

ECONOMIC ANALYSIS

Portugal: growth stable at the end of 2014

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In the home stretch of the year, the Portuguese economy has been boosted more by external than domestic demand. There is a visible moderation in activity and a slight deterioration in the labour market, but exports remain very robust.

- Throughout the final quarter of 2014, the confidence data improved again (Figure 3), with the European Commission's economic sentiment indicator, the ESI, back to pre-crisis levels. This is the result of the improved confidence in the manufacturing sector and above all in household confidence, while the services index has fallen slightly, although it is well above its historical average.
- This optimism is not fully reflected in the activity indicators available to November: industrial production was not showing signs of improvement and continued to contract (Figure 5), while retail sales fell compared with the average for 3Q14, a period during which there was a solid improvement. There were more optimistic signs in the automotive industry, with an increase in car production and registrations, and in the foreign sector: goods exports continued to increase and the positive figures already recorded in the previous quarter were bettered, probably reflecting the effect of the euro's depreciation; they are backed up by the increase in industrial orders from abroad (Figures 7 and 8).
- After a third quarter 2014 in which the performance of domestic demand was the main boost to GDP growth (0.3% QoQ after 0.3% QoQ in 2Q14) (Figure 1), the activity and confidence data suggest that the recovery, while slow, will continue at a steady rate in 4Q14, this time sustained by external factors, while the contribution of domestic fundamentals may fall. With the data available to date, our short-term MICA-BBVA model estimates growth of 0.2-0.3% QoQ in the fourth quarter (Figure 2), consistent with our forecast of 0.9% for 2014 as a whole.
- The rapid reduction in unemployment to September was mainly due to job creation over four consecutive quarters (+2.1% YoY in 3Q14). In both October and November, however, the unemployment rate rose (Figure 11), which could point to a change in the trend after the higher-than-expected improvements in the previous quarters. On the other hand, the wage restraint in the business sector in the last few quarters (-1% in 3Q14 after -1.5% YoY) could come to an end, partly because of the upwards review of the minimum wage (effective from October).
- In December, headline inflation (HICP) fell 0.4pp to -0.3% YoY, due to a more intense drop in energy product prices (Figures 13 and 14). However, the stabilisation in prices for practically all remaining elements has kept core inflation at 0.4% YoY. Over the next few months further intensification in price falls cannot be ruled out, particularly if oil prices remain low. For 2015 as a whole, we forecast negative inflation of -0.1%.
- Budgetary execution to November suggests that the fiscal deficit (excluding one-off measures) should come comfortably within 4% of GDP in 2014, in line with government forecasts, thanks to an increase in income and a greater than initially forecast reduction in spending, an effect of improved domestic demand.

Portugal

National accounts: growth forecast at 0.2-0.3% QoQ in 4Q14

GDP grew by 0.3% QoQ in 3Q14, thanks to the performance of domestic demand, particularly private consumption. Investment continued to recover (2.2% QoQ) and the improvement in domestic demand caused imports to grow, resulting in a negative contribution of real exports.

Figure 1
GDP (% QoQ) and contribution by components (pp)*

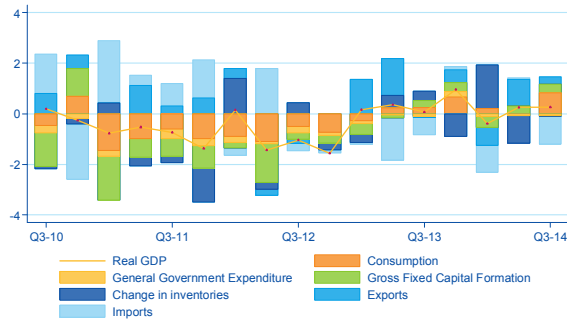
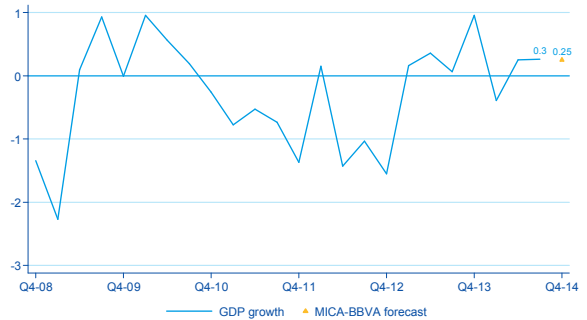


Figure 2
MICA-BBVA: GDP growth (% QoQ) and forecasts *



Confidence: the Economic Sentiment Indicator continued to rise in 4Q14

According to the ESI, business confidence continued to improve throughout industry in 4Q14, together with consumer confidence, which was higher than its 3Q14 average. In services, confidence moderated but still remained high.

