

## Portugal: Losing momentum

The economy is slowing down and weaker domestic demand and a more fragile external environment will impact economic activity negatively in 2019, which is why we forecast 1.6% growth this year and 1.4% in 2020



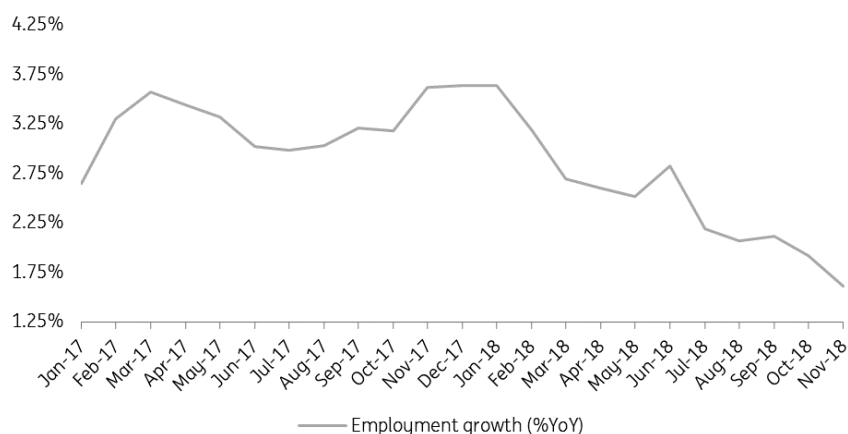
Source: Shutterstock

The quarterly growth rate in the first three quarters of 2018 averaged 0.4%, compared to 0.6% in 2017. For 2018, we think the economy has grown by 2.1%, compared to 2.8% in 2017. This is still a decent performance, but we think the slowdown will continue in 2018.

Take the loss of momentum in the labour market. The unemployment rate has stopped its downward trend in recent months, coming in at 6.6% since September 2018, and employment growth is also slowing. It was about 3.6% in January 2018 but has since dropped to about 1.6%. The weak labour market helps explain the drop in consumer confidence, which peaked last May and has since dropped quite sharply. Since August 2018, there are again more pessimistic consumers than optimistic ones.

However, all of this is yet to have a substantial impact on consumption growth as it continued to be as dynamic in the first three quarters of 2018 as it was in 2017. But in our view, this will not last, and so consumption growth is bound to come down too.

## Labour market seems to have lost its momentum



Source: Thomson Reuters Datastream

Another negative for Portugal is the weaker external environment in its three most important export markets, Spain, France and Germany – and this is already impacting Portuguese exports.

Export growth was negative in the third quarter of 2018, and this will have more of an impact as exports are now more important for the Portuguese economy. Total exports of goods and services as a share of GDP has grown to 47% compared to 32% in 2010. A big part of this increase was due to vibrant tourism.

As weaker economic growth in tourists' home countries impacts the decision to travel, the number of tourists is bound to fall. Growth in the number of tourists coming to Portugal already seems to have stopped, but during the first ten months of 2018, there was a similar number of tourists in the same period in 2017.

All in all, we expect the economy to slow further. We forecast 1.6% growth in 2019 and 1.4% in 2020.

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