



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

February 2017

SUMMARY

According to the initial estimates of INE, the growth of the Portuguese economy in 2016 was 1.4%, having doubled in the second half of the year due to the acceleration of the growth in domestic demand.

The global activity trend indicator continued to grow at the end of 2016, with a strong likelihood of continuing to grow in 2017. The overall improvement in confidence indicators continued during January.

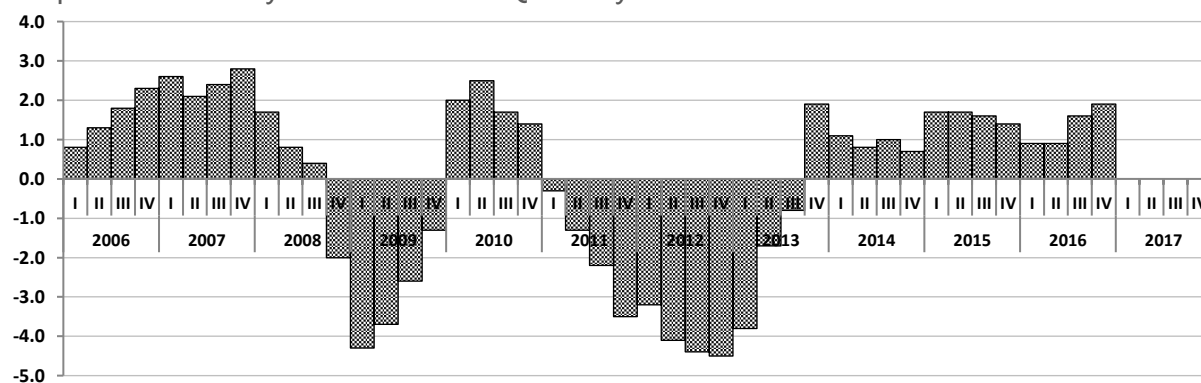
In a relatively stable international scenario, at this moment in time it is more likely that GDP growth in 2017 will surpass the value forecast in the State Budget for 2017 (1.5%).

1. THE GROWTH OF GDP DURING THE 4TH QUARTER OF 2016, AND IN 2016

According to the information of the National Statistics Institute (Quarterly National Accounts – Flash Estimate), during the 4th Quarter of 2016, Portuguese GDP grew by 1.9% in year-on-year terms (1.6% during the 3rd Quarter), and 0.6% in relation to the previous Quarter (0.8% during the 3rd Quarter).

As can be seen in the graph below, year-on-year growth accelerated again, just as it did during the previous Quarter, having been just 0.9% during the 1st Semester. INE states that the acceleration of year-on-year growth was based on the contribution of Internal Demand (ID), with a greater growth of Private Consumption, as well as a recovery in Investment. Contrary to the experience of the previous two Quarters, the contribution of Net External Demand (NED) returned to being negative. Qualitatively, the reasons presented by INE are the same as those that we forecast, given the evolution of the main sectoral indicators.

Graph 1.1 Year-on-year variations of Quarterly GDP



For the whole of 2016, growth in GDP reached 1.4% (1.6% in 2015). This is below the initial forecasts (of one year ago), and above the most pessimistic expectations presented at the beginning of the second half of the year, after only 0.9% of growth during the 1st Semester. However, year-on-year growth in the second half will have already been around 1.8. Even without quantified data which would allow a more pondered analysis, this acceleration of growth during the second half of the year could, in part, be due to a delayed reaction to the economic policy of re-instating the loss of disposable income that was put to test in the State Budget for 2016.

For the Eurozone (EZ19) - EUROSTAT, flash estimate - year-on-year growth during the 4th Quarter of 2016, was less than the preliminary estimate, being 1.7% (0.4% in relation to previous period), registering an annual growth also of 1.7%. For the EU28, annual growth was 1.8%. By country, in the EZ19, of note is the annual growth of 1.8% in Germany, 1.1% in France, 1.0% in Italy, and 3.2% in Spain.

2. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN JANUARY

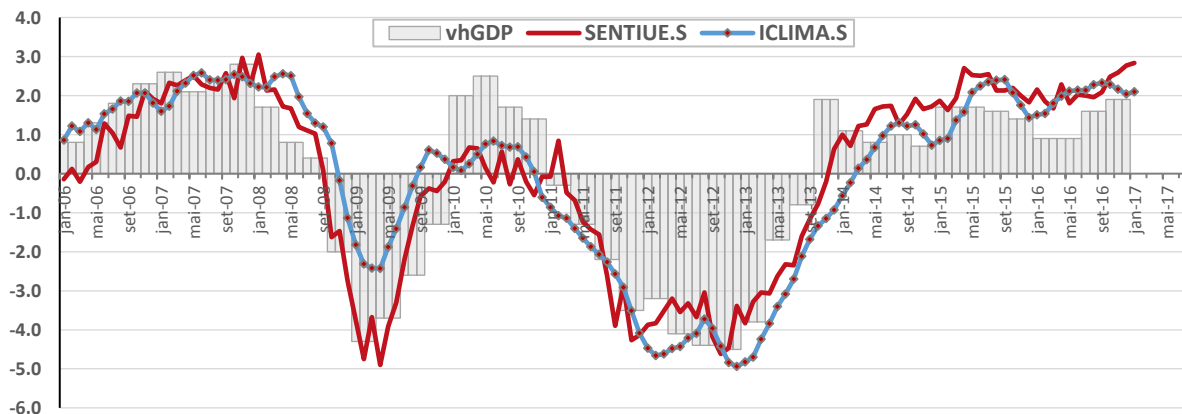
In **January**, as can be seen in Graph 2, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S¹, EUROSTAT, in Graph 1 below) rose again, although very slightly. As mentioned in the previous report, during the 4th Quarter of 2016, this indicator attained the highest quarterly average of the period shown in the graph.

The **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) – which uses floating averages from the previous three months, in this case from November to January, also rose, albeit after having recorded falls during the two previous months. It should be remembered that this indicator, unlike the previous one, does not include the opinion of consumers, which has improved significantly over the last months.

With regards to the **sectorial confidence indicators**, the results for **January** – using EUROSTAT, data, corrected for seasonality – rose for Industry, Services, and Retail, and fell slightly for Construction. For **consumers**, the EUROSTAT confidence indicator fell in January, although the INE confidence indicator rose, reaching new highest levels since 2000.

In summary, the qualitative information registered for January, after having reached relative peaks in the last Quarter of 2016, has maintained, in general, the upward movement for both the sectoral and global confidence indicators.

Graph 2| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



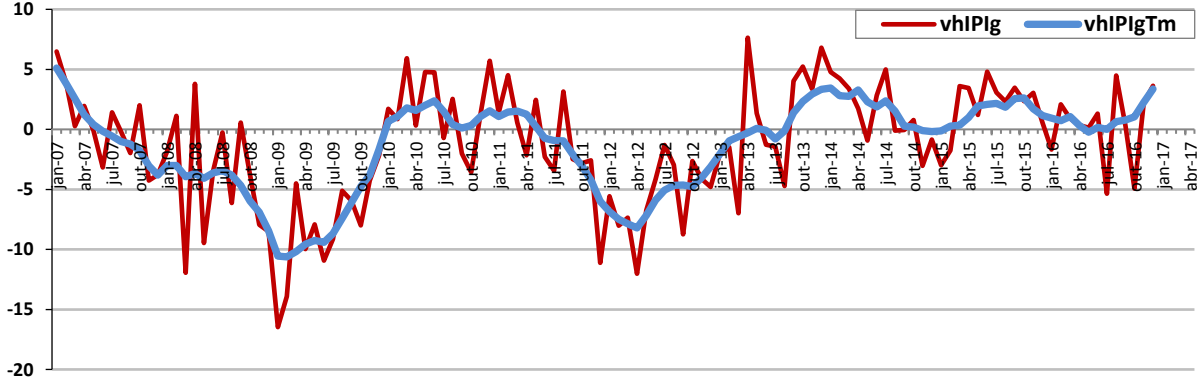
For the **Eurozone**, the **Economic Sentiment Indicator** also rose again in January, after having attained the highest value of the year during the last Quarter of 2016. In terms of countries, this indicator rose in Spain and Italy, and decreased slightly in Germany and France. The **Consumer Confidence Indicator** (Eurozone) also increased in January, especially in Germany and France.

