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ECONOMIC OUTLOOK

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SUMMARY

The evolution of the climate and confidence indicators for the Portuguese economy in January and February was characterised by volatility and uncertainty in relation to the overall evaluation of the Portuguese economy during the 1st Quarter of 2016.

ISEG's Global Activity Trend Indicator decreased slightly in January, but remained close to the values of the end of 2015.

The scarce information available regarding the 1st Quarter of 2016 suggests that GDP is not growing any more than the last Quarter of 2015, in year-on-year terms.

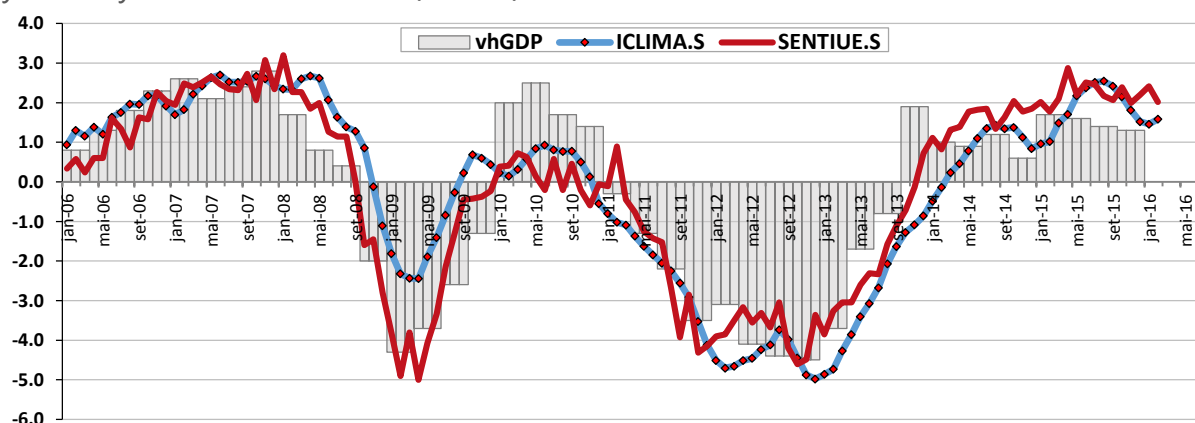
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN FEBRUARY

As shown in Graph 1, in **February**, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) decreased. It can be seen that for some time this indicator has been positive, however during the last three months it has been oscillating, with no definable trend. During the same month, the **Economic Climate Indicator** (ICLIMA.S, INE) of the National Statistics Institute, rose, based on information from the average of the last three months - December to February¹.

When analysed by sector, focusing exclusively on **February**, after seasonal corrections, the confidence indicators worsened for Industry and Services, whilst those of Public Works and Retail Trade improved (INE and EUROSTAT). In relation to **consumers**, the respective confidence indicator dropped considerably in February, having reached the highest value of the last decade in January (INE). The volatility of this indicator has increased since October.

With regards to Europe, the **Economic Sentiment Indicator** for the **Eurozone** fell again in February, reaching levels similar to those of the start of the previous year, after having attained its highest values during the last Quarter of 2015. The confidence indicator for **consumers** in the Eurozone also fell.

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



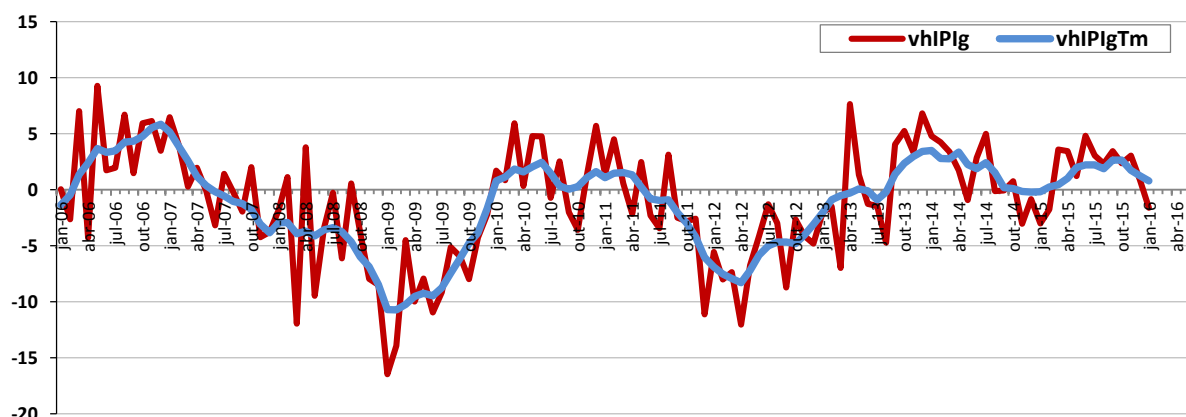
In relation to the qualitative indicators, which are analysed below, whose most recent information refers to January, these are proving to be less positive, trend-wise, although it is still too early to draw possible conclusions with regards to the current Quarter.

