

## The Portuguese economy: mixed signals in Q4 2022

The indicators for Q4 2022 show mixed behaviour and suggest that the economy may have avoided a contraction.

The economic activity indicator slowed in October due to the contraction in industrial production, while the services sector continued to register strong growth. Nevertheless, sentiment among economic agents improved in November and stabilised in December. Confidence among consumers improved and household consumption indicators actually showed continued growth in the quarter. This was particularly the case for durable goods, with vehicle sales in October and November exceeding the levels of Q3 by 3% and those of Q4 2021 by 20%. This surge in consumption will be reflected in a further reduction in the surplus savings accumulated during the pandemic. Indeed, in Q3 households used around 2.2 billion euros of the surplus savings accumulated during the lockdowns, reducing them to around 5.2 billion euros (2% of GDP). In the same period, the savings rate fell to 5.1% of disposable income, 0.9 pps lower than in Q2.

For 2023, a considerable slowdown in economic activity is anticipated. In addition to the signs that households' pent-up savings are running out – a critical development for the price rally to be brought under control – financing costs are rising and economic activity in Portugal's main trading partners is weakening. In this regard, the Bank of Portugal expects GDP to grow by 1.5% in 2023 (higher than BPI Research's forecast, which still stands at a conservative 0.5%), after growing by 6.8% in 2022. Indeed, the possibility of a contraction cannot be ruled out if the risks related to gas supplies to Europe end up materialising.

Inflation ends 2022 with an average of 7.8%. In the final month of the year, headline inflation once again showed signs of slowing down and dropped 3 percentage points to 9.6%, driven by the reduction in energy prices. This trend is expected to continue throughout 2023, in line with weaker demand. However, this correction will be gradual, since the higher energy prices continue to affect the prices of other goods and services – as reflected in core inflation – and because there will continue to be upward pressure on energy and food prices with the protracted war in Ukraine. Thus, we expect inflation to remain above 5% in 2023.

The housing sector shows the first signs of a slowdown. This is mainly reflected in the decrease in the number of home sales in Q3 2022 compared to the previous quarter (-3.2%) and in the trend in new home loans, which in October fell once again in year-on-year terms for the fourth consecutive month (-13.6%).

### Portugal: macroeconomic projections

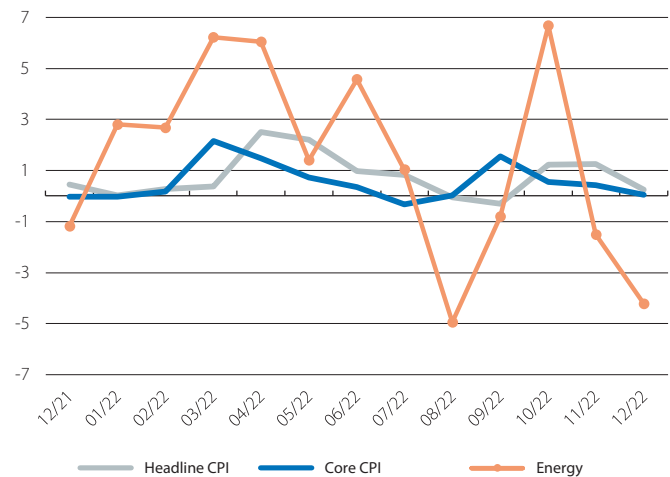
		2021	2022	2023	2024	Cumul. 2022-2024
<b>GDP</b>	BoP Dec-22	5.5	6.8	1.5	2.0	10.6
Annual change (%)	BoP Dec-22 (adverse)		6.8	-0.4	0.3	6.7
	BPI Dec-22		6.7	0.5	2.0	9.4
<b>Unemployment rate</b>	BoP Dec-22	6.6	5.9	5.9	5.9	-0.7
Annual average (%)	BoP Dec-22 (adverse)		5.9	7.1	7.9	1.3
	BPI Dec-22		5.9	6.4	6.1	-0.5
<b>Inflation</b>	BoP Dec-22	1.3	8.1	5.8	3.3	18.1
Annual average (%)	BoP Dec-22 (adverse)		8.1	8.0	5.1	22.7
	BPI Dec-22		7.9	5.7	2.2	16.6

Note: BoP refers to the Bank of Portugal.

Source: CaixaBank Research, based on data from the Bank of Portugal and internal forecasts.

### Portugal: CPI

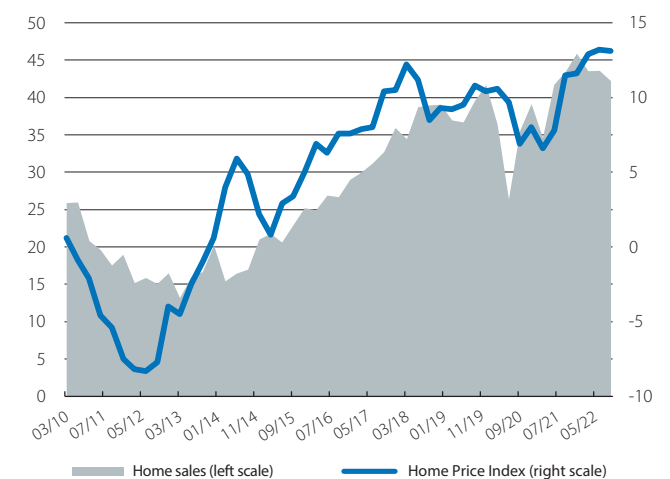
Monthly change (%)



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

### Portugal: home sales and Home Price Index

(Thousands) Year-on-year change (%)



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