

FORECASTS AT A GLANCE

30 November 2018



BERENBERG
PARTNERSHIP SINCE 1590

Ongoing upswing despite trade tensions, Italy and Brexit

Outlook: Solid growth in US, temporary dent in Europe, emerging markets mixed

- **US:** Healthy momentum supported by tax and regulatory reforms
- **China:** Slower growth, monetary stimulus
- **Japan:** Sustained growth, wages and inflation tilt up
- **Eurozone:** Positive fundamentals – but a cocktail of risks restrains growth
- **UK:** Upside risks to growth if the UK can pass a deal

Policy: Low inflation equals slow exit from ultra-loose monetary policies

- **Central banks:** Fed to slow rate hikes, BoE hikes twice in 2019, ECB in late 2019
- **Fiscal policy:** US stimulus in 2018, small stimulus in Eurozone, tighter in UK
- **Structural reforms:** Deregulation in US, progress in France, reversal in Italy?

Two big risks: Political populism and protectionism

- **Key challenge:** Containing the populist threat to open societies and global trade. The risk of creeping protectionism now looms larger than before

Forecast changes

- **Italian GDP:** We lower our 2018 and 2019 call by 0.1ppt each

CONTENTS

US: Solid growth, fiscal boost	2
China: Moderating growth	3
Japan: Solid economic gains	4
UK: Brexit constrains supply	5
Eurozone: Dent to growth	6
Germany: Strong fundamentals	7
France: Golden decade ahead	8
Italy: Serious political risks	9
Spain: Reform success	10
Portugal: Enjoying the upswing	11
Forecast changes	12
Berenberg versus consensus	12
Key financial forecasts	12

	Weight	GDP				Inflation				Unemployment				Fiscal balance			
		2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
World*	100.0	2.9	2.9	2.8	2.8												
US	24.3	2.2	2.9	2.8	2.4	2.1	2.4	2.2	2.4	4.4	3.9	3.7	3.6	-3.6	-4.1	-4.5	-4.5
China	15.0	6.9	6.6	6.3	6.1	1.6	2.1	2.2	2.1	3.9	3.8	3.8	3.8	-4.0	-4.1	-4.1	-4.2
Japan	6.1	1.7	0.9	1.0	1.1	0.5	1.0	1.2	1.4	2.8	2.4	2.3	2.3	-4.2	-3.8	-3.4	-2.8
India	3.3	6.4	7.5	7.9	7.6	3.1	4.0	4.8	4.5					-4.0	-3.6	-3.3	-3.0
Latin America	6.9	1.8	2.4	2.7	3.0	3.3	5.5	7.5	7.0					-6.8	-5.8	-5.0	-4.8
Europe	25.4	2.5	2.0	1.6	1.8												
Eurozone	15.8	2.5	1.9	1.4	1.7	1.5	1.8	1.6	1.7	9.1	8.3	7.8	7.4	-0.9	-0.7	-0.8	-0.7
Germany	4.6	2.5	1.5	1.3	1.7	1.7	1.9	1.7	1.8	3.8	3.4	3.3	3.2	1.0	1.7	1.4	1.1
France	3.2	2.3	1.5	1.4	1.8	1.2	2.1	1.6	1.9	9.4	9.0	8.3	7.6	-2.7	-2.7	-2.8	-2.4
Italy	2.4	1.6	0.9	0.6	1.1	1.3	1.3	1.4	1.4	11.3	10.6	10.3	9.9	-2.4	-2.1	-2.9	-2.9
Spain	1.6	3.0	2.5	2.2	2.2	2.0	1.8	1.5	1.8	17.2	15.3	14.1	13.1	-3.1	-2.8	-2.6	-2.3
Portugal	0.3	2.8	2.2	1.9	2.0	1.6	1.2	1.5	1.8	9.0	7.0	6.4	5.9	-3.0	-1.1	-1.1	-1.1
Other Western Europe																	
UK	3.3	1.7	1.3	2.0	1.8	2.7	2.5	2.2	2.2	4.4	4.1	4.0	3.9	-2.7	-1.6	-1.6	-1.2
Switzerland	0.8	1.1	1.9	1.8	1.7	0.5	0.7	1.0	1.0	3.2	3.1	3.0	2.9	1.1	0.4	0.2	0.2
Sweden	0.7	2.5	3.1	2.5	2.2	1.8	1.9	2.0	2.1	6.7	6.4	6.1	5.9	1.3	0.6	0.5	0.4
Eastern Europe																	
Russia	1.9	1.5	1.9	1.8	1.7	3.7	2.9	3.8	4.0	5.2	4.9	5.0	5.0	-1.7	1.3	0.7	0.3
Turkey	1.1	7.4	4.5	1.0	2.5	11.1	16.0	17.0	10.0	10.9	10.9	11.0	11.0	-2.4	-3.0	-2.9	-2.9

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support.

*At current exchange rates, not purchasing power parity. PPP estimates give more weight to fast-growing emerging markets and inflate global GDP.

Weights based on IMF World Economic Outlook statistics 2017 GDP figures. Source: Berenberg

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US: Economic momentum supported by deregulation and tax reform

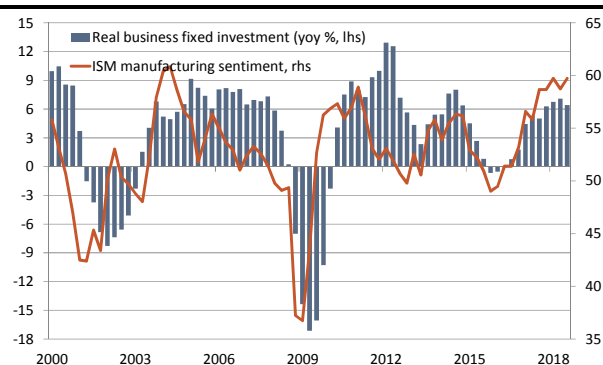
Key drivers of forecast

- **US economic growth momentum sustained**
- **Real consumption is rising solidly**, reflecting healthy gains in real disposable incomes and household net worth, and elevated confidence
- **Business fixed investment is being supported** by favourable taxes and regulations, strong corporate profit growth and business optimism
- **Trade volumes, so far, little affected** by new tariffs
- **Monetary policy:** The Fed will slowly normalise interest rates and pause in 2019

Risks: Balanced

- **Upside:** Boost from fiscal and regulatory reforms
- **Downside:** Confidence harmed by stock market correction or trade

US manufacturing sentiment remains elevated



Quarterly data. Source: Institute for Supply Management, Bureau of Economic Analysis

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.9	2.9	0.0	2.8	2.6	0.2
Inflation	2.4	2.5	-0.1	2.2	2.3	-0.1
Unemployment	3.9	3.9	0.0	3.7	3.6	0.1

