

Portugal: growth picked up in 3Q17

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18 October 2017

The available data points to a slight pick-up in GDP growth in 3Q17 of around 0.5% QoQ, SWDA¹ (see Figure 2). This estimate is likely to result from new momentum in investment and the lively levels of both exports and tourism. However, these may be counteracted by a less bullish performance of private consumption and an uptick in imports. This would be consistent with BBVA Research current growth forecast for Portugal (2.6% in 2017 and 2.3% in 2018).

Consumption is losing steam in line with forecasts, whereas investment is gathering strength

After the acceleration noted in **retail sales** in the second quarter of 2017 (4.9% YoY), the figures out for July and August are starting to point to a **mild slowdown, albeit with robust growth rates** (3.6% YoY on average for both months). **Consumer confidence² finds itself in the same situation**, which, having hit a high in June, fell away in September. On the other hand, **the improvement in the coincident private consumption indicator³ slowed down** and held at growth rates of close to 2.5% YoY during July and August (see Figure 3). All of this is in line with the forecasted gradual deceleration of private consumption's contribution to growth, following the surge seen in recent years.

However, it appears that investment is taking over the impetus being lost by consumption. After the sluggishness of late 2016, **the Industrial Production Index (IPI) figures released for machinery and equipment fuelled the growth** it had already been exhibiting throughout the second quarter of the year. Specifically, a spurt of over 20% was recorded in July and August (on average for both months), doubling the readings for the previous months. Nevertheless, we should remember that investment has come after a long period of weakness. **Even though it is in positive territory, industrial confidence has actually failed to improve in the past few months** (see Figure 4). On the other hand, there has been an obvious upswing in new loan transactions, to both companies (for sums under one million euros) and families, which have shown growth in YoY terms (see Figure 5).

On the **residential investment side, the takeaway from both supply and demand indicators points to buoyancy in the sector.** To be precise, even though housing permits seem to have slipped back a fraction in July, the trend remains positive after the surge in the first half of the year. This dynamic is being reproduced in household mortgage lending, which, in the wake of sharp rises in early 2017 (which averaged almost 50% YoY between January and March), has flagged, even though it was still growing at over 30% YoY back in July. On the other hand, along similar

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

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.

lines, housing sales are continuing to rise, especially for existing homes, although at a more discreet pace than in recent months.

The external sector remains dynamic

Nominal sales of goods abroad are picking up pace. In July and August they grew by 9.4% YoY on average for both months (compared to the average increase of 7.7% YoY seen between April and June). Capital and industrial goods were the main items behind the growth, as well as exports to America and Germany. In monthly terms, August (4.8% MoM) showed a recovery, following a poor start to the quarter (-0.1% MoM in July).

The Portuguese tourism sector continues to display strength, albeit with growth rates slightly below those exhibited in recent months. Specifically, tourist numbers rose by 5.4% YoY on average in July and August, which was less than the growth rate of 12.2% YoY recorded between April and June. The same happened as regards to overnight stays, with a rise of 4.4% YoY over the same period (compared to 9% in 2Q17) and a notable contribution from stays by non-resident tourists (3.8pp) (see Figure 7).

The performance of goods and services exports was offset **by a fresh spike in goods imports, which continue to post surges** (12.9% YoY and 2.3% MoM on average in July and August).

A setback for employment

In common with most activity indicators, employment's upward trend, which it had charted up to halfway through the year, seems to have lost pace. Following average growth rates ahead of 3.2% over the first six months of 2017, growth rates for those in work in July and August eased back to 3% and 2.7%, both YoY. In monthly terms, this means a dip of 0.1% MoM for employment in August, which comes on top of a rise in unemployment of 0.4% MoM, which is the first increase since February 2016. All things considered, the unemployment rate held at 8.9%.

Towards stability

The information out so far for the third quarter of the year leads BBVA Research to place forecast GDP growth for Portugal in 3Q17 at 0.5% QoQ. Moreover, we are standing by our prognosis of growth of 2.6% YoY for 2017 as a whole and 2.3% for 2018.

