

ECONOMIC ANALYSIS

Portugal: growth stagnates at 0.3% QoQ

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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**¹. **Available data for 3Q16 continue to point to growth being maintained at around 0.3%** (see Figure 2). This estimate is based on consumption indicators and records of exports of goods and services (tourism), which continue to show dynamism, and investment held back by uncertainty.

This stable but moderate rate of recovery which we have seen since the beginning of the year is in negative contrast to the slightly accelerating trend that was expected for the Portuguese economy. This, together with the increased uncertainty, partly associated with the result of the UK's referendum on whether to leave the European Union ("Brexit") and the uncertainty about economic policy, leads BBVA Research to maintain its growth forecast for 2016 (1.0%) and 2017 (1.3%), although the downward bias increases.

Private consumption continues solid, unlike investment

The dynamism of private consumption was reflected in **retail sales**, which grew by 2.6% QoQ during 3Q16, and in the **private consumption indicator**², which held its year-on-year growth at 1.8% in 3Q16. However, as has been happening since the beginning of the year, **the consumer confidence indicator**³ deteriorated again for the second consecutive quarter, from -12.8 points average in 2Q16 to -13.3 points in 3Q16 (see Figure 3).

For its part, **investment continues to lose speed. In fact, the improvement observed in the industrial output indicator in 2Q16** (+3.4% QoQ), has proved to be a passing transitory, as is shown by the fall posted in 3Q16 (-0.6% QoQ). In the same line, the **manufacturers confidence survey** again increased its negative bias between July and September (see Figure 4). The same thing occurred with new lending transactions to businesses, with an average annual reduction of 14% in July and August.

Public sector demand is holding up

All the same, according to budgetary execution figures, **the cumulative deficit for the past 12 months based on data to September was 1.6% of GDP, representing a reduction of 0.2 pp from the level observed in the same period of 2015** (see Figures 5 and 6).

Exports of goods extended their 2Q16 improvement

Exports of goods kept up the improvement started in 2Q16 and grew another 1.3% QoQ in 3Q16 according to the foreign trade information published by the National Statistics Institute (INE). Added to this improvement are exports of **tourist services**, which continue to break records with more than two million tourist arrivals in both July and August, the latter month setting an all-time high since the information started to be recorded (see Figure 7).

¹: For further details, please refer to September's Portugal Economic Watch, available at: https://www.bbva.com/content/uploads/2016/09/EN_Portugal_EC_Watch_Sep161.pdf

² Indicator published by Banco de Portugal, summarising the most significant information on the country's private consumption.

³ It measures the difference between the percentages of positive and negative responses regarding consumer confidence in the surveys conducted by the National Statistics Institute.

Job creation continues to show modest advances

In the absence of definitive data for 3Q16, the estimate published by the INE for September continues to point to a further, albeit slight, increase in employment. Specifically, the number of people in work looks to have shown an average monthly growth rate of 0.1% between July and September, while the number of unemployed will have fallen by 0.6% MoM (average for the same period).

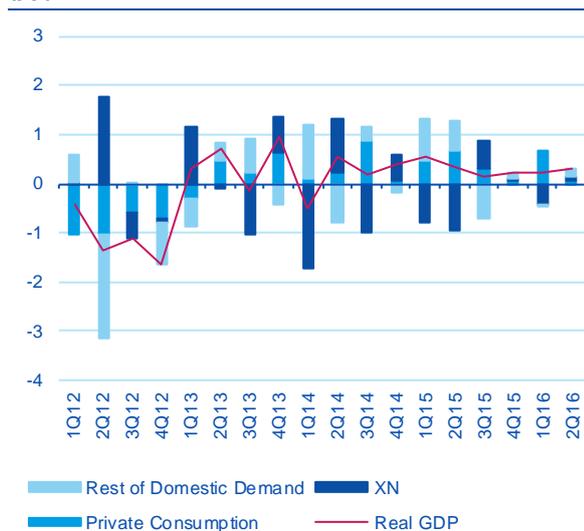
3Q16: growth should hold at 0.3% QoQ

With practically all the information available for 3Q16, **the MICA-BBVA model estimates that Portugal's quarterly GDP growth could stabilize at rates close to 0.3%**, given the **dynamism continuing to be shown by private demand, exports of goods and tourism.**

Added to the sluggishness of Portugal's economic recovery (with growth stagnating at around 0.2%-0.3% QoQ in the first three quarters of 2016) are the uncertainty associated with the possible effects of Brexit and the doubts about economic policy. All these considerations lead BBVA Research to maintain its GDP growth forecast at 1.0% for 2016 and 1.3% for 2017, albeit with a greater downward bias.

