Economics

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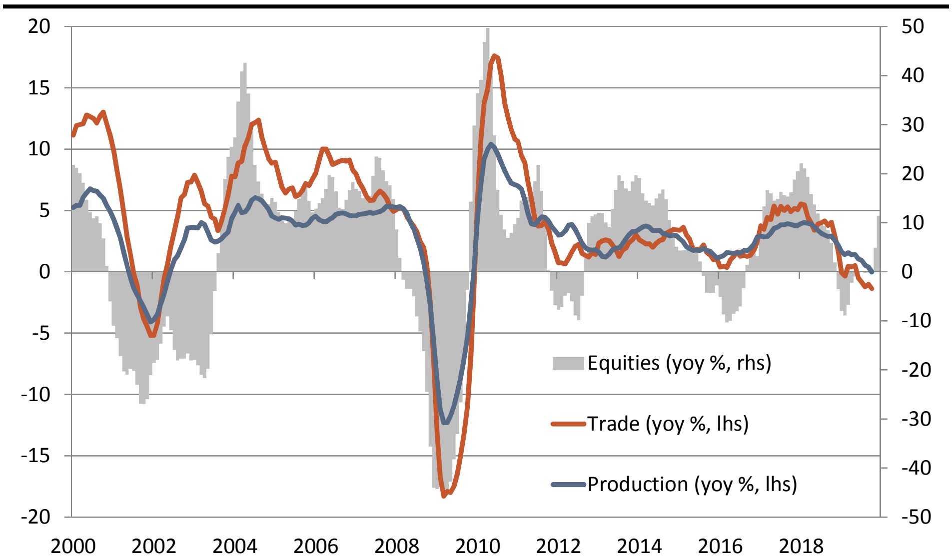
Global outlook 2020: modest rebound ahead

- **Beyond the worst:** The political shocks that derailed the upturn in global trade last year will likely retard global GDP growth by less in 2020 than in 2019. The US and China look set to sign an ambitious trade deal soon and Brexit uncertainty has receded. In addition, China continues to step up its stimulus. From a lower starting level, global trade and manufacturing can return to moderate growth in 2020 after bottoming out at the start of the new year.
- **Narrowing the gap:** Across the western world, ongoing gains in real incomes and employment as well as low interest rates support private consumption and residential construction. Rising government spending is adding to that. We expect the gap between subdued cross-border trade and largely resilient domestic demand to narrow over the course of 2020. Trade can recover somewhat while healthy economic fundamentals and fiscal support keep domestic demand on track.
- **Some long-term costs:** Even if growth recovers, some of the damage caused by narrow "my country first" policies in the last few years will be permanent. Amid elevated uncertainty, global trade in goods and economic exchanges between the UK and the European continent will never flourish quite as much as before.
- **The end of ever lower yields.** In the absence of new political shocks that could hurt confidence and investment, the US Fed and the ECB will not ease policy further in 2020. The BoE may even hike rates in the second half of 2020. A gradual recovery in economic growth, a slight updrift in core inflation and a new readiness to raise public debt will likely underpin a modest rise in bond yields.
- **Some rotation into risk:** While less depressed bond yields can contain the upside for equity markets, we expect some further rotation into cyclical sectors as risk appetites improve. With less demand for safe havens, the US dollar and the Swiss franc can lose some ground.
- **Risks – serious but not worse than usual:** A surge in core inflation could force central banks to put an end to the post-Lehman upturn in global growth and global markets. The looming US election on 3 November 2020 will dominate the political headlines. Iranian turmoil could cause a brief spike in oil prices. Other risks such as Hong Kong, Turkey and Libya add to the mix. But none of these risks looks dire enough to make a major difference to our cautiously positive outlook for 2020.

Chart 1: Markets are sniffing a turning point – global equities, world trade, production (% yoy)



Industrial production excluding construction, Dow Jones Global Index, global trade volumes; yoy changes in %, three-month moving averages. Source: Netherlands Bureau for Economic Policy Analysis, Wall Street Journal

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Holger Schmieding
Berenberg
Chief Economist
holger.schmieding@berenberg.com
+44 20 3207 7889

Mickey D. Levy
Berenberg Capital Markets
Chief Economist US, Americas and Asia
mickey.levy@berenberg-us.com
+1 646 445 4842

Kallum Pickering
+44 20 3465 2672

Florian Hense
+44 20 3207 7859

Roiana Reid
+1 646 445 4865

Overview: the return of economics

Good news at last: nothing has gone badly wrong since September

Following a series of shocks that had brought growth in global trade to a halt by mid-2019, nothing has gone badly wrong in the realm of global economic policy since September 2019. As a result, the downturn in global trade and manufacturing output has started to bottom out. A range of financial and economic indicators now project a gradual economic recovery for 2020. The ambitious "phase one" trade deal, which the US and China want to sign on 15 January, and - on a smaller scale - the end of political gridlock in the UK support the hope that the global economy will fare better in 2020 than in 2019. Of course, the evidence is still tentative. New political shocks could still overwhelm the mostly positive economic fundamentals, as they did in 2019. However, chances are that economics will largely prevail over political risks in 2020. If so, global growth should return to a more balanced and normal pattern over the course of 2020.

Three major gaps that defy economic logic

Across most of the developed world, three major gaps opened up during 2019:

- first, while GDP growth lost momentum, equity markets rebounded strongly from the late-2018 sell-off;
- second, while stagnant global trade and an ensuing inventory correction weighed on GDP growth, gains in final domestic demand stayed close to the underlying trend; and
- third, while businesses held back on investment decisions amid elevated global uncertainty, private consumption, residential construction and government spending expanded at a healthy pace on both sides of the Atlantic.

Expect the gaps to narrow in the right way

These gaps defy economic logic. They cannot be sustained for much longer. We expect them to narrow in the right way in 2020. Business investment, global trade and global manufacturing output will likely recover over the course of 2020. Stronger and more broad-based economic growth will largely justify the positive expectations that equity markets have mostly priced in already. Just like the downturn in global trade hit export-dependent economies most in 2019, the return to a more normal pattern will make the biggest difference for economies that specialise in the production and export of investment goods. As long as the key political risks (escalating trade wars, Italian debt crisis) do not materialise, the Eurozone can get back to an annualised growth rate close to the 1.5% trend from Q3 2020 onwards. While subdued gains in manufacturing output could push US growth below 2% annualised rates in early 2020, we look for a return to rates in line with the underlying trend of just above 2% in the second half of 2020.

No reason for a recession yet as fundamentals remain encouraging

Across the developed world, economic fundamentals remain encouraging. Eleven years after the post-Lehman mega-recession, the upswing has not run its full course yet. Apart from isolated problems such as those in the US corporate bond market, we find no serious credit, inflation or investment excesses that would require a cleansing recession. Instead, the politically induced dip in global growth in 2019 has further delayed the point at which economies may hit serious bottlenecks. We look for at least two more years of growth at rates close to trend with no more than a modest rise in underlying inflation pressures.

China faces serious problems – but will likely muddle through for now

China suffers from the inevitable deceleration in trend growth of a catching-up economy, an excess debt burden accumulated in previous credit binges and the damage from trade tensions. Chinese growth may well be significantly lower than official statistics suggest. Still, with a high savings rate, an external surplus and low inflation, China retains the capacity to open the credit taps again for a while if other stimulus measures fail. We expect China to delay a serious crisis with a sufficient monetary and fiscal stimulus.

Key risks: too much inflation and new political shocks

As usual, the outlook is subject to serious downside risks. In economic terms, an unexpectedly pronounced rebound in core inflation could force central banks to step on the brakes and put an end to the post-Lehman upturn in global growth and global markets. A Chinese slump or a sustained spike in oil prices in the wake of a potential Iran crisis could also weigh heavily on the outlook. We discuss these risks, and the reasons why we do not expect them to materialise, on pages 12 and 14, respectively. On the political scene, the looming US election on 3 November 2020 will dominate the headlines (see page 11). Whether or not Germany's Angela Merkel or Italy's Giuseppe Conte will still be in office next Christmas and whether France's Emmanuel Macron will stay the course of serious pro-growth reforms are open questions. In addition, we may need to watch other political risks (Hong Kong, Turkey, Libya, to name just a few). Nonetheless, none of these risks currently looks dire enough – or important enough – for the time being to make a major difference to our cautiously positive outlook for 2020.

US: sustained growth in 2020

We see 2.1% real GDP growth in 2020, the risk of recession is low

We expect the record US economic expansion to continue through 2020. The probability of recession is low and the risks to our forecast for 2.1% real GDP growth are balanced. Consumption, housing and government purchases are likely to continue to grow solidly, contributing to further job growth and rising labour force participation. The economy will benefit from the rolling back of some US-China tariffs and diminishing trade uncertainties that will likely boost global trade. Beyond the GDP numbers, Washington's attention-gathering dysfunctionality and presidential election uncertainties, which could dent confidence, the pace of technological innovation and its implementation into all facets of the economy is truly remarkable and will continue.

Solid growth in earnings will support real consumption growth

We project that real consumer spending will grow by 2.5% in 2020. Consumption, which accounts for almost 70% of US GDP, did the heavy lifting in 2019 as business fixed investment lagged behind. Consumer fundamentals remain favourable. Employment growth and healthy gains in real average hourly earnings support real disposable income growth (Chart 2), low interest rates reduce consumer debt service costs, and household net worth is at an all-time high of $114trn. The elevated personal savings rate, reflecting increased consumer caution, provides households room to smooth or boost consumption.

Housing benefits from low rates and healthy labour markets

Backed by solid fundamentals, housing activity should continue to increase. We project real residential fixed investment to grow by 4.7% in 2020, its best performance since 2016. Along with healthy labour markets and worker confidence, low mortgage rates are lifting affordability and pulling potential first-time buyers off the sidelines. Demand for new housing units will also be driven by: i) the large millennial cohort that is forming new households (Chart 3); ii) baby boomers who may choose to move into smaller units for retirement; iii) the tight supply of reasonably priced existing homes for sale; and iv) improving household balance sheets. We expect further increases in housing starts and new home sales. However, tight inventory will constrain existing home sales.