Figure 3
Confidence (ESI) and coincident activity indicator *

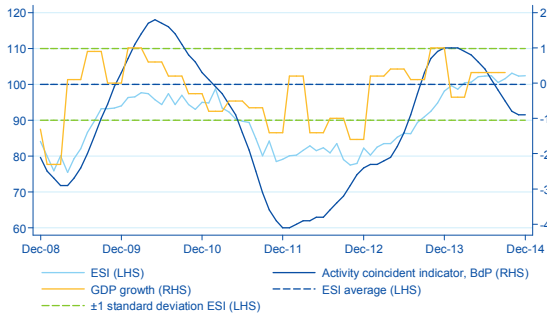
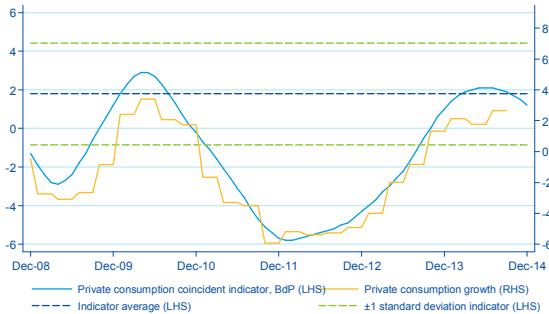


Figure 4
Coincident consumption indicator and private consumption (% YoY)*



Activity: industrial production and retail sales shrank to November

The recovery of industrial production did not take off at the beginning of 4Q14 (-0.2% MoM, -0.8% from 3Q14). Retail trade increased by 3% in November, but remained 0.9% below its 3Q14 average (when it increased by 2.9% QoQ).

Figure 5
Industrial production (% YoY) and confidence*

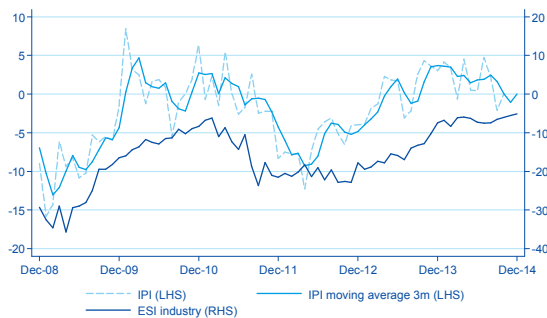
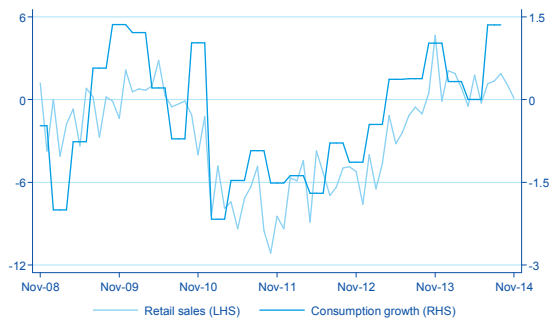


Figure 6
Retail sales (% YoY) and private consumption (% QoQ)*



* Source: Haver Analytics and BBVA Research

Foreign sector: goods exports continue on the up

Goods exports fell by 8.3% MoM in November, but continued above (+3.3%) the 3Q14 average thanks to the sturdy increase in October. By contrast, services exports (particularly tourism) continued to rise.

