

Economic Watch

Portugal

Madrid,
December 19, 2013
Economic Analysis

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Flat or subdued growth in 4Q13

Exports improve early in the fourth quarter, but not industrial output or retail trade

- **Positive GDP growth was confirmed for 3Q13 (up 0.2% q/q), with another increase in domestic demand**

The National Institute of Statistics (INE) confirmed GDP growth at 0.2% q/q in the 3Q13 (after a rise of 1.2% in 2Q13), with domestic demand not only contributing positively again to growth (0.7pp after 0.2pp in 2Q13), but partly offsetting the fall caused this month by net exports (-1.1pp). This decline in foreign demand was due to a slight reduction in exports (down 0.2% q/q after the rise of 5.3% in 2Q13), while imports once more grew for the second quarter in a row (up 2.6% q/q after a rise of 3.6% q/q in 2Q13).

- **Available data on confidence through November are in line with our growth forecast for the last quarter of the year**

The Economic Sentiment Indicator (ESI), the confidence data published by the European Commission (EC), is steadily approaching its historical average, at 94 points in November. In the last five months there have been improvements in all sectors (industry, construction, retail trade and services).

- **The manufacturing sector is practically flat in the third quarter of the year and retail trade has started badly**

Industrial output fell back in October in its m/m rate (down 0.7% m/m), although its level is still higher than the average value for the previous quarter (up 0.2%) and is picking up pace in year-on-year terms (up 3.1% y/y). However, retail sales did not record a good start of the quarter, as they fell in October (1.1% m/m) and their value is below the average in the last quarter.

- **Our MICA-BBVA model estimates flat growth in 4Q13**

Despite the positive expectations for the economy, they have not been reflected yet in real data in the fourth quarter, so the short-term MICA-BBVA model estimates that GDP growth could come to a standstill at the end of the year, compared with our baseline scenario for a rise of 0.3%. However, quantitative data available are still limited and the final bias will depend on other data, such as industrial output and November retail sales. Other short-term forecasting models give us a slight growth, which suggests that the result of the MICA model has a slight upward bias.

- **Exports continue to be robust and imports gain traction**

Exports continued to grow in October and the advanced indicator of order volumes suggests that this trend will continue into the last quarter of the year. In the last few months there seems to be a recovery in exports to the Eurozone, compared with those outside Europe. Imports have also grown again and everything suggests that this will carry into the last quarter of the year.

- **Inflation is still below the average of the eurozone**

Harmonized inflation grew 0.1pp in November to 0.1% y/y, 0.8 points below the average for the eurozone. Core inflation continues to decline, with a fall of 0.3pp to 0.2% y/y. In recent months inflation has been the result of positive contribution of services and processed food, while energy and industrial goods have posted negative contributions.

- **Unemployment and labor costs fall again**

The labor market continues to perform better than could be expected for an economy that has barely emerged from recession. The unemployment rate has once more fallen slightly in October to 15.7%, with an improvement of 1.1pp if we compare it with the figure a year ago (16.9% in October 2012). Meanwhile, labor costs have fallen slightly (down 0.1% q/q) in 3Q13 after the increase of 1.3% q/q in the previous quarter. By components, wage costs have now fallen for the last two years.

- **Budget execution through October is in line with the target set with the troika**

The latest data on budget execution as of October 2013 continue to suggest that the government will comply with the deficit target according to the performance criterion. The cumulative increases through October in both income (up 4% y/y) and expenditure (up 6.2% y/y) are in line with the program set with the troika.

