

# FORECASTS AT A GLANCE

16 September 2016



**BERENBERG**  
PARTNERSHIP SINCE 1590

## Coping with political risks

**Outlook:** Return to trend growth after brief and shallow Brexit impact on Europe

- **US:** Consumption and housing solid, exports and investment weak
- **China:** Decelerating growth but no hard landing
- **Japan:** Struggling to grow, yen strength hurts
- **Eurozone:** Growth slows modestly in H2 2016, returns to trend in 2017
- **UK:** Brexit vote interrupts recovery and dampens trend growth

**Policy:** More stimulus in Japan and UK, US Fed to hike only very gradually

- **Weak profits and policy uncertainties** constrain upside for markets
- **Central banks:** Fed delays hike to December, BoE eases, ECB stays put
- **Fiscal policy:** Neutral in the US, looser in the UK, small stimulus in Eurozone

**Three big risks:** Political populism, Brexit impact and emerging market turmoil

- **Key challenge:** Containing the populist threat to open societies and global trade

### Forecast changes

- **We make no major changes to our forecasts**

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	Weight	GDP				Inflation				Unemployment				Fiscal balance			
		2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
<b>World*</b>	100.0	2.4	2.5	2.3	2.5												
<b>US</b>	22.5	2.4	2.6	1.4	2.1	1.6	0.1	1.2	2.2	6.2	5.3	4.8	4.5	-2.8	-2.4	-2.2	-2.1
<b>China</b>	13.4	7.3	6.9	6.6	6.1	2.0	1.4	1.9	2.1	4.1	4.0	4.2	4.3	-1.8	-2.3	-3.0	-3.0
<b>Japan</b>	6.0	-0.1	0.6	0.7	1.0	2.7	0.8	-0.2	0.4	3.6	3.4	3.1	2.9	-7.8	-6.5	-6.3	-5.0
<b>India</b>	2.7	7.2	7.5	7.5	7.1	6.8	4.5	4.0	4.0					-6.9	-6.5	-6.0	-5.5
<b>Latin America</b>	7.5	1.1	0.0	0.2	1.8	6.0	6.0	5.0	4.0					-3.5	-4.0	-3.5	-3.0
<b>Europe</b>	29.8	1.4	1.3	1.4	1.4												
<b>Eurozone</b>	17.3	1.1	1.9	1.5	1.4	0.4	0.0	0.2	1.4	11.6	10.9	10.1	9.7	-2.6	-2.1	-2.0	-1.8
<b>Germany</b>	5.0	1.6	1.5	1.7	1.5	0.8	0.1	0.3	1.3	5.0	4.6	4.3	4.5	0.3	0.7	0.5	0.3
<b>France</b>	3.7	0.7	1.2	1.2	1.1	0.6	0.1	0.3	1.3	10.3	10.4	10.4	9.8	-4.0	-3.5	-3.3	-3.1
<b>Italy</b>	2.8	-0.3	0.6	0.8	0.8	0.3	0.1	0.0	1.0	12.6	11.9	11.4	11.0	-3.0	-2.6	-2.6	-2.5
<b>Spain</b>	1.8	1.4	3.2	3.0	2.4	-0.2	-0.6	-0.5	1.2	24.5	22.1	19.7	18.3	-5.9	-5.1	-4.1	-3.4
<b>Portugal</b>	0.3	0.9	1.5	0.9	1.2	-0.2	0.5	0.7	1.4	14.1	12.6	11.4	10.5	-7.2	-4.4	-2.9	-2.6
<b>Other Western Europe</b>																	
<b>UK</b>	3.8	3.1	2.2	1.9	1.3	1.5	0.1	0.7	1.7	6.1	5.3	5.1	5.3	-5.6	-4.4	-3.8	-3.6
<b>Switzerland</b>	0.9	2.0	0.9	1.2	1.5	0.1	-1.1	-0.4	0.3	3.2	3.4	3.6	3.5	0.5	-0.2	-0.2	-0.1
<b>Sweden</b>	0.7	2.4	3.8	2.6	2.3	0.2	0.8	1.2	2.2	7.8	7.6	7.2	6.7	-1.8	-1.3	-0.8	-0.5
<b>Eastern Europe</b>																	
<b>Russia</b>	2.4	0.6	-3.7	-0.9	0.5	7.8	15.6	7.5	6.2	5.2	5.6	6.5	6.2	-0.7	-2.8	-4.3	-3.3
<b>Turkey</b>	1.0	2.9	4.0	3.1	3.0	8.9	7.7	8.1	8.4	10.0	10.6	10.8	10.7	-1.3	-1.7	-2.4	-2.3

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 Global Outlook statistics 2014 GDP figures.

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## US: sustained moderate growth

### Key drivers of forecast

- **Consumer spending** will remain healthy, supported by solid gains in real personal incomes, while housing activity will continue to strengthen
- **Exports will remain weak** reflecting soft global growth and the lagged impact of the stronger dollar
- **Business fixed investment** will continue to decline modestly, dragged down by weak capital spending in the energy sectors and heightened policy-related uncertainties
- **Employment gains** have remained healthy and gradually rising wage increases are expected
- **Monetary policy:** Fed will be very gradual in raising rates as concerns about negative market reaction dominate its policy deliberations; next Fed hike likely in December

### Risks: Balanced

- **Upside:** Stronger consumer and housing activity
- **Downside:** Uncertainties about US presidential outcome start to weigh on confidence

### Healthy consumer spending



% change yoy. Source: BEA

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.4	1.5	-0.1	2.1	2.2	-0.1
Inflation	1.2	1.2	0.0	2.2	2.2	0.0
Unemployment	4.8	4.8	0.0	4.5	4.6	-0.1

