

Portugal: GDP growth close to 3% in Q1 2017

May 2017

José Miguel Cerdeira
 +351 21 310 10 82
 jose.miguel.cerdeira@bancobpi.pt

Economy accelerated further in the first three months of 2017, expanding 1.0% qoq

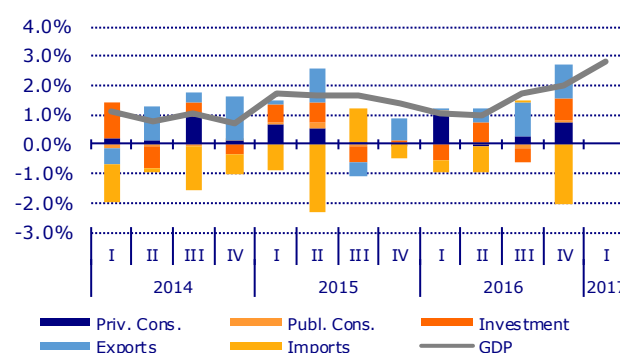
The first quarter showed a particularly impressive acceleration of growth, which can be partly tied to a cyclical recovery, nevertheless bringing economic perspectives upwards for the Portuguese economy. Year-on-year growth was the highest since the last quarter of 2007, mostly supported by a solid performance of exports, which grew at a faster pace than imports. Domestic demand still contributed positively, but at a slower pace, and more heavily supported on the much awaited recovery of investment, likely to be particularly felt in the construction sector. Private consumption still grew year-on-year, albeit showing some (healthy) deceleration.

The preliminary estimate showed 2.8% yoy growth in Q1 2017, the highest pace of expansion since the final quarter of 2007 – the Bank of Portugal's coincident indicator for economic activity was also at 2007 highs in March. The economy had expanded 2.0% yoy in Q4 2016. This should raise prospects for 2017 – we expect a GDP increase over 2% for the whole year. Furthermore, this expansion is consistent with the solid [numbers of the labour market](#), divulged last week, which put the unemployment rate at 10.1% (-2.3 p.p.) in the first three months of the year.

The Portuguese economy grew 1.0% qoq, 0.3 percentage points more than in the previous three months. This is also the fastest pace of growth seen in a first quarter since 2010.

GDP and components

(% contributions for yoy change in p.p.)



Source: INE

Net external demand saw its contribution become positive from negative in the previous quarter (both in year-on-year and quarter-on-quarter terms). Exports increased further than imports, with the comparison for both fuel exports and shipments to Angola benefitting from negative temporary effects felt in the first three months of 2016 – the [data available on goods exports](#) show a 48.3% yoy increase in exports to Angola in Q1, and increases overall in almost all the main trading partners, with the Spanish economy contributing with 3.9 p.p. for export growth. Moreover, tourism indicators are still pointing at a large effect of these activities in services exports – total revenue increased 16.2% yoy in the first two months of 2017.

Domestic demand contributed positively for economic growth in yearly terms, although less than in the previous quarter. Consumption decelerated, thus implying a rather healthy composition of the growth profile, probably even allowing for a further recovery of the savings rate, still at a very low point. **Most importantly, investment accelerated, thus confirming its improvement trajectory begun in the final quarter of 2016**, as shown by various higher frequency indicators: imports of capital goods were increasing at a fastening pace in the beginning of the year, and the capital goods industrial output index saw positive year-on-year changes again (it had been negative since the second half of 2016); although there is no quantitative information, these same high-frequency data point towards a large contribution of construction, based on cement sales and the confidence index of the industry, a sector which was particularly affected by the crisis. Finally, there was a quarterly decrease of stocks: despite no knowledge of the extent of this fall, it is nevertheless a good omen for investment growth in the following quarter. All in all, domestic demand had a negative contribution for quarterly growth.

This document is only for private circulation and only partial reproduction is allowed, subject to mentioning the source. This research is based on information obtained from sources which we believe to be reliable, but is not guaranteed as to accuracy or completeness. At any time BPI or any affiliated companies (or employees) may have a position, subject to change, in these markets. Unless otherwise stated, all views (including estimates or forecasts) herein contained are solely expression of BPI Economic and Financial Research and subject to change without notice.

BANCO BPI S.A.

Rua Tenente Valadim, 284 4100 – 476 PORTO
Telef.: (351) 22 207 50 00 Telefax: (351) 22 207 58 88

Largo Jean Monnet, 1 – 9º 1269-067 LISBOA
Telef.: (351) 21 724 17 00 Telefax: (351) 21 353 56 94