



LISBON  
SCHOOL OF  
ECONOMICS &  
MANAGEMENT  
UNIVERSIDADE DE LISBOA

# ECONOMIC OUTLOOK

January 2017

## SUMMARY

*Most of the global and sectoral confidence indicators attained the highest values of the year during the 4<sup>th</sup> Quarter of 2016, in both Portugal and the Eurozone, suggesting a stronger year-on-year growth of economic activity during this period.*

*Based on the evolution of the quantitative indicators (albeit incomplete for December), the Portuguese economy is estimated to have grown by 2.0% in year-on-year terms during the 4<sup>th</sup> Quarter of 2016 (0.7% or 0.8% in relation to the previous Quarter).*

*For the whole of 2016, the growth of GDP will be between 1.3% and 1.4%.*

## 1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN DECEMBER

In **December**, based on the information of this month, the **Economic Sentiment Indicator** (SENTIUE.S, EUROSTAT, in Graph 1 below) rose again, mainly on account of the influence of an increase in consumer confidence. During the 4<sup>th</sup> Quarter, this indicator recorded the highest values of the year, and the highest average Quarterly value for the period covered in Graph 1.

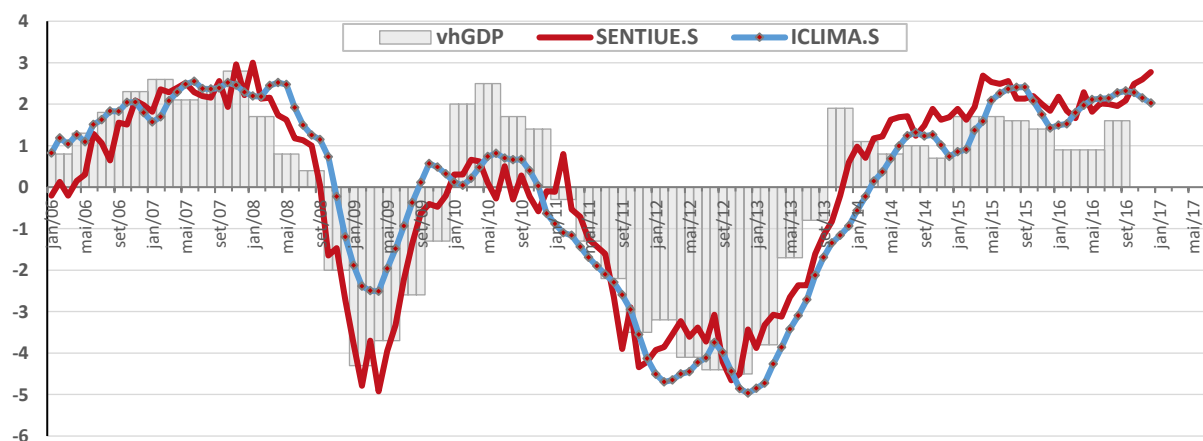
The **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) – which uses information from the previous three months and does not include the opinion of consumers – fell again slightly, (see Graph<sup>1</sup>), after the gain recorded since the start of the year, up until September.

As has already been mentioned, the graph below suggests that, at the end of the period analysed, the overall confidence level was relatively more optimistic than the year-on-year rate of growth of actual activity.

When analysed **by sector**, focusing exclusively on the data for the month of **December** (EUROSTAT, values corrected for seasonality), the **Confidence Indicators** rose for the Construction and Services sectors, whereas they fell for Industry (a little) and for Retail (more pronounced). However, using Quarterly averages, the 4<sup>th</sup> Quarter recorded the highest levels of confidence, except in the case of the Services sector (maximum in the 3<sup>rd</sup> Quarter).

Among **consumers**, there was a sharp rise in the respective confidence indicator, with the average value of the last Quarter being clearly higher than that of the others. The INE consumer confidence indicator, which uses three-month moving averages, was the highest recorded since the end of 2000.

Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP) 2006-2016



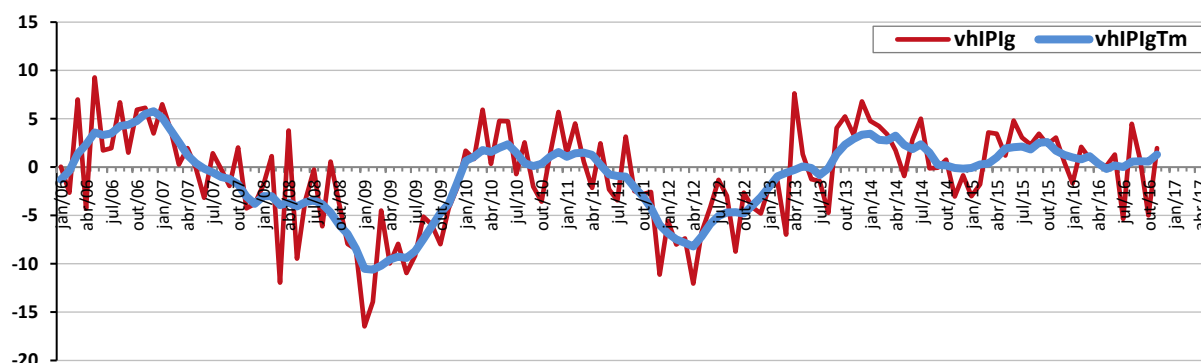
For the **Eurozone**, the **Economic Sentiment Indicator** rose again in **December**, attaining the highest value of the year. In terms of Quarterly averages, the level attained during the 4<sup>th</sup> Quarter was higher than the others. The behaviour of the **Consumer Confidence Indicator** was similar. These data indicate a stronger growth in the Eurozone during the 4<sup>th</sup> Quarter.

<sup>1</sup> In Graph 1, the original values of the indicators for the Climate and Economic Sentiment Indicator were adjusted for the average and for the standard deviation of vhGDP for the period in question.

## 2. INDUSTRIAL PRODUCTION

In **November**, which had the same number of working days in year-on-year terms, the **Industrial Production Index** showed a year-on-year variation of 2.0% (gross values, vHIPIg series in Graph 2; the variation in manufacturing being -0.7%). In accumulated terms, from January to November, the growth of this indicator is nil. Furthermore, corrected for seasonal and calendar effects, the estimated trend recovered, and it recorded positive year-on-year variations (vHIPIgTm) at the end of the period.

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

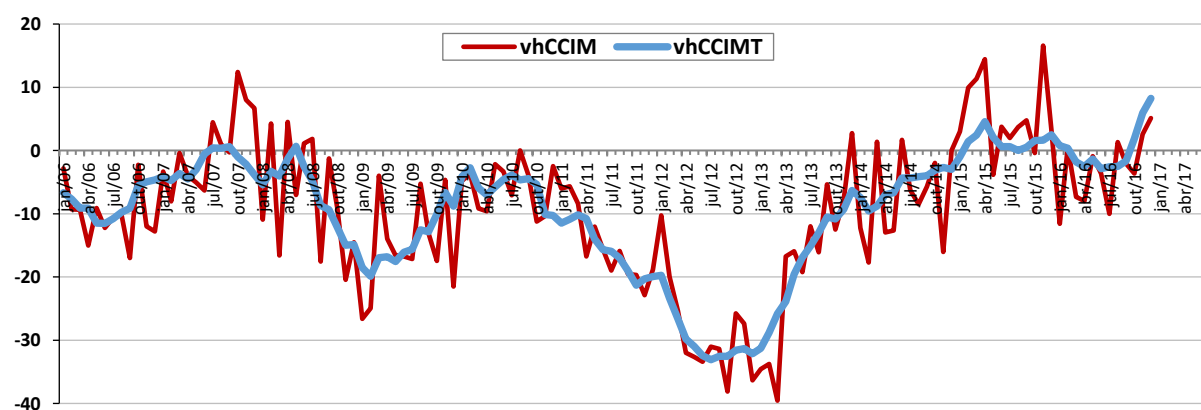


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 6.7% (with 4.9% for the national market, and 8.9% for the external market). In this month, the year-on-year change in prices in industrial production was nil, unlike previous months, when it was very negative, due to energy prices.