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.2	2.9	2.8	2.4	2.6	2.9	3.0	3.1	3.2	2.8	2.6	2.5	2.5	2.5	2.3	2.3
	% q/q					0.5	1.0	0.9	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.5	0.6
	%q/q ann.					2.2	4.2	3.5	2.6	2.4	2.6	2.6	2.5	2.5	2.3	2.1	2.3
Private Consumption	% y/y	2.5	2.7	2.8	2.0	2.4	2.6	3.0	3.0	3.5	3.0	2.6	2.1	2.0	2.0	2.0	2.0
	% q/q					0.1	0.9	0.9	1.0	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.5
Residential Investment	% y/y	3.3	0.0	1.1	4.3	0.2	1.3	0.8	-2.2	-0.5	0.3	1.7	3.0	3.3	4.2	4.6	5.0
	% q/q					-0.9	-0.3	-0.7	-0.4	0.8	0.5	0.7	0.9	1.2	1.3	1.1	1.3
Non-Residential Investment	% y/y	5.3	6.8	5.6	4.7	6.7	7.1	6.8	6.7	5.5	4.9	5.8	6.1	5.6	4.9	4.3	4.0
	% q/q					2.8	2.1	0.6	1.1	1.6	1.5	1.4	1.4	1.2	0.8	0.9	1.0
Government Spending	% y/y	-0.1	1.7	2.4	0.9	0.7	1.3	2.3	2.6	2.8	2.7	2.4	1.7	1.3	0.9	0.8	0.6
	% q/q					0.4	0.6	0.6	0.9	0.6	0.6	0.4	0.3	0.1	0.2	0.2	0.1
Final Dom Demand ¹	% y/y	2.5	3.0	3.1	2.3	2.6	3.0	3.3	3.2	3.5	3.2	3.0	2.6	2.5	2.3	2.2	2.2
	% q/q					0.5	1.0	0.8	0.9	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.6
Net Exports ¹	% y/y	-0.4	-0.3	-0.4	0.0	-0.3	0.0	-0.6	-0.4	-0.5	-0.8	-0.3	-0.1	0.0	0.0	0.0	0.0
	% q/q					0.0	0.3	-0.6	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ^{1,5}	% y/y	0.0	0.1	0.0	0.0	0.2	-0.3	0.1	0.2	0.0	0.4	-0.3	-0.1	0.0	0.0	0.0	0.0
	% q/q					0.1	-0.4	0.7	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	USD bn	-449	-454	-480	-478	-122	-101	-114	-117	-119	-120	-120	-120	-120	-119	-119	-120
	% of GDP	-2.3	-2.2	-2.2	-2.1	-2.4	-2.0	-2.2	-2.2	-2.3	-2.2	-2.2	-2.2	-2.2	-2.1	-2.1	-2.1
Industrial Production ²	% y/y	1.6	4.0	3.6	2.9	3.4	3.5	5.1	3.9	4.3	3.7	3.3	3.1	3.0	2.8	2.9	2.8
	% q/q					0.6	1.4	1.1	0.8	0.9	0.9	0.7	0.6	0.8	0.7	0.8	0.5
Unemployment Rate ²	%	4.4	3.9	3.7	3.6	4.1	3.9	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.6
CPI ²	% y/y	2.1	2.4	2.2	2.4	2.3	2.6	2.6	2.3	2.0	2.2	2.2	2.5	2.5	2.4	2.4	2.2
Core PCE ²	% y/y	1.6	1.9	2.1	2.2	1.7	1.9	2.0	1.8	1.9	2.0	2.2	2.3	2.2	2.2	2.2	2.3
Federal Govt. Balance ^{3,6}	% of GDP	-3.6	-4.1	-4.5	-4.5												
General Govt. Debt	% of GDP	107.8	108.2	109.6	111.0												
Fed Funds Rate ⁴	%	1.50	2.50	3.00	3.00	1.75	2.00	2.25	2.50	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00

¹ Contribution to GDP growth ² Period averages ³ Federal budget balance ⁴ End of period

⁵ Annual data refers to yoy change and quarterly data refers to qoq change

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⁶ Differs from Maastricht definition used for European countries. Under Maastricht, the balance would be -5.0% in 2017 (European Commission)

China: moderating growth despite monetary stimulus

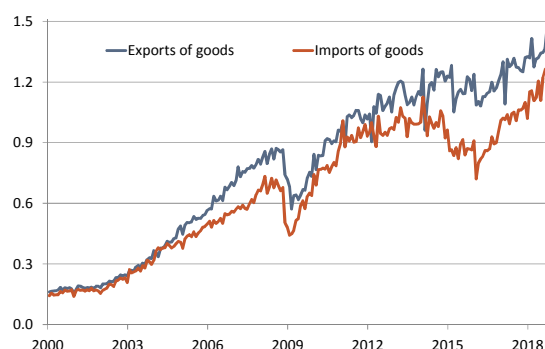
Key drivers of forecast

- **Slower than desired growth.** China's domestic demand has slowed more than targets
- **Potential growth decelerating** but China's leaders target real GDP too high
- **PBoC and China Banking Regulatory Commission ease monetary and credit conditions to stimulate economy**
- **The government will manage high private debt:** Systematic defaults will be avoided
- **Import and export volumes little affected by trade policy skirmishes**

Risks: Downside for growth; policy blunders?

- **Policy risks:** Escalating trade policy tensions harm China more than US; policy mistakes would jar markets

China's trade remains solid



In trillions Yuan. Source: China Customs, Haver Analytics

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	6.6	6.6	0.0	6.3	6.2	0.1
Inflation	2.1	2.2	-0.1	2.2	2.4	-0.2
Unemployment	3.8	4.0	-0.2	3.8	4.0	-0.2
Fiscal balance	-4.1	-3.6	-0.6	-4.1	-3.7	-0.4

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	6.9	6.6	6.3	6.1	6.8	6.7	6.5	6.4	6.3	6.3	6.2	6.2	6.2	6.1	6.0	5.9
	% q/q					1.5	1.7	1.6	1.5	1.4	1.6	1.5	1.5	1.4	1.5	1.4	1.4
	%q/q ann.					6.1	7.0	6.6	6.1	5.8	6.7	6.3	6.2	5.8	6.3	5.8	5.8
Retail Sales ¹	% y/y	10.5	9.2	9.2	9.0	10.1	9.0	9.0	8.8	9.0	8.9	9.4	9.3	9.1	9.0	8.9	8.9
Fixed Asset Investment ²	% y/y	8.0	6.3	6.2	5.8	7.6	6.3	5.4	5.8	6.3	6.3	6.2	6.0	6.0	5.9	5.8	5.6
Industrial Production	% y/y	6.5	6.3	5.7	5.3	6.8	6.6	6.0	5.9	5.8	5.8	5.7	5.6	5.4	5.3	5.3	5.2
Exports ³	% y/y	7.8	13.1	7.7	5.0	15.0	11.3	12.2	13.9	8.3	8.1	7.5	6.8	5.4	4.8	5.1	4.7
Imports ³	% y/y	16.5	19.0	8.6	5.4	18.4	20.8	21.4	15.7	9.2	9.4	8.1	7.7	4.9	5.3	5.5	5.8
Current Account Balance	\$ bn	165	31	133	115	-17	-4	3	49	11	24	18	80	-4	14	15	90
	% of GDP	1.3	0.2	0.8	0.6												
Unemployment Rate	%	3.9	3.8	3.8	3.8	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
CPI	% y/y	1.6	2.1	2.2	2.1	2.2	1.8	2.3	2.3	2.1	2.2	2.2	2.2	2.0	2.1	2.1	2.1
General Govt Balance	% of GDP	-4.0	-4.1	-4.1	-4.2												
General Govt Debt	% of GDP	47.8	47.6	47.4	47.3												