¹ The values of the indicators were adjusted for the average and for the standard deviation of the year-on-year variations of GDP (vhGDP).

2. INDUSTRIAL PRODUCTION

In **January**, which had one less working day, the **Industrial Production Index** showed a year-on-year variation of -1.6% (gross values, **vhIPIg** series in Graph 2; the variation in manufacturing being -2.3%). Corrected for seasonal and calendar effects, the estimated trend of year-on-year variations (**vhIPIgTm**) continues to show positive year-on-year variations, although they are lower than the previous months.

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

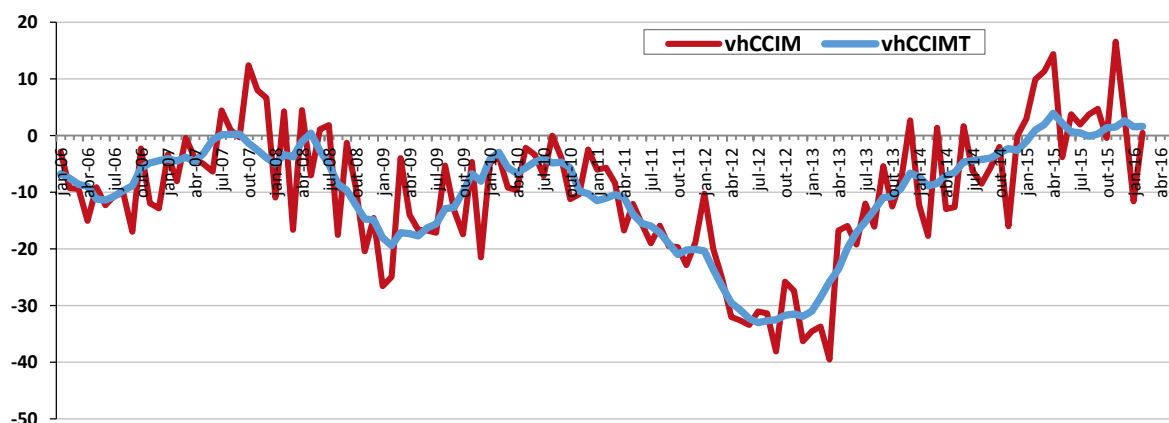


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -3.6%, with -1.8% for the national market, and -6.0% for the external market. The evolution of this nominal indicator continues to be penalised by the evolution of turnover for the “Energy” sector, or in other words, by the year-on-year fall in the price of crude oil.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **February**, which had one more working day, but above-average rainfall for the month, the year-on-year variation of cement consumption was just slightly positive (1%). The cumulative year-on-year variation for the first two months continued negative. Trend-wise - after seasonal, calendar and climatic corrections, **vhCCIMT**, in Graph 3 - estimated year-on-year variations are positive, but low, which indicates low dynamics of growth.

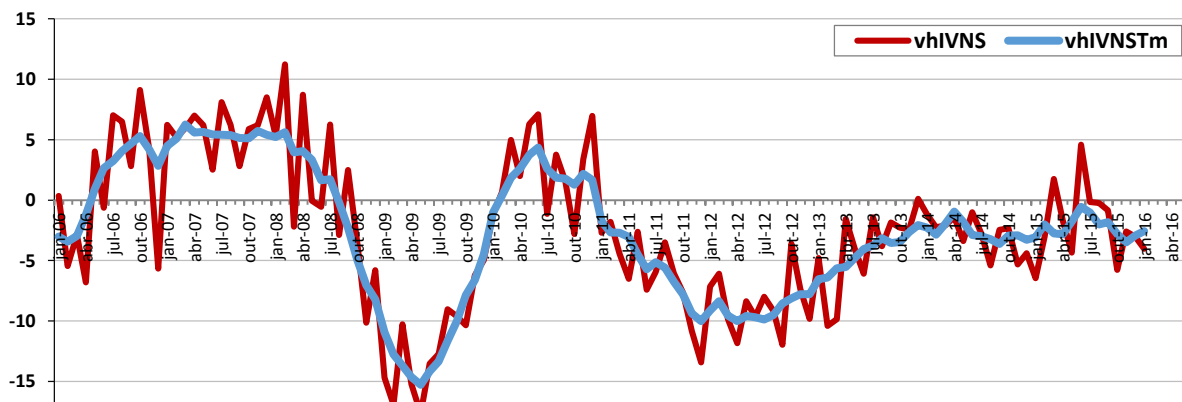
Graph 3 | Year-on-year cement consumption



4. TURNOVER IN THE SERVICES SECTOR

In **January**, with one less working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of -4.0% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) showed less negative values than those of the last Quarter of 2015.

