LISBON SCHOOL OF ECONOMICS & MANAGEMENT

UNIVERSIDADE DE LISBOA

ECONOMIC OUTLOOK

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SUMMARY

In Portugal, during the 3rd Quarter of 2017, the Economic Climate Indicator (INE) stagnated in relation to the 2nd Quarter, however the Economic Sentiment Indicator (Eurostat) rose to a new high. The Economic Sentiment Indicator for the Eurozone also rose again during the 3rd Quarter.
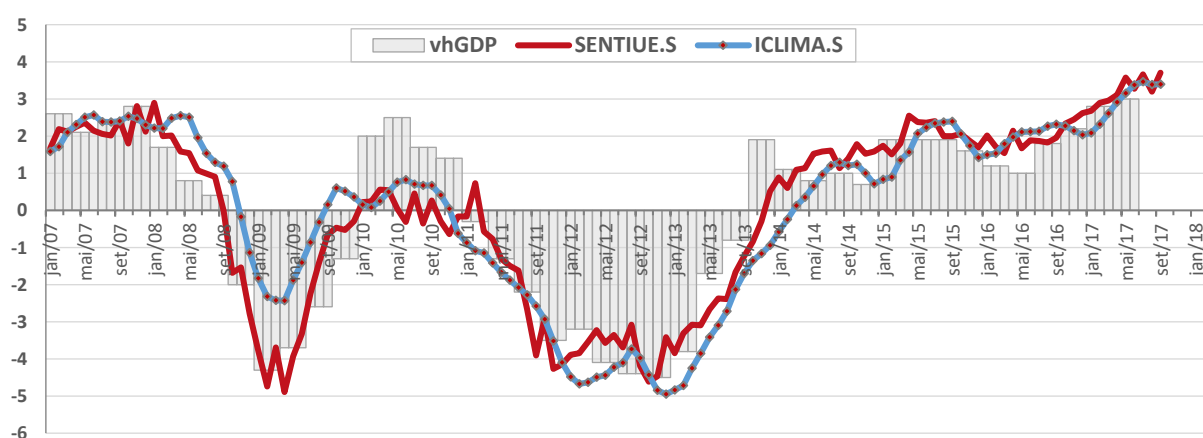
Assuming that the evolution of the main indicators in September did not contradict those of July and August, it is estimated that year-on-year growth in GDP during the 3rd Quarter was 2.9% (0.8% in relation to the previous Quarter).

1. ECONOMIC CLIMATE AND CONFIDENCE - INDICATORS IN SEPTEMBER

In **September**, the **Economic Climate Indicator of the National Statistics Institute** (ICLIMA.S, INE) - based on information from the replies from the surveys carried with companies over the last three months – stabilised (see Graph[1]). In fact, this indicator, which has grown steadily since the beginning of the year, has been relatively stable since June, attaining values close to those of its recent maximum. The **Economic Sentiment Indicator** for Portugal (SENTIUE.S, EUROSTAT), using only information from the September survey and also including **consumer** opinion, recovered in September from the fall recorded for August. In this case, the average of this indicator for the 3rd Quarter increased when compared with the average of the 2nd Quarter, although there was some slowdown compared to its previous growth (see Graph 1[1]).

By sector of activity, focussing just on the seasonally-corrected data for September reported by EUROSTAT, the **confidence indicators** rose in all sectors of activity under analysis (industry, construction, retail, and services). However, there was a decrease in the **consumer** confidence indicator in September**,** but the average for the 3rd Quarter still exceeded the average of the 2nd Quarter, and continued to maintain positive values, 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)