¹ The values of the indicators were adjusted for the average, and for the year-on-year standard deviations of GDP (vhGDP) for the period in question.

3. INDUSTRIAL PRODUCTION

In **December**, which had one less working day, the **Industrial Production Index** showed a year-on-year variation of 3.6% (gross values, vhIPIg series in Graph 3; the variation in manufacturing being - 0.7%). During the 4th Quarter of 2016, the year-on-year variation of this indicator was only 0.1%. However, corrected for seasonal and calendar effects, the year-on-year variations of estimated trend (vhIPIgTm) showed positive levels of growth at the end of last year, suggesting a rising trend in production.

Graph 3 | Year-on-year variation of Industrial Production

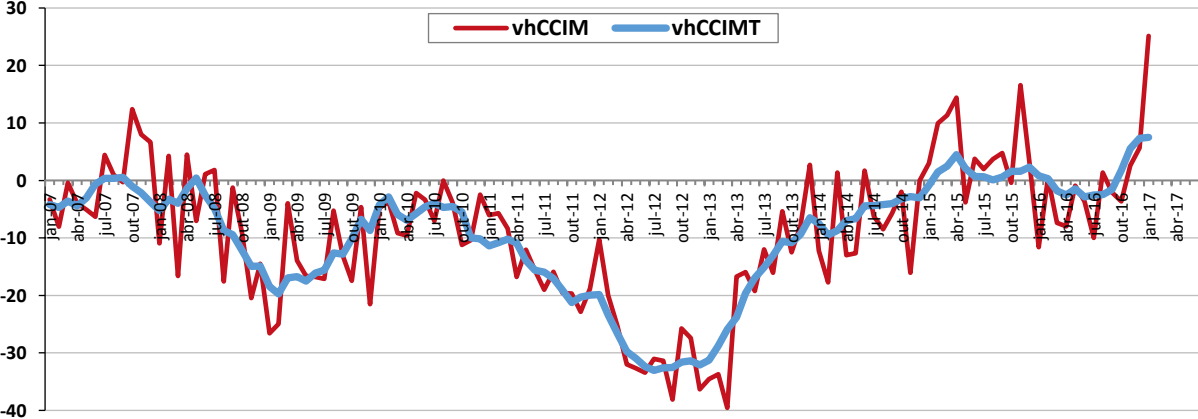


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 5.0%, with 3.9% for the national market and 6.5% for the external market. This growth also reflects a positive evolution of prices in industrial production, whose index grew by 1.7% year-on-year in December, especially due to the year-on-year evolution of the price of crude oil.

4. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **January**, with two more working days and much less rain than last year, sales of cement grew about 25% in year-on-year terms. Corrected for seasonal, calendar, and rainfall effects, estimated trend year-on-year variations - vhCCIMT, in Graph 4 - are clearly positive (about 8%) and manifest the acceleration in construction and public works which has been expected for this year, based on orders for this sector.

