

Economic Watch

Portugal | Recovery continues, but at more moderate rates

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GDP growth in Portugal is expected to be slightly higher than estimated a few months ago. Specifically, GDP could reach 1.9% in 2019 (two tenths higher than previously estimated) **and 1.7% in 2020**. This upward revision is explained by the historical review¹ of the activity data carried out by the Portuguese National Statistical Institute (INE) and because of the positive trend shown by some components of demand, even though the deterioration of the international context poses a risk.

The revision of the National Accounts revealed an annual GDP growth greater than that previously known, seven tenths more in 2017 and three tenths in 2018. In addition, the new series reflected a quarterly GDP increase of one tenth higher than previously estimated, in both the first and second quarters of 2019.

In the third quarter of the year, GDP growth slowed to +0.3% QoQ, three tenths lower than the progress of the previous quarter, in line with what BBVA Research expected. Growth was supported by the upsurge in domestic demand but was undermined by an increase in the negative contribution of external demand. **For the fourth quarter of 2019, real-time estimates by BBVA Research suggest that the progress of activity will continue at moderate levels and is again likely to be around +0.3% QoQ** SWDA supported², mainly in domestic demand.

This implies that the recovery in Portugal, though at a slow pace, remains within a context of greater uncertainty and deterioration of the prospects of the global economy, particularly in Europe.

The statistical review of the national accounts reveals a greater recent growth in the Portuguese economy

On November 29, the Portuguese National Statistical Institute published the data from the extraordinary review of the Annual and Quarterly National Accounts for the 1995-2019 period. **Overall, the statistical changes were positive and equated to an upward revision of two tenths to the BBVA Research forecasts for 2019**. The new series of national accounts based on 2016 for the 1995-2016 period resulted in slight changes; however, significant upward revisions were observed in the 2017 and 2018 periods (see Figure 1). This greater economic growth was the result of increases in both private consumption and investment (mainly in construction), as well as in service exports and the decline in imported goods. These combined to stimulate a greater contribution from domestic and external demand.

1: The revision of the National Accounts base is usually carried out every five years in a coordinated manner at the European level, with the aim of incorporating new sources of data and methodological updates.

2: 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.

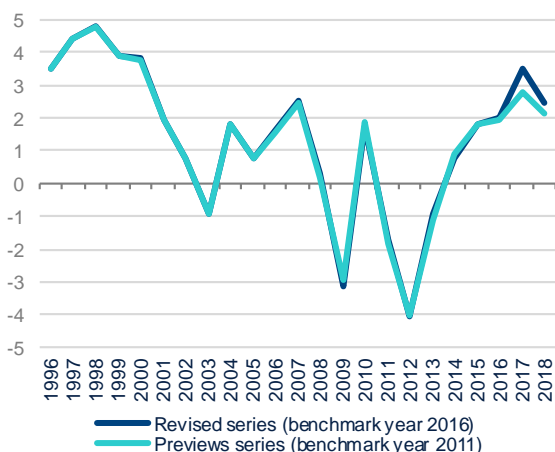
In 2017, the annual GDP growth rate was revised by +0.7 pp to 3.5%, resulting from an upward correction in investment growth of +2.9 pp (mainly construction and intellectual property products) and exports of +0.6 pp, while private consumption was revised downward by -0.2 pp and growth in public consumption and imports remained unchanged.

In 2018, GDP growth was revised upward by +0.3 pp to 2.4%, associated with a greater dynamism of private consumption, revised by +0.5 pp, of investment by +0.8 pp (with increases in all its components) and of exports and imports (+0.2 pp and +1.0 pp, respectively).

In the first half of 2019, compared to the same period of the previous year, the GDP growth rate was also revised upward by 0.2 pp, as a result of the incorporation of new annual data and the re-estimation of quarterly accounts models. By components, while the average quarterly growth rate of domestic demand was revised upward (0.4%, from 0.2%), the new investment series reflects average quarterly growth of half a percentage point lower (1.6% versus 1.1%), with somewhat lower progress in productive investment and an increase in stocks and intellectual property products. **On the other hand, private consumption advanced more than previously estimated.** The average quarterly growth rate rose from negative to positive in 1H19 (from -0.1% to +0.3%). Finally, while the quarterly growth series were revised upward from the series previously published, the lower dynamism of the activity in the most recent period is appreciable, mainly with respect to that observed between the end of 2016 and 2017 (see Figure 3).

