



LISBON
SCHOOL OF
ECONOMICS &
MANAGEMENT

UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

September, 2017

SUMMARY

*During the 2nd Quarter of 2017, Portuguese **GDP** grew 3.0% in year-on-year terms, and 0.3% in comparison to the previous Quarter. This growth, which is slightly more than the growth of the previous Quarter, was based on a slight increase in the growth of Internal Demand, originating from Investment, and the positive contribution of Net External Demand (anchored in tourism).*

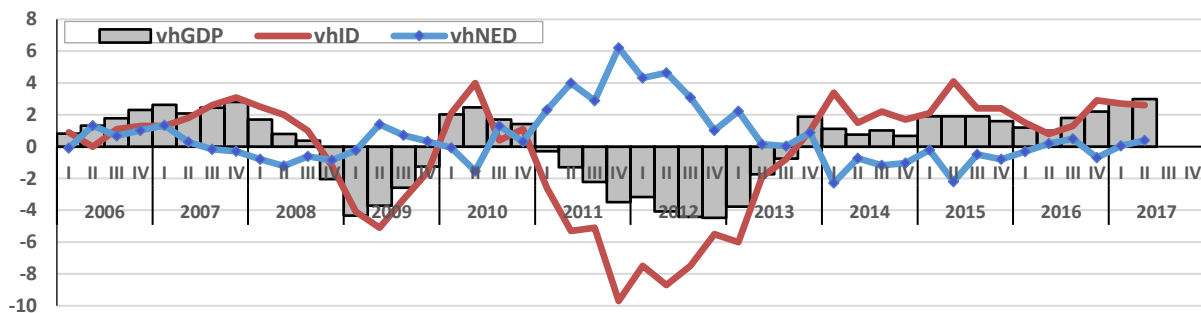
The first quantitative data for the 3rd Quarter, which are still very scarce, do not put into question a year-on-year growth on GDP of the same magnitude as the 1st Semester.

For the whole of 2017, given the growth registered during the first half of the year and the evolution of the main components of demand, forecast growth in GDP was revised upwards to between 2.6% and 3.0%.

0. GROWTH OF GDP DURING THE 2ND QUARTER OF 2017

According to the most recent information of the National Statistics Institute¹, during the 2nd Quarter of 2017, Portuguese GDP grew by 3.0% in year-on-year terms (2.8% during the 1st Quarter), and 0.3% in comparison to the previous Quarter (0.9% during the 1st Quarter). In the meantime, the release of the Final National Accounts for 2015 shows that INE has revised GDP growth upwards for 2015 (from 1.6% to 1.8%), and also for 2016 (from 1.4% to 1.5%, which is still a provisional value). In addition to the rise in the level of estimates for GDP during these years (and counting with the impact on the current one), changes have been registered that have some significance with regards to the growth of some components. Accordingly, in 2015, growth in Internal Demand (ID) was revalued upwards (+ 0.2%), due to the higher estimated growth of Public Consumption (+ 0.6%) and Investment (+ 1.7%), while the growth of Private Consumption was re-valued downwards (-0.5%). In 2016, the biggest change is due to the revaluation of the estimated growth in Investment, which rose from -0.6% to 0.9%. It should also be noted that, according to the new estimates, Private Consumption grew at the same rate during 2015 and 2016, whereas that of Investment was much less (which fell from a growth of 6.4% in 2015, to 0.9% in 2016), and the (negative) contribution of Net External Demand (NED), which was much more severe in 2015 (-0.9%) than in 2016 (-0.1%).

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



For the current year, it needs to be highlighted that the acceleration of year-on-year annual growth of GDP has resulted from a combination of a relatively high level of growth of Internal Demand (see chart above), which started during the last Quarter of 2016, and the positive contribution of Net External Demand (as opposed to that registered during the final Quarter of 2016). With regards to the components of Internal Demand, an average growth of Private Consumption of 2.2% was seen during the first half of 2017 (which is slightly above the 2016 average, but below the growth of the 4th Quarter of 2016 (2.9%)), a decrease in Public Consumption (-0.5% in 2017, versus 0.6% in 2016), and a strong acceleration of Investment (8.6% in 2017, versus 0.9% in 2016). With respect to NED, it is worth highlighting its positive contribution (0.4%) to real GDP growth during the 2nd Quarter of 2017, due to the strong growth in tourism, with some deterioration in the balance of trade in goods.

For the EUROZONE, growth during the 2nd Quarter of 2017 was 2.2% in year-on-year terms (1.9% during the 1st Quarter, and 1.8% during the second half of 2016). By country, GDP grew 2.1% in Germany, 1.8% in France, 1.5% in Italy, and 3.1% in Spain. The ECB's forecast for growth in 2017 has been revised upwards to 2.2% (September).

¹ We use the revised provisional data provided by INE on 22 September, 2017 with the (final) National Accounts of 2015.

