

FORECASTS AT A GLANCE

18 April 2019



BERENBERG
PARTNERSHIP SINCE 1590

Trade tensions, China and other risks take their toll

Outlook: Still solid growth in US, major dent in Europe, emerging markets mixed

- **US:** Healthy momentum supported by tax and regulatory reforms
- **China:** Slower growth, significant problems, monetary stimulus
- **Japan:** Moderate growth, wages and inflation tilt up slowly
- **Eurozone:** External shocks and political risks cause temporary downturn
- **UK:** Upside risks to growth if the UK can pass a Brexit deal

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

- **Central banks:** Fed to pause rate hikes, BoE to hike once in 2019, ECB on hold
- **Fiscal policy:** US stimulus fading, small stimulus in Eurozone, tighter in UK
- **Structural reforms:** Deregulation in US, progress in France, reversal in Italy?

Two big risks: Political populism and protectionism

- **Key challenge:** Containing the populist threat to open societies and global trade; escalating trade wars could cause a serious downturn

Forecast changes

- We make to major changes to our forecasts this week.

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	Weight	GDP				Inflation				Unemployment				Fiscal balance			
		2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
World*	100.0	2.9	2.8	2.5	2.7												
US	24.3	2.2	2.9	2.4	2.3	2.1	2.4	1.9	2.2	4.4	3.9	3.7	3.6	-3.6	-4.1	-4.5	-4.5
China	15.0	6.8	6.6	6.1	5.9	1.6	2.1	2.1	2.1	3.9	3.8	3.9	3.8	-4.0	-4.1	-4.1	-5.0
Japan	6.1	1.9	0.8	0.7	1.0	0.5	1.0	0.9	1.4	2.8	2.4	2.3	2.3	-4.2	-3.8	-3.4	-2.8
India	3.3	6.4	7.5	7.5	7.4	3.1	4.0	4.8	4.5					-4.0	-3.6	-3.3	-3.0
Latin America	6.9	1.8	2.0	2.5	2.9	3.3	5.5	7.5	7.0					-6.8	-5.8	-5.0	-4.8
Europe	25.4	2.5	1.9	1.1	1.8												
Eurozone	15.8	2.5	1.8	1.0	1.6	1.5	1.8	1.3	1.5	9.1	8.2	7.8	7.5	-0.9	-0.5	-1.1	-0.9
Germany	4.6	2.5	1.5	0.7	1.6	1.7	1.9	1.4	1.5	3.8	3.4	3.2	3.0	1.0	1.7	1.1	0.8
France	3.2	2.3	1.6	1.1	1.7	1.2	2.1	1.4	1.6	9.4	9.1	8.5	7.9	-2.7	-2.7	-3.3	-2.5
Italy	2.4	1.7	0.8	0.0	0.9	1.3	1.2	1.0	1.3	11.3	10.6	10.7	10.6	-2.4	-2.1	-3.2	-3.1
Spain	1.6	3.0	2.6	2.1	2.1	2.0	1.7	1.3	1.7	17.2	15.3	13.6	12.7	-3.1	-2.8	-2.6	-2.3
Portugal	0.3	2.8	2.1	1.5	1.8	1.6	1.2	0.9	1.6	9.0	7.0	6.2	5.7	-3.0	-0.5	-0.4	-0.3
Other Western Europe																	
UK	3.3	1.8	1.4	1.2	2.1	2.7	2.5	1.9	2.1	4.3	4.1	3.8	3.7	-2.7	-1.6	-1.6	-1.2
Switzerland	0.8	1.7	2.5	1.4	1.9	0.5	0.9	0.7	0.9	3.2	2.6	2.3	2.1	1.1	1.0	0.7	0.7
Sweden	0.7	2.5	2.4	1.5	2.2	1.8	1.9	2.0	2.1	6.7	6.2	6.0	5.7	1.3	1.0	1.0	1.0
Eastern Europe																	
Russia	1.9	1.5	1.6	1.3	1.7	3.7	2.9	4.0	3.9	5.2	4.9	5.0	5.0	-1.7	1.3	0.7	0.3
Turkey	1.1	7.4	2.7	-0.8	2.5	11.1	16.3	14.0	9.0	10.9	11.2	12.7	12.1	-2.0	-2.7	-3.0	-2.9

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

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

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

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US: economic momentum to slow in 2019

