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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

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SUMMARY

The evolution of the climate indicators in Portugal show some lack of definition with regards to the performance of the Portuguese economy during the 1st Quarter of 2016, although it has performed better than the Eurozone economy, which has worsened.

ISEG's Global Activity Trend Indicator decreased in January and February, pointing to a year-on-year growth in GDP lower than that of the 4th Quarter of 2015.

Based on the information available, which is incomplete, it is estimated that GDP grew 1.1% during the 1st Quarter of 2016 in year-on-year terms, and 0.3% in relation to the previous Quarter.

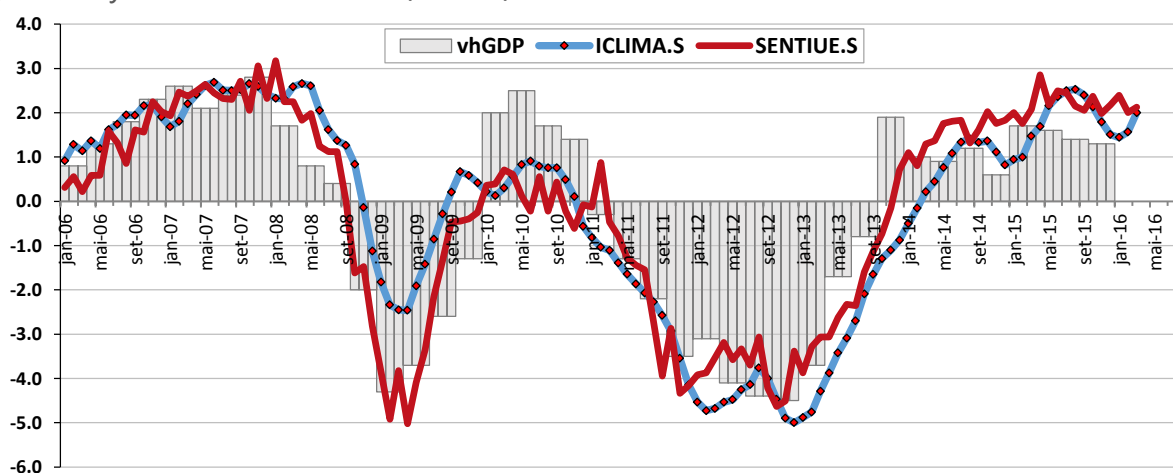
1. ECONOMIC CLIMATE AND CONFIDENCE INDICATORS IN MARCH

As shown in Graph 1, in **March**, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) increased in relation to the previous month¹. As can be seen from the graph, this indicator has been oscillating during the last year, and on average has remained stagnant. During the same month, the **Economic Climate Indicator** (ICLIMA.S, INE) of the National Statistics Institute, rose more sharply, based on information from the average of the last three months - January to March, recuperating some of the fall that had been recorded over the last months of last year. Based on information recorded since 2006, the level of these two indicators have now almost reached those recorded before the 2008 crisis.

When analysed by sector, focusing exclusively on **March**, after seasonal corrections, there has been an increase in the confidence indicators (Construction, Retail and Services), with the exception of Industry. In relation to **consumers**, the respective confidence indicator recuperated in March, after having experienced a sharp fall in February.

The **Economic Sentiment Indicators** for the **Eurozone (EA19)** and the **EU28** fell since the beginning of the year, and fell once again in March. The confidence indicator for **consumers (EA and EU28)** also fell. It can therefore be concluded that, since the 1st Quarter of 2016, the evolution of these indicators in Portugal has been less negative than that seen for the EA19 or the EU28.

