

## ECONOMIC ANALYSIS

## Portugal: Strong growth to start the year

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**In the opening months of the year the rebound in private consumption was probably the spur for faster progress by the Portuguese economy despite a slightly flatter labour market and weaker exports.**

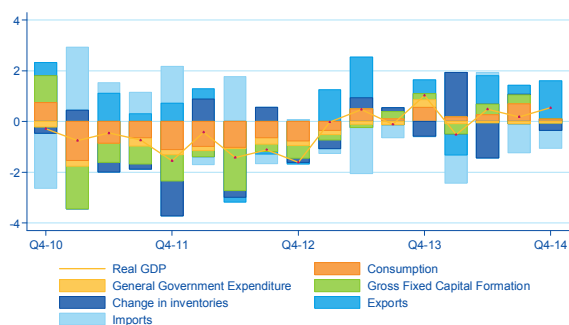
- Over 1Q15 the confidence figures have again been generally better (Figure 3), with the European Commission's economic sentiment indicator (ESI) settling at pre-crisis levels, when the GDP was moving ahead at a clip of over 0.5% QoQ. This performance is on the back of improved confidence in the manufacturing sector confidence and, in particular, households, while the services index is down a shade, though far above its historical average.
- Such optimism is also being reflected in the activity indicators available up to February. Industrial production is showing signs of rallying, especially within the intermediate goods and consumer durables items, and has edged upwards after a negative display in 2H14 (Figure 5). Retail sales saw a substantial upturn relative to the 4Q14 average, having fallen off considerably in that quarter, and they indicate an upswing in private consumption. Moving on to exports, February's brighter showing failed to offset the sharp fall in January and, looking beyond the volatility exhibited by this data series, they seem to describe a pattern of far more modest sales abroad in Q1 in the wake of the surge we saw in 4Q14. This also squares with weaker industrial orders from abroad (Figures 7 and 8), although the performance by imports was even more lame, all of which means that net exports should have once again made a positive contribution to growth, though to a lesser extent.
- After a 4Q14 in which demand from outside was the main driver for GDP growth (0.5% QoQ after 0.2% QoQ in 3Q14) (Figure 1), the activity and confidence figures suggest that the recovery will go on gathering pace in 1Q15, though this time it should be underpinned by domestic factors, chiefly private consumption, while the contribution from external fundamentals could become less significant. Based on the data available to date, our short term MICA-BBVA model estimates growth of around 1% QoQ in Q1 (Figure 2), which is higher than in our baseline scenario, although the leading activity indicators taken together with how growth is structured suggest that the pace should relent as the year progresses.
- Rapidly falling unemployment seen to September last year was in the main due to job creation. The unemployment rate has, however, started to tick up steadily again since then, moving to 14.1% (Figure 11), which, when viewed together with more discreet job creation in 4Q14 (0.7% YoY after 1.9% YoY), could point to a shift in trend. On the other hand, a falling pattern in business sector labour costs in recent months has become more marked (-2.9% YoY in 4Q14 after -1.2% YoY), especially as regards the wage component (Figure 12), while the public sector has revealed a sharp contraction due to a base effect going back to late 2013.
- In March harmonised headline inflation (HICP) climbed 0.5pp to 0.4% YoY on higher underlying components (0.6% YoY after 0.4% YoY in February), though also on energy product prices falling more slowly and the increase in the prices of unprocessed foods (Figures 13 and 14).
- Budget implementation to February has shown a shortfall of EUR377mn, some way above the figure of EUR27mn the year before. This is largely from an increase in expenditure on interest and infrastructure (although the latter owes itself to a calendar-related issue), while revenues have grown to a lesser extent. The government has forecast a fiscal deficit of 2.7% for 2015 as a whole, in line with our estimates (Figure 18).

**Portugal**

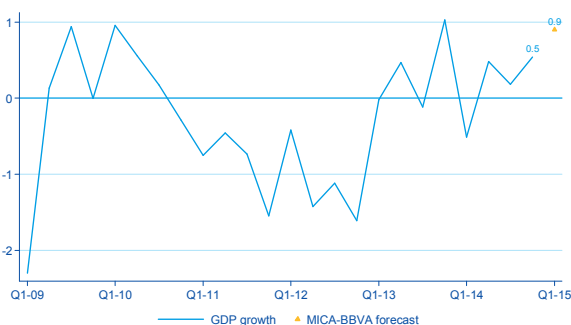
**National accounts: forecast growth of in the region of 1% QoQ in 1Q15**

GDP recorded growth of 0.5% QoQ in 4Q14, thanks to external demand and on a surge in exports and lower imports. In 1Q15 we envisage growth based on the recovery of domestic fundamentals, especially private consumption.