¹ Nominal ² Year-to-date over same period in previous year ³ Growth rates based on monthly value data in USD

Japan: sustained economic growth

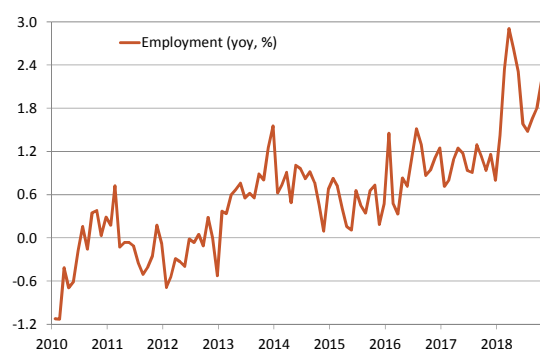
Key drivers of forecast

- **Sustained growth to be driven by employment and productivity**
- **Rising labour force participation rates of women and foreign workers** boost employment amid tight labour markets
- **Wages and inflation are rising**
- **Exports vulnerable because of slowing growth in China**
- **Bank of Japan** to continue its quantitative and qualitative monetary easing and its yield curve control (YCC) policy that suppresses bond yields

Risks: Biggest risk is a significant slowdown in China, Japan's largest trading partner

- **Upside:** Rising real wages boost consumer purchasing power; positive business confidence; infrastructure build for 2020 Olympics
- **Cyclical risk:** VAT hike scheduled for October 2019 may sidetrack economic momentum
- **Long-term risk:** Negative demographics and high debt weigh heavily on longer-run potential

Strong employment growth



Change of employment (yoy in %), monthly data. Source: Japan Labor Force Survey

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.9	1.0	-0.1	1.0	1.0	0.0
Inflation	1.0	1.0	0.0	1.2	1.1	0.1
Unemployment	2.4	2.4	0.0	2.3	2.4	-0.1
Fiscal balance	-3.8	-3.9	0.1	-3.4	-3.7	0.3

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.7	0.9	1.0	1.1	1.1	1.4	0.4	0.6	1.1	0.6	1.2	1.0	1.0	1.0	1.1	1.3
	% q/q					-0.3	0.8	-0.3	0.4	0.2	0.3	0.3	0.1	0.2	0.3	0.4	0.3
	%q/q ann.					-1.1	3.0	-1.2	1.5	1.0	1.3	1.2	0.6	1.0	1.2	1.6	1.2
Private Consumption	% y/y	1.0	0.4	0.9	0.5	0.2	0.0	0.6	0.7	1.1	0.7	1.0	0.6	0.5	0.5	0.5	0.7
	% q/q					-0.2	0.6	-0.1	0.4	0.2	0.2	0.2	0.0	0.1	0.2	0.3	0.2
	% y/y	0.4	0.5	0.6	0.5	0.5	0.3	0.4	0.5	0.7	0.6	0.5	0.6	0.5	0.5	0.6	0.5
Government Consumption	% q/q					0.0	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.2	0.1
	% y/y	2.8	2.8	2.3	1.9	1.8	3.7	2.6	3.4	3.5	1.6	2.3	1.8	1.9	1.8	1.9	1.9
	% q/q					0.3	2.3	-0.1	0.8	0.4	0.5	0.5	0.4	0.5	0.4	0.6	0.4
Private Investment	% y/y	1.2	-2.1	-0.8	0.3	1.4	-3.7	-3.5	-2.7	-2.1	-1.7	0.3	0.3	0.4	0.3	0.3	0.3
	% q/q					-0.5	-0.3	-1.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
	% y/y	1.2	0.7	1.0	0.8	0.6	0.6	0.7	1.0	1.3	0.8	1.1	0.8	0.8	0.7	0.8	0.8
Final Domestic Demand ¹	% q/q					-0.1	0.8	-0.1	0.4	0.2	0.3	0.2	0.1	0.2	0.2	0.3	0.2
	% y/y	0.5	0.0	0.0	0.3	0.2	0.4	-0.3	-0.2	-0.3	-0.1	0.0	0.2	0.2	0.3	0.3	0.4
	% q/q					0.1	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Net Exports ¹	% y/y	0.0	0.1	0.0	0.0	0.3	0.4	0.0	-0.2	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
	% q/q					-0.2	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	JPY trn	22.0	21.0	19.8	18.6	5.9	5.0	5.7	4.5	5.6	4.7	5.4	4.2	5.3	4.4	5.1	3.9
Current Account Balance	% of GDP	4.0	3.8	3.5	3.2												
	% y/y	2.9	1.0	2.5	2.3	2.0	1.3	-0.1	0.8	2.3	1.7	3.8	2.2	2.5	2.4	2.3	2.1
	% q/q					-1.1	1.2	-1.4	2.1	0.5	0.6	0.6	0.6	0.7	0.5	0.5	0.4
Unemployment Rate ²	%	2.8	2.4	2.3	2.3	2.5	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
	% y/y	0.5	1.0	1.2	1.4	1.3	0.6	1.1	0.9	0.8	1.2	1.2	1.5	1.6	1.5	1.4	1.2
	% of GDP	-4.2	-3.8	-3.4	-2.8												
General Govt. Balance	% of GDP	199	200	199	197												
	% of GDP																

¹ Contribution to GDP growth ² Period averages

UK: Brexit hurts

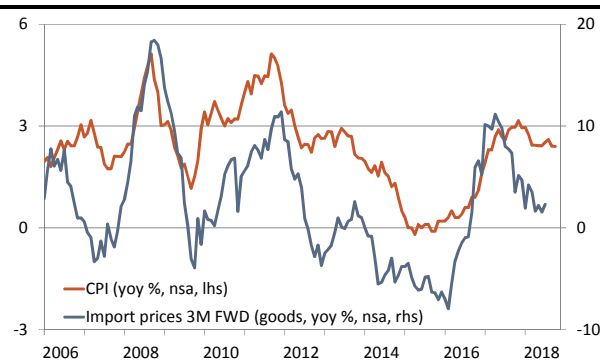
Key drivers of forecast

- **Modest impact of Brexit vote on demand:** Uncertainty is weighing on households and business, causing less robust spending and cautious investment growth until the post-Brexit outlook becomes clearer
- **Inflation:** Higher import prices caused by the Brexit-related sterling devaluation stoked inflation in 2017; expect inflation to decline gradually in 2018 and 2019
- **Stronger medium-term GDP growth:** If the UK avoids a no deal hard-Brexit, the ongoing recovery in real wages can underpin a pick-up in real private consumption
- **BoE raises rates gradually:** Domestic inflationary pressures are slowly building. We look for another 25bp rate hike in May 2019

