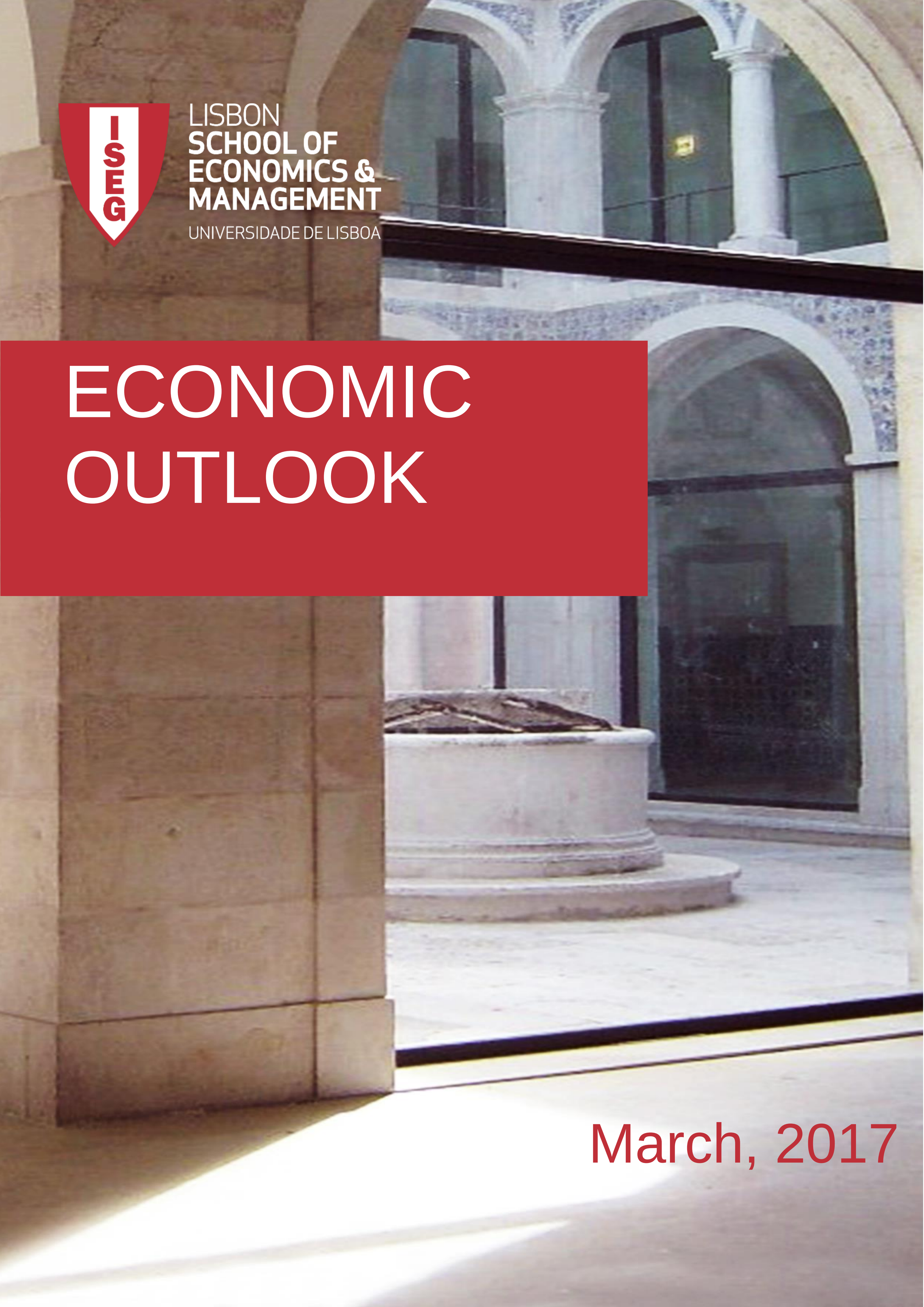


LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

March, 2017

SUMMARY

In general, the climate and confidence indicators for the Portuguese economy continued to rise in January and February, attaining maximum values for the last ten years in many cases.