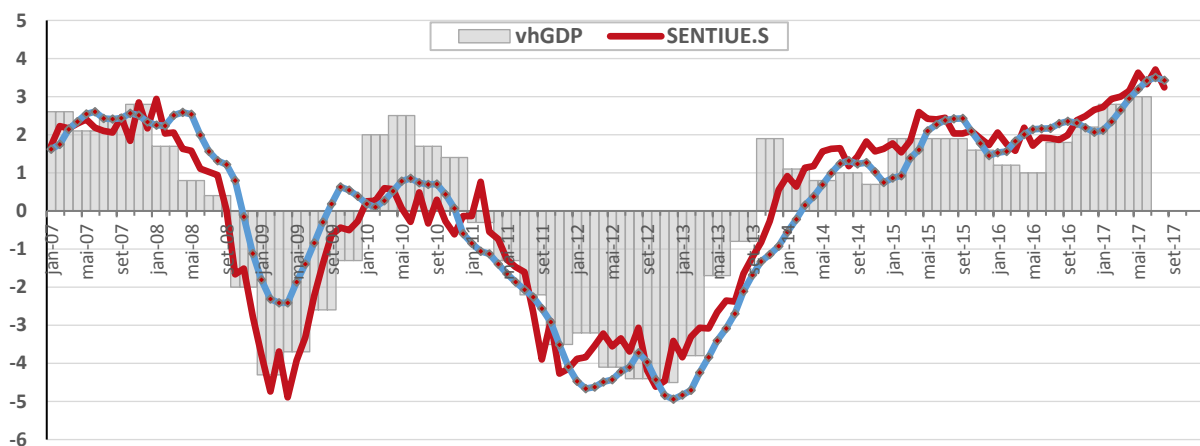
1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN AUGUST

In **August**, both the **Economic Climate Indicator** of the National Statistics Institute (ICLIMA.S, INE) and the **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT) registered a fall, after various months of growth, during which the indicators attained their maximum levels during the period under analysis (see Graph 1²). Using the average information collected during the three months ending in August, the **Economic Climate Indicator** of INE registered a slight decrease. The **Economic Sentiment Indicator** of EUROSTAT, using only information from the month of August, registered a more pronounced fall. Even so, the absolute levels of both indicators remain close to recent highs.

By sector of activity, focussing just on the data for the month of August, all the sectorial **confidence indicators** registered falls (EUROSTAT, seasonally-corrected values), albeit of varying degree.

The **consumer** confidence indicator also fell in August, although it maintained a positive result, which is rare for this indicator.

Graph 1| 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** rose again in **August**. By country, this indicator rose in France, Spain and Italy, which attained the maximum values of the year, and it fell slightly in Germany.

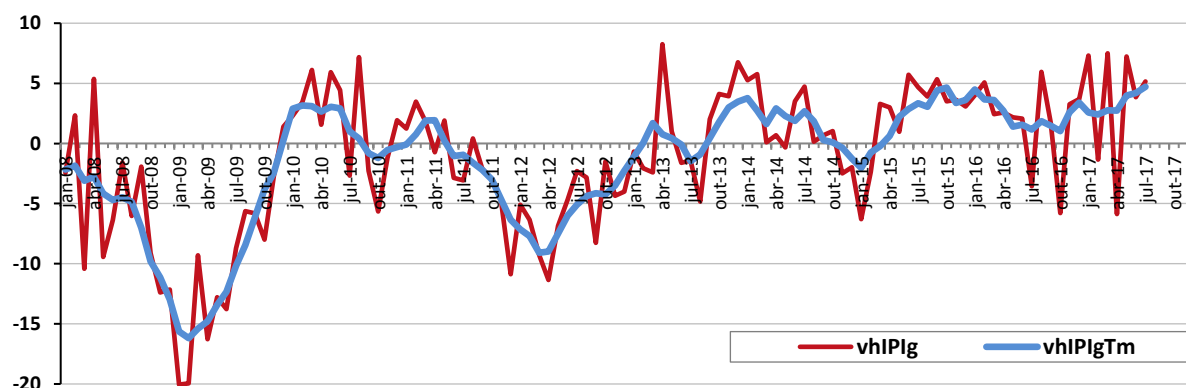
The **Consumer Confidence Indicator** of the Eurozone attained its highest value during the last three months. By country, the Consumer Confidence Indicator fell in Spain, France and Germany, and rose in Italy.

² In the graph, the original values of the Climate and Economic Sentiment indicators were adjusted for the average and for the standard deviation of the year-on-year variations of vhGDP, during the period under analysis.