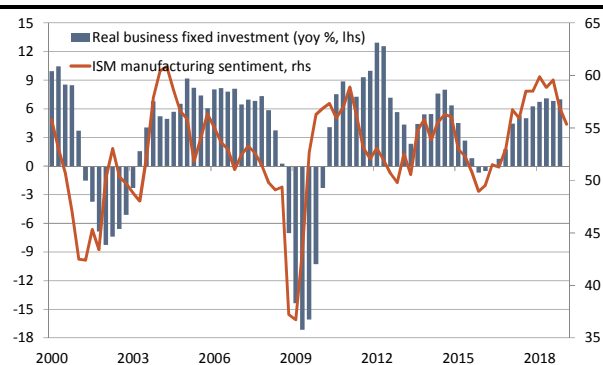
Key drivers of forecast

- **US economic growth to slow in 2019**, but remain slightly above potential
- **Real consumption growth to moderate** but remain solid, reflecting sustained job gains, further increases in wages and lower energy prices
- **Business fixed investment gains** to be weighed down by sharply lower oil prices, less optimistic sentiment, slower global growth, but supported by favourable taxes and deregulation
- **Sluggish global growth, stronger dollar, and tariffs weigh on exports**
- **Monetary policy:** The Fed is on hold with rate hikes through 2019 and 2020

Risks: To the downside

- Confidence harmed by stock market correction or trade worries
- Softening in China GDP growth

US manufacturing sentiment remains elevated



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.4	2.4	0.0	2.3	1.9	0.4
Inflation	1.9	1.9	0.0	2.2	2.1	0.1
Unemployment	3.7	3.7	0.0	3.6	3.6	0.0

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.2	2.9	2.4	2.3	2.6	2.9	3.0	3.0	2.9	2.4	2.2	2.2	2.3	2.3	2.2	2.2
	% q/q					0.5	1.0	0.8	0.5	0.5	0.6	0.6	0.5	0.6	0.6	0.5	0.6
	%q/q ann.					2.2	4.2	3.4	2.2	1.8	2.3	2.5	2.2	2.3	2.3	2.1	2.3
Private Consumption	% y/y	2.5	2.6	2.3	2.1	2.4	2.6	2.9	2.6	2.6	2.3	2.1	2.0	2.4	2.2	2.0	1.9
	% q/q					0.1	0.9	0.9	0.6	0.1	0.7	0.7	0.6	0.5	0.5	0.4	0.5
Residential Investment	% y/y	3.3	-0.3	-0.1	3.9	0.2	1.3	0.5	-3.3	-2.2	-1.1	0.4	2.5	3.2	3.6	4.2	4.5
	% q/q					-0.9	-0.3	-0.9	-1.2	0.3	0.8	0.6	0.8	1.0	1.1	1.2	1.1
Non-Residential Investment	% y/y	5.3	6.9	4.3	4.7	6.7	7.1	6.8	7.0	4.7	3.8	4.4	4.4	5.0	4.8	4.5	4.3
	% q/q					2.8	2.1	0.6	1.3	0.6	1.3	1.2	1.4	1.2	1.0	0.9	1.1
Government Spending	% y/y	-0.1	1.5	2.0	1.0	0.7	1.3	2.2	1.5	2.0	1.9	1.8	2.2	1.4	1.1	0.8	0.6
	% q/q					0.4	0.6	0.6	-0.1	0.8	0.6	0.5	0.3	0.1	0.2	0.2	0.1
Final Dom Demand ¹	% y/y	2.5	2.9	2.4	2.3	2.6	3.0	3.3	2.8	2.6	2.4	2.3	2.4	2.6	2.4	2.2	2.1
	% q/q					0.5	1.0	0.7	0.5	0.3	0.8	0.7	0.6	0.5	0.5	0.5	0.6
Net Exports ¹	% y/y	-0.4	-0.3	-0.2	-0.1	-0.3	0.0	-0.6	-0.3	-0.2	-0.6	-0.1	-0.1	-0.2	-0.2	-0.1	0.0
	% q/q					0.0	0.3	-0.6	0.0	0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Stockbuilding ^{1,5}	% y/y	0.0	0.1	0.2	-0.1	0.2	-0.3	0.1	0.4	0.4	0.6	-0.1	-0.2	-0.2	0.0	0.0	0.0
	% q/q					0.1	-0.4	0.7	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	USD bn	-449	-481	-509	-520	-124	-104	-127	-127	-124	-126	-128	-131	-130	-130	-130	-130
	% of GDP	-2.3	-2.4	-2.4	-2.3	-2.5	-2.0	-2.5	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3
Industrial Production ²	% y/y	2.3	4.0	2.1	2.1	3.6	3.3	4.9	4.0	3.3	2.3	1.7	1.3	1.9	2.3	2.2	2.0
	% q/q					0.6	1.1	1.3	1.0	-0.1	0.1	0.6	0.6	0.5	0.6	0.4	0.5
Unemployment Rate ²	%	4.4	3.9	3.7	3.6	4.1	3.9	3.8	3.8	3.9	3.7	3.7	3.7	3.6	3.6	3.6	3.5
CPI ²	% y/y	2.1	2.4	1.9	2.2	2.2	2.7	2.6	2.2	1.6	1.9	2.0	2.2	2.5	2.2	2.1	2.2
Core PCE ²	% y/y	1.6	1.9	1.9	2.1	1.7	1.9	2.0	1.9	1.8	1.8	1.9	2.0	2.1	2.1	2.1	2.1
Federal Govt. Balance ^{3,6}	% of GDP	-3.6	-4.1	-4.5	-4.5												
General Govt. Debt	% of GDP	107.8	108.2	109.6	111.0												
Fed Funds Rate ⁴	%	1.50	2.50	2.50	2.50	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50