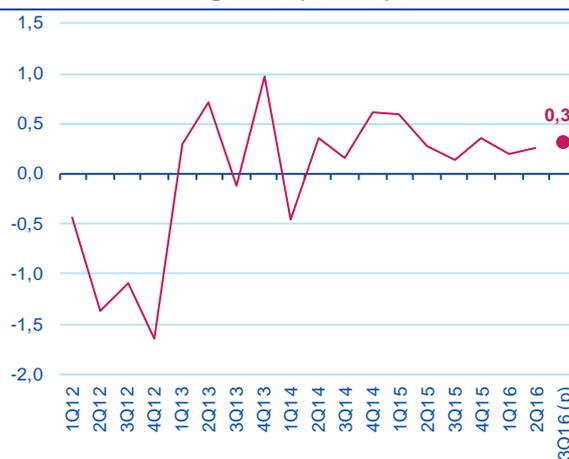
Main indicators of activity

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



Source: HAVER and BBVA Research

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



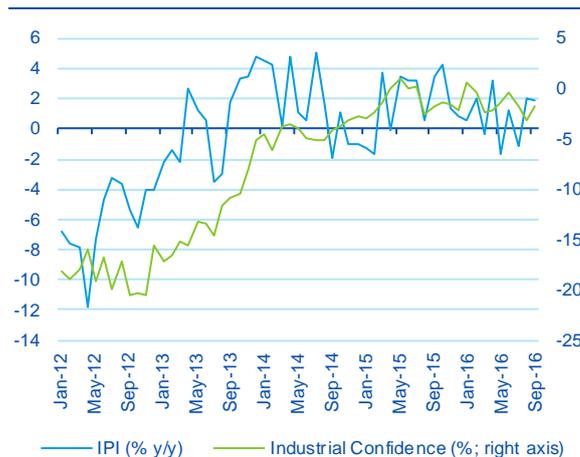
Source: HAVER and BBVA Research

Figure 3
Indicators associated with consumption



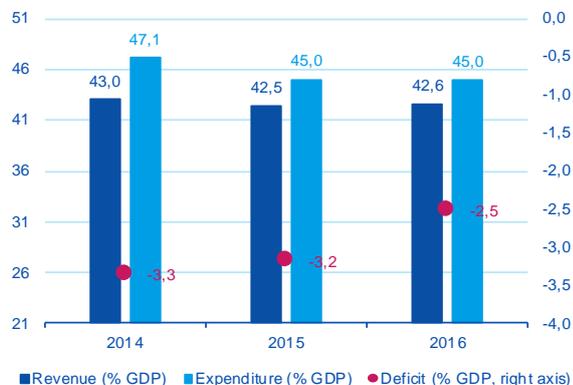
Source: HAVER and BBVA Research

Figure 4
Indicators associated with industry



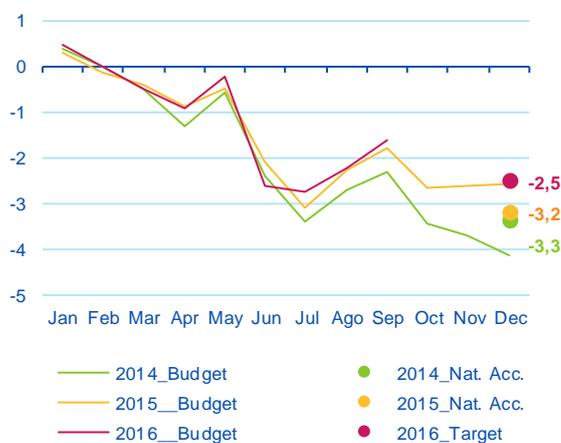
Source: HAVER and BBVA Research

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



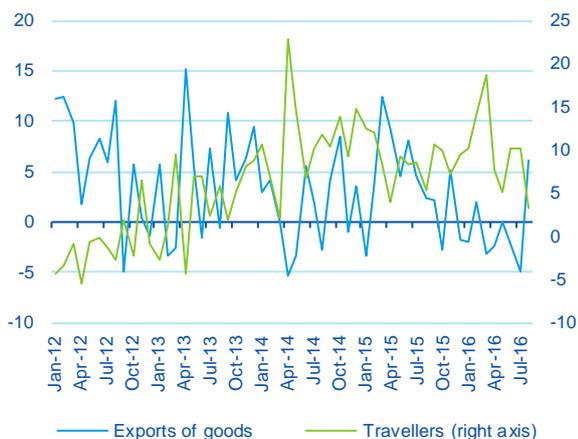
Source: HAVER and BBVA Research

Figure 6
Fiscal Deficit: Budgetary execution and National Accounts (% GDP, Not including injections to the financial sector.)



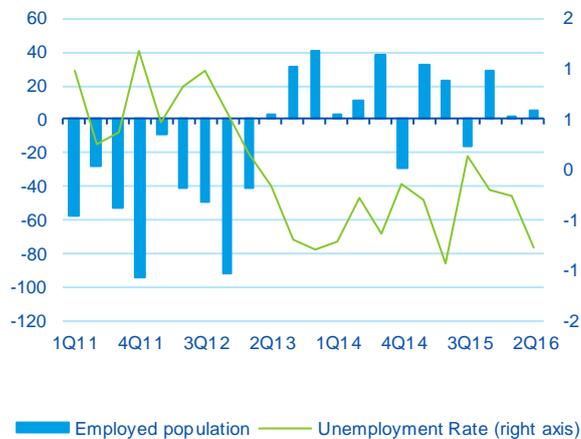
Source: HAVER and BBVA Research

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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