

## ECONOMIC ANALYSIS

# Portugal: growth could return to around 0.3% QoQ in 4Q16

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The growth of the Portuguese economy during 3Q16 reached 0.8% QoQ<sup>1</sup>, with a surprise acceleration in the growth levels from the levels around 0.3% QoQ seen in the first half of the year. The foreign sector was the main cause of this growth, with a strong increase in exports and an unexpected decline in imports<sup>2</sup>. The available data relating to 4Q16 point to slower growth than in the third quarter, which could be situated at around 0.3% QoQ (see Figure 2). This estimate is the result of consumption indicators continuing to rise; goods export figures that show a somewhat less intense dynamism than in Q3 and imports which are recovering their growth.

If this scenario is confirmed, the average growth for 2016 would be around 1.2%, a higher figure than was forecast by BBVA Research in November (1.0%). This would also introduce a positive bias on the expected GDP growth in 2017 (1.3% YoY).

## Private consumption continues to show dynamism

After the strong growth shown by retail sales during the third quarter (3.2% YoY), the known data for October and November maintain this trend and on average there have been increases of nearly 3.7% YoY. In monthly terms, November (-0.6% MoM) would have reversed part of the improvement observed in October (1.3% MoM). The coincident indicator of private consumption<sup>3</sup> also maintained its annual growth close to 2% on average for those two months. On the other hand, unlike what happened in recent months, the consumer confidence indicator<sup>4</sup> has started to show a slight improvement, reducing its negative result from -12.6 points in September to -7.7 points in November (see Figure 3).

## Somewhat less weak investment

Industrial production has shown slight growth again between October and November in annual terms (+0.6% YoY on average for the two months), although in October the monthly variation stood out as positive (1.4% MoM) after several months of declines. This trend is also observed in the industrial confidence indicator for the first time since January 2016 generated a positive balance, according to information published in both October and November (see Figure 4). Meanwhile, new credit operations to companies registered further falls in October, both in transactions up to €1 million (-11% YoY), and in transactions over €1 million (-25% YoY).

1: All variations the expressed in QoQ or MoM terms are calculated on seasonally and working day adjusted data (SWDA).

2: For further details, please refer to the Portugal Economic Watch for December, available at: <https://www.bbva.com/publicaciones/portugal-el-pib-del-3t-sorprende-al-alza-y-se-acelera-hasta-el-08-tt/>

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.

## Public sector demand is holding up

The Public Administration meanwhile, **is following a path of spending and income which is very similar to that of 2015**. Thus, **the accumulated deficit in the last 12 months** with data to November **stood at 2.4% of GDP**. This represents a reduction of 0.2 points in GDP from the level recorded during the same period in 2015, a difference that has been maintained in recent months (see Figures 5 and 6).

## Exports of goods rose more moderately, while imports reversed the losses of the previous quarter

Meanwhile, following the strong growth seen in Q3, known international trade data for Q4 point to a somewhat **slower growth in exports** (in fact, in October and November nominal exports of goods increased by 2% YoY in the average for both months, after levels of growth of closer to 2.3% between June and September). In monthly terms the trend diverged, with declines in October (-3.6% MoM) and increases in November (7.6% MoM). In addition, **slower growth in nominal imports of goods during the third quarter was expected to have been transient and increased between October and November** by an average of 1.3% MoM, a trend which also moved upward. **Tourist services meanwhile continued the upward trend observed in previous months** with the arrival of more than 1.8 and 1.1 million tourists in October and November respectively, representing 12.7% more than in the same month in 2015 in both cases (see Figure 7).

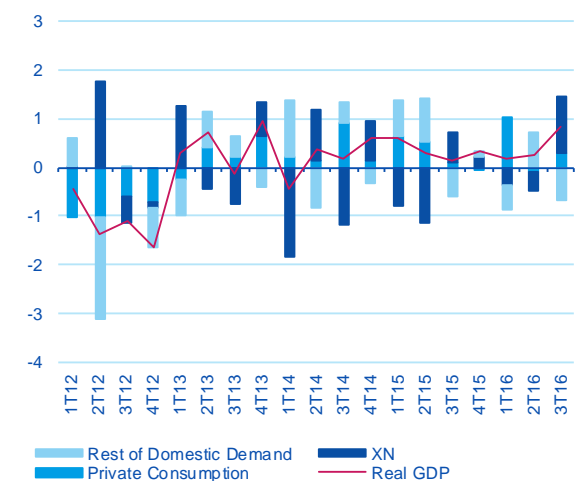
## Employment fell in November, although the unemployment rate is continuing its downward trend

**Although the creation of jobs in annual terms remains positive** (1% YoY on average in October and November), **the monthly data maintained their sluggishness**. While in October there seemed to be a break in the upward trend of recent months (0.3% MoM), employment fell again in November (-0.1% MoM). However, **the unemployed population did show improvement**, with monthly falls close to 2% in both October and November, which allowed the **unemployment rate to be reduced** from 10.9% in September to 10.5% in November.