There was a de-acceleration in some of the consumption indicators, and an acceleration in some of the investment indicators. The ISEG global activity trend indicator de-accelerated in January, essentially maintaining the high levels of the end of 2016.

The estimate for growth of GDP in 2017 is 1.7% to 2.1%.

0. GROWTH OF GDP DURING 2016

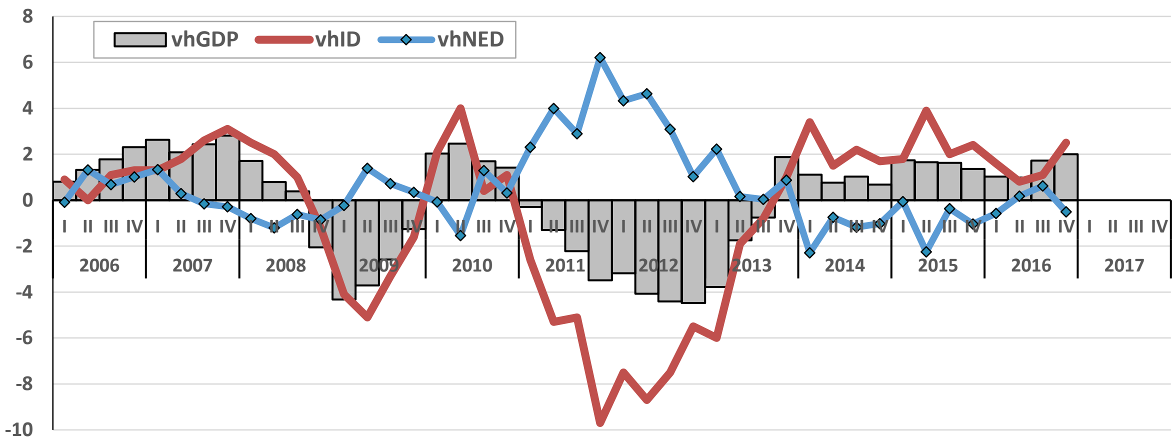
According to the information of the National Statistics Institute (Quarterly and Annual National Accounts – Flash Estimate of 01/03/17), during the 4th Quarter of 2016, Portuguese GDP grew by 1.4% in year-on-year terms (1.6% during 2015). This value resulted from Quarterly growth of 1.0% in the 1st and 2nd Quarters, and of 1.7% in the 3rd Quarter, and 2.0% in the 4th Quarter. It should be noted that all quarterly year-on-year growths were 0.1% more than originally forecast.

This evolution during the year shows two very different semesters, both in terms of growth and origin, with growth of 1.0% in the 1st Semester, and 1.8% in the 2nd Semester. During the first half of the year, contrary to expectations, Internal Demand (ID) de-accelerated, mainly due to the negative impact of Investment, but also on account of the reduced growth of Private Consumption. During the second half of the year, Private Consumption accelerated, however in the 3rd Quarter, it was mainly Net External Demand (NED) that was responsible for the spike in growth.

During the 4th Quarter, Private Consumption grew 3.1% in year-on-year terms, with variation in Investment returning to positive ground (2.6%), whilst growth in ID attained 2.5%. Overall, Imports again grew (7.3%) more than Exports (6.4%), and the contribution of NED to growth in GDP returned to being negative (-0.5). This pattern of growth seems to be the most typical at the moment for the Portuguese economy and is that most expected for 2017.

In the end, 2016 ended with a growth of 2.3% in Private Consumption (2.6% in 2015), Investment decreased by 0.9% (grew 4.6% in 2015), and Public Consumption growth remained the same as the previous year (0.8%). Due to the negative impact of Investment, ID grew by only 1.5% in 2016, whereas it grew 2.5% in 2015. However, NED, with a much less negative impact in 2016 (-0.1%) than in 2015 (-0.9%), contributed to making the end-of-year growth of these years similar. It should be noted that in 2016 both Exports and Imports grew less than in 2015, however this de-acceleration was much higher in the case of Imports. The graph below shows the evolution of the annual growth of GDP, ID and NED per Quarter.

