

Portugal Economic Watch

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Economic Analysis

Europe

Miguel Jiménez González-Anleo
Chief Economist
mjimenezg@bbva.com

Agustín García Serrador
Senior Economist
agustin.garcia@bbva.com

Diego Torres Torres
Economist
diego.torres.torres@bbva.com

Pablo Budde
pablo.budde@bbva.com

Massimo Trento
massimo.trento@bbva.com

With the contribution of:

The Directorate Planning
and Financial Management

Ana Claudino
ana.claudino@bbva.pt

Domestic demand continues to recover at the beginning of the year

Our MICA-BBVA model forecasts zero growth in the first quarter after the positive surprise in 4Q13

- **Higher expectations from households and the increase in retail sales point to recovery in 1Q14**

In the first quarter of 2014 the improving trend in household confidence (first seen in 4Q12) continued, mainly thanks to movements in the labour market and expectations of a sustained reduction in the unemployment rate in the next few months, which is reflected in increased consumption, with retail sales growing 3% to February over the average for 4Q13 (Figures 4 and 6), also brightened by very low inflation.

- **Industrial production fell slightly in February, but the quarterly average is still a little higher than in 4Q13**

The European Commission's economic sentiment indicator, the ESI, again rose significantly in March, at rates similar to those of 4Q13, after business confidence improved more slowly in January and fell in February. This figure, together with an increase in new orders, could be anticipating an improvement in industrial production in March, which grew by 0.7% to February over the previous quarter's average despite a slight fall in February (-0.6% MoM) (Figures 3 and 5).

- **Net exports may reduce their contribution to growth in 1Q14**

After increasing in 4Q13, the export growth trend eased a little in February, falling 0.4% over the previous quarter's average. However, export orders, which had fallen in February, increased strongly in March, heralding an improvement in exports. But robust imports (2% above the 4Q13 average) could reduce the foreign sector's contribution to growth in 1Q14. Despite the strength of the euro, exports outside the eurozone have gone up again (Figures 7 to 9).

- **The MICA-BBVA model biases slightly to the downside our central scenario of 0.1% QoQ growth in 1Q14**

With the data currently available, our MICA-BBVA model estimates nil quarterly growth in 1Q14, which means around 0.2pp less than our estimate a month ago, a result of the negative industrial production figure in February.

However, we expect March industrial production and retail sales figures to come in slightly above the levels at the end of 2013, which would be more in line with our central forecast of slight GDP growth in 1Q14 (+0.1% QoQ).

- **The unemployment rate has stopped its trending improvement, stabilising at levels above 15%**

The unemployment rate stayed at 15.3% in February, interrupting a clear downward trend, with a drop of 2.2pp in the last twelve months (17.5% in February 2013). In 4Q13 employment was created again, continuing the trend that began in the second quarter of 2013 (Figure 11).

- **Inflation at negative rates because of the drop in energy and services prices**

Headline inflation (HICP) slowed again in March, reaching negative rates (-0.4% YoY), mainly due to the drop in energy prices (-2% YoY) but also to slowing inflation in services (0.2% YoY after 0.9% YoY in February), so that core inflation fell to -0.2% in March (Figures 13 and 14).

- **Fiscal accounts, published up to February, in line with the 2014 deficit target**

To February 2014, public administration accounts registered a deficit of EUR48mn, representing a significant improvement if we compare this with the 2013 figure (deficit of EUR 273mn). Behind this performance is the increase in fiscal revenues (5.5% YoY), with more collection of indirect and direct taxes, principally the latter (14.7% YoY). Meanwhile, expenditure has increased more moderately (3.6% YoY) (Figures 15 and 16).

These figures suggest that the deficit will not exceed the established limit of EUR1.7bn in the first quarter and, although at this stage of the year they are necessarily very preliminary, they tend to indicate that the deficit target of 4% of 2014 GDP will be met.

