



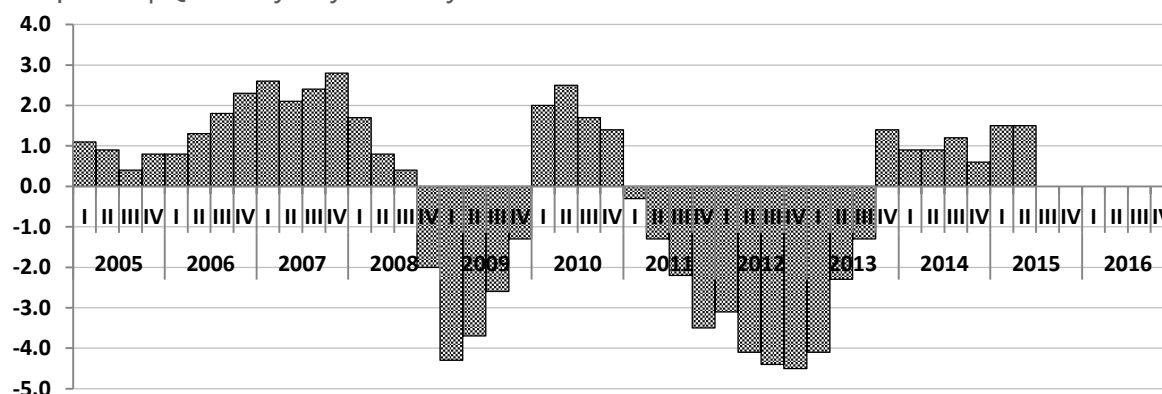
LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK September 2015

EVOLUTION OF GDP DURING THE 2ND QUARTER OF 2015

Based on the information provided by the National Statistics Institute (Quarterly National Accounts) during the 2nd Quarter of 2015, GDP increased in volume, by 1.5% in year-on-year terms, and by 0.4% in relation to the previous Quarter. This growth, which was the same as that recorded for the previous Quarter, was less than our forecast (1.8%, YOY) and was a deception, as it was negative net external demand that resulted in limiting the growth in GDP.

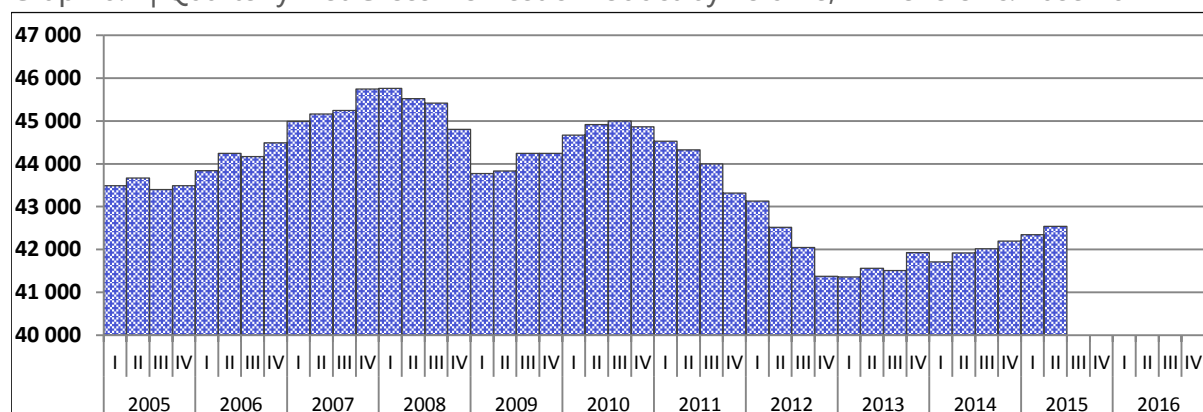
Graph 0.1 | Quarterly % year-on-year variation in GDP



In fact, the evolution of the economy during the Quarter was characterised by an acceleration of the growth in domestic demand (+3.4 p.p.), especially regarding private consumption, which was neutralised by the much more negative contribution of net external demand (-1.9 p.p.), on account of a greater growth in imports, which led to overall growth remaining stable, although this was greater than that of last year.

