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SCHOOL OF
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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

January, 2016

SUMMARY

The evolution of the *Global Activity Trend Indicator* in October and November suggests a slowdown in internal demand during this period, especially in November. This fact was pre-announced by the fall in the confidence indicators in November and could also be a result of a certain political uncertainty.

Later on, a general improvement of the confidence indicators in December suggests that this fall could have been compensated at the end of the Quarter.

Thus, a year-on-year growth in GDP of 1.4% is forecast for the 4th Quarter of 2015, and of 1.5% for the respective annual growth.

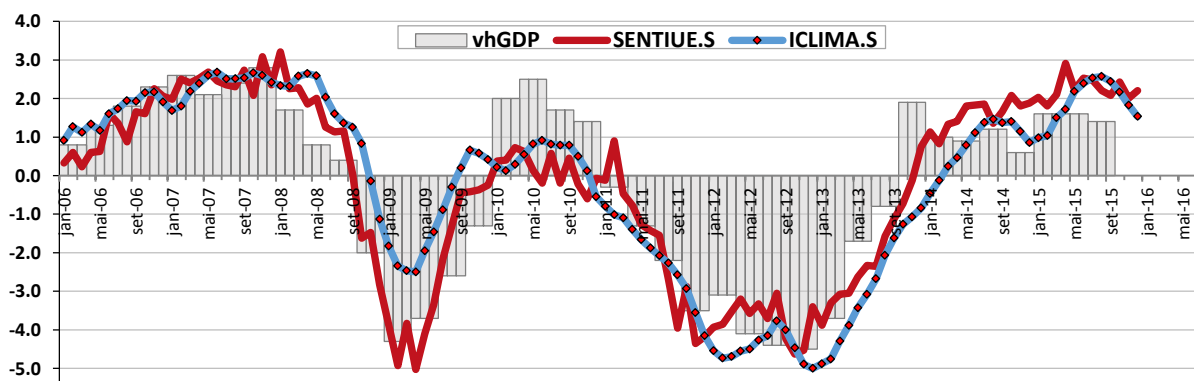
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN DECEMBER

As can be seen in Graph 1, in **December**, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) improved and recuperated part of the fall of the previous month. On average, this indicator, which attained its highest value during the 2nd Quarter of 2015, is now situated at a slightly lower value, albeit it is relatively stable. Simultaneously, the **Economic Climate Indicator** (ICLIMA.S, INE) of the National Statistics Institute, which is a more regular, but a less up-to-date indicator, as it is based on information from the last three months, fell again, which suggests a tendency of a more accentuated fall. However this indication seems to be out-of-date when compared with the reality of December.

In fact, when analysed by sector, focusing exclusively on **December**, after seasonal corrections, the respective confidence indicators improved, both those of Eurostat, as well as those of INE, and their evolution corrected the falling values of November. Furthermore, in relation to **consumers**, the respective confidence indicator (INE and Eurostat) improved considerably when compared to the lowest values of the year, which were registered in November.

In the same manner, the **Economic Sentiment Indicator** for the **Eurozone** rose, registering its highest value for the year. The confidence indicator for consumers in the Eurozone improved in November and December, although it had attained higher values back in March to June of 2015.