Graph 0 | Year-on-year variations of Quarterly GDP, Internal Demand, and Net External Demand



In Europe, according to the most recent estimate for 2016, GDP grew by 1.7% in the Eurozone (EZ19). By country, GDP grew 1.8% in Germany, 3.2% in Spain, 1.1% in France, and 1.0% in Italy.

1. ECONOMIC CLIMATE AND CONFIDENCE INDICATORS IN FEBRUARY

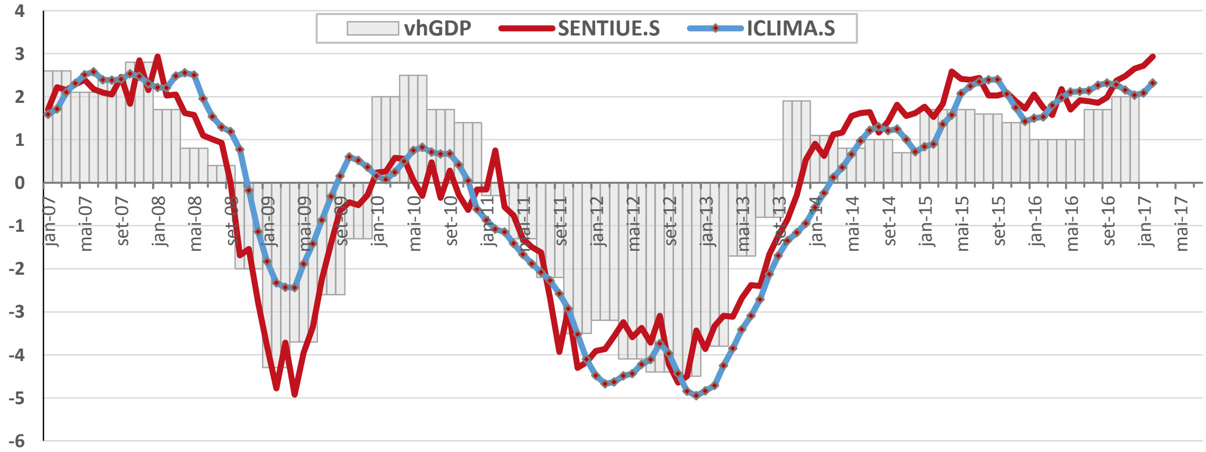
In **February**, as can be seen in Graph 1[1], the **Economic Sentiment Indicator** for Portugal (SENTIUE. S, EUROSTAT), which is based on the opinions of businessmen and consumers, rose again considerably, attaining the highest average values of the last decade. At the same time, the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE), which does not include the opinions of consumers, also rose in February, recuperating from the small decrease recorded during the last two months of the previous year. The current level of this indicator is not far off the highest values of the last decade.

By sector of activity, concentrating exclusively on the month of **February**, using data corrected for seasonality, the **sectorial confidence indicators** rose for Construction and Services, and stabilised for Industry, whilst falling in the case of Retail.

With regards to **consumers**, the respective confidence indicator rose sharply in February and returned to show the highest maximum values since the beginning of 2000 (INE). In summary, overall it can be considered that the confidence levels of businessmen and consumers are at, or near to, their highest levels since 2008.

In Europe, for the **Eurozone**, the **Economic Sentiment Indicator** only rose very slightly in February, having fallen in Germany, and risen in Spain and France. However, with the exception of a brief period at the beginning of 2011, the average of the last three months is the highest since 2007. The **Consumer Confidence Indicator** (Eurozone) fell in February, although, since 2007, the average of the last three months was only higher at the beginning of 2015.

