

Portugal consolidates its economic recovery

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According to the information available, 4Q17 Portuguese GDP grew at 0.4% QoQ, SWDA, a similar rate to that seen in 3Q17¹ (see Figure 2). This forecast will give further momentum to investment; confirming the favourable export scenario (particularly with regard to tourism services) as well as the somewhat less buoyant situation as far as imports are concerned. In contrast, and in line with expectations, the upward trend in consumer spending appears to have slowed down around the mid-2017 mark. This would be consistent with the latest BBVA Research scenario for Portugal (+2.6% in 2017 and +2.3% in 2018).

Consumer spending has stabilised, while investment has continued to pick up

After the good results from 3Q17, the slowdown in retail sales in October (1.7% YoY, -2.4% MoM) may have been a transitory phenomenon in light of the uptick seen in November (4.8% YoY, 3.9% MoM). This indicates a stabilisation in growth which is clearly higher than in the past (-0.9% YoY on average since early 2010), after the acceleration recorded since late 2012. Similarly, the indicator measuring consumer confidence², has registered positive levels for eight months running. These increases would appear to have slowed over the second half of the year, although they did stabilise at levels consistent with higher household spending (see Figure 3). Meanwhile, the private consumption indicator³, which slowed over 3Q17, has begun to show signs of weakness, with October and November figures slightly down.

Based on data so far available from the final quarter of the year point to a return to growth as far as investment is concerned. After seven months of two-figure increases, the Industrial Production Index for machinery and equipment was up 26.4% YoY, an increase of 6.4% MoM on the previous month. Showing similar levels of acceleration, industrial confidence registered average balances from October to December of close to 3.8 points, compared to an average of 1.3 for the previous three months (see Figure 4).

As far as **residential investment** is concerned, **data from 4Q17 continue to show a general recovery in the sector**. Although the number of new housing permits fell in October and November (-12.8% and -3.4% YoY, respectively), the indicator that measures confidence on the building sector is clearly continuing the upward trend that it recorded in November, with a balance of -18 points, 11.5 above that registered at the start of the year. At the moment, the trend seems to be closely linked to demand, as can be seen in new mortgage figures, where growth has

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

²: This measures the difference between the percentages of positive and negative responses regarding consumer confidence collected in surveys conducted by the National Statistics Institute.

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

risen from 44% YoY on average from July to September to 54.85% YoY recorded in October. In a similar vein, house sales continue to rise (23% YoY in 3Q17 for new homes sold compared to an average of 18% YoY for the previous two quarters), especially in the case of second-hand properties.

However, the momentum that can be seen in figures for inter-annual growth in consumer credit transactions is not reflected in corporate credit, which fell in October, both for loans below and in excess of one million euros (see Figure 5). All of the above is in line with forecasts that the coming months will see a gradual reduction in the contribution that private consumption makes to growth.

Portugal is continuing with its commitment to consolidating its public accounts, as confirmed by budget implementation figures. These indicate that the deficit accumulated over the past year, based on information to November, will be close to 1.1% of the country's GDP (see Figure 6).

Exports recover

The sales of goods abroad rose by a two-digit figure for the second consecutive month in November (in nominal terms). Exports were up 11.9% (YoY), maintaining the positive trend recorded in October (12.8% YoY). This represents an increase of 5.4% on the previous year. Transport equipment and metal goods were the main items behind the growth, as well as exports to Spain and France. In monthly terms, November (5.4% MoM) showed a recovery, following a drop in October (-1.2% MoM).

The Portuguese tourism sector continues to display strength, with higher growth rates than in recent months.

In specific terms, the number of travellers 10.1% YoY on average in November, higher than the 8.6% YoY increase in October, bolstered by non-resident tourism figures. Adjusting figures for seasonality, these are increases of 1.1% and 5.6% MoM for October and November respectively (see Figure 7).

Export performance was accompanied by weaker imports, which, although still strong, increased at a slower rate (10.4% YoY compared to 21.1% YoY in October). In monthly terms, this is an increase of 1.8% MoM after the 3.6% MoM recorded the month before.

Job creation is speeding up

Employment for November increased 3.4% YoY, a faster rate than in recent months and the highest since April 2017. Compared to the previous month, 0.3% more jobs were created, repeating advances made in October. This represents a total of 4.75 million people in employment, the highest figure since 2010. In a similarly positive vein, unemployment fell 0.2% to 8.2%, the lowest level since 2004.