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

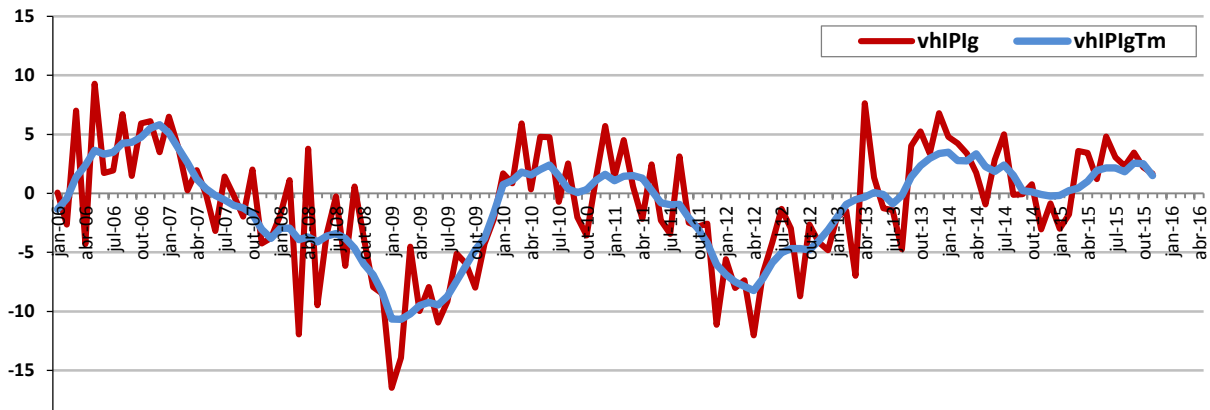


Meanwhile, as will be seen below, with regards to the quantitative indicators, where the majority of the available information refers to November, the evolution was more negative. However, similar to that which occurred with the qualitative indicators of November, which later turned around in December, it is most probable that we can expect that the quantitative values will have had a more positive evolution in December.

3. INDUSTRIAL PRODUCTION

In **November**, which had one more working day, the **Industrial Production Index** showed a year-on-year variation of 1.7% (gross values, vhlPIgTb series in Graph 2; the variation in manufacturing being 2.2%). Corrected for seasonal and calendar effects, the estimated trend of year-on-year variations (vhlPIgTm) has been falling over the last two months, although they are still very positive.

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

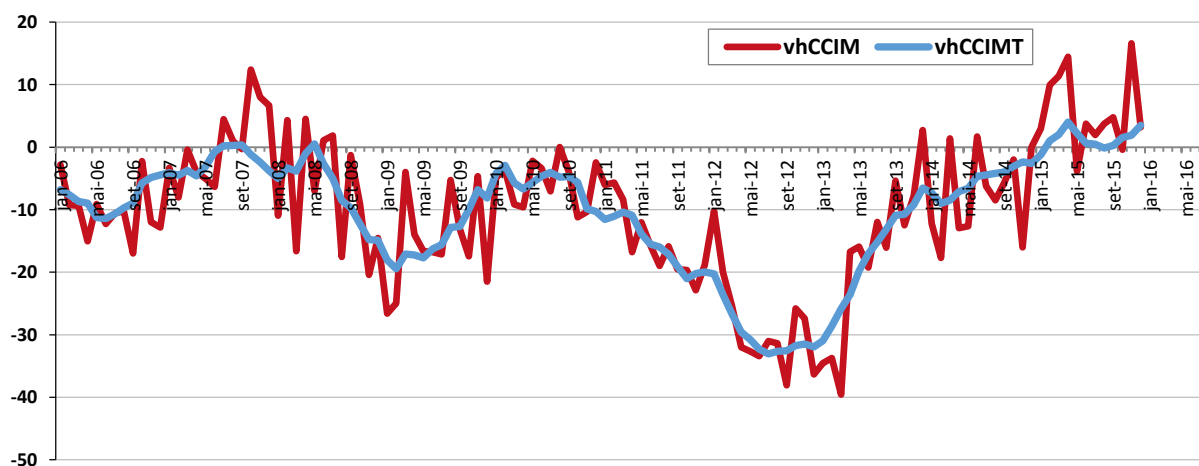


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -0.9%, with -0.1% for the national market, and -1.8% for the external market. It should be noted that the most recent evolution of this nominal indicator has been penalised by the evolution of turnover for the “Energy” sector, basically brought about by the substantial year-on-year fall in the price of crude oil.

4. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **December**, the year-on-year variation of cement consumption was greater than 3%, and during the **4th Quarter**, year-on-year growth was about 6%, which was greater than the growth of the two previous Quarters. Trend-wise - after seasonal, calendar and climatic corrections, vhlCCIMT, in Graph 3 - estimated year-on-year variations rose during the last month of 2015, suggesting a more dynamic positive growth.