## 3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **December**, with one less working day, the year-on-year variation of sales of cement was positive (about 5%), and, as a result, the year-on-year variation of the **4<sup>th</sup> Quarter** was slightly positive, in contrast to the previous Quarters, where it had been negative (around -5%, on average). Estimated trend year-on-year variations (vhCCIMT, in Graph 3), corrected for calendar and rainfall effects, show very positive values at the end of the period. The Construction and Public Works Production Index (INE) registered the least negative result of the year in November, having grown in the subsector of building construction.

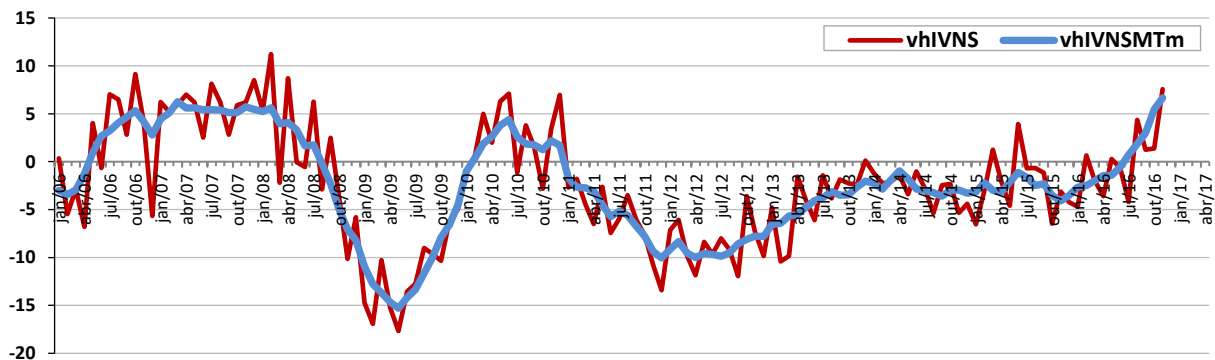
Graph 3 | Year-on-year cement consumption



## 4. TURNOVER IN THE SERVICES SECTOR

In **November**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 6.7% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSMTm, adjusted for seasonal and calendar effects, Graph 4) rose to very positive values. However, being a nominal series, some of this more recent growth may have been caused by price variation.

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

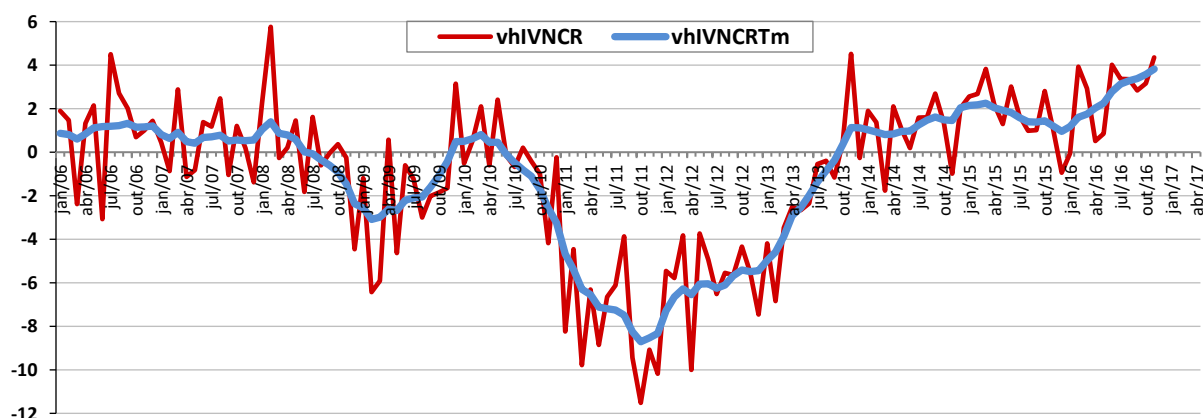


With regard to the hotel sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) showed a year-on-year variation of 23.6% in **November** (17.1% since the beginning of the year).

## 5. RETAIL TRADE TURNOVER

In **November**, the **Retail Trade Turnover Index** registered a year-on-year variation of 4.4% (Graph 5, **deflated** gross values). As can be seen in the graph below (vhIVNCRTm), the rate of increase of the tendency of this indicator was more than 3% in November. During this month, the growth in the turnover of the group of *non-food products* was close to that registered for that of the *food products* group, whose growth was notable in 2016.

