

GDP

Good Start to 2004

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- 1Q04 GDP figures were quite positive. The Portuguese economy grew 0.1% relative to the same period in 2003. On a quarter-on-quarter annualised (QoQa) basis, GDP rose 2.4%, at the lower end of estimates. We expect the economy to show a gradual recovery and reiterate our FY2004E GDP growth forecast of 1.0%.
- All the major components of domestic demand (except private consumption) made a combined positive contribution to GDP growth of 0.7% QoQa. Net external demand contributed negatively, due to stronger imports.
- Public expenditure was cut further, as the government made advances in containing the fiscal deficit.
- Within private consumption, which grew 1.6% YoY, there was a significant acceleration in both current consumption (1.8%) and durable goods consumption (2.1%). The increase in durable goods is more significant, as it has been negative since 1Q01.
- Investment also posted its first YoY increase since 1Q02. The improvement was concentrated in the construction sector, mainly in machinery and equipment. Growth in the construction sector is consistent with the active real estate market, and the pick-up in machinery and equipment is important as it shows an improvement in the tradable sector.
- Exports increased by 3.8% YoY, a positive surprise when considering that preliminary international trade data was pointing to a possible fall. Labour costs have decelerated, rising below the EU-15 average (and wage increases negotiated so far in 2004 have also decelerated to a new minimum of 2.5%), therefore lifting the external competitiveness of Portuguese exports. On the other hand, Portugal's main trading partners, namely Spain, have seen an acceleration of growth in 1Q04.
- Imports increased by 5% YoY, resulting in a negative contribution to GDP growth from net external demand. However, the increase in imports reflects two factors: (1) the recovery in domestic demand, which has a large import component; and (2) the increase in investment in the machinery and equipment sector, which also stems from imports.

Portugal – GDP Growth (YoY)											
(% YoY)	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04
GDP	0.9	1.8	1.8	1.9	-0.1	-1.6	-1.4	-2.2	-0.9	-0.4	0.1
Private consumption	1.2	0.5	1.7	0.4	0.5	0.0	-1.5	-1.3	-0.3	0.9	1.6
Public expenditure	3.3	3.4	3.4	3.2	2.6	1.6	0.6	-0.4	-1.1	-1.5	-1.5
Investment	2.6	2.7	2.0	-2.6	-8.4	-11.1	-13.4	-12.0	-6.8	-5.6	0.6
Exports	-0.9	0.8	-1.6	4.8	5.3	0.6	5.9	0.4	3.9	5.6	3.8
Imports	2.2	0.4	-0.3	-0.3	0.6	-2.3	-2.5	-3.9	0.2	2.7	5.0

Source: INE (National Statistics Institute).

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Key to Investment Codes¹

Buy	Upside of more than 20%.
Hold	Upside of 15%-20%.
Underweight	Upside of less than 15%.

(1) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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