

Economic Watch

Portugal | The 2019 and 2020 growth forecast is raised

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July 22, 2019

Portugal's GDP was given a surprise upward review in the first quarter of 2019 growing by 0.5% QoQ, 2 pp above that expected by BBVA Research and the average quarterly advance observed in 2H18. **The accelerated growth of the Portuguese economy in 1Q19 was backed by the significant increase in gross formation of capital**, which offset both the accelerated negative contribution of the foreign sector and moderation of expenditure in national consumption.

Using the most recent data, BBVA Research estimated that growth of the Portuguese economy was approximately 0.4% QoQ SWDA in 2Q19 backed by internal demand and the improved foreign sector. It is also foreseen that the recovery will continue to contribute to reducing the public deficit until the balance (0.0% of GDP) is attained at the end of the year. Further down the line, it is expected that the significant fall observed in interest rates paid by the Portuguese economy will improve the cost of financing of families, companies and the public sector, which should support growth of internal demand over the next few quarters.

Should this outlook be confirmed, growth for 2019 and 2020 would stand at approximately 1.7% YoY, 2 pp above that previously estimated in both cases. In 2019, it is expected that the slowdown in consumption will be offset by the increase observed in investment, whilst next year, improved exports should continue against a backdrop of recovery of global demand. Other supporting factors would be a more flexible monetary policy and lower oil prices that would favor external demand contributing to growth.

GDP growth received a surprise upward review in 1Q19, boosted by investment

The rise in Portuguese GDP growth at the start of the year was especially due to dynamic domestic demand, which contributed +2.2 pp to growth, the highest contribution since the onset of the recovery (see Figure 2). **By components, the growth of investments, which increased 10.4% QoQ (17.8% YoY) was notable in 1Q19**, due mainly to the increased expenditure on machinery and equipment, +14.5% QoQ (+16.8% YoY) and, to a lesser extent, in the construction sector +9.7% QoQ (+12.4% YoY).

For its part, **growth in household consumption reduced 1 pp in 1Q19 up to +0.3% QoQ (2.5% YoY)** compared to 4Q18, reversing the acceleration trend observed in 2H18. The reduction was mainly notable in household expenditure on durable goods, -2.1% QoQ (+3.1% YoY), reflecting in part the variation that has occurred in automobile sales. In regard to **public consumption**, this **continued without showing much variation, +0.1% QoQ (+0.4% YoY)**, which is consistent with the process of adjusting the public deficit.

Conversely, net external demand increased the negative contribution to quarterly growth in 1Q19 (-1.6 pp) by 1.2 pp despite the recovery in actual exports of goods. Accelerated growth of sales of goods abroad during the first quarter of the year, +2.9% QoQ (3.4% YoY), was undermined by a higher increase in imports, +6.0% QoQ (9.4% YoY). By destination, the recovery of sales of goods was generalized. This dynamic coincides with the

rebound seen in the economy of some of the most important trade partners. **On the services side, exports slowed by approximately six percentage points to +0.6% QoQ at the start of the year and imports contracted by -2.8% QoQ.**

In regard to the labor market, data corresponding to 1Q19 raise job growth to 0.3% QoQ (1.4% YoY), slightly reduced compared to the previous quarter (0.4% QoQ and 1.6% YoY). Therefore, during the first quarter of the year, about 14,000 new jobs were created and **unemployment reduced to 6.5%** according to data from the Portuguese Office of National Statistics. Job creation was unequal among the different sectors. **Employment increased in construction by +3.6% QoQ after two negative quarters** whilst it fell by 2.1% QoQ in the manufacturing industry. The aggregate of services barely increased in 1Q19, affected by the fall in the hotel trade (-1.5% QoQ), and in the public sector (-3.5% QoQ).

Growth would have stood at approximately 0.4% QoQ in 2Q19, despite the uncertainty

Using the most recent data, **BBVA Research foresees that quarter on quarter growth of the Portuguese economy in 2Q19, would stand at approximately 0.4% QoQ (1.6% YoY) SWDA¹.**

The signals drawn from expenditure and labor market indicators suggest that increased private consumption would have remained positive during 2Q19. First, retail sales after the setback of April -0.8% MoM (+6.6% YoY), rose 1.5% MoM in May (+4.4% YoY). Second, although job growth in year-on-year terms slowed it continued to increase in April (+0.7% YoY). Overall, the trend of a slowdown in consumer loans posted since Sep-18 was maintained; the same occurred with consumer confidence (see Figure 3).

As for investment expenditure, for 2Q19 we expect a general adjustment after the significant increase of the previous quarter. After the setback in April, -1.4% MoM (-3.5% YoY), in May progress in the machinery and equipment production index was observed, +4.1% MoM (6.8% YoY). However, the lower dynamism in the manufacturing industry compared to average year-on-year growth posted since the onset of recovery (+15.2%, +16.1% and +9.2% in 2016, 2017 and 2018, respectively) is maintained and industrial confidence—even when slightly improved—continues to be negative (see Figure 4).