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



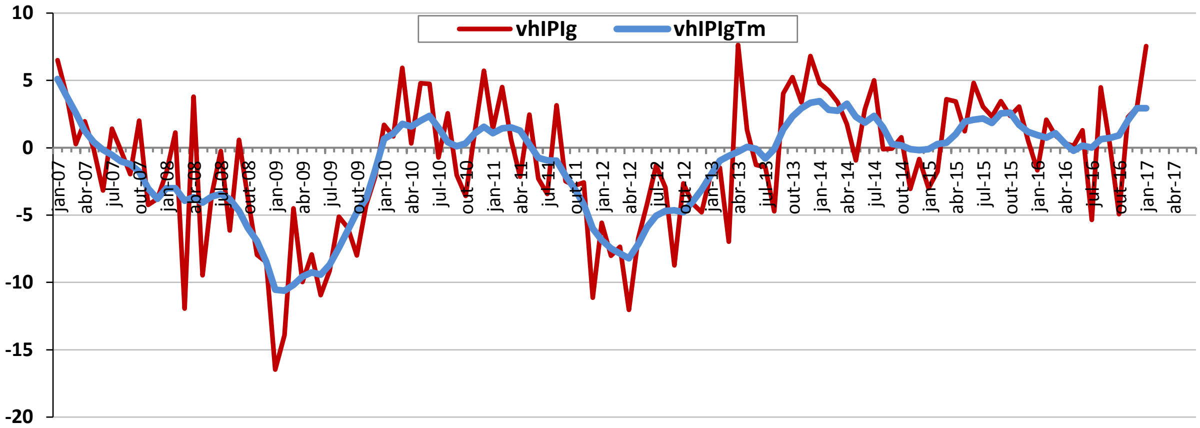
With regards to the quantitative indicators analysed below, most of which are for January, the year-on-year changes of their respective estimated trends suggest a degree of de-acceleration in relation to the high growth rates estimated at the end of the previous year.

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

2. INDUSTRIAL PRODUCTION

In **January**, with two more working days, the **Industrial Production Index** showed a year-on-year variation of 7.5% (gross values, vhIPIg series in Graph 2; the variation in manufacturing being 5.9%). Corrected for seasonal and calendar effects, the year-on-year variations of estimated trend (vhIPIgTm) showed variations close to 3% which, although the same value as the previous month, represent the good performance of this sector.

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

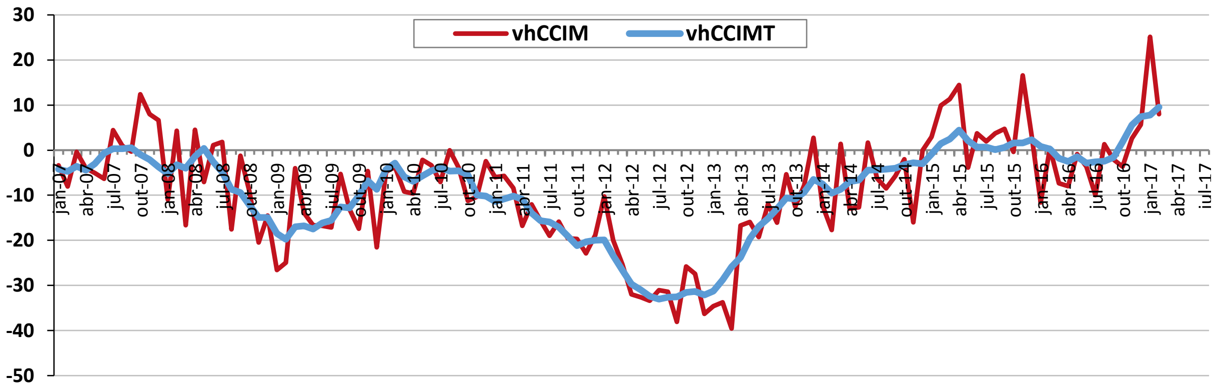


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 13.5%, with 9.0% for the national market, and 19.4% for the external market. The evolution of this nominal indicator was influenced by the greater number of working days, and by the increase (3%) in industrial production prices, especially in the "Energy" grouping, that is to say, as a result of the year-on-year evolution of the price of crude oil.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **February**, with one less working days, the year-on-year variation of sales of cement grew by about 8%. The accumulated year-on-year variation of the first two months is greater than 15%. The estimated trend year-on-year variations - corrected for seasonal, calendar, and rainfall effects, vhCCIMT, in Graph 3 - are very positive (close to 10%), bringing a dynamism for high growth, which could carry on throughout this year.