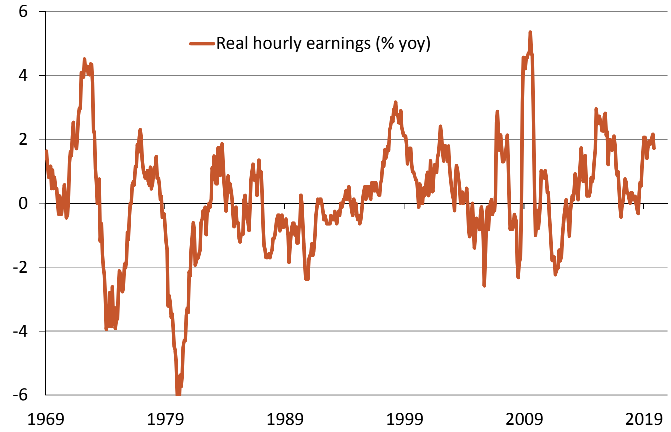
Business investment up only modestly in 2020 as headwinds linger

Real business fixed investment, which weakened significantly in 2019 in response to global weakness and trade policy uncertainties, will likely increase by just 1.3% in 2020. That would be its lowest rate of growth since 2016. US and global industrial production should bottom out and rebound modestly by mid-2020 as global trade volumes recover. Weaker investment in oil and gas drilling and supporting sectors, as firms rein in expansion plans to build healthier balance sheets, will constrain investment. Boeing's ongoing issues will be a drag on production of aircrafts and parts and inventory investment early in the year.

A weaker dollar would be positive for export-dominant manufacturers

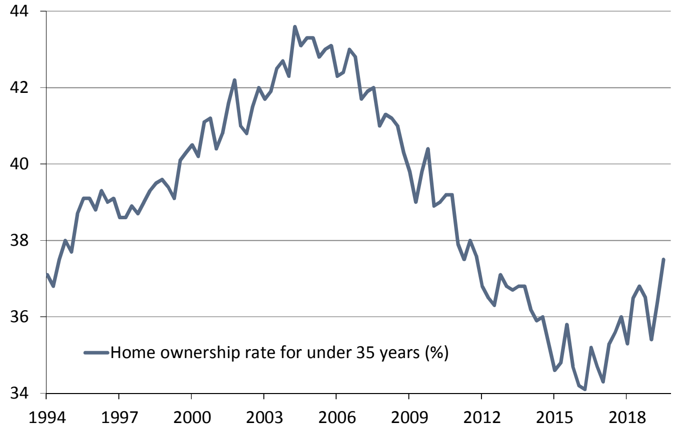
A weaker US dollar would be positive for export-dominant manufacturers and multinational companies. If trade tensions continue to ease, more of the longer-run benefits from the Tax Cuts and Jobs Act and deregulation initiatives from the Trump administration will shine through. However, an easing of trade policy uncertainties may be replaced by other uncertainties, particularly surrounding the US Presidential elections, and dampen business fixed investment in 2020.

Chart 2: US real average hourly earnings



Yoy change in %. Monthly data. Source: Bureau of Labor Statistics

Chart 3: US home ownership rate: under 35 years (%)



Quarterly data. Source: Census Bureau and Berenberg Capital Markets

The Congress and the White House agreed on the Bipartisan Budget Act of 2019 that raises defence and domestic spending limits over fiscal year 2020-21. As a result, government consumption expenditures and gross investment will contribute sizably to real GDP growth again in 2020. Policymakers on both sides of the political aisle are comfortable with boosting spending, despite annual federal deficits that are projected to exceed $1trn over the next decade as the aging population and rising health care costs push up entitlement spending. Persistently low interest rates have kept a lid on the government's net debt service costs and facilitated very lax budget policies. However, these policies pose a myriad of longer-run challenges.

Government purchases to contribute sizably to GDP growth

US exports hinge critically on global economic conditions and trade. We expect a modest rebound in global growth and trade (Chart 4). Even with an easing of US-China trade tensions, China's economic growth will remain soft, though. A depreciation of the US dollar would support US exports. We expect US import growth to remain weak, reflecting soft US investment and because some businesses pulled forward imports to avoid anticipated tariffs. Taken together, the contribution of net exports to GDP growth should be less negative than in recent years.

Performance of US exports hinge on global economic conditions

Labour markets are expected to remain strong, extending the remarkable streak of job growth. The supply of labour has been more elastic than the Fed and other observers had assumed as reflected in continued increases in the prime working-age labour force participation rate. The overall participation rate increased in 2019 – a couple of years ago it was widely expected to decline, especially given the aging population. The number of job openings has declined, but is still above the number of unemployed persons and hires while businesses, especially smaller ones, complain of shortages of qualified labour. Businesses are increasing both wage and non-wage benefits to retain and attract talent. They are allowing employees more work flexibility, lifting household confidence.

Prime-age labour force participation will continue to edge higher

Low inflation expectations along with modest growth in nominal GDP suggest that core inflation should remain below 2%. Although nominal wage gains have improved, stronger productivity growth has held down unit labour cost growth and capped inflation. The US dollar appreciation over the past two years is still weighing on non-petroleum import prices that are declining 1.4% yoy, while tariffs have had only a minor impact on inflation. If the recent decline in the US dollar continues, import prices would rise with a lag.

Core PCE inflation to rise modestly, but remain below 2%

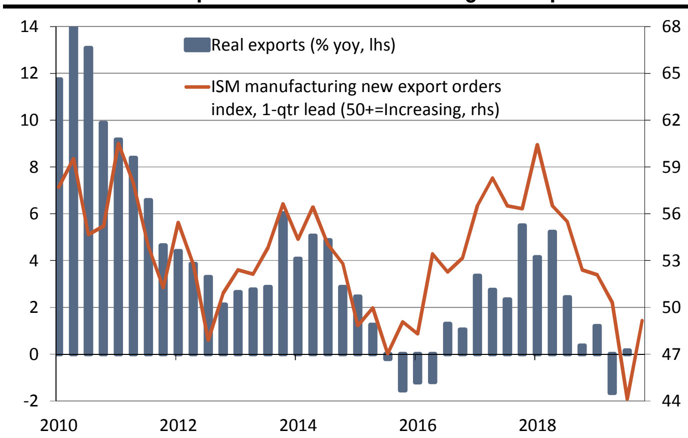
With core inflation below 2% and real growth modestly above the Fed's estimate of potential, the Fed is likely to leave its policy rate on hold unless the economic outlook and risks change materially. The Fed's bar for hiking rates is much higher than for lowering rates (Chart 5). As it works toward publishing its review of monetary policy strategy, tools and communication practices by mid-2020, it has made clear that following persistently sub-2% inflation, it would welcome inflation modestly above 2% and would not raise rates if that were to unfold.

Fed to remain on hold unless the outlook and risks change materially

We perceive risks to the US economic outlook to be balanced. On the upside, a healthy recovery in global growth and trade, driven by repeal of US-China trade barriers and positive economic news in China, would boost business confidence. This would drive up real bond yields. Downside risks take two forms. A sharp fall in consumer confidence would dent spending. But the largest risk would be the election of a president on the extreme left, especially if Democrats also won a majority in the Senate, which would usher in anti-growth policies.

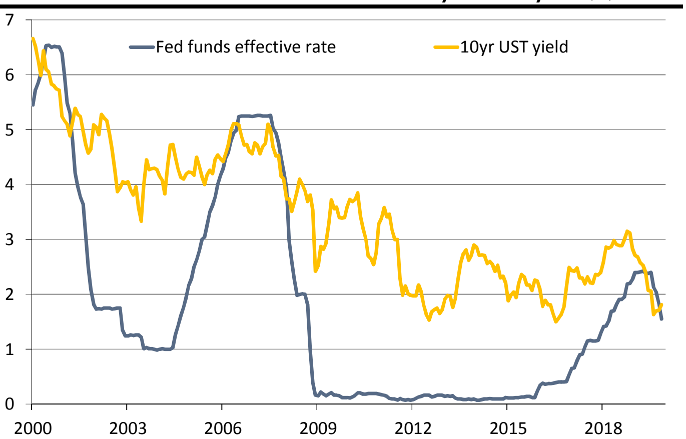
Risks to US GDP growth are balanced

Chart 4: US real exports and ISM manufacturing new export orders



Quarterly data. Q4-2019 export orders index estimated. Source: ISM, BEA

Chart 5: US – Fed funds effective rate and 10-year UST yield (%)



Monthly data. Source: Federal Reserve Board

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China: marked economic slowdown and challenges

It is widely acknowledged that China's economic growth has slowed significantly, even if government official data indicate that real GDP continues to cruise along a 6% growth path. China is a centrally planned command-and-control economy. The government controls official data as well as state-owned enterprises (SOEs) and many aspects of how capital and physical resources are allocated. Absent the artificial pumping up of government spending on wasteful projects, growth is probably in a 3-4% range.

China's official data overstate actual economic performance

China's slowing potential growth and mounting debt burdens suggest that policy initiatives to stimulate the economy will work only temporarily. Trend growth is likely to continue to soften following decades of robust gains. China's slower growth – and the shift in the composition of GDP toward consumption, services and government purchases – will continue to limit the growth of global trade volume and flows.

China's slower growth will continue to constrain global trade

The goal of China's leaders to rely more on domestic consumption and services and less on export-related manufacturing has been constrained by concerns about mounting private debt and credit problems and tighter credit standards. Along with much weaker job growth, particularly in the high-pay manufacturing sectors, and other factors, this has contributed to sizable declines in auto sales and slower consumer spending growth (Chart 6). China's consumer spending power remains massive, but growth is likely to be tempered in coming years.

Mounting credit problems constrain domestic consumption

China's gross capital formation remains above 40% of GDP, an astounding level for the world's second biggest economy, but its composition is telling: while private business growth has slowed materially, a very large and rising share of the capital formation is government investment in infrastructure. While this is boosting official GDP growth, it involves an increasing misallocation of national resources and a small multiplier for the Chinese economy and global trade.

Government infrastructure spending misallocates resources

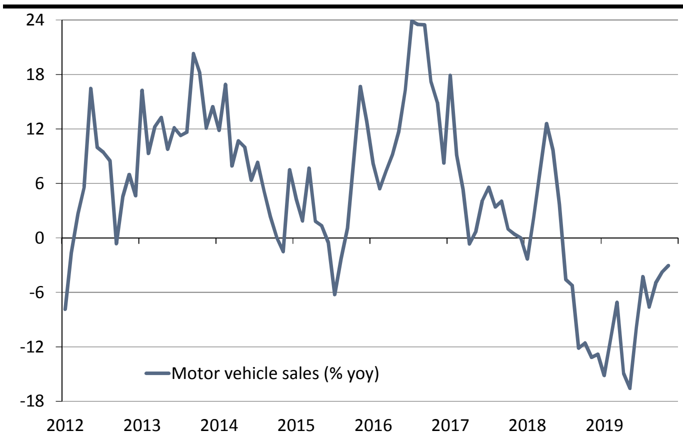
China's exports have flattened (Chart 7). This reflects the negative impacts of US tariffs and trade policy uncertainties, but also China's rising unit labour costs, which hurts its competitiveness, and the negative feedback of slower global growth on demand for Chinese products. Along with weaker consumption and domestic demand, flat exports have been associated with a decline in imports.

Tariffs, rising labour costs and slower global growth hurt exports

The pending US-China partial trade agreement is expected to ease some uncertainties and provide a boost. But the overall impact will be limited, constrained by other factors including the tilt away from relying on China as a major hub in the supply chain of many global businesses. We expect any recovery in China's trade flows to be modest.

