

## ECONOMIC ANALYSIS

# Portugal: weak growth during 2Q16 and forecasts revised downwards

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**The Portuguese economy grew by 0.3% QoQ in 2Q16**, broadly in line with projections and fulfilling expectations of a **slowdown in private consumption and a boost to exports**<sup>1</sup>. Available data allow us to envisage growth in 3T16 holding at around 0.3%. The lack of acceleration in the pace of activity, together with the increase in uncertainty associated with Brexit, justify a downward revision of growth forecasts for 2016 and 2017 to 1.0% and 1.3% YoY respectively.

## Slowdown in private consumption

**Domestic demand contributed positively to growth (0.2 pp QoQ, SWDA<sup>2</sup>)**, although by 0.4 pp less than in the first quarter of the year as a consequence of the slowdown in private consumption (0.1% QoQ, well below the previous quarter's 1.0% QoQ growth) (see Figure 1). This slowdown was reflected in such 2Q16 indicators as those for **retail sales**, with a fall of 1.0% QoQ compared with the first quarter's 3.6% QoQ growth. The **private consumption indicator**<sup>3</sup> for its part slowed from the first quarter's 2.2% YoY growth to 1.9% in the second, while the **consumer confidence indicator**<sup>4</sup> deteriorated from January's negative 9.7 points to minus 13.5 points in June (see Figure 3).

**Investment for its part continues to show no clear signs of recovery**. Indeed, **the improvement seen in the industrial production indicator** (3.4% QoQ in 2Q16 following the falls of 0.9% QoQ in 4Q15 and 1Q16), has not been reflected in other indicators. Thus the **industrial confidence indicator** again increased its negative bias between April and June (see Figure 4). The same applies to **new lending**, to both businesses and households, which have remained practically unchanged since the beginning of the year.

## Public sector demand is holding up

The other half of domestic demand's contribution to 2Q16 GDP came from **public consumption** (0.3% QoQ), which maintained the same growth as in the previous quarter. Specifically, the general government's final consumption expenditure seems to have increased by 2.4% compared with 2Q15, as against a sharp fall in public investment (-25.7%). All in all, according to the budgetary execution figures, **the cumulative deficit for the last twelve months with data to August was 2.5% of GDP, representing a reduction of 0.1 percentage point compared with 2015**. This trend is in line with that shown by the deficit according to the National Accounts (-3.4% of GDP accumulated in the last four quarters with data to 2Q16 vs. -4.4% of GDP in 2015) (see Figures 5 and 6).

1: For further details, please refer to July's Portugal Economic Watch, available at: [https://www.bbvaesearch.com/wp-content/uploads/2016/07/Portugal-Economic-Watch\\_jul16\\_en.pdf](https://www.bbvaesearch.com/wp-content/uploads/2016/07/Portugal-Economic-Watch_jul16_en.pdf)

2: Seasonally and working days adjusted (SWDA) data. All quarterly (QoQ) changes are calculated on the basis of SWDA data.

3: Indicator published by Banco de Portugal, summarising the most significant information on the country's private consumption.

4: It measures the difference between the percentages of positive and negative responses regarding consumer confidence in the surveys conducted by the National Statistics Institute.

## Exports of goods increased in 2Q16

**Net external demand also contributed slightly to growth (0.1 pp QoQ), an improvement on the first quarter's minus 0.4 pp QoQ**, thanks to the recovery of exports, which grew by slightly more than imports. As well as the evolution in **exports of goods** (+1.1% QoQ in 2Q16 according to foreign trade information published by the National Statistics Institute), there was also an improvement in exports of **tourist services**, with over 5.3 million arrivals in 2Q16 (7.6% more than in 2Q15), the biggest arrivals figure for a second quarter since records began (see Figure 7).

## Job creation continues to show modest gains

The sluggishness of economic growth is seen also in the **labour market, which continues to show signs of fatigue**. As already happened in the first quarter of the year, employment again showed a minima growth of 0.1% QoQ (see Figure 8) and the notable fall in the unemployment rate, from 11.9% in 1Q16 to 11.1% in 2Q16, was due mainly to a reduction of approximately 40,000 persons in the active population.

