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# ECONOMIC OUTLOOK

December 2015

## SUMMARY

*The quantitative data for October show a higher trend for growth in Industrial Production and Retail Sales and a more marked decrease in turnover in the Services Sector, however the Global Activity Trend Indicator (IZ) remained stable during October.*

*The evolution of the Global Activity Trend Indicator suggests a growth in GDP during the 4<sup>th</sup> Quarter similar to the values of the 3<sup>rd</sup> Quarter, in spite of a fall in the confidence indicators during November.*

*The growth in GDP for 2015 is estimated to be 1.5%.*

## 1. GROWTH IN GDP DURING THE 3<sup>RD</sup> QUARTER

The second estimate for growth of GDP for the 3<sup>rd</sup> Quarter of the National Statistics Institute (INE) confirmed the previous values, namely: a growth in volume by 1.4% year-on-year, and 0% when compared to the previous Quarter, which reflects a slowdown in GDP growth compared to that observed for the 1<sup>st</sup> Semester (1.6 % year-on-year, and 0.5% when compared to the previous Quarters).

The detailed information from INE about growth during the 3<sup>rd</sup> Quarter shows a de-acceleration in the year-on-year growth in Internal Demand (from 3.5% in the 2<sup>nd</sup> Quarter, to 1.9% in the 3<sup>rd</sup> Quarter), as was the case for Private Consumption (which decreased from 3.2% to 2.3%), and also for Investment (which fell from 8.5% to 1.7%). The de-acceleration in Private Consumption is mainly due to a reduced growth in the purchase of durable goods, whose year-on-year growth decreased from a level of 17.0% in the 2<sup>nd</sup> Quarter, to 7.8% in the following Quarter.

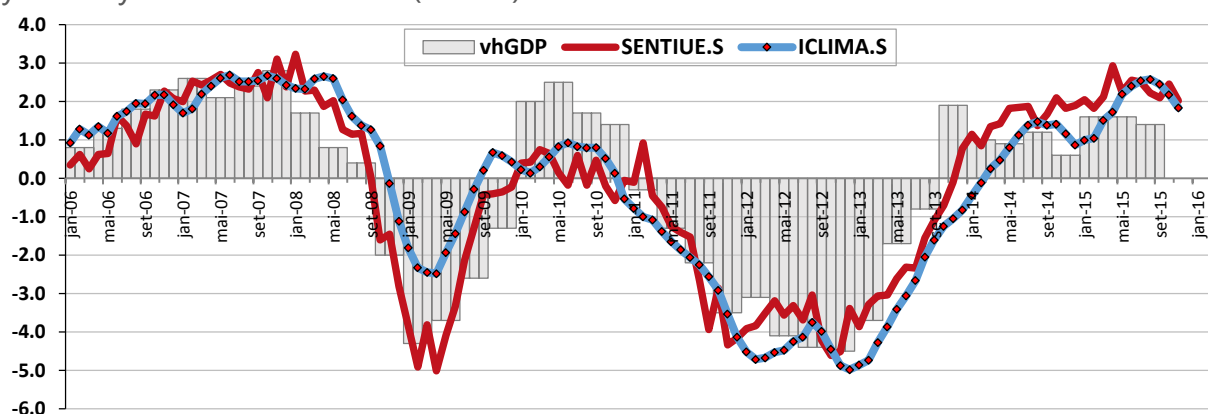
Due to an accentuated reduction in the growth of net imports, Net External Demand has less of a negative effect on GDP, passing from a contribution (in volume) of -2.0 p.p. in the 2<sup>nd</sup> Quarter, to -0.5 p.p. in the 3<sup>rd</sup> Quarter. The nominal External Balance of Trade for Goods and Services was positive (1.3% of GDP), with a slightly better result than that recorded in the previous Quarters, mainly as a result of the fall in the price of crude oil.

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

As can be seen in Graph 1, in **November**, both the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) and the **Economic Climate Indicator** (ICLIMA.S, INE) of the National Statistics Institute worsened, possibly as a result of the political uncertainty that the country faced during this month. By sector, the confidence indicators that worsened most during the month were those of Construction and Services. With regards to **consumers**, the respective confidence indicator (INE and Eurostat) also decreased, registering the lowest value of the year.

