Consumption: how has it evolved and what does the future hold for Portugal?

- The consumption of Portuguese households is showing solid growth. The recovery of employment, income and confidence contributed, first, to the increase in purchases of durable goods and, then, to the consumption of other goods and services (such as leisure and personal care).
- However, consumption has experienced a gradual slowdown due to aggregate economic activity, in a trend that will continue in 2020. Should we be concerned?

Household consumption has been one of the drivers of Portugal's growth in the current expansion. However, as the economy has slowed, private consumption has also lost momentum. What lies behind this trend and what does it tell us about the outlook for 2020?

Consumption has slowed from growth rates of 3% in 2018 to 2.0% in Q4 2019 (latest available data). This is still a favourable figure and is supported by job creation and wage growth. In fact, the latest figures for the growth of consumption are broadly in line with the average observed since the beginning of the economic recovery (i.e. since the end of 2013). However, if we analyse the data carefully, we see a change in the composition of consumption over this period. As can be seen in the first chart, in the first few years of the recovery there was a significant contribution to growth from durable goods, thanks to the realisation of purchases that had been deferred during the recession. Later, this phase gave way to a greater contribution from non-durable goods and services, in a trend that has intensified in recent years.

The lower contribution from the durable goods component reflects the slowdown in sales of light vehicles (which represent around 47% of the total consumption of durable goods). The correspondence in time between the slowdown in durable goods and vehicle sales is clearly illustrated in the second chart. Also of note, however, is the resilience of the consumption of durable goods despite the greater weakness of the automotive sector.

The slowdown in vehicle purchases seems to reflect both a certain exhaustion of the demand pent up during the years of crisis and the postponement of purchasing decisions due to the uncertainties affecting the sector (such as technological transformation and environmental regulations). This second factor is particularly relevant for understanding the reduction in car sales in 2018 and 2019, and it may well continue to weigh on the sector in the near future. However, the gradual fading of these sources of uncertainty, coupled with the higher tax incentives for purchasing electric cars in 2020 (increasing from 3 million euros in 2019 to 4 million in 2020), will help to shore up vehicle purchases (in fact, the second chart already shows a recovery since the end of 2019).

In conclusion, the underlying trend for consumption remains positive, although the spread of the coronavirus health emergency to Europe poses a significant risk in the first few months of 2020. In the medium term, the strong growth rates observed in recent years are not expected to be maintained (also due to the lower savings rate, which could lead households to adopt more cautious behaviour), but income growth will continue to support household consumption. This outlook is supported by factors such as the increase in the minimum wage (of 5.8%, affecting some 22% of employees) and the unfreezing of public sector careers, the impact of which is visible in both wage growth and household disposable income.

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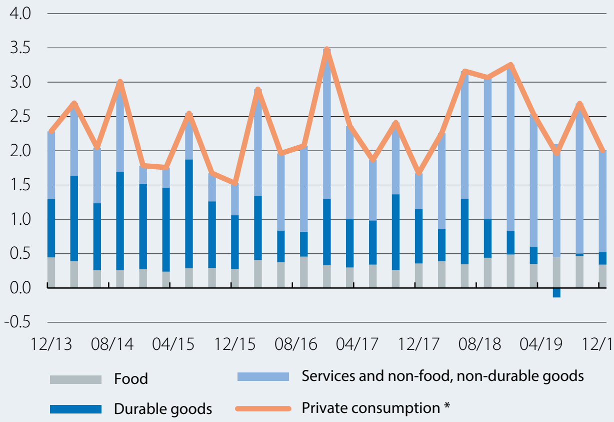
Portugal: contribution to the growth of private consumption

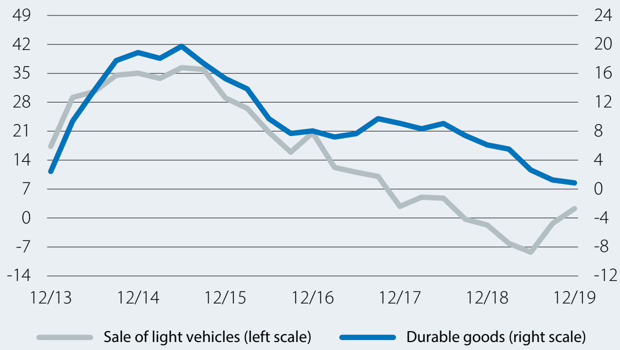
(p. p.)



Note: ** Year-on-year change.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: consumption of durable goods and vehicle sales

Average year-on-year change of the last 12 months (%) *Average year-on-year change of the last 12 months (%)*



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal and ACAP.*