The fall in foreign demand weighs down growth in Portugal

The National Statistics Institute confirms a 0.2% contraction in GDP in Q3 and a slowdown in year-on-year growth to 1.9%. The fall in GDP was due to a negative contribution to quarter-on-quarter growth (–1.3 pps) from foreign demand, as a result of the decline in exports (–2.3%), both in the case of goods (–1.4%) and services (–3.9%). In the former case, this is a one-off decline due to the two-week production stoppage at Autoeuropa. Domestic demand, meanwhile, improved its contribution to GDP to 1.0 pp (0.4 pps of which comes from the increase in inventories), thanks to the growth of gross fixed capital formation (0.6%) and consumption, both private (0.5%) and public (0.9%).

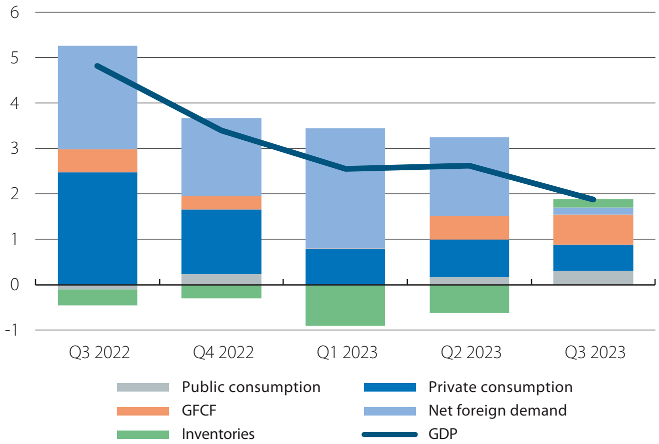
Inflation, in sharp decline. The latest data are very encouraging: the preliminary estimate for November indicates a headline inflation of 1.6%; we have to go back to October 2021 to find a rate below 2%. Although the November figure is partly explained by the base effect in food prices, the inflation decline extends across the entire basket of components (the core components fell by 0.2% monthly). While we expected negative inflation rates in energy, Brent prices have fallen more sharply than expected, even after the upheaval triggered by the conflict in the Middle East. Consequently, we expect average inflation in 2023 to be an improvement on our current forecast (4.6%).

The labour market loses momentum in the closing stages of the year. Job creation moderated in October to a year-on-year rate of 1.1%, with a quarter-on-quarter fall of 0.2%. The unemployment rate, meanwhile, increased by 0.1 pp to 6.7%, although it remains at historically low levels and in line with the 2019 average. The number of layoffs surpassed 10,400 in October, the highest number since May 2022 and above the October average for the last five pre-pandemic years (879 people).

The current account balance continues to recover. In the first nine months of the year it accumulated a surplus of 3,943 million euros, an improvement of 6,890 million compared to the previous year. This was thanks to the lower deficit in the energy balance (due to the drop in prices) and the greater surplus in services, including both tourism and other sectors. As a percentage of GDP, we estimate that the current account will register a surplus in this period of 2.0%.

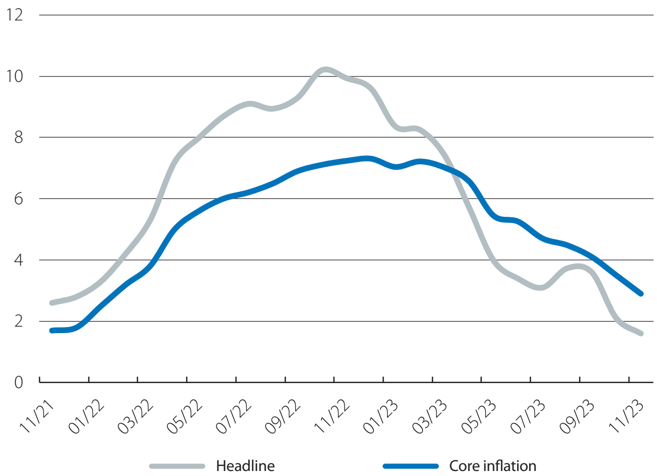
Mixed signals from the tourism sector in Q3. In the first nine months of 2023, total tourist accommodation revenues exceeded 4,800 million euros, the highest recorded in that period, and in August overnight stays broke a new record, at over 10 million. However, resident tourism is showing weaker behaviour, with a stagnation in the number of tourists in Q3 and a 4% year-on-year decrease in overnight stays by resident tourists. For 2023 as a whole, we expect the main tourism indicators to surpass the pre-pandemic levels, while for 2024 we anticipate more modest growth, in line with the economic slowdown in the main source markets.

Portugal: contribution to year-on-year GDP growth by component
Year-on-year change (%) and pps



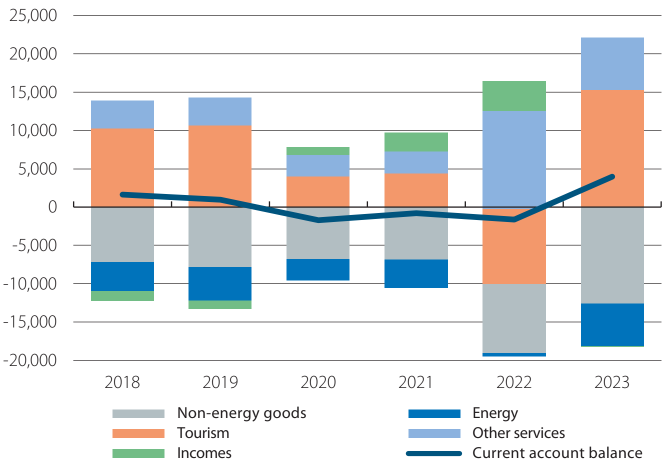
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: CPI
Year-on-year change (%)



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

Portugal: current account balance
(EUR millions)



Note: *2023 data up to September.*
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*