Portugal

National Accounts: GDP will remain flat in 4Q13 after two quarters of growth

GDP growth has been confirmed at 0.2% q/q in 3Q13, mainly thanks to increased domestic demand, which has offset the fall in net exports. Our MICA-BBVA model currently estimates flat growth in 4Q13

Chart 1
GDP (% q/q) and contribution by components (pp)*

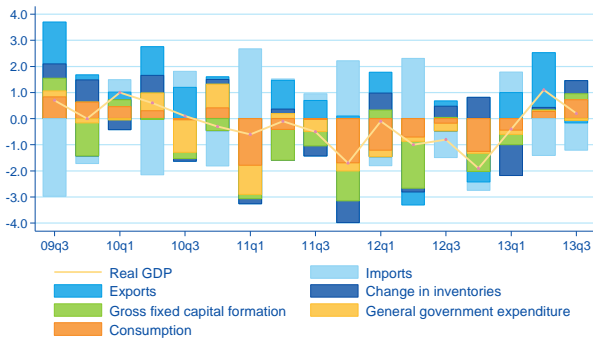
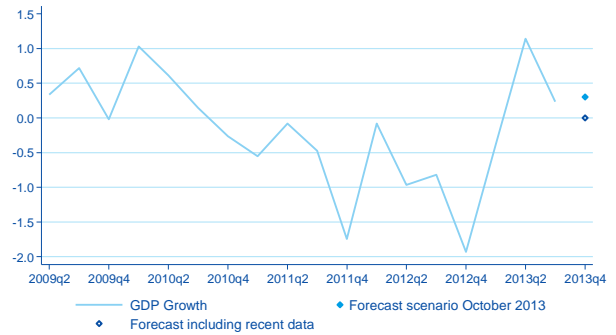


Chart 2
GDP growth estimates (%q/q) and forecasts*



Confidence: the improving trend since the beginning of the year continues through November

The confidence data published by the European Commission (ESI indicator) is steadily approaching its historical average, to 94 points in November. The corresponding indicator of activity of the Bank of Portugal also suggests that the economy could remain at the levels of 2Q13

Chart 3
Confidence (ESI), Activity Coincident Indicator and GDP growth (% y/y)*

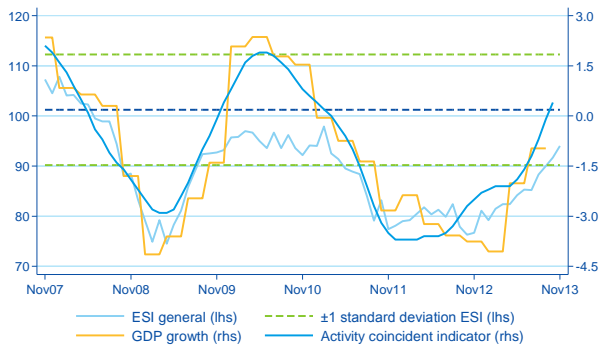
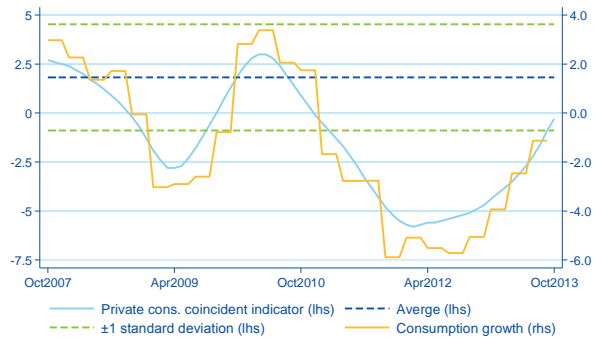


Chart 4
Private Consumption Coincident Indicator and Private consumption (%y/y)*



Economic activity: doubts about industrial output and a bad start of the quarter for retail trade

Industrial output fell back slightly in October in its monthly rate (down 0.7% m/m), although its level is still 0.2% higher than the average value for the previous quarter. Retail sales fell in October (down 1.1% m/m) to 2.4% below the average in 3Q13.

