



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT
UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

July, 2017

SUMMARY

During the 2nd Quarter of 2017, the values of the climate and confidence indicators continued to improve, both for Portugal and the Eurozone, demonstrating, on average, better values than those of the 1st Quarter.

Based on quantitative data for April, May, and some for June, the global activity trend indicator was more positive, than the 1st Quarter, on average, which suggests an acceleration in the growth of Internal Demand during the 2nd Quarter. On the contrary, the contribution of Net External Demand was negative, as the growth in imports of goods and services was significantly greater than that of exports.

Based on available quantitative data, the year-on-year growth in GDP for the 2nd Quarter of 2017 is forecast to be 2.8% (0.3% in relation to the previous Quarter).

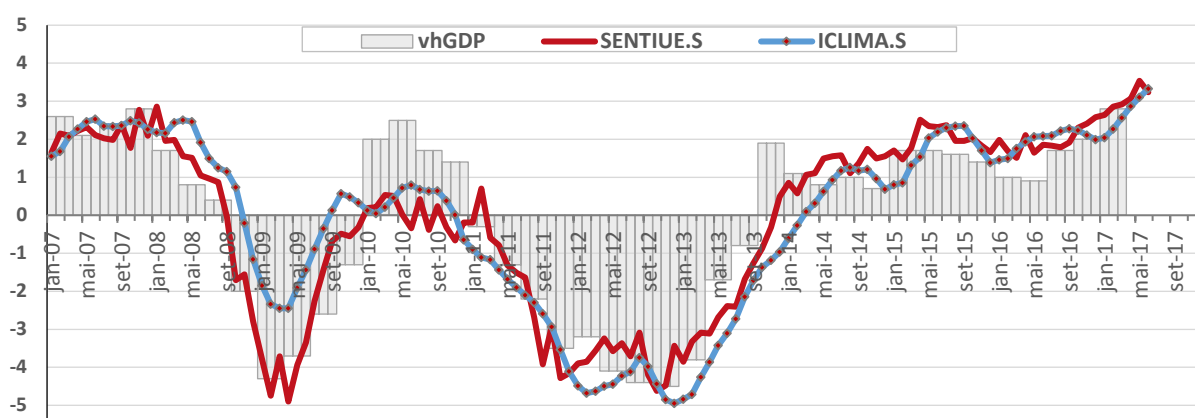
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN JUNE

In **June**, the **Economic Climate Indicator of the National Statistics Institute** (ICLIMA.S, INE) - based on information from the replies from the surveys carried out for the period of April to June – rose again (see Graph¹), prolonging the growth that has been registered since the start of the year, attaining a new maximum for the period under analysis. For the same month, based just on information from June, the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) fell, losing part of the gain from the previous month². In terms of the Quarterly average, the two indicators show a significant increase from the 1st Quarter to the 2nd Quarter.

By sector of activity, focussing just on the seasonally-corrected data for **June** (EUROSTAT), the **confidence indicator** for Services decreased greatly, although increases were registered for the confidence indicators for Retail, Construction, and Industry. With the exception of Retail, which remained stagnant, the Quarterly average for the confidence indicators rose from the 1st Quarter to the 2nd Quarter.

The **consumer** confidence indicator, which is traditionally negative, attained the positive values of the previous month, and rose again significantly in June.

Graph1 | Economic Climate (ICLIMA.S) and Economic Sentiment (SENTIUE.S) indicators and year-on-year variation of GDP (vhGDP)



For the **Eurozone**, the aggregate **Economic Sentiment Indicator** recuperated the slight fall of the previous month in **June**, and rose significantly, especially in Germany and France. The average of this indicator during the 2nd Quarter was greater than the average of the values for the 1st Quarter, both overall, and for the main countries. The **Consumer Confidence Indicator** of the Eurozone rose sharply in June, continuing the previous tendency for growth.

In summary, the Economic Climate and Confidence Indicators continued to rise in the Eurozone and in Portugal, suggesting a continual and accentuated growth between the 1st and 2nd Quarters.