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



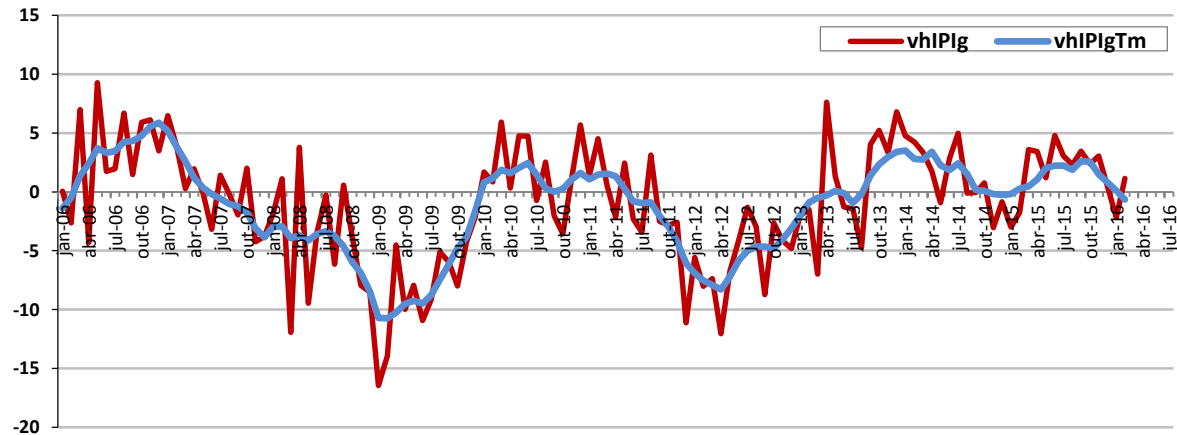
In relation to the quantitative indicators, whose most recent information refers to February, on the whole these show differing tendencies, as can be seen below.

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 **February**, which had one more working day, the **Industrial Production Index** showed a year-on-year variation of 1.1% (gross values, **vhIPIg** series in Graph 2; the variation in manufacturing being 0.8%). Corrected for seasonal and calendar effects, the estimated trend of year-on-year variations (**vhIPIgTm**) shows slightly negative year-on-year variations, which reflects the slowing down of production during the period of December to February.

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

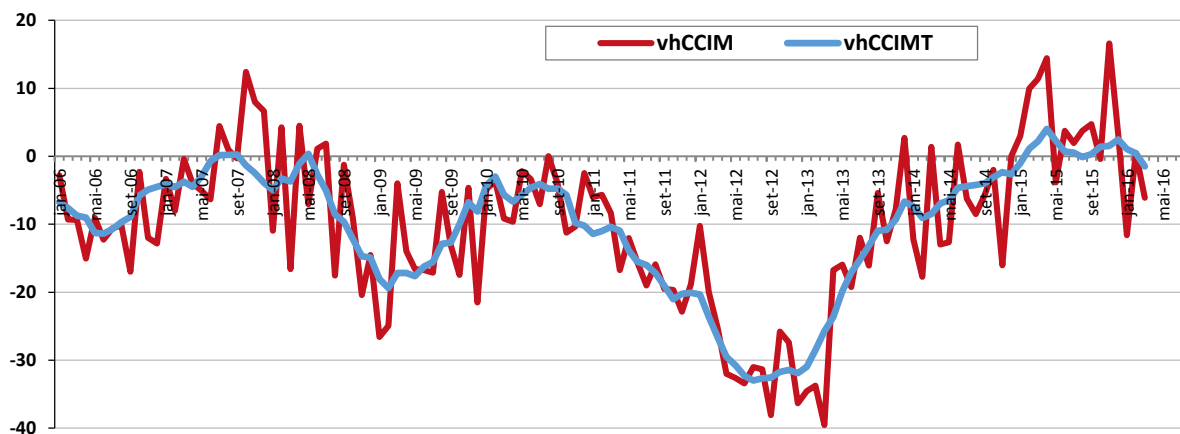


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of -1.9%, with -2.0% for the national market, and -1.9% for the external market. The evolution of this nominal indicator continued to be penalised by the evolution of turnover for the “Energy” sector, or in other words, by the year-on-year fall in the price of crude oil.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **March** the year-on-year variation of cement consumption was negative (-6%). The cumulative year-on-year variation for the 1st Quarter was also negative, being -6%, which inverted the previous year’s growth trend. Part of this fall can be attributed to the above-average rainfall during the period, but not entirely, as at the end of the period - after seasonal, calendar and climatic corrections, **vhCCIMT**, in Graph 3 - estimated year-on-year variations became slightly negative.