4Q17 forecasts remain close to 0.4% QoQ

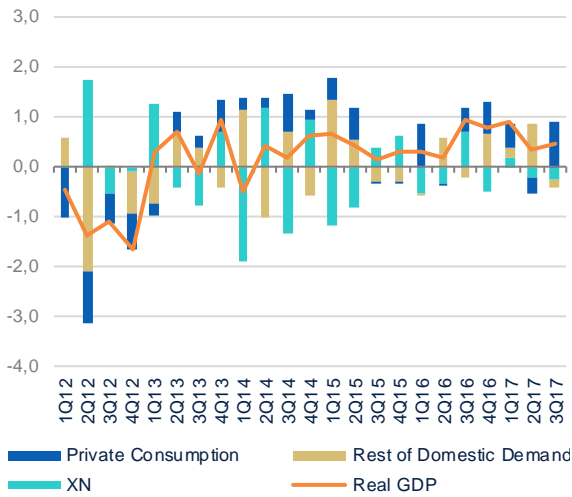
The latest information for the third quarter leads BBVA Research to maintain 4Q17 GDP growth forecasts for Portugal at 0.4% QoQ. We are also standing by our prognosis of growth of 2.6% YoY for 2017 as a whole and 2.3% for 2018.

The key indicators behind these forecasts include an upward revision of EMU growth and an increasingly synchronised global recovery⁴. This means that Portugal can expect to see exports of goods and services continue to make a positive contribution to its economic growth in 2018 and 2019. We also forecast that support for monetary policy will continue, with normalisation expected to take place gradually, ensuring an environment of low interest rates over the coming two years. On a domestic level, special mention should be made of the reduced uncertainty regarding economic policy. The risk premium on 10-year Portuguese sovereign bonds compared to German bonds has continued to fall to a current 130 basis points, a drop of 20 bp since early December and 200 bp over the year.

⁴ See BBVA Research, Global Economic Outlook, January 2018, available in Spanish at: <https://www.bbva.com/wp-content/uploads/2018/01/1801-Situacion-Global.pdf>