Portugal

National accounts: our MICA-BBVA model biases our central growth forecast slightly to the downside (0% QoQ instead of 0.1%)

GDP grew by 0.6% QoQ in the last quarter of 2013, more than expected. The strength of investment and accelerating exports are behind this performance. With the data available, our real time model estimates nil growth in 1Q14

Figure 1
GDP (%QoQ) and contribution by component (pp)*

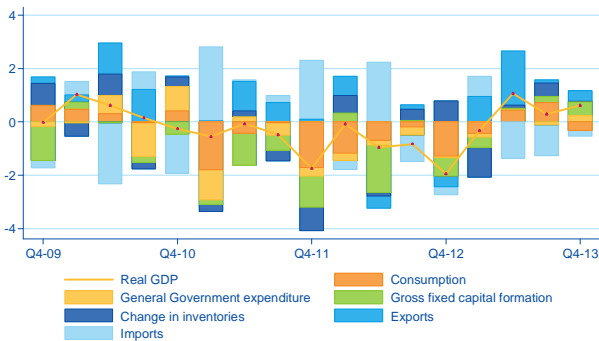
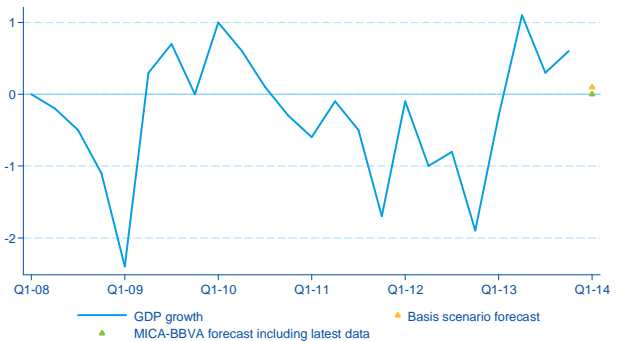


Figure 2
MICA-BBVA: GDP growth (%QoQ) and forecasts*



Confidence: confidence returns to all sub-categories in March

According to the EC indicator (ESI), business confidence is recovering and is above its historic average, registering 100.4 points in March and is doing so in all its components. Consumer confidence, in particular, continues to grow strongly.

Figure 3
Confidence (ESI) and coincident activity indicator*

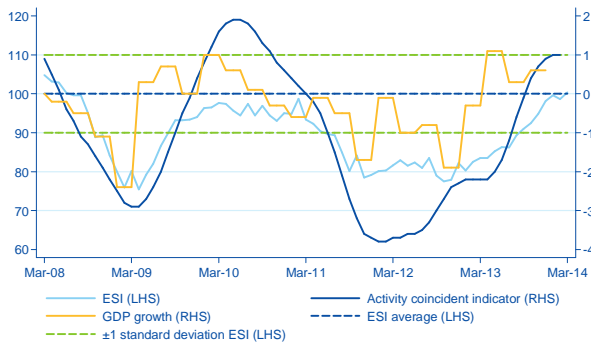
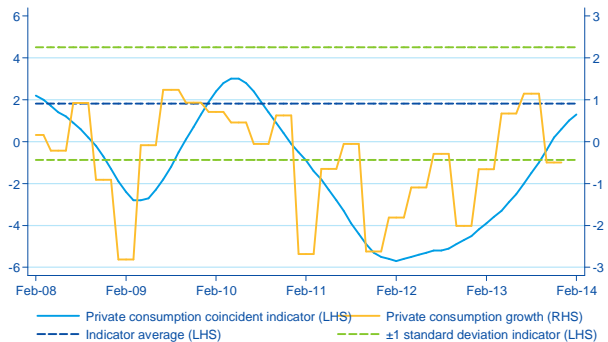


Figure 4
Private Consumption Coincident Indicator and Private consumption (%YoY)*



Activity: small drop in industrial production, while retail trade recovers

Industrial production fell a little in February and retail sales grew (3% over 4Q13), after having dropped 1.7% QoQ the previous quarter.