Graph 3 | Year-on-year cement consumption

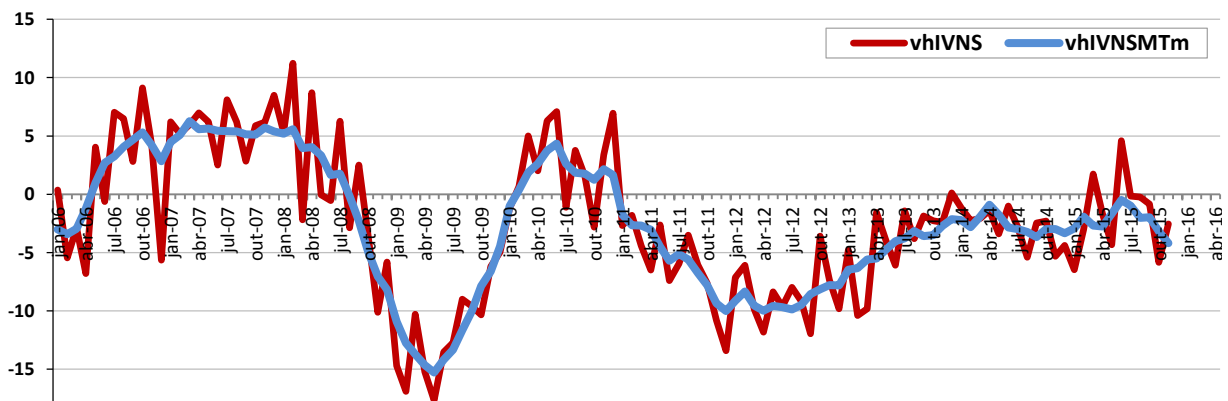


5. TURNOVER IN THE SERVICES SECTOR

In **November**, with one more working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of -2.6% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSMTm adjusted for seasonal and calendar effects, Graph 4) fell again and are the lowest values for the last two years.

With regards to the hotel sector, the nominal indicator for **hotel turnover** (Tourism Activity, INE) grew year-on-year by 11.9% in **November**. The accumulated variation of January to November 2015 is 13.1%.

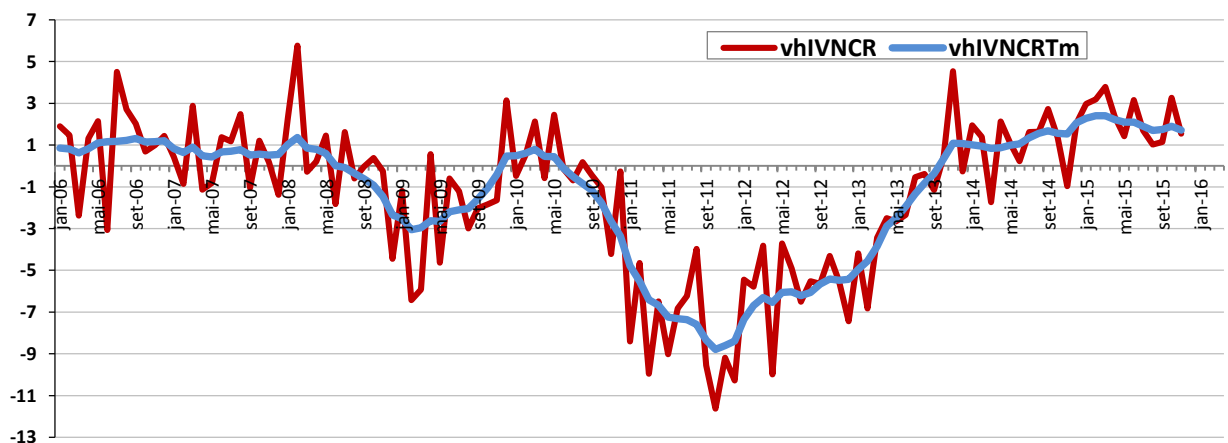
Graph 4 | Year-on-year variation for the Services Sector



6. RETAIL TRADE TURNOVER

In **November**, the **Retail Trade Turnover Index** registered a year-on-year variation of 1.6% (Graph 5, deflated gross values). The trend of this indicator (vhIVNCRm) shows a small decrease 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 13.6% in year-on-year terms during the **4th Quarter**. This value was less than that recorded during the 3rd Quarter (18.9%) and the 1st Semester (more than 30%).

