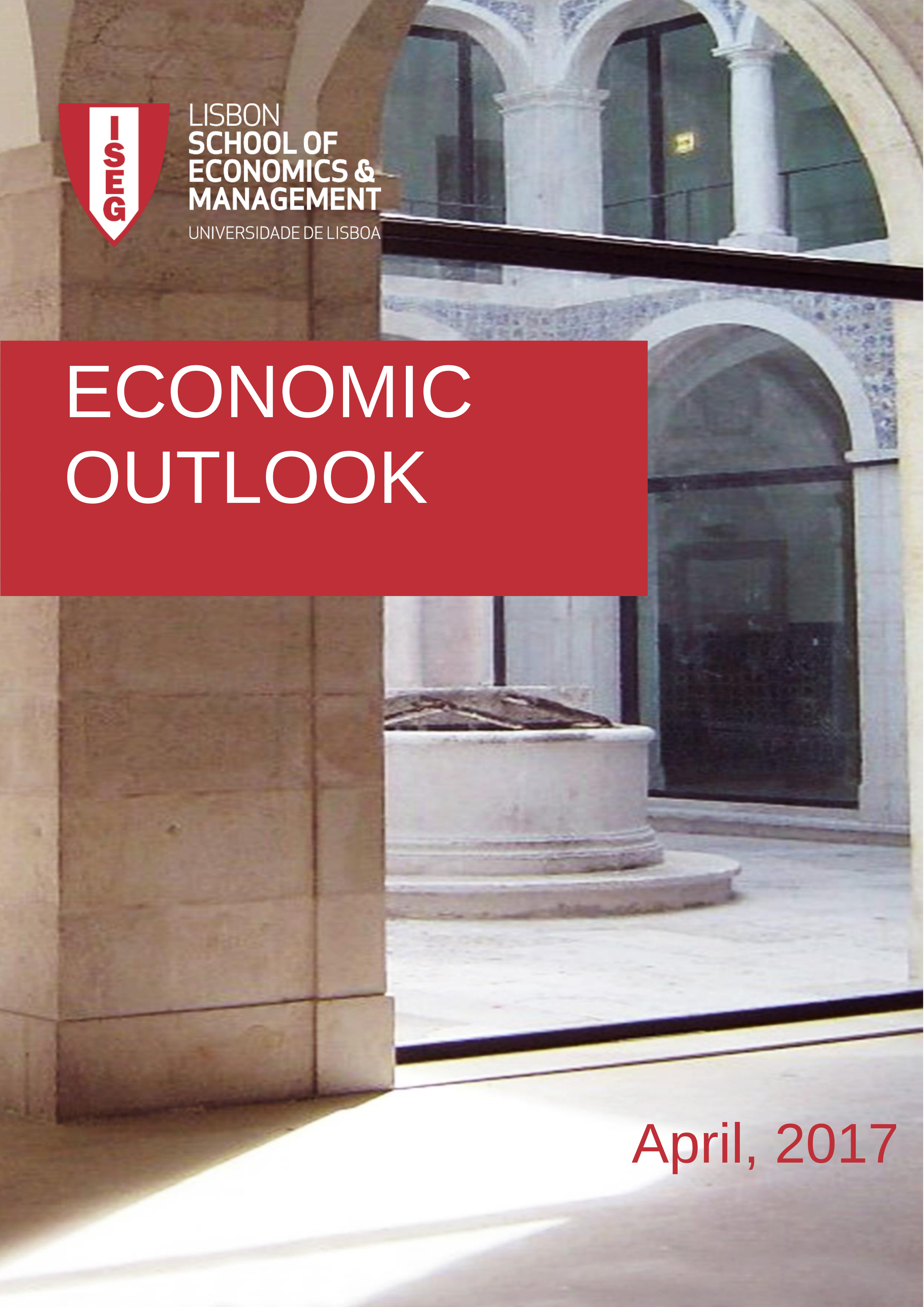

LISBON
SCHOOL OF
ECONOMICS &
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UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

April, 2017

SUMMARY

During the 1st Quarter of 2017, the climate and confidence indicators in Portugal continued to rise, as did those of the Eurozone.