For the same month, the **Economic Sentiment Indicator** for the **Eurozone** remained stable at the highest level for the year. The confidence indicator for consumers in the Eurozone rose, although it has already seen higher levels this year.

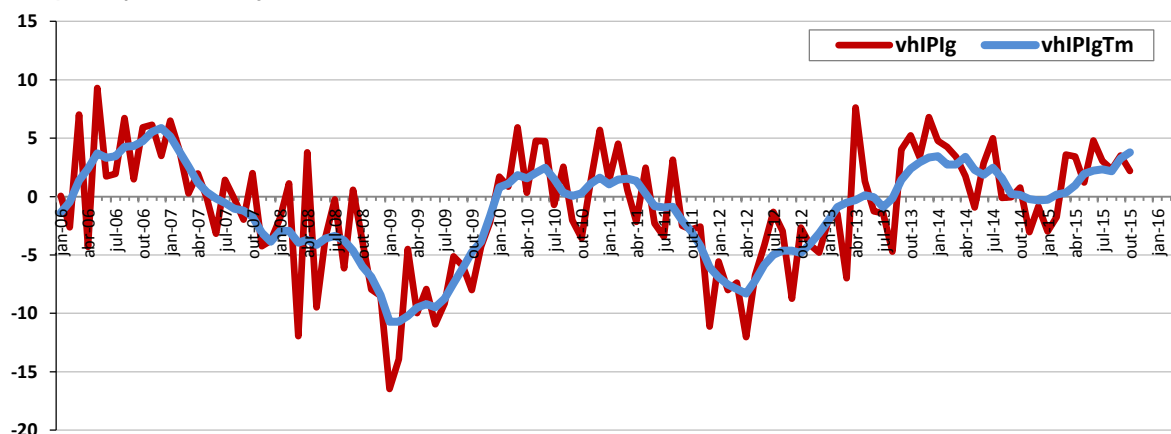
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



### 3. INDUSTRIAL PRODUCTION

In **October**, which had one less working day, the **Industrial Production Index** showed a year-on-year variation of 2.2% (gross values, **vhIPIgTb** series in Graph 2; the variation in manufacturing being -0.1%). Corrected for seasonal and calendar effects, the estimated trend of year-on-year variations (**vhIPIgTm**) has been growing over the last months.

Graph 2 | Year-on-year variation of Industrial Production

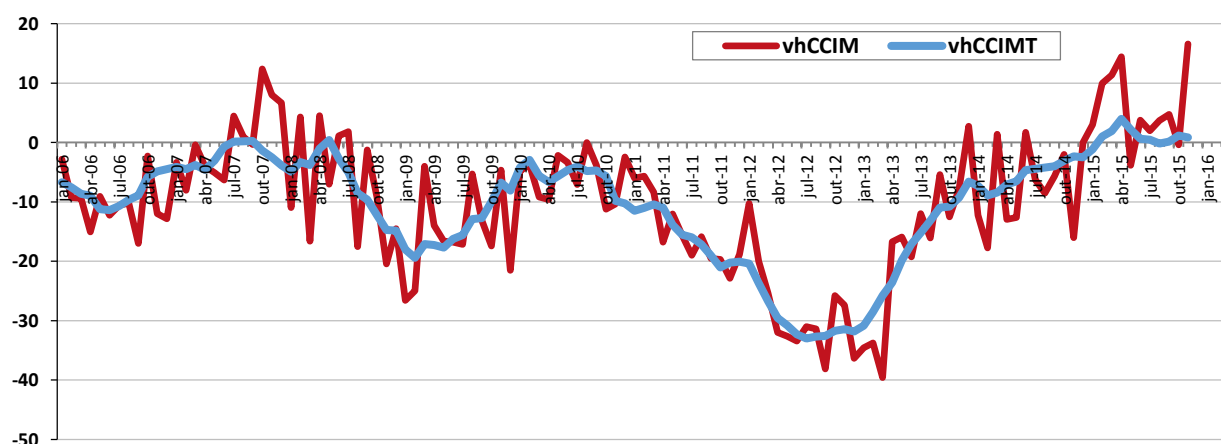


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -4.0%, with -5.8% for the national market, and -0.8% for the external market. The most recent evolution of this indicator has been penalised by the year-on-year variation of the Industrial Production Price Index, which was -3.7% in October, the highlight being the better performance of the external market.

