

ECONOMIC ANALYSIS

Portugal: growth could return to around 0.2% QoQ in 1Q17

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Available data point to a slowdown in GDP growth in 1Q17 to 0.2% QoQ, SWDA¹ (see Figure 2), similar to the levels seen in the first half of 2016. This estimate is the result of consumption indicators that are continuing to advance, an absence of greater dynamism in investment and imported goods figures that would counteract good export performance. **During the coming quarters** GDP growth could settle at between 0.3% and 0.4% in line with growth of **1.7% on average in 2017, above the 1.4% seen in 2016.**

Private consumption remains up-beat though slowing, and investment is recovering gradually

Following the improvements seen in **retail sales** during the last quarter of 2016 (4.3% YoY) the known data for January and February point to slower growth and on average have recorded increases close to 2% YoY, which in monthly terms (SWDA) translate to a fall of 0.3% MoM in January and an increase of 0.6% MoM in February. The **Private Consumption Coincident Indicator² improved slightly in the first two months of the year as compared with late 2016, as did the consumer confidence index³, which continued to reduce its negative balance from -5.3 points for December to -2,7 points for March** (see Figure 3).

After a fourth quarter in which investment surprised by showing a positive contribution to GDP growth and the **Industrial Production Index (IPI)** evolved favorably, reaching as much as 4.1% YoY growth in December, IPI observed data **for January and February show a slowing down to rates closer to 2.8% YoY** (averaged over the two months), with falls in the previous month (-0.3% MoM, SWDA, in both January and February). Elsewhere, the **Industrial Confidence Index, which for the first time since January 2016 registered a positive year-end balance**, accelerated its improvement during 1Q17. Finally, with the information available for January, it appears that new credit operations to businesses are beginning to temper the strong movements observed last year. In fact, transactions below €1 million fell in January by 1% YoY (against average falls approaching 9% YoY in the last three months of 2016). Those above €1 million fell by 12% YoY in January (after falls in excess of 30% YoY for the October to December 2016 average).

1: All variations expressed in QoQ or MoM terms are calculated on Seasonally and Working Day Adjusted data (SWDA).

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 collected in surveys conducted by the National Statistics Institute.

Meeting the deficit target

According to data from the Banco de Portugal, the Portuguese General Government finally managed to reduce its deficit to 2.1% of GDP, 4 decimal points below the target set (see Figure 5). The above is the result of a 0.9% increase YoY in income and a 3.8% reduction in expenses. The most notable among the latter were increases close to 3% in employee wages and intermediate consumption, as against falls of 30% in the government's gross capital formation. Debt rose at year end to 130.4% of GDP, virtually the same as that recorded at the close of 2015. The budgetary execution information obtained up to February shows that during the first part of the year progress has remained very similar to that seen during 2016 (see Figure 6).

The external sector got off to a good start in 2017

The preliminary data for January and February seems to confirm the trend observed towards the end of 2016 for the external sector. Both exports and imports are maintaining growth of around 15% YoY, averaged over these two months. The same performance was seen in tourist arrivals at Portuguese hotels (14% YoY in January against average growth rates closer to 10% in the latter part of 2016) (see Figure 7).

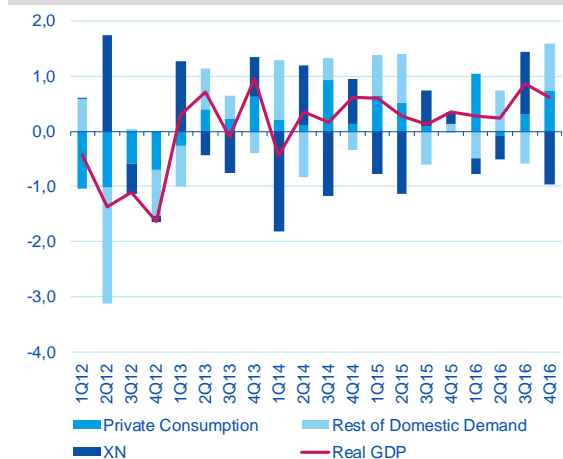
Modest gains in employment

Job creation remains positive, albeit weak (0.7% YoY and 0.1% MoM average for January and February). In any event, this was sufficient to reduce the unemployment rate from 10.2% in December 2016 to 10% in February of this year.

Main indicators of activity

Figure 1

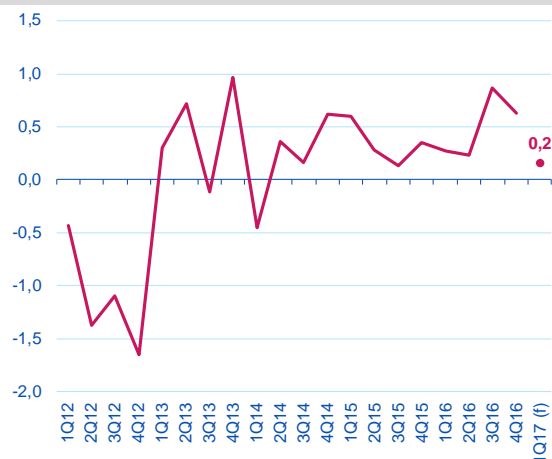
GDP (% QoQ) and contributions by component (pp)