Chart 5
Industrial output (% y/y) and industrial confidence (ESI)**

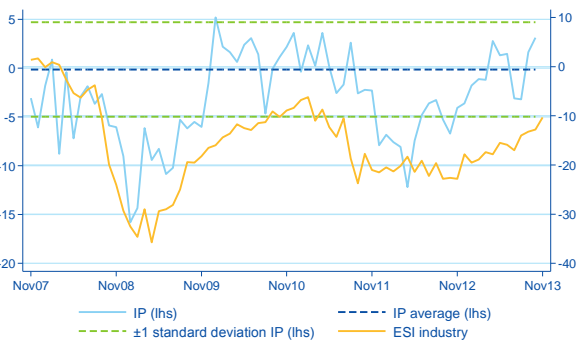
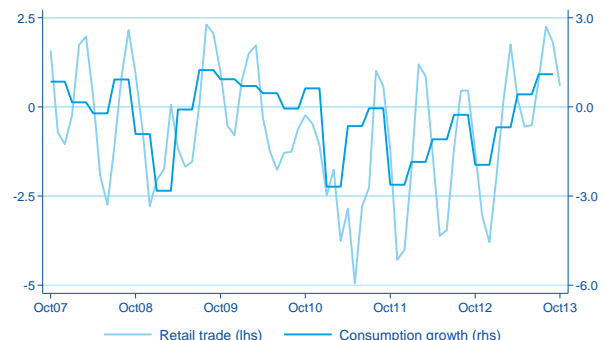


Chart 6
Retail trade (% 3m/3m) and consumption growth (% q/q)*



*Source: HAVER and BBVA Research

Foreign sector: exports continue to grow at a positive pace at the start of 4Q13

Exports continued to grow in October (up 7.2% m/m) and the advanced indicator of order volumes suggests that this trend will continue in the last quarter of the year. In addition, imports are gaining traction at the end of the year (up 10% m/m)

