

## Economic Watch

# Portugal | Economic growth moderates in 2S18

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Based on the latest figures, **BBVA Research estimates that growth in the Portuguese economy in 4Q18 was around 0.4% QoQ SWDA<sup>1</sup>** (see Figure 1). Domestic demand will have continued to be the main support of activity, while the external sector's contribution to growth will have remained negative. This would be consistent with BBVA Research's forecast for Portugal's GDP growth in 2018 (2.1% YoY) and 2019 (1.8% YoY).

## The slowdown in the economy was confirmed in 3Q18

Portugal's GDP growth moderated to **0.3% QoQ in 3Q18 (2.1% YoY) from the 0.6% QoQ seen in 2Q18, in line with BBVA Research's forecast**. This growth came about mainly due to the increase in gross capital formation and growth in domestic final consumption, and in spite of the sharp contraction of external demand. This growth translated into an increase in employment, albeit a smaller increase than in the previous quarter.

## Domestic demand was the main support of economic activity

Growth in Portugal's GDP continued to be strongly underpinned by domestic demand, which contributed **1.1 percentage points to growth in 3Q18**, half a percentage point more than in the previous quarter, whereas the contribution from net external demand went from zero to a negative 0.8 pp (see Figure 2). In particular, **the increase in investment stood out (up 3.5% QoQ or 4.4% YoY)**, mainly due to the increase in expenditure on transport equipment and inventories. For its part **household consumption increased by 0.6 pp to 0.7% QoQ (2.3% YoY) during 3Q18, while public consumption stagnated (0.0% QoQ or +0.7% YoY)**.

**As regards year-end 2018, expenditure and labour market indicators point to stagnation in private consumption**. Although **retail sales picked up** in October (+2.7% MoM SWDA compared with -1.9% MoM in September) and continued to grow in November (+1.6% MoM, +4.1% YoY) consumer confidence failed to regain the optimism of the beginning of the year and remained in negative territory (see Figure 3).

**As regards to capital expenditure**, the machinery and equipment production index increased in October and November by 4.1% and 3.1% MoM SWDA respectively but continued to show a slowing trend in the pace of year-on-year growth and turned negative in November (-4.2% YoY, see Figure 4). Industry confidence for its part remained negative from September 2018 until the end of the year.

**As far as residential investment is concerned, figures available to date for 4Q18 continue to show a general recovery in the sector**. Thus, on the supply side, housing permits showed strong growth in October and November (+60.2% YoY and 46.1% YoY respectively), while the confidence indicator for the construction sector continues on a clearly improving trend (see Figure 5). In a similar vein, **sales of residential properties continue to increase** (+18.4% YoY in 3Q18 for new homes sold, compared with an average of 19.7% YoY for the previous two quarters), especially in the case of second-hand properties.

**Mortgage lending to households however has seen its YoY growth slow** from 44% YoY on average in 2017 to 22.0% YoY from January to October 2018, and the same trend was noted in consumer credit, especially from the second half of the year. In contrast, corporate lending continues to recover, particularly loans of up to €1 million (see Figure 6).

1: Seasonally and working-day adjusted (SWDA) data.

## External demand fell in 3Q18 and made a negative contribution to growth

In line with expectations, exports of goods and services<sup>2</sup> fell in 3Q18, by -3.6% QoQ, after growing by 2.3% QoQ in the previous quarter, while imports fell by 1.9% QoQ. Thus, net external demand once again contributed negatively to growth of the Portuguese economy in 3Q18 (-0.7 pp).

With specific reference to goods, exports and imports both declined to a similar extent, by around 3.0% QoQ, with Portugal's sales to the major European countries falling generally, particularly those to France, Germany and Spain (-14.1% QoQ, -10.1% QoQ and 9.2% QoQ, respectively). As for **services**, exports fell by 5.2% QoQ while imports increased by 2.3% QoQ.

**Data to November on the external sector suggest that 4Q18 may have ended with another fall in exports.** Nominal exports of goods fell month-on-month for two months in a row (-2.1% MoM in October and -5.2% MoM in November 2018), mainly due to the downturn in sales of vehicles, aircraft and other transport equipment. At the same time, nominal imports of goods increased in both October and November (+1.4% and +5.8% MoM SWDA)

**The tourist sector for its part still shows no signs of recovery.** Following average year-on-year growth of 10% in 2017, in the first three quarters of 2018 growth did not even reach 3%. The latest data show an improvement in the number of arrivals, especially in November +6.3% YoY SWDA (see Figure 7). Overnight stays showed a similar increase, driven above all by those of residents.

