

# Economic Watch

## Portugal

Madrid,  
December 19, 2013  
Economic Analysis

Europe Unit  
Miguel Jiménez González-Anleo  
mjimenezg@bbva.com

Agustín García Serrador  
agustin.garcia@bbva.com

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

Francisco José Ortega Castaño  
franciscojose.ortega.castano@bbva.com

Massimo Trento  
massimo.trento@bbva.com

With the contribution of:

The Directorate Planning  
and Financial Management  
Ana Claudino  
ana.claudino@bbva.pt

## 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)\*

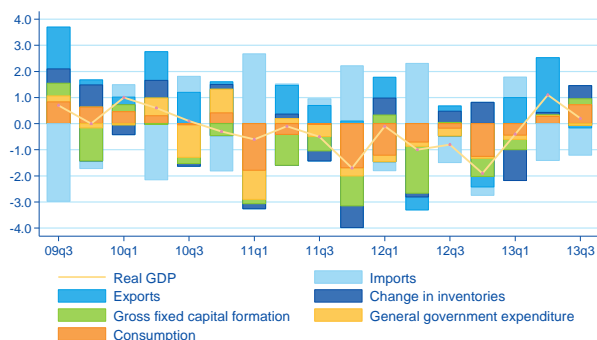
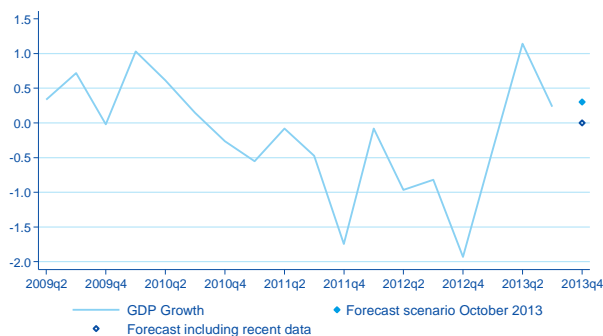


Chart 2  
GDP growth estimates (%q/q) and forecasts\*



## 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)\*

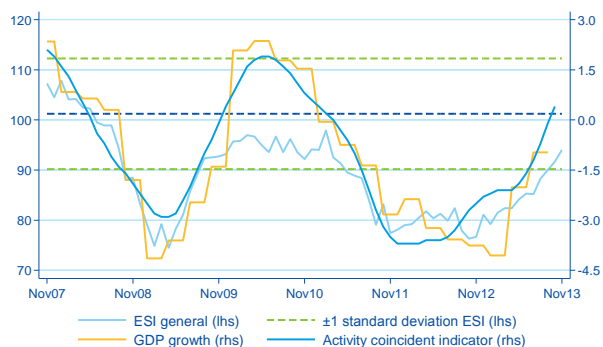
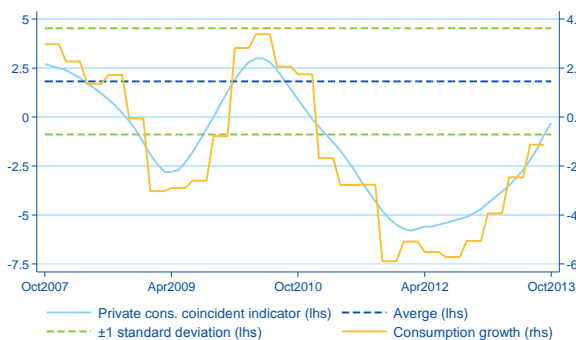


Chart 4  
Private Consumption Coincident Indicator and Private consumption (%y/y)\*



## 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)\*\*

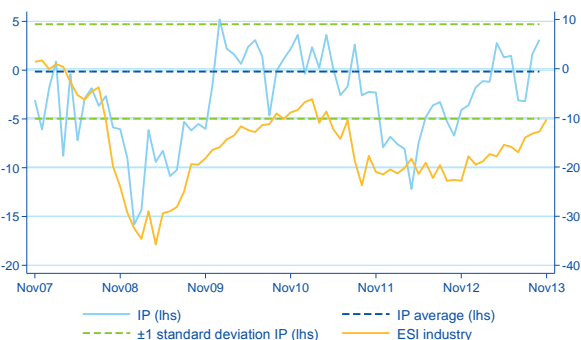
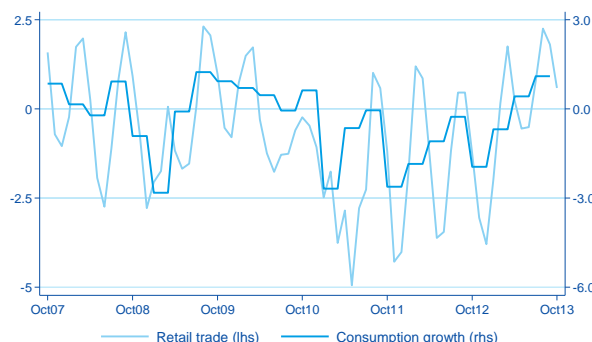