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	<b>2.4</b>	<b>2.6</b>	<b>1.4</b>	<b>2.1</b>	3.3	3.0	2.2	1.9	1.6	1.2	1.2	1.6	1.9	2.2	2.2	2.2
	% q/q					0.5	0.6	0.5	0.2	0.2	0.3	0.5	0.5	0.6	0.6	0.5	0.6
	%q/q ann.					2.0	2.6	2.0	0.9	0.8	1.1	2.2	2.1	2.2	2.4	1.9	2.3
Private Consumption	% y/y	<b>2.9</b>	<b>3.2</b>	<b>2.7</b>	<b>2.7</b>	3.6	3.4	3.1	2.6	2.4	2.7	2.8	2.8	3.0	2.6	2.6	2.5
	% q/q					0.6	0.7	0.7	0.6	0.4	1.1	0.7	0.6	0.6	0.6	0.7	0.6
Residential Investment	% y/y	<b>3.5</b>	<b>11.7</b>	<b>6.0</b>	<b>4.3</b>	9.9	10.7	13.0	13.1	11.7	5.7	4.3	2.7	2.0	5.3	4.9	4.9
	% q/q					3.2	3.5	3.0	2.8	1.9	-2.0	1.6	1.2	1.2	1.2	1.2	1.2
Non-Residential Investment	% y/y	<b>6.0</b>	<b>2.1</b>	<b>-1.2</b>	<b>2.1</b>	3.6	2.5	1.4	0.8	-0.4	-1.0	-2.2	-1.1	0.4	1.5	2.8	3.5
	% q/q					0.3	0.4	1.0	-0.8	-0.9	-0.2	-0.3	0.3	0.6	0.9	1.0	1.0
Government Spending	% y/y	<b>-0.9</b>	<b>1.8</b>	<b>1.0</b>	<b>1.1</b>	1.2	2.0	1.8	2.2	1.9	0.7	0.7	0.7	0.6	1.3	1.2	1.2
	% q/q					0.6	0.8	0.5	0.3	0.4	-0.4	0.4	0.3	0.3	0.3	0.3	0.3
Final Dom Demand <sup>1</sup>	% y/y	<b>2.6</b>	<b>3.1</b>	<b>2.0</b>	<b>2.4</b>	3.4	3.3	3.0	2.6	2.2	2.0	1.8	2.0	2.3	2.3	2.4	2.5
	% q/q					0.7	0.8	0.7	0.4	0.3	0.6	0.6	0.6	0.6	0.6	0.7	0.6
Net Exports <sup>1</sup>	% y/y	<b>-0.1</b>	<b>-0.7</b>	<b>-0.2</b>	<b>-0.3</b>	-0.7	-0.6	-0.9	-0.7	-0.3	-0.2	-0.1	-0.1	-0.1	-0.2	-0.4	-0.4
	% q/q					-0.4	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.1
Stockbuilding <sup>1,5</sup>	% y/y	<b>-0.1</b>	<b>0.2</b>	<b>-0.5</b>	<b>-0.1</b>	0.2	-0.1	-0.1	-0.1	-0.1	-0.3	0.1	0.1	0.0	0.0	0.0	0.0
Nominal GDP	% y/y	<b>4.2</b>	<b>3.7</b>	<b>2.7</b>	<b>4.3</b>	4.5	4.1	3.3	3.0	2.8	2.4	2.4	3.1	3.6	4.4	4.7	4.7
Current Account Balance	USD bn	<b>-392</b>	<b>-463</b>	<b>-455</b>	<b>-489</b>	-115	-112	-123	-113	-113	-112	-114	-115	-116	-118	-126	-129
	% of GDP	<b>-2.3</b>	<b>-2.6</b>	<b>-2.5</b>	<b>-2.5</b>	-2.6	-2.5	-2.7	-2.5	-2.5	-2.4	-2.4	-2.5	-2.5	-2.5	-2.6	-2.6
Industrial Production <sup>2</sup>	% y/y	<b>2.9</b>	<b>0.3</b>	<b>-0.7</b>	<b>1.9</b>	2.4	0.4	0.1	-1.6	-1.6	-1.0	-0.8	0.5	1.4	2.1	1.9	2.1
	% q/q					-0.4	-0.7	0.4	-0.9	-0.4	-0.1	0.7	0.4	0.5	0.5	0.5	0.5
Unemployment Rate <sup>2</sup>	%	<b>6.2</b>	<b>5.3</b>	<b>4.8</b>	<b>4.5</b>	5.6	5.4	5.2	5.0	4.9	4.9	4.8	4.7	4.6	4.6	4.5	4.4
CPI <sup>2</sup>	% y/y	<b>1.6</b>	<b>0.1</b>	<b>1.2</b>	<b>2.2</b>	-0.1	0.0	0.1	0.4	1.1	1.1	1.1	1.5	1.6	2.1	2.5	2.4
Core PCE <sup>2</sup>	% y/y	<b>1.6</b>	<b>1.4</b>	<b>1.6</b>	<b>1.9</b>	1.4	1.4	1.3	1.4	1.6	1.6	1.6	1.6	1.8	1.9	1.9	1.9
General Govt. Balance <sup>3,6</sup>	% of GDP	<b>-2.8</b>	<b>-2.4</b>	<b>-2.2</b>	<b>-2.1</b>												
General Govt. Debt	% of GDP	<b>102.8</b>	<b>101.5</b>	<b>101.1</b>	<b>99.0</b>												
Fed Funds Rate <sup>4</sup>	%	<b>0.25</b>	<b>0.50</b>	<b>0.75</b>	<b>1.50</b>	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50

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

<sup>5</sup> Annual data refers to yoy change and quarterly data refers to qoq change

<sup>6</sup> Differs from Maastricht definition used for European countries. Under Maastricht, the balance would be -3.8% in 2015 and -3.6% in 2016 accord. IMF fiscal monitor

## China: stable growth

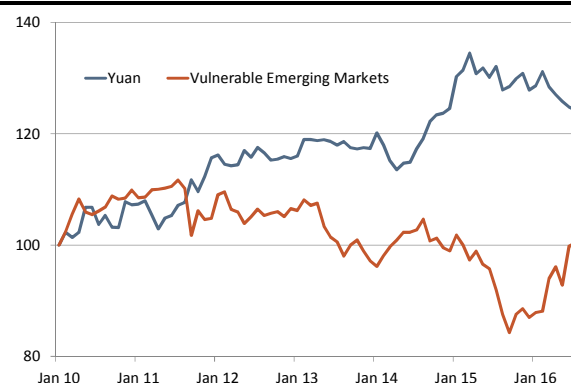
### Key drivers of forecast

- **Potential growth is slowing:** Slower productivity and higher unit labour costs have undercut China's exports, its prior engine of growth
- **No hard-landing:** Exports have begun to stabilise while domestic consumption and services continue to grow rapidly
- **Expect more fiscal stimulus** in the form of infrastructure spending to achieve growth goals
- **The government will manage high private debt:** Systematic defaults will be avoided
- **The renminbi** is likely to depreciate further

### Risks: Downside for growth; policy blunders?

- **Downside risks:** Export declines resume and drag on growth
- **Policy risks:** Currency depreciation jars markets

### Yuan still strong relative to other EM currencies – but less so



Jan 2010 = 100. Real FX weighted against dollar, sterling and euro

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	6.6	6.5	0.1	6.1	6.3	-0.2
Inflation	1.9	2.0	-0.1	2.1	2.0	0.0
Unemployment	4.2	4.1	0.1	4.3	4.2	0.1
Fiscal balance	-3.0	-3.1	0.1	-3.0	-3.5	0.5

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	<b>7.3</b>	<b>6.9</b>	<b>6.6</b>	<b>6.1</b>	7.0	7.0	6.9	6.8	6.7	6.7	6.5	6.4	6.6	6.1	5.8	5.7
	% q/q					1.6	1.8	1.8	1.5	1.2	1.8	1.6	1.4	1.4	1.3	1.3	1.3
	%q/q ann					6.6	7.4	7.4	6.1	4.9	7.4	6.6	5.7	5.7	5.3	5.3	5.3
Industrial Production	% y/y	<b>8.3</b>	<b>5.9</b>	<b>6.3</b>	<b>5.6</b>	5.6	6.3	5.9	5.9	6.8	6.1	6.2	6.1	5.9	5.7	5.5	5.3
Exports <sup>1</sup>	% y/y	<b>6.0</b>	<b>-2.6</b>	<b>-2.2</b>	<b>5.0</b>	4.6	-2.2	-5.9	-5.2	-9.7	-4.4	-1.1	5.0	5.0	5.0	5.0	5.0
Imports <sup>1</sup>	% y/y	<b>0.7</b>	<b>-14.4</b>	<b>-4.0</b>	<b>5.5</b>	-17.8	-13.6	-14.4	-11.8	-13.3	-6.7	-2.4	5.5	5.5	5.5	5.5	5.5
Current Account Balance	\$ bn	<b>280</b>	<b>335</b>	<b>289</b>	<b>374</b>	112	78	62	82	60	50	82	97	103	77	86	108
	% of GDP	<b>2.7</b>	<b>3.1</b>	<b>2.4</b>	<b>2.8</b>												
Unemployment Rate	%	<b>4.1</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>	4.1	4.0	4.1	4.0	4.0	4.1	4.3	4.3	4.3	4.3	4.3	4.3
CPI <sup>2</sup>	% y/y	<b>2.0</b>	<b>1.4</b>	<b>1.9</b>	<b>2.1</b>	1.2	1.4	1.7	1.5	2.1	2.1	1.6	1.7	1.7	1.9	2.3	2.3
General Govt. Balance	% of GDP	<b>-1.8</b>	<b>-2.3</b>	<b>-3.0</b>	<b>-3.0</b>												
General Govt. Debt	% of GDP	<b>20.9</b>	<b>19.3</b>	<b>19.0</b>	<b>22.0</b>												

<sup>1</sup> Growth rates based on monthly value data in USD <sup>2</sup> Period averages

