BBVA | Research

Portugal: in 4Q, growth would stabilise at around at 0.4% QoQ

Myriam Montañez

18 December 2017

The growth rate of the Portuguese economy in 3Q17 accelerated slightly to reach 0.5% QoQ[1], in line with the BBVA Research estimate (0.5% QoQ) and above the one seen in 2Q17 (0.3% QoQ) (see Figure 1).

Based on data so far available, BBVA Research estimates that growth in 4Q17 will be around 0.4% QoQ, consolidating a certain level of stabilisation around these levels after the strong advances at the end of 2016 and the beginning of 2017 (see Figure 2).This would be the result of further increases in domestic demand, both in private consumption and investment, which would be partially offset by negative contributions from external demand, given the correction that could be occurring in exports after the sharp increase observed during the last few months. **The above would be consistent with a GDP growth forecast for the whole of 2017 of 2.6% and of 2.3% for 2018.**

Private consumption sustains growth again

Domestic demand contributed 0.7 pp to quarterly growth in 3Q17, 0.1 pp higher than in the previous quarter. **Private consumption registered a strong momentum, reaching 1.4% QoQ (2.5% YoY)**, which means an accelerating pace compared to what was observed in the first half of the year. The improvement of consumer confidence as well as good labour market figures would be some of the factors behind the momentum.

Meanwhile, **public consumption continues to show little variation** (0.0% QoQ, 0.2% YoY), consistent with the process of adjusting the public deficit.

On the other hand, and in annual terms, the growth of investment has maintained the vigour that it had shown since the beginning of the year (10% YoY in 3Q17). However, the National Accounts data show a partial correction with respect to the previous quarter (-1% QoQ), after having grown above 5% QoQ in 2Q17.Thus, the Gross Capital Formation (GCF) broke with the trend of positive contributions to the activity that had been shown in the previous four quarters. Investment in transport material, as well as in construction, was the items that contributed the most to this.

Imports hampered the good performance of exports

Net external demand, one more, drained growth in 3Q17.Thus, for the second consecutive quarter it subtracted 0.2 pp from the quarterly GDP advance. On the one hand, exports registered an increase of 0.8% QoQ

[1]: Seasonally and working-day adjusted (SWDA) data. All quarterly (QoQ) and monthly (MoM) changes in this document are calculated on the basis of SWDA data.

during the third quarter of the year, after the reduction of 2Q17. This means an increase of 6.7% over the level of 3Q16, a lower rate than that observed in the first half of the year, when sales abroad grew more than 8% in year-on-year terms. On the other hand, the increase in sales abroad was offset by an even greater boom in imports. Thus, after the sluggishness of the previous quarter (0.2% QoQ), purchases of goods from other countries increased 1.3% QoQ during 3Q17.

The pace of job creation slows

The published data for 3Q17 show employment growth of 0.9% QoQ (3.1% YoY), decelerating from 2.2% QoQ (3.5% YoY) observed in the previous quarter. Jobs in the services sector linked to tourism were once again the main driver of employment in Portugal. On the other hand, the construction sector contributed less to the creation of employment than in the previous quarter, while the primary sector drained 0.8 pp from the increase.

4Q17: growth could stabilise at around 0.4% QoQ

The few known data for the fourth quarter of the year, referring to employment and industrial production in October, point to a stabilisation of growth at rates close to 0.4% QoQ during 4Q17, although with a change in composition compared to 3Q17. Investment and exports would recover momentum, while consumption and tourism could correct part of the impetus. Imports would lose force.

On the one hand, retail sales registered a slowdown in October (1.8% YoY, -2.3% MoM), compared to the growth of previous months (3.9% YoY and 0% MoM on average between July and September), in line with the reductions observed in the Coincident Consumption Indicator[2]. However, consumer confidence in that same month continued the improvement trend observed during 3Q17 (see Figure 3). Thus, given the new advance observed during 3Q17, an adjustment in the growth of private consumption is expected during 4Q17. This would be in line with the expectations already outlined in previous outlooks that pointed precisely to a **slowdown in the contributions of private consumption to GDP growth in the coming quarters**.

On the other hand, the Industrial Production Index of machinery and equipment in October corrected the falls observed in September, while the Industrial Confidence Indicator prepared by the European Commission shows the highest level since 2007, which makes a return to investment growth foreseeable during the last quarter of the year. In addition, **the international perception continues to improve** and this is reflected in the continuous reductions in the country's risk premium. To this is added the two-tiered upward revision in the investment grade recently made, from BB+ with a positive outlook to BBB.

