July 10th, 2019

Executive Summary

In the **second quarter of 2019**, NECEP estimates that **GDP increased 0.6% over the previous quarter** (q-o-q) and **1.8% year-on-year** (y-o-y) after 0.5% and 1.8% in the first quarter. Thus, the outlook for the Portuguese economy remained broadly stable in relation to the previous quarter, with most of the high frequency indicators validating the permanence of the improvement recorded at the beginning of the year. In particular, a further decline in the **unemployment rate** is expected from the previous 6.8% to **6.2%**, partly due to seasonal factors.

The good news is the **strong growth of investment**, which recovered 8.2% in the first quarter over the previous quarter and 11.6% over the same quarter of 2018. As a result of this sounding performance at the beginning of the year, investment will hardly grow by less than 10% in 2019, even in a scenario of moderate growth in the remaining quarters of the year.

Given the very favourable dynamics of investment, the central scenario of the GDP growth forecast for **2019** in maintained in the previous **2.1%.** Considering also the NECEP estimate for the **trend GDP growth** of the Portuguese economy, growth prospects for the next two years (**2020-2021**) also remained at **2.1%.** The forecast intervals are relatively broad and include the estimates advanced by the other official bodies that monitor the Portuguese economy.

The Portuguese economy continues to have **predominantly downside and short-run risks**. They are associated predominantly with the **moderate growth in the euro zone** this year, only 1.2% with 1.4% foresighted for the next two years, due to the unfavourable development of the European (and Portuguese) **industry**. The external context is characterised by trade risks and increasing volatility, namely of the price of oil with the sharpening of geopolitical tensions in the Persian Gulf area. The world economy also seems to be experiencing a less intense GDP growth, which may penalize Portuguese **exports**. In this way, **geopolitical, commercial and monetary risks** remain at an unusually high level.

However, there is **less pressure for rising interest rates**, not only because of the slowdown of the euro zone economy, but also because of the possibility of a cut in the target rate by the US Federal Reserve (Fed) later this year. The minimums attained by the Government bonds' yields in the last few weeks are good news for a very indebted economy like the Portuguese one, though the recent evolution of the **external balances**, with the return to still small negative balances, which advises redoubled prudence.

Forecasts from Católica Lisbon Forecasting Lab – NECEP

Region	Indicator	2019Q1 a)	2019Q2	2019	2020	2021
Portugal	GDP (% change on previous quarter)	0.5	0.6	-	-	-
	GDP (year on year % change)	1.8	1.8	2.1	2.1	2.1
	Private consumption (q-o-q % change)	0.3	0.1	-	-	-
	Private consumption (y-o-y % change)	2.5	2.4	2.3	2.1	2.2
	Unemployment rate (%)	6.8	6.2	6.3	6.0	5.6
	Consumer prices (annual % change)	1.0 b)	0.9 b)	0.6	1.2	1.3
Euro area	GDP (% change on previous quarter)	0.4	0.3	-	-	-
	GDP (year on year % change)	1.2	1.1	1.2	1.4	1.4

a) Official values (Statistics Portugal – INE/Eurostat); b) Values at the end of the quarter.