Figure 5
Industrial output (% YoY) and industrial confidence (ESI)**

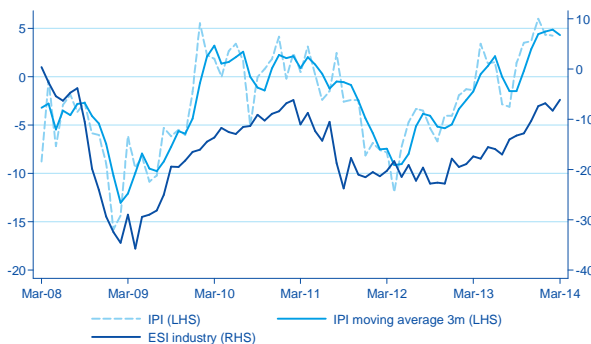
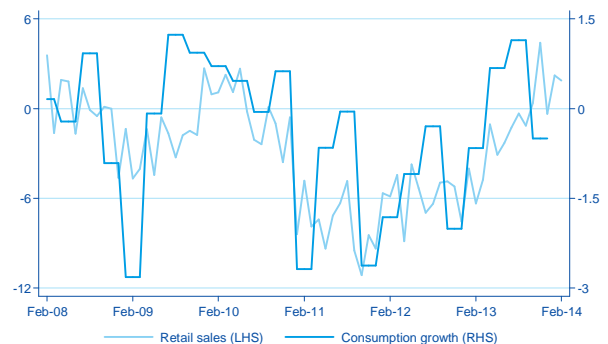


Figure 6
Retail trade (% YoY) and consumption growth (% QoQ)*



*Source: Haver Analytics and BBVA Research

Foreign sector: the fall in exports in February indicates a smaller contribution from the foreign sector to growth in 1Q14

In 4Q13 exports went up by 2.3% over 3Q13, and with the February figure, fell by 0.4% on average from the previous quarter, whereas imports showed growth of 2% on 4Q13.