Residential investment remains high, although it slowed down compared to that observed at the end of 2018 (+47.9% YoY on average, in 2H18). May data reflect increased home approvals, +22.2% YoY, preceded by a fall in April whilst the indicator that measures construction sector confidence worsened (see Figure 5). In line with the lower dynamism of the residential market, home mortgage lending reduced and the remainder of credit performed less positively. Corporate loans slowed down, especially those for over EUR 1 million (see Figure 6).

In terms of the foreign sector, nominal exports of goods continued to grow in April +2.1% MoM (+4.4% YoY) and May +2.9% MoM (+8.4% YoY), while imports +0.9% MoM (+10.8% YoY) in April and -0.4% MoM (+14.9% YoY) in May, see Figure 7).

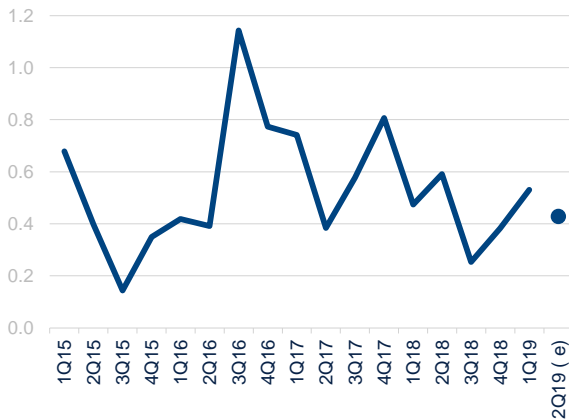
For its part, **progress of the tourist sector accelerated compared to the start of the year** seeing the effect of the holiday period associated with Easter in mid-April. Therefore, the admission of hotel guests grew by 10.0% YoY in April and 7.7% YoY in May. Overnight stays grew by 10.5% YoY and 3.9% YoY in April and May, respectively.

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

By country of origin, the slowdown in the arrival of German tourists continued whilst the arrival of Spanish and British tourists increased.

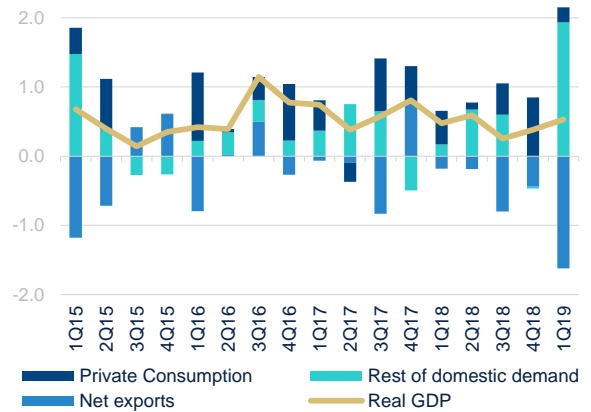
Key activity indicators

Figure 1. **MICA-BBVA: GDP GROWTH (% QoQ) AND FORECASTS**



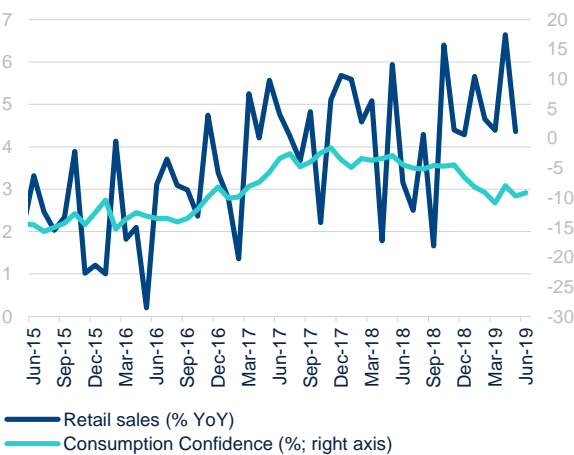
Source: BBVA Research, based on INE (Spanish Office of National Statistics) data

Figure 2. **GDP (% QoQ) AND CONTRIBUTION BY COMPONENTS (PP)**



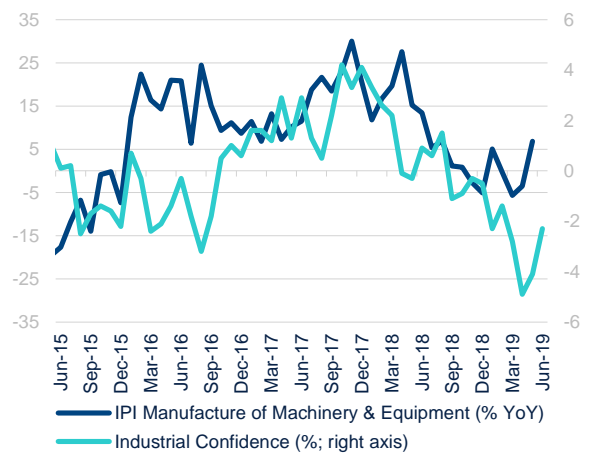
Source: BBVA Research, based on INE (Spanish Office of National Statistics) data