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

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

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

China: moderating growth despite government stimulus

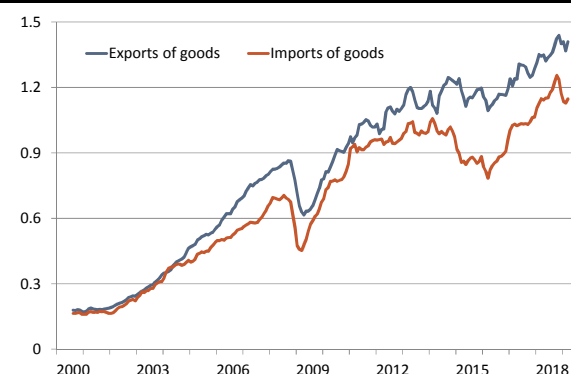
Key drivers of forecast

- **Slower-than-desired growth:** Consumption and domestic demand have slowed more than targets
- **Potential growth decelerating:** Achieving sustained strong real GDP growth involves mounting debt
- PBoC and fiscal policy leaders torn between **need to stimulate economy and need to constrain debt burden**
- **China will reach trade agreement with US to keep trade channels open**

Risks: Actual economy substantially weaker than official data; Consumers do not respond to stimulus

- **Policy risks:** Escalating trade policy standoff harms China and raises global uncertainties

China's trade trend has remained solid – so far



In trillion Yuan, three-month average. Source: China Customs, Haver Analytics

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	6.1	6.2	-0.1	5.9	6.0	-0.1
Inflation	2.1	2.0	0.1	2.1	2.2	-0.1
Unemployment	3.9	4.0	-0.1	3.8	4.0	-0.2
Fiscal balance	-4.5	-4.2	-0.3	-5.0	-4.2	-0.8

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	6.8	6.6	6.1	5.9	6.8	6.7	6.5	6.4	6.3	6.1	6.0	6.0	6.0	5.9	5.9	5.8
	% q/q					1.5	1.7	1.6	1.5	1.4	1.5	1.5	1.5	1.4	1.5	1.4	1.4
	%q/q ann.					6.1	7.0	6.6	6.1	5.5	6.3	5.9	6.2	5.7	5.9	5.7	5.7
Retail Sales ¹	% y/y	10.5	9.1	8.0	7.5	10.1	9.0	9.0	8.3	8.2	8.0	8.0	7.8	7.7	7.5	7.4	7.3
Fixed Asset Investment ²	% y/y	8.2	6.3	6.3	6.0	7.7	6.4	5.4	5.8	6.2	6.4	6.4	6.3	6.1	6.0	6.0	5.9
Industrial Production	% y/y	6.5	6.3	5.6	5.1	6.7	6.5	6.1	5.8	6.3	5.4	5.4	5.3	5.2	5.1	5.1	5.0
Exports ³	% y/y	7.9	9.9	4.2	4.9	13.7	11.5	11.7	3.9	1.4	3.9	5.0	6.0	5.4	4.8	5.0	4.7
Imports ³	% y/y	16.1	15.8	2.3	5.2	19.4	20.6	20.4	4.4	-4.8	2.0	4.9	6.3	5.5	5.4	5.2	4.9
Current Account Balance	\$ bn	195	44	215	181	-5	3	7	39	45	57	27	86	28	42	24	87
	% of GDP	1.6	0.3	1.3	1.0												
Unemployment Rate	%	3.9	3.8	3.9	3.8	3.9	3.8	3.8	3.8	4.0	3.9	3.8	3.8	3.8	3.8	3.8	3.8
CPI	% y/y	1.6	2.1	2.1	2.1	2.2	1.8	2.3	2.2	1.8	2.2	2.2	2.2	2.0	2.1	2.1	2.1
General Govt Balance	% of GDP	-4.0	-4.1	-4.5	-5.0												
General Govt Debt	% of GDP	47.8	47.7	49.5	51.5												