Either way, as can be seen in the graph below, after a run of seven Quarters of positive year-on-year growth of GDP, the overall level of quarterly production only recovered about one third of the fall recorded between the middle of 2010 up until the start of 2013, and, based on this year's rate, the level of production of 2010 will only be reached in 2019, with the historic maximum of the end of 2007 and the beginning of 2008 only being achieved a year later.

Graph 0.2 | Quarterly Net Gross Domestic Product by volume, millions of €. Base 2011

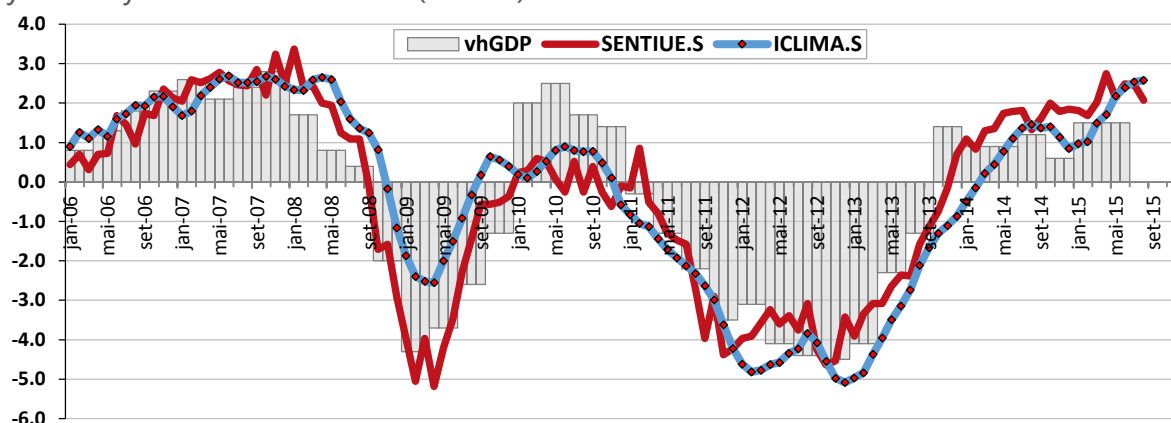


1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN AUGUST

In relation to the economic confidence indicators, the **Economic Sentiment Indicator** (SENTIUE.S, EUROSTAT) for **August**, fell in Portugal, due to a fall in the sectorial confidence indicators for Industry, Services and Retail. The **Economic Climate Indicator** (ICLIMA.S, INE) stabilised, although it is based on information from the last three months. As shown in the graph below¹, despite this slowdown, both indicators reported maximum values since those of 2008. With regard to **consumers**, the respective confidence indicator (INE and Eurostat) rose again and, although negative, it attained its highest values since 2001.

During the same month, the **Economic Sentiment Indicator** for the **Eurozone** rose slightly, reaching its highest level since 2011, although it has remained relatively stagnant since March. **GDP** for the **Eurozone** rose by 1.5% in year-on-year terms during the 2nd Quarter, having formerly recorded a variation of 1.2% during the 1st Quarter. This is a larger growth than the previous year (0.9%), although it is not expected to improve during the rest of this year.