In Portugal, the evolution of the sectorial indicators in January and February indicated a de-acceleration of growth of private consumption during the 1st Quarter, and an acceleration of growth in gross fixed capital formation. The ISEG global activity trend indicator maintained the high level that it attained during the 4th Quarter of 2016.

With the proviso that the quarterly information is not yet complete, it is estimated that GDP will have grown by 2.4% in year-on-year terms during the 1st Quarter of 2017, and by 0.6% in relation to the previous Quarter.

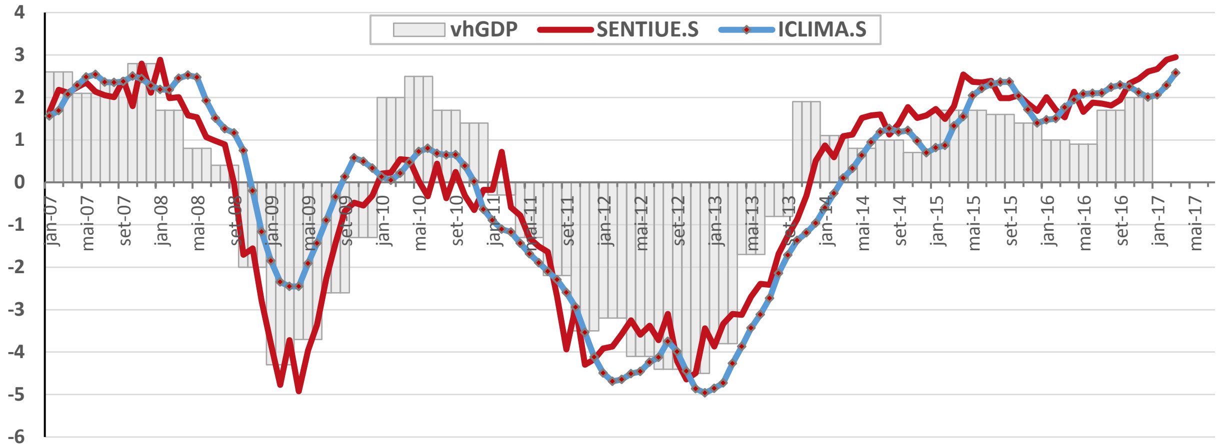
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN APRIL

In **March** – see Graph 1 – the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) rose again in relation to the previous month[1]. As can be seen in the same graph, for the 1st Quarter of 2017, this indicator presents its highest average during the period analysed, having risen substantially since the middle of last year. During the same month, the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) - based on information from the last three months and not incorporating the opinion of consumers - rose more sharply, recovering the fall recorded during the last months of the previous year. In relation to the information recorded since 2007, the level of this indicator reached its maximum level in March.

By sector of activity, the respective **confidence indicators** for **March**, using data from EUROSTAT, show that, with the exception of the Services sector, which stagnated, the confidence indicators for Industry, Construction and Retail recorded slight falls. With regards to **consumers**, the respective confidence indicator rose significantly, attaining new maximum levels.

For the **Eurozone (EA19)**, the aggregate **Economic Sentiment Indicator** stagnated, however the average for the 1st Quarter of 2017 is clearly greater that that recorded during the Quarters of 2016. By country, the Economic Sentiment Indicator rose in Germany and fell in Spain and France. The **Consumer Confidence Indicator** of the **EA19** rose in March, attaining the highest levels of the previous Quarters. By country, increases were recorded for Germany and Spain. Therefore, just as in Portugal, in the EA19, in general, the confidence indicators improved during the 1st Quarter of 2017.

Graph1 | 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 for Portugal, where the most recent information available in most cases does not go beyond February, we will see below that these maintained relatively high positive levels.