## The labour market is managing to sustain growth in employment

Portugal continued to create jobs in the third quarter of the year, albeit at a slower pace: +0.3% QoQ SWDA (+2.1% YoY) and the unemployment rate again declined, reaching 6.8%, the lowest level since 2002. The service sector contributed most to the growth in employment in 3Q18 (+0.7 pp) followed by the manufacturing sector (+0.2 pp).

**Data available to November point to further growth in employment in the last quarter of 2018** despite the slowdown in the economy. According to estimates from the Portuguese National Statistics Institute, in seasonally adjusted terms, around 13,000 new jobs were created between October and November.

## 2019: Growth could be around 1.8%

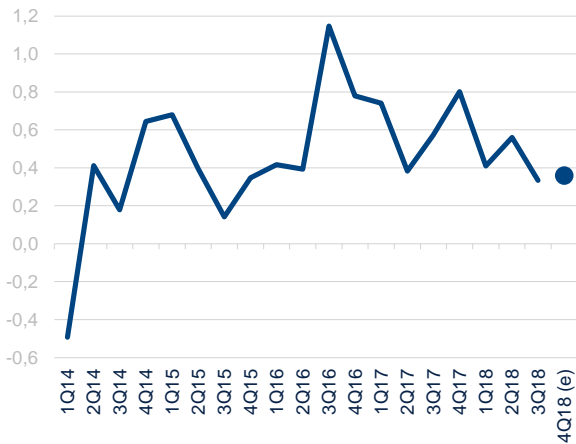
Looking ahead to 2019, Portugal's GDP is expected to grow by around 1.8% YoY, underpinned by domestic demand and to a lesser extent by gains in the external sector. Investment and private consumption will continue to contribute positively to economic growth, albeit at a slower pace. Furthermore, the global environment together with the accommodative economic policy and low oil prices will continue to favour growth.

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2: In real terms, chain-linked volume data (reference year = 2011).

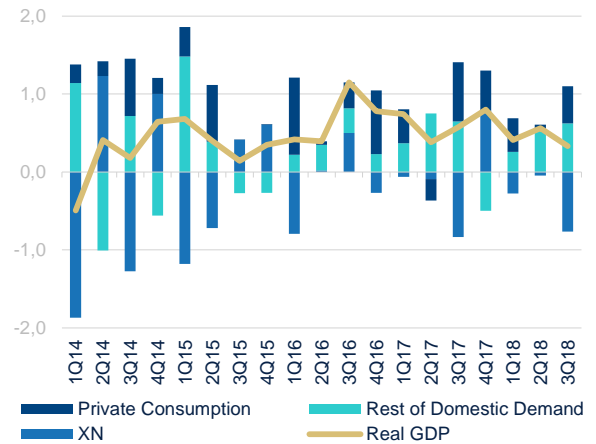
## Main activity indicators

Figure 1 MICA-BBVA: GDP growth (% QoQ) and forecasts



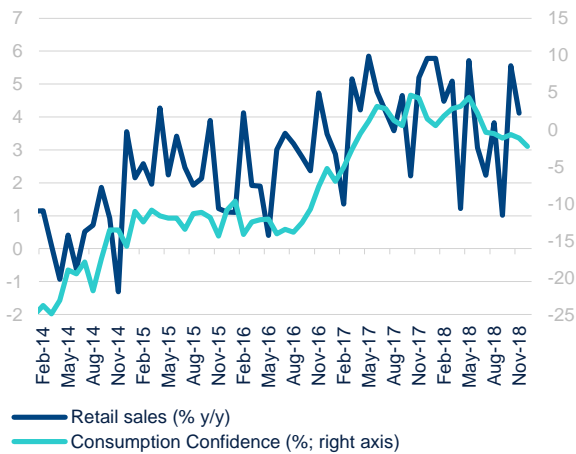
Source: BBVA Research based on INE (National Statistics Institute) data

Figure 2 GDP (% QoQ) and contribution by components (pp)