**Figure 1**  
**GDP (% QoQ) and breakdown by component (pp)\***



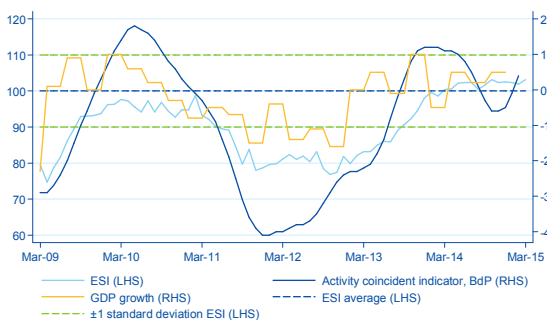
**Figure 2**  
**MICA-BBVA: GDP growth (% QoQ) and forecasts\***



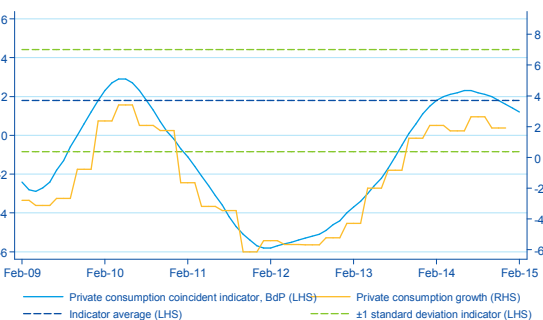
**Confidence: the economic sentiment indicator is still marking high levels in 1Q15**

According to the ESI, business confidence has held at pre-crisis levels in March. Industry and consumer confidence are still progressing positively, while in services there has been a slight dip in confidence, although this remains at a high level.

**Figure 3**  
**Confidence (ESI) and the coincident activity indicator\***



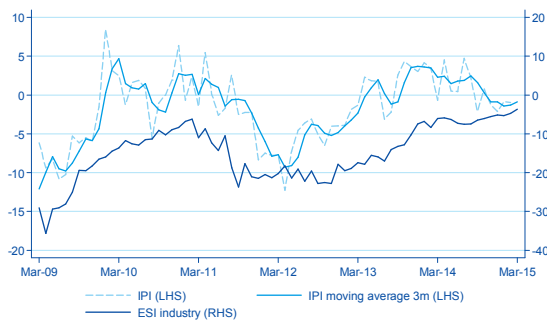
**Figure 4**  
**Coincident consumption indicator and private consumption (% YoY)\***



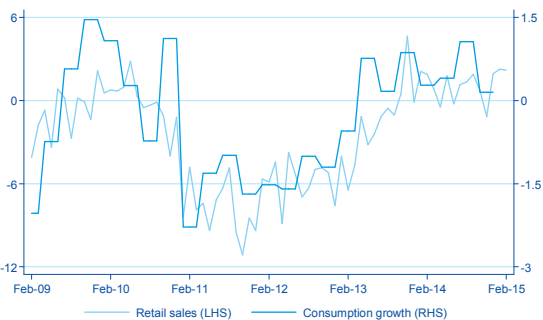
**Activity: marginal improvement in industrial production and an upturn in retail sales**

Industrial production fell back in February (-0.4% MoM), but was slightly up on the average for 4Q14 (+0.1%). Retail business has put in a performance of +4.5% so far this quarter with respect to the previous one (-2.2% QoQ in 4Q14).

**Figure 5**  
**Industrial production (% YoY) and industrial confidence\***



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



\* Source: HAVER and BBVA Research

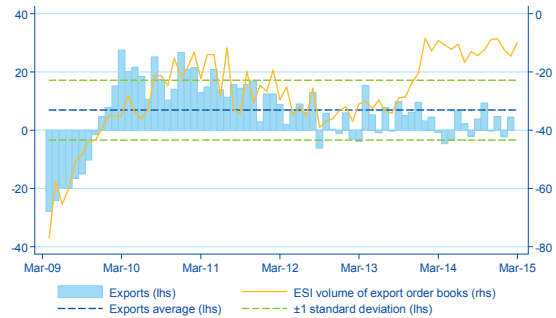
**External sector: trade balance figures to February and industrial orders suggest a smaller contribution by net exports**

