



LISBON
SCHOOL OF
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ECONOMIC OUTLOOK

May, 2017

SUMMARY

*During the 1st Quarter of 2017, Portuguese **GDP** grew in volume by 2.8% in year-on-year terms, and 1.0% in relation to the previous Quarter. This value prolongs the acceleration of GDP that has been stronger than anticipated, due to the positive contribution of the external balance of trade. During the same period, the **unemployment rate** was 10.1% (without seasonal corrections), which is 2.3 percentage points less in year-in-year terms.*

Although little information is available regarding the 2nd Quarter (April), there continues to be a positive evolution, and the climate and confidence indicators have both risen.

Due to the growth during the 1st Quarter and the current evaluation of the economic outlook, the forecast for growth in GDP for 2017 has been revised upwards [2.4% to 2.8%], conditional upon the not-so-negative evolution of the international economic outlook.

1. GROWTH OF GDP DURING THE 1ST QUARTER

According to the **flash estimate** of the National Statistics Institute (INE), during the 1st Quarter of 2017, Portuguese **GDP** grew in volume by 2.8% in year-on-year terms, and 1.0% in relation to the previous Quarter. This value represents a significant acceleration of year-on-year growth, which is more pronounced than that forecast.

Although not yet quantified, INE attributes this growth to “*a stronger contribution of net external demand, which passed from negative to positive*”. This represents the greatest positive surprise, as the referred-to “*high positive contribution*” of Internal Demand, resulting from a de-acceleration of Private Consumption and an acceleration in Investment, was expected. During the same period, the **unemployment rate** was 10.1% (without seasonal corrections), which represents a decrease of 2.3 percentage points (pp) from that recorded for the 1st Quarter of 2016.

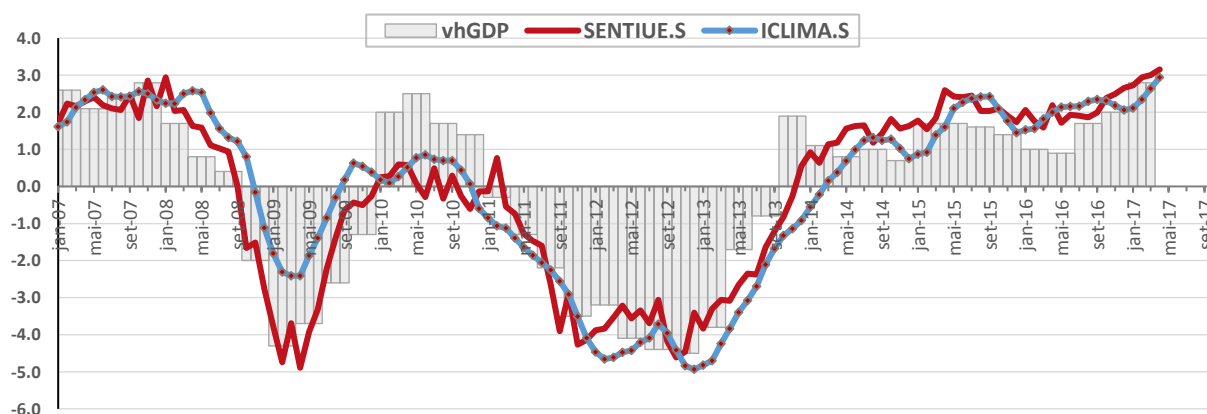
In the **Eurozone (EA19)**, GDP grew 1.7% in year-on-year terms, and 0.5% compared to the previous Quarter. A slight de-acceleration was evident in year-on-year terms (a growth of 1.8% during the previous two Quarters), but quarter-on-quarter growth remained the same. By country, in year-on-year terms, GDP grew 3.0% in Spain, 1.7% in Germany, and only 0.8% in France and Italy, which were the countries responsible for the lower growth of the joint EA19.

2. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN MAY

In **April**, already in the 2nd Quarter, both the **Economic Climate Indicator** (ICLIMA.S, INE) and the **Economic Sentiment Indicator** (SENTIUE.S, EUROSTAT) rose again, attaining maximum values for the period (see Graph 1; note: the original values of these indicators have been adjusted for the average and standard deviation of *vhGDP*). The confidence indicator for Consumers also continued to rise.