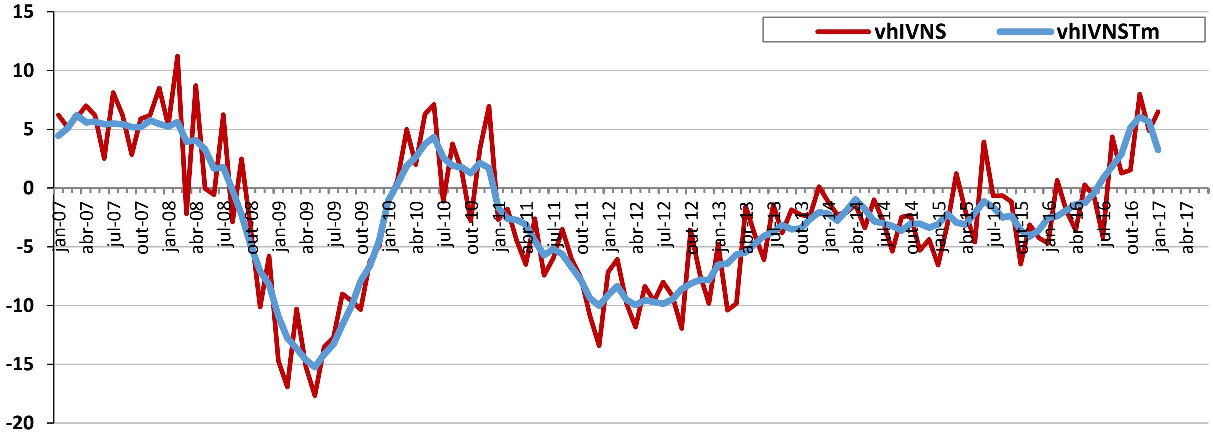
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **January**, with two more working days, the (nominal) **Services Turnover Index** showed a year-on-year variation of 6.5% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) fell in relation to the last Quarter of 2016 to values slightly above 3%.

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

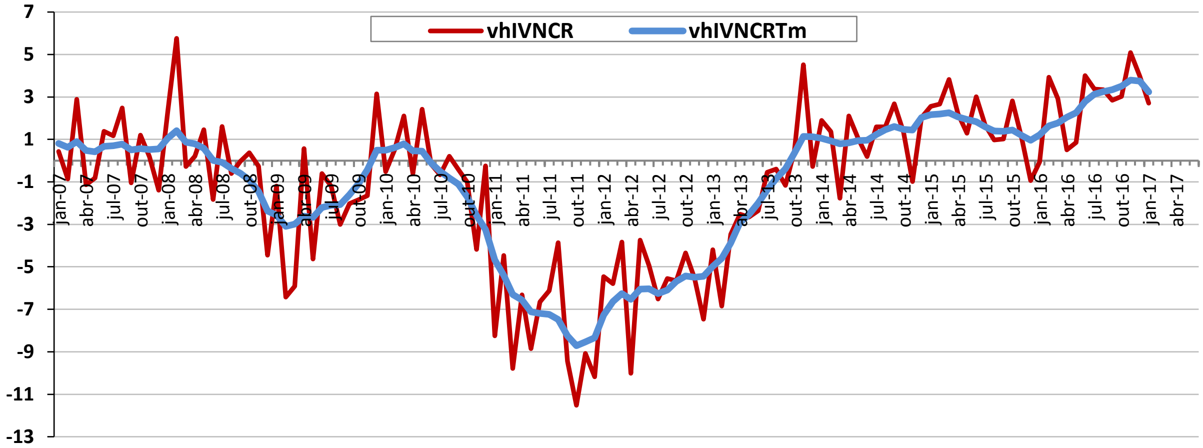


With regards to the hotel sector, the *nominal* indicator for **Hotel Turnover** (Tourism Activity, INE) showed a year-on-year variation of 18.1% in **January**, following 14.9% in December, and 17.0% in 2016.