From the external point of view, the newly-learned information on exports and imports for October maintains the signs of momentum from the last months, although adjusting the strong rebound in September. Thus exports, after an

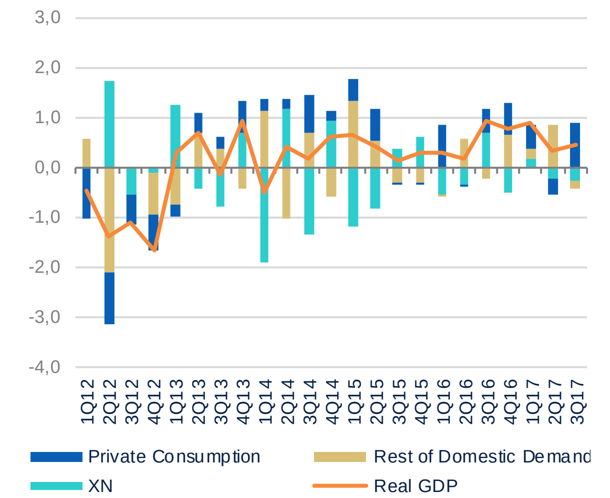
[2]: Indicator published by Banco de Portugal, summarising the most significant information on the country's consumption.

average growth which was stagnant at 0.1% MoM between July and September (result of the fall observed in August (-15.4% MoM) and the rebound from September (17.7% MoM), in October sales abroad showed a new advance with an increase of 4.4% MoM. This represents a growth of 11.8% in year-on-year terms, improving the average of the last three months (8% YoY). In the same line, imports rose by 9.4% MoM in October (21.4% YoY), adjusting slightly from the 11.5% MoM reached in September. In this sense, the good trend in world trade, as well as positive forecasts for Europe, are expected to continue supporting the Portuguese foreign sector in the coming quarters, albeit with an offsetting between exports and imports that will detract from growth. To this is added the geopolitical tensions still existing in competing destinations that could continue to attract tourism to Portugal, although, given the boom observed in previous years, the sector is already beginning to show some signs of exhaustion.

Finally, **the monthly employment data continues to be positive although decelerating slightly**. Specifically, after average monthly growths close to 0.2% MoM (3.0% YoY) between July and September, employment in October fell by 0.1% MoM (2.8% YoY). The unemployment rate remained unchanged at 8.5%.