## Japan: fiscal stimulus attempts to lift struggling economy

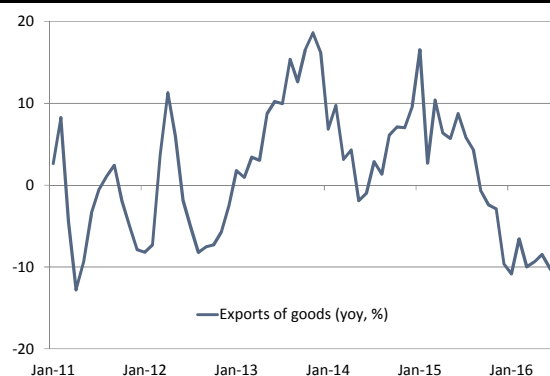
### Key drivers of forecast

- **Consumption and investment** have struggled to recover following 2014 VAT hike
- **Exports declining**, suppressed by strong yen, China's deceleration and some global weakness
- **Bank of Japan's QQE** has failed to stimulate the economy
- **Postponed VAT hike and fiscal stimulus will lift real GDP growth in 2017**, but will not have lasting impact

### Risks: Short-term neutral, long-term negative

- **Upside:** Cheap oil, the delay in the VAT hike and Prime Minister Abe's fiscal package lift consumer spending
- **Cyclical risk:** Loss in confidence in Abe's reforms and slumping exports push Japan into recession
- **Long-term risk:** Fiscal and monetary stimulus do not address primary factors inhibiting Japan's growth or lift potential; dim prospects and very slow growth at best

### Strong yen hurts exports



Change of exports of goods (yoy in %), monthly data. Source: Ministry of Finance/Japan Tariff Association.

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.7	0.6	0.1	1.0	0.8	0.2
Inflation	-0.2	-0.2	0.0	0.4	0.6	-0.2
Unemployment	3.1	3.2	-0.1	2.9	3.1	-0.2
Fiscal balance	-6.3	-5.7	-0.6	-5.0	-5.3	0.3

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	-0.1	0.6	0.7	1.0	-0.9	0.7	1.8	0.8	0.1	0.8	0.5	1.2	1.0	1.1	1.1	1.0
	% q/q					1.2	-0.5	0.5	-0.4	0.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					5.0	-1.9	2.1	-1.7	2.1	0.7	1.0	1.1	1.0	1.0	1.0	1.0
Private Consumption	% y/y	-0.9	-1.1	0.4	0.8	-4.1	0.0	0.6	-0.8	-0.3	0.5	0.2	1.3	0.8	0.8	0.8	0.8
	% q/q					0.2	-0.6	0.4	-0.8	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Government Consumption	% y/y	0.2	1.1	1.9	0.9	0.6	1.2	1.0	1.5	2.1	1.9	2.1	1.6	0.9	1.0	0.9	0.8
	% q/q					0.2	0.4	0.2	0.7	0.9	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Private Investment	% y/y	1.5	0.9	1.1	1.3	-4.0	0.7	3.2	4.2	0.6	1.9	1.4	0.7	1.6	1.2	1.2	1.2
	% q/q					3.0	-0.6	0.8	1.0	-0.6	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Public Investment	% y/y	0.2	-2.0	-0.6	2.5	-3.0	1.9	-1.2	-5.4	-3.9	-2.3	0.0	3.9	4.1	2.0	2.0	2.0
	% q/q					-1.4	0.9	-1.8	-3.2	0.2	2.6	0.5	0.5	0.5	0.5	0.5	0.5
Final Domestic Demand <sup>1</sup>	% y/y	-0.3	-0.4	0.8	1.0	-3.1	0.5	1.0	0.3	0.2	0.9	0.8	1.4	1.1	1.0	1.0	0.9
	% q/q					0.6	-0.3	0.3	-0.3	0.5	0.4	0.2	0.3	0.2	0.2	0.2	0.2
Net Exports <sup>1</sup>	% y/y	0.3	0.4	-0.1	0.0	1.3	0.2	0.3	-0.1	-0.1	0.1	-0.1	-0.1	-0.2	0.1	0.1	0.1
	% q/q					0.1	-0.5	0.3	0.0	0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding <sup>1</sup>	% y/y	-0.1	0.5	0.0	0.0	0.9	0.0	0.5	0.7	0.1	-0.2	-0.1	0.0	0.1	0.0	0.0	0.0
	% q/q					0.5	0.3	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	JPY trn	3.9	16.4	19.0	17.8	4.4	3.7	4.9	3.4	6.0	4.7	5.0	3.3	5.7	4.4	4.7	3.0
	% of GDP	0.8	3.3	3.8	3.5												
Industrial Production <sup>2</sup>	% y/y	2.1	-1.2	-1.4	1.4	-2.6	-0.8	-0.4	-1.1	-3.2	-1.7	-0.4	-0.1	1.3	1.5	1.4	1.4
	% q/q					1.1	-1.3	-1.0	0.0	-1.0	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate <sup>2</sup>	%	3.6	3.4	3.1	2.9	3.5	3.4	3.4	3.3	3.2	3.2	3.0	2.9	2.9	2.9	2.9	2.9
CPI <sup>2</sup>	% y/y	2.7	0.8	-0.2	0.4	2.3	0.5	0.2	0.3	0.1	-0.4	-0.3	-0.3	0.3	0.4	0.4	0.4
General Govt. Balance	% of GDP	-7.8	-6.5	-6.3	-5.0												
General Govt. Debt	% of GDP	244	246	248	249												

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages

## UK: Brexit vote impact – no doom, some gloom instead of a boom

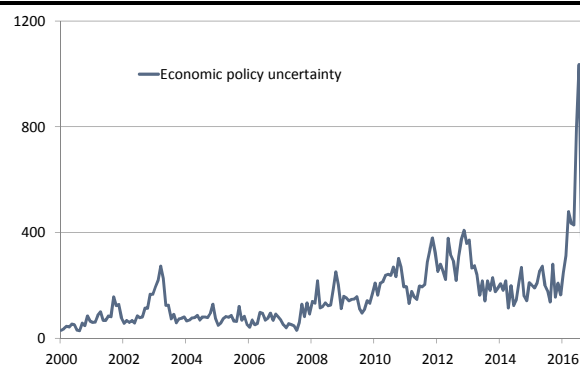
### Key drivers of forecast

- **Short-term demand-side shock:** Uncertainty will weigh on households and business, causing a slowdown in spending and a drop in investment until the post-Brexit-outlook becomes clearer
- **Some relief from currency:** Weaker sterling will support the trade balance, partially offsetting the drags from weaker consumption and investment
- **BoE likely to ease again:** The BoE has acted aggressively with QE and a rate cut to stabilise domestic demand. BoE may ease further in late 2016
- **Labour market:** In the near term, unemployment is likely to rise modestly as the Brexit vote dents growth
- **Inflation:** Higher import prices will lead to a sharp rise in near-term inflation before stabilising in 2017

### Risks: Tilted to upside near-term

- **Post-Brexit rebound:** August recovery in survey data after a plunge in July suggests that the immediate shock to demand could be more shallow than expected
- **Falling house prices:** If house prices decline significantly after the Brexit vote, consumption (two-thirds of GDP) would likely contract – raising the risk of recession

### UK: economic policy uncertainty falling sharply



Monthly data. Source: Economic Policy Uncertainty.