Goods exports were up 4.3% MoM in February, but remain below (-3.9%) the average for 4Q14 due to the sharp drop in January. On the other hand, imports are 7.9% below 4Q14, when they were down by 0.2% QoQ

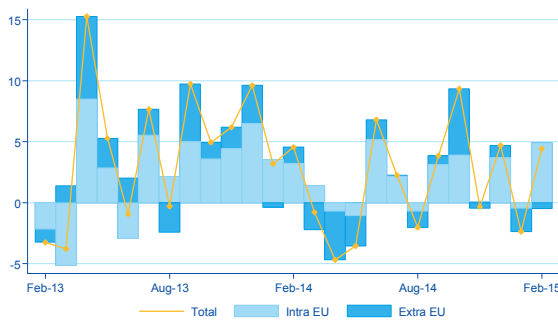
**Figure 7**  
**Exports and imports (% YoY, 3p moving average)\***



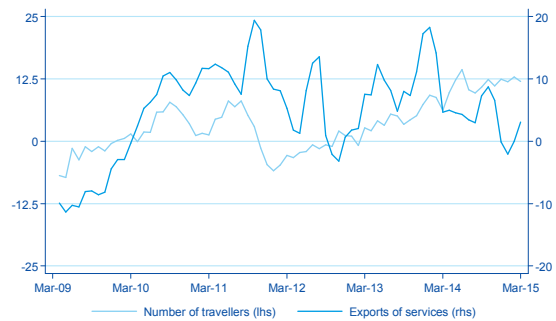
**Figure 8**  
**Exports (% YoY) and export orders\***



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



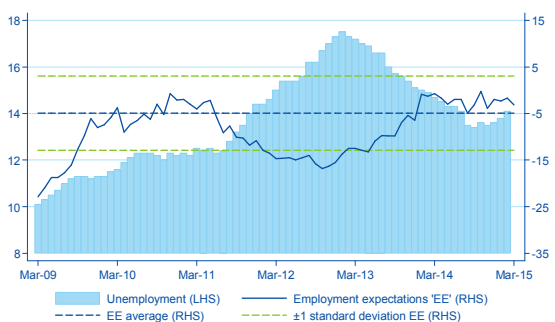
**Figure 10**  
**Tourism and services exports (% YoY, 3p MA)\***



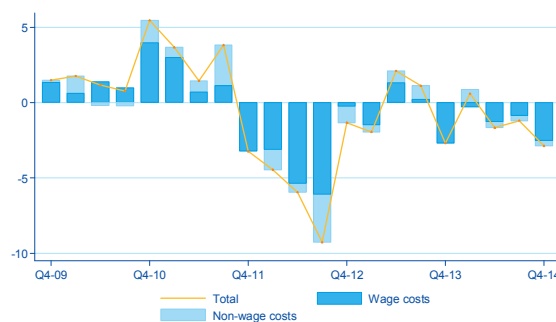
**Labour market: the fall in unemployment breaks off**

In recent months there has been an upturn in the unemployment rate and job creation has slowed down in 4Q14 (0.7% YoY after 1.9% YoY). Private sector wages have come down again (-2.9% YoY after -1.2% YoY in 3Q14).

**Figure 11**  
**Unemployment rate (%) and employment expectations\***



**Figure 12**  
**Business sector labour costs (% YoY)\***



\* Sources: HAVER and BBVA Research

**Prices: Inflation resurgent in March**

The headline HICP has risen by 0.5pp to 0.4% YoY on a gentler fall in energy product prices and an increase in non-processed food prices. The core figure has quickened its pace from 0.4% to 0.6% YoY.