## 3Q16: growth should hold at 0.3% QoQ although with a different composition

With just over 30% of the information available for 3Q16, **the MICA-BBVA model estimates that Portugal's quarterly GDP growth could stabilize at around 0.3%**, although with a change in composition involving a **slight recovery in private demand and investment and a new retreat in the external sector**. This change would be based partly on the **improvements observed in the past few months both in retail sales** (average growth of 2.7% QoQ between June and July, compared with average growth of 0.6% QoQ for the first half of the year), **and in the retail trade confidence indicator**, which shows more respondents perceiving improvement than deterioration in July and August, in contrast with figures for the earlier part of the year. To this we should add the **stability of the IPI at the highest levels since January**.

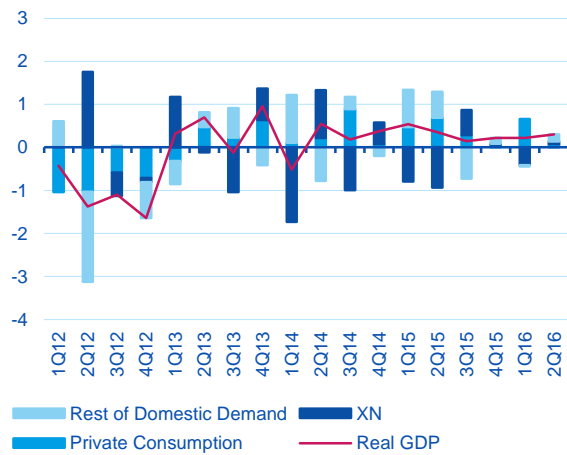
On the other hand, available data for external trade for July point to a **slower rate of growth in exports**, which together with imports showing no signs of flagging, could lead to another zero or negative contribution to economic growth by the external sector in 3Q16.

## Diminishing growth prospects

Although broadly in line with the latest estimate of the MICA-BBVA model obtained in July (0.2% QoQ), in the end GDP growth for 2Q16 was lower than the forecast published in May this year (0.4% QoQ). **To this lack of acceleration in growth, we should add some other risks**, both external and internal, faced by the Portuguese economy. Among those originating from outside are the **reduced support from oil prices, the moderation of orders from abroad and the impact of Brexit, which although limited could have an effect on commercial activity and confidence, weighing down trade and investment**. Moreover, the past few weeks have seen an increase in **domestic uncertainties** about national economic policy and **the risk of another overshoot of the deficit target** in 2016. To this we should add the in-principle **agreement with the European Commission to recapitalize the country's biggest bank**, the doubts about a **possible blocking of EU funds** as a result of previous non-compliance or reduced support for a **fiscal policy that is conditioned by decisions of the European Commission**. For all these reasons, **the forecast for Portugal's GDP growth is revised to 1.0% YoY for 2016 and 1.3% YoY for 2017**, from the previous forecasts of 1.4% and 1.6%, respectively.

