Portugal: the outlook deteriorates

After a buoyant 2022, headwinds tarnish the outlook for 2023. The National Statistics Institute has revised GDP growth for the first half of 2022 upwards, virtually guaranteeing that growth for the year as a whole will exceed 6%. However, the latest available information shows signs of a weakening of economic activity: the coincident indicators show a slowdown, the daily economic activity indicator is down year-on-year in September, and the European Commission's economic sentiment indicator has fallen, approaching a level indicative of contraction. In a context marked by an energy crisis, high inflationary pressures and a tightening of monetary policy, we expect GDP to register a decline as early as Q4, with a significant slowdown in 2023, to around 0.5% for the year as a whole. In any case, the outlook remains subject to high uncertainty, largely associated with the supply of gas to Europe and the effectiveness of energy saving measures, although our baseline scenario does not envisage any periods of energy rationing.

Inflation gains momentum in September. The first CPI estimate for the month places it at 9.3% year-on-year (8.9% in August). This is in line with the new baseline scenario for this variable, which anticipates average inflation of 7.9% in 2022 and of 5.7% in 2023. Our forecast scenario suggests that the high inflation will be more persistent, due to the depreciation of the euro against the dollar, the continued tensions in logistics chains and the translation of the rise in energy prices.

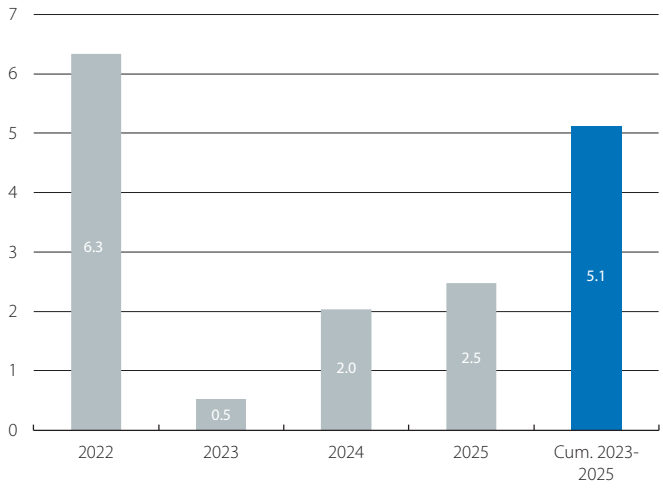
The labour market continues to perform well for the time being. Although the labour market is showing some resilience, and the unemployment rate remained at 6.0% in August, the weakening of economic activity and the deteriorating business conditions due to higher financing and energy costs will have a negative impact on hiring. In this scenario, we anticipate an increase in the unemployment rate, from an average of 5.9% in 2022 to 6.4% in 2023.

Energy costs exacerbate the current account deficit. In the first seven months of the year, the current account deficit reached 3,712 million euros, some 1,500 million more than in the same period of 2021. The rise in energy prices caused a deterioration in the energy balance, while the rise in the price of other imported goods also worsened the balance of non-energy goods; on the upside, the tourism surplus exceeded that of the same period last year by 6,000 million. We estimate that 2022 will end with a current account deficit of 2.7% of GDP, 1.6 points more than in 2021.

Home prices will slow considerably in 2023. Given the strong growth in real estate prices in the early part of 2022, we expect a significant increase for the year as a whole (+10.1%), but also a sharp slowdown in subsequent years (+1% in 2023 and 2.2% in 2024). Demand will slow in the face of the tightening of financial conditions, greater uncertainty and weak real household income. Nevertheless, there are two main factors which continue to support prices: the booming demand for housing among foreigners, mostly from outside the EU, and the scarce supply of new housing.

Portugal: GDP forecasts

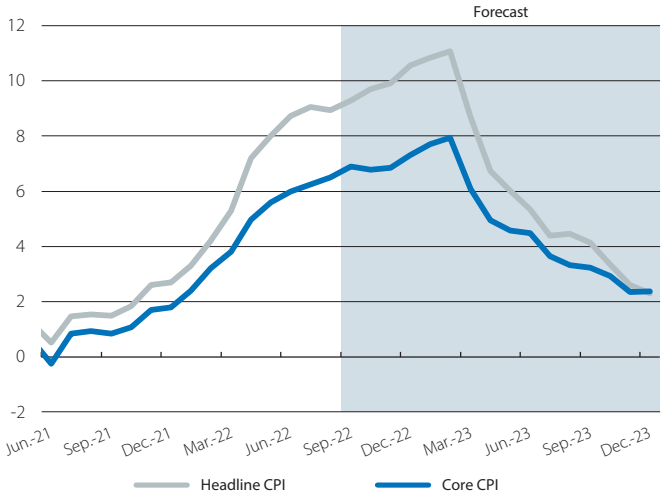
Annual growth (%)



Source: *CaixaBank Research, based on data from CaixaBank.*

Portugal: CPI

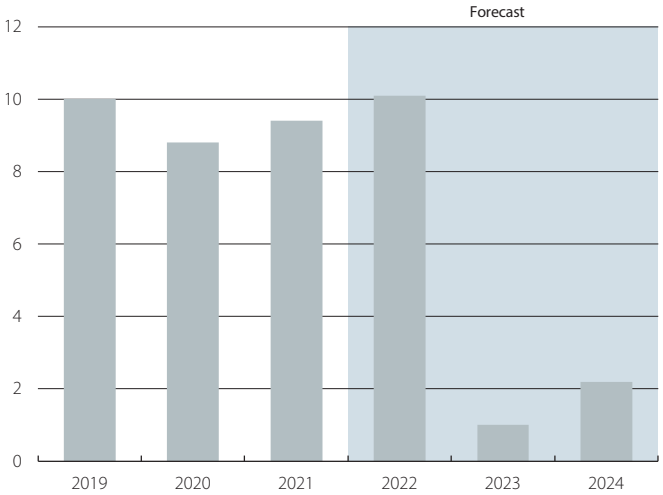
Year-on-year change (%)



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

Portugal: home price index

Change in the annual average (%)



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