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.9	1.6	0.3	1.3	0.7	0.7
Inflation	0.7	0.7	0.0	1.7	2.2	-0.5
Unemployment	5.1	5.1	0.0	5.3	5.6	-0.3
Fiscal balance	-3.8	-3.7	-0.1	-3.6	-3.5	-0.1

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	<b>3.1</b>	<b>2.2</b>	<b>1.9</b>	<b>1.3</b>	2.9	2.3	2.0	1.8	2.0	2.2	1.9	1.5	1.3	1.1	1.4	1.5
	% q/q					0.3	0.4	0.4	0.7	0.4	0.6	0.2	0.2	0.3	0.4	0.4	0.4
	%q/q ann.					1.1	1.7	1.8	2.8	1.8	2.4	0.7	1.0	1.3	1.5	1.6	1.6
Private Consumption	% y/y	<b>2.2</b>	<b>2.5</b>	<b>2.9</b>	<b>2.3</b>	2.4	2.8	2.1	2.8	2.8	2.9	2.9	3.0	2.7	2.3	2.1	2.0
	% q/q					0.8	0.8	0.6	0.6	0.8	0.9	0.7	0.6	0.5	0.5	0.5	0.5
Government Consumption	% y/y	<b>2.3</b>	<b>1.4</b>	<b>1.0</b>	<b>1.5</b>	0.6	1.4	1.5	1.9	1.9	0.8	0.7	0.7	0.7	1.4	1.7	2.0
	% q/q					0.4	1.0	0.3	0.2	0.5	-0.2	0.2	0.2	0.5	0.5	0.5	0.5
Investment	% y/y	<b>6.7</b>	<b>3.3</b>	<b>-0.1</b>	<b>-1.6</b>	2.1	5.0	4.0	2.3	0.7	0.9	-1.0	-1.0	-1.5	-3.1	-1.5	-0.3
	% q/q					1.5	1.2	0.5	-1.0	-0.1	1.4	-1.4	-1.0	-0.5	-0.2	0.2	0.2
Final Domestic Demand <sup>1</sup>	% y/y	<b>2.9</b>	<b>2.4</b>	<b>2.0</b>	<b>1.5</b>	2.0	2.9	2.3	2.6	2.3	2.2	1.8	1.9	1.6	1.3	1.5	1.6
	% q/q					0.9	0.9	0.6	0.2	0.6	0.8	0.3	0.3	0.3	0.4	0.5	0.5
Net Exports <sup>1</sup>	% y/y	<b>-0.4</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.1</b>	-0.8	-0.5	-0.2	-0.3	0.1	-0.8	-0.3	-0.5	-0.3	0.0	-0.1	-0.1
	% q/q					-0.6	0.6	-0.5	0.1	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding <sup>1</sup>	% y/y	<b>0.7</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	0.8	-0.5	-0.6	-0.7	-0.9	0.2	0.0	-0.2	0.2	-0.2	-0.1	-0.1
	% q/q					-0.2	-0.7	0.1	0.1	-0.4	0.3	-0.1	0.0	0.0	0.0	0.0	0.0
Current Account Balance	GBP bn	<b>-85.0</b>	<b>-100.3</b>	<b>-118.3</b>	<b>-87.8</b>	-24.9	-19.5	-21.9	-34.0	-32.6	-31.6	-28.5	-25.5	-22.6	-22.1	-21.8	-21.4
	% of GDP	<b>-4.7</b>	<b>-5.4</b>	<b>-6.2</b>	<b>-4.4</b>	-5.4	-4.2	-4.7	-7.2	-6.9	-6.6	-5.9	-5.3	-4.6	-4.5	-4.4	-4.3
Industrial Production <sup>2</sup>	% y/y	<b>1.5</b>	<b>1.3</b>	<b>1.4</b>	<b>1.5</b>	1.2	1.6	1.4	0.8	0.3	1.6	1.6	2.3	2.7	0.9	1.2	1.2
	% q/q					0.4	0.7	0.0	-0.4	-0.1	2.1	0.0	0.3	0.3	0.3	0.3	0.3
Unemployment Rate <sup>2</sup>	%	<b>6.1</b>	<b>5.3</b>	<b>5.1</b>	<b>5.3</b>	5.5	5.5	5.2	5.1	5.0	4.9	5.1	5.3	5.3	5.3	5.3	5.3
CPI <sup>2</sup>	% y/y	<b>1.5</b>	<b>0.1</b>	<b>0.7</b>	<b>1.7</b>	0.1	0.0	0.0	0.1	0.3	0.3	0.7	1.3	1.9	1.8	1.7	1.6
General Govt. Balance <sup>3</sup>	% of GDP	<b>-5.6</b>	<b>-4.4</b>	<b>-3.8</b>	<b>-3.6</b>												
General Govt Debt <sup>3</sup>	% of GDP	<b>88.2</b>	<b>89.2</b>	<b>91.9</b>	<b>92.8</b>												
BoE Bank Rate <sup>4</sup>		<b>0.50</b>	<b>0.50</b>	<b>0.10</b>	<b>0.10</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.10	0.10	0.10	0.10	0.10

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages <sup>3</sup> Maastricht basis <sup>4</sup> End period

## Eurozone: near-term dent to growth

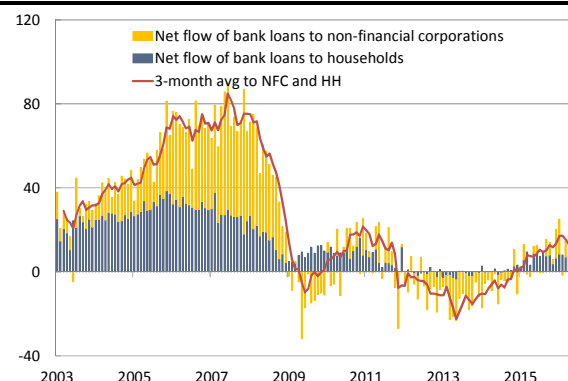
### Key drivers of forecast

- **Temporary setback ahead:** After growth close to the 1.6% trend rate since spring 2015, the political risks and the uncertainty after the Brexit vote will weigh on confidence and investment in H2 2016, slowing growth to below its trend rate
- **Strong tailwinds** from ECB policy and lagged impact of weaker euro help despite the partial euro rebound. Underlying fundamentals have improved. We expect growth to return to its trend rate again in early 2017 as long as no other major political risk materialises
- **Reform countries ahead:** Spain, Ireland and Cyprus enjoy a solid rebound; growth started to stir a little even in Italy after the 2015 labour reform
- **Austerity over:** Fiscal stimulus of 0.3% of GDP in 2016
- **Inflation:** Very gradual rise as the late 2015 oil price plunge drops out of the year-on-year rate; still-high unemployment keeps core inflation subdued

**Risks:** Balanced as Brexit impact remains modest outside UK

- **Deeper crisis in emerging markets or escalating financial tensions** could delay investment rebound, weakness of some banks may hit credit growth
- **Political risks:** Italian referendum in late 2016, reform reversals at the periphery, potential Portuguese crisis

### Eurozone: bank loans to non-financial sector edging up



Net flow of bank loans, in € bn; from February 2009 onwards adjusted for sales and securitisations. Net flows to non/financial sector are 3/month moving average. Source: ECB

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.5	1.5	0.0	1.4	1.3	0.2
Inflation	0.2	0.3	-0.1	1.4	1.3	0.1
Unemployment	10.1	10.2	-0.1	9.7	9.9	-0.2
Fiscal balance	-2.0	-2.0	0.0	-1.8	-1.8	0.0