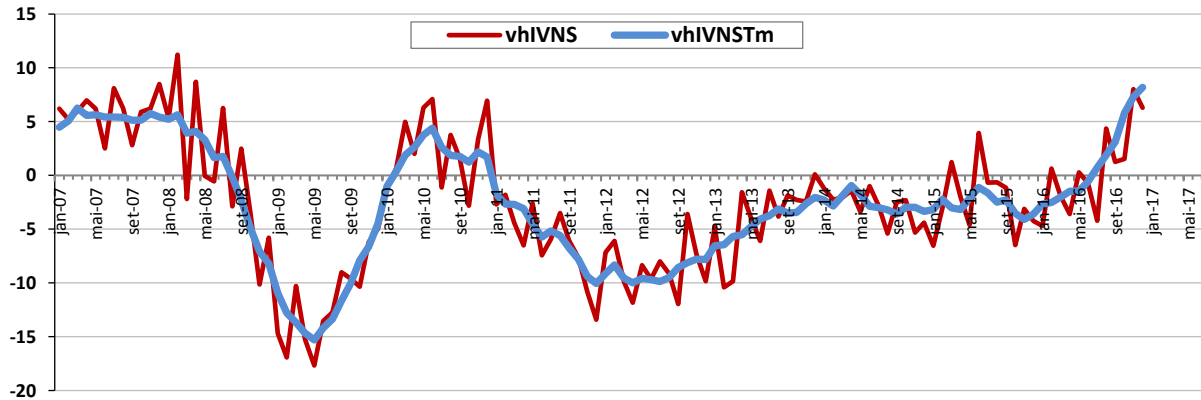
Graph 4 | Year-on-year Cement Consumption



5. TURNOVER IN THE SERVICES SECTOR

In **December**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 6.3% (vhIVNS series, Graph 5, gross values), which was also probably a consequence of the increase in prices. During the 4th Quarter of 2016, year-on-year growth was 5.2%, and 0.6% for the year, with positive growth only recorded for the second half of the year. The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 5) rose to very positive values.

Graph 5 | Year-on-year variation for the Services Sector

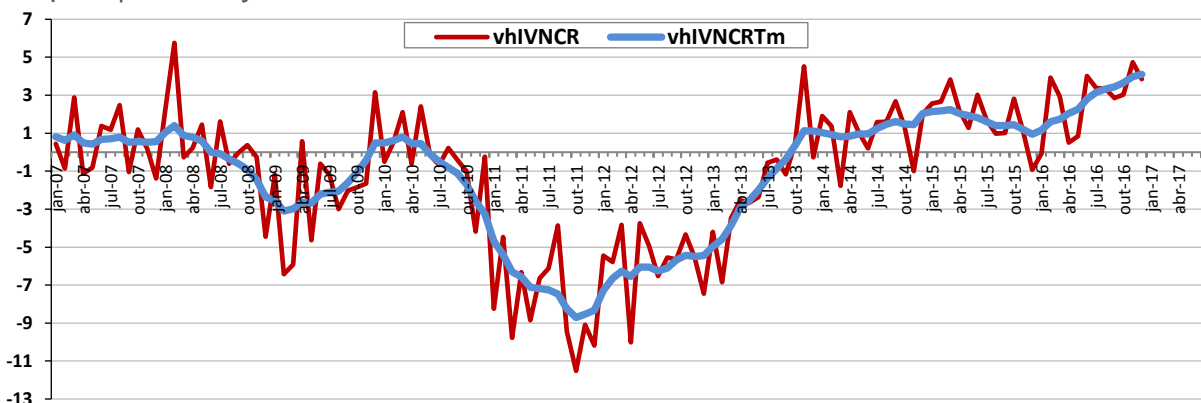


With regard to the hotel sector, the *nominal* indicator for **Hotel Turnover** (Tourism Activity, INE) showed a year-on-year variation of 15.1% in **December**, and a total growth of 17.0% in 2016.

6. RETAIL TRADE TURNOVER

In **December**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.8% (Graph 6, **deflated** gross values). The year-on-year variation during the 4th Quarter was 3.9%, and annual growth was 2.8% (1.7% in 2015). The trend of this indicator showed a sustained increase of the rate of year-on-year variation (vhIVNCRTm) throughout 2016. The growth of this indicator in 2016 was divided between growth of 4.1% for the *food products* group, and 1.9% for the *non-food products* group (with respective rates of growth of 0.8% and 2.4% in 2015).