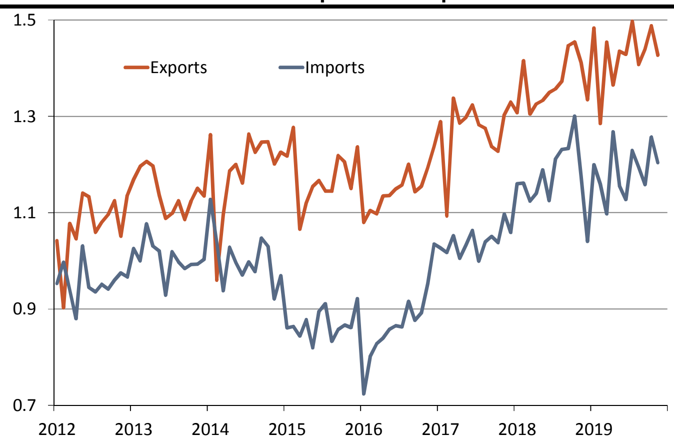
US-China trade agreement to ease some uncertainties

Chart 6: China – motor vehicle sales



Yoy change in %. Monthly data. Source: China Association of Automobile Manufacturers

Chart 7: China – merchandise exports and imports



In trillion Yuan. Monthly data. Source: China Customs

Japan responds negatively to VAT hike

GDP growth to recover gradually in 2020 after weak ending to 2019

Japan's economy continued to grow through Q3 2019 despite the drag from declining global trade. However, it likely contracted significantly in Q4 in response to its October VAT hike and ended 2019 on a decidedly weak note. Its performance in 2020 hinges on whether businesses and consumers can recover from the recent consumption tax increase and on the economic trends in China and Asia and global trade, which will determine the performance of Japan's exports (Chart 8). We expect Japan's real GDP to recover gradually as the new government stimulus spending takes effect, and improve as the year proceeds, resulting in 0.6% annual growth.

Japan's exports and industrial production are declining

Similar to other advanced nations, Japan's economy has been characterised by declines in exports and industrial production reflecting lower global trade volumes, offset by rising consumption. But unlike most, its fixed capital formation held up well and continued to grow through Q3 2019 despite heightened trade policy uncertainties.

Consumption fell more than policymakers expected after VAT hike

The VAT hike in October 2019 upset this uneasy mix, though. In the run up to the widely anticipated VAT hike, consumer spending surged and capital spending also jumped (Chart 9). Following the VAT hike from 8% to 10%, consumption fell significantly more than Japanese policymakers had forecast, despite temporary fiscal offsets that had been put into place to mitigate the impact of the tax increase. Importantly, business investment also slumped after the Q3 surge. Reflecting this – along with heavy rains and an earthquake – we estimate that real GDP fell 2.5% annualised in Q4, more than offsetting the 1.8% annualised rise in Q3.

Policymakers have responded with a sizable fiscal stimulus package

This contraction follows a pattern strikingly similar to the outsized negative responses to the 1997 and 2014 VAT hikes. Fearing sustained weakness, Japan has responded quickly this time with a fiscal stimulus package equal to approximately 2.3% of GDP. The stimulus initiative is comprised of infrastructure spending to enhance preparedness for natural disasters plus other government spending and income support programmes.

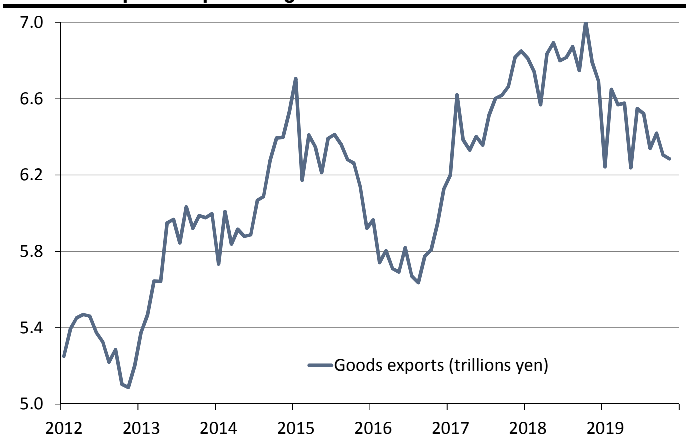
Tentative rebound in consumption and business investment

The increase in government infrastructure spending will lift real GDP and raise the government's share of GDP. However, the rebound in consumption and business investment will likely be more tentative, depending critically on whether confidence is restored. Exports may be slow to recover, depending on economic conditions in China and global trade. A modest recovery overseas, as expected, would provide a welcomed lift to Japan's economy.

The BoJ will maintain its very easy monetary policy

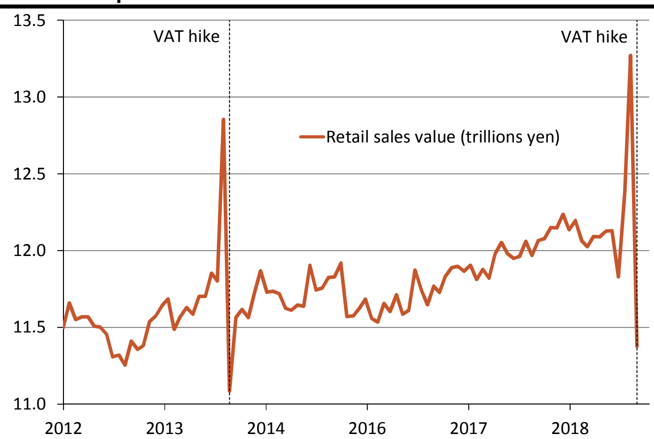
Amid these economic conditions, underlying inflation will remain close to zero. The Bank of Japan will continue to impose its -10bp policy rate and continue with its aggressive quantitative-qualitative easing.

Chart 8: Japan – exports of goods



In trillion Yen. Monthly data. Source: Japan Ministry of Finance, Japan Tariff Association

Chart 9: Japan – retail sales



In trillion yen. Monthly data. Source: Japan Ministry of Economy, Trade and Industry

Eurozone: slowly bottoming out and recovering

2019 – A challenging year: Exports and manufacturing particularly hit

For much of 2019, global trade tensions, the Chinese slowdown and the Brexit turmoil held the Eurozone economy hostage. Since exports and industrial production make up a relatively large share of GDP in member states such as Germany, Belgium and the Netherlands, the Eurozone stands to benefit more from the modest rebound in global trade and manufacturing output that we project for 2020 than almost all other major regions of the world. Due to the low starting level of GDP, the new momentum will not show up in average annual growth, which we expect to decline to 1.0% in 2020 from an estimated 1.2% in 2019. However, the yoy rates of growth will likely rebound from a trough of 0.7% in Q1 2020 to 1.3% in Q4 and settle around the 1.5% trend rate in 2021.

Domestic demand saved the year...

After contributing to GDP growth by 0.8ppt in 2017 and 0.1ppt in 2018, net exports turned into a small drag in 2019 (Chart 10). That businesses cut down their inventories amid lower production shaved a further c0.4ppt off GDP growth last year. Fortunately, domestic demand remained surprisingly robust. While machinery investment softened from gains of 4.4% yoy in 2017 and 2018 to 1.8% yoy in Q3 2019, construction investment as well as private and government consumption held up well. With a gain of c1.7%, final domestic demand rose roughly as much in 2019 as it did in 2017 and 2018. Unlike manufacturers, domestically oriented service providers did well in 2019. The construction sector continued to boom. The gap between services (and construction) versus manufacturing widened (Chart 11).

...driven by household consumption, government spending and construction

As employment continued to rise and wage growth accelerated from 1% in 2016 to 2-2.5% in 2019, while inflation remained muted at c1%, real household incomes increased healthily. Households have built up savings despite low interest rates while the rise in asset prices has further increased some households' net wealth. Consumers continue to judge their own financial situation as very good (Chart 12). Outpacing private consumption, government spending also supported aggregate demand. Some of the extra expenditures followed long-term plans, others were taken to counteract the downturn. Compared to other economies, the Eurozone opened the fiscal taps only mildly over the past two years, though.

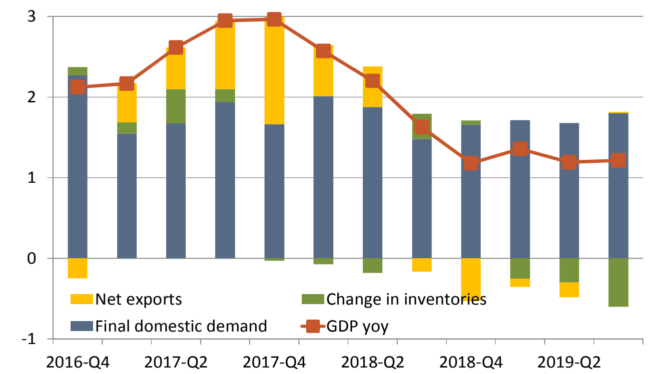
Something has to give

The gap between weak foreign trade and largely robust domestic demand cannot last. The downturn in trade and manufacturing started to spread to parts of the domestic economy over the course of 2019. Most importantly, confidence among service providers has fallen and job gains have slowed. If the downturn in trade and manufacturing were to last, domestic demand could soften significantly in 2020.

More likely, the industrial recession will give than the robust domestic demand

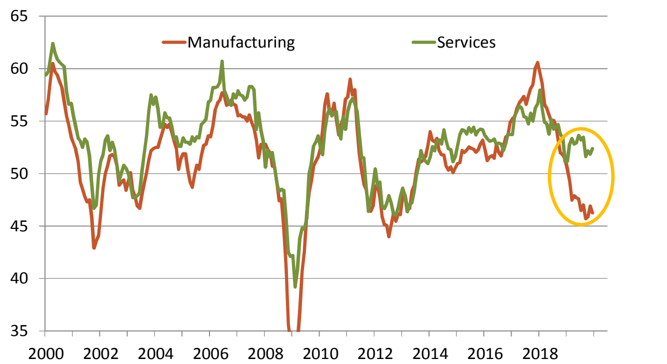
However, the gap between manufacturing and services will probably narrow mostly by a gradual upturn in manufacturing. Global trade tensions have no longer escalated since September 2019. As a result, the downturn in global trade and manufacturing has started to bottom out. A range of financial and economic indicators point to a gradual economic recovery for 2020. The ambitious "phase one" US-China trade deal and the end of political gridlock in the UK support the hope that the Eurozone economy will fare better in 2020 than in 2019. If Trump also refrains from raising US tariffs on EU cars, the situation could stabilise further. Just like the downturn in global trade hit the Eurozone more than other parts of the global economy in 2019, the return to more normal could make a bigger difference for the region. In particular, those member states that specialise in the production and export of investment goods such as Germany could benefit.

