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SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

November 2015

SUMMARY

During the 3rd Quarter, Portugal's GDP grew in volume by 1.4% in year-on-year terms, and 0% when compared to the previous Quarter. This estimation equates to a de-acceleration of GDP growth in comparison to that of the 1st Semester (1.6%).

At present, the compiled indicators suggest that GDP growth, which although is tending to slow down, will not show a very pronounced de-acceleration. It is likely that the growth rate for the 4th Quarter will be in line with that registered for the 3rd Quarter.

The GDP growth of the 3rd Quarter, together with that forecast for the 4th Quarter indicate that it is likely that the total growth for the whole year will be 1.5%.

1. THE GROWTH IN GDP DURING THE 3RD QUARTER

According to the **flash estimate** of the National Statistics Institute (INE), in the 3rd Quarter, Portugal's GDP grew in volume by 1.4% year-on-year, and 0% when compared to the previous Quarter. This estimate reflects a slowdown in GDP growth compared to that observed for the 1st Semester, whereby year-on-year growth was 1.6 % and Quarter-on-Quarter growth for the last two Quarters was 0.5%.

Although earlier reports stated that growth in GDP would not accelerate in the second half of the year, the value registered was less than that forecast in October's report (1.6%). INE's flash report confirmed a notable de-acceleration in internal demand, which was partially offset by (negative) net external demand. Furthermore, INE highlighted that there has been a more prominent drop in investment.

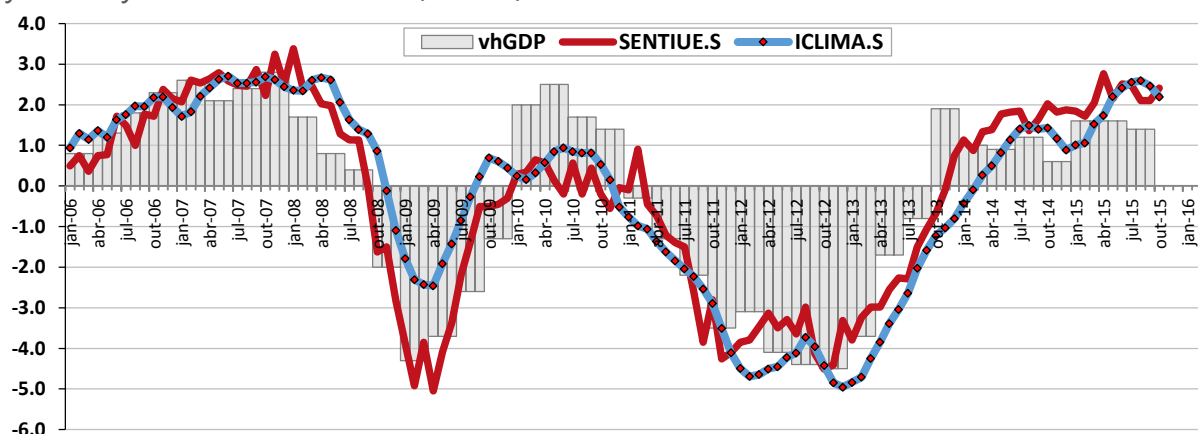
During the same period, GDP grew 1.6% in the **Eurozone** in year-on-year terms, and 0.3% when compared with the previous Quarter, and there has been an increase in year-on-year terms (with a respective growth of 1.2% and 1.5% for the previous Quarters), and also a decrease in Quarter-on-Quarter growth (0.5% and 0.4% for each of the last Quarters). By country, GDP grew in year-on-year terms by 1.7% in Germany, and 3.4% in Spain. In the case of the EU28, GDP grew by 1.9% in year-on-year terms, and 2.3% in the United Kingdom.

2. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN OCTOBER

As can be seen in Graph 1, based on data collected during this month, in **October**, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) improved. The **Economic Climate Indicator** (ICLIMA.S, INE), which is based on information from the last three months, fell however. In terms of sectorial data for the month, the confidence indicators showed mixed results, with little variation. The most pronounced fall was for the Services sector. With regards to **consumers**, there was a fall in the respective confidence indicator (both INE and Eurostat).