Chart 6  
Retail trade (% 3m/3m) and consumption growth (% q/q)\*



\*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)\*

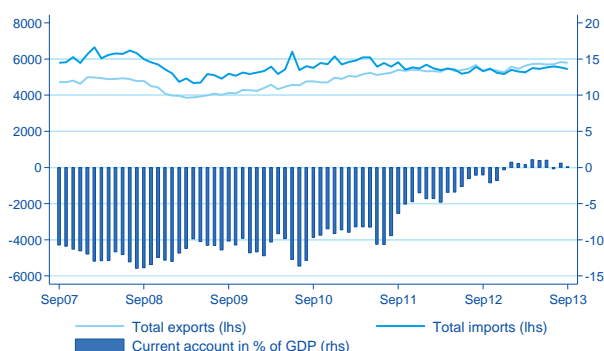


Chart 8  
Exports (% y/y) and volume of export order books\*

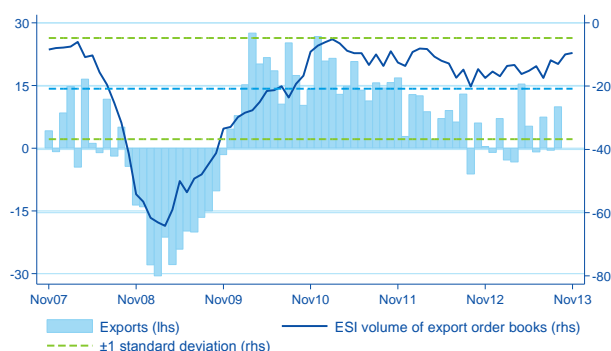


Chart 9  
Exports by destination (% y/y)\*

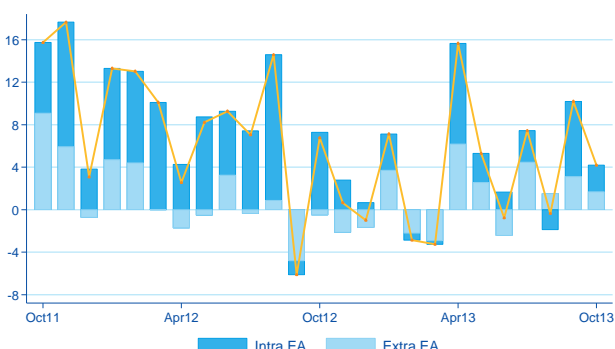
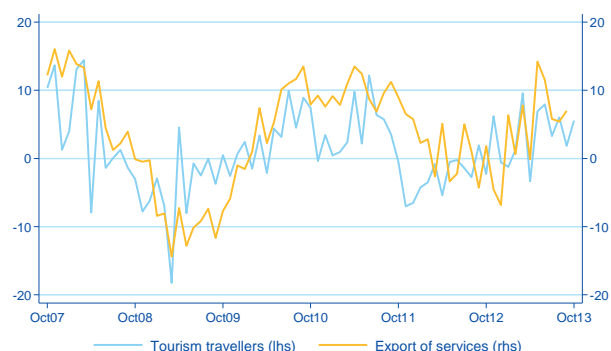


Chart 10  
Tourism and service exports (% y/y)\*



## 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\*

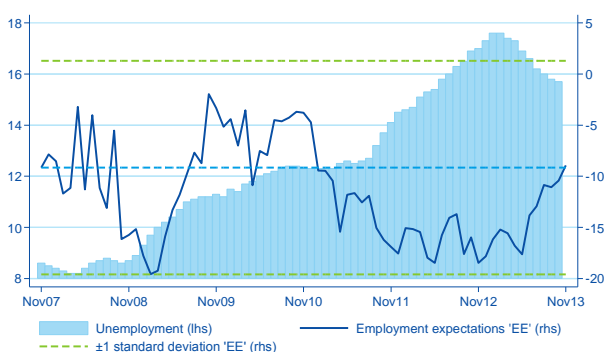
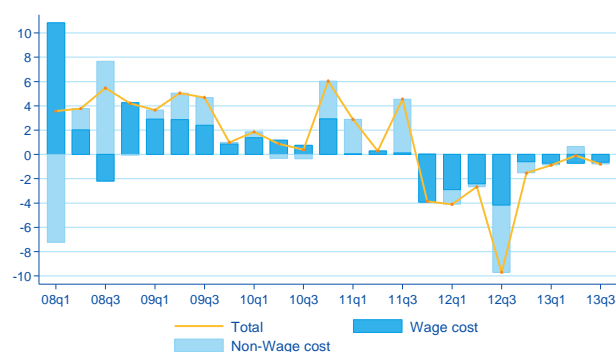