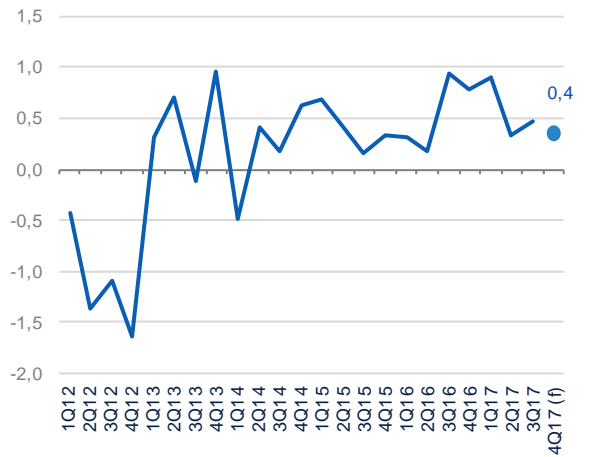
Main indicators of activity

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



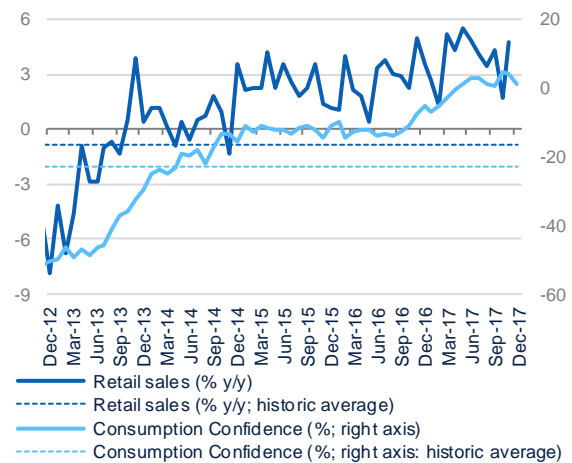
Source: BBVA Research based on INE

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



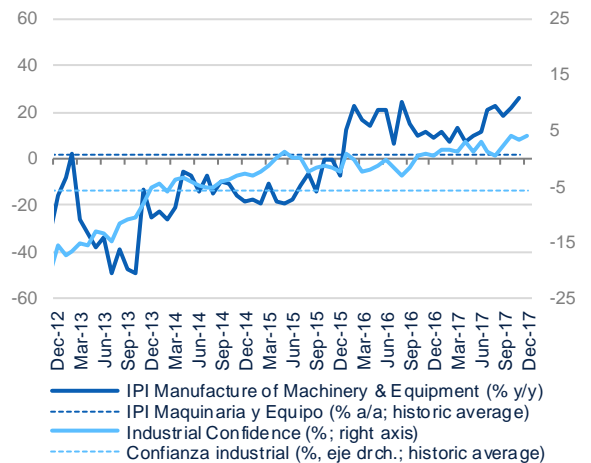
Source: BBVA Research based on INE

Figure 3 Indicators associated with consumption



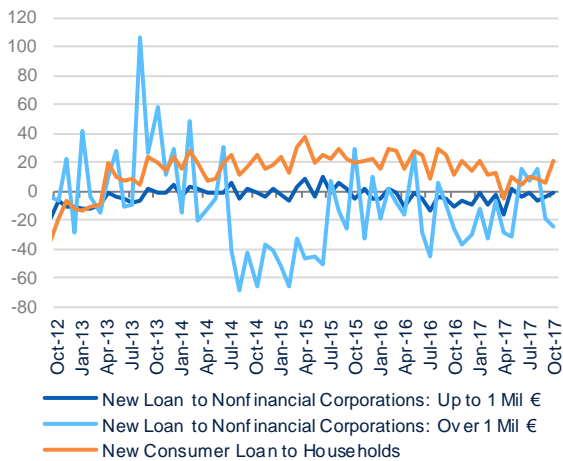
Source: BBVA Research based on INE

Figure 4 Indicators associated with investment



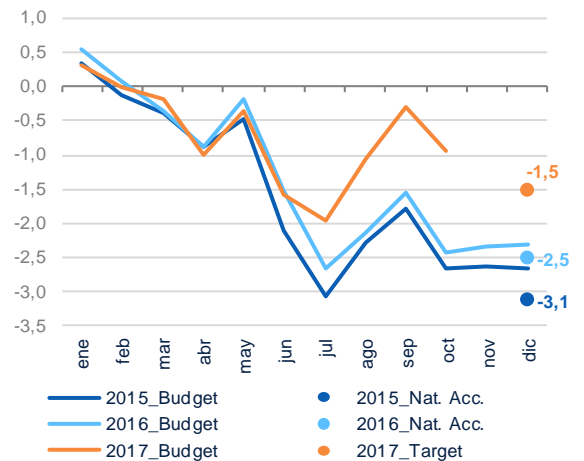
Source: BBVA Research based on INE

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



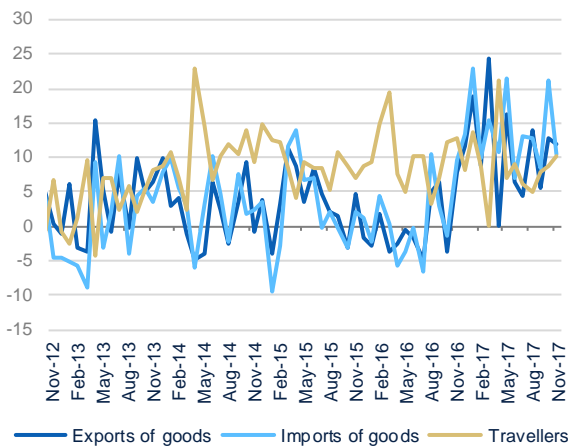
Source: BBVA Research based on BdP

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



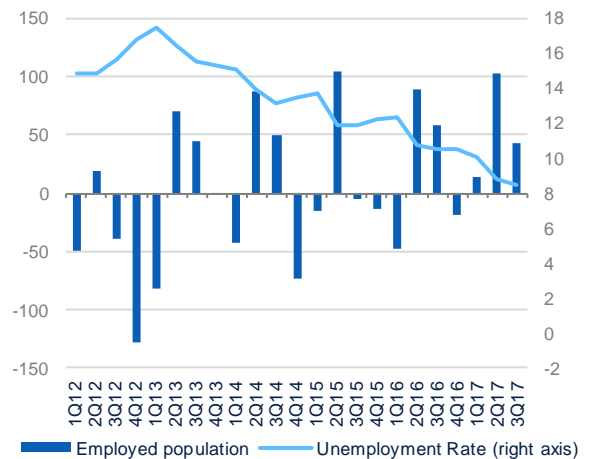
Source: BBVA Research based on BdP

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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