Risks: Balanced

- **Downside:** A hung parliament and other domestic political risks add to Brexit uncertainty, potentially undermining the UK's chances of passing a deal on Brexit
- **Upside:** Wage growth could surprise to the upside in response to tight labour market conditions

UK: imported inflation seems to have peaked



Monthly data. Source: ONS, Berenberg calculations. 3M FWD: three months forward. Lhs: left-hand side. Rhs: right-hand side

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.3	1.3	0.0	2.0	1.5	0.5
Inflation	2.5	2.5	0.0	2.2	2.1	0.1
Unemployment	4.1	4.1	0.0	4.0	4.0	0.0
Fiscal balance	-1.6	-1.7	0.1	-1.6	-1.6	0.0

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.7	1.3	2.0	1.8	1.1	1.2	1.5	1.5	1.9	2.0	2.0	2.2	2.1	2.0	1.6	1.3
	% q/q					0.1	0.4	0.6	0.4	0.4	0.5	0.6	0.5	0.4	0.4	0.3	0.3
	%q/q ann.					0.4	1.6	2.5	1.7	1.7	2.2	2.6	2.1	1.6	1.5	1.1	1.2
Private Consumption	% y/y	1.8	1.5	2.0	2.2	1.3	1.4	1.6	1.6	1.6	1.9	2.1	2.4	2.4	2.3	2.2	2.0
	% q/q					0.5	0.3	0.5	0.3	0.5	0.6	0.7	0.7	0.5	0.5	0.5	0.5
Government Consumption	% y/y	-0.1	0.5	0.7	0.5	0.7	0.0	0.8	0.7	0.6	1.1	0.7	0.6	0.6	0.6	0.5	0.5
	% q/q					0.2	-0.4	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Investment	% y/y	3.3	0.2	4.8	3.7	1.7	-0.6	0.0	-0.4	2.1	4.6	5.8	6.8	5.7	4.3	2.7	2.0
	% q/q					-1.0	-0.5	0.8	0.2	1.5	2.0	2.0	1.1	0.5	0.6	0.5	0.4
Final Domestic Demand ¹	% y/y	1.7	1.1	2.2	2.2	1.3	0.8	1.2	1.1	1.5	2.2	2.4	2.8	2.7	2.3	2.0	1.7
	% q/q					0.2	0.1	0.6	0.3	0.6	0.8	0.8	0.6	0.4	0.4	0.4	0.4
Net Exports ¹	% y/y	0.7	0.3	-0.2	-0.5	0.8	0.1	0.4	-0.1	-0.1	0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6
	% q/q					-0.1	-0.6	0.8	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Stockbuilding ¹	% y/y	-0.5	0.0	0.0	-0.1	-1.0	0.2	0.0	0.7	0.5	-0.3	0.1	-0.2	0.0	0.1	0.1	0.2
	% q/q					0.1	0.7	-0.4	0.3	-0.1	-0.1	0.0	0.0	0.1	0.1	0.0	0.0
Current Account Balance	GBP bn	-76.5	-69.3	-67.5	-65.5	-15.7	-20.3	-16.5	-16.8	-16.8	-16.8	-16.9	-17.0	-17.3	-16.7	-16.1	-15.5
	% of GDP	-3.7	-3.3	-3.1	-2.9	-3.0	-3.9	-3.1	-3.1	-3.1	-3.1	-3.1	-3.0	-3.1	-3.0	-2.8	-2.7
Industrial Production ²	% y/y	2.0	1.0	1.8	1.9	1.9	0.8	0.7	0.5	0.9	2.4	2.0	2.1	2.0	1.8	1.8	1.8
	% q/q					0.2	-0.8	0.8	0.3	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ²	%	4.4	4.1	4.0	3.9	4.2	4.0	4.1	4.1	4.0	4.0	4.0	3.9	3.9	3.9	3.9	3.8
CPI ²	% y/y	2.7	2.5	2.2	2.2	2.7	2.4	2.5	2.4	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
General Govt. Balance ³	% of GDP	-2.7	-1.6	-1.6	-1.2												
General Govt. Debt ³	% of GDP	88.1	86.8	84.9	83.9												
BoE Bank Rate ⁴		0.50	0.75	1.25	1.75	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75

¹ Contribution to GDP growth ² Period averages ³ Maastricht basis ⁴ End period

Eurozone: trade tensions, Italy and Brexit weigh on growth

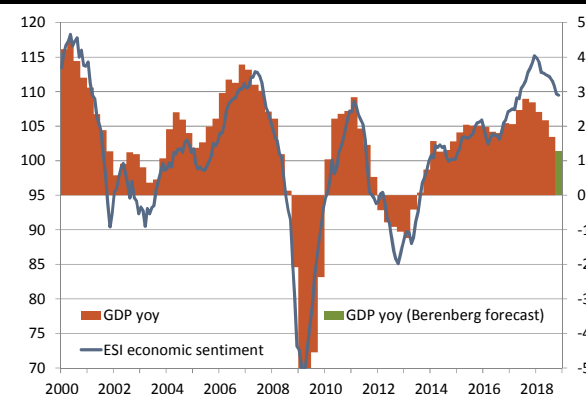
Key drivers of forecast

- **2018 slowdown:** After smooth sailing in 2017, the Eurozone has faced a series of headwinds in 2018. Growth has slowed down below the trend rate of 1.5% in 2018
- **A cocktail of risks:** The risks to growth range from trade tensions, a still unresolved Brexit to EM trouble, higher oil prices and dangerous fiscal plans and reform reversals of the Italian government. We expect most of these headwinds to fade next year. That will allow growth to rebound during 2019 to a pace just above trend again
- **Strength at home:** Domestic fundamentals support further gains ahead. However, external concerns have spilled over to domestic demand in 2H 2018. High oil prices retard real income growth temporarily
- **Inflation:** Above-trend demand growth in 2017 has reduced the slack in the economy; modest wage gains will nudge up core inflation, but only gradually
- **Policy outlook:** Fiscal policy provides a stimulus of 0.1% of GDP in 2018 and 2019. Monetary policy remains highly accommodative. ECB to stop asset purchases at the end of 2018 and to raise rates for the first time in September 2019

Risks: Balanced relative to our below-consensus forecasts.

- **Downside:** Escalation of US-China or US-EU trade tensions, potential debt crisis in Italy, higher oil prices, fallout from no-deal hard Brexit
- **Upside:** French reforms raise supply potential

Economic sentiment has come down



Annual growth rate of real Eurozone GDP, in %, left hand scale, and Eurozone economic sentiment, right hand scale. Sources: Eurostat, European Commission, Berenberg.