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	1.1	1.9	1.5	1.4	1.8	2.0	2.0	2.0	1.7	1.6	1.5	1.3	1.2	1.3	1.5	1.7
	% q/q					0.8	0.4	0.4	0.4	0.5	0.3	0.2	0.2	0.4	0.4	0.4	0.4
	%q/q ann.					3.3	1.4	1.5	1.8	2.1	1.2	1.0	1.0	1.6	1.6	1.6	1.7
Private Consumption	% y/y	0.8	1.7	1.6	1.2	1.6	1.7	1.9	1.7	1.9	1.7	1.4	1.4	1.1	1.2	1.3	1.4
	% q/q					0.4	0.4	0.5	0.3	0.6	0.2	0.2	0.3	0.3	0.3	0.3	0.4
Government Consumption	% y/y	0.6	1.4	1.8	1.5	1.1	1.3	1.3	1.9	2.0	1.8	1.8	1.6	1.3	1.6	1.6	1.6
	% q/q					0.5	0.4	0.4	0.6	0.6	0.1	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	1.5	2.9	2.0	1.9	2.4	2.8	2.7	3.7	2.5	2.4	2.1	1.0	1.2	1.8	2.1	2.4
	% q/q					1.6	0.1	0.5	1.4	0.4	0.0	0.3	0.3	0.6	0.6	0.6	0.6
Final Domestic Demand <sup>1</sup>	% y/y	0.9	1.9	1.7	1.4	1.6	1.9	1.9	2.1	2.0	1.8	1.6	1.3	1.2	1.4	1.6	1.6
	% q/q					0.7	0.4	0.5	0.6	0.6	0.1	0.3	0.3	0.4	0.4	0.4	0.4
Net Exports <sup>1</sup>	% y/y	0.0	0.2	0.0	0.1	0.3	0.6	0.2	-0.2	-0.3	-0.2	0.2	0.4	0.3	0.0	0.0	0.0
	% q/q					0.2	0.2	-0.3	-0.3	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding <sup>1</sup>	% y/y	0.2	-0.1	-0.1	-0.1	-0.1	-0.4	0.0	0.1	0.0	0.0	-0.2	-0.4	-0.3	0.0	0.0	0.1
	% q/q					0.0	-0.2	0.2	0.1	-0.1	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	254	333	357	345												
	% of GDP	2.5	3.2	3.3	3.1												
Industrial Production <sup>2</sup>	% y/y	0.9	2.0	0.4	0.6	1.9	1.8	2.4	2.0	1.4	1.0	-0.3	-0.4	-0.8	-0.1	1.4	1.8
	% q/q					1.4	0.1	0.4	0.1	0.8	-0.3	-1.0	0.0	0.4	0.5	0.5	0.5
Unemployment Rate <sup>2</sup>	%	11.6	10.9	10.1	9.7	11.2	11.0	10.7	10.5	10.3	10.1	10.1	10.0	9.9	9.8	9.6	9.6
	% y/y	0.4	0.0	0.2	1.4	-0.3	0.2	0.1	0.2	0.1	-0.1	0.3	0.6	1.3	1.2	1.4	1.6
General Govt. Balance	% of GDP	-2.6	-2.1	-2.0	-1.8												
General Govt. Debt	% of GDP	92.0	90.3	89.6	88.3												
ECB main refinancing rate <sup>3</sup>	%	0.25	0.05	0.00	0.00	0.25	0.15	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages <sup>3</sup> End of period

## Germany: domestic stimulus, modest hit from Brexit uncertainty

### Key drivers of forecast

- **Positive fundamentals:** A strong competitive position, extremely low funding costs and pent-up demand point to a firmer investment trend
- **Buoyant consumer confidence:** Strong gains in employment, rising wages and low inflation support consumption growth
- **Small drag from net exports:** After the crisis in many emerging markets interrupted German export growth in late 2015, exports strengthened in H1 2016. Expect a modest dent for late 2016 as exports to the UK may fall
- **Brexit uncertainty** will weigh on investment in H2 2016 and slow growth to slightly below its trend rate
- **Fiscal stimulus:** Extra spending on refugees amounts to a fiscal stimulus of 0.5% of GDP from late 2015 onwards, largely offsetting the fading of the oil price tailwind
- **Inflation:** Still subdued, but normal wage growth will keep inflation at or above the Eurozone average

### Risks: Balanced as Brexit impact remains modest

- **Upside:** Cheap oil, undervalued euro boost demand
- **Downside:** Brexit-related tensions escalate

### Private consumption: heading up



Real private consumption, 2005 = 100. Source: Destatis

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.7	1.6	0.1	1.5	1.2	0.3
Inflation	0.3	0.4	-0.1	1.3	1.5	-0.2
Unemployment	4.3	n/a	n/a	4.5	n/a	n/a
Fiscal balance	0.5	0.2	0.3	0.3	0.1	0.2

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b> <sup>1</sup>	% y/y	1.6	1.5	1.7	1.5	1.1	1.8	1.7	1.3	1.8	1.7	1.7	1.6	1.4	1.4	1.6	1.8
	% q/q					0.2	0.5	0.2	0.4	0.7	0.4	0.3	0.3	0.4	0.4	0.4	0.4
	%q/q ann.					0.7	2.1	1.0	1.4	2.9	1.7	1.0	1.1	1.8	1.8	1.8	1.7
Private Consumption	% y/y	1.0	1.9	1.4	1.5	1.7	2.0	2.2	1.7	1.7	1.5	1.2	1.3	1.3	1.5	1.6	1.6
	% q/q					0.4	0.4	0.6	0.4	0.3	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.2	2.8	3.9	2.5	2.1	2.8	2.7	3.4	4.3	3.9	3.9	3.3	2.6	2.6	2.4	2.2
	% q/q					0.4	1.0	0.7	1.2	1.3	0.6	0.7	0.7	0.6	0.6	0.5	0.5
Investment	% y/y	3.4	1.1	2.3	1.8	-0.4	0.8	1.8	2.4	3.5	1.9	2.6	1.3	0.2	2.3	2.2	2.6
	% q/q					0.6	0.1	0.1	1.7	1.7	-1.5	0.8	0.3	0.6	0.6	0.7	0.7
Final Domestic Demand <sup>2</sup>	% y/y	1.5	1.9	2.1	1.8	1.4	1.9	2.2	2.2	2.6	2.1	2.1	1.7	1.4	1.9	1.9	1.9
	% q/q					0.4	0.5	0.5	0.8	0.8	-0.1	0.7	0.7	0.7	0.7	0.7	0.7
Net Exports <sup>2</sup>	% y/y	0.3	0.1	0.1	-0.2	0.2	1.1	-0.1	-0.6	-0.2	-0.2	0.1	0.5	0.2	-0.4	-0.3	-0.2
	% q/q					-0.1	0.6	-0.5	-0.6	0.2	0.6	-0.2	-0.1	0.0	0.0	-0.1	-0.1
Stockbuilding <sup>2</sup>	% y/y	-0.1	-0.5	-0.3	0.0	-0.3	-1.1	-0.2	-0.2	-0.4	0.0	-0.3	-0.5	-0.1	0.0	0.1	0.1
	% q/q					-0.1	-0.5	0.3	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	216	259	275	265	62	64	69	64	74	73	65	63	72	70	62	60
	% of GDP	7.4	8.9	8.7	8.1												
Industrial Production <sup>3</sup>	% y/y	1.4	0.9	0.7	1.2	0.5	1.6	1.6	-0.2	1.4	0.5	-0.2	1.1	0.0	0.9	2.2	1.9
	% q/q					0.0	0.4	0.0	-0.6	1.6	-0.5	-0.7	0.7	0.4	0.5	0.5	0.5
Unemployment Rate <sup>4</sup>	%	5.0	4.6	4.3	4.5	4.8	4.7	4.6	4.5	4.3	4.3	4.2	4.3	4.4	4.5	4.6	4.6
CPI <sup>5</sup>	% y/y	0.8	0.1	0.3	1.3	-0.1	0.4	0.0	0.2	0.1	0.0	0.4	0.7	1.3	1.3	1.2	1.4
General Govt. Balance	% of GDP	0.3	0.7	0.5	0.3												
General Govt. Debt	% of GDP	74.7	71.2	68.3	65.4												

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

<sup>5</sup> EU-harmonised, period averages

## France: Europe's reform laggard

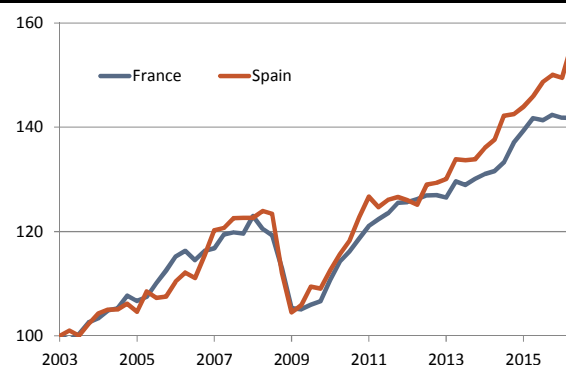
### Key drivers of forecast

- **Modest reforms:** Despite some small recent reforms, France lags behind most other European economies. The inflexible labour market prevents a stronger recovery.
- **Subdued outlook:** After a solid gain in Q1, GDP growth stalled in Q2. Expect a small increase for Q3. Without significant reforms, French growth will not accelerate much beyond 1% on a sustained basis.
- **Inflation:** Very low amid subdued domestic demand
- **Politics:** Although the threat of further terror attacks could strengthen the anti-EU far right, the Front National looks unlikely to win the presidential election in April/May 2017. If Juppé wins the Republican primary vote against Sarkozy on 20/27 November, the outlook for reforms and political stability could improve markedly. President Hollande may want to run again. But he seems far too unpopular to be re-elected.