Chart 7
Current account (% GDP)*

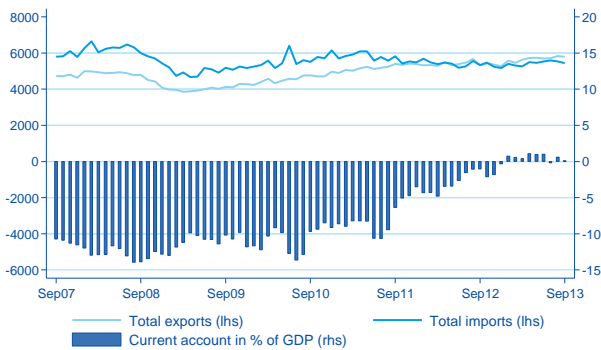


Chart 8
Exports (% y/y) and volume of export order books*

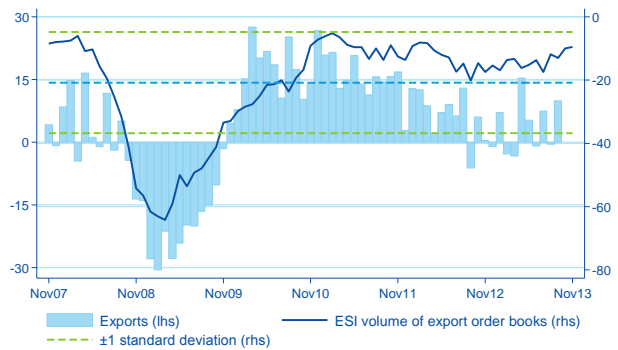


Chart 9
Exports by destination (% y/y)*

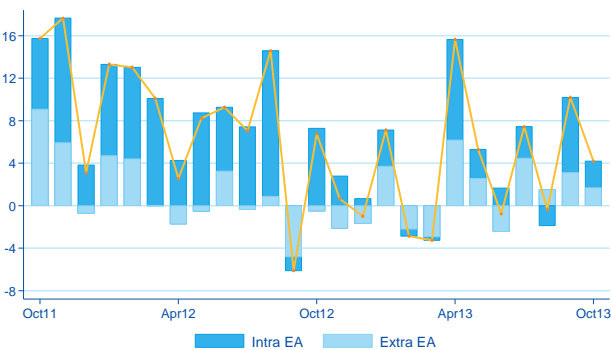
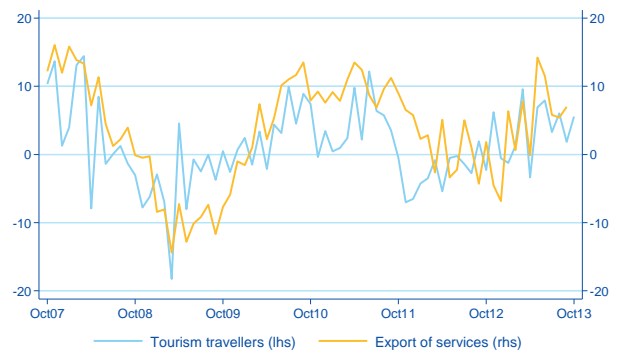


Chart 10
Tourism and service exports (% y/y)*



Labour market: unemployment continues to decline, as do labour costs

The unemployment rate once more declined slightly in October to 15.7%, with an improvement of 1.1pp compared with the figure a year ago. Labour costs have fallen slightly (down 0.1% q/q) in 3Q13 after the increase in the previous quarter of 1.3%; however, wage costs have fallen for the last two years.

Chart 11
Unemployment rate (%) and employment expectations*

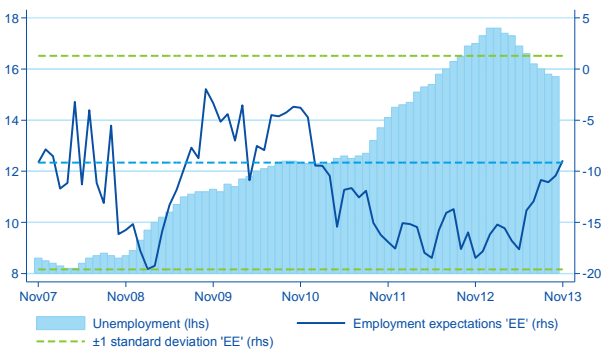
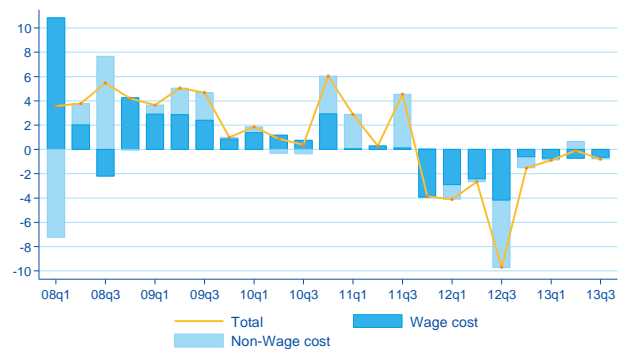


Chart 12
Labor costs in the business sector (% y/y)*



* Source: HAVER and BBVA Research

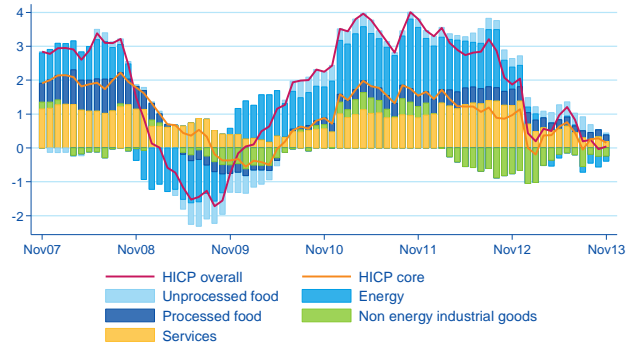
Prices: inflation increased slightly in November, but remains low

The HICP inflation increased by 0.1pp in November to 0.1% y/y, 0.8pp below the average for the eurozone. Core inflation is falling, and in November was down by 0.3pp to 0.2% y/y.