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

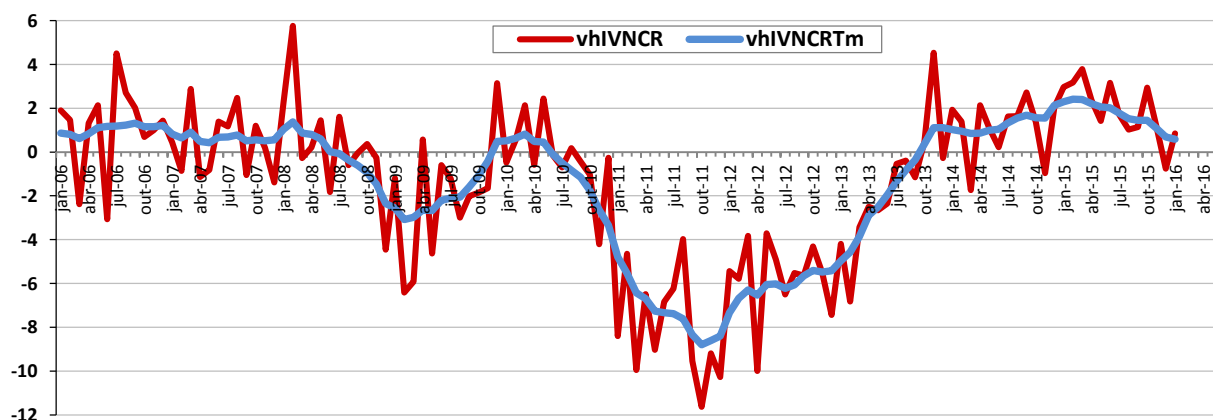


With regards to the hotel sector, the *nominal* indicator for **hotel turnover** (Tourism Activity, INE) grew year-on-year by 13% in **January**, after 14.6% in December, and 13.1% in 2015.

5. RETAIL TRADE TURNOVER

In **January**, the **Retail Trade Turnover Index** registered a year-on-year variation of 0.9% (Graph 5, **deflated** gross values). The trend of this indicator (vhIVNCRTm) continues to show a de-acceleration, due to less growth of the group of *non-food products*.

Graph 5 | Variation in Retail trade turnover



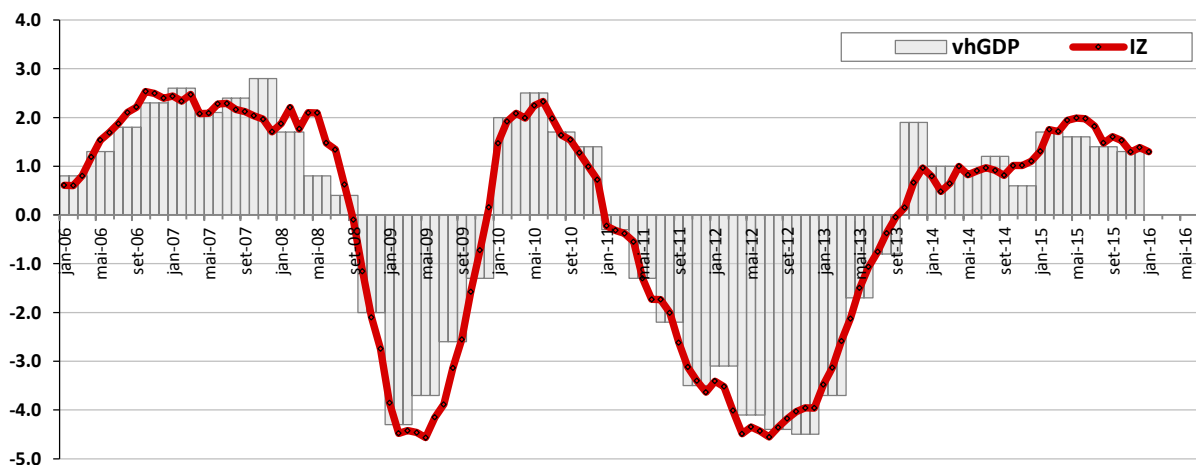
Car sales increased 26% in year-on-year terms (after 17.8% for the previous month). These values must reflect anticipated consumption, as a result of the announced tax rises.

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the results of the overall quantitative data for January indicate that the **global activity trend indicator** (IZ) decreased slightly in January, although it maintained a level similar to that of the last two months of 2015. This suggests that the de-acceleration of the growth observed during the last months of 2015 was not inverted during the first month of 2016, although it did not worsen. By sectors, as seen above, it is only Services that shows better results than those of the end of 2015.

Regarding external demand for goods, the results of January were similar to those of December, or in other words, *excluding fuel and lubricants*, which is the category of goods most affected by actual price variations, exports have hardly varied in year-on-year terms, whereas imports increased by more than 5%, which penalised the real trade balance. The increase in demand for cars during this Quarter must also have a negative effect on net external demand. In line with the growth of the previous year, tourism continues to record a growth in sales, due to external demand.

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



The late debate of the 2016 State Budget introduced some uncertainty and instability, which could have had some impact on the performance of the Portuguese economy during the 1st Quarter of 2016. Trend-wise, this has had a less positive effect. Consequently, despite the lack of available information, it is more than likely that GDP is not growing more during the 1st Quarter of 2016 in year-on-year terms, than it did during the last Quarter of 2015.

Compiled with information available as of the 16th of March.

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