In **September**, for the **Eurozone** (and the EU28), the **Economic Sentiment Indicator** rose again. Using Quarterly averages, this indicator has risen steadily since the last Quarter of 2016, albeit a little more intensely during the last two Quarters. In the last month, this indicator has risen (moderately) in Germany, Spain, and France, and decreased slightly in Italy.
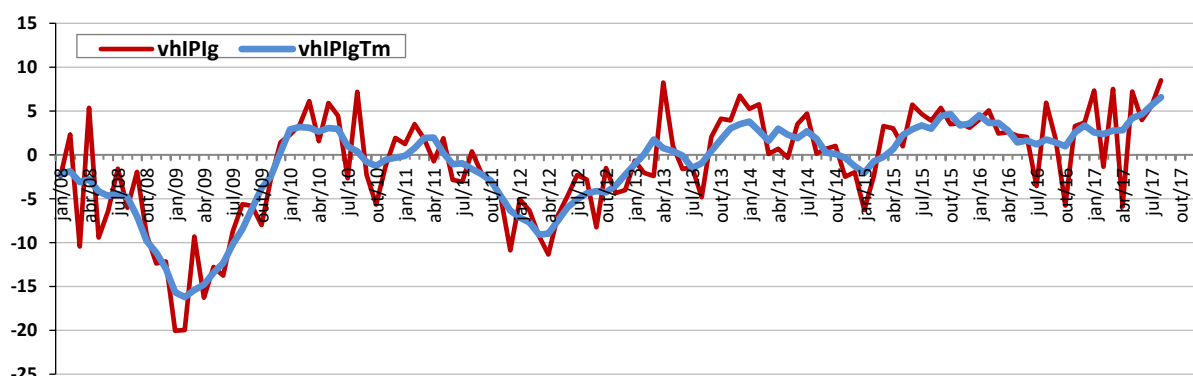
The **Consumer Confidence Indicator** for the Eurozone also rose slightly in September. In this case, Quarterly averages have risen steadily over the last four Quarters. By country, in September, this indicator fell in Spain and France, but rose in Germany and Italy.

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

2. INDUSTRIAL PRODUCTION

In **August**, the **Industrial Production Index** registered a year-on-year variation of 8.5%, driven by the growth in car production (gross values, vhIPIg series in Graph 2; the variation in manufacturing being 6.4%). Corrected for seasonal and calendar effects, the estimated trend (vhIPIgTm) recorded year-on-year variations (series vhIPIgTm) with significant acceleration since May. In accumulated terms, from January to August this indicator has grown 4.1%, although the growth in July-August was 6.9%.

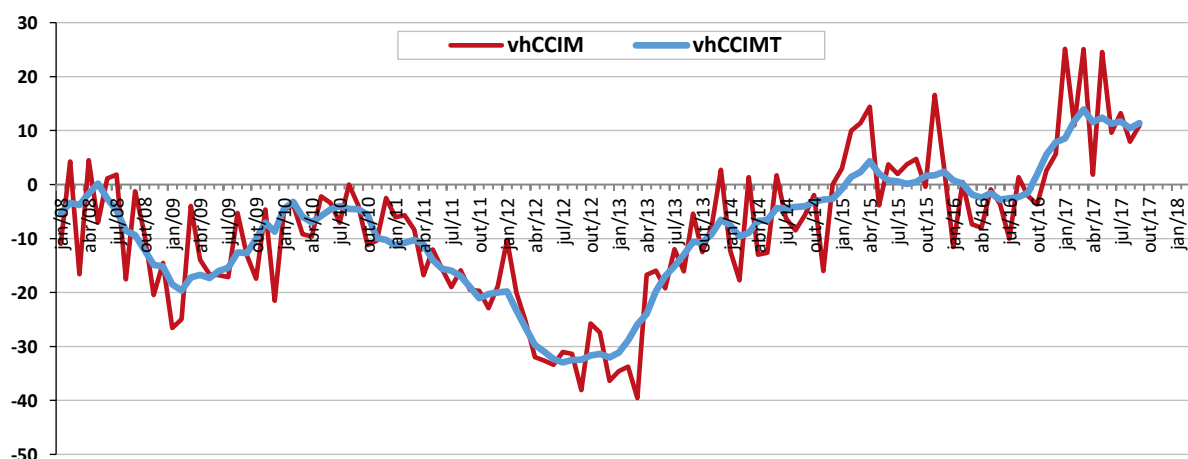Graph 2 | Year-on-year variation of Industrial Production

For the same month, the (nominal) **Industry Turnover Index** showed a year-on-year variation of 11.3% (with 10.8% for the national market, and 12.2% for the external market). During the period from January to August, in year-on-year terms this index varied by 9.1%, with the year-on-year variation of industrial production prices being 3.7% (2.5% in July).