During the same month, for the **Eurozone** (and the **EU28**), the **Economic Sentiment Indicator** continued to rise substantially, despite having already attained a higher level than last year during the 1st Quarter. The rise of this indicator was equally seen in the main countries.

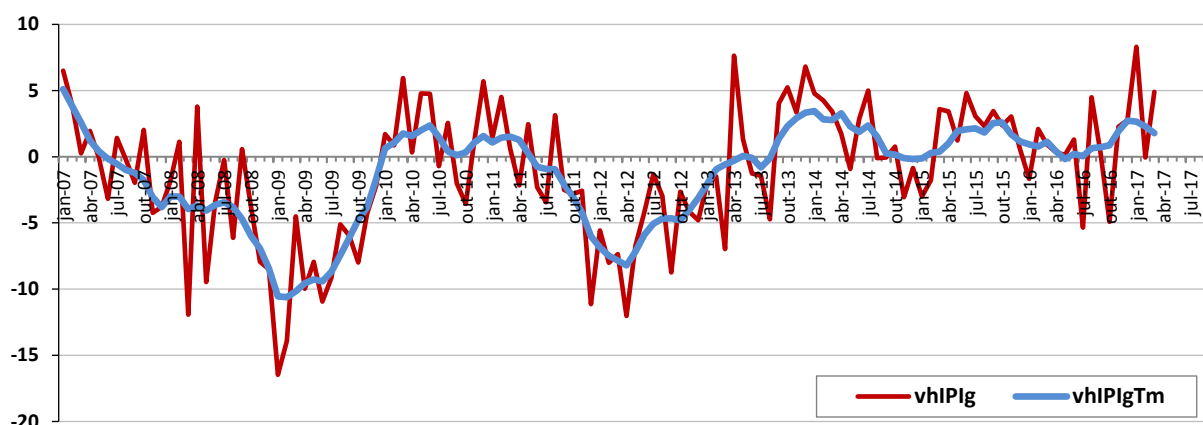
Graph 1| Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (*vhGDP*), 2007-2017



3. INDUSTRIAL PRODUCTION

In **March**, with one more working day, the **Industrial Production Index** recorded a year-on-year variation of 4.9% (gross values, vhlPIg series in Graph 2; the variation in manufacturing being 5.8%). During the 1st Quarter, the year-on-year variation was 4.4% (gross values). Corrected for seasonal and calendar effects, the estimated trend presented year-on-year variations (vhlPIgTm) of about 2% in March.

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

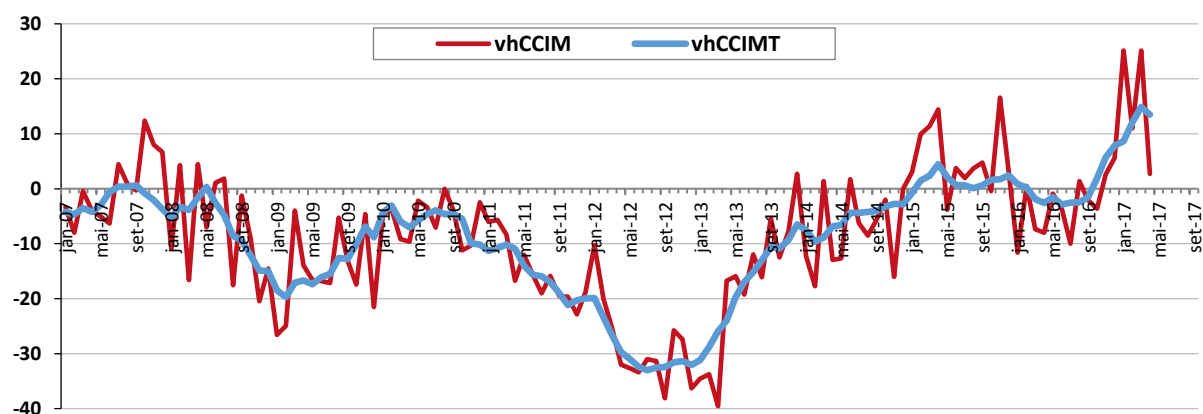


The (nominal) **Industry Turnover Index** showed a year-on-year variation of 13.1% in March, and 11.1% for the 1st Quarter (with 6.9% for the national market, and 16.6% for the external market). The evolution of this indicator during the 1st Quarter was influenced by the larger number of working days (+2), and by the year-on-year variation of the prices of industrial production (4.5%), which in turn are related to the year-on-year rise in the price of crude oil.

4. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **April**, which had two less working days, the year-on-year variation of cement consumption was about 3%, having grown 21% during the 1st Quarter. The dynamics of the estimated trend (vhCCIMT, in Graph 3), adjusted for seasonal and calendar effects, was more than 13% at the end of April.

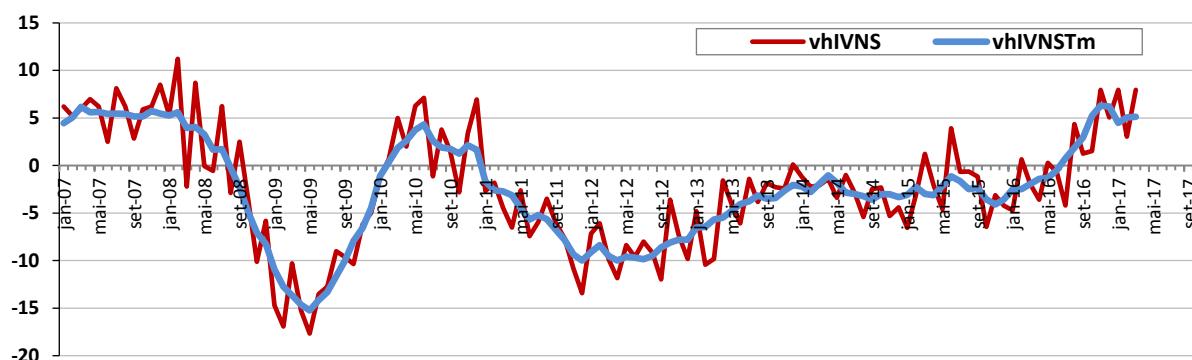
Graph 3 | Year-on-year cement consumption



5. TURNOVER IN THE SERVICES SECTOR

In **March**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 8% (vhIVNS series, Graph 4, gross values). For the 1st Quarter, the year-on-year variation was 6.4%. The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) were approximately 5%, with some price increases included.

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

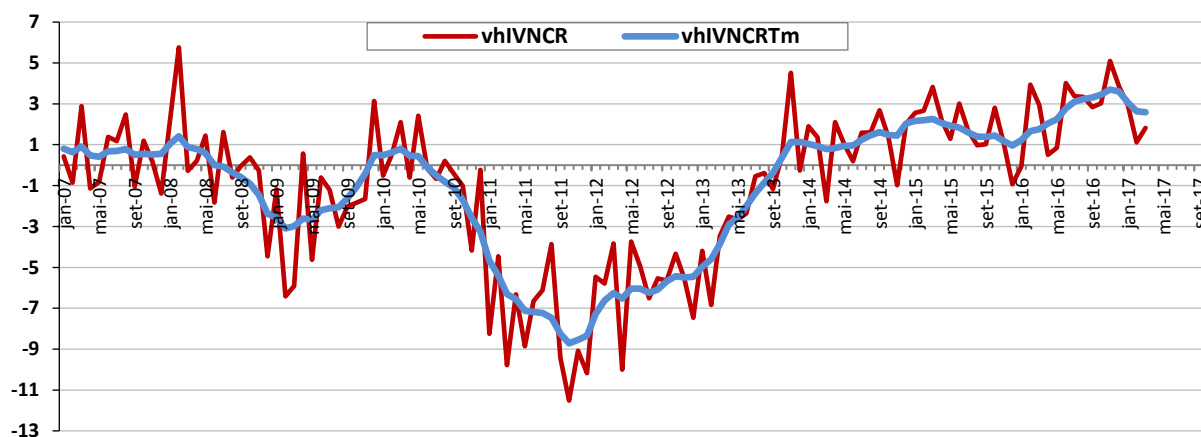


With regards to the tourism sector, the nominal indicator for **hotel turnover** (Tourism Activity, INE) showed a year-on-year variation of 13.5% during the 1st Quarter, whose growth was negatively affected by Easter varying from being in March (2106) to April (2017).