Figure 7
Exports and imports (quarterly rate, sa %)*

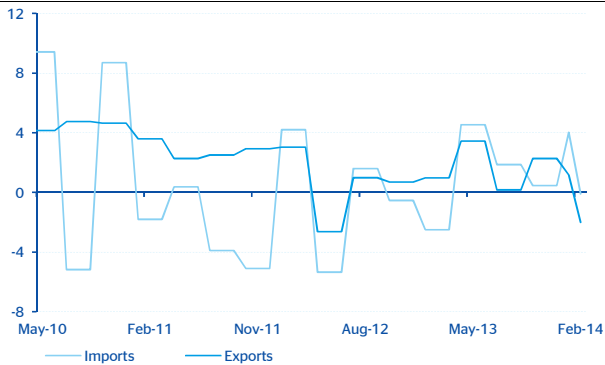


Figure 8
Exports (% YoY) and volume of export order books*

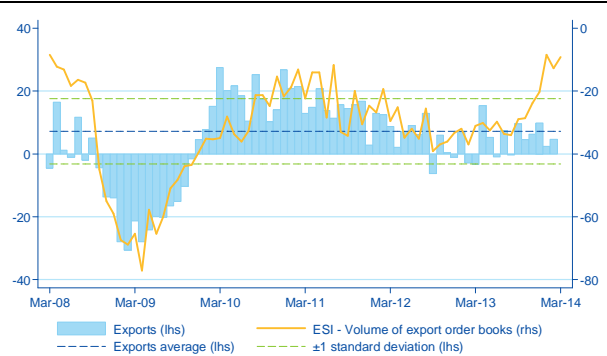


Figure 9
International trade by destination (% YoY)*

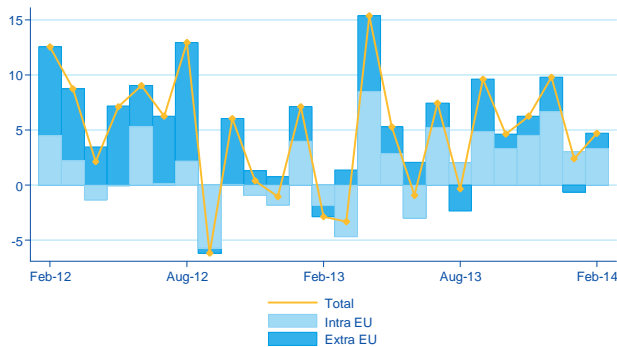
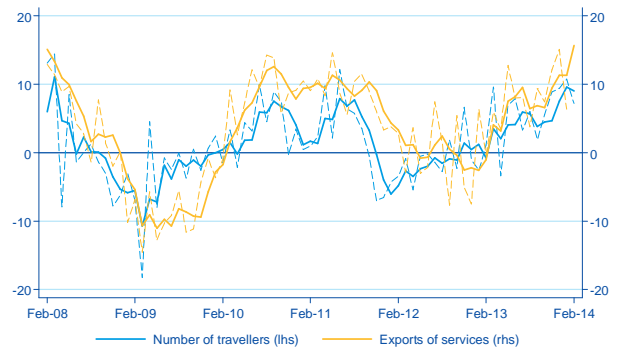


Figure 10
Tourism and service exports (% YoY)*



Labour market: unemployment is still above the eurozone average

The unemployment rate remained stable in January at 15.3%, an improvement of 2.3pp when compared with the figure for 2013. Employment was created in 4Q13, continuing the trend that began in the second quarter of 2013.

Figure 11
Unemployment rate (%) and employment expectations*

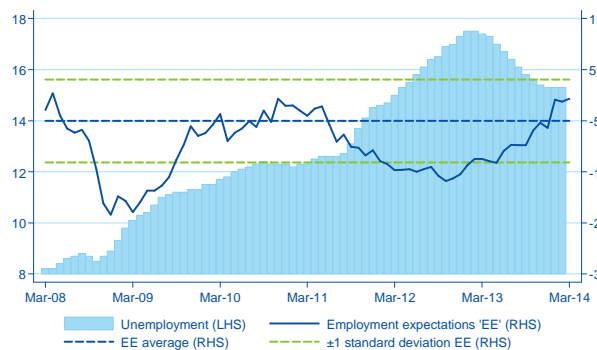
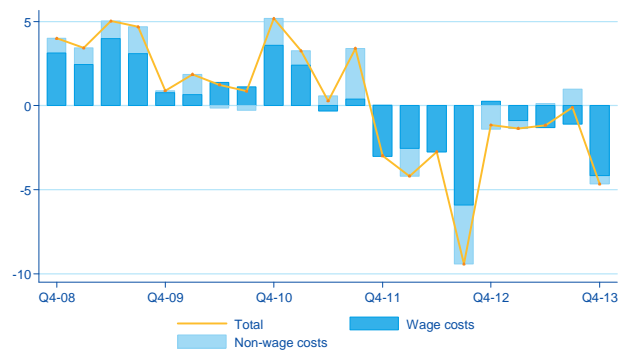


Figure 12
Labour costs in the business sector (% YoY)*



* Source: Haver Analytics and BBVA Research

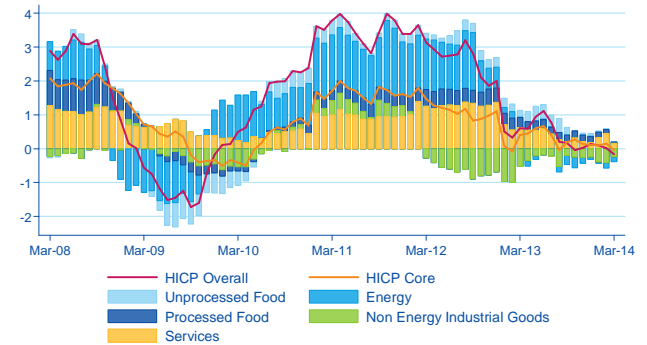
Prices: inflation stays at negative rates in March

Headline inflation (HICP) slowed again in March to -0.4% YoY, due mainly to the fall in energy prices (-2.0% YoY) and to the moderation in services inflation (0.2% YoY after 0.9% YoY in February). Core inflation fell too, to -0.2% YoY.