Chart 10: Eurozone – swing in exports versus solid domestic demand



Contributions to the year-on-year rate of real GDP growth, in percentage points. Investment and imports corrected in Q2 2017 and Q2 2019 for the Ireland data distortion. Source: Eurostat; Berenberg

Chart 11: Eurozone – the gap between manufacturing and services



50=no change. Source: Markit

Of course, the evidence is still tentative. New shocks could still overwhelm the mostly positive economic fundamentals. US President Trump may want to re-escalate his trade wars. The negotiations between the EU and the UK over their future negotiations could break down with trade abruptly switching to unfavourable WTO terms in 2021. Even if these risks do not materialise and the Eurozone economy rebounds, the recovery could disappoint amid continued economic policy uncertainty: in a world of rising economic nationalism, the new normal for Eurozone growth may be below the currently estimated trend of 1.5%.

The signs of a new upturn to come are still tentative

The politically induced dip in global growth over the past two years has further delayed the point at which Eurozone growth – some two years behind the US and the UK in the cycle – may hit serious bottlenecks. While wage pressures have risen as the labour market has tightened, core inflation remains muted around 1%. Businesses still prefer to defend their market shares than to raise prices by much amid intense competition. The ECB reacted to the subdued price pressures and the economic downturn by easing its expansionary monetary policy stance further in September 2019. In the foreseeable future, that is at least until the end of 2020, the ECB will likely be on hold. Under its new president Christine Lagarde, the ECB can fully concentrate on the review of its monetary policy strategy during 2020. While the ECB may clarify its de-facto inflation target, fine-tune its communications strategy and re-arrange its toolbox slightly, we do not expect decisions that could materially change the ECB's response function and the outlook for interest rates and bond yields.

Monetary policy remains extremely expansionary – at least until the end of 2020

Besides trade tensions and Brexit, Eurozone member states face their own political risks: In **Germany**, the probability that the centre-left SPD will walk out of Chancellor Angela Merkel's grand coalition in 2020 does not exceed 25%. The SPD would have too much to lose in potential snap elections. Even under a new government, possibly an Austrian-style CDU/CSU coalition with the Greens, German policies would not change very much except for some changes on the sector level such as a faster exit from coal. The only tail risk to watch at c5% is that of a green-red-red coalition coming to power after potential snap elections. In that case, while fiscal and European policy could remain mostly the same, Germany may face an economically damaging wave of regulation similar to the recent imposition of rent caps in Berlin where a red-red-green state government holds sway.

Political risks in the Eurozone: SPD likely to stay in grand coalition

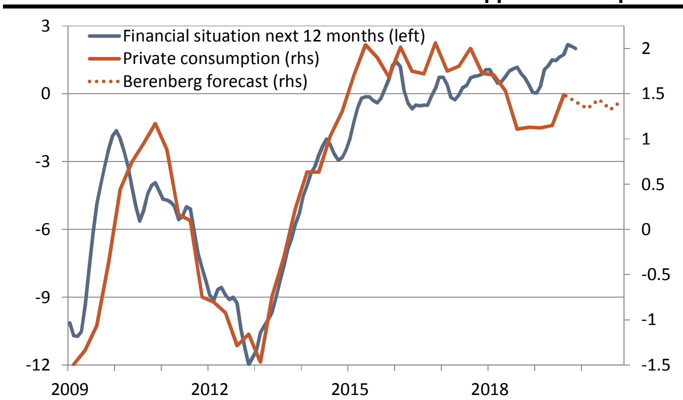
In **France**, President Macron's reforms have begun to bear fruit. The number of new business start-ups has risen by almost 50% in the past three years (Chart 13). We expect Macron to buy his way out of the current protests over his pension reform by offering some fiscal sweeteners – as he has done before. If Macron sticks to the reform course as expected, France could embark on a new golden decade of high trend growth of the kind that Germany has experienced in the past 10 years.

Macron can probably buy its way out of current pension reform protests

Italy's economy remains structurally weak and its political situation is even more uncertain than usual. Regional elections at the end of January are the next test for the beleaguered coalition government. So far, the risk that right-wing populist Matteo Salvini may otherwise return to power is the glue that binds the coalition together. But even Salvini would be unlikely to push the country's financial system to the edge of ruin by a massive spat with Brussels if he came to power. expect Italy to continue to muddle through and avoid a full-blown crisis in 2020 as well.

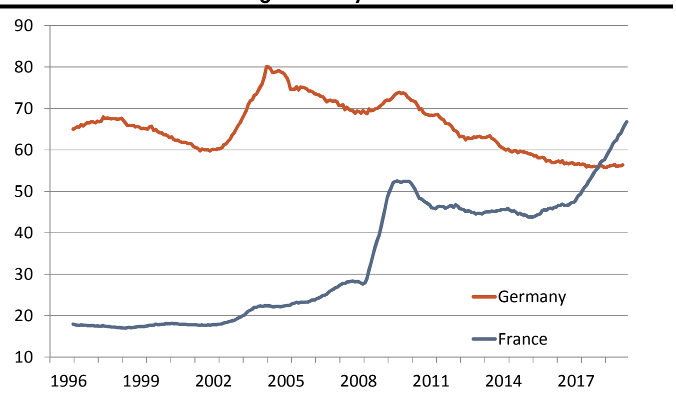
Italy continues to muddle through

Chart 12: Eurozone – solid household finances support consumption



The expected financial situation of Eurozone households in the next 12 months, left-hand scale; Eurozone real private consumption, yoy change in %, right-hand scale. Source: European Commission, Eurostat, Berenberg forecasts

Chart 13: France overtaking Germany in business creations



New businesses created outside agriculture in France; new business registrations in Germany, in 1000s; the 2008 surge in France stems from a change in regulations. Source: Eurostat.

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UK: lower political uncertainty lifts momentum

We project real GDP growth of 1.8% in 2020 and 2.1% in 2021

Cautiously optimistic: The decisive election victory for Prime Minister Boris Johnson and his Conservative Party on 12 December 2019 has tilted the balance of factors that will decide the medium-term path for the economy from negative to positive. It sets the stage for a modest improvement in economic momentum over the medium term following the persisting slowdown since mid-2016 – after the Brexit vote – that worsened in 2019 (Chart 14). After subdued growth of 1.3% in 2019, we project real GDP growth of 1.8% in 2020 and 2.1% in 2021.

Four factors will drive growth in 2020 and 2021

We look for net-trade to contribute to growth in 2020

- A recovery in global demand over the course of 2020 should lift the fortunes of export-oriented industrial producers and other trade-related businesses. Exports account for c30% of UK economic output. After subtracting c0.4ppt from headline growth in 2018 and 2019, net trade will likely contribute to growth in 2020.

Political stability at home can lift confidence

- The strong position of the newly re-elected Conservative government can help to lift confidence among businesses and households. With the biggest majority for any prime minister since 2001, Johnson will be able to get his – mostly pro-business – policies through parliament. He could also react quickly to any crisis. We project a broad-based improvement in sentiment during 2020. Buoyed by solid real wage gains and elevated expectations for major purchases, households should step up spending (Chart 15).

An orderly exit from the EU can lower Brexit uncertainty somewhat

- An orderly exit from the EU on 31 January 2020 will help to lower the damaging Brexit uncertainty that has weighed on the UK economy since mid-2016. Johnson won the first stage of approval for his Brexit deal in parliament in late December. The final stages of ratification will take place in the first weeks of January before negotiations on the future UK-EU relationship begin in earnest once the UK has left the EU.

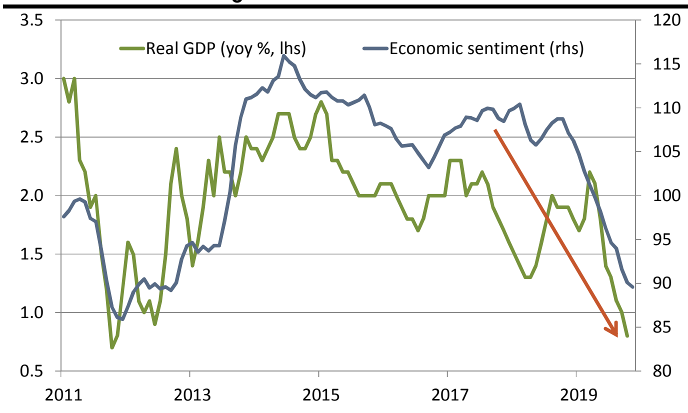
Fiscal stimulus can reinforce the rebound in domestic demand

- Stimulative fiscal policies can reinforce a rebound in domestic spending. Johnson and his Chancellor Sajid Javid brought austerity to an end in September 2019 when they announced plans for the fastest growth in day-to-day government spending in 15 years (Chart 16). Based on his new fiscal rules, which allow for higher budget-deficit financed investment spending, we expect Javid to announce a further sizeable rise in government spending in the upcoming budget – likely in February 2020.

Watch the risk of a hard Brexit at the end of 2020

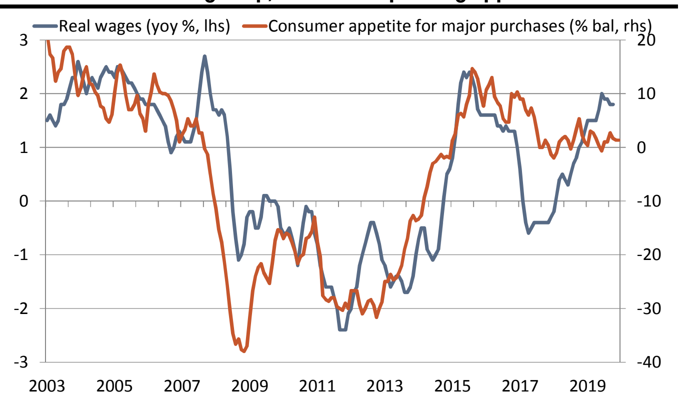
The big Brexit risk remains: Uncertainty about the final shape of Brexit – ie the future UK-EU economic relationship – will continue to hang over the UK during 2020 and, perhaps, even beyond. Business investment, which is already c15% below the pre-referendum trend (Chart 17), could continue to stagnate for another year. The final agreement on the future UK-EU relationship may deviate from the general statement on future relations that Johnson negotiated as part of his Brexit deal in October 2019. That statement mainly covered trade in goods. It envisages a relationship that is much less comprehensive than EU membership, which includes both goods and services trade as well as finance and the movement of people. Johnson has said that he intends to deviate from EU regulations after Brexit. That further limits the scope for any trade agreement.

Chart 14: UK real GDP growth versus economic sentiment



GDP data shows three-month rolling rate. Economic sentiment - 100= long-term average. Monthly data. Source: ONS, European Commission.

Chart 15: UK real wages up, consumer spending appetites stable



Consumer data based on three-month moving average. Pay growth based on three-month annual change. Monthly data. Source: ONS, GfK

Across the spectrum of potential future UK-EU agreements, Johnson's plans tilt towards the harder end. In the long run, the UK will pay the price for such an outcome in terms of lower potential growth.