Figure 7
Exports and imports (% YoY, 3pMA)*

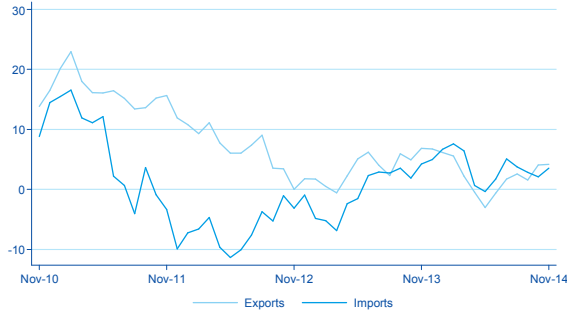


Figure 8
Exports (% YoY) and export orders *

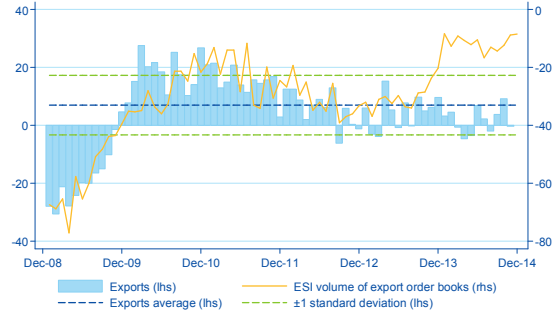


Figure 9
International trade by destination (% YoY)*sa %*

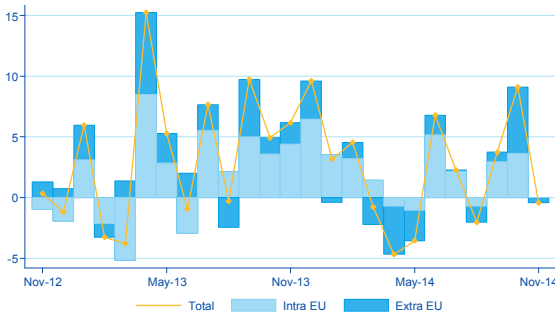
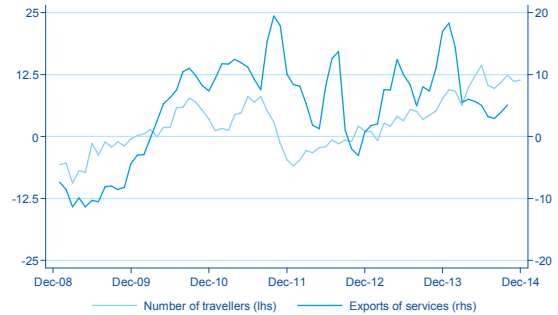


Figure 10
Tourism and services exports (% YoY, 3pMA)*



Labour market: an interruption in the fall of unemployment

After having registered a swift reduction in unemployment over the last year and a half, in October and November the unemployment rate rose, while wage restraint is likely to be interrupted too in 4Q because of the rise in the minimum wage.

Figure 11
Unemployment rate (%) and employment expectation*

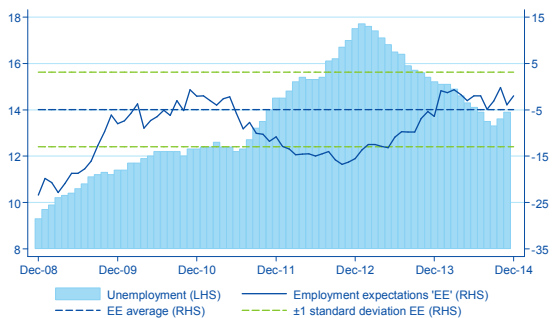
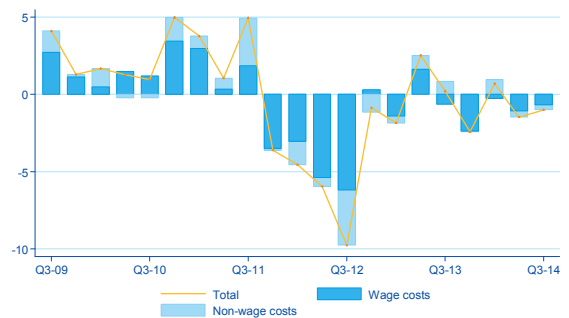


Figure 12
Labour costs in the business sector (% YoY)*



* Sources: Haver Analytics and BBVA Research

Prices: inflation passed into negative figures in December

In December, headline inflation (HICP) fell by 0.4pp to -0.3% YoY, due to the intensification in the fall of energy product prices. However, core inflation remained at 0.4% YoY.