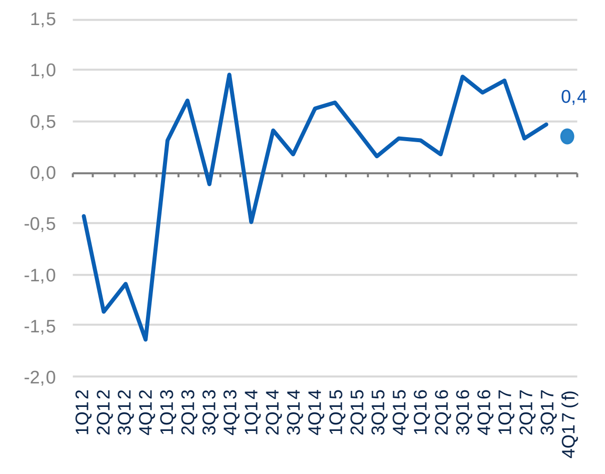
Main indicators of activity

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



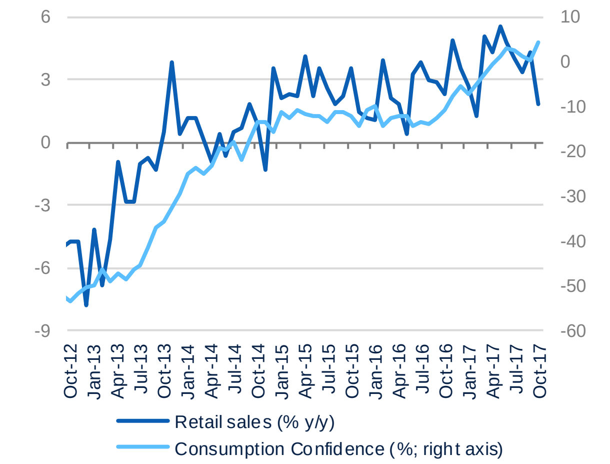
Source: BBVA Research based on INE

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



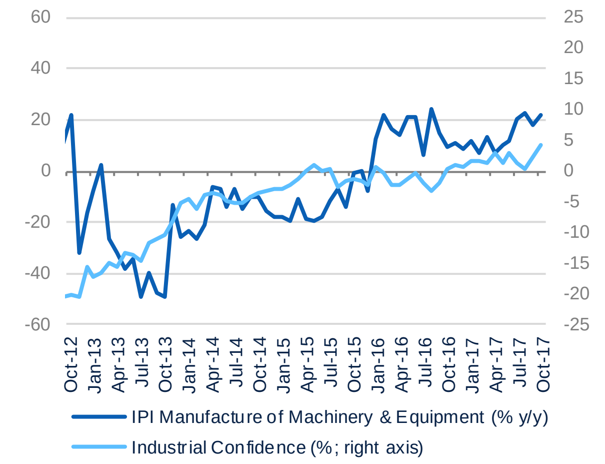
Source: BBVA Research based on INE

Figure 3 Indicators associated with consumption



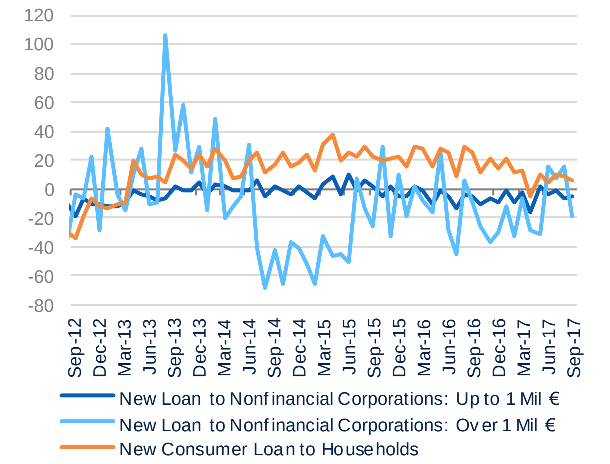
Source: BBVA Research based on INE

Figure 4 Indicators associated with investment



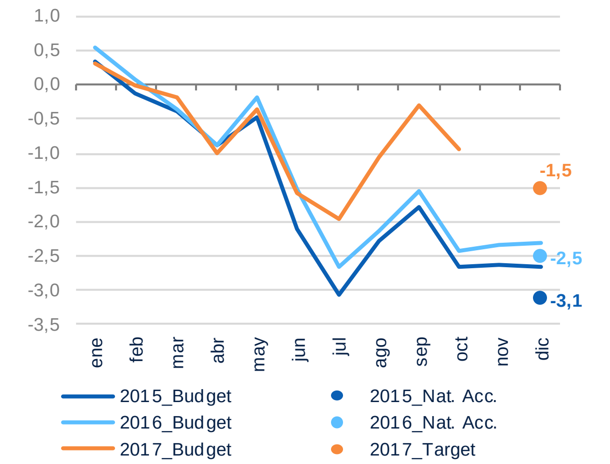
Source: BBVA Research based on INE

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



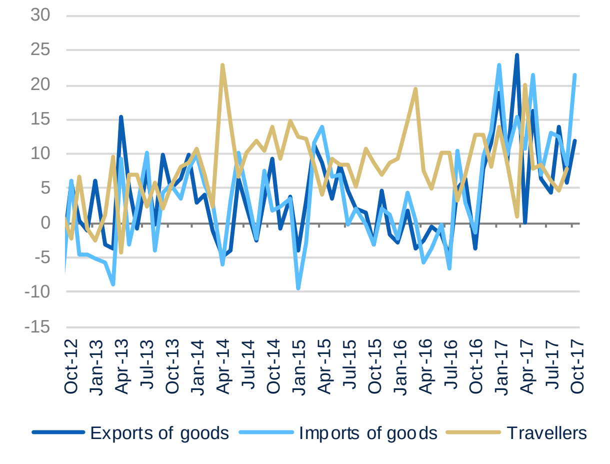
Source: BBVA Research based on BdP

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



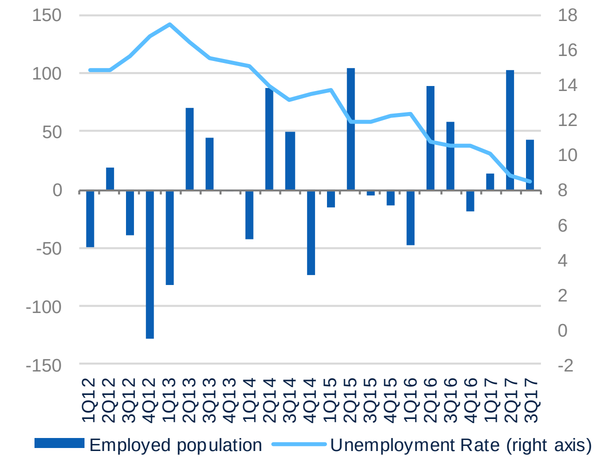
Source: BBVA Research based on BdP

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

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.