2. INDUSTRIAL PRODUCTION

In **July**, the **Industrial Production Index** (INE, new series, 2015 base = 100) registered a year-on-year variation of 5.2% (gross values, vHIPIg series in Graph 2; the variation in manufacturing being 2.5%). Corrected for seasonal and calendar effects, the estimated trend of the new series shows positive year-on-year variations since March (vHIPIgTm). In July, this growth was close to 4.5%. In accumulated terms, the growth of this new series from January to July was 3.4% (1.8% in total for 2016).

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

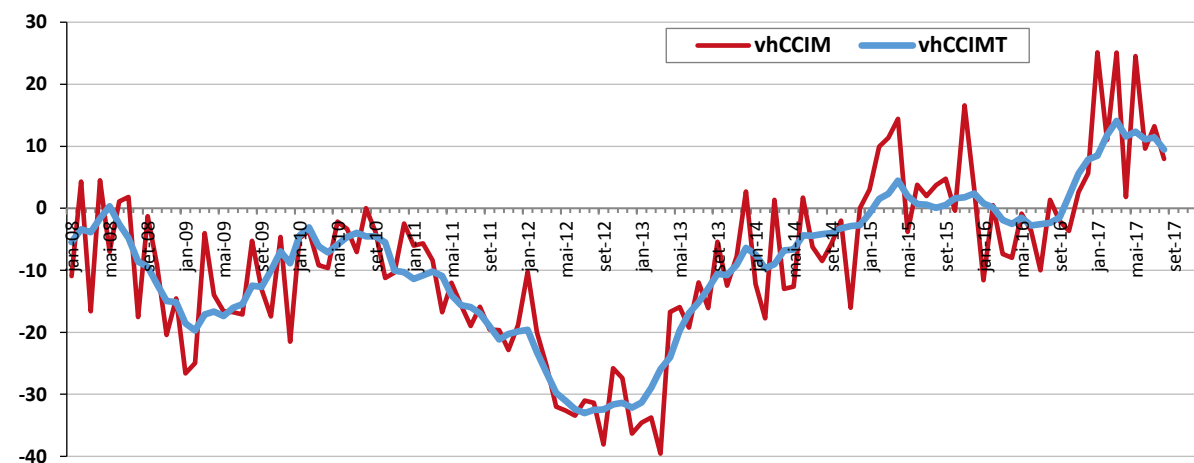


In **July**, the **Industry Turnover Index** (INE, new series, 2015 base = 100) showed a year-on-year variation of 5.5% (nominal values; with 8.0% for the national market, and 2.0% for the external market). The year-on-year growth of Industrial Production prices was 2.2% in July (1.2% excluding the Energy grouping). In accumulated terms, the growth of this new series from January to July was 8.8% (whose value was inflated by an average growth in industrial production prices of nearly 4%).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **August**, the year-on-year variation of sales of cement grew by about 8%. Corrected for calendar and other effects, the estimated trend year-on-year variations (vhCCIMT, in Graph 3) have de-accelerated, although they were close to 10% in August.

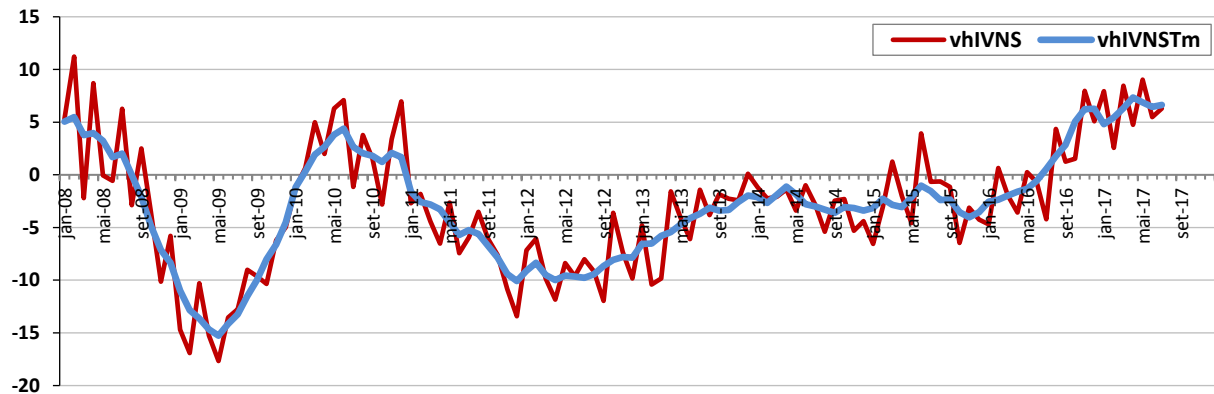
Graph 3 | Year-on-year variation of Cement Consumption



4. TURNOVER IN THE SERVICES SECTOR

In **July**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 6.3% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) was more than 6% during this month.