Figure 13
Headline and core inflation rate (% YoY)*



Figure 14
Inflation by component (contribution in %)*



Public sector: data to February are positive, thanks to high revenues

In February 2014, public sector accounts showed a deficit of EUR48mn, a figure which betters the level for 2013. Behind this performance lies greater collection of indirect and direct taxes, particularly the latter.

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

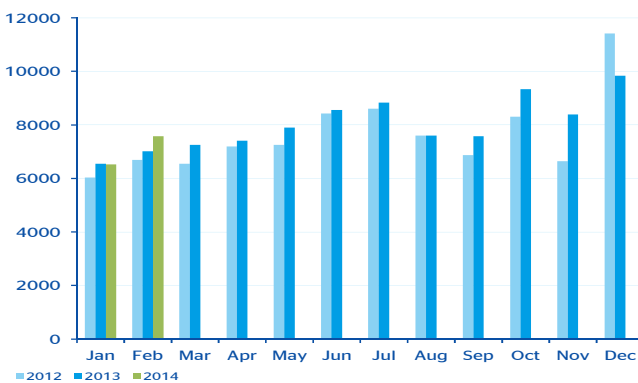


Figure 16
Government revenue (comparison with the previous year)*

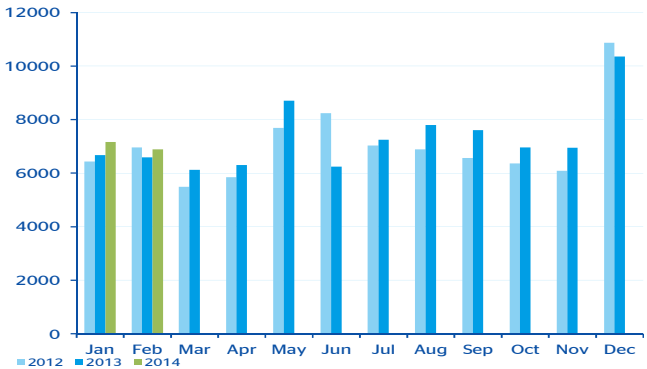


Figure 17
Public and private debt (% of GDP)

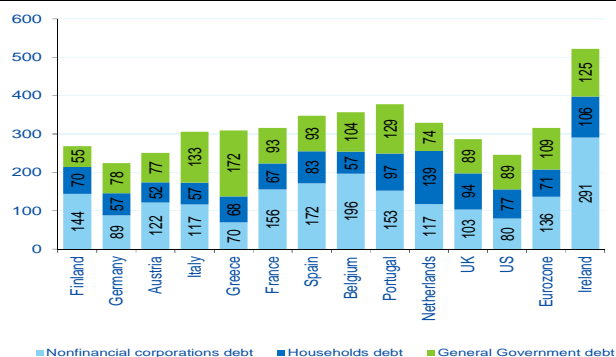
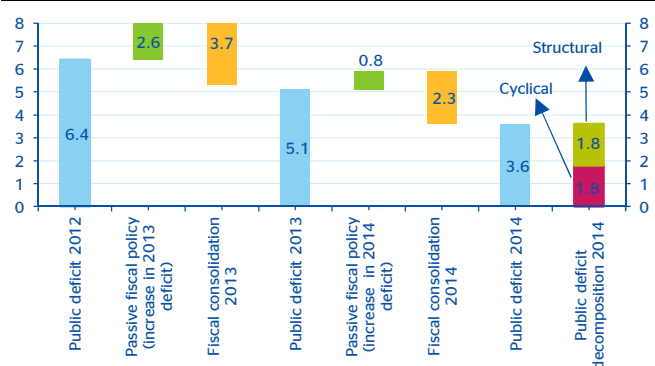


Figure 18
Breakdown of fiscal deficit (cyclical and structural)*



* Source: Haver Analytics and BBVA Research

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