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



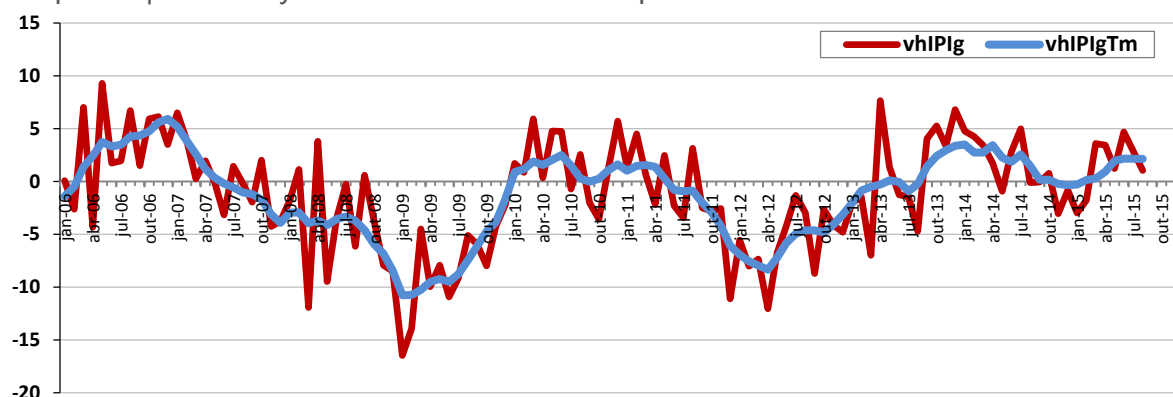
Meanwhile, the values for the principle quantitative indicators for Portugal have been released for **July**, and in some cases, for **August**, which are analysed below. In general, their evolution remains positive, although there has been no improvement in comparison with the indicators for the 2nd Quarter.

¹ The values of the indicators have been adjusted to the average and standard deviation of the year-on-year variation of GDP (vhGDP).

2. INDUSTRIAL PRODUCTION

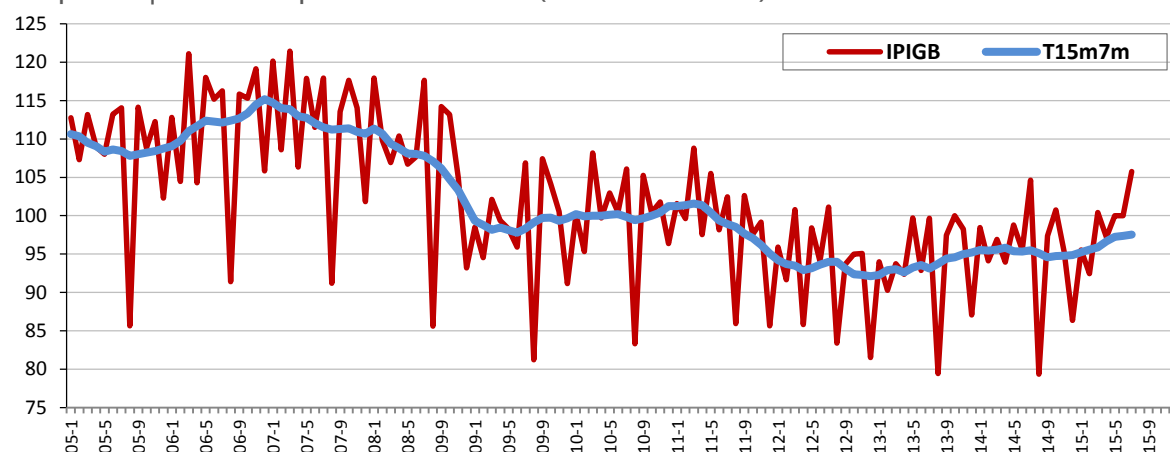
In **July**, with the same number of working days as last year, the **Industrial Production Index** showed a year-on-year variation of 1.0% (gross values, **vhIPIgTb** series in Graph 2.1; the variation in manufacturing being -0.3%). The estimated trend of year-on-year variations (**vhIPIgTm** series, corrected for seasonal and calendar effects) has been positive during the last months, and are relatively stable.

As can be seen in Graph 2.2, in terms of level, on average, this indicator has recuperated 5 points since Graph 2.1 | Year-on-year variation of industrial production



the minimums of the start of 2012, but it is still below the value of the base year. Nevertheless, the distance between the present average level of this indicator and that of 2006 and 2007 is more than 10 points.

