



MARKETBEAT

PORTUGAL ECONOMIC SNAPSHOT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



Q2 2010

GDP REBOUNDS BUT OUTLOOK MODERATES

GDP growth has been volatile lately, with the first quarter seeing a rebound to quarterly growth of 1.1%, following a decline at the end of 2009. Nonetheless, the economy faces a number of headwinds and the consensus outlook for growth over the next few years has been revised down.

EXPORTS CONTINUE TO PROSPER FOR NOW

One bright spot could be a continuation of the increase in the strong rise in exports seen since the start of the year, which could in turn lend further support to industrial output. Production has been rising since the start of the year, and after a sharp decline in March new orders were up by 17% over the year to April.

INVESTMENT TO COME UNDER PRESSURE

Countering the increase in external demand has been the need for public spending cuts, which is beginning to affect investment in major infrastructure projects, such as the planned high speed rail link between Caia and Lisbon. At the same time, private investors are also scaling back plans as confidence remains low.

CONSUMER SPENDING GROWTH TO FADE

While consumer spending saw something of bounce in the first quarter, the outlook remains challenging. Sentiment is weak, and the unemployment rate has edged up in recent months, reaching 10.8% in April. The benign inflationary outlook is one positive, helping to preserve spending power, but household incomes are likely to be eroded by tighter fiscal policies over the next year.

PUBLIC DEBT TO BE CUT OVER FOUR YEARS

Following events in Greece, Portuguese public finances have come under increasing scrutiny from financial markets. In March the government unveiled its plans to reduce the budget deficit in accordance with the rules of Eurozone membership. Much of the reduction will come from spending cuts over the next four years, although there will be a new 45% income tax bracket for those earning over €150,000 per year and a 20% tax on capital gains from share dealing. The government must now demonstrate the credibility of its plan, that in the long term these measures could contribute to a stronger recovery of the Portuguese economy.

OUTLOOK

Growth forecasts have been revised downwards in recent months as prospects for the domestic economy have weakened. External trade is therefore likely to be the main engine of growth for some time to come.

MARKET OUTLOOK

GDP:	Slow economic growth expected in 2010.	↗
INFLATION:	A gradual rise in inflation is expected.	➡
INTEREST RATE:	The ECB is unlikely to change interest rates in the short term.	➡
EMPLOYMENT:	Unemployment still rising.	↗

ECONOMIC SUMMARY

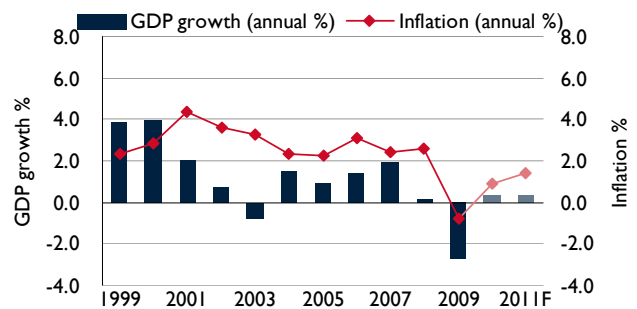
Economic Indicators*	2007	2008	2009	2010 ^f	2011 ^f
GDP Growth	1.8	0.0	-2.7	0.3	0.3
Consumer Spending	1.3	1.7	-0.8	0.2	-2.2
Investment	3.0	-0.7	-11.9	-3.6	-1.1
Industrial Production	1.9	-3.5	-8.4	0.8	1.0
Unemployment Rate (%)	8.0	7.6	9.5	11.2	11.8
Inflation	2.4	2.6	-0.8	0.9	1.1
US\$/€ (average)	1.37	1.47	1.39	1.18	1.05
US\$/€ (end-period)	1.46	1.39	1.43	1.14	1.10
Interest Rates: 3-month (%)	4.3	4.8	1.2	0.8	1.4
Interest Rates: 10-year (%)	4.3	4.1	4.2	5.4	6.0

*annual % growth rate unless otherwise indicated. ^f estimate ^f forecast
Source: Consensus Economics Inc., Economist Intelligence Unit

ECONOMIC & POLITICAL BREAKDOWN

Population	10.7 million (2009)
GDP	US\$ 226.0 billion (2009)
Public sector balance	-6.4% of GDP (2009)
Parliament	Socialist Party (PS)
President	Aníbal Cavaco Silva
Prime Minister	José Sócrates
Election dates	January 2011 (presidential) 2013 (legislative)

ECONOMIC ACTIVITY



Source: Cushman & Wakefield LLP, 2010

For further information, please contact our Research Department:

Cushman & Wakefield LLP
43-45 Portman Square
London W1A 3BG

www.cushmanwakefield.com

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