7. EVOLUTION OF THE Z TREND INDICATOR

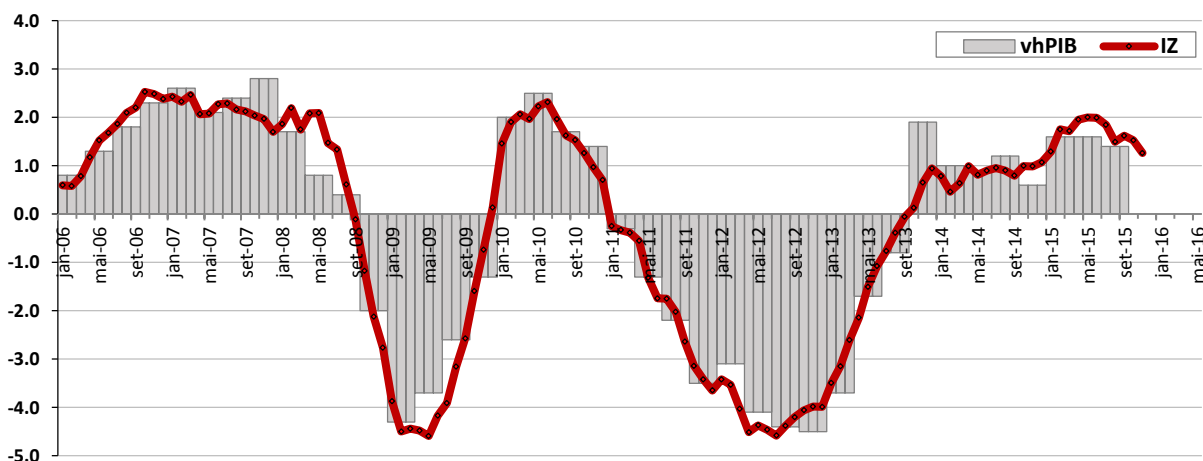
As can be seen in Graph 6, the results of the overall quantitative data of the first two months of the 4th Quarter of 2015, indicate that the **global activity trend indicator (IZ)** worsened in October and November. For the month of November, this evolution resulted in a trend decline in Industrial Production and Retail Trade Turnover, and a more pronounced fall of the trend indicator for Turnover in the Services Sector.

Thus, in terms of internal demand, the information available from October and November suggests a slowing down of private consumption and uncertainty with regards to investment. Overall, in relation to private consumption, despite the slowing down of growth in car sales, we do not yet know the evolution of the indicators for retail trade for December, which is an all-important month for retail which could determine the evolution for the Quarter. Along this line, the improvement of the consumer confidence indicators for retail in December was a positive sign. In terms of investment, the uncertainty at the end of the year is a result of differentiated behaviours: whilst investment in constructing grew more than the previous two Quarters, investment in the other sectors grew less, or in some cases, even fell.

With respect to Net External Demand, the *nominal* results for the trade of goods in October and November were better than those of the same period of 2014, brought about by the fall in the price of crude oil since the end of 2014. In *real terms*, the contribution of Net External Demand to GDP is less certain, but it is not forecast that it will be more negative than in the previous Quarter.

In summary, based on the fact that the data available is still incomplete, but taking into account the compensatory nature of some of the detected evolutions, a growth in GDP of 1.4% in the 4th Quarter continues to be forecast, as well as an annual growth of 1.5% for 2015.

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



Compiled with information available as of the 15th of January.

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