For the same month, the **Economic Sentiment Indicator** for the **Eurozone** rose slightly, although falls were registered in the case of Germany and Spain. On the other hand, the confidence indicator for consumers fell in the Eurozone, especially in Germany.

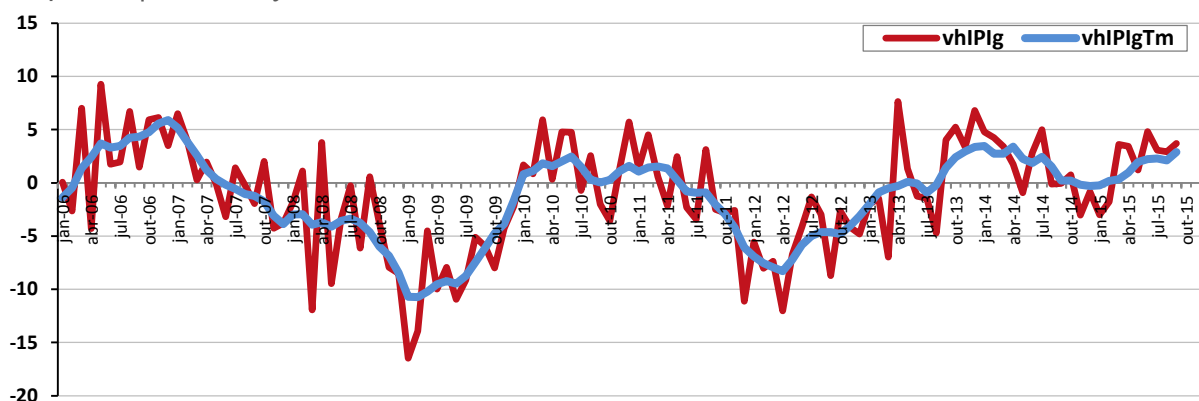
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



3. INDUSTRIAL PRODUCTION

In **September**, the **Industrial Production Index** showed a year-on-year variation of 3.7% (gross values, vHIPIgTb series in Graph 2; the variation in manufacturing being 2.8%). For the 3rd Quarter, the year-on-year variation was 3.2% (gross values), which was a similar value to that registered in the 2nd Quarter (3.1%). Each of these Quarters had an extra day in year-on-year terms. Corrected for seasonal and calendar effects, the estimated trend of year-on-year variations (vHIPIgTm) was about 2.5% in the 3rd Quarter.

Graph 1.1 | Year-on-year variation of Industrial Production

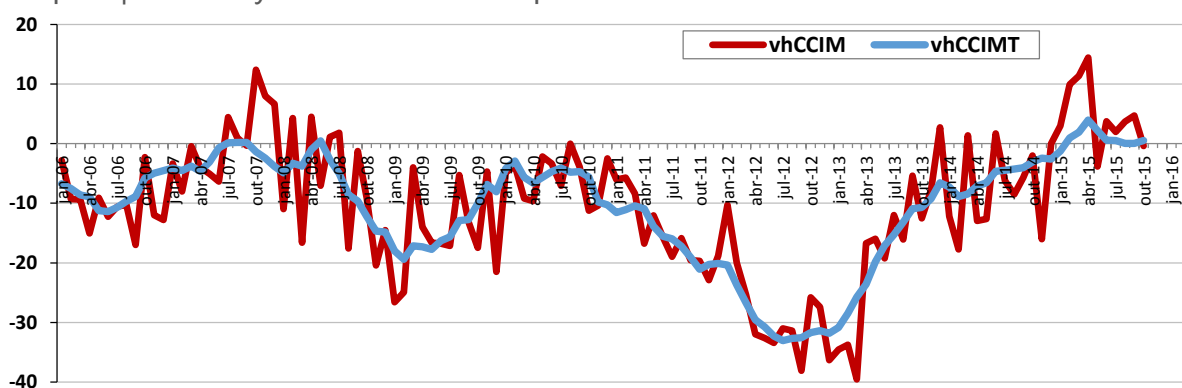


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -1.1%, and 0.1% for the 3rd Quarter, its evolution being penalised by the year-on-year variation of the Industrial Production Price Index, which was -3.2% for the Quarter, largely due to the fall in the price of crude oil.

4. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **October**, with one less working day than last year, the year-on-year variation of cement consumption was practically zero. The accumulated year-on-year variation since the start of the year is slightly more than 5%, largely due to the effect of the first 4 months of the year. Trend-wise - after seasonal, calendar and climatic corrections, vhCCIMT, in Graph 3 - estimated year-on-year variations are marginally positive for the last month and they continue to evidence a low level of growth.

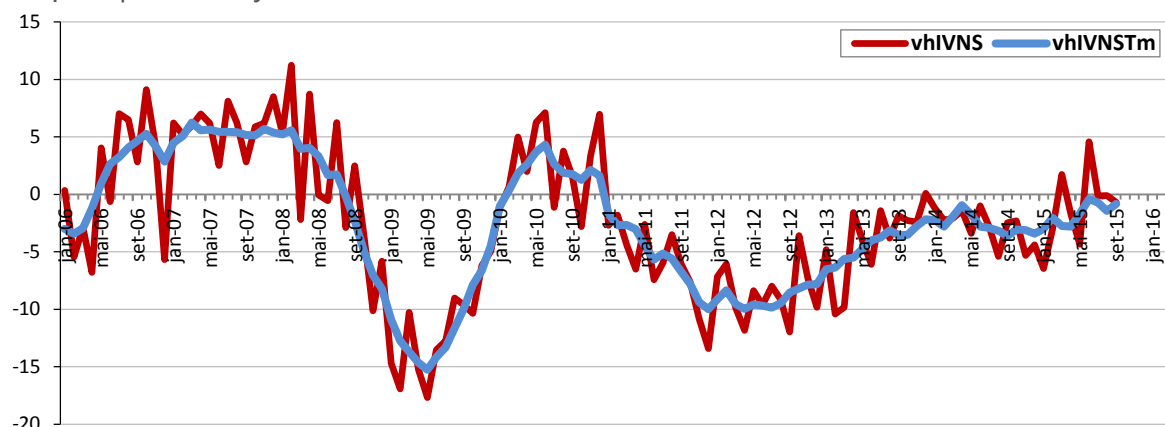
Graph 3 | Year-on-year cement consumption



5. TURNOVER IN THE SERVICES SECTOR

In **September**, the (nominal) **Services Turnover Index** showed a year-on-year variation of -0.7% (vhIVNS series, Graph 4, gross values). For the whole of the 3rd Quarter, the year-on-year variation was marginally negative (-0.3%), which was similar to that of the previous Quarter (-0.5%). The year-on-year variations in estimated trend (vhIVNST adjusted for seasonal and calendar effects, Graph 4) continued to be slightly negative.

Graph 4 | Year-on-year variation for the Services Sector

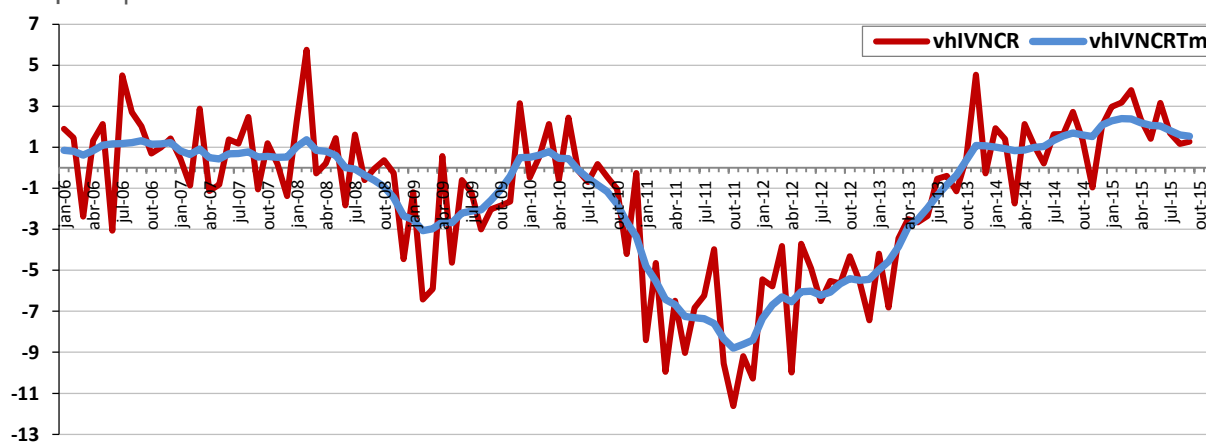


With regards to the hotel sector, the nominal indicator normally used to record the **turnover of hotels** (Tourism Activity, INE) grew year-on-year by 14.7% in **September**, which was greater than the accumulated variation registered since the start of the year (12.5%).