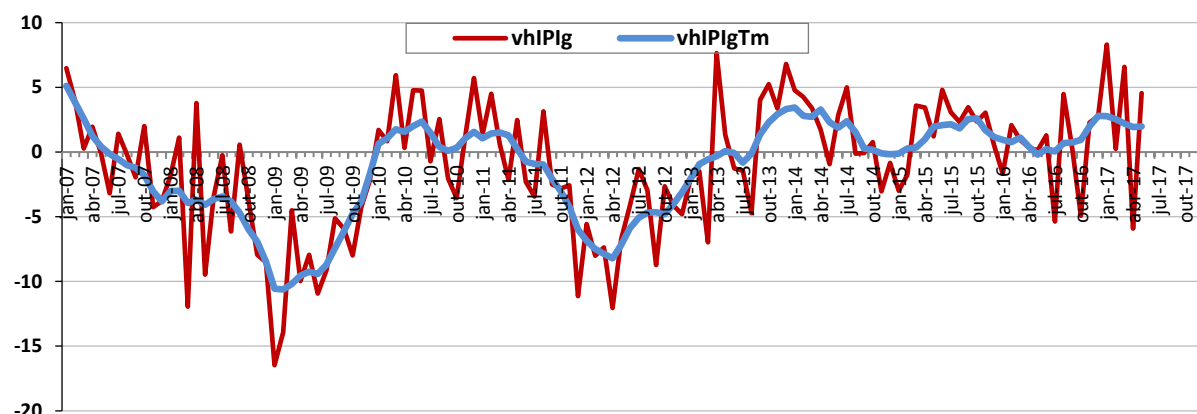
¹ In the graph, the original values of the indicators were adjusted for the average and for the standard deviation of the year-on-year variations of GDP (vhGDP).

² This oscillation was due to the indicator for Service and could have been a 'one-off' occurrence, as it represents large swings in opposite directions during consecutive months.

2. INDUSTRIAL PRODUCTION

In **May**, with one more working day, the **Industrial Production Index** registered a year-on-year variation of 4.5% (gross values, **vhIPIg** series in Graph 2; the variation in manufacturing being 5.6%). Corrected for seasonal and calendar effects, the estimated trend (**vhIPIgTm**) grew, with year-on-year variations of about 2% in May (series **vhIPIgTm**), which was greater than the average of the previous year.

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

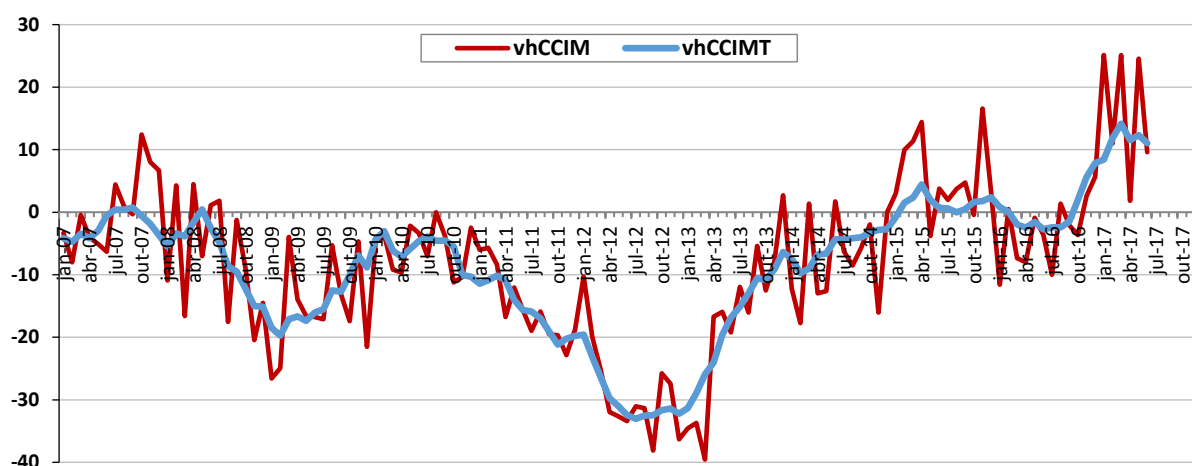


The (nominal) **Industry Turnover Index** showed a year-on-year variation of 10.8%, in **May**, (with 9.6% for the national market, and 12.3% for the external market). This growth was influenced by calendar effects. During the same month, the year-on-year growth of Industrial Production prices was 4.1% (1.4% excluding the Energy grouping).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **June**, the year-on-year variation of sales of cement grew by about 9%. The year-on-year growth of the 2nd Quarter was close to 12%, which was less pronounced than that of the 1st Quarter (20%), which had benefitted from calendar effects and the baseline. The estimated trend year-on-year variations (**vhCCIMT**, in Graph 3) present levels of year-on-year growth of more than 10%.