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.9	2.0	-0.1	1.4	1.6	-0.2
Inflation	1.8	1.8	0.0	1.6	1.7	-0.1
Unemployment	8.3	8.2	0.1	7.8	7.9	-0.1
Fiscal balance	-0.7	-0.8	0.1	-0.8	-0.9	0.1

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.5	1.9	1.4	1.7	2.4	2.2	1.7	1.3	1.2	1.2	1.5	1.7	1.7	1.7	1.7	1.7
	% q/q					0.4	0.4	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					1.6	1.8	0.7	1.0	1.3	1.7	1.8	1.8	1.7	1.7	1.7	1.7
Private Consumption	% y/y	1.7	1.4	1.2	1.6	1.7	1.4	1.2	1.2	1.0	1.1	1.3	1.4	1.5	1.5	1.6	1.6
	% q/q					0.5	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.2	1.0	1.4	1.5	1.1	1.1	0.9	1.1	1.3	1.3	1.5	1.5	1.5	1.5	1.5	1.6
	% q/q					0.1	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	2.9	3.2	3.0	2.9	3.5	2.8	3.8	2.9	3.5	2.8	2.9	2.9	2.9	2.9	2.9	2.9
	% q/q					0.1	1.4	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Final Domestic Demand ¹	% y/y	1.8	1.6	1.6	1.8	1.9	1.6	1.6	1.5	1.5	1.5	1.6	1.7	1.7	1.8	1.8	1.8
	% q/q					0.3	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net Exports ¹	% y/y	0.8	0.2	-0.2	0.0	0.6	0.6	0.1	-0.4	-0.3	-0.3	-0.1	0.0	0.0	0.0	-0.1	-0.1
	% q/q					-0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	353	339	332	326	106	94	61	78	105	94	58	75	105	94	55	72
	% of GDP	3.2	2.9	2.8	2.6												
Industrial Production ²	% y/y	2.9	1.5	1.3	1.5	3.3	2.3	0.7	-0.1	0.9	1.2	1.5	1.4	1.4	1.4	1.5	1.5
	% q/q					-0.6	0.1	-0.1	0.5	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	9.1	8.3	7.8	7.4	8.5	8.3	8.1	8.1	8.0	7.9	7.8	7.7	7.6	7.5	7.4	7.3
	% y/y	1.5	1.8	1.6	1.7	1.3	1.7	2.1	2.0	1.8	1.6	1.5	1.4	1.6	1.7	1.8	1.8
General Govt. Balance	% of GDP	-0.9	-0.7	-0.8	-0.7												
General Govt. Debt	% of GDP	86.8	84.5	82.8	80.8												
ECB main refinancing rate ³	%	0.00	0.00	0.25	0.75	0.00	0.00	0.00	0.00	0.00	0.00	0.10	0.25	0.25	0.50	0.50	0.75

¹ Contribution to GDP growth ² Period averages ³ End of period

Germany: external tensions take their toll in late 2018

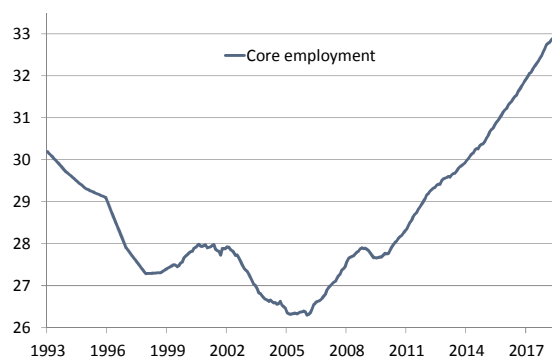
Key drivers of forecast

- **Strong economic fundamentals:** Competitive position and low funding costs underpin firm investment trend. Temporary car sector slump dragged GDP lower in Q3.
- **Buoyant consumers:** Strong gains in employment, rising wages and high confidence levels support consumption growth. Higher oil prices are denting growth in 2018
- **Trade effect:** External trade has turned into a significant drag on growth in 2018, reflecting trade tensions and problems in some emerging markets. Over the course of 2019, a fading of these external shocks should allow for a rebound in GDP growth to an above-trend rate
- **Fiscal stimulus:** “Grand” coalition delivers a modest fiscal boost to demand for 2018 and 2019
- **Inflation:** recent wage deals suggest domestically generated price pressures are building gradually

Risks: Balanced

- **Downside:** Protectionism, potential debt crisis in Italy, no-deal hard Brexit, higher oil prices, modest fall-out from Turkey and other emerging markets
- **Upside:** Fading of external headwinds lift sentiment fast

Core employment: surging higher and higher



Core employment: subject to social security contributions, in million.
Sources: Bundesagentur für Arbeit, Bundesbank

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.5	1.8	-0.2	1.3	1.7	-0.4
Inflation	1.9	1.9	0.0	1.7	1.9	-0.2
Unemployment	3.4	n/a	n/a	3.3	n/a	n/a
Fiscal balance	1.7	1.4	0.3	1.4	1.0	0.4

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP ¹	% y/y	2.5	1.5	1.3	1.7	2.0	1.9	1.2	1.0	1.0	0.9	1.6	1.6	1.7	1.7	1.7	1.7
	% q/q					0.4	0.5	-0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					1.5	1.8	-0.8	1.6	1.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Private Consumption	% y/y	2.0	1.1	1.3	1.8	1.5	1.1	0.8	0.9	0.9	1.0	1.7	1.8	1.8	1.8	1.8	1.8
	% q/q					0.5	0.3	-0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Government Consumption	% y/y	1.6	0.9	1.8	1.9	0.6	1.1	1.0	1.0	1.9	1.6	1.9	1.9	1.9	1.9	1.9	1.9
	% q/q					-0.5	0.8	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investment	% y/y	3.6	3.2	3.1	2.9	3.5	2.7	3.0	3.7	3.0	3.2	3.2	2.9	2.9	2.9	2.9	2.8
	% q/q					1.4	0.5	0.8	1.0	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7
Final Domestic Demand ²	% y/y	2.1	1.4	1.7	1.9	1.7	1.3	1.2	1.4	1.4	1.5	1.9	1.9	2.0	2.0	1.9	1.9
	% q/q					0.4	0.4	0.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports ²	% y/y	0.3	-0.4	-0.7	-0.2	0.3	0.3	-1.1	-1.2	-1.2	-1.1	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
	% q/q					0.0	-0.2	-1.0	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Stockbuilding ²	% y/y	0.0	0.5	0.2	0.0	0.1	0.3	1.0	0.8	0.7	0.5	-0.3	-0.1	0.0	0.0	0.0	0.0
	% q/q					-0.1	0.2	0.8	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	263	263	251	239	72	69	56	66	69	66	53	63	66	63	50	60
	% of GDP	8.0	7.8	7.2	6.6	8.7	8.1	6.6	7.7	8.1	7.6	6.0	7.1	7.5	7.0	5.5	6.5
Industrial Production ³	% y/y	3.4	1.8	1.2	1.9	4.0	2.9	0.4	0.1	0.5	0.4	2.0	1.9	1.9	1.9	1.9	1.9
	% q/q					0.1	0.6	-1.2	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ⁴	%	3.8	3.4	3.3	3.2	3.5	3.4	3.4	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2
CPI ⁵	% y/y	1.7	1.9	1.7	1.8	1.3	1.9	2.1	2.3	2.0	1.8	1.7	1.5	1.6	1.8	1.9	2.0
General Govt. Balance	% of GDP	1.0	1.7	1.4	1.1												
General Govt. Debt	% of GDP	63.9	60.0	56.9	53.9												

¹ Calendar-adjusted ² Contribution to GDP growth ³ Ex construction, s.a., period averages ⁴ ILO measure, period averages, s.a.