Chart 13
Headline and core inflation rate (% y/y)*



Chart 14
Inflation by component (contribution in %)*



Public sector: the government appears to be meeting its deficit target

The latest data on budget execution suggest that the government will comply with the deficit target of 5.5% of GDP, with income and expenditure above the figures for 2013.

Chart 15
Government expenditure (comparison with the previous year)*

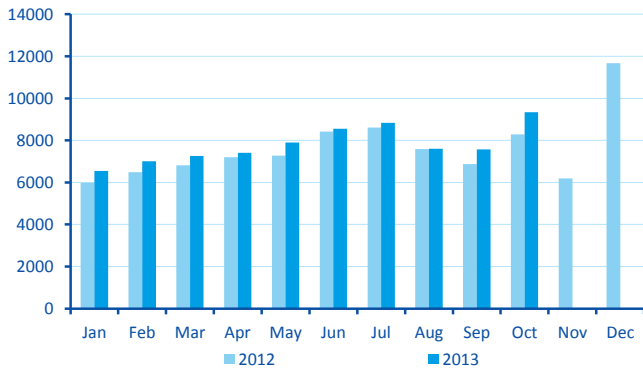


Chart 16
Government revenue (comparison with the previous year)*

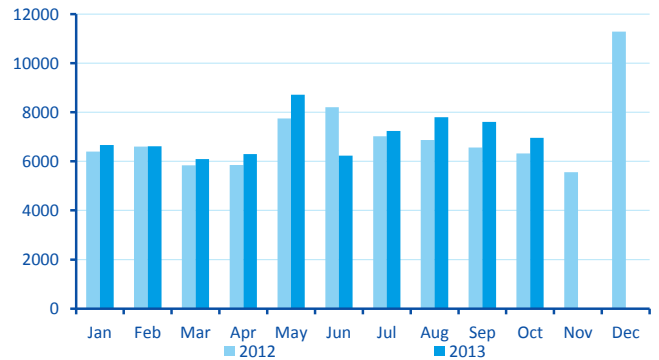


Chart 17
Fiscal deficit target*

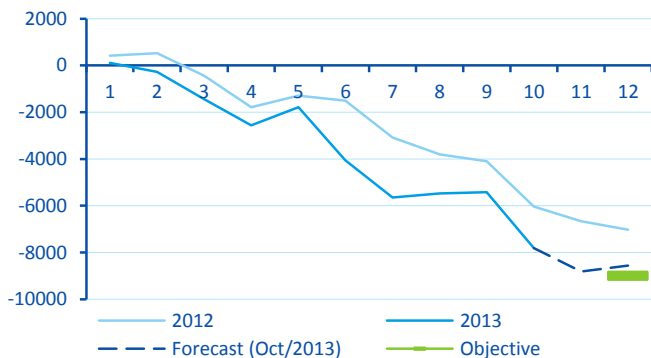
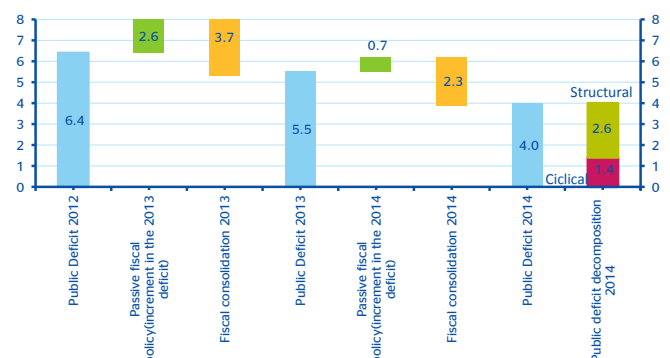


Chart 18
Breakdown of fiscal deficit (cyclical and structural)*



* Source: HAVER and BBVA Research

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