### Risks: Tilted to the downside as reform efforts may stall

- **Upside:** More reforms could restore business sentiment and thus investment
- **Downside:** Political risks could weigh on confidence

### Real exports: who is competitive, who is not?



France, Spain real exports, 2003 = 100. Source: Eurostat

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.2	1.3	-0.1	1.1	1.1	0.0
Inflation	0.3	0.3	0.0	1.3	1.2	0.1
Unemployment	10.4	10.1	0.3	9.8	9.8	0.0
Fiscal balance	-3.3	-3.4	0.1	-3.1	-3.3	0.2

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	<b>0.7</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	1.3	1.1	1.1	1.3	1.4	1.4	1.2	1.0	0.7	1.1	1.3	1.4
	% q/q					0.6	0.0	0.3	0.4	0.7	0.0	0.2	0.2	0.4	0.4	0.4	0.4
	%q/q ann.					2.4	0.0	1.4	1.5	2.8	-0.2	0.6	0.9	1.4	1.4	1.4	1.4
Private Consumption	% y/y	<b>0.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.0</b>	1.9	1.5	1.5	1.2	1.8	1.7	1.4	1.6	0.7	1.0	1.1	1.1
	% q/q					0.5	0.1	0.5	0.1	1.1	0.0	0.2	0.2	0.3	0.3	0.3	0.3
Government Consumption	% y/y	<b>1.2</b>	<b>1.4</b>	<b>1.3</b>	<b>0.5</b>	1.4	1.4	1.4	1.3	1.5	1.5	1.3	1.0	0.7	0.4	0.4	0.4
	% q/q					0.2	0.3	0.3	0.5	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	<b>-0.4</b>	<b>0.9</b>	<b>2.5</b>	<b>1.5</b>	0.3	0.3	0.8	2.2	2.9	3.0	2.6	1.6	0.8	1.5	1.7	2.0
	% q/q					0.5	-0.2	0.6	1.2	1.3	-0.2	0.3	0.2	0.5	0.5	0.5	0.5
Final Domestic Demand <sup>1</sup>	% y/y	<b>0.6</b>	<b>1.3</b>	<b>1.8</b>	<b>1.0</b>	1.4	1.2	1.3	1.4	2.0	1.9	1.7	1.5	0.8	1.0	1.0	1.1
	% q/q					0.4	0.1	0.5	0.4	1.0	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Net Exports <sup>1</sup>	% y/y	<b>-0.5</b>	<b>-0.3</b>	<b>-0.5</b>	<b>0.2</b>	-0.2	0.3	-0.1	-1.0	-1.1	-0.8	-0.3	0.3	0.6	0.0	0.1	0.2
	% q/q					-0.2	0.4	-0.6	-0.6	-0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding <sup>1</sup>	% y/y	<b>0.5</b>	<b>0.1</b>	<b>-0.1</b>	<b>-0.1</b>	0.1	-0.4	-0.1	0.9	0.5	0.3	-0.2	-0.8	-0.7	0.1	0.1	0.1
	% q/q					0.3	-0.5	0.5	0.5	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	<b>-23</b>	<b>-4</b>	<b>-10</b>	<b>-3</b>	-1.7	-0.1	0.5	-3.0	-4.0	-3.3	-1.9	-0.4	-1.8	-2.0	-1.8	2.6
	% of GDP	<b>-1.1</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.1</b>												
Industrial Production <sup>2</sup>	% y/y	<b>-0.9</b>	<b>1.6</b>	<b>-0.2</b>	<b>0.9</b>	1.1	1.6	1.4	2.3	0.8	0.5	-1.1	-0.9	-0.1	0.4	1.8	1.6
	% q/q					1.1	0.1	0.7	0.4	-0.4	-0.1	-0.9	0.6	0.4	0.4	0.4	0.4
Unemployment Rate <sup>2</sup>	%	<b>10.3</b>	<b>10.4</b>	<b>10.4</b>	<b>9.8</b>	10.3	10.5	10.5	10.2	10.2	10.0	10.2	10.2	10.0	9.9	9.8	9.6
	% y/y	<b>0.6</b>	<b>0.1</b>	<b>0.3</b>	<b>1.3</b>	-0.2	0.3	0.1	0.2	0.1	0.1	0.4	0.8	1.1	1.2	1.4	1.6
General Govt. Balance	% of GDP	<b>-4.0</b>	<b>-3.5</b>	<b>-3.3</b>	<b>-3.1</b>												
General Govt. Debt	% of GDP	<b>95.4</b>	<b>96.2</b>	<b>96.4</b>	<b>96.7</b>												

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages



## Italy: Renzi's reforms pay off – but mind the political risks

### Key drivers of forecast

- **Reforms at last:** Prime Minister Renzi's labour reform boosted business sentiment in 2015. While Renzi's recent attempts to tackle banking issues are positive, concerns about losses for junior bond holders have hit consumer sentiment
- **Less austerity:** The end of major tax hikes removed that drag on growth in 2014; small stimulus for 2016
- **Another setback:** Concerns about the late 2016 constitutional referendum could weigh on confidence and business investment in H2 2016
- **Politics are key:** Renzi's reform agenda could lift Italy's weak growth trend. The next regular election is not due before spring 2018. However, the looming referendum in late 2016 on Senate reform could put Renzi's position at risk, potentially sparking a major political crisis
- **Inflation:** Very low due to internal devaluation

### Risks: Tilted to downside

- **Upside:** Serious structural reforms boost potential growth; EU grants some fiscal flexibility
- **Downside:** Weak banks impose credit crunch, political crisis and risk of early new elections hit confidence

### Political risk: Italian economic sentiment has fallen back



Index levels, rebased to 2005 = 100. Source: European Commission

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.8	0.8	0.0	0.8	0.8	0.0
Inflation	0.0	0.0	0.0	1.0	1.1	-0.1
Unemployment	11.4	11.5	-0.1	11.0	11.2	-0.2
Fiscal balance	-2.6	-2.5	-0.1	-2.5	-2.2	-0.3