⁵ EU-harmonised, period averages

France: heading for a golden decade

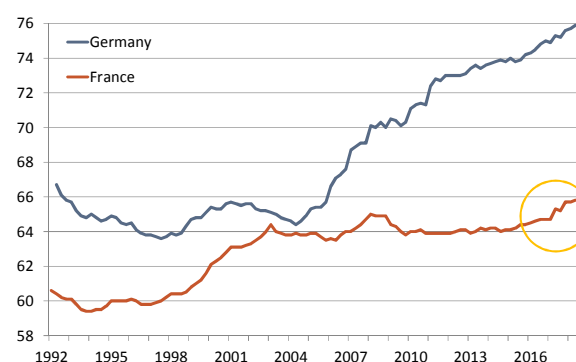
Key drivers of forecast

- **2018 moderation:** The weather and strikes have weighed on growth as much as trade tensions and high oil prices in early 2018.
- **Splendid opportunity:** President Emmanuel Macron has a strong mandate and majority in parliament. Rarely has the opportunity to overhaul France been more promising
- **Macron still delivers:** He has managed to push through some reforms to the SNCF, public sector, unemployment insurance and education system in 2018
- **A golden decade?** If Macron implements further serious reforms, as we expect, France could enjoy a golden decade of growth in the 2020s and overtake Germany as the Eurozone's growth engine eventually
- **Work in progress:** Change to the welfare state, pension reform, constitutional changes

Risks: Balanced

- **Upside:** More reforms could bolster business sentiment and thus investment
- **Downside:** If Macron fails to deliver, confidence could weaken substantially; hit from potential Italian crisis?

French vs. German employment: big gap means big potential



Employment in percent of working age population (16-64 years).
Source: Eurostat

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.5	1.6	-0.1	1.4	1.6	-0.2
Inflation	2.1	2.1	0.0	1.6	1.7	-0.1
Unemployment	9.0	9.1	-0.1	8.3	8.7	-0.4
Fiscal balance	-2.7	-2.6	-0.1	-2.8	-2.8	0.0

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.3	1.5	1.4	1.8	2.2	1.6	1.4	1.0	1.2	1.4	1.5	1.7	1.8	1.8	1.8	1.8
	% q/q					0.2	0.2	0.4	0.3	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.4
	%q/q ann.					0.6	0.6	1.6	1.1	1.4	1.7	1.8	1.8	1.9	1.9	1.8	1.8
Private Consumption	% y/y	1.1	0.9	1.2	1.6	1.3	0.8	0.7	0.8	0.9	1.4	1.3	1.4	1.5	1.6	1.7	1.7
	% q/q					0.2	-0.1	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.4	1.1	1.3	1.4	1.2	1.1	0.9	1.0	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4
	% q/q					0.2	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	4.7	3.0	3.3	3.1	3.2	3.2	2.9	2.7	3.4	3.4	3.2	3.2	3.2	3.2	3.1	2.9
	% q/q					0.1	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Final Domestic Demand ¹	% y/y	2.0	1.4	1.7	1.9	1.7	1.4	1.3	1.3	1.5	1.8	1.8	1.9	1.9	2.0	2.0	1.9
	% q/q					0.2	0.2	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports ¹	% y/y	0.1	0.5	-0.2	-0.2	1.3	0.1	0.6	-0.1	-0.2	-0.1	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
	% q/q					0.0	-0.2	0.2	-0.1	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.2	-0.4	-0.1	0.1	-0.9	0.1	-0.5	-0.2	-0.2	-0.3	0.0	0.1	0.1	0.1	0.1	0.1
	% q/q					-0.1	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	-14	-14	-10	-8	-0.8	-7.7	-3.7	-2.0	1.9	-5.3	-4.1	-2.2	0.9	-0.7	-5.1	-3.4
	% of GDP	-0.6	-0.6	-0.4	-0.3												
Industrial Production ²	% y/y	2.4	0.6	0.4	1.7	2.5	1.1	0.8	-2.0	-0.4	0.3	0.0	1.6	1.7	1.7	1.7	1.7
	% q/q					-1.3	-0.3	0.7	-1.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	9.4	9.0	8.3	7.6	9.2	9.0	9.0	8.8	8.6	8.4	8.2	8.0	7.8	7.7	7.6	7.4
CPI ²	% y/y	1.2	2.1	1.6	1.9	1.5	2.1	2.6	2.3	1.9	1.6	1.3	1.5	1.8	1.8	2.0	2.0
General Govt. Balance	% of GDP	-2.7	-2.7	-2.8	-2.4												
General Govt. Debt	% of GDP	98.5	98.7	98.3	97.0												

¹ Contribution to GDP growth ² Period averages

Italy: political risks jeopardise progress

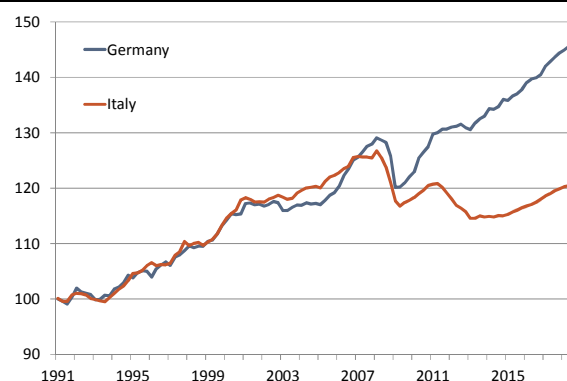
Key drivers of forecast

- **Economic outlook:** Surveys project a further slowdown
- **Political risks cloud the outlook:** The radicals ruling Italy have promised their voters to raise spending, cut taxes, reduce the retirement age and reverse some pro-growth reforms. They have started to act on these promises
- **Severe debt crisis possible but not yet likely near-term:** Italy's institutions and EU rules provide some safeguards against bad policy choices. But a noisy conflict with Brussels could spook markets
- **Fiscal risks:** Rome now targets a 2.4% of GDP deficit for 2019, well above the 0.8% recommended by the EU. The target breaches EU rules and the Italian constitution. It is also based on overly rosy growth assumptions
- **Long-term risks loom large:** With luck, the radicals may get away with some reform reversals in a cyclical upswing. It often takes a recession to lay bare the true costs of misguided policies. A debt crisis in 2022?

