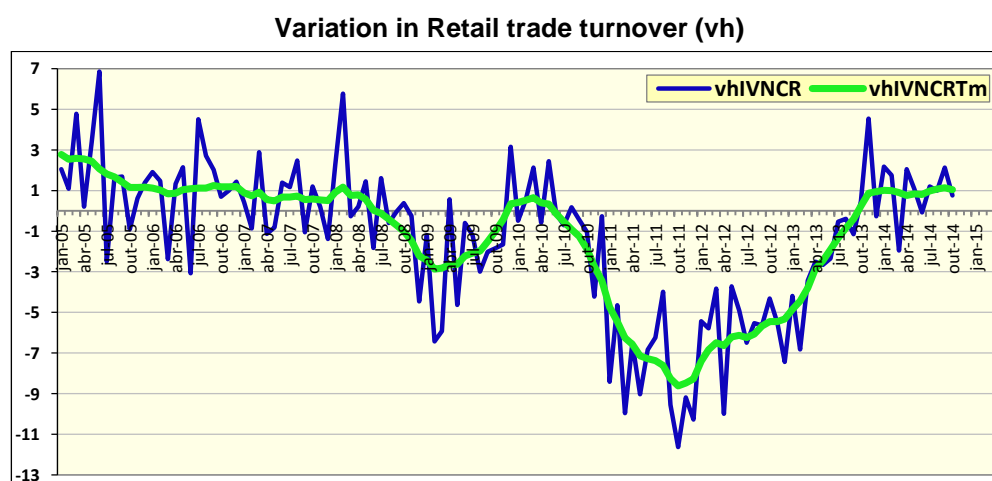
## 4 – TURNOVER IN THE SERVICES SECTOR

In **October**, the (nominal) **Services Turnover Index** showed a year-on-year variation of -2.2% (vhIVNS series, gross values), which was less negative than of the 3<sup>rd</sup> Quarter. The year-on-year variations in estimated trend – vhIVNST, adjusted for seasonal and calendar effects – continue negative, although they have improved since last month. It is also likely that this nominal indicator has been affected by deflation.



## 5 – RETAIL TRADE TURNOVER

In **October** the **Retail Trade Turnover Index** recorded a year-on-year variation of 0.8% in deflated gross values. Yet, due to deflation, **the index decreased by 1.4% in nominal gross values**. The trend analysis (using deflated values) showed relatively stable rates of year-on-year variation for the last year (about 1%). It should be borne in mind that during the last months this growth has been mainly due to *non-food products*. The evolution of the *Consumer Confidence indicator* in November suggests that private consumption will continue to rise in year-on-year terms up until the end of the current year.



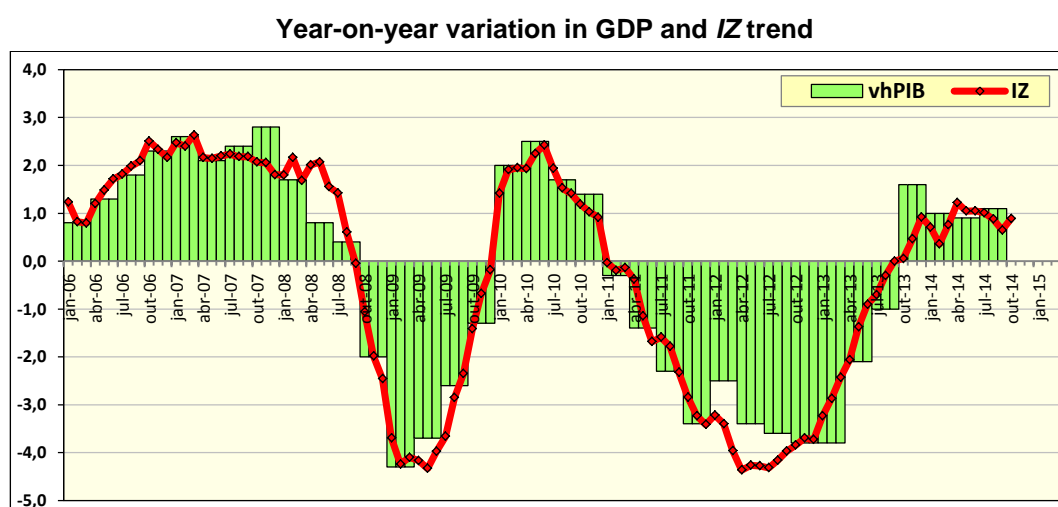
In another area of private consumption, **car sales** grew 32.6% in **November** in year-on-year terms, which was slightly greater than the growth of October and also than that of the 3<sup>rd</sup> Quarter.

## 6- EVOLUTION OF THE Z INDICATOR

As can be seen in the graph below, apart from slight fluctuations, the **global activity indicator** (*IZ*) has remained positive since the end of last year, but without accentuated momentum. Based on this momentum and the data for October, the forecast of year-on-year growth of GDP of about 1% remains unaltered. In addition, the sectorial indicators suggest that this growth continues to be based on **internal consumption**, especially of private consumption, whilst investment will continue to be uncertain. However, this situation could change on account of the level of **net external demand**, which looks like being more favourable.

In fact, the evolution of net external demand was very positive during the month of October, with a nominal growth in exports of goods (9.4%) which easily surpassed the growth of imports (1.2%). Apart from this notable increase in exports, whose sustainability is questionable, one of the factors that contributed most to this improvement in net external demand was the weak growth in imports, as a result of the substantial fall in **the price of crude oil**, which brought about a specifically strong fall in the value of imported fuel. The impact of the fall of the price of oil, which has continued, will certainly favourably affect the contribution of net external demand to GDP in the 4<sup>th</sup> Quarter of 2014, which could make it even more positive in year-on-year terms. Simultaneously, with regards to the external balance of trade of services, the good performance of the tourism sector should continue to contribute to the slight improvement of the habitual overall positive balances.

For **2015**, despite the poor forecast for external growth, especially in the Eurozone, if the current prices of crude oil remain the same, then economic growth could continue to benefit from the positive impact of these prices on GDP in Portugal, especially during the 1st Semester. It is thus starting to look likely that there will be a growth in GDP that is greater than that of the current year.



Compiled with information available up to the 15<sup>th</sup> of December.

15/12/2014 - António A. Costa

**The ISEG Economic Analysis Group**