Graph 2.2 | Industrial production Index (Base: 2010=100)

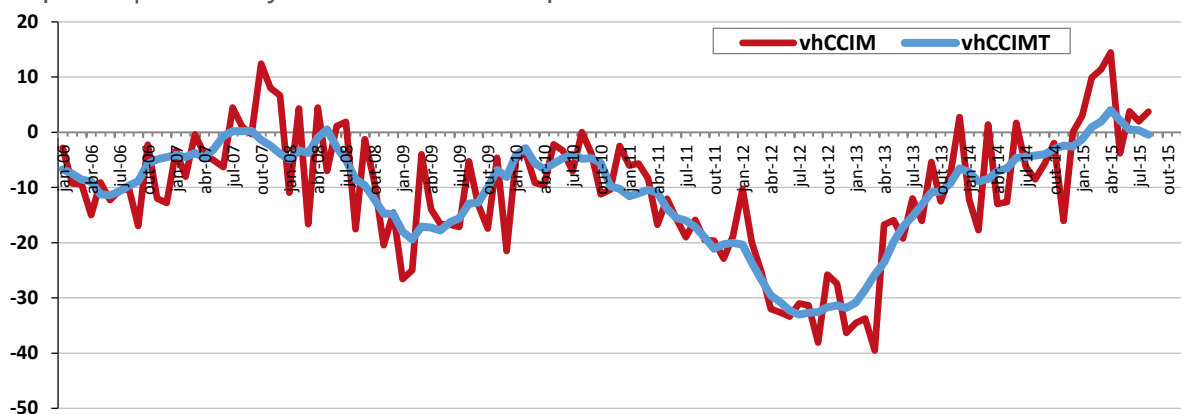


Related to the previous indicator, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 0.6% in **July**, with -0.7% for the national market, and +2.2% for the external market. It should be noted that the average variation of this indicator over the last twelve months is positive for the **external market** (2.1%), yet negative for the **national market** (-1.5%).

3. CEMENT CONSUMPTION AND CONSTRUCTION / PUBLIC WORKS

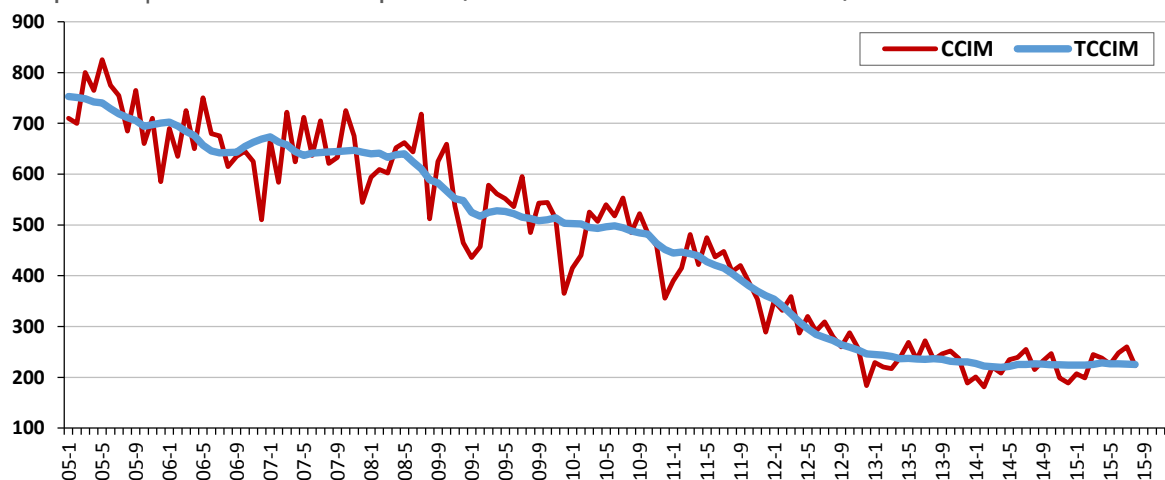
In **August**, which had one more working day, cement consumption grew by about 3.5% in year-on-year terms. Thus, for the two months of the 3rd Quarter that have already passed, the year-on-year variation for cement consumption was positive, albeit it less than that of both the 2nd Quarter and the 1st Quarter. Trend-wise, after seasonal, calendar and climatic corrections, estimated year-on-year variations (vhCCIMT in Graph 3.1) decreased to slightly negative values, which suggests the occurrence of just marginal growth, if any, by the end of the year.