Figure 3. **CONSUMER INDICATORS**



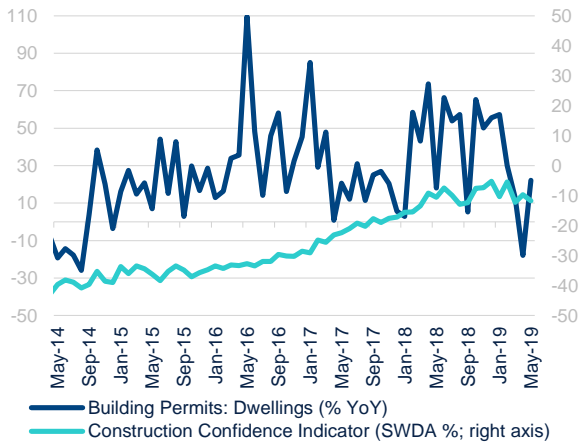
Source: BBVA Research, based on INE (Spanish Office of National Statistics) data

Figure 4. **INDUSTRY INDICATORS**



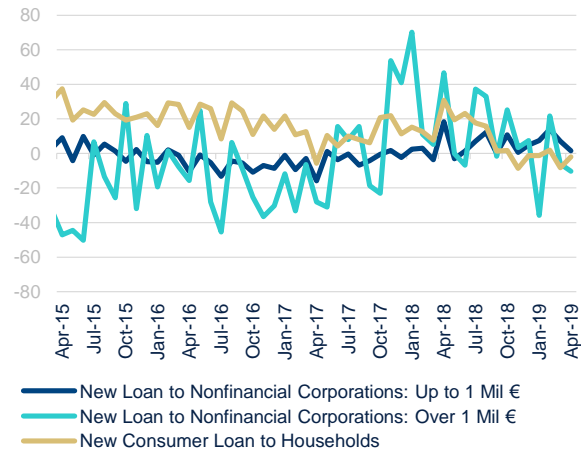
Source: BBVA Research, based on INE (Spanish Office of National Statistics) data

Figure 5. **CONSTRUCTION SECTOR INDICATORS**



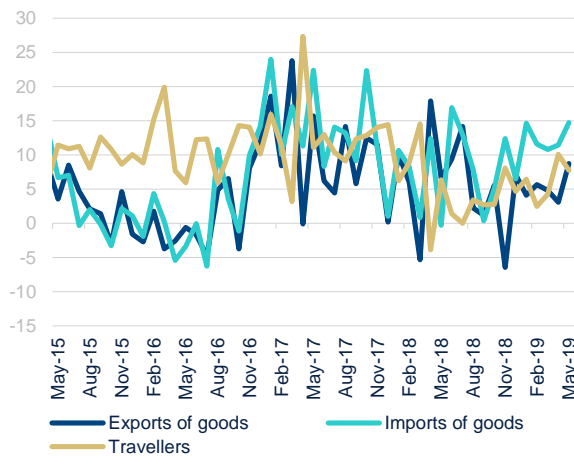
Source: BBVA Research, based on INE (Spanish Office of National Statistics) data.

Figure 6. **NEW BUSINESS AND HOUSEHOLD LOANS (%YoY)**



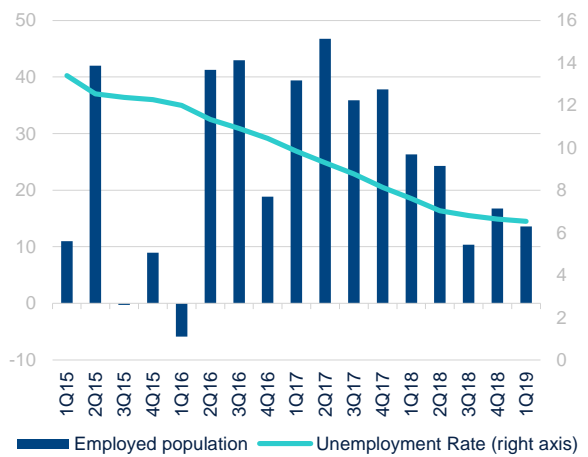
Source: BBVA Research, based on INE (Spanish Office of National Statistics) data.

Figure 7. **INDICATORS ASSOCIATED WITH THE EXTERNAL SECTOR (% YoY)**



Source: BBVA Research, based on INE (Spanish Office of National Statistics) data.

Figure 8. **EMPLOYED POPULATION (QUARTERLY VARIATION IN THOUSANDS OF PEOPLE) AND UNEMPLOYMENT RATE (%)**



Source: BBVA Research, based on INE (Spanish Office of National Statistics) data.

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