Graph 5 | Variation in Retail trade turnover



**Car sales** increased 29.4% in **December**, and 20.6% during the **4<sup>th</sup> Quarter**, being a considerably greater increase than that of the two previous Quarters (10.6%, and 7.2%), but a bit less than the value recorded for the 1<sup>st</sup> Quarter. The stronger growth in the 1<sup>st</sup> and 4<sup>th</sup> Quarters was affected by consumers anticipating rises in specific taxes.



## 6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a weighted average of the information analysed above, has shown a pronounced increase during the last months. This increase, which is related with the year-on-year growth in GDP of the 4<sup>th</sup> Quarter, was determined by the very positive evolution of almost all the sectoral indicators.

By areas, the very positive year-on-year changes in Retail, Services and Car turnover suggest a strong growth in Private Consumption during the 4<sup>th</sup> Quarter, which should have been the highest in 2016.

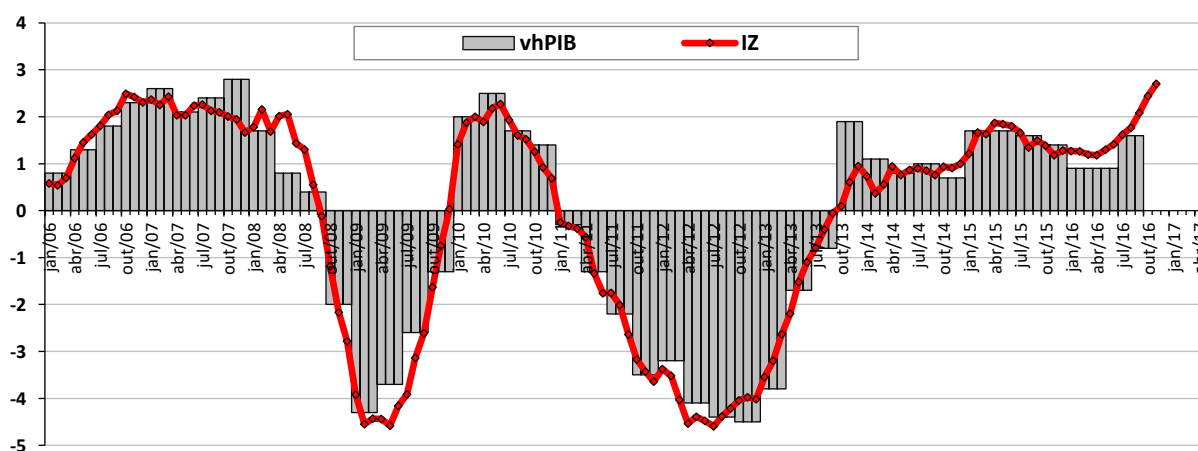
On the other hand, Gross Fixed Capital Formation (GFCF) - with a negative year-on-year variation during the previous Quarters - should have increased slightly in the 4<sup>th</sup> Quarter, judging by the positive year-on-year variation in cement consumption, which is an indicator related to the "Construction" component of GFCF. The known partial evolution of the remaining GFCF components was also not negative up until November. As a whole, Internal Demand is expected to have had a growth of slightly more than 2% during the 4<sup>th</sup> Quarter of 2016.

With regards to Net External Demand (NED), its contribution to the growth of GDP – which was positive during the previous two Quarters – could have been reversed, but not to a great degree. Indeed, although imports of cars and durable goods may have negatively affected the balance of trade, exports of services, especially tourism, will have contributed to partial compensation, being a situation that was reflected in the evolution of the balance of goods and services in October and November.

In summary, despite being incomplete (in relation to December), the information for the 4<sup>th</sup> Quarter suggests an acceleration in the year-on-year growth of GDP, which is estimated to be around 2%. In terms of quarter-on-quarter variation, growth will have been 0.7% or 0.8%, which is, in this case, the same value as that recorded for the previous Quarter.

Based on these estimations for the 4<sup>th</sup> Quarter, growth should have been 1.3% or 1.4% for the whole of 2016.

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



Compiled with information available as of the 20<sup>th</sup> of January.