Figure 13
Inflation rate, headline and core (%YoY)*

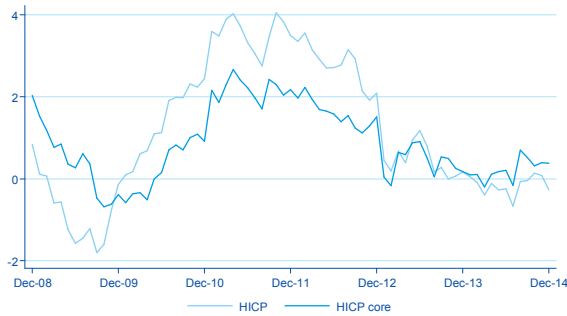
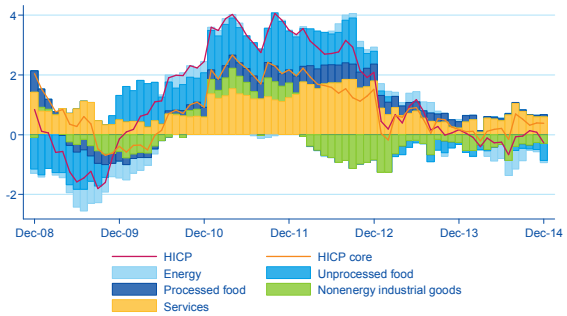


Figure 14
Inflation by components (contribution by %)*



Public sector: fiscal accounts, in line with the budget target

To November 2014, public sector accounts indicate that the deficit target of 4% of GDP will be met, thanks to an improvement in the cycle which is accelerating revenues and limiting public spending.

Figure 15
Government expenditure (comparison with the previous year)*

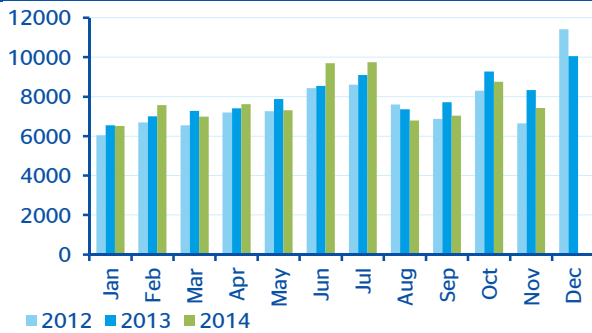


Figure 16
Government revenue (comparison with the previous year)*

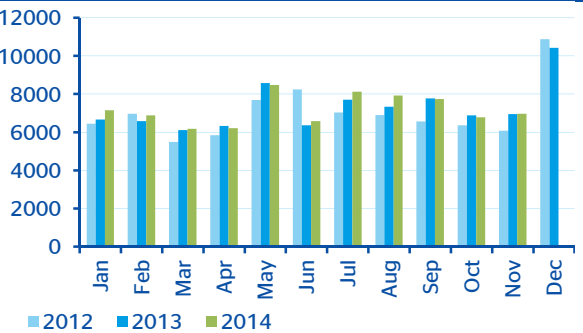


Figure 17
Public and private debt (% of GDP)

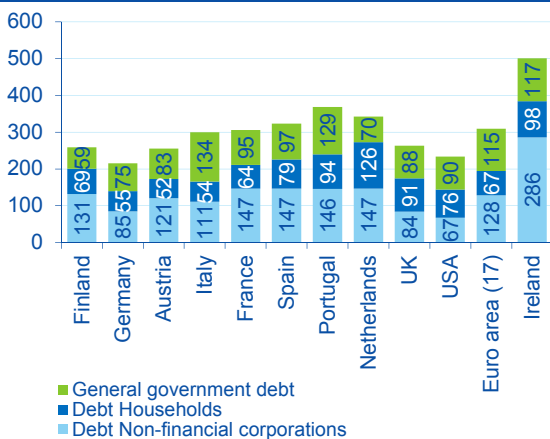
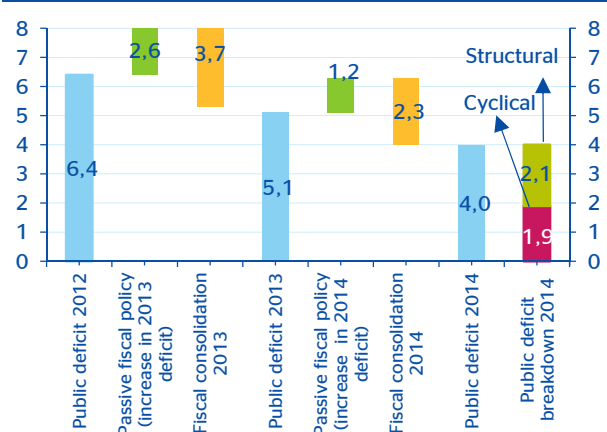


Figure 18
Breakdown of fiscal deficit (cyclical and structural)*



* Sources: Haver Analytics and BBVA Research

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