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

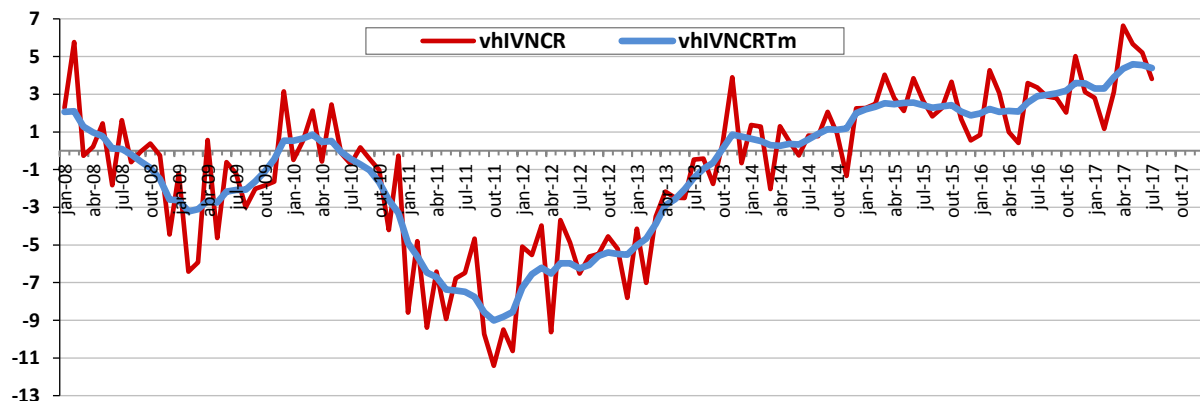


For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 13.1% in July, which was less than the growth of 17.3% registered since the beginning of the year.

5. RETAIL TRADE TURNOVER

In **July**, the **Retail Trade Turnover Index** registered a year-on-year variation of 3.8% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise (vhIVNCRTm), the rate of year-on-year growth of this indicator was more than 4%. Accumulated from January to July, this indicator grew by 4.1% (2.7% for the whole of 2016). In 2017, the *non-food products* group has grown more (5.8%) than the *food products* group (1.9%).

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



Car sales increased by approximately 12% in **July and August** (11.8% during the 2nd Quarter).

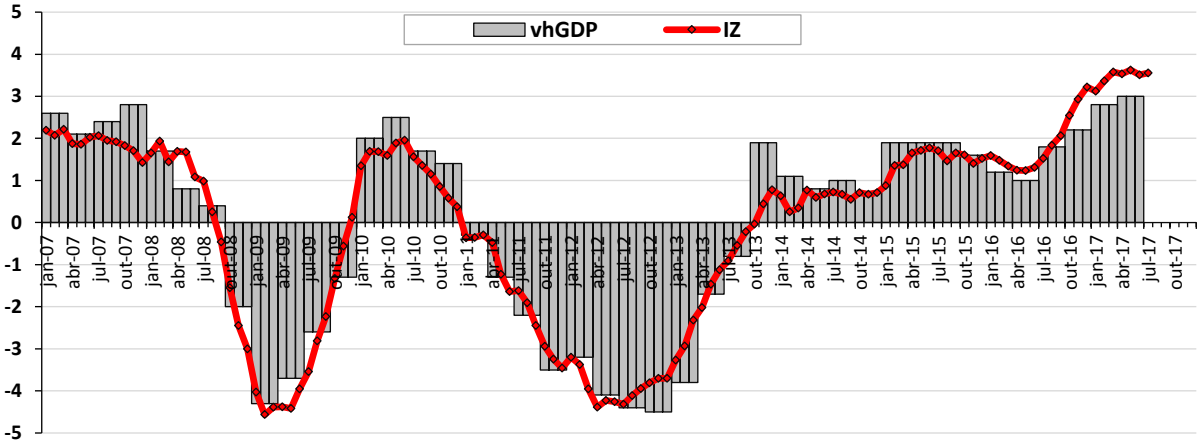
6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator (IZ)**, which is a weighted average of the information analysed above, grew strongly during the 2nd Semester of 2016 and the 1st Quarter of 2017, and, since then, it has been more stable, with slight oscillations. During the last month for which we have complete data (July), the indicator rose slightly, mainly driven by the good performance of industrial production. The remaining indicators show a mix of stability or de-acceleration. As a result, the trend indicator remains close to its recently-reached highest level.

Taking into account this scarcity of data, it is not possible to be very conclusive with regards to the evolution of the economy during the 3rd Quarter: on the whole there is no evidence of an acceleration in growth, neither is there evidence of de-acceleration. Only in the next report will we be able to be more conclusive regarding the estimate for growth during the 3rd Quarter, after knowing the data of the main indicators for August.

Growth in GDP is revised to between 2.6% and 3.0% for the whole of 2017, based on the performance of the 1st Semester, the evolution of the main components of demand during the recent past, the progress of the indicators, and the more positive forecasts for the growth of the Eurozone in 2017.

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



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