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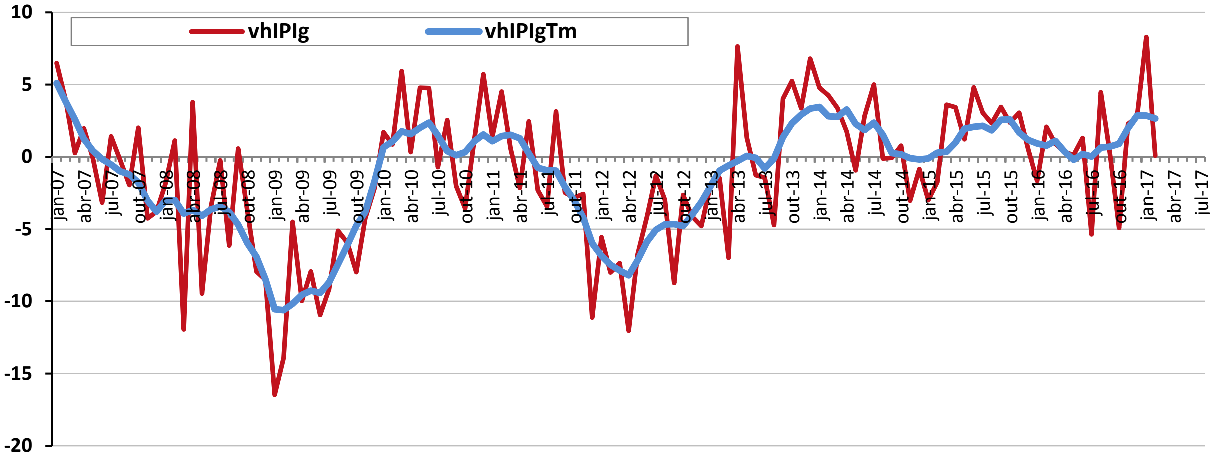
[1] In the graph, the original values of the indicators were adjusted for the average and for the standard deviation of the year-on-year variations of GDP (vhGDP).

2. INDUSTRIAL PRODUCTION

In **February**, with one less working day, the **Industrial Production Index** showed a year-on-year variation of 0.1% (gross values, vhIPIg series in Graph 2; the variation in manufacturing being 8.0%). Corrected for seasonal and calendar effects, the estimated trend (vhIPIgTm) showed relatively high year-on-year variations of variations, which were greater than those of the last Quarter of the previous year.

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

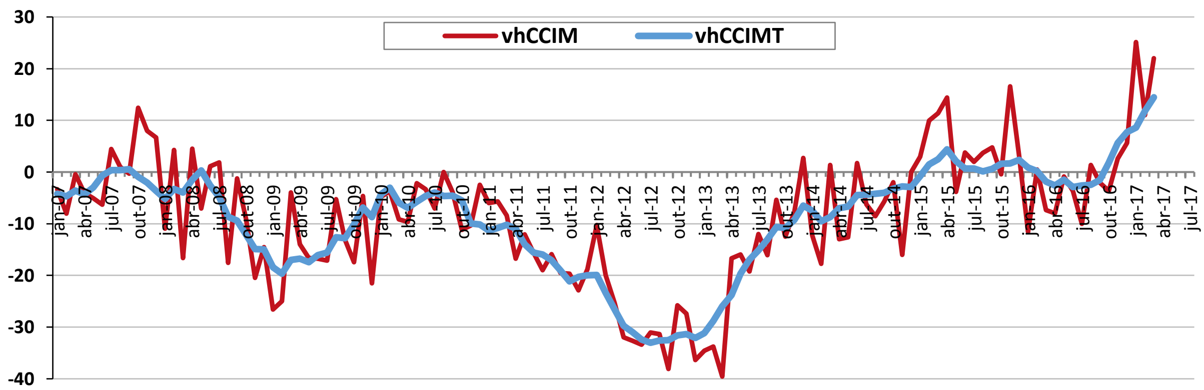


For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 5.6%, with 3.4% for the national market, and 8.3% for the external market. The evolution of this nominal indicator was influenced by the year-on-year variation of the price of crude oil. Without the Energy grouping, the growth of this indicator was 1.5%.