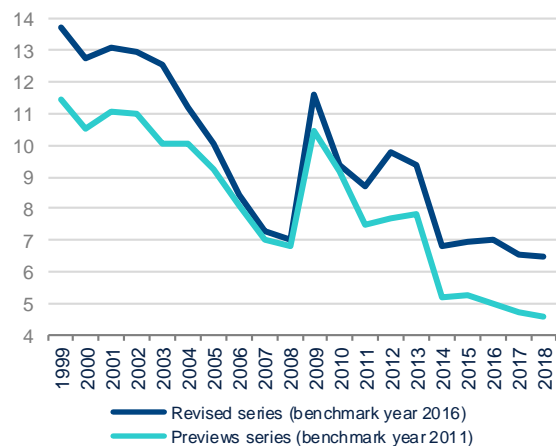
By institutional sector, most notable was the upward revision of the savings rate as a percentage of disposable income over the entire period (see Figure 2). This was the result of a higher income available because of the incorporation of the new data on the balance of payments related to social benefits received from abroad and the reallocation of real estate income between non-financial corporations and individuals.

Figure 1. **GDP GROWTH (% QoQ)**



Source: BBVA Research based on INE

Figure 2. **HOUSEHOLD SAVINGS RATE (% OF SAVINGS AVAILABLE)**



Source: BBVA Research based on INE

The surge in private consumption boosted GDP growth in 3Q19

Portuguese GDP growth fell by three tenths to 0.3% QoQ (+1.9% YoY) in the third quarter of 2019. The greater contribution of domestic demand compared to the previous quarter increased its contribution to GDP by three tenths, up to 0.9 pp. It was undermined by the increase in the negative contribution of external demand (-0.6 pp; see Figure 4). Related to domestic demand, **private consumption accelerated its growth to +1.1% QoQ (2.3% YoY)** in 3Q19 compared to the previous quarter, while **public consumption continued to show barely any variation, at +0.1% QoQ (+0.5% YoY).**

On the other hand, investment advanced 1.0% QoQ (8.8% YoY) in 3Q19, despite a decline in production, as expenditure on machinery and equipment fell -6.5% QoQ (+0.3% YoY) and -4.6% QoQ (+12.4% YoY) on transport material. In addition, stocks increased again over the quarter, by +83.4% QoQ (+135.8% YoY) and investment in construction virtually stagnated, at +0.6% QoQ (+10.9% YoY) after falling -1.3% YoY in the second quarter.

Regarding net external demand, **exports continued to fall in the third quarter: -0.8% QoQ (+2.6% YoY), while imports increased by six tenths compared to the previous quarter: +0.7% QoQ (+5.8% YoY).** In terms of services, after two quarters of decline, exports rose and advanced +3.4% QoQ (6.2% YoY) on 3Q19, while imports rose by +3.2% QoQ (+9.4% YoY). Exports of goods, on the other hand, fell -2.6% QoQ (+1.0% QoQ), following stagnation in the previous quarter, while purchases of goods abroad barely advanced: +0.2% QoQ (+5.1% YoY).

In regard to the labor market, data corresponding to 3Q19 raise job growth to +0.5% QoQ SWDA (+1.0% YoY), increasing by six tenths with respect to the previous quarter of -0.1% QoQ (0.7% YoY). Therefore, corrected for the season, during the third quarter of the year, approximately 22,000 new jobs were created in the country and **unemployment fell by one tenth to 6.5%**, according to data from the Portuguese National Statistical Institute.

Growth moderation is expected to continue in 4Q19

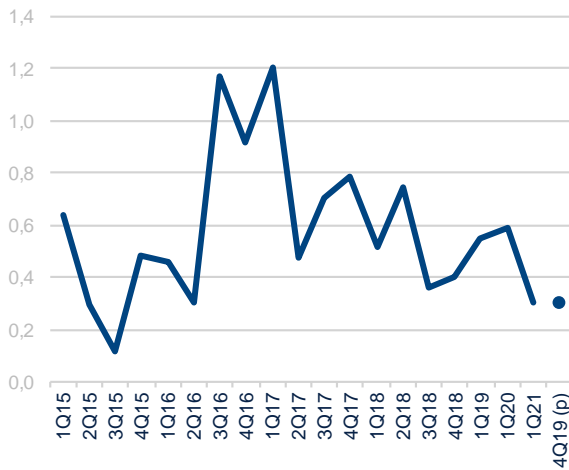
For the fourth quarter of 2019, real-time estimates by BBVA Research suggest that the progress of the GDP will continue at moderate levels and is again likely to be around 0.3% QoQ, supported mainly by domestic demand.