Graph 3.1 | Year-on-year cement consumption



As can be seen in Graph 3.2, both the fall in cement consumption and the slowdown in the construction/public works sector has lasted for some time now, and was very accentuated, although it has attained some stability since a year ago. There are some signs that this activity could improve in the near future (new construction building permits), however, based on the low level attained, the possible positive variations percentage-wise will still be very slight in terms of the actual volume of activity.

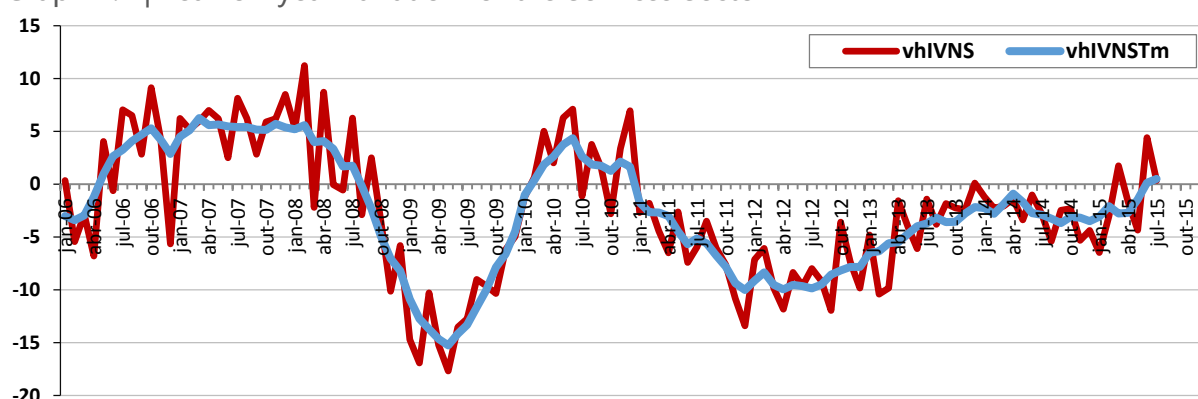
Graph 3.2 | Cement consumption (thousands of tonnes/month)



4. TURNOVER IN THE SERVICES SECTOR

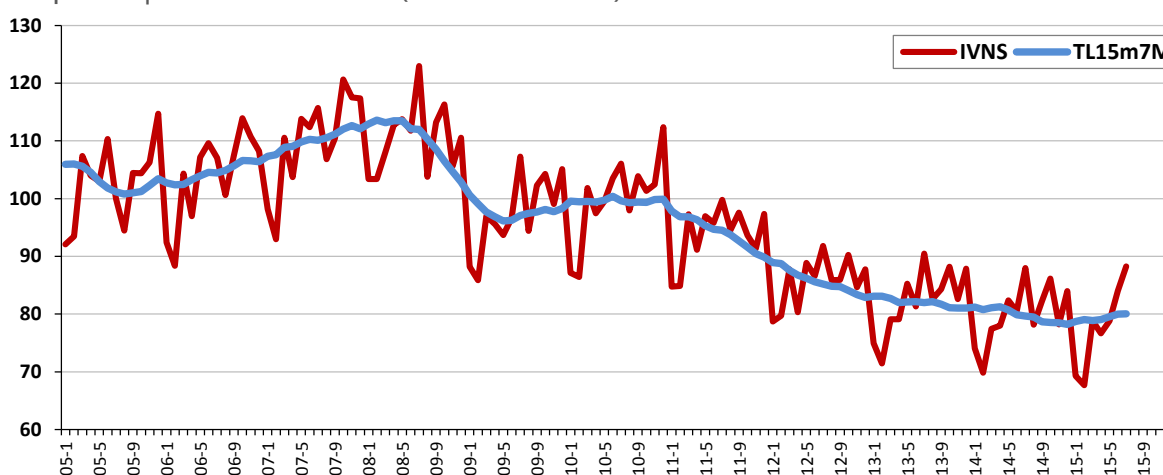
In **July**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 0.4% (vhIVNS series, Graph 4.1, gross values). The year-on-year variations in estimated trend (vhIVNSTm adjusted for seasonal and calendar effects, Graph 4.1) show positive values for the end of the period, which suggest that this indicator has started to recover.