Johnson seems to favour a harder exit from the EU

Johnson hopes to agree a deal with the EU on future trade by the end of 2020 when the planned transitional period ends. That seems ambitious, to put it mildly. In case the UK and the EU fail to sign a trade agreement in 2020, the UK could still have a no-deal hard exit from the single market and customs union at the end of this year. Beyond the near-term disruptions to economic activity, a hard Brexit could lower UK potential growth below 1.5%, versus c1.7% based on Johnson's proposals for future UK-EU trade and 2.1% as an EU member.

A hard Brexit could lower UK potential growth below 1.5% from 2.1% in the EU

The big win for Johnson in the election should, in theory, limit the risk of a hard Brexit at the end of 2020. With a big majority, the hardline eurosceptic wing of the Conservative Party will matter less than before. It should be easier now for Johnson to ask the EU for a longer transitional period if needed. However, one of his first acts after the election was to set a hard deadline that the future relationship should be concluded by the end of 2020 – de facto blocking any extension to the transitional period. While Johnson could repeal that law if necessary, it highlights the tone for the future talks. Noisy negotiations and the risk of a hard Brexit present the biggest downside risks for our positive UK economic outlook.

With his big majority, Johnson has flexibility in negotiations with the EU

A hard Brexit is not our base case, though. We see several potential ways to avoid it. The UK could, for instance, ask the EU for just a bare-bones deal that could be agreed in time for 2021. Or Johnson may try to go for a political fudge to lengthen the transitional period. He could promise to keep the UK aligned to EU rules – including on immigration – temporarily after the transitional period ends. That would buy more time to negotiate an agreement on future trade. The range of potential options also includes a semi-hard Brexit in which the parts of any agreement negotiated in 2020 are activated in 2021 and temporary measures are implemented to smooth the transitional for the other parts of the economy most exposed to Brexit.

A hard Brexit is not our base case and we see several ways it could be avoided

Watch the inflation risks: Annual falls in energy prices and the uptick in sterling in late 2019 will keep headline inflation close to 1.5% yoy for the first few months of 2020. Thereafter, we expect headline inflation to rise above the BoE's 2% inflation target by the end of the year. Inflation risks remain tilted to the upside as spending growth exceeds gains in supply.

Inflation risks remain tilted to the upside

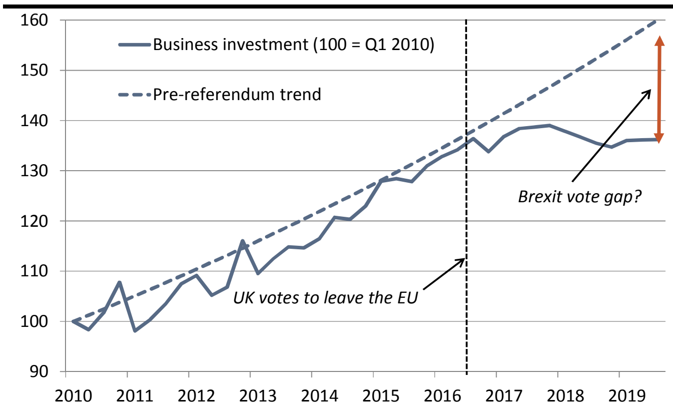
We expect real household consumption growth to pick up from 1.2% in 2019 to 2.0% in 2020 while government spending growth rises to 4%. But persisting Brexit uncertainty will cap any rebound in business investment while tight labour markets constrain the growth in employment. With stronger confidence, workers and firms alike will try to bargain for wage and price increases more aggressively. Reacting to the build-up of inflationary pressures, we expect the BoE to turn more hawkish by hiking rates by 25bp in Q3 2020 and again by 25bp in Q3 2021. This would take the bank rate to a still-low 1.25% by the end of 2021.

Expect the BoE to become more hawkish in H2 2020

Current BoE governor Mark Carney's term ends on 15 March 2020. He will be replaced by Financial Conduct Authority CEO Andrew Bailey. With extensive experience at the BoE, Bailey is a safe pair of hands. We do not expect any major surprises when it comes to monetary or financial policy early on in his tenure.

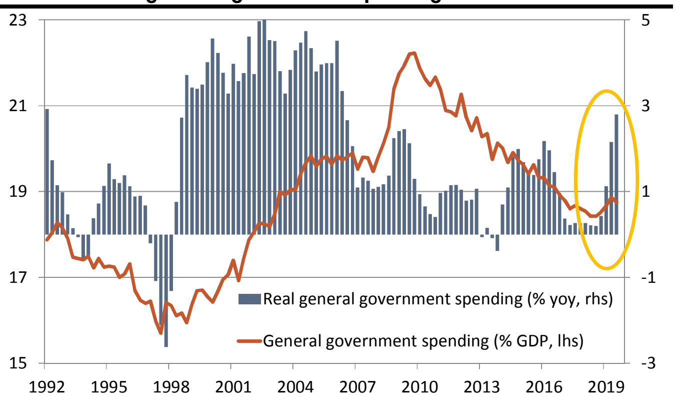
No surprises when Bailey replaces Carney at the BoE

Chart 16: UK business investment has stalled since the June 2016



Quarterly data. Source: ONS, Berenberg

Chart 17: Change in UK government spending and as a % of GDP



Annual change in spending is four-quarter moving average. Quarterly data. Source: ONS, Berenberg calculations

Politics: US election uncertainties dominate 2020

US presidential election predictions at this point are uninstructive

The US Presidential election and the Congressional elections, particularly the Senate, where Republicans now maintain a majority, will capture news headlines daily in 2020. They are important determinants of future economic policies and economic and financial market performance. However, the outcomes and even the twists and turns of the campaign season involve large incalculable uncertainties. As predictions are uninstructive at this point, so we will not make them.

Key economic campaign issues will be wide-ranging

Many of the key economic campaign issues will involve federal government spending programmes, particularly medical care and insurance, infrastructure and defence/national security, and taxes, including on wealth as well as income. An array of other economic issues will also be debated, including labour laws (minimum wages), health care legislation (including those affecting pharmaceutical prices), and on the international front, tariffs and global trade agreements.

Presidents deviate from campaign promises as often as they follow them

Democratic Party candidates offer a range of bundled policy preferences and alternatives to President Trump (Chart 18). Moderate Democratic candidates like Joe Biden and Michael Bloomberg have proposed moderately higher taxes and government spending, an expansion of health insurance coverage through enhancing the Affordable Care Act (Obama Care), caps on pharmaceutical prices and minimum wage legislation. Hard-left candidates Elizabeth Warren and Bernie Sanders propose socialist-type platforms with dramatic increases in spending and taxes, including newly instituted wealth taxes, guaranteed universal health insurance coverage and an array of government-imposed mandates that would significantly change the structure of the economy and the business environment. The candidates are purposely shying away from providing programmatic and budget detail. Campaign proposals are promises and vote-gathering pleas. History shows that standing Presidents have deviated from their campaign promises as frequently as they have followed them.

Moderate Democrat, Trump re-elected, or hard-left Democrat?

Amid a myriad of uncertainties, the implications of three outcomes seem logical: Trump is re-elected, a moderate Democrat wins, or a hard-left president is elected. Under a moderate Democratic president, moderately higher taxes and spending would be expected along with a tilt toward a partial reversal of the recent deregulatory environment. Policies toward China would remain firm, but likely with less reliance on tariffs and more reliance on establishment channels for trade policy. If Trump is re-elected, there would be no new shift from current policies or policy formation. Under either of these scenarios, financial markets would likely not be affected dramatically.

A hard-left Democratic president could change the structure of the economy

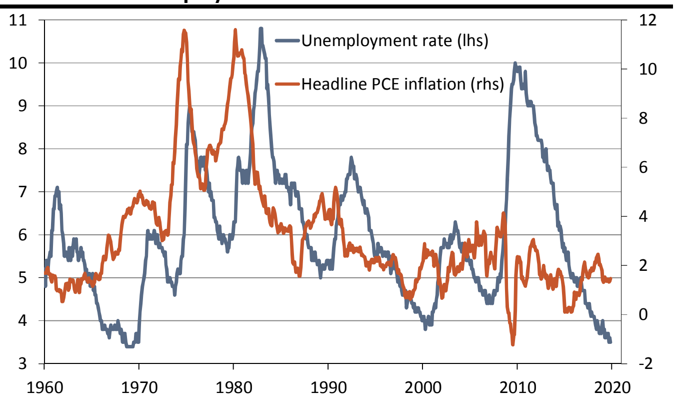
Under a hard-left president, the economy would be damaged, perhaps severely – fundamentally and beyond a garden-variety recession. The extent of the damage would depend on how radically policies are actually changed and how much the government's credibility and private confidence is damaged. That risk would be heightened if Democrats were to also take control of the Senate. In light of the power of the Presidency and the heightened avenues of the president to circumvent Congress, which were greatly exploited by Presidents Obama and Trump, the biggest economic damage would likely stem from executive and administrative orders that would change the structure and incentives in the economy.

Chart 18: Polling average for the 2020 Democratic nomination

Democratic candidates	Poll average (Dec. 8 - Dec. 31)
Joe Biden	28.3
Bernie Sanders	19.1
Elizabeth Warren	15.1
Pete Buttigieg	8.3
Mike Bloomberg	4.8
Amy Klobuchar	3.5
Andrew Yang	3.5
Cory Booker	2.5

In percent. Source: RealClearPolitics

Chart 19: US unemployment rate and inflation



In percent. Source: Bureau of Labor Statistics and Bureau of Economic Analysis

Inflation risks remain muted

After more than a decade of economic growth since the 2008/09 mega-recession, inflation risks remain contained in the western world. As growth has rarely outpaced the underlying trend, economies have not hit serious bottlenecks yet. As in 2019, we expect core inflation rates in 2020 to remain close to central banks' 2% targets in the US and the UK, and well below such a rate in the Eurozone and Japan (Chart 20). While wage growth is edging up (Chart 21), stronger gains in productivity will likely dampen the impact on unit labour costs. In addition, three major forces weigh on prices.

Globalisation, labour slack and low inflation expectations dampen prices

- The decades-long disinflationary effect of globalisation and technological progress continues to outweigh the detrimental effects on global supply growth from trade-related political uncertainty such as the US-China conflict and Brexit.
- Continued pockets of spare capacity in European and US labour markets and a reluctance of households to borrow and of companies to invest prevent the build-up of serious demand-side inflation and other excesses.
- Inflation expectations, which partly determine currently price and wage setting, remain anchored below central banks' 2% targets – notably in the Eurozone and Japan.