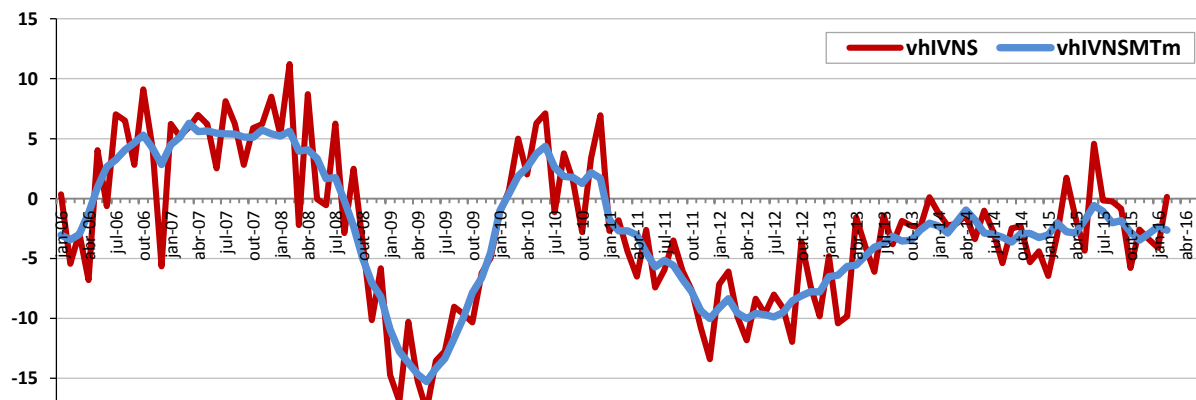
Graph 3 | Year-on-year cement consumption



4. TURNOVER IN THE SERVICES SECTOR

In **February**, with one more working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of 0.1% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSMTm, adjusted for seasonal and calendar effects, Graph 4) showed less negative values than those of the last Quarter of 2015.

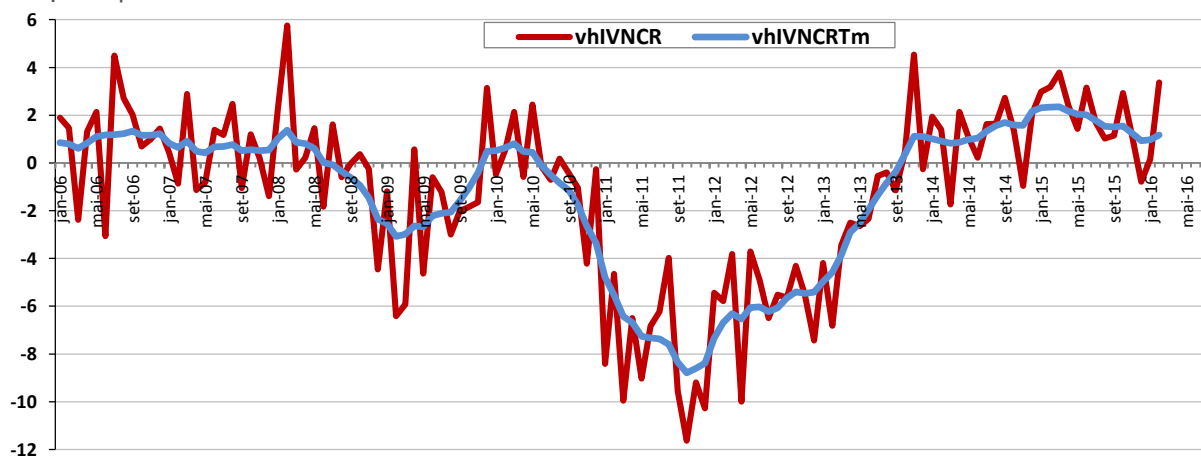
Graph 4 | Year-on-year variation for the Services Sector



5. RETAIL TRADE TURNOVER

In **February**, with one more day, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.4% (Graph 5, **deflated** gross values). The trend of this indicator (vhIVNCRTm) recuperated to values above 1%. The group of *non-food products* increased more than the group of *food products*, which inverted the ratio of the previous year.