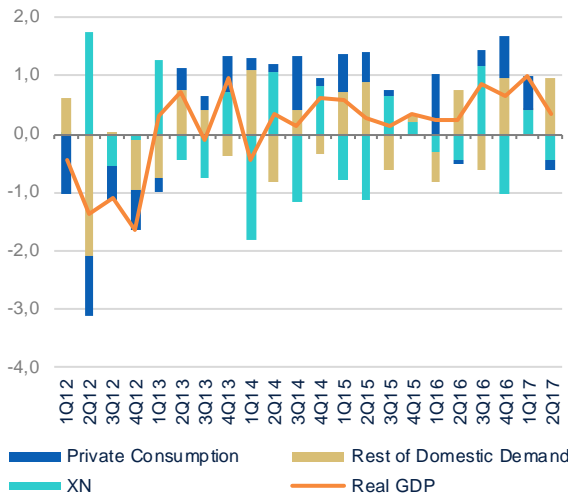
On the one hand, employment is expected to continue to grow and household disposable income to keep rising, added to which **loose monetary policy should remain a feature.** This will help the **expected slowdown in consumption to take place gradually** following the sharp increases of recent years.

On the other hand, **uncertainty over economic policy continues to fade.** Proof of this lies in the various confidence indicators, as well as the recent improvement in the perception of the solvency of Portugal's economy, which has fed through into a substantial decrease in the cost of borrowing. In precise terms, the risk premium on the Portuguese 10-year sovereign bond compared to the German Bund shrank by almost 60bp over the past month to the current level of around 195 points.

Finally, **the healthy international scenario and state of world trade, as well as the positive growth forecasts for Europe and Spain** will continue to **underpin sales abroad of Portuguese goods and services**. All this goes in tandem with gains in competitiveness and the insecurity associated with some of the national tourism sector's rival destinations, which will continue to redirect visitor flows to Portugal.