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

Japan: sustained growth, external risks

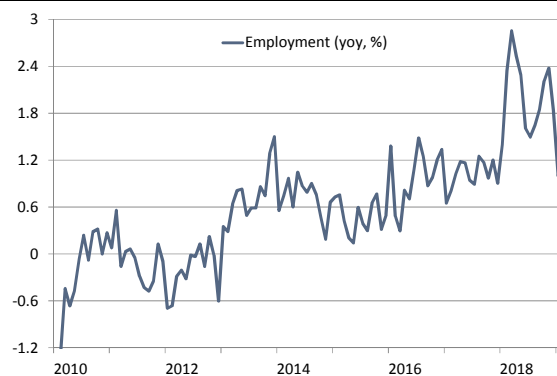
Key drivers of forecast

- **Ongoing growth** driven by employment and productivity
- **Rising labour force participation rates** of women and foreign workers amid tight labour markets
- **Wages and inflation are rising**
- **Exports vulnerable** to slowing growth in China
- **Bank of Japan** to continue its quantitative and qualitative monetary easing and its yield curve control (YCC) policy that suppresses bond yields into 2020

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

- **Upside:** Rising real wages boost consumer purchasing power; positive business confidence; infrastructure build for 2020 Olympics
- **Downside risk:** VAT hike scheduled for October 2019 may side-track momentum; weaker Chinese demand weighs on exports
- **Long-term risk:** Negative demographics and high debt weigh heavily on longer-run potential

Japan: strong employment growth



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.7	0.7	0.0	1.0	0.5	0.5
Inflation	0.9	0.8	0.1	1.4	1.2	0.2
Unemployment	2.3	2.4	-0.1	2.3	2.4	-0.1
Fiscal balance	-3.4	-3.5	0.1	-2.8	-3.2	0.4

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.9	0.8	0.7	1.0	1.4	1.4	0.2	0.3	0.5	0.3	1.2	0.9	0.9	1.0	1.2	
	% q/q					-0.1	0.5	-0.6	0.5	0.2	0.3	0.3	0.1	0.2	0.3	0.4	0.3
	%q/q ann.					-0.4	1.9	-2.4	1.9	0.7	1.0	1.2	0.5	1.0	1.0	1.6	1.2
Private Consumption	% y/y	1.1	0.4	0.8	0.5	0.4	0.0	0.6	0.6	1.0	0.6	1.0	0.6	0.5	0.5	0.5	0.7
	% q/q					-0.2	0.6	-0.2	0.4	0.2	0.2	0.2	0.0	0.1	0.2	0.3	0.2
Government Consumption	% y/y	0.2	0.7	1.0	0.5	0.4	0.6	0.6	1.3	1.2	1.2	1.1	0.6	0.5	0.5	0.6	0.5
	% q/q					0.2	0.1	0.2	0.7	0.2	0.1	0.2	0.2	0.1	0.1	0.2	0.1
Private Investment	% y/y	3.6	2.4	2.3	1.8	2.8	3.6	0.3	2.7	2.5	1.1	3.8	1.6	1.7	1.7	1.8	1.9
	% q/q					0.6	1.8	-2.1	2.5	0.4	0.4	0.5	0.3	0.5	0.4	0.6	0.4
Public Investment	% y/y	0.8	-3.3	-2.4	0.3	-0.2	-3.9	-3.8	-5.4	-4.6	-3.8	-1.5	0.3	0.4	0.3	0.3	0.3
	% q/q					-0.7	-0.7	-2.3	-1.7	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Final Domestic Demand ¹	% y/y	1.4	0.6	1.0	0.8	0.8	0.6	0.3	0.8	1.1	0.6	1.5	0.8	0.7	0.7	0.8	0.8
	% q/q					0.0	0.7	-0.6	0.8	0.2	0.2	0.2	0.1	0.2	0.2	0.3	0.2
Net Exports ¹	% y/y	0.5	0.0	-0.3	0.3	0.2	0.4	-0.2	-0.5	-0.7	-0.5	-0.3	0.1	0.2	0.2	0.3	0.3
	% q/q					0.1	-0.1	-0.1	-0.3	-0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Stockbuilding ¹	% y/y	0.0	0.2	0.1	0.0	0.3	0.4	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	JPY trn	22.6	18.7	18.8	17.6	5.9	5.0	5.1	2.6	6.4	4.7	5.4	2.3	6.1	4.4	5.1	2.0
	% of GDP	4.1	3.4	3.4	3.1												
Industrial Production ²	% y/y	2.9	1.0	-0.2	2.4	2.1	1.1	0.5	0.5	-0.7	-0.6	0.6	-0.1	2.8	2.4	2.3	2.1
	% q/q					-0.9	0.8	-0.7	1.3	-2.1	0.9	0.6	0.6	0.7	0.5	0.5	0.4
Unemployment Rate ²	%	2.8	2.4	2.3	2.3	2.5	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3
CPI ²	% y/y	0.5	1.0	0.9	1.4	1.3	0.6	1.1	0.9	0.4	0.9	1.0	1.3	1.6	1.4	1.3	1.3
General Govt. Balance	% of GDP	-4.2	-3.8	-3.4	-2.8												
General Govt. Debt	% of GDP	199	202	202	200												