The signals drawn from expenditure indicators suggest that increased private consumption could return to positive territory in 4Q19. After the September downturn, retail sales increased by +2.1% MoM in October (+3.5% YoY, see Figure 5), but consumer confidence remains negative. Regarding employment, month-on-month growth virtually stagnated in October: -0.1% MoM (+0.9% YoY), preceded by three months of increase.

Finally, regarding investment, the industrial production index rose in October to +3.0% MoM (-2.4% YoY) after two months of decline and industrial confidence remained in negative territory (see Figure 6).

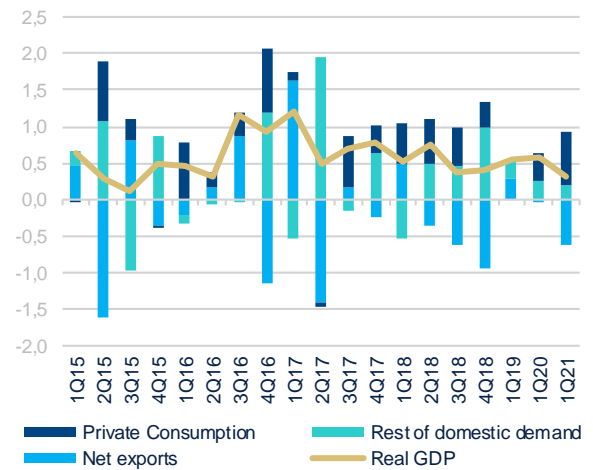
Key activity indicators

Figure 3. **BBVA: GDP GROWTH (% YoY) AND FORECASTS**



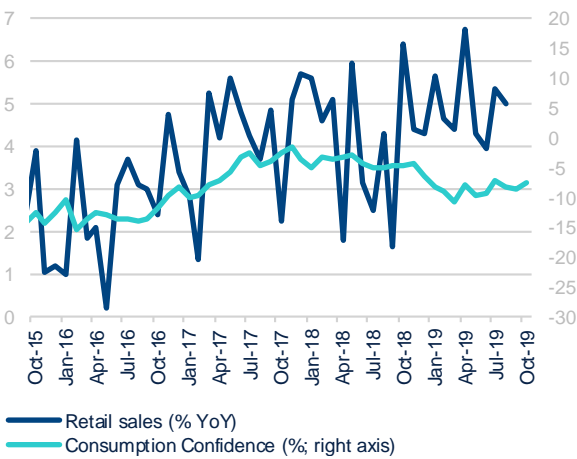
Source: BBVA Research based on INE

Figure 4. **GDP (% YoY) AND CONTRIBUTION BY COMPONENTS (PP)**