6. RETAIL TRADE TURNOVER

In **September**, the **Retail Trade Turnover Index** registered a year-on-year variation of 1.3% (Graph 5, **deflated** gross values). In the 3rd Quarter, the year-on-year variation was 1.4% (2.3% in the 2nd Quarter). As can be seen in the graph below, the trend of this indicator (vhIVNCRTm) has de-accelerated since that start of the year, but remains relatively strong. The recent growth continues to be based on the retail of *non-food products*.

Graph 5 | Variation in Retail trade turnover



Representing another sector of private consumption, **car sales** also decreased in year-on-year terms: they increased by 16.1% in **October** after a 18.9% rise in the 3rd Quarter, and by over 30% in the 1st Quarter.

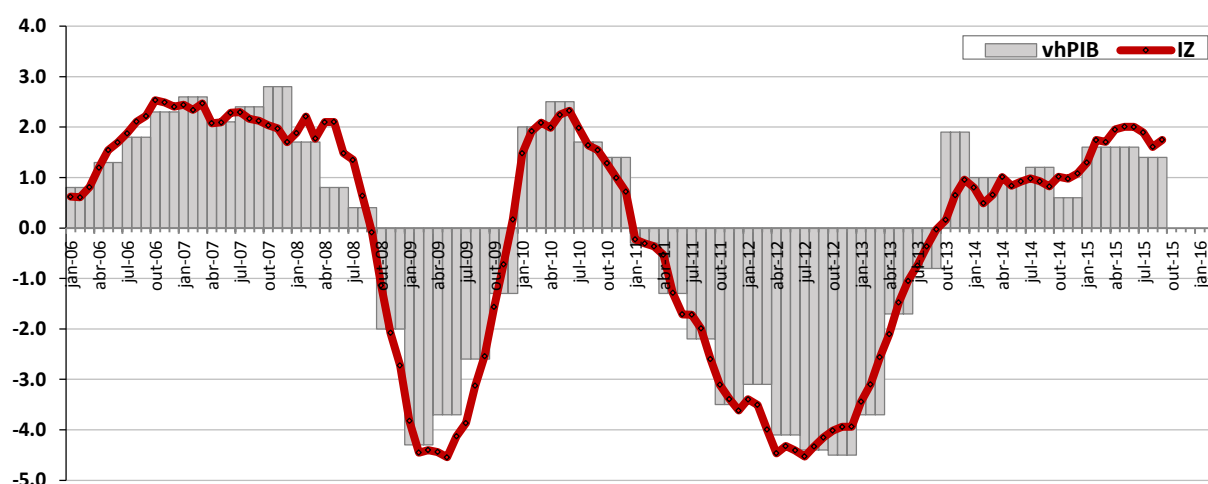
7. THE EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)** of **September** showed a lower average level during the 3rd Quarter, which is in line with the decrease of INE's estimate for quarterly GDP. However, in the month of September, this indicator slightly recovered, which suggests that the growth in GDP, which although showing signs of de-accelerating, is not doing so in a marked way.

As we enter the **4th Quarter**, with scarce information available so far, it is most probable that this Quarter will see a similar rate of growth to that of the previous Quarter. Indeed, the few demand-related indicators published to date (cement, car sales) do not show an increase in growth. The qualitative indicators, namely the confidence indicators, demonstrated mixed results in October, the most important one being the consumer confidence indicator, which decreased after many months of steady growth.

Thus, the most probable forecast for the 4th Quarter is a lower growth rate than that registered for the 1st Semester (1.6%). With regards to the final growth rate of 2015, the former rate forecast of 1.6% continues to be achievable, although the growth rate of the 3rd Quarter, together with the expected level for the 4th Quarter, means that a rate of 1.5% is becoming more likely.

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



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

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