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

In **November**, with one more working day than last year and much better weather conditions, the year-on-year variation of cement consumption was greater than 16%. Trend-wise - after seasonal, calendar and climatic corrections, **vhCCIMT**, in Graph 3 - estimated year-on-year variations are slightly positive for the last month and they continue to evidence a low level of growth.

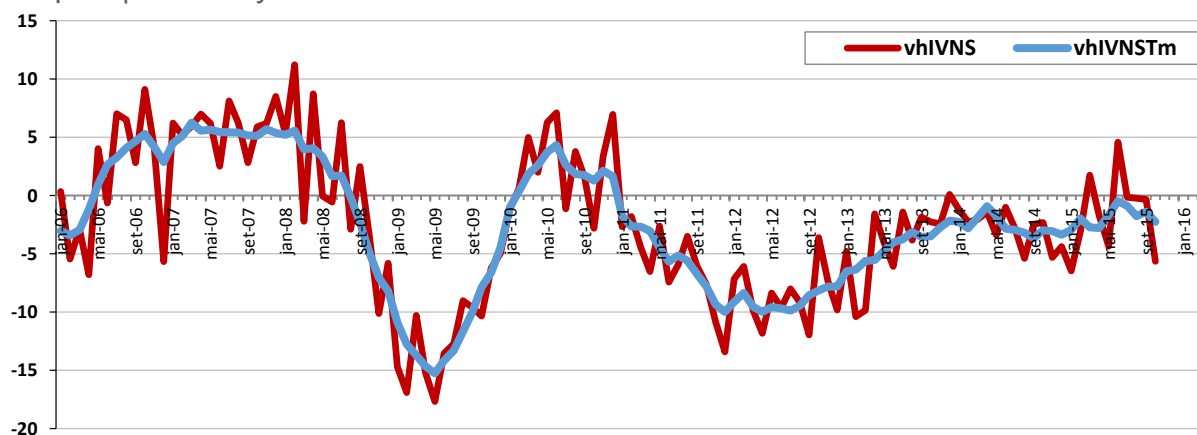
Graph 3 | Year-on-year cement consumption



## 5. TURNOVER IN THE SERVICES SECTOR

In **October**, with less one working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of -5.7% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm adjusted for seasonal and calendar effects, Graph 4) continued to be negative and fell once again.

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

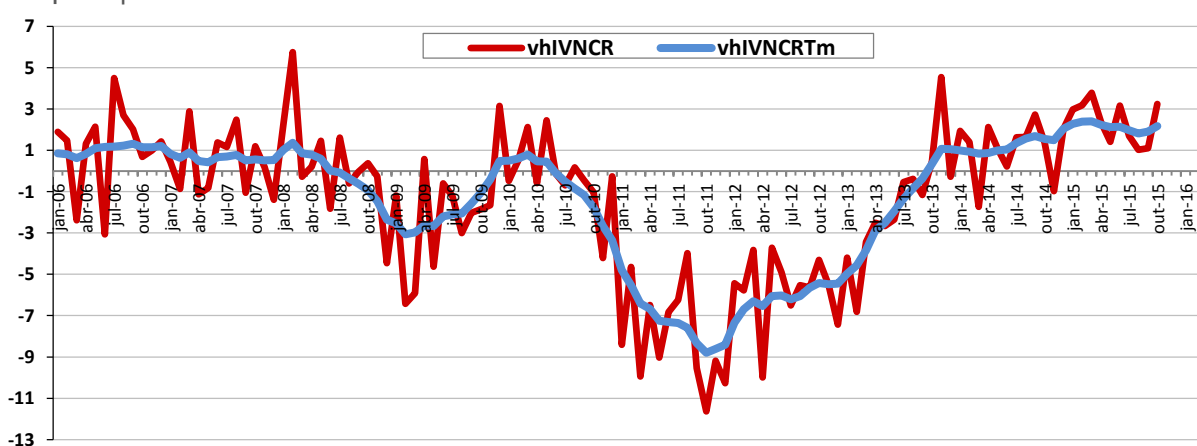


With regards to the hotel sector, the nominal indicator for **hotel turnover** (Tourism Activity, INE) grew year-on-year by 14.4% in **October**, which was greater than the accumulated variation registered since the start of the year (13.1%).