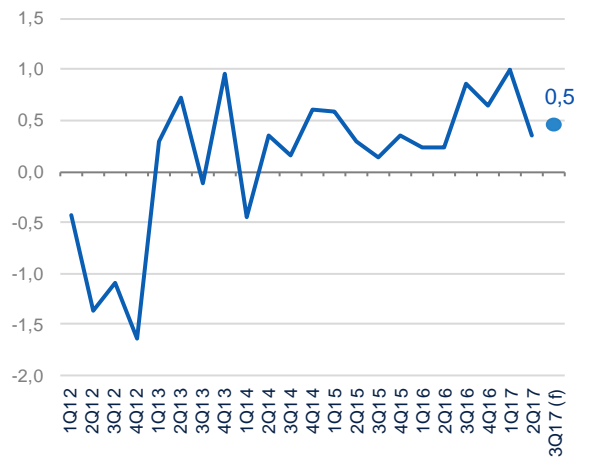
Main indicators of activity

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



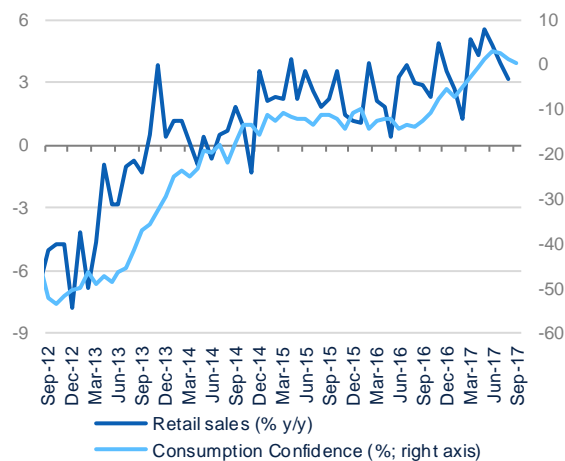
Source: BBVA Research based on INE

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



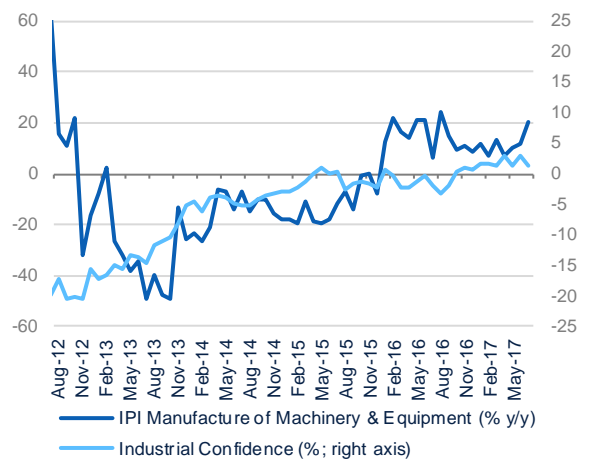
Source: BBVA Research based on INE

Figure 3 Indicators associated with consumption



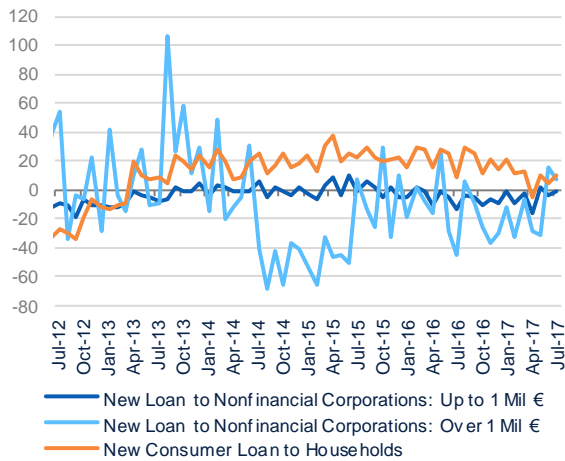
Source: BBVA Research based on INE

Figure 4 Indicators associated with investment



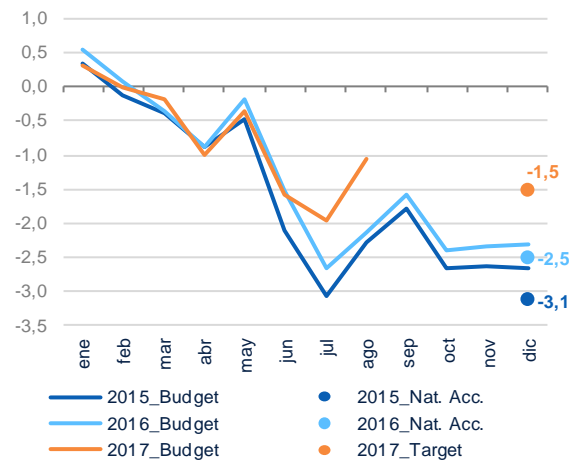
Source: BBVA Research based on INE

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



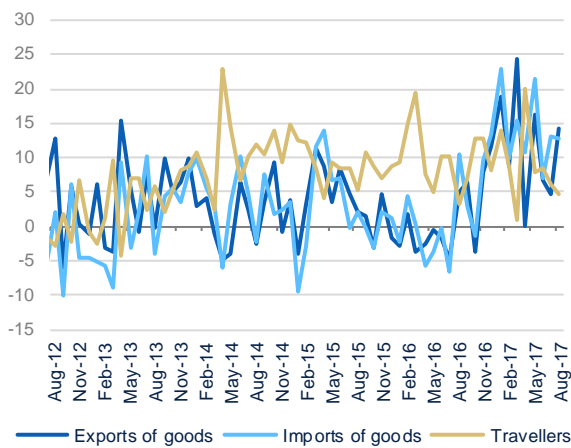
Source: BBVA Research based on BdP

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



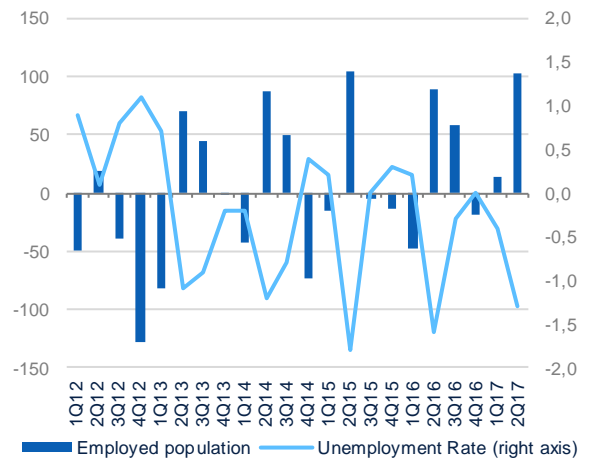
Source: BBVA Research based on BdP

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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