Graph 4.1 | Year-on-year variation for the Services Sector



As can be seen in Graph 4.2, in terms of level, this is one of the indicators that has seen the greatest fall, partly due to its nominal nature and also possibly on account of the fall in salaries, and even though it has started to grow, it is still a long way off returning to the levels of the base year, or of 2008.

Graph 4.2 | Services turnover (Base 2010=100)

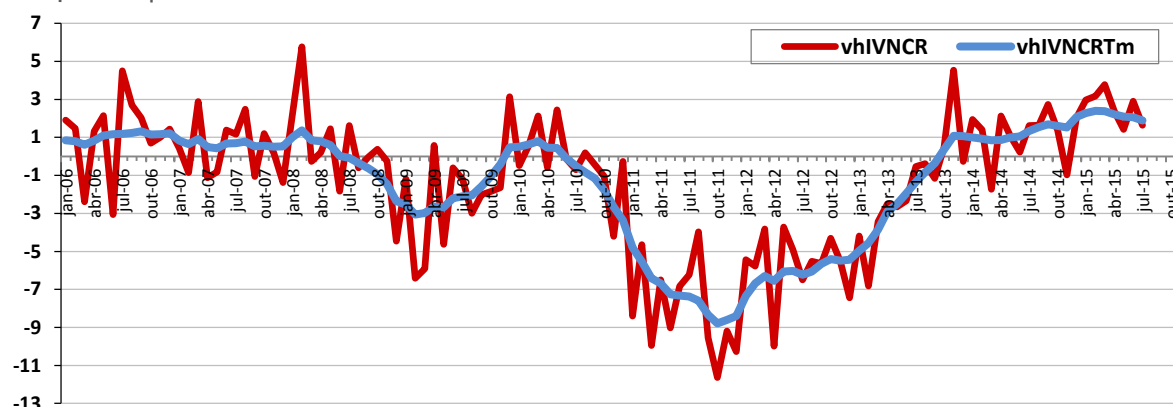


Being part of the services sector, but of specific importance, the hotel sector continues to present a good performance. In **July**, the **turnover of hotels** (Tourism Activity, INE, nominal values) grew year-on-year by 12.9%. The accumulated growth of this indicator since the start of this year is 12.3%. During the 1st Semester, the growth in exports under the item of “travel and tourism” was just as large (12.2%, Bank of Portugal).

5. RETAIL TRADE TURNOVER

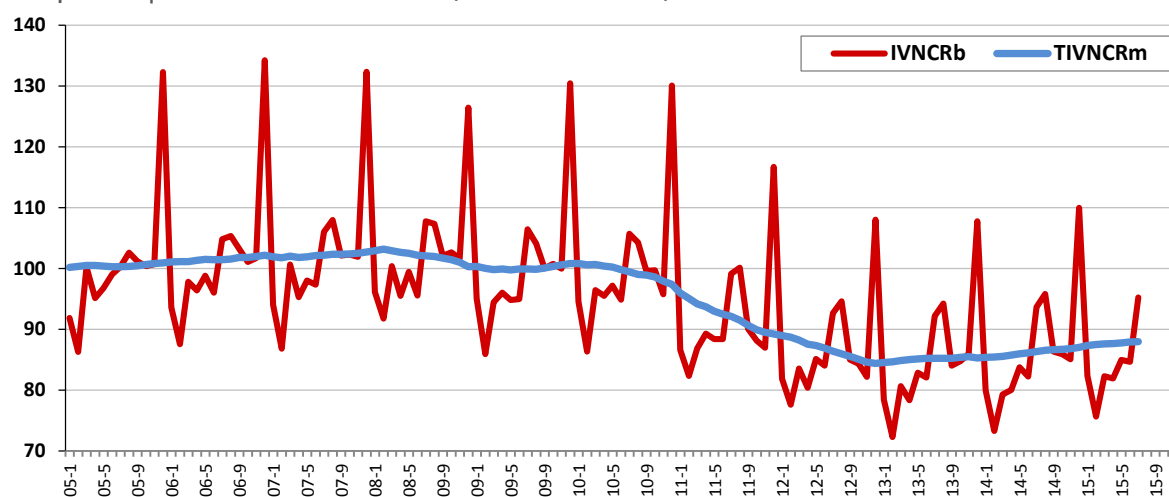
In **July**, the **Retail Trade Turnover Index** showed a year-on-year variation of 1.6% (Graph 5.1, **deflated** gross values; with an increase of the corresponding nominal index of 0.3%). As can be seen in the graph below, the trend (vhIVNCRTm) continues to show some de-acceleration in relation to the 1st Quarter, although the growth of this indicator continues to be relatively strong. For several months now, this growth continues to be virtually exclusively based on the retail of *non-food products*.