Source: BBVA Research based on INE

Figure 2

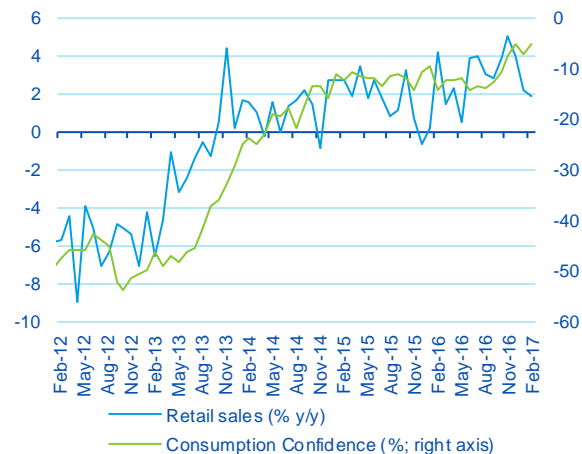
MICA-BBVA: GDP growth (% QoQ) and forecasts



Source: BBVA Research based on INE

Figure 3

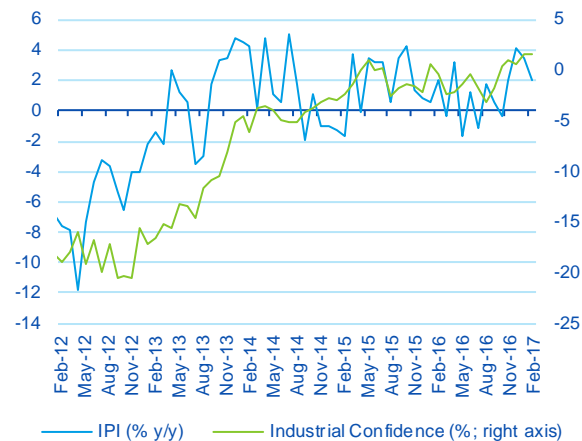
Indicators associated with consumption



Source: BBVA Research based on INE

Figure 4

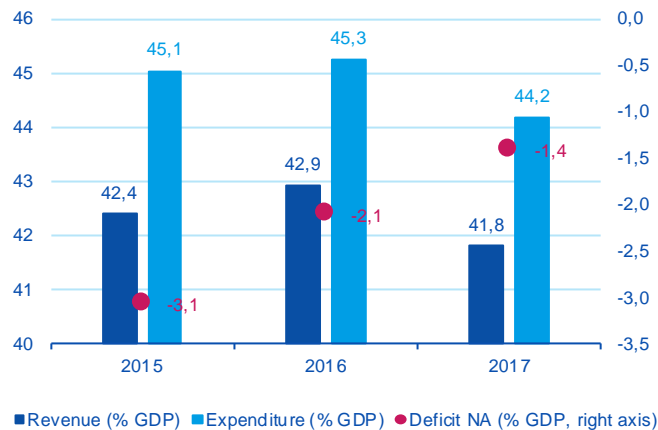
Indicators associated with industry



Source: BBVA Research based on INE

Figure 5

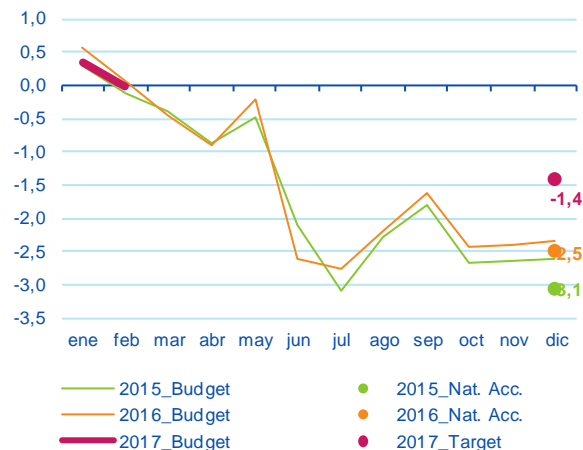
Budgetary Execution (2016: accumulated 12 months with data to November). Not including injections to the financial sector.



Source: BBVA Research based on BdP

Figure 6

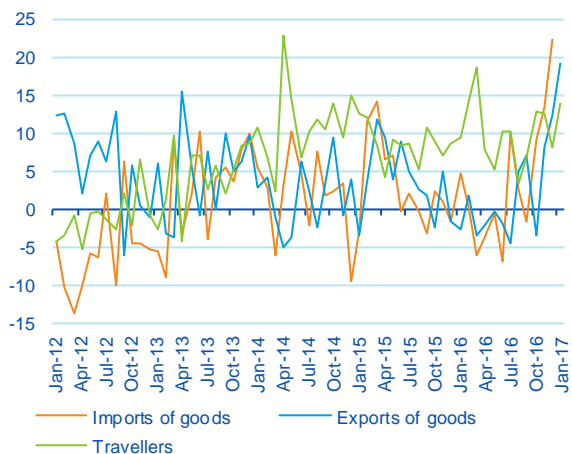
Fiscal Deficit: Budgetary execution and National Accounts (% GDP, Not including injections to the financial sector.)



Source: BBVA Research based on BdP

Figure 7

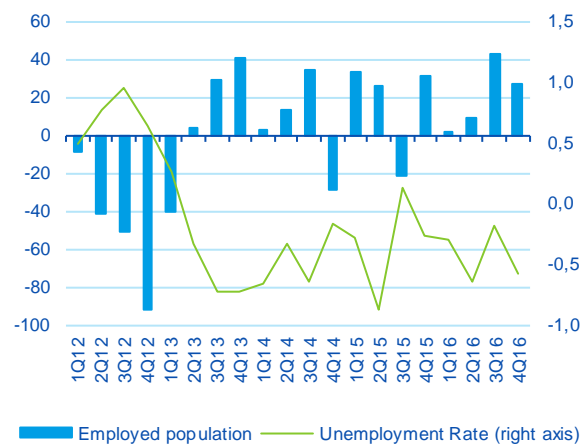
Indicators associated with the external sector (% YoY)



Source: BBVA Research based on INE

Figure 8

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



Source: BBVA Research based on INE

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