¹ Contribution to GDP growth ² Period averages

UK: growth can improve if a hard Brexit is avoided

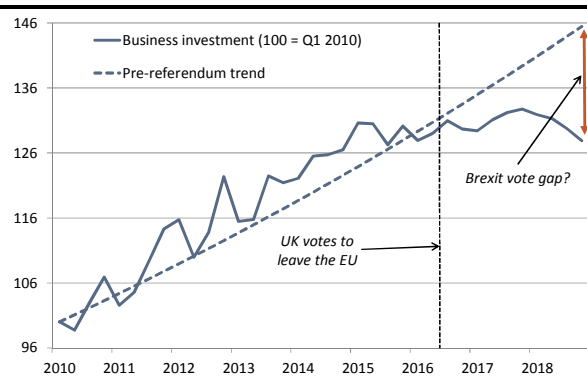
Key drivers of forecast

- **Modest impact of Brexit vote on demand:** Uncertainty is weighing on households and business, causing less robust spending and soft investment until the post-Brexit outlook becomes clearer
- **Stronger medium-term GDP growth:** If the UK avoids a no deal hard Brexit, the ongoing recovery in real wages can underpin a pick-up in real private consumption
- **BoE raises rates gradually:** Domestic inflationary pressures will build over time; look for a 25bp rate hike in August 2019 if the UK avoids a hard Brexit

Risks: Near-term downside, medium-term upside

- **Downside near-term risks:** 1) Weaker global growth could further weigh on trade, 2) a hard Brexit (20% risk) could disrupt short-term trade and investment and depress long-term growth, and 3) Brexit delay extends the hard Brexit risk beyond Q2 and weighs on H2-2019 growth
- **Upside medium-term risks:** Better-than-expected real household consumption growth amid continued strong gains in wage growth, and helped by the planned income tax cut in April, could lift medium-term real GDP growth above current expectations

UK: investment has stalled since the June 2016 Brexit vote



Quarterly data. Source: ONS, Berenberg

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.2	1.2	0.0	2.1	1.5	0.6
Inflation	1.9	2.0	-0.1	2.1	2.0	0.1
Unemployment	3.8	4.0	-0.2	3.7	4.1	-0.4
Fiscal balance	-1.6	-1.5	-0.1	-1.2	-1.4	0.2

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.8	1.4	1.2	2.1	1.2	1.4	1.6	1.4	1.5	1.2	1.0	1.2	1.7	2.1	2.2	2.2
	% q/q					0.1	0.4	0.7	0.2	0.2	0.2	0.4	0.5	0.6	0.6	0.5	0.5
	%q/q ann.					0.2	1.6	2.8	0.9	0.6	0.6	1.7	1.9	2.4	2.4	2.1	1.9
Private Consumption	% y/y	2.1	1.7	1.5	2.4	1.6	1.8	1.6	1.6	1.3	1.2	1.5	2.1	2.5	2.6	2.4	2.1
	% q/q					0.5	0.5	0.3	0.3	0.2	0.4	0.7	0.8	0.6	0.5	0.5	0.5
	% y/y	-0.2	0.4	1.5	0.7	0.8	-0.1	-0.3	1.0	0.8	1.7	2.2	1.1	1.2	0.8	0.5	0.4
Government Consumption	% q/q					0.2	-0.4	-0.1	1.3	0.0	0.5	0.4	0.2	0.1	0.1	0.1	0.1
	% y/y	3.5	0.2	-1.8	3.7	2.1	-0.4	0.2	-1.1	-2.3	-2.8	-2.0	-0.3	2.7	4.8	3.9	3.6
	% q/q					-0.8	-0.6	0.9	-0.6	-2.0	-1.0	1.7	1.0	1.0	1.0	0.8	0.8
Final Domestic Demand ¹	% y/y	1.9	1.2	0.9	2.3	1.5	1.1	1.0	1.0	0.6	0.6	1.1	1.5	2.3	2.6	2.3	2.1
	% q/q					0.2	0.2	0.4	0.3	-0.2	0.2	0.8	0.7	0.6	0.5	0.5	0.5
	% y/y	0.5	-0.2	-0.4	-0.1	0.5	0.0	-0.4	-0.7	-0.7	-0.3	-0.3	-0.2	0.0	-0.1	-0.2	-0.2
Net Exports ¹	% q/q					-0.2	-0.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
	% y/y	-0.6	0.4	0.9	0.3	-0.8	0.3	0.8	1.3	1.8	1.3	0.5	-0.1	-0.6	-0.4	0.1	0.4
	% q/q					0.1	0.5	0.4	0.4	0.6	-0.1	-0.4	-0.2	0.0	0.1	0.1	0.1
Current Account Balance	GBP bn	-68.4	-81.6	-90.2	-77.6	-17.7	-17.3	-23.0	-23.7	-24.0	-23.0	-22.0	-21.2	-20.7	-19.8	-18.9	-18.0
	% of GDP	-3.3	-3.9	-4.1	-3.5	-3.4	-3.3	-4.3	-4.4	-4.4	-4.2	-4.0	-3.8	-3.7	-3.6	-3.4	-3.2
	% y/y	1.8	0.8	1.1	1.8	2.0	1.1	0.7	-0.7	0.1	1.1	0.9	2.2	1.8	1.8	1.8	1.8
Industrial Production ²	% q/q					0.1	-0.6	0.7	-0.8	0.9	0.4	0.5	0.5	0.5	0.5	0.5	0.5
	%	4.3	4.1	3.8	3.7	4.2	4.0	4.1	3.9	3.9	3.9	3.8	3.8	3.8	3.7	3.7	3.7
	% y/y	2.7	2.5	1.9	2.1	2.7	2.4	2.5	2.3	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.2
General Govt. Balance ³	% of GDP	-2.7	-1.6	-1.6	-1.2												
	% of GDP	87.9	86.7	85.6	84.6												
BoE Bank Rate ⁴		0.50	0.75	1.00	1.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50