Figure 13  
**Inflation: headline and core (% YoY)\***

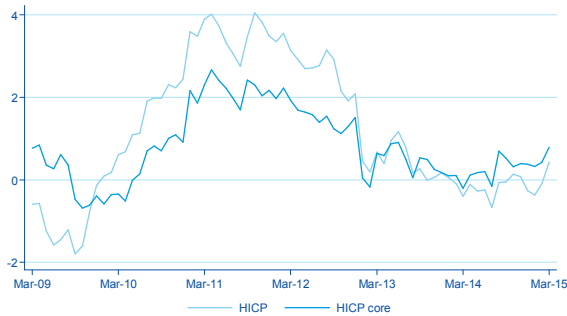
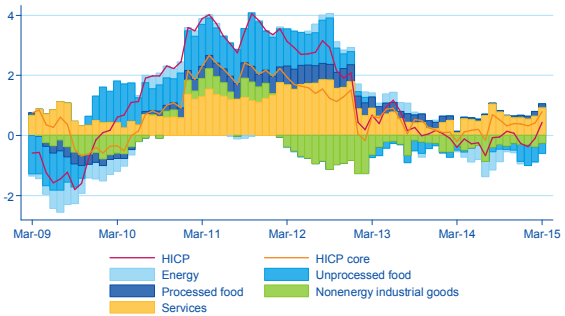


Figure 14  
**Inflation breakdown (contribution in %)\***



**Public sector: budget expenditure has risen at the start of the year**

Budget implementation data for February show a higher increase for expenditure than for revenue. Government estimates point to the deficit for 2015 overall coming down to 2.7% of GDP from 3.7% in 2014.

Figure 15  
**Budget expenditure (against previous year)\***

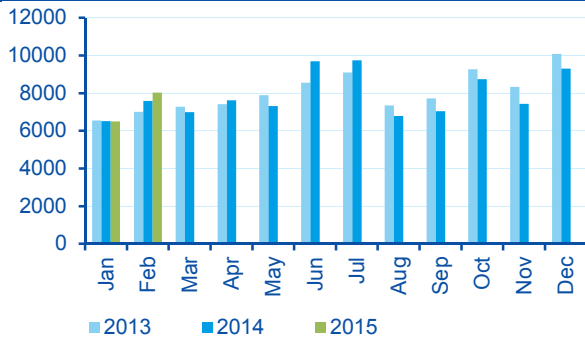


Figure 16  
**Tax revenue (against previous year)\***

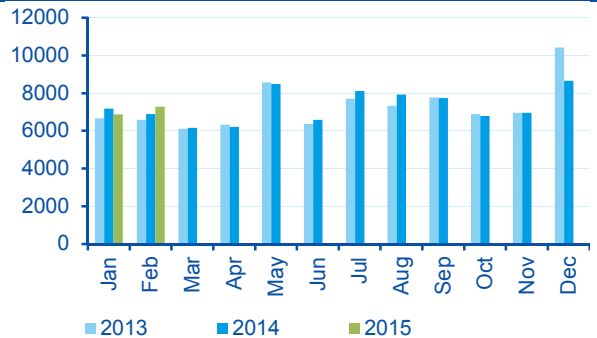


Figure 17  
**Public and private debt (% of GDP)**

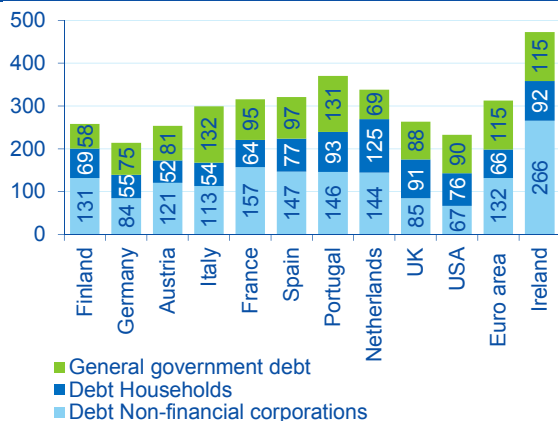
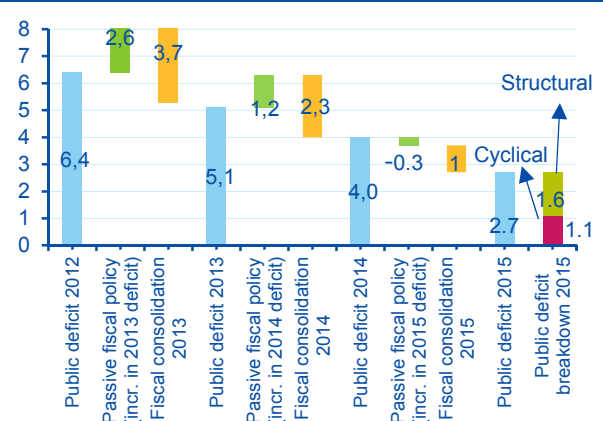


Figure 18  
**Fiscal deficit breakdown (cyclical and structural)\***



\* Sources: HAVER and BBVA Research

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