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	<b>-0.3</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>	0.1	0.5	0.8	1.1	1.0	0.8	0.6	0.6	0.5	0.8	0.9	1.1
	% q/q					0.4	0.2	0.3	0.2	0.3	0.0	0.1	0.1	0.2	0.3	0.3	0.3
	%q/q ann.					1.5	1.0	1.0	0.8	1.2	0.1	0.4	0.6	1.0	1.1	1.1	1.1
Private Consumption	% y/y	<b>0.6</b>	<b>0.9</b>	<b>1.1</b>	<b>0.7</b>	0.4	0.7	1.2	1.3	1.7	1.2	0.9	0.7	0.5	0.7	0.8	0.8
	% q/q					-0.1	0.5	0.5	0.3	0.4	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Government Consumption	% y/y	<b>-1.0</b>	<b>-0.7</b>	<b>0.6</b>	<b>0.3</b>	-1.2	-0.6	-0.8	-0.1	0.9	0.7	0.6	0.1	0.0	0.4	0.4	0.4
	% q/q					-0.8	-0.2	0.3	0.6	0.2	-0.3	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	<b>-3.3</b>	<b>0.6</b>	<b>1.6</b>	<b>0.6</b>	-0.7	-0.1	1.0	2.3	2.3	2.1	1.5	0.7	-0.1	0.5	0.8	1.0
	% q/q					0.8	0.0	0.5	1.0	0.8	-0.3	0.0	0.1	0.1	0.3	0.3	0.3
Final Domestic Demand <sup>1</sup>	% y/y	<b>-0.4</b>	<b>0.5</b>	<b>1.1</b>	<b>0.6</b>	-0.1	0.3	0.8	1.1	1.6	1.3	0.9	0.6	0.3	0.6	0.7	0.7
	% q/q					-0.1	0.3	0.5	0.5	0.4	-0.1	0.1	0.1	0.1	0.2	0.2	0.2
Net Exports <sup>1</sup>	% y/y	<b>0.0</b>	<b>-0.3</b>	<b>-0.2</b>	<b>0.3</b>	-0.1	-0.2	-0.4	-0.6	-0.5	-0.3	0.0	0.0	0.3	0.2	0.2	0.3
	% q/q					-0.4	0.0	-0.3	0.1	-0.3	0.2	0.0	0.1	0.1	0.1	0.1	0.1
Stockbuilding <sup>1</sup>	% y/y	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	0.4	0.4	0.5	0.6	0.0	-0.1	-0.3	0.0	-0.1	0.0	0.0	0.1
	% q/q					0.8	0.0	0.1	-0.4	0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	<b>30.9</b>	<b>36.0</b>	<b>51.5</b>	<b>57.5</b>	0.9	6.6	13.2	15.2	4.9	15.2	14.7	16.7	6.4	16.7	16.2	18.2
	% of GDP	<b>1.9</b>	<b>2.2</b>	<b>3.1</b>	<b>3.4</b>												
Industrial Production <sup>2</sup>	% y/y	<b>-0.6</b>	<b>0.9</b>	<b>0.5</b>	<b>1.1</b>	-0.4	0.9	1.9	1.4	1.5	0.3	-0.1	0.3	0.2	1.0	1.4	1.6
	% q/q					0.3	0.8	0.4	-0.2	0.5	-0.4	0.0	0.3	0.4	0.4	0.4	0.4
Unemployment Rate <sup>2</sup>	%	<b>12.6</b>	<b>11.9</b>	<b>11.4</b>	<b>11.0</b>	12.3	12.2	11.5	11.6	11.6	11.5	11.3	11.2	11.1	11.0	10.9	10.8
CPI <sup>2</sup>	% y/y	<b>0.3</b>	<b>0.1</b>	<b>0.0</b>	<b>1.0</b>	-0.1	0.1	0.3	0.1	0.0	-0.2	-0.1	0.2	0.6	0.9	1.2	1.4
General Govt. Balance	% of GDP	<b>-3.0</b>	<b>-2.6</b>	<b>-2.6</b>	<b>-2.5</b>												
General Govt. Debt	% of GDP	<b>132.5</b>	<b>132.7</b>	<b>132.4</b>	<b>132.0</b>												

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages

## Spain: the poster child for reform

### Key drivers of forecast

- **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
- **Rebound in domestic demand:** Crisis over. Consumption and residential investment are rebounding solidly
- **Inflation** to stay below the Eurozone average despite strong demand growth due to internal devaluation

### Risks: Watch the politics

- **Upside:** The sharp fall in borrowing costs boosts investment; cheap oil helps
- **Downside:** Political uncertainty, the lack of a government that could take decisions and the risk of reform reversals weigh on investment
- **Political risks:** No majority for pro-reform forces at 26 June 2016 repeat election; Prime Minister Rajoy has failed to form government so far; if no government by 31 October, third round of election in late December. But no big issue for Europe as all major parties are pro-euro

### Spain: reforms create hope for the unemployed



National definition, 000s, 12m sum. Source: Spanish Labour Ministry

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	3.0	2.9	0.1	2.4	2.0	0.4
Inflation	-0.5	-0.4	-0.1	1.2	1.3	-0.1
Unemployment	19.7	20	-0.3	18.3	18.7	-0.5
Fiscal balance	-4.1	-4.1	0.0	-3.4	-3.5	0.1

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	14	3.2	3.0	2.4	2.7	3.2	3.4	3.5	3.4	3.2	2.9	2.6	2.5	2.2	2.3	2.4
	% q/q					0.9	1.0	0.8	0.8	0.8	0.8	0.5	0.5	0.6	0.6	0.6	0.6
	%q/q ann.					3.7	3.9	3.3	3.3	3.1	3.4	2.1	2.1	2.4	2.4	2.4	2.4
Private Consumption	% y/y	12	3.1	3.2	2.4	2.5	2.8	3.5	3.5	3.7	3.6	2.9	2.8	2.4	2.3	2.4	2.4
	% q/q					0.8	0.8	1.1	0.8	1.0	0.7	0.5	0.6	0.6	0.6	0.6	0.6
Government Consumption	% y/y	0.0	2.7	0.5	0.4	1.5	2.5	3.0	3.7	2.4	0.1	-0.1	-0.4	-0.9	0.9	0.8	0.8
	% q/q					1.9	0.7	0.5	0.4	0.7	-1.6	0.3	0.2	0.2	0.2	0.2	0.2
Investment	% y/y	3.5	6.4	3.9	3.4	6.1	6.3	6.7	6.4	5.1	4.0	3.5	3.0	3.6	3.2	3.3	3.5
	% q/q					1.6	2.3	1.3	1.1	0.3	1.3	0.8	0.7	0.8	0.9	0.9	0.9
Final Domestic Demand <sup>1</sup>	% y/y	14	3.7	2.8	2.2	3.1	3.5	4.1	4.2	3.7	3.0	2.4	2.2	2.0	2.2	2.3	2.4
	% q/q					1.2	1.1	1.0	0.8	0.8	0.3	0.5	0.5	0.6	0.6	0.6	0.6
Net Exports <sup>1</sup>	% y/y	-0.1	-0.3	0.3	0.2	-0.2	-0.1	-0.6	-0.4	-0.3	0.3	0.6	0.4	0.6	0.1	0.1	0.1
	% q/q					-0.4	0.0	-0.3	0.2	-0.2	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding <sup>1</sup>	% y/y	0.1	0.0	0.1	0.0	0.0	-0.1	0.1	0.0	0.1	0.1	0.0	0.1	-0.1	0.0	0.0	0.0
	% q/q					0.2	-0.1	0.1	-0.2	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	10	15	20	20	-1.6	2.5	6.0	8.1	-1.1	7.5	6.0	8.1	-1.1	7.5	6.0	8.1
	% of GDP	1.0	1.4	1.8	1.8												
Industrial Production <sup>2</sup>	% y/y	1.3	3.3	1.3	2.0	1.6	3.0	4.1	4.6	3.0	1.3	0.4	0.4	1.2	1.8	2.5	2.4
	% q/q					1.4	1.6	0.8	0.7	-0.2	0.0	-0.1	0.7	0.6	0.6	0.6	0.6
Unemployment Rate <sup>2</sup>	%	24.5	22.1	19.7	18.3	23.2	22.5	21.6	21.0	20.5	20.1	19.4	19.0	18.7	18.4	18.1	17.8
CPI <sup>2</sup>	% y/y	-0.2	-0.6	-0.5	1.2	-1.1	-0.3	-0.6	-0.5	-0.8	-1.0	-0.3	0.3	0.7	1.0	1.3	1.6
General Govt. Balance	% of GDP	-5.9	-5.1	-4.1	-3.4												
General Govt. Debt	% of GDP	99.3	99.2	98.8	98.0												