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **March**, with one more working day, the year-on-year variation of sales of cement grew by about 22%. The accumulated year-on-year variation of the 1st Quarter was close to 20%, this strong growth resulting from two more working days in the Quarter, and also much more favourable rainfall conditions than the previous year, and the dynamics of strong growth. The estimated trend year-on-year variations - corrected for seasonal, calendar, and rainfall effects, vhCCIMT, in Graph 3 - are more than 10%, and should be maintained.

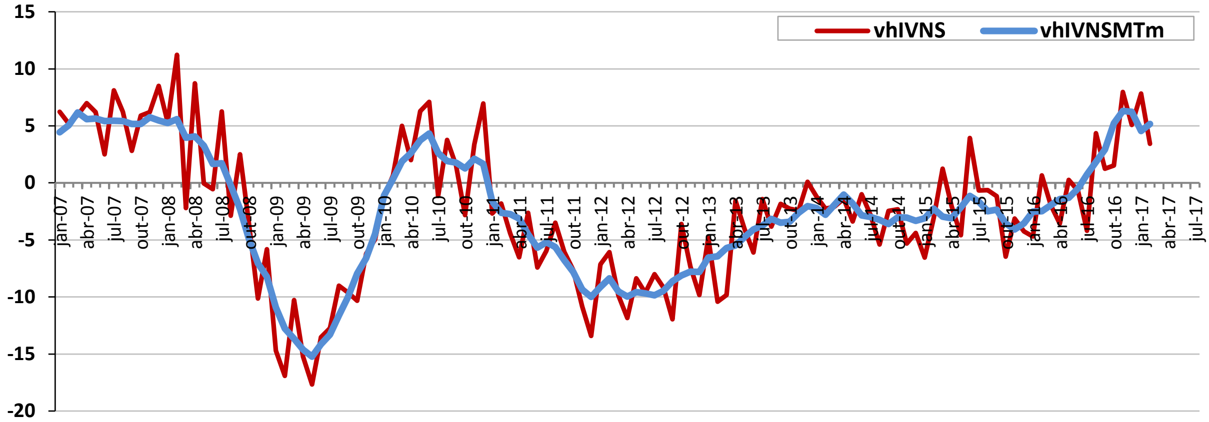
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **February**, with one less working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of 3.4% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) show very positive values, which are at the same level as the previous Quarter.

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

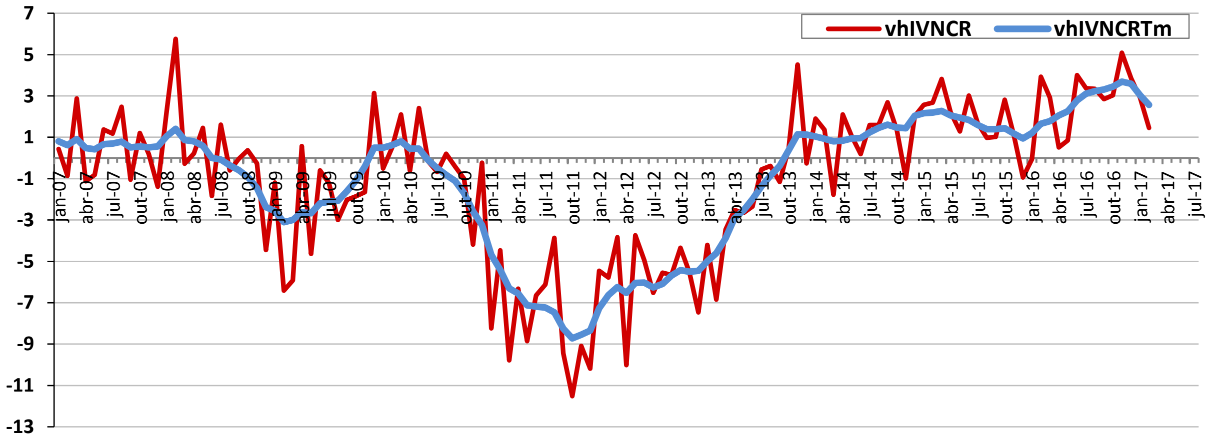


For the tourism sector, the *nominal* indicator for **Hotel Turnover** grew 16.2% during the first two months of the year (Tourism Activity, INE), driven by foreign tourists.