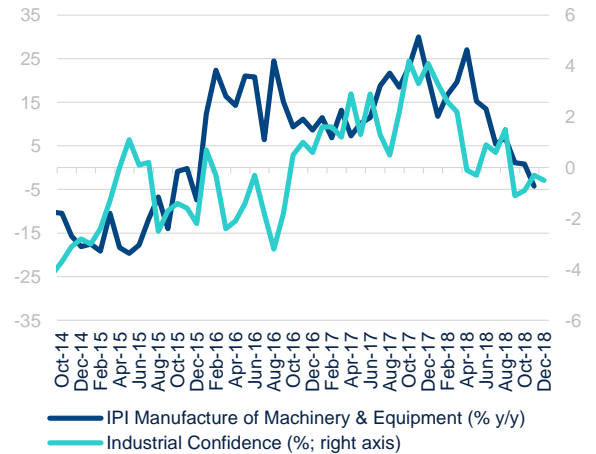
Source: BBVA Research based on INE data

Figure 3 Indicators associated with consumption



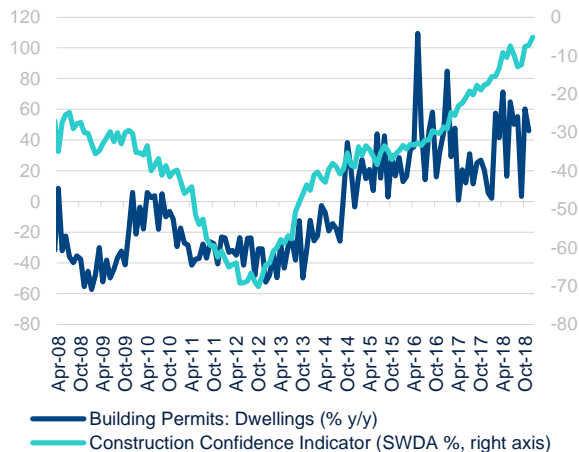
Source: BBVA Research based on INE data

Figure 4 Indicators associated with industry



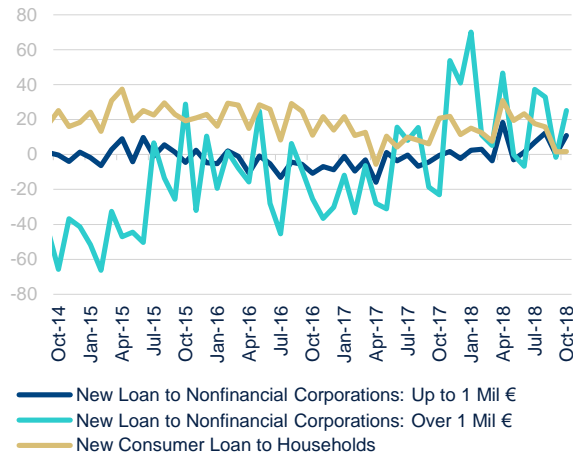
Source: BBVA Research based on INE data

Figure 5 Indicators associated with the construction sector



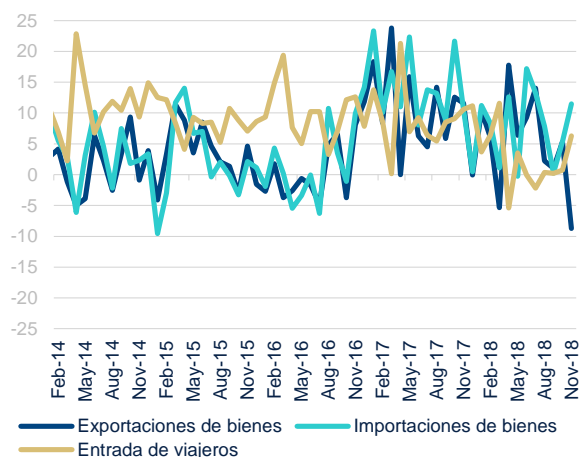
Source: BBVA Research based on INE data

Figure 6 New lending to households and businesses (% YoY)



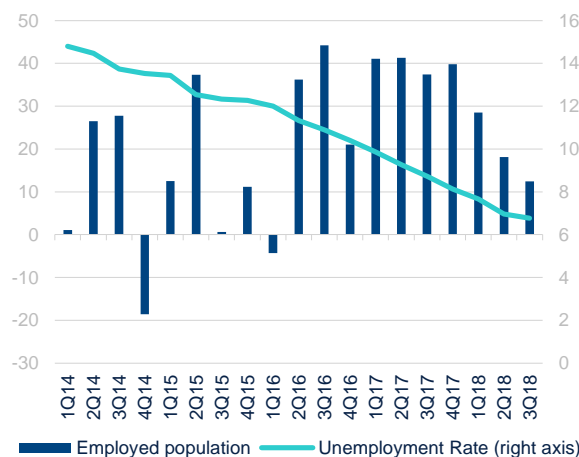
Source: BBVA Research based on INE data

Figure 7 Indicators associated with the external sector (% YoY)



Source: BBVA Research based on INE data

Figure 8 Number of people in employment (quarterly change in thousands of persons) and unemployment rate (%)



Source: BBVA Research based on INE data

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