Risks: Tilted to downside due to political risks

- **Downside:** Fiscal concerns and reckless government rhetoric trigger surge in yields and push Italy into a debt crisis; reform reversals constrain supply-side further

What ails Italy? It's not the euro



Real GDP, indexed at 1991Q1=100. Sources: Destatis, Istat

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.9	1.0	-0.1	0.6	1.0	-0.4
Inflation	1.3	1.3	0.0	1.4	1.4	0.0
Unemployment	10.6	10.5	0.1	10.3	10.3	0.0
Fiscal balance	-2.1	-1.9	-0.3	-2.9	-2.6	-0.3

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.6	0.9	0.6	1.1	1.4	1.2	0.7	0.5	0.3	0.4	0.7	0.9	1.0	1.1	1.1	1.2
	% q/q					0.3	0.2	-0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
	%q/q ann.					1.3	0.7	-0.5	0.4	0.7	0.8	0.9	1.0	1.2	1.2	1.2	1.2
Private Consumption	% y/y	1.5	0.6	0.5	1.0	0.8	0.8	0.4	0.4	0.2	0.4	0.7	0.8	1.0	1.0	1.1	1.1
	% q/q					0.4	0.0	-0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	-0.1	0.2	1.1	1.4	0.0	0.2	0.1	0.4	0.8	1.0	1.4	1.4	1.4	1.4	1.4	1.4
	% q/q					0.0	0.2	0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	4.4	3.9	1.0	1.1	5.4	6.9	2.5	1.3	2.3	-0.3	1.0	0.9	1.0	1.1	1.1	1.2
	% q/q					-0.8	2.8	-1.1	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Final Domestic Demand ¹	% y/y	1.7	1.1	0.7	1.1	1.4	1.7	0.7	0.6	0.7	0.3	0.9	0.9	1.0	1.1	1.1	1.1
	% q/q					0.1	0.6	-0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	0.3	-0.3	-0.2	0.0	-0.2	-0.2	-0.3	-0.5	-0.5	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0
	% q/q					0.0	-0.5	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.3	0.1	0.1	0.0	0.2	-0.2	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	48.3	46.5	46.5	46.5	5.0	10.5	15.7	15.2	5.0	10.5	15.7	15.2	5.0	10.5	15.7	15.2
	% of GDP	2.8	2.6	2.6	2.5												
Industrial Production ²	% y/y	3.7	1.3	1.1	1.2	3.4	1.9	-0.1	0.1	0.7	1.1	1.5	1.2	1.2	1.2	1.3	1.3
	% q/q					-0.3	-0.2	-0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Unemployment Rate ²	%	11.3	10.6	10.3	9.9	11.0	10.7	10.3	10.5	10.4	10.3	10.2	10.1	10.0	10.0	9.9	9.8
	% y/y	1.3	1.3	1.4	1.4	0.8	1.0	1.7	1.6	1.6	1.6	1.2	1.3	1.3	1.4	1.5	1.6
General Govt. Balance	% of GDP	-2.4	-2.1	-2.9	-2.9												
General Govt. Debt	% of GDP	131.2	131.7	132.1	131.7												

¹ Contribution to GDP growth ² Period averages

Spain: still doing well despite political risks

Key drivers of forecast

- **The new government**, with just 84 of 350 seats in parliament, may not get much done beyond easing tensions with Catalonia somewhat. Still, as Spain fixed most of its urgent economic problems under the previous government, a period without major policy changes would leave Spain's growth momentum intact
- **Rebound in domestic demand:** Financial crisis over – consumption and investment are rebounding solidly
- **Very competitive:** Wage restraint and labour market reforms have reduced labour costs; exports benefit
- **Fiscal drag over:** While still uncomfortable, the fiscal position has allowed an easing of austerity

Risks: Balanced

- **Upside:** The sharp fall in borrowing costs boosts investment; real estate markets rebound even faster
- **Downside:** The new government might be forced by left-wing Podemos to introduce tax hikes. Spillover from Italy could hurt Spain temporarily

Spain: reforms help to bring unemployment down again



Spanish unemployment, EU-harmonised rate in %. Source: Eurostat

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.5	2.6	-0.1	2.2	2.3	-0.1
Inflation	1.8	1.8	0.0	1.5	1.7	-0.2
Unemployment	15.3	15.4	-0.1	14.1	14.0	0.1
Fiscal balance	-2.8	-2.7	-0.1	-2.6	-2.2	-0.4

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	3.0	2.5	2.2	2.2	2.8	2.5	2.5	2.2	2.2	2.2	2.1	2.2	2.2	2.2	2.2	2.1
	% q/q					0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
	%q/q ann.					2.2	2.3	2.4	2.0	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.1
Private Consumption	% y/y	2.5	2.4	2.1	2.3	3.1	2.3	2.0	2.1	1.7	2.2	2.2	2.2	2.3	2.3	2.3	2.3
	% q/q					0.9	0.1	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Government Consumption	% y/y	1.9	2.2	2.1	2.0	2.3	1.9	2.1	2.3	2.0	2.4	2.0	2.0	2.0	2.0	2.0	2.0
	% q/q					0.8	0.1	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investment	% y/y	4.8	6.1	3.8	3.2	3.9	7.7	6.3	6.4	5.9	3.2	2.9	3.1	3.3	3.3	3.2	3.2
	% q/q					1.1	3.5	1.0	0.6	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Final Domestic Demand ¹	% y/y	2.8	3.0	2.4	2.4	3.0	3.3	2.9	3.0	2.6	2.4	2.2	2.3	2.4	2.4	2.4	2.3
	% q/q					0.9	0.8	0.7	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Net Exports ¹	% y/y	0.1	-0.5	-0.3	-0.2	-0.2	-0.7	-0.4	-0.7	-0.5	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
	% q/q					-0.3	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Stockbuilding ¹	% y/y	0.1	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	22	13	10	7	-21	2.2	2.8	10.0	-2.7	1.6	1.9	9.1	-3.3	1.0	1.0	8.2
	% of GDP	1.8	1.1	0.8	0.5												
Industrial Production ²	% y/y	3.2	0.8	1.3	1.7	2.6	1.1	0.6	-1.1	0.3	1.3	1.7	1.8	1.8	1.8	1.7	1.6
	% q/q					-0.9	-0.6	0.1	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	17.2	15.3	14.1	13.1	16.2	15.4	15.0	14.7	14.4	14.2	13.9	13.7	13.5	13.2	13.0	12.8
CPI ²	% y/y	2.0	1.8	1.5	1.8	0.9	2.0	2.3	2.0	1.7	1.5	1.4	1.5	1.7	1.8	1.9	2.0
General Govt. Balance	% of GDP	-3.1	-2.8	-2.6	-2.3												
General Govt. Debt	% of GDP	98.1	96.5	94.0	92.0												

¹ Contribution to GDP growth ² Period averages

Portugal: stronger growth again after a reform-reversal dip

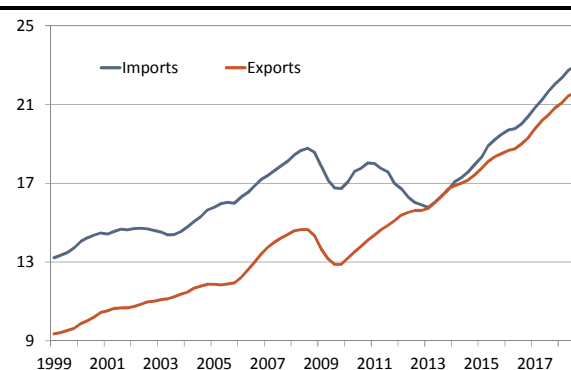
Key drivers of forecast

- **Growth** regained momentum from H2 2016 onwards after a dip caused by reform reversals and problems in major export markets. Broad-based upswing since then
- **Strong recovery:** Strong jobs growth and rising wages drive consumption and gains in competitiveness support investment
- **Inflation:** Internal devaluation keeps inflation low
- **Bad policies?** The left-wing government reversed some supply-side reforms in 2015. This constrains trend growth, keeping Portugal behind Spain. However, Portugal continues to meet fiscal targets
- **Politics:** The leftist minority government remains stable for the time being. It is delivering the needed fiscal repair, thus avoiding a confrontation with the EU