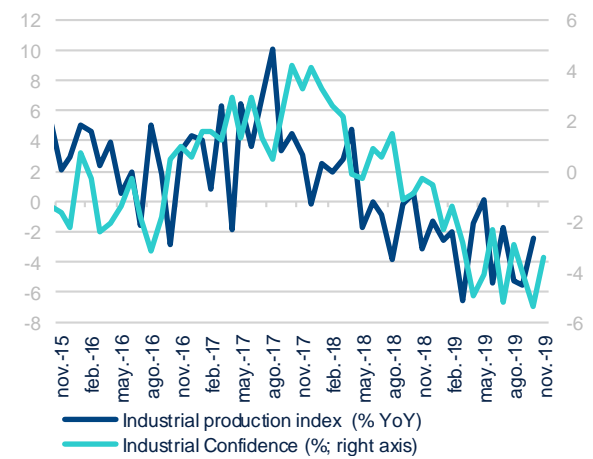
Source: BBVA Research based on INE

Figure 5. **INDICATORS ASSOCIATED WITH CONSUMPTION**



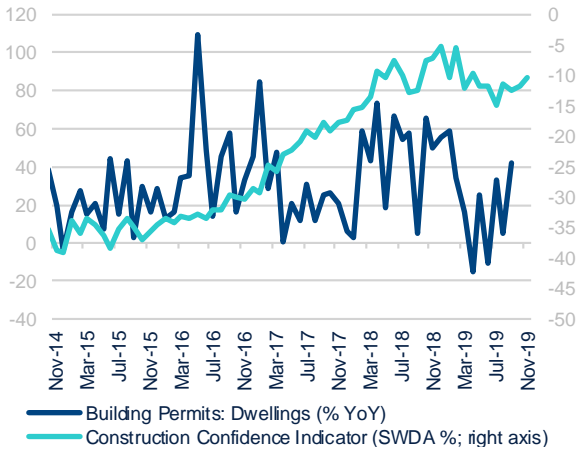
Source: BBVA Research based on INE

Figure 6. **INDICATORS ASSOCIATED WITH INDUSTRY**



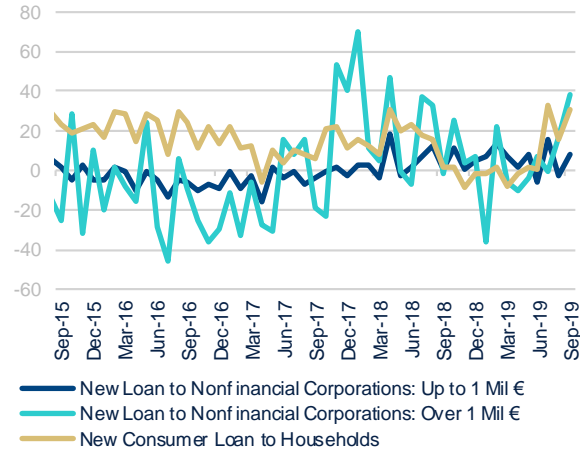
Source: BBVA Research based on INE

Figure 7. **CONSTRUCTION SECTOR INDICATORS**



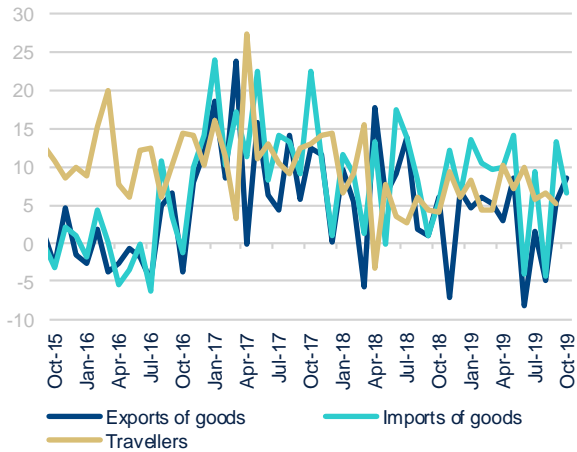
Source: BBVA Research based on INE

Figure 8. **NEW BUSINESS AND HOUSEHOLD LOANS (% YoY)**



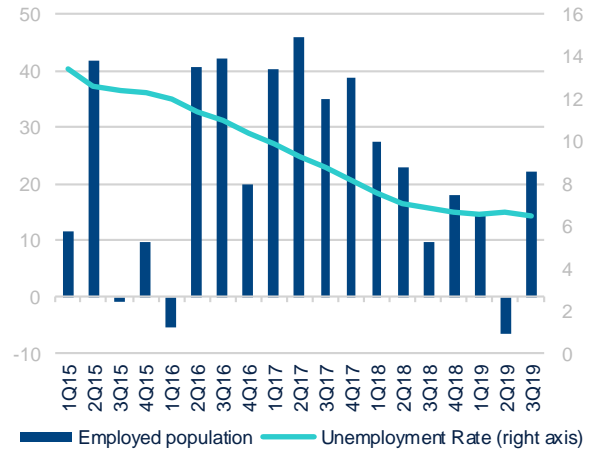
Source: BBVA Research based on INE

Figure 9. **EXTERNAL SECTOR INDICATORS (% YoY)**



Source: BBVA Research based on INE

Figure 10. **EMPLOYED POPULATION (QUARTERLY VARIATION IN THOUSANDS OF PEOPLE) AND UNEMPLOYMENT RATE (%)**



Source: BBVA Research based on INE

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