Chart 12  
Labor costs in the business sector (% y/y)\*



\* 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)\*

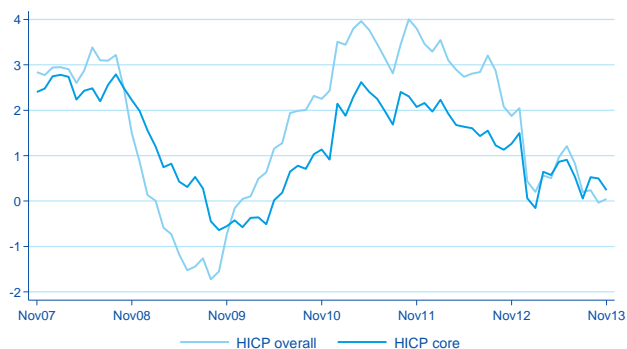
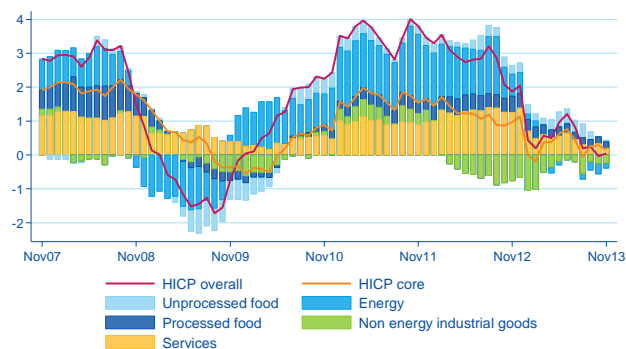


Chart 14

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)\*

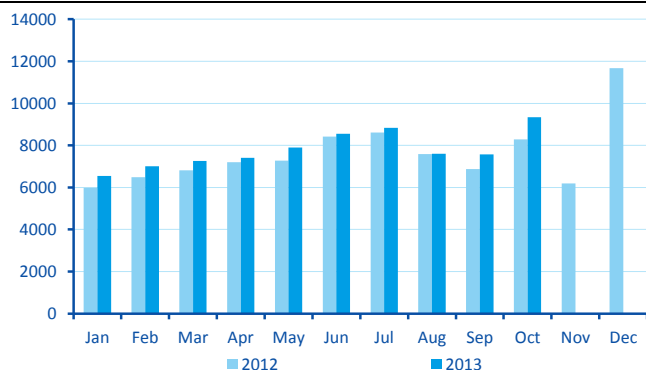


Chart 16

Government revenue (comparison with the previous year)\*

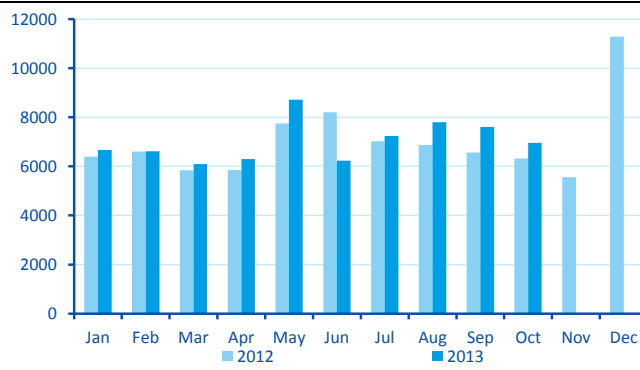


Chart 17

Fiscal deficit target\*

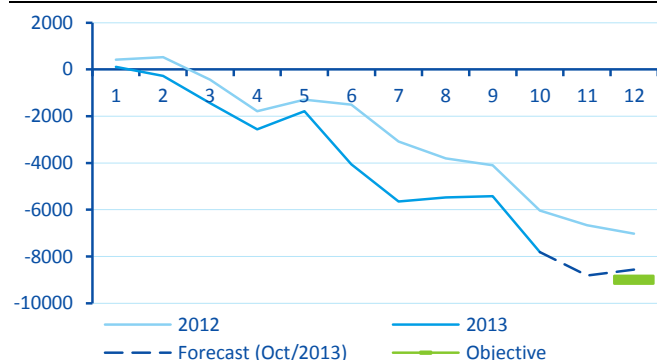
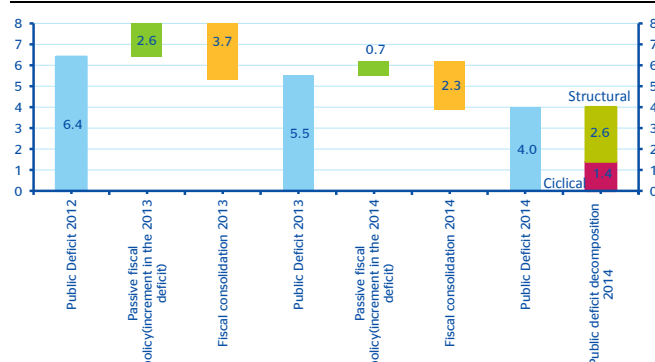


Chart 18

Breakdown of fiscal deficit (cyclical and structural)\*



\* Source: HAVER and BBVA Research

**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.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.