Risks: Tilted to downside due to external risks

- **Foreign demand:** Strong export growth could boost GDP even further
- **Political risks:** potential fallout from Italian events

External adjustment



Real exports and imports of goods and services, chained 2010 prices, 4-quarter rolling sum in billions of euros. Source: Eurostat

Berenberg versus consensus

	2018			2019		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.2	2.1	0.1	1.9	1.8	0.1
Inflation	1.2	1.4	-0.2	1.5	1.6	0.0
Unemployment	7.0	7.2	-0.2	6.4	6.3	0.1
Fiscal balance	-1.1	-1.0	-0.1	-1.1	-0.8	-0.3

Bloomberg consensus, taken on 30 November 2018. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.8	2.2	1.9	2.0	2.2	2.4	2.3	1.9	1.9	1.9	1.9	2.0	2.0	2.0	1.9	1.9
	% q/q					0.4	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	%q/q ann.					1.6	2.4	1.8	1.7	1.9	2.1	2.1	1.9	1.9	1.9	1.9	1.9
Private Consumption	% y/y	2.3	2.1	1.8	2.0	2.2	2.7	2.0	1.6	1.5	1.9	2.0	2.0	2.0	2.0	2.0	2.0
	% q/q					0.6	0.1	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	% y/y	0.2	0.9	1.5	1.6	0.7	0.9	1.0	1.2	1.4	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Government Consumption	% q/q					0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	% y/y	9.2	3.9	3.2	2.9	4.3	3.7	4.0	3.6	3.6	3.0	3.0	3.1	3.1	3.0	2.9	2.8
	% q/q					0.8	1.3	0.8	0.7	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Final Domestic Demand ¹	% y/y	3.0	2.2	2.0	2.1	2.3	2.6	2.2	1.9	1.8	2.0	2.1	2.1	2.1	2.1	2.1	2.1
	% q/q					0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	% y/y	-0.2	-0.1	-0.1	-0.2	-0.4	-0.2	0.5	-0.3	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2
Net Exports ¹	% q/q					-0.3	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
	% y/y	0.0	0.0	0.0	0.0	0.3	0.0	-0.5	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	1.2	-0.2	-0.5	-0.7	0.0	-0.2	-0.4	0.4	0.0	-0.3	-0.5	0.4	-0.1	-0.4	-0.6	0.3
	% of GDP	0.6	-0.1	-0.2	-0.3												
	% y/y	4.0	0.9	2.0	1.8	2.3	0.4	-1.5	2.7	1.5	3.5	1.5	1.6	1.7	1.8	1.9	1.9
Industrial Production ²	% q/q					1.6	-1.6	2.4	0.3	0.5	0.3	0.4	0.4	0.5	0.4	0.5	0.5
	%	9.0	7.0	6.4	5.9	7.7	7.0	6.8	6.7	6.5	6.4	6.3	6.2	6.1	6.0	5.8	5.7
	% y/y	1.6	1.2	1.5	1.8	0.9	1.3	1.8	0.9	1.4	1.6	1.4	1.6	1.7	1.7	1.8	1.8
General Govt. Balance	% of GDP	-3.0	-1.1	-1.1	-1.1												
General Govt. Debt	% of GDP	124.8	121.5	118.6	115.4												

¹ Contribution to GDP growth ² Period averages

FORECASTS AT A GLANCE

Economics

Forecast changes

Italy: After the downwards revised Q3 data, we lower our 2018 call from 1% to 0.9% and our 2019 call from 0.7% to 0.6%. After a weak labour report, we raise our unemployment forecasts for 2018-2020 from 10.3% to 10.6%, from 9.7% to 10.3% and from 9.3% to 9.9% respectively.

France: We lower our inflation 2018 call from 1.8% to 1.6%. After a positive labour report, we lower our unemployment forecasts for 2018-2020 from 9.2% to 9%, from 8.7% to 8.3% and from 8% to 7.6% respectively.

Spanish inflation: We lower our 2018 call from 1.7% to 1.5%.

Berenberg compared with consensus

	GDP		Inflation		Unemployment		Fiscal balance	
	2018	2019	2018	2019	2018	2019	2018	2019
US	0.0	0.2	-0.1	-0.1	0.0	0.1		
China	0.0	0.1	-0.1	-0.2	-0.2	-0.2	-0.6	-0.4
Japan	-0.1	0.0	0.0	0.1	0.0	-0.1	0.1	0.3
UK	0.0	0.5	0.0	0.1	0.0	0.0	0.1	0.0
Eurozone	-0.1	-0.2	0.0	-0.1	0.1	-0.1	0.1	0.1
Germany	-0.2	-0.4	0.0	-0.2	n/a	n/a	0.3	0.4
France	-0.1	-0.2	0.0	-0.1	-0.1	-0.4	-0.1	0.0
Italy	-0.1	-0.4	0.0	0.0	0.1	0.0	-0.3	-0.3
Spain	-0.1	-0.1	0.0	-0.2	-0.1	0.1	-0.1	-0.4
Portugal	0.1	0.1	-0.2	0.0	-0.2	0.1	-0.1	-0.3

The table shows the difference between Berenberg forecasts and Bloomberg consensus. The bars show graphically whether Berenberg forecasts are stronger (green) or weaker (red) than consensus. Bloomberg consensus is taken on 30 November 2018. Berenberg's German unemployment forecasts are based on the ILO measure, which is not comparable to consensus figures that are based on the national unemployment definition. Source: Bloomberg, Berenberg

Key financial forecasts

	Current ¹	End-2018	Mid-2019	End-2019
Central bank rates				
US Fed	2.00-2.25%	2.25-2.50%	2.75-3.00%	2.75-3.00%
ECB	0.00%	0.00%	0.00%	0.25%
BoE	0.75%	0.75%	1.00%	1.25%
BoJ	-0.10%	-0.10%	-0.10%	-0.10%
10-year bond yields				
US	3.01%	3.10%	3.20%	3.30%
Germany	0.31%	0.50%	0.90%	1.20%
UK	1.36%	1.70%	2.00%	2.30%
Currencies				
EUR-USD	1.13	1.15	1.18	1.21
EUR-GBP	0.89	0.88	0.87	0.87
GBP-USD	1.27	1.31	1.36	1.39
USD-JPY	114	114	117	117
EUR-JPY	129	131	138	142
EUR-CHF	1.13	1.15	1.17	1.20

¹ Taken on 30 November 2018 at 14:50 UK time. Currency forecasts may not add up due to rounding

Forecasts for US, China and Japan supplied by Berenberg Capital Markets

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