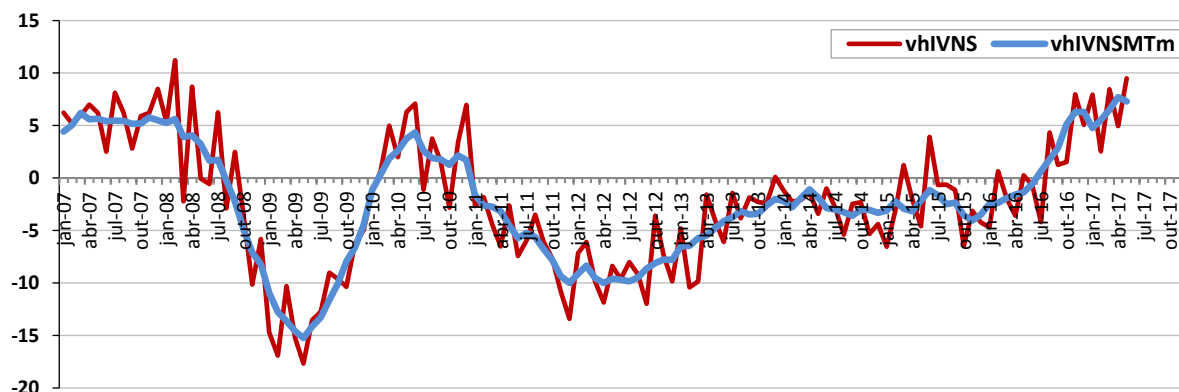
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **May**, with one more working day, the (nominal) **Services Turnover Index** showed a year-on-year variation of 9.5% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSMTm, adjusted for seasonal and calendar effects, Graph 4) was more than 7%.

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

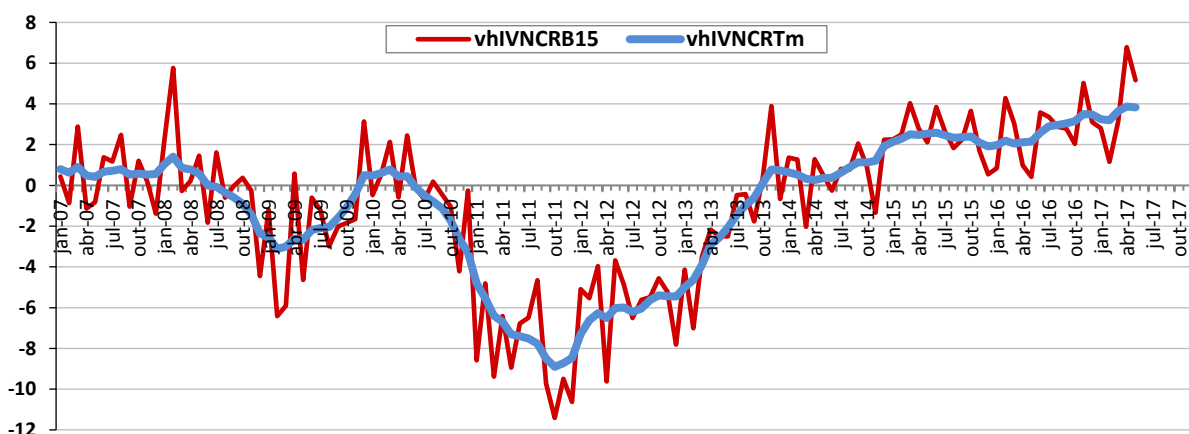


For the tourism sector, despite a less-accentuated growth in nights, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 21.2% in May (20.7% for January to May).