US: Employment growth has remained solid in recent years despite low unemployment. At 63.2% in November 2019, labour force participation is still well below the pre-Lehman peak of 66.3% in November 2006. If the participation rate continues to edge higher, employment growth can remain solid in 2020 and 2021. Along with faster gains in productivity, this will help to contain wage cost pressures. The Fed probably would not worry unless wage gains exceeded 4% on a sustained basis. Annual growth in wages averaged 3-3.3% in H2 2019. We expect headline inflation to rise only modestly from 1.8% in 2019 to 2.3% in 2020 and 2021.

Still-rising labour force participation contains US wage inflation risks

Eurozone: Even as some members of the Eurozone such as Germany and its close neighbours as well as Ireland and the Baltic states enjoy low unemployment, the region overall still has some labour market slack. That workers can move freely between member states dampens the reaction of wages in parts of the block where labour markets are tight. The risk of a near-term inflation surprise from an excessive surge in wages is small. We look for inflation to edge up to 1.3% in 2020 and 1.5% in 2021 from 1.2% in 2019.

The risk of a sudden surge in Eurozone wage inflation is virtually zero

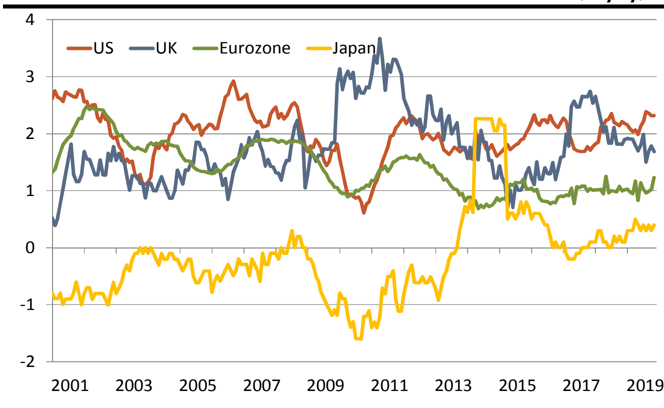
Japan: Despite years of highly accommodative monetary policy, the BoJ continues to struggle to lift core inflation towards its 2% target. While the BoJ wants to overshoot its 2% target for a while in order to drive up inflationary expectations, this seems far off. Low inflation expectations are deeply entrenched. The recent consumption tax hike, which could stifle spending for a while and tame wage growth, add to the central bank's challenges. We expect headline inflation to rise modestly from 0.5% in 2019 to 0.9% in 2020 and to 1.3% in 2021.

Japan continues to struggle to escape the disinflation trap

UK: At 76.2%, the employment rate for prime-age workers (16-64 years) is at an all-time high. Regular earnings growth has surged from 1.7% yoy in April 2017 to 3.5% in October 2019. While Brexit uncertainty took some pressure off the market recently, with a c8% drop in vacancies from the record high in December 2018 to October 2019, labour demand is likely to rebound in 2020 as the economy improves. From c1.5% at the start of 2020, we expect headline and core inflation to average 2.2% in 2021 as wage growth edges towards 4.0% yoy.

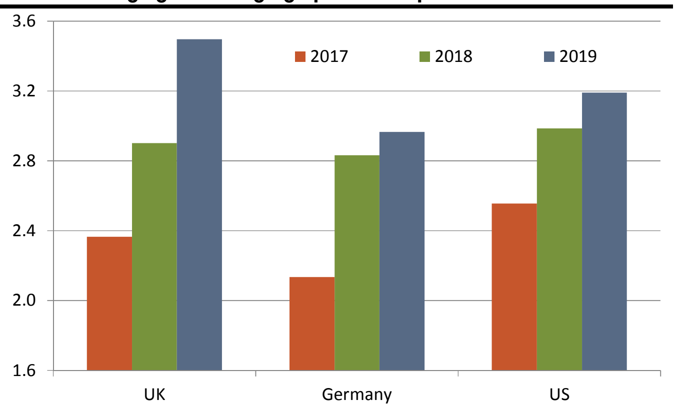
Tight labour markets point to wage inflation risks in the UK

Chart 20: Still tame – core inflation in the advanced world (% yoy)



Monthly data. US: consumer price index ex food and energy. UK and Eurozone: consumer price index ex energy, food, alcohol and tobacco. Japan: consumer price index ex-fresh food. Source: BLS, ONS, Eurostat, Ministry of Internal Affairs

Chart 21: Wage growth edging up in developed economies



2019 includes data up to October. UK: total weekly pay for the whole economy. Germany: negotiated hourly earnings. US: average hourly earnings for total private industries. Source: ONS, Deutsche Bundesbank, BLS

Fiscal outlook – turning on the taps

Major economies are turning to fiscal policy in search of faster growth

As low interest rates constrain the power of monetary policy to stimulate spending, major economies are turning to fiscal policy to support demand. Growth in day-to-day government spending in major advanced economies has accelerated from mid-2018 onwards as global demand weakened (Chart 22). The size of any further stimulus will vary a lot across regions.

In the UK, Johnson is turning on the spending taps

Partly following the US-Trump example of 2017/2018, **UK** Prime Minister Johnson looks set to capitalise on his sweeping election win in December 2019 by turning on the spending taps. The forthcoming stimulus, the details of which will be announced in February 2020, will likely include the biggest rise in government capital spending since the early 2000s. We expect UK government borrowing to rise from 1.6% of GDP in 2019 to 3.0% in 2020.

Expect a modest fiscal expansion in major parts of the Eurozone

Germany and other **Eurozone** countries with some fiscal headroom will likely continue to raise public spending, often focusing on infrastructure and investment in green energy and other climate-friendly technologies. We expect government borrowing in the Eurozone to rise a little from 0.8% of GDP in 2019 to 1.1% in 2020. For Germany, we expect the biggest stimulus among major Eurozone members with a fiscal impulse of 0.5% of GDP in 2020 after 0.3% in 2019. Coupled with less stellar gains in employment and tax receipts, this will likely reduce its government surplus from 1.6% of GDP in 2019 to 0.7% in 2020. For the Eurozone as a whole, we project a fiscal impulse of 0.25% of GDP for 2020.

After the big stimulus of recent years, US fiscal policy will remain accommodative

Following the huge spending spree and tax cuts of 2017, 2018, and – to a lesser extent – in 2019, **US** fiscal policy will remain supportive in election year 2020. With GDP growth close to its trend, the fiscal deficit will, at 4.8% of GDP, likely remain close to the 4.6% level of 2019. The outlook for 2021 largely depends on the outcome of the 2020 elections. However, irrespective of who wins the Presidential election, a divided Congress (House with a Democrat majority and the Senate with a Republican majority) would make it difficult to legislate a further huge stimulus.

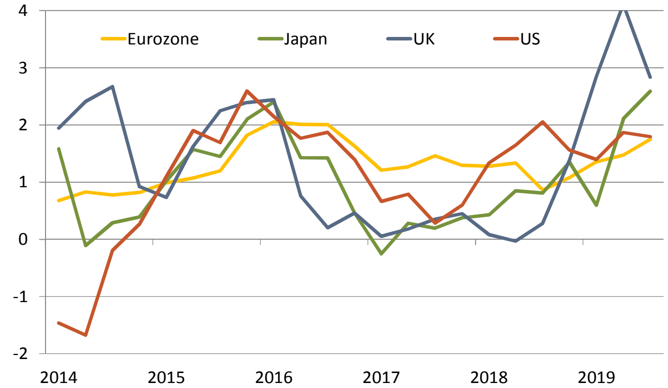
Fiscal policy remains stimulative in the biggest two Asian economies

Fiscal policy remains stimulative in the biggest two Asian economies. **Japan** announced a fresh round of spending late last year to offset the negative impact of its October consumption tax hike. Helped by the BoJ's quantitative and qualitative easing and yield curve control, Japan can continue to expand government spending for a while despite the already high debt to GDP ratio. While we do not foresee a major stimulus in **China** soon, the authorities will continue to adjust spending and credit policies as necessary in order to stabilise cyclical swings in demand as its underlying growth potential gradually declines.

With fiscal policy turning more expansionary, global bond yields will likely rise

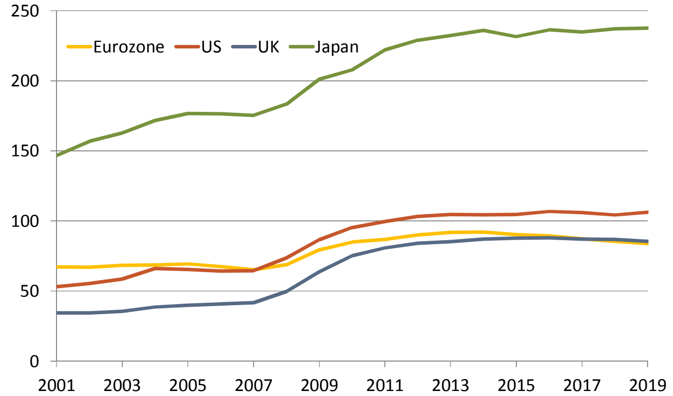
As long as global wage and inflation remain contained and the glut of global savings continues to hold real borrowing costs for major economies below zero, many countries may benefit from a deficit-financed increase in public investment. However, the new readiness to run major fiscal deficits in the US and the UK at a time of roughly normal economic growth could backfire in the long run (Chart 23). With fiscal policy turning more expansionary in many major economies, the global balance of savings and investment will tilt away from saving toward investment. As a result, global bond yields will likely rise over time. In a few years, countries with elevated deficits may be forced to return to painful austerity. Outside Italy, where bad policy choices could potentially bring the country to the brink of a debt crisis at any time, public debt poses no serious issue in major advanced economies today. But if fiscal policy stays expansionary for too long, debt problems may return with a vengeance.

Chart 22: Government expenditure (% yoy)



Quarterly data. Source: BEA, Eurostat, Cabinet Office of Japan, ONS

Chart 23: General government debt as % of GDP



Annual data. Source: IMF

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Risks: not worse than usual

Political shocks could still trump economics

Five months after the last major political shock, the sharp escalation in the US-Chinese trade war in early August 2019, economic forces are slowly re-asserting themselves. As a result, the gap between stagnating global trade and resilient growth in domestic demand across the advanced world looks set to narrow with a gradual upturn in global trade and manufacturing over the course of 2020 rather than by a faltering of consumer spending.

The seven key assumptions behind our outlook highlight the risks

To gauge the risks to our cautiously optimistic outlook for 2020, we need to spell out the assumptions behind our forecasts. We base our outlook for 2020 on seven key calls.

