

Portugal: growth once again surprise positively in 1Q17

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The growth rate of the Portuguese economy in 1Q17 accelerated to 1.0% QoQ¹, surpassing the BBVA Research estimate (0.2% QoQ). The quarterly growth was due to the positive contribution of external demand (0.8pp), given the strength exports have once again shown in a context of import slowdown. In line with expectations, private consumption advanced less than in previous quarters, while investment fell following strong growth in 4Q16. The result was a poor domestic demand contribution to growth.

Based on the available data so far, BBVA Research estimates that growth in 2Q17 will be around 0.5% QoQ, below that seen in previous quarters (see Figure 2). This would be the result of the continued good performance in exports, the gradual moderation expected in the variation in private consumption, and the expected recovery in import growth.

This makes it very likely that growth for the whole of 2017 will be between 2.0% and 2.5%, above the consensus forecasts (BBVA Research: 1.7%).

Investment reverses part of the growth of the previous quarter, conditioning the evolution of domestic spending

Domestic demand contributed 0.2pp to growth in 1Q17, a much lower contribution than in 4Q16 (1.6pp). **The main reason for this reduction is related to the strong quarterly adjustment of investment**, whose growth in 4Q16 (+6.0% QoQ) was partly transient and registered a fall of 2.0% QoQ in 1Q17 (5.5% YoY). **Meanwhile, private consumption increased by 0.8% QoQ (2.2% YoY)**, which, although a slower advance than in 4Q16, **improves on previous expectations of further deceleration (0.2% QoQ and 1.6% YoY)**. Finally, public consumption continues to show little variation (0.0% QoQ, -0.4% YoY), conditioned by the continuing process of reducing the public deficit.

1: Seasonally and working-day adjusted (SWDA) data. All quarterly (QoQ) and monthly (MoM) changes in this document are calculated on the basis of SWDA data.

Increase in exports driven by global trade recovery

Net external demand, after draining almost 1pp from 4Q16 growth, again contributed positively to quarterly growth in 1Q17 (0.8pp). The acceleration in the growth of exports during the first quarter of the year (3% QoQ and 9.7% YoY) was favoured by lower imports (1.2% QoQ and 8% YoY). This dynamic coincides with the recovery observed in the world economy, particularly in emerging countries and in some of the main trading partners of the Portuguese economy.

Employment ramps up at the beginning of the year

Published data for 1Q17 raise employment growth to 1.3% QoQ (3.2% YoY), improving on the last quarters of 2016 (1.9% in 3Q16 and 1.8% in 4Q16). This puts the number of those employed above 4.7 million, the best recorded figure since mid-2011. The services sector, and more specifically transport and catering services, have largely enabled this advance in employment.

2Q17: growth could stabilise at around 0.5% QoQ

The limited data available for the second quarter of the year, referring to April, as well as the forecast showing that some of the elements supporting growth in 1Q17 will recede, suggest a stabilisation in growth rates close to 0.5% QoQ in the next quarters.

Both April's retail sales and the Coincident Indicators of Activity and Consumption have been maintaining the trend of improvement seen in recent months. The same is true of the confidence indicators drawn up by the European Commission, which raise their balances under all headings, whether linked to consumption, economic sentiment or foreign trade. The above would reflect the improvement in terms of credibility that Portugal has been enjoying in recent weeks.

Furthermore, despite the progress observed in the latter part of 2016, and in line with the results registered by National Accounts during 1Q17, **industrial production suffered a setback in April with falls of 1.2%, both annually** (as compared to the same month of the previous year), **and monthly** (compared to March of this year).

With regard to the Portuguese foreign trade sector, it is expected that exports will maintain the positive dynamics they have been showing and continue to contribute to growth in 2Q17. This is due to the continuation of a positive environment in Europe and the continuing perception of insecurity regarding some of the destinations that compete with the Portuguese tourism sector. This, together with the competitiveness gains observed during the crisis period, would maintain the excellent figures for overnight stays by non-residents seen of late. Specifically, in the face of falls of around 2% YoY in the overnight stays of domestic tourists, overnight stays by non-residents increased by 8.9% YoY during 1Q17. In turn, given the particularly low growth in imports during 1Q17, a reversal of this behaviour is