Main indicators of activity

Figure 1

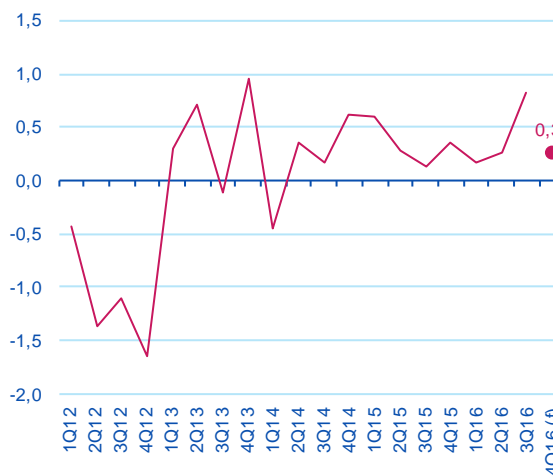
**GDP (% QoQ) and contributions by component (pp)**



Source: BBVA Research based on INE and BdP

Figure 2

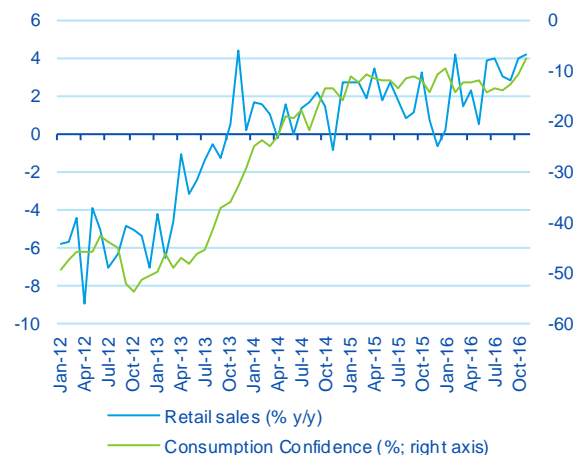
**MICA-BBVA: GDP growth (% QoQ) and forecasts**



Source: BBVA Research based on INE and BdP

Figure 3

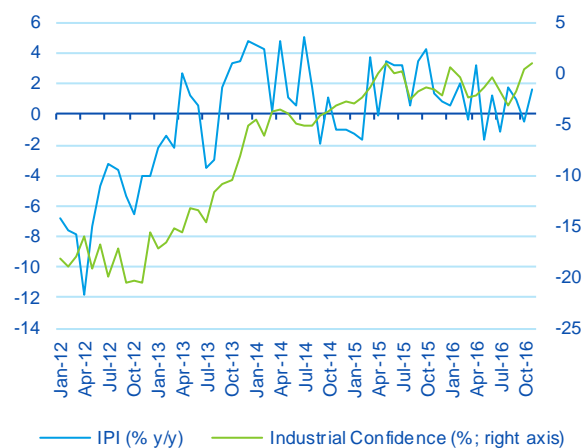
**Indicators associated with consumption**



Source: BBVA Research based on INE and BdP

Figure 4

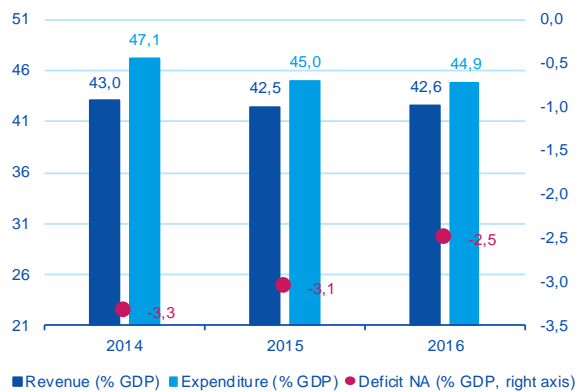
**Indicators associated with industry**



Source: BBVA Research based on INE and BdP

Figure 5

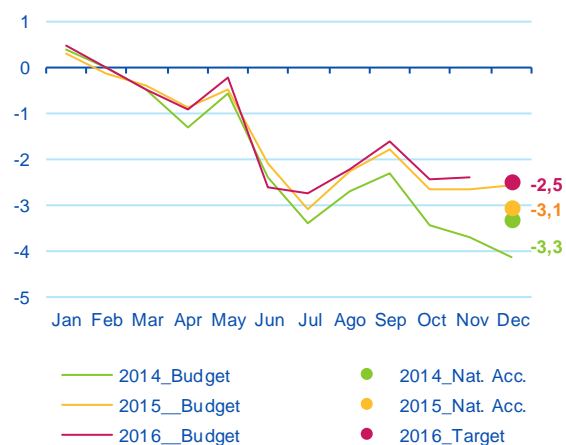
**Budgetary Execution (2016: accumulated 12 months with data to November). Not including injections to the financial sector.**



Source: BBVA Research based on INE and BdP

Figure 6

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



Source: BBVA Research based on INE and BdP

Figure 7

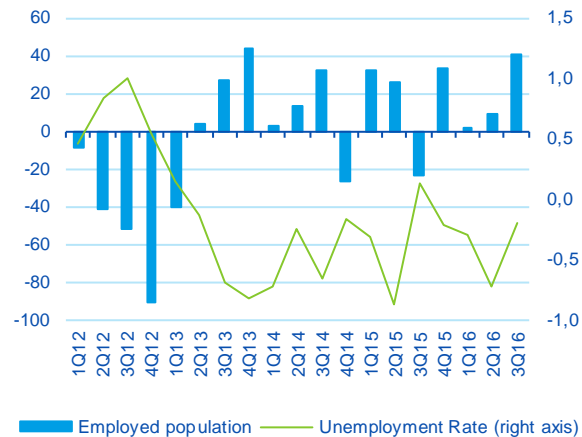
**Indicators associated with the external sector (% YoY)**



Source: BBVA Research based on INE and BdP

Figure 8

**Population employed (quarterly change in thousands of persons) and unemployment rate (quarterly change in pp)**



Source: BBVA Research based on INE and BdP

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