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

Eurozone: trade tensions, Italy and Brexit weigh on growth

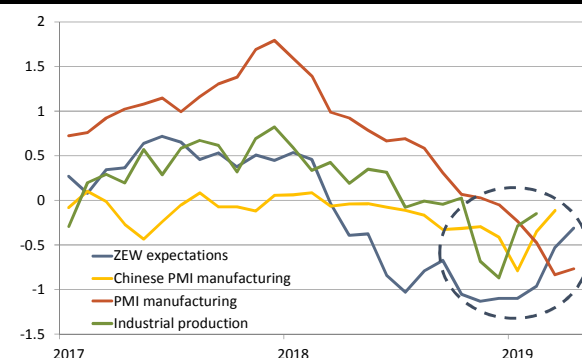
Key drivers of forecast

- **Serious slowdown:** After smooth sailing in 2017, a series of external shocks and political risks in 2018 pushed growth well below the 1.5% trend rate in H2 2018
- **A cocktail of risks:** Trade tensions, crises in some emerging markets and high energy prices took their toll in 2018. Since late 2018, Brexit risks and concerns about China exacerbate the downturn in export-oriented manufacturing. We expect most of these headwinds to fade from spring 2019 onwards, allowing growth to rebound after a grey winter
- **Domestic fundamentals remain positive:** Gains in employment and real wages support consumption. However, external concerns have spilled over to domestic demand in H2 2018
- **Inflation:** Stronger wage gains will nudge up core inflation, but only gradually
- **Policy outlook:** Fiscal policy provides a stimulus of 0.2% of GDP in 2019; monetary policy remains highly accommodative; ECB has announced more long-term funding for banks and will keep rates on hold in 2019

Risks: Tilted to downside

- **Downside:** Escalation of US-China or US-EU trade tensions, potential debt crisis in Italy, hard landing in China, fallout from a no-deal hard Brexit
- **Upside:** External shocks fade faster than expected

Inflection point ahead?



Industrial production and key indicators normalised by average and standard deviation since 2005. Sources: ZEW, Caixin, Markit, Eurostat, Haver Analytics, Berenberg.

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.0	1.1	-0.1	1.6	1.4	0.2
Inflation	1.3	1.3	0.0	1.5	1.4	0.1
Unemployment	7.8	7.8	0.0	7.5	7.7	-0.2
Fiscal balance	-1.1	-1.0	-0.1	-0.9	-1.0	0.1