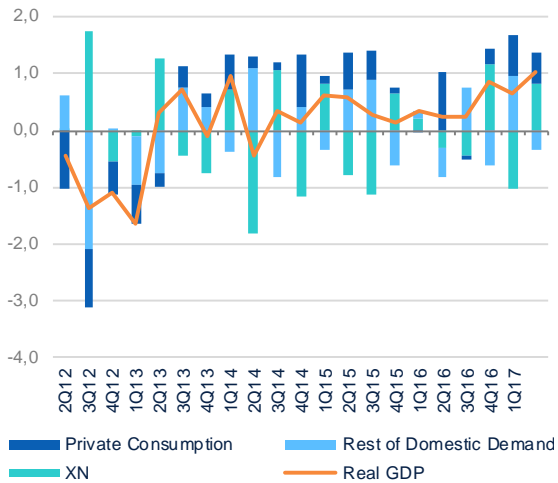
expected in 2Q17 (as occurred in 4Q16), which would reduce or even make negative the foreign trade sector's contribution to GDP growth for the next quarter.

Finally, **monthly employment figures take some of the shine off the good results for 1Q17**. After an average monthly growth of close to 1.1% YoY between January and March, employment in April increased by 0.9% YoY.

To recap, the higher expected growth in imports, coupled with the continued weakness of investment, are the main reasons for lowering the growth forecast to close to 0.5% QoQ in 2Q17. In any case, the effect of the strong growth already observed in 1Q17, as well as the good tempo of exports, increases the positive bias of the forecast for the whole of 2017, which could reach around 2.0 - 2.5% YoY.