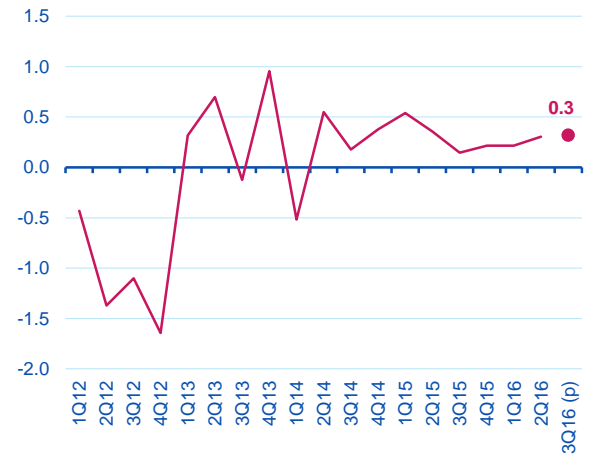
Main indicators of activity

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



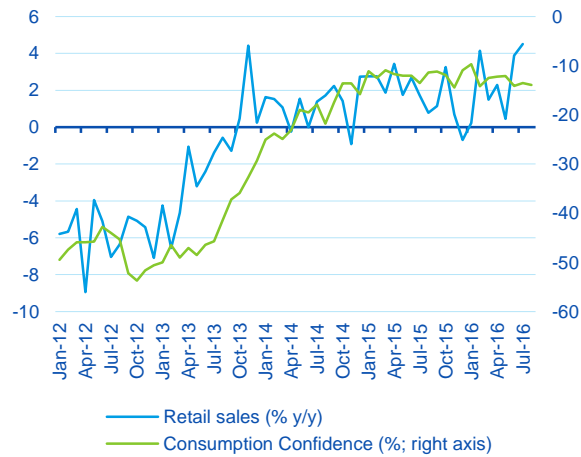
Source: HAVER and BBVA Research

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



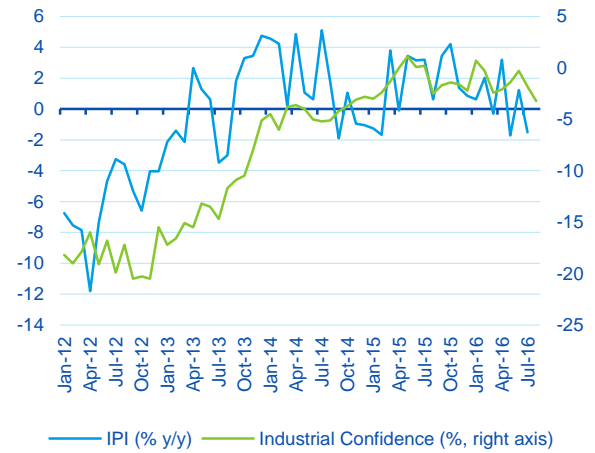
Source: HAVER and BBVA Research

Figure 3  
**Indicators associated with consumption**



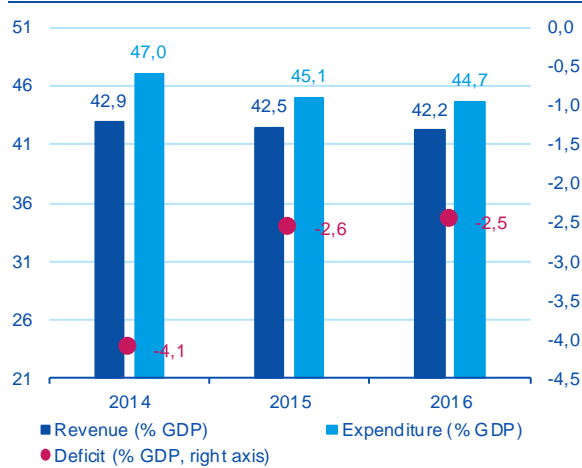
Source: HAVER and BBVA Research

Figure 4  
**Indicators associated with industry**



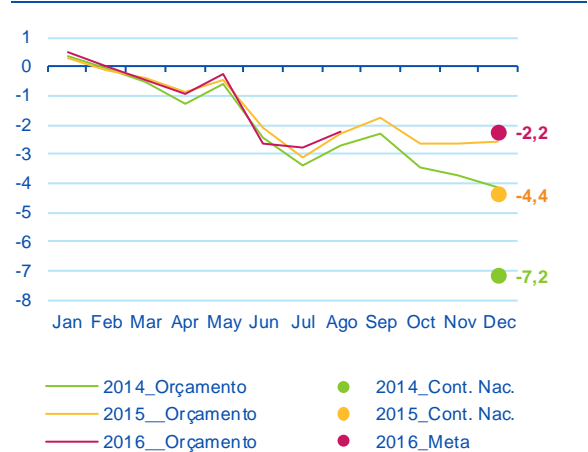
Source: HAVER and BBVA Research

**Figure 5**  
**Budgetary Execution (2016: accumulated 12 months with data to August). Not including injections to the financial sector.**



Source: HAVER and BBVA Research

**Figure 6**  
**Fiscal Deficit: Budgetary execution and National Accounts (% GDP)**



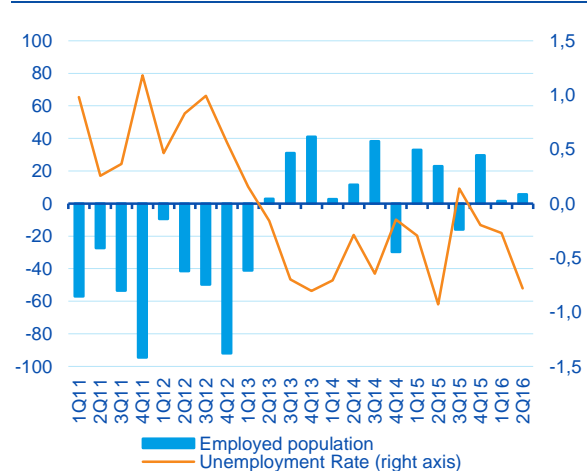
Source: HAVER and BBVA Research

**Figure 7**  
**Indicators associated with the external sector (% YoY)**



Source: HAVER and BBVA Research

**Figure 8**  
**Population employed (quarterly change in thousands of persons) and unemployment rate (%)**



Source: HAVER and BBVA Research

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