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.5	1.8	1.0	1.6	2.4	2.2	1.6	1.2	1.0	0.8	1.1	1.3	1.5	1.7	1.7	1.7
	% q/q					0.4	0.4	0.1	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					1.5	1.7	0.6	0.9	1.0	0.8	1.6	1.7	1.7	1.7	1.7	1.7
Private Consumption	% y/y	1.8	1.3	1.0	1.5	1.7	1.4	1.0	1.0	0.8	0.9	1.1	1.2	1.4	1.5	1.6	1.6
	% q/q					0.5	0.2	0.1	0.2	0.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.2	1.1	1.5	1.5	1.1	1.2	0.8	1.2	1.5	1.4	1.7	1.4	1.5	1.5	1.6	1.6
	% q/q					0.1	0.4	0.0	0.7	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	2.9	3.3	2.9	2.8	3.4	2.8	3.4	3.5	3.8	2.7	2.8	2.2	2.6	2.8	2.9	2.9
	% q/q					0.2	1.6	0.5	1.3	0.4	0.5	0.6	0.7	0.7	0.7	0.7	0.7
Final Domestic Demand ¹	% y/y	1.8	1.6	1.5	1.7	1.8	1.6	1.4	1.5	1.5	1.3	1.5	1.4	1.6	1.7	1.8	1.8
	% q/q					0.3	0.5	0.2	0.5	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5
Net Exports ¹	% y/y	0.8	0.1	-0.3	-0.1	0.6	0.7	-0.2	-0.5	-0.4	-0.6	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
	% q/q					-0.2	0.0	-0.4	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.1	0.1	-0.1	0.0	0.0	-0.1	0.5	0.1	-0.1	0.0	-0.3	0.1	0.0	0.0	0.0	0.0
	% q/q					0.3	-0.1	0.4	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	361	336	328	322	98	86	72	80	96	86	69	77	96	86	66	74
	% of GDP	3.2	2.9	2.8	2.6												
Industrial Production ²	% y/y	2.9	0.9	0.3	1.4	3.1	2.3	0.5	-2.1	-0.5	-0.3	0.2	1.7	1.3	1.4	1.5	1.5
	% q/q					-0.8	0.0	-0.1	-1.1	0.8	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	9.1	8.2	7.8	7.5	8.5	8.3	8.0	7.9	7.8	7.8	7.8	7.7	7.7	7.6	7.5	7.4
CPI ²	% y/y	1.5	1.8	1.3	1.5	1.3	1.7	2.1	1.9	1.4	1.4	1.3	1.2	1.4	1.4	1.5	1.7
General Govt. Balance	% of GDP	-0.9	-0.5	-1.1	-0.9												
General Govt. Debt	% of GDP	86.8	84.5	83.6	82.0												
ECB main refinancing rate ³	%	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50

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

Germany: external tensions and other shocks cause a setback

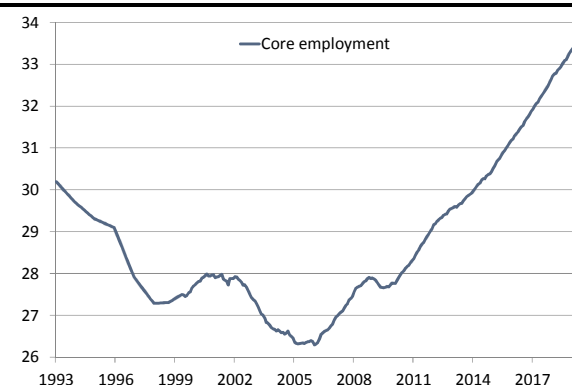
Key drivers of forecast

- **Strong economic fundamentals:** Competitive position and low funding costs underpin firm investment trend; temporary car sector slump dragged GDP down in Q3
- **Buoyant consumers:** Strong gains in employment and rising wages support real incomes. However, savings rate has risen in response to external shocks
- **Trade effect:** External trade turned into a significant drag on growth in 2018, reflecting trade tensions and problems in some emerging markets. By late spring 2019, a fading of these external shocks should allow for a rebound in GDP growth to an above-trend rate
- **Modest fiscal stimulus:** “Grand” coalition delivers a fiscal boost to demand of 0.3-0.4% of GDP in 2019
- **Inflation:** Recent wage deals suggest domestically generated price pressures are building gradually

Risks: Tilted to downside near-term

- **Downside:** Protectionism, potential debt crisis in Italy, no-deal hard Brexit, hard landing in China, modest fallout from Turkey and other emerging markets
- **Upside:** External headwinds fade faster than expected

Core employment: still surging higher and higher



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.7	0.9	-0.2	1.6	1.4	0.2
Inflation	1.4	1.5	-0.1	1.5	1.7	-0.1
Unemployment	3.2	n/a	n/a	3.0	n/a	n/a
Fiscal balance	1.1	1.0	0.2	0.8	0.6	0.2