## 6. RETAIL TRADE TURNOVER

In **October**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.2% (Graph 5, **deflated** gross values). The trend of this indicator (vhIVNCRTm) has shown an increase in year-on-year variation during the last month. The group of *non-food products* continues to lead the real growth in this sector.

Graph 5 | Variation in Retail trade turnover



Representing another sector, **car sales** increased 13.9% in year-on-year terms during November, after a rise of 16.1% in **October**. These growth percentages are less than those recorded during the 3<sup>rd</sup> Quarter (18.9%).



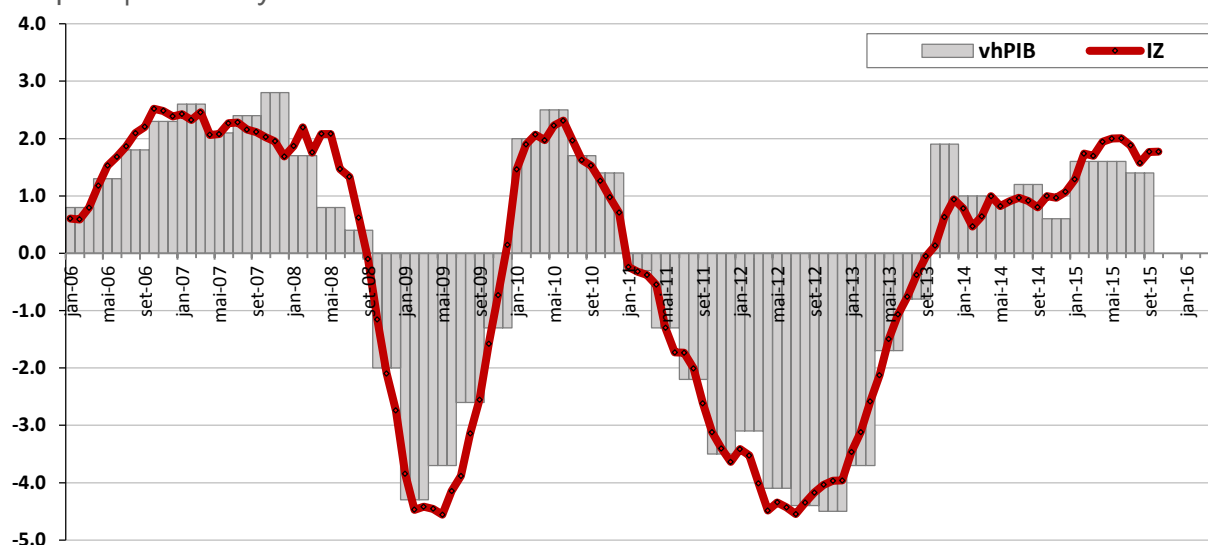
## 7. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, after the publishing of the first quantitative data from the 4<sup>th</sup> Quarter, the indication is that the **global activity trend indicator (IZ)** for **October** shows a stable level when compared to the previous month. This evolution is a result of an improvement in the trend indicators for Industrial Production and Retail Trade Turnover, and a worsening of the trend indicator for Turnover in the Services Sector. On the other hand, there was no change in the previous evolution of Net External Demand for Goods.

Moving on to November, there has been a fall back in the levels of the confidence indicators. As these are subjective indicators, it is still too early to surmise whether these were just a reflection of the political instability of the month, or whether the quantitative indicators will prove that this was really the case. For now, the evolution of Sales of Cement and Cars in November does not support this latter scenario.

In summary, the data from the first third of the 4<sup>th</sup> Quarter do not appear to indicate significant alterations for the forecast economic growth of the 4<sup>th</sup> Quarter. Indeed, the stabilising of the **global activity trend indicator (IZ)** suggests, for now, that the growth in GDP for the 4<sup>th</sup> Quarter could be similar to that recorded for the 3<sup>rd</sup> Quarter. If so, then the rate of growth for the end of 2015 year will remain at 1.5%.

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



Compiled with information available as of the 16<sup>th</sup> of December.

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