3. CEMENT CONSUMPTION AND CONSTRUCTION/PUBLIC WORKS

In **September**, with less one working day, the year-on-year variation of **sales of cement** was about 11%. The year-on-year growth during the 3rd Quarter was close to that recorded for the 2nd Quarter. The estimated trend year-on-year variations (vhCCIMT, in Graph 3) were close to 11% at the end of the Quarter, and appear to be more sustainable after the previous slight slowdown.
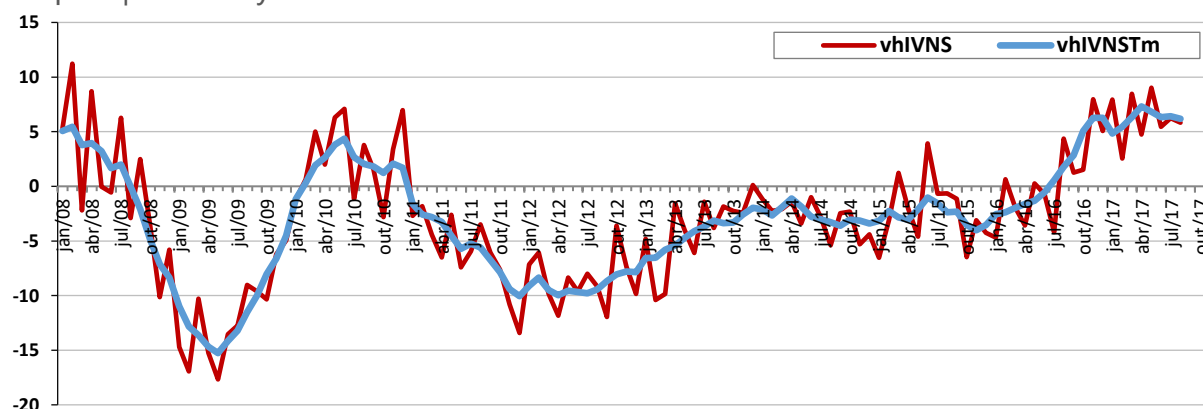
Graph 3 | Year-on-year variation of Cement Consumption

4. TURNOVER IN THE SERVICES SECTOR

In **August**, the (nominal) **Services Turnover Index** showed a year-on-year variation of 5.8% (vhIVNS series, Graph 4, gross values). The year-on-year variations in estimated trend (vhIVNSTm, adjusted for seasonal and calendar effects, Graph 4) have maintained a relatively high average level since the end of last year and were more than 6% at the end of the period.

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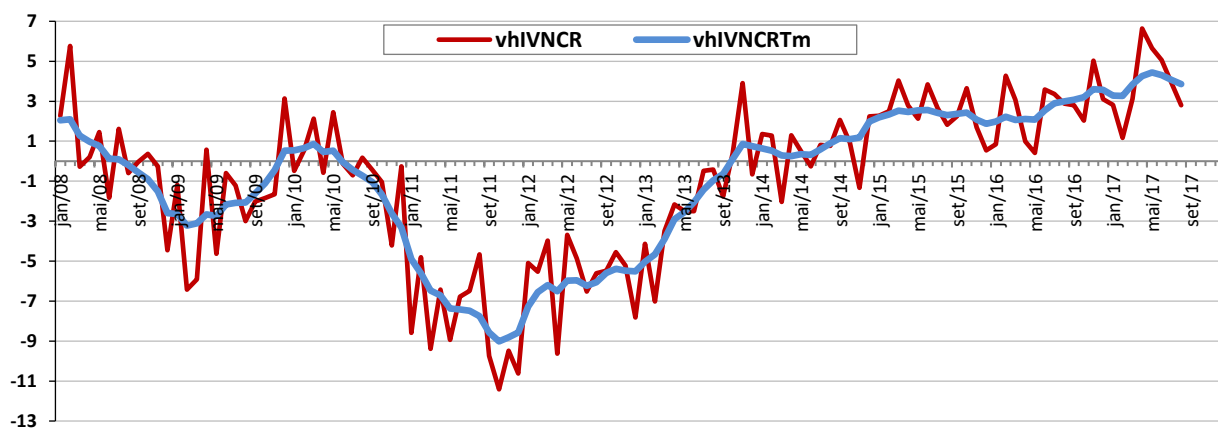

For the tourism sector, the indicator for **Hotel Turnover** (nominal; Tourism Activity, INE) registered a year-on-year variation of 13.1% in July and 12.3% in August (16.1% since the start of the year).