Graph 6 | Year-in-year variation in Retail trade turnover



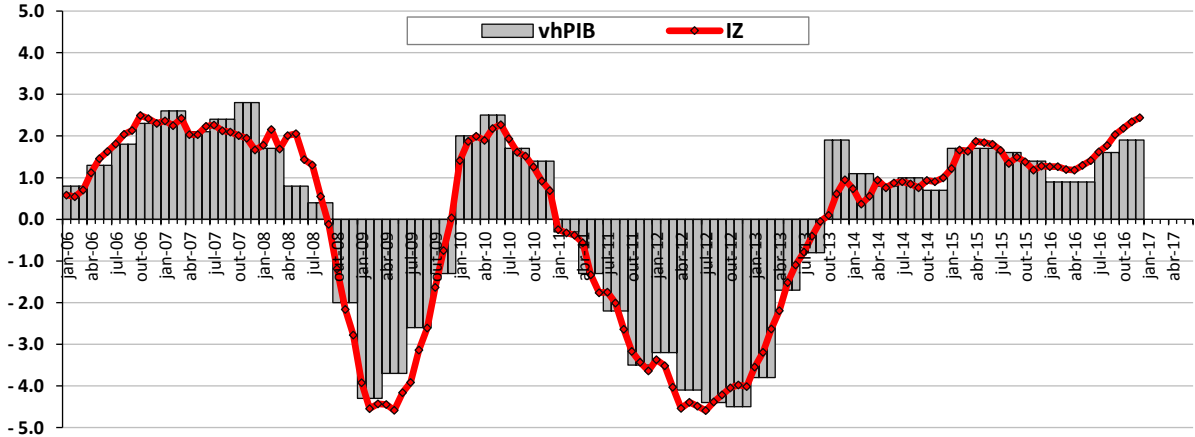
Already for this year, **car sales** increased 7.8% in **January** in year-on-year terms (20.3% during the 4th Quarter of 2016, this variation possibly being inflated by anticipated sales).

7. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 7, the **global activity trend indicator (IZ)** - which summarises the year-on-year evolution of the main quantitative indicators up until the end of the 4th Quarter of 2016 - showed strong growth at the end of the period in question, which corresponded to an acceleration in the growth of GDP during the 2nd Quarter of 2016. At the end of the year, this indicator continued to grow², making it more probable that this relatively high level of growth will continue, at least during the first months of this current year.

However the quantitative information currently available is still very scarce for this year. However that which exists shows that it is likely that growth in GDP will maintain recent high levels, especially through an increase in growth of investment (see growth in cement consumption and car sales). The qualitative information for January (see Point 2) showed a positive evolution, and as a result, the confidence levels of this month were not reversed.

Graph 7 | Year-on-year variation in GDP and IZ trend



For 2017, as a quantified forecast has yet to be made, the economy's behaviour at the end of 2016 makes it more likely that strong growth will be seen during the first half of the year. The 2nd Semester appears to be more uncertain, partly for some internal reasons, but mainly due to the equally uncertain external outlook, which could contribute to reducing, or not, the level of growth expected for the first half of the year. All in all, avoiding excessive pessimism or optimism, the growth of the economy is likely to exceed the value forecast in the State Budget for 2017 (1.5%).

Compiled with information available as of the 22nd of February.

² The high level of this indicator for growth in GDP – which suggests that growth could have been somewhat higher - might stem from the use of some nominal series, where prices have recently risen, and a greater reliance on indicators related to domestic demand. Under these conditions, the contribution of net external demand to growth in GDP in real terms is not always well represented by the indicator, which may explain some of the more pronounced discrepancies between the level of GDP and year-on-year growth in GDP.