5. RETAIL TRADE TURNOVER

In **May**, the **Retail Trade Turnover Index** registered a year-on-year variation of 5.2% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise (vhIVNCRTm), the rate of growth of this indicator slowed down during the 1st Quarter, but grew again more strongly during April and May.

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



Car sales increased 6.3% in **June**, and 11.8% during the **2nd Quarter** (as opposed to 2.5% during the 1st Quarter). The growth of this variable contributed to a greater growth of Private Consumption during the 2nd Quarter, but equally will have a more negative impact in terms of Net External Demand than that registered during the 1st Quarter.

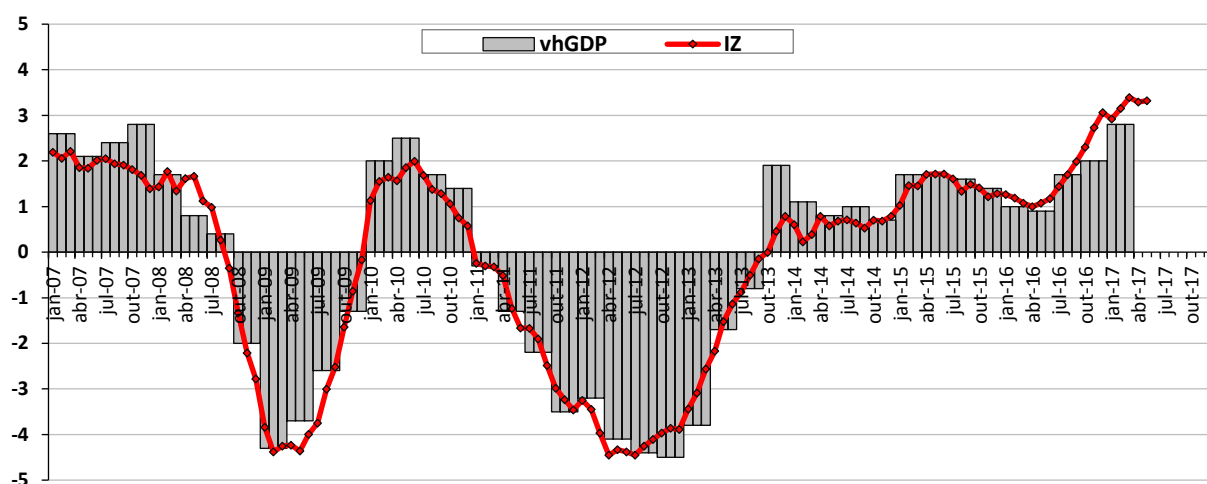
6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a weighted average of the information analysed above, presents similar values in April and May, which are very slightly less than those of the peak in March, but are greater than the average of the 1st Quarter. This indicator, which is more correlated with the growth of Internal Demand, indicates that the latter will have accelerated during the 2nd Quarter. Indeed, the main indicators - Retail Trade and Services Turnover and Car Sales - suggest that Private Consumption increased year-on-year by much more than during the 1st Quarter, when year-on-year growth fell in relation to that registered during the 4th Quarter of 2016. With regards to Gross Fixed Capital Formation, it appears that growth has remained at the level of the previous Quarter, although it has varied in its components. However, overall, year-on-year annual growth of Internal Demand is expected to significantly exceed that of the previous Quarter.

However, the information regarding the evolution of Net External Demand during April and May is much less favorable than that of the 1st Quarter. In fact, during these two months, exports of goods and services grew much less than imports, and it does not seem likely that this difference could have been fully reversed in June. Therefore, unlike the 1st Quarter, during which the contribution of NED to the growth of GDP was positive, during the 2nd Quarter this should have been negative.

As a result of the afore-mentioned, a year-on-year growth in GDP of 2.8% is expected for the 2nd Quarter (which is the same as that of the 1st Quarter), and 0.3% in relation to the previous Quarter. The previous forecast for annual growth of between 2.4 to 2.8% will only be revised in September, after the publishing of the more detailed information by INE regarding growth during the 2nd Quarter.

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



Compiled with information available as of the 19th of July.