5. RETAIL TRADE TURNOVER

In **August**, the **Retail Trade Turnover Index** registered a year-on-year variation of 2.8% (Graph 5, **deflated** gross values). As can be seen in the graph below, trend-wise (vhIVNCRTm), the rate of growth of this indicator has slowed down slightly since May, being slightly less than 4% at the end of the period. Accumulated from January to August, the index grew by 3.9% (2.7% in the previous year). Contrary to that recorded for 2016, in 2017 the grouping of *non-food products* is growing significantly more than the grouping of *food products*.

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

Car sales increased 6.4% in **September**, and 10.1% during the **3rd Quarter** (as opposed to 11.8% during the 2nd Quarter and 2.5% during the 1st Quarter).
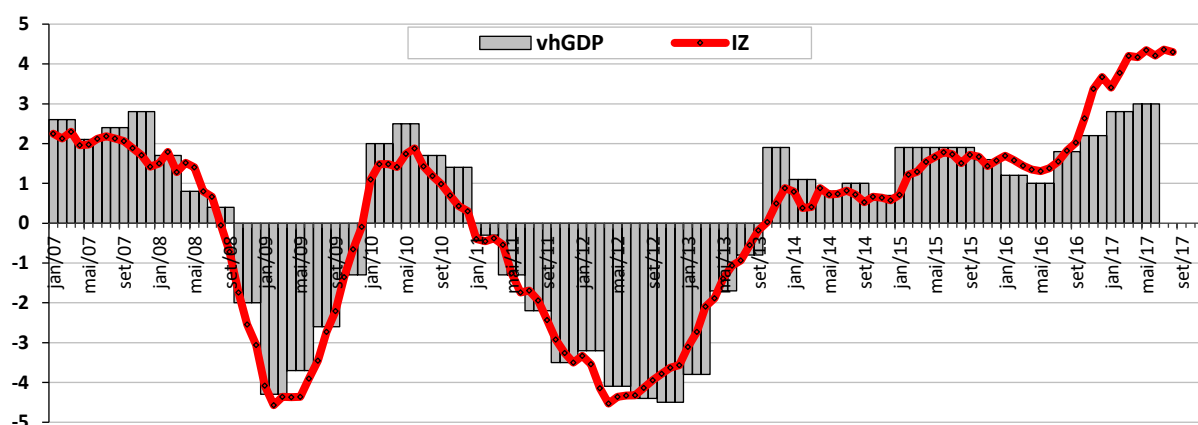
6. EVOLUTION OF THE Z TREND INDICATOR

As can be seen in Graph 6, the **global activity trend indicator** (IZ), which is a weighted average of the information analysed above, remains at a level showing a high level of annual growth. The most recent evolution has been affected, albeit with a slight slowdown in year-on-year growth, by Retail Trade Turnover and Services, as well as Cement Consumption, and with a more pronounced acceleration, the Industrial Production index, which reflects the year-on-year growth in car production. At present, this overall trend indicator shows signs of relative stability, which possibly is also the case for the level of growth in GDP, at least since April.

Therefore, in terms of year-on-year growth of the major aggregate factors of demand, we conclude that the 3rd Quarter has been characterised by a slight slowdown in Internal Demand (both for Private Consumption and Gross Fixed Capital Formation), which may have been offset by the more positive contribution of Net External Demand, given that the strong growth in car production is mainly driven by external demand.

Overall, although incomplete, the data for the 3rd Quarter makes it very likely that year-on-year growth in GDP during the 3rd Quarter remained close to the level recorded during the 2nd Quarter, with this growth expected to have attained 2.9%. This value makes it more likely that growth for the whole of 2017, which previously had been forecast between 2.6% and 3.0%, will be in the upper band of this range[2].

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

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

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[2] The formal revised forecast for annual growth will be published in the next summary of the Economic Outlook, after the publication of INE's flash estimate for growth in GDP during the 3rd Quarter.