6. RETAIL TRADE TURNOVER

In **March**, the **Retail Trade Turnover Index** registered a year-on-year variation of 1.8% (Graph 5, **deflated** gross values). During the 1st Quarter the year-on-year variation was 2.0% (4.0% for the 4th Quarter of 2016). As can be seen from the graph below, in terms of trend (vhIVNCRTm), the rate of growth of this indicator maintained values above 2.5%. The growth during the 1st Quarter was solely due to the growth of the group of *non-food products*.

Graph 5 | Variation in Retail trade turnover



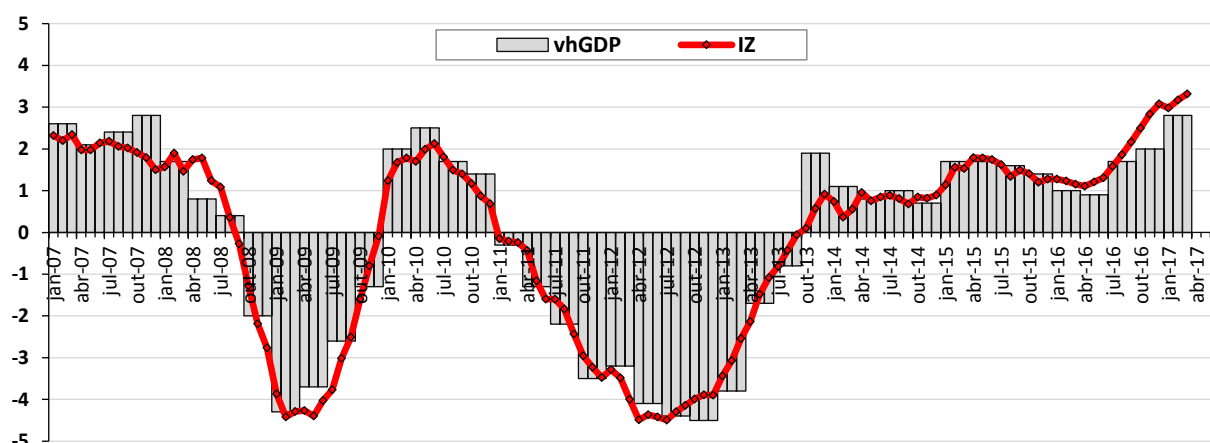
In **April**, **Car sales** increased 17.8% in year-on-year terms. During the 1st Quarter they had grown by just 2.5%, this value having been negatively influenced by the high volume of sales during the same period of 2016.

7. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator** (IZ), estimated from information up until the end of the 1st Quarter, showed a high average level during the 1st Quarter, and rose again at the end of the period.

With regards to the 2nd Quarter, the information available was scarce, but not negative: both the Climate and Economic Sentiment indicators rose again, as did most of the confidence indicators for both business and consumers, as well as car sales (both passenger and commercial). Growth in cement consumption (adjusted for working days) also maintained high values.

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



Both the growth recorded during the 1st Quarter, and the assessment of the current Economic Outlook warrant a revision of the growth previously forecast for 2017. Thus, based on an expected increase in the growth in volume of 2.4% for Private Consumption, and 7.5% for Investment, with 7.0% for Exports and 7.0% to 8.0% for Imports, a growth in GDP of 2.4% to 2.8% is estimated for 2017. This forecast assumes a non-negative evolution of the international political and economic outlook.

With regards to internal factors, this forecast assumes a relatively high growth in Internal Demand (ID), but, the main factor that will determine greater or lesser growth in GDP should be the evolution of the relationship between the actual growth of Exports and Imports, or, in other words, the contribution of Net External Demand, which is expected to be less negative than normal, which is in line with what occurred last year and during the 1st Quarter of this year.

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