Graph 5 | Variation in Retail trade turnover



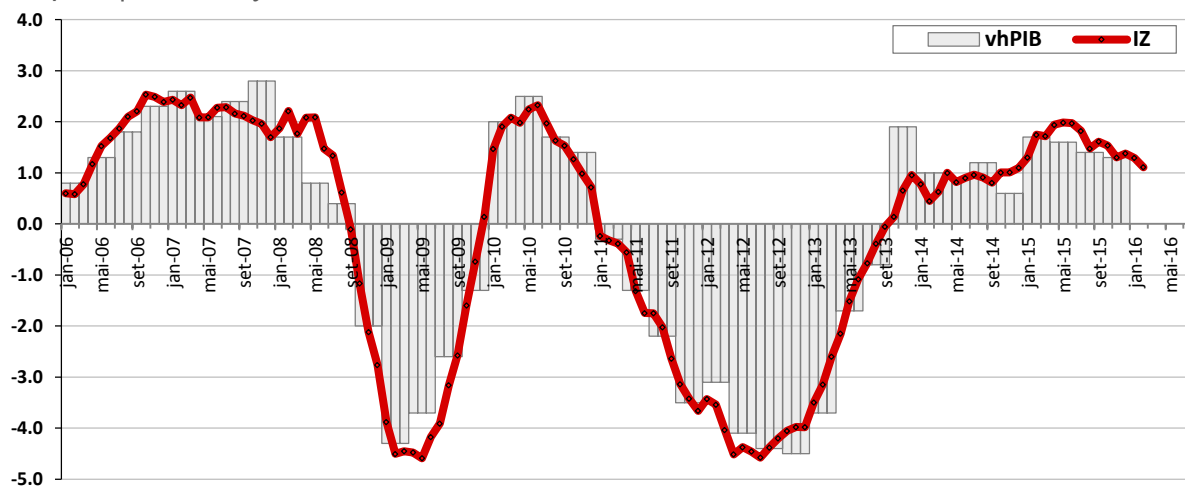
Car sales increased 31.6% in March in year-on-year terms, and 26.3% for the 1st Quarter of 2016 (13.6% for the 4th Quarter of 2015). This increase represents consumption in anticipation of the tax rises announced in the State Budget of 2016.

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, as a result of the quantitative sectorial data, the **global activity trend indicator** (IZ) decreased in January and February. By sector, as seen above, for the first two months of the year, and when compared with the last Quarter of 2015, there has been a less positive evolution for Industrial Production and for Construction, with the best results being for Retail and Services.

Regarding external demand for goods, the results of January and February were worse than those of the last Quarter of 2015, with a worsening of the nominal trade balance, even though the evolution of the price of the *fuel and lubricants* group continued to be positive. In fact, with, or without this category, exports increased only slightly (mainly due to the fall in non-EU markets). Imports increased much more, largely due to the strong growth of the transportation group. This is a specific character of the 1st Quarter, due to the abovementioned anticipated demand for cars during this 1st Quarter.

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



This has been an atypical Quarter, which has been influenced by specific occurrences resulting in a stronger year-on-year growth in private consumption, with less gross creation of fixed capital (greater transportation products, but less construction) and a more negative contribution of net external demand. Trend-wise, the final impact on growth in GDP has been lower than that of the previous Quarter. Therefore, with the proviso that the Quarterly information is not yet complete regarding March, based on the indicators presented, it is estimated that for the 1st Quarter of 2016 GDP could have grown by 1.1% in year-on-year terms, and 0.3% in sequence.

Compiled with information available as of the 14th of April.

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