5. RETAIL TRADE TURNOVER

In **January**, the **Retail Trade Turnover Index** registered a year-on-year variation of 2.7% (Graph 5, **deflated** gross values). Trend-wise, there was a de-acceleration in year-on-year variation (vhIVNCRTm), which remained above 3%, due to lower growth in the *food products* group.

Graph 5 | Year-in-year variation in Retail trade turnover



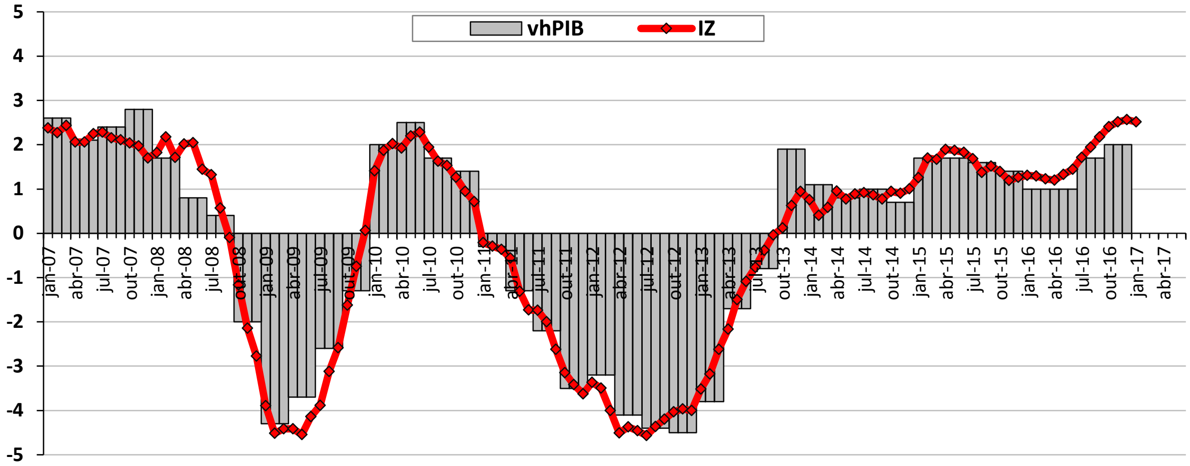
Car sales increased 4.6% in **February** in year-on-year terms (following 7.8% the previous month, and 16.1% in 2016). These lower values could reflect a certain anticipation of sales at the end of the previous year).

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the summary of the quantitative indicators for January show that the **global activity trend indicator** (IZ) decreased slightly in January, although it remains at a relatively high level. More specifically, in relation to the end of the previous year, the indicators for Private Consumption de-accelerated in January, although the Investment indicators will have grown more (as will have some also in February - cement consumption, commercial vehicle purchases). Thus, the level of growth of Internal Demand could be stabilising, although with a different composition.

With regards to Net External Demand (NED), a strong growth in exports (19.6%) and imports (22.3%) was recorded in January (goods, at nominal values). Exports grew by 17.1%, excluding ***fuel and lubrificants*** – during a period that saw significant rise in crude oil prices – and imports grew by 14.6%. For services, the continued growth of external tourist demand deserves highlighting. Therefore the contribution of NED to real growth does not appear to have worsened, although, in nominal terms, there has been some deterioration of the external balance. Consequently, despite the limited information available, it is probable that GDP will continue to grow during the 1st Quarter of 2017 at a similar year-

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



on-year rate as that of the last Quarter of 2016.

For the whole of 2017, growth of GDP is expected to be in the range of 1.7% to 2.1%. This forecast is based on growth of about 2.0% for Private Consumption (slightly more moderate than the previous year), a growth of 0.8% for Public Consumption (equal to previous years), 4.5% for GFCF (supported by the indicators for construction), and 5.5% for Exports (greater than the total of the previous year, but less than that registered during the second half), with growth of between 5.5% and 6.5% for Imports.

Compiled with information available as of the 20th of March.