- Although the **US** and **China** will remain geostrategic rivals for the foreseeable future, both sides will call at least a truce in their trade conflict in 2020.
- As there is little political support in the US for a trade war against the **EU**, we do not expect US-EU trade tensions to escalate dramatically in election year 2020.
- Although the formal **Brexit** on 31 January will not resolve any of the economic issues between the UK and the EU, the end of the political paralysis in the UK should mitigate the risk of a no-deal hard exit from the EU's single market at the end of 2020.
- None of the generic political risks in **Europe** will materialise to such an extent as to threaten the European or global economy.
- Despite the usual tensions in the **Middle East** and the tail risk that a new US administration may place serious restraints on fracking, we expect oil prices to remain roughly range-bound between $60-80 per barrel Brent crude.
- Amid a further slowdown in trend growth, **China** will manage to stave off a deeper crisis for now by stepping up its monetary and fiscal stimulus.
- **Inflationary pressures** in the advanced world will not rise to such an extent that the US Fed and/or the ECB need to tighten policy materially.

Focus on politics and inflation

The long list of assumptions highlights the risks to our calls. A new political shock or a hypothetical spike in oil prices by more than 30% could still prolong the downturn in trade and manufacturing. If so, a gradual softening of domestic demand in the advanced world over time could drag down equity markets and bond yields. Separately, a sustained rise in inflationary pressures would require a central bank response, which would likely spell the end of the post-Lehman economic upturn in global demand and global financial markets.

Trump remains dangerously erratic

Global politics and trade tensions: US President Trump remains dangerously erratic and unpredictable. Chances are that he will focus more on improving his chances for re-election instead of imposing tariffs that raise prices for US consumers. But his unpredictability will remain a drag on global economic performance and a key source of downside risk.

Among the wild cards: China response to Hong Kong

Hong Kong/China: The way in which China responds to events in Hong Kong can affect the global outlook more than almost any other political risk. If China were to use excessive force, the resulting backlash in public opinion across the advanced world would make it much more difficult to strike and ratify any US (or EU) trade deal with Beijing for quite a while. The western world may respond with some sanctions instead. For now, our base case remains that Beijing is sufficiently aware of the risks and will not escalate the situation so badly as to deal a heavy blow to China's – and the global – economic outlook.

Iranian turmoil could cause a brief spike in oil prices

Iran: The low-intensity conflict between Iran and the US and Saudi Arabia could escalate and drive up global oil prices. However, global oil supply is elastic thanks to fracking. The US and Saudi Arabia should be able to maintain – or restore – the flow of Saudi oil to global markets. Any hypothetical spike in oil prices should thus remain temporary.

An accident waiting to happen – but Italy can still muddle through for now

Italy: While Italy remains an accident waiting to happen unless it finally raises its supply potential through serious reforms, we look for Rome to muddle through again in 2020, supported by low interest rates and a mildly positive global and European backdrop.

Risks are not more pronounced than usual

Although the risks are significant, they are not more pronounced than usual. For example, some turmoil in the Middle East has become part of the new normal. Politics would have to go badly wrong to cause a recession not warranted by underlying economic fundamentals. We have to watch the risks carefully, with a focus on potential hits to confidence from the political and economic news flow. On balance, the risks are unlikely to materialise to such an extent as to prevent the gradual rebound in global trade and manufacturing, which economic logic and a rising number of indicators are projecting for 2020.

Global economic forecasts

		GDP				Inflation				Unemployment				Fiscal balance			
	Weight	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
World*	100.0	2.8	2.4	2.4	2.5												
US	24.2	2.9	2.3	2.1	2.2	2.4	1.8	2.3	2.3	3.9	3.7	3.4	3.2	-3.9	-4.6	-4.8	-5.0
China	15.8	6.6	6.2	5.9	5.6	2.1	2.9	3.7	2.2	3.8	3.6	3.6	3.7	-4.8	-6.4	-6.4	-6.5
Japan	5.9	0.3	1.1	0.6	0.8	1.0	0.5	0.9	1.3	2.4	2.3	2.3	2.2	-3.8	-3.6	-4.5	-4.6
India	3.2	7.2	7.0	7.0	6.8	4.0	3.9	3.8	4.1					-2.5	-2.2	-2.1	-2.2
Latin America	6.2	1.5	1.5	2.2	2.6	10.5	8.9	6.6	5.9					-5.9	-4.6	-4.1	-3.8
Europe	25.7	1.9	1.1	1.2	1.7												
Eurozone	16.1	1.9	1.2	1.0	1.5	1.8	1.2	1.3	1.5	8.2	7.6	7.4	7.0	-0.5	-0.8	-1.1	-1.0
Germany	4.7	1.5	0.5	0.6	1.5	1.9	1.3	1.4	1.6	3.4	3.1	3.2	3.0	1.9	1.6	0.7	0.5
France	3.3	1.7	1.3	1.3	1.7	2.1	1.3	1.7	1.7	9.1	8.5	8.0	7.7	-2.5	-3.2	-2.5	-1.7
Italy	2.4	0.7	0.2	0.5	1.0	1.2	0.6	1.0	1.4	10.6	10.0	9.7	9.6	-2.2	-2.1	-2.6	-2.4
Spain	1.7	2.4	1.9	1.8	1.8	1.7	0.8	1.2	1.5	15.3	14.2	13.6	12.9	-2.5	-2.4	-2.2	-1.8
Portugal	0.3	2.4	1.9	1.7	1.8	1.2	0.3	1.1	1.4	7.0	6.5	6.4	6.1	-0.4	-0.4	-0.3	-0.1
Other Western Europe																	
UK	3.3	1.3	1.3	1.8	2.1	2.5	1.8	1.9	2.2	4.1	3.8	3.7	3.6	-1.6	-1.6	-3.0	-2.6
Switzerland	0.8	2.5	0.8	1.1	1.5	0.9	0.6	0.8	0.9	2.5	2.3	2.3	2.2	1.6	0.6	0.5	0.4
Sweden	0.7	2.5	1.3	1.4	1.8	2.0	1.8	1.8	1.9	6.3	6.3	6.2	6.2	0.9	0.5	0.4	0.4
Eastern Europe																	
Russia	1.9	2.2	0.8	1.0	1.7	2.9	4.8	4.0	4.0	4.8	4.7	4.6	4.6	2.6	2.1	1.5	1.4
Turkey	0.9	2.7	-1.3	2.2	3.0	16.3	17.2	13.0	11.5	11.0	14.2	13.6	12.6	-2.0	-4.0	-3.5	-3.3

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support.
*At market 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 2018 GDP figures. Source: Berenberg

Key financial forecasts

	Current[1]	Mid-2020	End-2020	End-2021
Central bank rates				
US Fed	1.50-1.75%	1.50-1.75%	1.50-1.75%	1.50-1.75%
ECB refi	0.00%	0.00%	0.00%	0.00%
ECB deposit rate	-0.50%	-0.50%	-0.50%	-0.50%
BoE	0.75%	0.75%	1.00%	1.25%
BoJ	-0.10%	-0.10%	-0.10%	-0.10%
10-year bond yields				
US	1.81%	2.15%	2.20%	2.40%
Germany	-0.30%	0.00%	0.30%	0.50%
UK	0.72%	1.30%	1.70%	2.00%
Currencies				
EUR-USD	1.11	1.13	1.15	1.16
EUR-GBP	0.85	0.83	0.83	0.83
GBP-USD	1.31	1.36	1.38	1.40
USD-JPY	108	105	105	105
EUR-JPY	120	119	121	122
EUR-CHF	1.08	1.12	1.14	1.14
USD-CNY	6.97	7.10	7.10	7.20

[1] *Taken on 3 January 2020 at 12:00 UK time. Currency forecasts may not add up due to rounding*

For a full set of detailed forecasts, see Forecasts at a Glance: first signs of a new upturn.

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

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BERENBERG
PARTNERSHIP SINCE 1590

JOH. BERENBERG, GOSSLER & CO. KG

Internet www.berenberg.com

E-mail: firstname.lastname@berenberg.com

EQUITY RESEARCH

AEROSPACE & DEFENCE
Ryan Booker +44 20 3753 3074
Andrew Gollan +44 20 3207 7891
Ross Law +44 20 3465 2692

AUTOMOTIVES
Cristian Dirpes +44 20 3465 2721
Alexander Haissl +44 20 3465 2749
Fei Teng +44 20 3753 3049

BANKS
Adam Barrass +44 20 3207 7923
Stephanie Carter +44 20 3207 3106
Michael Christodoulou +44 20 3207 7920
Andrew Lowe +44 20 3465 2743
Andreas Markou +44 20 3753 3022
Alex Medhurst +44 20 3753 3047
Eoin Mullany +44 20 3207 7854
Peter Richardson +44 20 3465 2681

BEVERAGES
Javier Gonzalez Lastra +44 20 3465 2719
Matt Reid +44 20 3753 3075

BUSINESS SERVICES, LEISURE & TRANSPORT
Roberta Ciaccia +44 20 3207 7805
Najet El Kassir +44 20 3207 7836
William Fitzalan Howard +44 20 3465 2640
Stuart Gordon +44 20 3207 7858
Annabel Hay-Jahans +44 20 3465 2720
Josh Puddle +44 20 3207 7881
Kate Somerville +44 20 3753 3081
Joel Spungin +44 20 3207 7867

CAPITAL GOODS
Nicholas Housden +44 20 3753 3050
Julia Kochendörfer +44 20 3753 3052
Sebastian Kuenne +44 20 3207 7856
Philippe Lorrain +44 20 3207 7823
Rizk Maidi +44 20 3207 7806
Jaroslaw Pominkiewicz +44 20 3753 3035
Simon Toennessen +44 20 3207 7819
Ethan Zhang +44 20 3465 2634

CHEMICALS
Anders Björkstahl +44 20 3207 7871
Sebastian Bray +44 20 3753 3011
Anthony Manning +44 20 3753 3092
Rikin Patel +44 20 3753 3080

CONSTRUCTION
Zaim Beekawa +44 20 3207 7855

DIVERSIFIED FINANCIALS
Charles Bendit +44 20 3465 2729
Chris Turner +44 20 3753 3019

FOOD MANUFACTURING AND H&PC
Rosie Edwards +44 20 3207 7880
Philip Patricha +44 20 3753 3039
Fintan Ryan +44 20 3465 2748
James Targett +44 20 3207 7873

FOOD RETAIL
Dusan Milosavljevic +44 20 3753 3123

GENERAL MID CAP - DACH
Saravana Bala +44 20 3753 3043
Martin Comtesse +44 20 3207 7878
Charlotte Friedrichs +44 20 3753 3077
Gustav Fröberg +44 20 3465 2655
Alexander O'Donoghue +44 20 3207 7804
Gerhard Orgonas +44 20 3465 2635
Henrik Paganetty +44 20 3453 3140
Benjamin Pfannes-Varrow +44 20 3465 2620

GENERAL MID CAP - EU core
Christoph Gruelich +44 20 3753 3119
Anna Patrice +44 20 3207 7863
Trion Reid +44 20 3753 3113

GENERAL MID CAP - UK
Joseph Barron +44 20 3207 7828
Calum Battersby +44 20 3753 3118
Robert Chantry +44 20 3207 7861
Ned Hammond +44 20 3753 3017
Omar Ismail +44 20 3753 3102