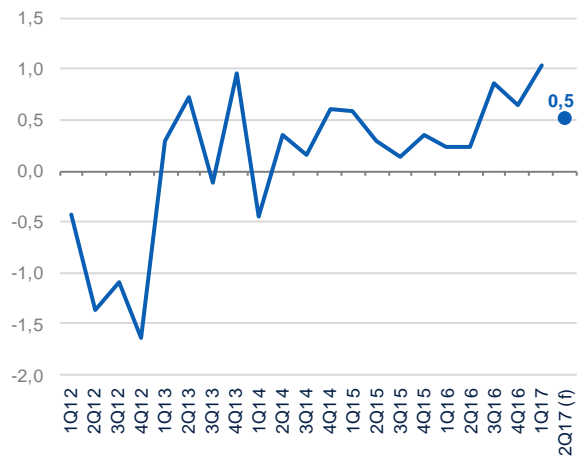
Main indicators of activity

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



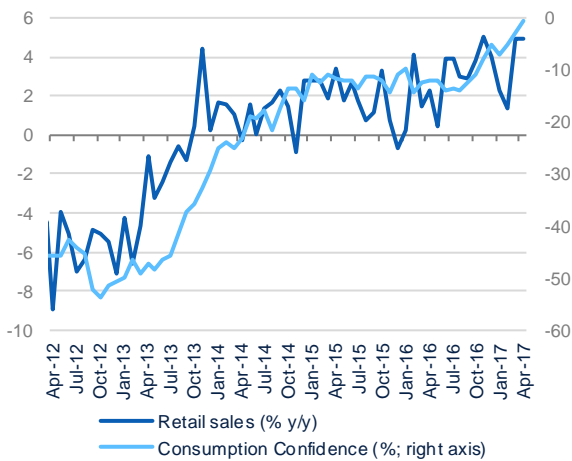
Source: BBVA Research based on INE

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



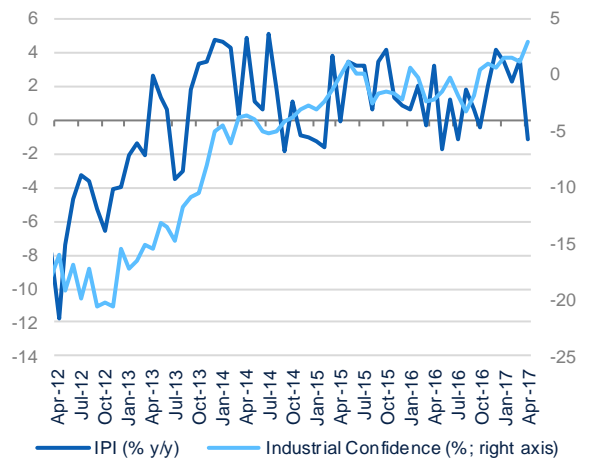
Source: BBVA Research based on INE

Figure 3 Indicators associated with consumption



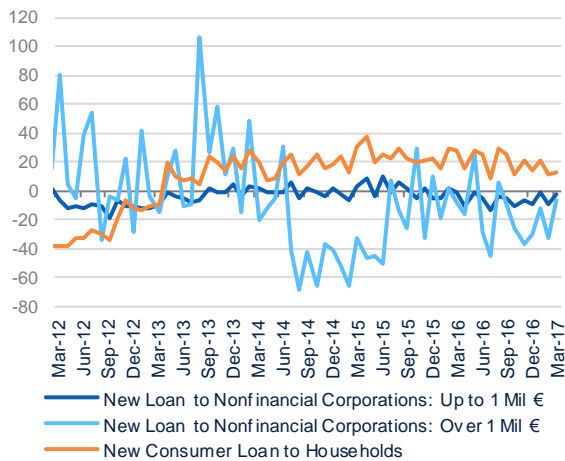
Source: BBVA Research based on INE

Figure 4 Indicators associated with industry



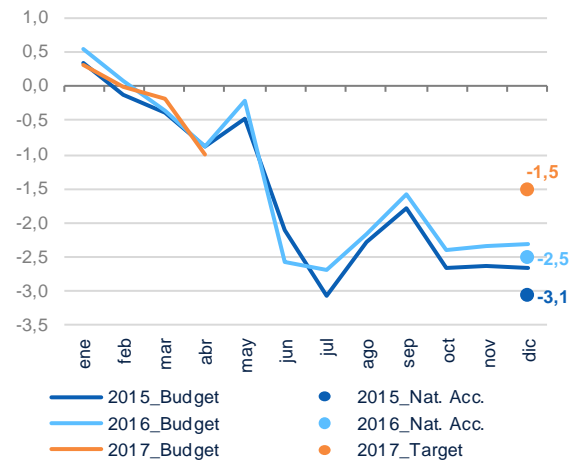
Source: BBVA Research based on INE

Figure 5 New loan to nonfinancial corporations and households (% YoY)



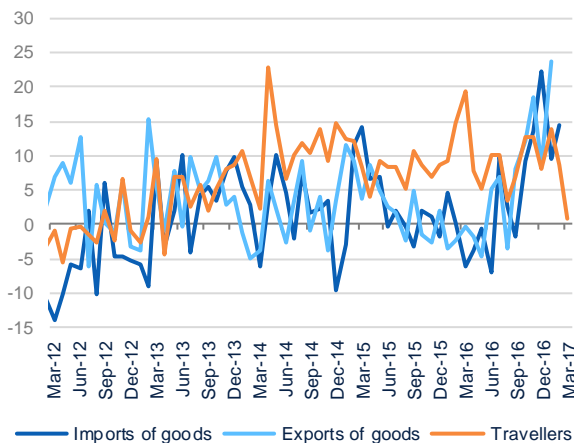
Source: BBVA Research based on BdP

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



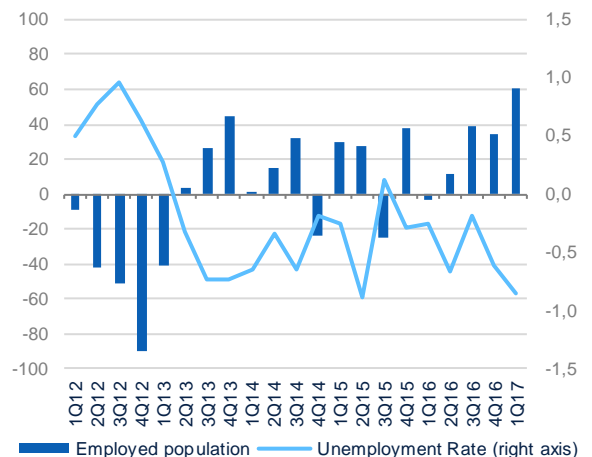
Source: BBVA Research based on BdP

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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