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages

## Portugal: reform reversals pose serious risks

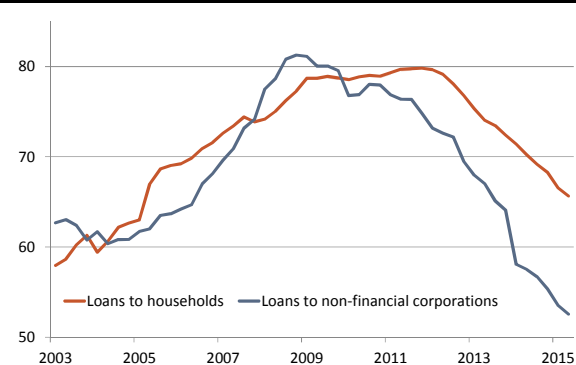
### Key drivers of forecast

- **Gains in competitiveness** supported an export- and investment-led recovery until early 2015. However, growth has lost momentum after problems in some key export markets and some reform reversals at home
- **Debt overhang drops** as private debt burden declines
- **Back to bad policies?** The left-wing government reversed some key supply-side reforms. This weighs on trend growth and makes it more difficult to meet fiscal targets
- **Inflation:** Internal devaluation keeps inflation low
- **GDP:** Moderate recovery stalled over past 12 months
- **Politics:** Leftist government may be unstable. Can it deliver the needed fiscal repair? It has no mandate for confrontation with EU

### Risks: Tilted to the downside

- **External shock:** Brexit-related uncertainties may hurt
- **Political risks:** Reform reversals or a confrontation with Brussels could push Portugal back into crisis. A new crisis with a new bailout is unlikely but not impossible if DBRS rating agency downgrades Portugal on 21 October, making Portuguese debt ineligible for ECB purchases

### Portugal: paying back the debt



MFI loans to households/NPISH and non-financial corporations, % of GDP. Sources: ECB, INE

### Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.9	0.9	0.0	1.2	1.0	0.2
Inflation	0.7	0.6	0.1	1.4	1.3	0.1
Unemployment	11.4	11.8	-0.4	10.5	11.2	-0.7
Fiscal balance	-2.9	-3.0	0.1	-2.6	-2.8	0.2

Bloomberg consensus, taken on 16 September 2016. Numbers may not add up due to rounding.

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
<b>GDP</b>	% y/y	<b>0.9</b>	<b>1.5</b>	<b>0.9</b>	<b>1.2</b>	1.7	1.5	1.4	1.3	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.3
	% q/q					0.5	0.4	0.1	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3
	%q/q ann.					2.2	1.4	0.6	0.9	0.9	1.2	0.9	1.0	1.2	1.3	1.3	1.4
Private Consumption	% y/y	<b>2.2</b>	<b>2.6</b>	<b>1.8</b>	<b>0.9</b>	2.6	3.3	2.3	2.3	2.6	1.7	1.4	1.5	0.8	0.9	1.0	1.0
	% q/q					0.7	1.0	0.4	0.1	1.0	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Government Consumption	% y/y	<b>-0.5</b>	<b>0.6</b>	<b>0.8</b>	<b>1.2</b>	-0.3	1.0	0.8	0.9	0.9	0.2	1.0	1.2	1.2	1.2	1.2	1.2
	% q/q					0.3	0.9	-0.5	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment	% y/y	<b>2.8</b>	<b>4.1</b>	<b>-1.3</b>	<b>1.3</b>	8.6	5.2	2.0	1.0	-1.7	-3.1	-0.2	-0.2	0.8	1.3	1.4	1.7
	% q/q					2.1	1.4	-2.6	0.2	-0.7	-0.1	0.3	0.2	0.4	0.4	0.4	0.5
Final Domestic Demand <sup>1</sup>	% y/y	<b>1.8</b>	<b>2.5</b>	<b>1.1</b>	<b>1.0</b>	2.9	3.1	2.0	1.8	1.6	0.6	1.1	1.2	0.9	1.0	1.1	1.2
	% q/q					0.9	1.1	-0.2	0.1	0.6	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Net Exports <sup>1</sup>	% y/y	<b>-1.2</b>	<b>-0.9</b>	<b>-0.2</b>	<b>0.1</b>	-0.1	-2.0	-0.6	-1.0	-0.7	0.2	-0.3	-0.3	0.1	0.1	0.1	0.1
	% q/q					-0.7	-0.9	0.5	0.0	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding <sup>1</sup>	% y/y	<b>0.3</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>	-1.1	0.4	0.0	0.5	0.0	0.0	0.1	0.1	0.1	-0.1	0.0	0.0
	% q/q					0.4	0.1	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	<b>0.2</b>	<b>1.1</b>	<b>0.8</b>	<b>1.0</b>	0.6	-0.3	0.5	0.3	0.2	-0.3	0.6	0.4	0.2	-0.3	0.6	0.4
	% of GDP	<b>0.1</b>	<b>0.6</b>	<b>0.4</b>	<b>0.5</b>												
Industrial Production <sup>2</sup>	% y/y	<b>1.8</b>	<b>1.7</b>	<b>0.8</b>	<b>0.8</b>	0.4	1.8	2.3	2.3	0.8	1.1	0.4	0.8	0.9	0.7	0.8	0.9
	% q/q					0.1	3.0	-0.2	-0.5	-1.3	3.3	-1.0	-0.1	-1.2	3.1	-0.9	0.0
Unemployment Rate <sup>2</sup>	%	<b>14.1</b>	<b>12.6</b>	<b>11.4</b>	<b>10.5</b>	13.5	12.5	12.3	12.3	12.1	11.3	11.1	11.0	10.8	10.6	10.3	10.1
CPI <sup>2</sup>	% y/y	<b>-0.2</b>	<b>0.5</b>	<b>0.7</b>	<b>1.4</b>	0.1	0.7	0.7	0.5	0.5	0.5	0.8	1.2	1.5	1.4	1.4	1.4
General Govt. Balance	% of GDP	<b>-7.2</b>	<b>-4.4</b>	<b>-2.9</b>	<b>-2.6</b>												
General Govt. Debt	% of GDP	<b>130.2</b>	<b>129.0</b>	<b>127.4</b>	<b>125.6</b>												

<sup>1</sup> Contribution to GDP growth <sup>2</sup> Period averages

# FORECASTS AT A GLANCE

## Economics

### Forecast changes

We make no major changes to our forecasts this week

### Berenberg compared to consensus

	GDP		Inflation		Unemployment Rate		Govt. Budget Balance	
	2016	2017	2016	2017	2016	2017	2016	2017
US	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0
China	0.1	-0.2	-0.1	0.0	0.1	0.1	0.1	0.5
Japan	0.1	0.2	0.0	-0.2	-0.1	-0.2	-0.6	0.3
UK	0.3	0.7	0.0	-0.5	0.0	-0.3	-0.1	-0.1
Eurozone	0.0	0.2	-0.1	0.1	-0.1	-0.2	0.0	0.0
Germany	0.1	0.3	-0.1	-0.2	n/a	n/a	0.3	0.2
France	-0.1	0.0	0.0	0.1	0.3	0.0	0.1	0.2
Italy	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.1	-0.3
Spain	0.1	0.4	-0.1	-0.1	-0.3	-0.5	0.0	0.1
Portugal	0.0	0.2	0.1	0.1	-0.4	-0.7	0.1	0.2

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, taken on 16 September 2016. 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 <sup>1</sup>	End-2016	Mid-2017
<b>Central bank rates</b>			
US Fed	0.25-0.50%	0.50-0.75%	1.00-1.25%
ECB	0.00%	0.00%	0.00%
BoE	0.25%	0.10%	0.10%
BoJ	-0.10%	-0.10%	-0.10%
<b>10-year bond yields</b>			
US	1.68%	1.80%	2.10%
Germany	0.02%	0.20%	0.50%
UK	0.88%	0.80%	0.90%
<b>Currencies</b>			
EUR-USD	1.12	1.11	1.12
EUR-GBP	0.85	0.84	0.83
GBP-USD	1.32	1.32	1.35
USD-JPY	102	104	108
EUR-JPY	115	115	121
EUR-CHF	1.09	1.09	1.10

<sup>1</sup> Taken on 16 September 2016 at 08:30h GMT

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

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