5. RETAIL TRADE TURNOVER

In **February**, with one less day in year-on-year terms, the **Retail Trade Turnover Index** registered a year-on-year variation of 1.5% (Graph 5, **deflated** gross values). Trend-wise, the rate of year-on-year variation (vhIVNCRTm) de-accelerated in relation to the previous Quarter, albeit maintaining high values. At the beginning of this year, the growth of this indicator was due to the *non-food products* group.

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



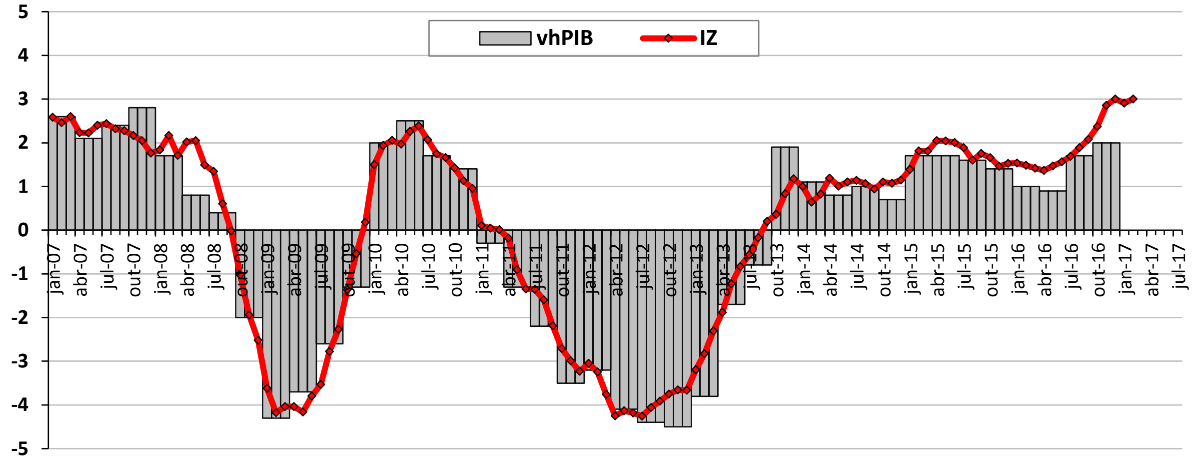
With regards to non-perishable goods, **car sales** increased 2.5% during the **1st Quarter** of 2017 (20.3% during the 4th Quarter of 2016).

6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, as a result of the evolution of the quantitative indicators, the **global activity trend indicator** (IZ) maintained the high levels that had been attained at the end of last year. With regards to the indicators analysed, during the first two months of the year, there was a de-acceleration in the growth of Retail and Service turnover in relation to the last Quarter of 2016, and a stabilisation in the growth of industrial production. Simultaneously, Construction had a strong growth spurt during the 1st Quarter.

The external trade of goods was characterised by a strong nominal growth in exports (13.8%) and imports (15.4%) during the first two months of the year, in part due to the strong year-on-year growth of crude oil, which worsened the balance of trade during these two months. Overall, excluding ***fuel and lubrificants***, the balance of trade did not get worse. Although an improvement in the balance of services in January and February was expected, in real terms, a slightly negative contribution from Net External Demand (PEL) for growth in GDP for the 1st Quarter is forecast.

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



In general terms, the available information suggests that during the 1st Quarter of 2017, a relatively high level of year-on-year growth was again recorded, and, with the exception of the quarterly information, which is still not yet complete with respect to March, it is estimated that during the 1st Quarter of 2017, GDP will have grown by 2.4% year-on-year, and by 0.6% in relation to the previous Quarter. The composition of this growth differs somewhat from that observed during the last Quarter of 2016, being characterised by a more moderate growth of private consumption, a more intense growth of gross fixed capital formation, and a stronger growth of exports and imports, but with a slightly negative result in terms of the contribution of the PEL.

Compiled with information available as of the 18th of April.