GENERAL MID CAP - UK (cont'd)
Antony Plom +44 20 3207 7908
Edward James +44 20 3207 7811
Lush Mahendrarajah +44 20 3207 7896
Benjamin May +44 20 3465 2667
Owen Shirley +44 20 3465 2731
Donald Tait +44 20 3753 3031

GENERAL RETAIL
Thomas Davies +44 20 3753 3104
Michelle Wilson +44 20 3465 2663

HEALTHCARE
Scott Bardo +44 20 3207 7869
Alistair Campbell +44 20 3207 7876
Klara Fernandes +44 20 3465 2718
Tom Jones +44 20 3207 7877
Joseph Lockey +44 20 3465 2730
Samantha Osborne +44 20 3207 7882
Michael Ruzic-Gauthier +44 20 3753 3128
Laura Sutcliffe +44 20 3465 2669
Charles Weston +44 20 3465 2746

INSURANCE
Trevor Moss +44 20 3207 7893
Emanuele Musio +44 20 3207 7916
Iain Pearce +44 20 3465 2665
Philip Ross +44 20 3465 2726

LUXURY GOODS
Mariana Horn +44 20 3753 3044
Lauren Molyneux +44 20 3207 7892
Zuzanna Pusz +44 20 3207 7812

MEDIA
Robert Berg +44 20 3465 2680
Laura Janssens +44 20 3465 2639
Alastair Reid +44 20 3207 7841
Sarah Simon +44 20 3207 7830

REAL ESTATE
Kai Klose +44 20 3207 7888
Tina Munda +44 20 3465 2716

METALS & MINING
Charlie Clark +44 20 3207 3133
Fawzi Hanano +44 20 3207 7910
Laurent Kimman +44 20 3465 2675
Michael Stoner +44 20 3465 2643

TECHNOLOGY
Josep Bori +44 20 3753 3058
Georgios Kertsos +44 20 3465 2715
Tej Sthankiya +44 20 3753 3099
Gordon Tveito-Duncan +44 20 3753 3100
Tammy Qiu +44 20 3465 2673

TELECOMMUNICATIONS
David Burns +44 20 3753 3059
Ondrej Cabejsek +44 20 3753 3071
Nicolas Didio +44 20 3753 3091
Usman Ghazi +44 20 3207 7824
Laura Janssens +44 20 3465 2639
Carl Murdock-Smith +44 20 3207 7918

THEMATIC RESEARCH
Nick Anderson +44 20 3207 7838
Oyvind Bjerke +44 20 3753 3082
Steven Bowen +44 20 3753 3057
Asad Farid +44 20 3207 7932
Robert Lamb +44 20 3465 2623
Paul Marsch +44 20 3207 7857
Saliha Shariff +44 20 3753 3097

TOBACCO
Jonathan Leinster +44 20 3465 2645

UTILITIES
Oliver Brown +44 20 3207 7922
Andrew Fisher +44 20 3207 7937
Neha Saxena +44 20 3753 3048
Lawson Steele +44 20 3207 7887

ECONOMICS
Florian Hense +44 20 3207 7859
Carsten Hesse +44 20 3753 3001
Kallum Pickering +44 20 3465 2672
Holger Schmieding +44 20 3207 7889

EQUITY SALES

SPECIALIST SALES

AEROSPACE & CAPITAL GOODS
Cara Luciano +44 20 3753 3146
AUTOS & TECHNOLOGY
Edward Wales +44 20 3207 7815
BANKS, DIVERSIFIED FINANCIALS & INSURANCE
Iro Papadopoulou +44 20 3207 7924
Calum Marris +44 20 3753 3040
BUSINESS SERVICES, LEISURE & TRANSPORT
Rebecca Langley +44 20 3207 7930
CONSTRUCTION,CHEMICALS, METALS & MINING
James Williamson +44 20 3207 7842
CONSUMER DISCRETIONARY
Victoria Maigrot +44 20 3753 3010
Emma Buchy-Dury +44 20 3207 7816
CONSUMER STAPLES
Molly Wylenzek +44 20 3753 3064
HEALTHCARE
David Hogg +44 20 3465 2628
MEDIA & TELECOMMUNICATIONS
Julia Thannheiser +44 20 3465 2676
THEMATICS
Chris Armstrong +44 20 3207 7809

SALES

BENELUX
Miel Bakker +44 20 3207 7808
Bram van Hijfte +44 20 3753 3000

FRANCE
Alexandre Chevassus +33 1 5844 9512
Dalila Farigoule +33 1 5844 9510

SCANDINAVIA
Mikko Vanhala +44 20 3207 7818
Marco Weiss +49 40 350 60 719

UK
James Burt +44 20 3207 7807
Fabian De Smet +44 20 3207 7810
Marta De-Sousa Fialho +44 20 3753 3098
Jules Emmet +44 20 3753 3260
Robert Floyd +44 20 3753 3018
David Franklin +44 20 3465 2747
Karl Hancock +44 20 3207 7803
Sean Heath +44 20 3465 2742
Stuart Holt +44 20 3465 2646
James Hunt +44 20 3753 3007
Gursumeet Jhaj +44 20 3753 3041
James McRae +44 20 3753 3036
David Mortlock +44 20 3207 7850

UK (cntd)
Eleni Papoula +44 20 3465 2741
Bhavin Patel +44 20 3207 7926
Kushal Patel +44 20 3753 3038
Richard Payman +44 20 3207 7825
Christopher Pyle +44 20 3753 3076
Adam Robertson +44 20 3753 3095
Joanna Sanders +44 20 3207 7925
Mark Sheridan +44 20 3207 7802
George Smibert +44 20 3207 7911
Alexander Wace +44 20 3465 2670
Paul Walker +44 20 3465 2632

GERMANY
Michael Brauburger +49 69 91 30 90 741
Nina Buechs +49 69 91 30 90 735
André Grosskurth +49 69 91 30 90 734
Florian Peter +49 69 91 30 90 740
Joerg Wenzel +49 69 91 30 90 743

SWITZERLAND, AUSTRIA & ITALY
Duncan Downes +41 22 317 1062
Andrea Ferrari +41 44 283 2020
Gianni Lavigna +41 44 283 2038
Jamie Nettleton +41 44 283 2026
Yeannie Rath +41 44 283 2029

CRM
Laura Cooper +44 20 3753 3065
Jessica Jarmyn +44 20 3465 2696
Madeleine Lockwood +44 20 3753 3110
Vikram Nayar +44 20 3465 2737
Rita Pilar +44 20 3753 3066

COO Office
Greg Swallow +44 20 3207 7833
Fenella Neill +44 20 3207 7868

CORPORATE ACCESS
Lindsay Arnold +44 20 3207 7821
Robyn Gowers +44 20 3753 3109
Jennie Jiricny +44 20 3207 7886
Ross Mackay +44 20 3207 7866
Stella Siggins +44 20 3465 2630
Lucy Stevens +44 20 3753 3068
Abbie Stewart +44 20 3753 3054

EVENTS
Charlotte David +44 20 3207 7832
Suzy Khan +44 20 3207 7915
Natalie Meech +44 20 3207 7831
Eleanor Metcalfe +44 20 3207 7834
Rebecca Mikowski +44 20 3207 7822
Ellen Parker +44 20 3465 2684
Sarah Weyman +44 20 3207 7801

SALES TRADING

PARIS
Vincent Klein +33 1 58 44 95 09
Antonio Scuotto +33 1 58 44 95 03

LONDON
Assia Adanouj +44 20 3753 3087
Charles Beddow +44 20 3465 2691
Mike Berry +44 20 3465 2755
Joseph Chappell +44 20 3207 7885
Stewart Cook +44 20 3465 2752
Mark Edwards +44 20 3753 3004
Tom Floyd +44 20 3753 3136
Tristan Hedley +44 20 3753 3006
Peter King +44 20 3753 3139
Simon Messman +44 20 3465 2754
AJ Pulleyn +44 20 3465 2756
Matthew Regan +44 20 3465 2750
Michael Schumacher +44 20 3753 3006
Paul Somers +44 20 3465 2753

EQUITY TRADING

HAMBURG
David Hohn +49 40 350 60 761
Gregor Labahn +49 40 350 60 571
Lennart Pleus +49 40 350 60 596
Marvin Schweden +49 40 350 60 576
Omar Sharif +49 40 350 60 563
Philipp Wiechmann +49 40 350 60 346
Christoffer Winter +49 40 350 60 559

LONDON
Edward Burlison-Rush +44 20 3753 3005
Richard Kenny +44 20 3753 3083
Chris McKeand +44 20 3207 7938
Ross Tobias +44 20 3753 3137

ELECTRONIC TRADING
Jonas Doehler +44 40 350 60 391
Matthias Führer +49 40 350 60 597
Sven Kramer +49 40 350 60 347
Matthias Schuster +44 40 350 60 463

BERENBERG
PARTNERSHIP SINCE 1590

BERENBERG CAPITAL MARKETS LLC Member FINRA & SIPC

E-mail: firstname.lastname@berenberg-us.com

EQUITY RESEARCH

Andrew Fung	+1 646 949 9023
Donald McLee	+1 646 949 9026
Adam Mizrahi	+1 646 949 9022
Gal Munda	+1 646 949 9021
Patrick Trucchio	+1 646 949 9027

ECONOMICS

Mickey Levy	+1 646 949 9099
Roiana Reid	+1 646 949 9098

EQUITY SALES

SALES

Enrico DeMatt	+1 646 949 9230
Kelleigh Faldi	+1 617 292 8288
Ted Franchetti	+1 646 949 9231
Shawna Giust	+1 646 949 7216
Rich Harb	+1 617 292 8228
Zubin Hubner	+1 646 949 9202
Michael Lesser	+1 646 949 9221
Jessica London	+1 646 949 9203
Anthony Masucci	+1 617 292 8282
Ryan McDonnell	+1 646 949 9214
Emily Mouret	+1 415 802 2525
Peter Nichols	+1 646 949 9201
Kieran O'Sullivan	+1 617 292 8292
Rodrigo Ortigao	+1 646 949 9205
Ramnique Sroa	+1 415 802 2523
Matt Waddell	+1 646 949 9220

CRM

LaJada Gonzales	+1 646 949 9213
Monika Kwok	+1 646 949 9212

CORPORATE ACCESS

Olivia Lee	+1 646 949 9207
Tiffany Smith	+1 646 949 9208

EVENTS

Laura Hawes	+1 646 949 9209

SALES TRADING

Ronald Cestra	+1 646 949 9104
Michael Haughey	+1 646 949 9106
Christopher Kanian	+1 646 949 9103
Lars Schwartau	+1 646 949 9101
Brett Smith	+1 646 949 9105
Bob Spillane	+1 646 949 9102
Jordan White	+1 646 949 9222