Graph 5.1 | Variation in Retail trade turnover



As can be seen in Graph 5.2, in terms of level and averages, this indicator has recovered 4 points since reaching its lowest value at the end of 2012, although it has yet to recover the 12 points needed to attain the average level of the base year of 2010.

Graph 5.2 | Retail trade turnover (Base 2010=100)



Still regarding private consumption, **car sales** increased by 9.7% in **July**, in year-on-year terms, and 21.9% in **August**, which points to a slowdown in comparison to the growth recorded during the 1st Semester, which was greater than 30%.

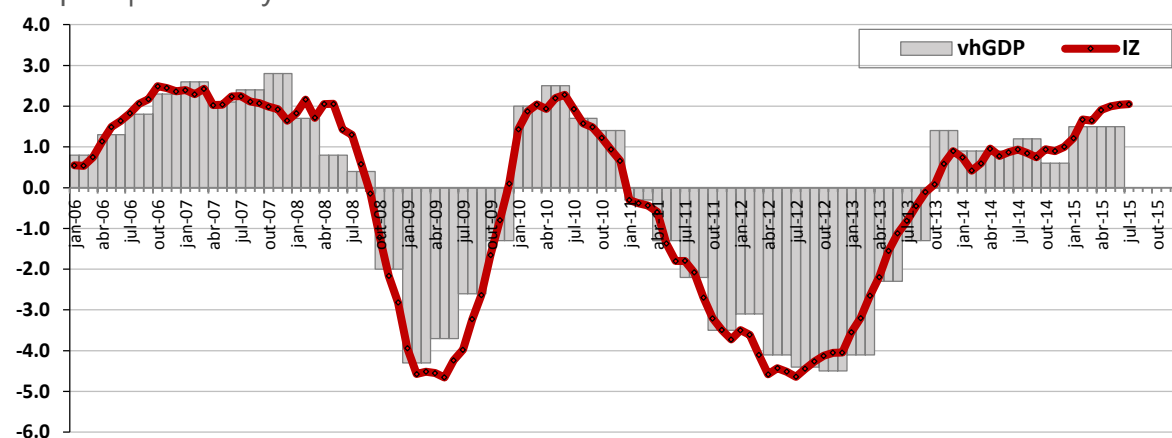
6. THE EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)** of **July** shown signs of a stabilising of the rate of growth that has been evidenced over the last few months. In terms of the recent evolution of its component parts, it is Services turnover that has registered the most positive result. Simultaneously, one can say that there has been a slight de-acceleration of the indicators for domestic demand (retail trade, car sales and cement consumption) at the beginning of the 3rd Quarter, in relation to the 2nd Quarter.

With regards to the evolution of **net external demand**, which penalised growth during the 2nd Quarter, there was an improvement in the (nominal) trade balance in **July**, which benefitted from a return to a fall in the price of crude oil. As is usual, it is likely that a de-acceleration of domestic demand will lead to an improvement of the recent negative effect of net external demand, although it is still too early to be able to forecast the Quarter.

Thus, based on the partial data available, it is forecast that growth will continue during the 2nd Semester, but not at a greater rate than that of the 1st Semester: the current de-acceleration of domestic demand and reduced prospects for external growth are the main underlying reasons.

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



Compiled with information available as of the 17th of September.