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP ¹	% y/y	2.5	1.5	0.7	1.6	2.1	2.0	1.2	0.6	0.4	0.2	0.8	1.2	1.5	1.7	1.7	1.7
	% q/q					0.4	0.5	-0.2	0.0	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					1.5	1.8	-0.8	0.1	0.6	1.0	1.5	1.7	1.7	1.7	1.7	1.7
Private Consumption	% y/y	2.0	0.9	1.2	1.8	1.6	1.1	0.5	0.5	0.5	0.8	1.5	1.8	1.8	1.8	1.8	1.8
	% q/q					0.4	0.2	-0.3	0.2	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Government Consumption	% y/y	1.6	1.0	1.9	1.8	0.7	1.1	0.5	1.7	2.1	1.7	2.4	1.3	1.8	1.8	1.9	1.9
	% q/q					-0.4	0.8	-0.3	1.6	0.0	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Investment	% y/y	3.6	2.7	2.3	2.8	3.1	2.4	2.4	3.0	2.4	2.2	2.5	2.3	2.5	2.8	2.8	2.8
	% q/q					1.0	0.6	0.4	0.9	0.5	0.4	0.7	0.7	0.7	0.7	0.7	0.7
Final Domestic Demand ²	% y/y	2.1	1.2	1.5	1.9	1.6	1.3	0.9	1.2	1.2	1.2	1.8	1.7	1.8	1.9	1.9	1.9
	% q/q					0.4	0.4	-0.1	0.6	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports ²	% y/y	0.3	-0.4	-0.9	-0.3	0.3	0.3	-1.0	-1.2	-1.4	-1.3	-0.5	-0.5	-0.4	-0.3	-0.2	-0.2
	% q/q					0.0	-0.3	-1.0	0.0	-0.2	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Stockbuilding ²	% y/y	0.0	0.6	0.1	0.0	0.1	0.3	1.3	0.7	0.7	0.3	-0.6	0.0	0.0	0.0	0.0	0.0
	% q/q					0.0	0.3	0.9	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	263	252	231	219	69	64	55	64	60	58	52	61	57	55	49	58
	% of GDP	8.0	7.4	6.7	6.1	8.3	7.5	6.4	7.5	7.1	6.7	5.9	7.0	6.6	6.2	5.4	6.4
Industrial Production ³	% y/y	3.3	1.0	-1.7	1.7	4.0	2.8	-0.2	-2.4	-2.7	-3.2	-1.4	0.4	1.2	1.9	1.9	1.9
	% q/q					0.0	0.3	-1.3	-1.4	-0.3	-0.3	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ⁴	%	3.8	3.4	3.2	3.0	3.5	3.4	3.4	3.3	3.1	3.1	3.2	3.2	3.1	3.1	3.0	3.0
CPI ⁵	% y/y	1.7	1.9	1.4	1.5	1.5	1.9	2.2	2.1	1.6	1.5	1.3	1.3	1.6	1.4	1.5	1.7
General Govt. Balance	% of GDP	1.0	1.7	1.1	0.8												
General Govt. Debt	% of GDP	63.9	60.1	57.8	55.3												

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

⁵ EU-harmonised, period averages

France: golden decade ahead – if Macron stays the course

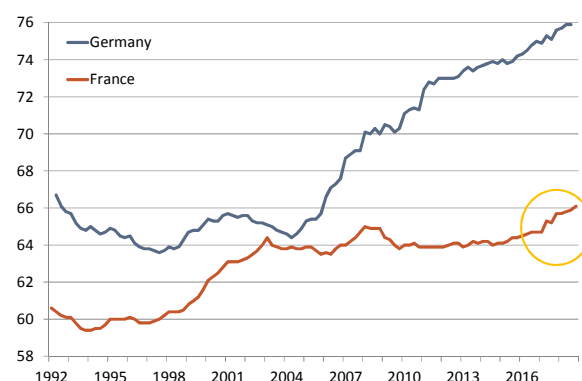
Key drivers of forecast

- **2018 slowdown:** Unusual weather, strikes, trade tensions and high oil prices retarded growth in 2018
- **Splendid opportunity:** President Macron has a strong mandate and majority in parliament; he has managed to push through some reforms to the SNCF, public sector, unemployment insurance and education system in 2018
- **Work in progress:** Change to the welfare state, pension reform, constitutional changes
- **A golden decade?** If Macron implements further serious supply-side reforms, as we expect, France could enjoy a golden decade of growth in the 2020s and eventually overtake Germany as Europe's growth engine
- **A crucial test:** Having delivered many changes, serious protests forced Mr Macron to backtrack on fiscal changes in late 2018. Some fiscal slippage would not be a major issue, but a reversal of supply-side reforms could spoil France's opportunity to raise its growth potential

Risks: Tilted to downside

- **Downside:** If Macron were to reverse key reforms, confidence and investment could weaken substantially

French vs. German employment: big gap means big potential



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.1	1.2	-0.1	1.7	1.4	0.3
Inflation	1.4	1.3	0.1	1.6	1.6	0.0
Unemployment	8.5	8.8	-0.3	7.9	8.6	-0.7
Fiscal balance	-3.3	-3.2	-0.1	-2.5	-2.5	0.0

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.3	1.6	1.1	1.7	2.2	1.7	1.4	1.0	0.9	1.0	1.1	1.2	1.5	1.7	1.7	1.8
	% q/q					0.2	0.2	0.3	0.3	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					0.9	0.7	1.1	1.3	0.7	0.8	1.6	1.7	1.8	1.8	1.8	1.7
Private Consumption	% y/y	1.2	0.9	1.0	1.5	1.3	0.8	0.8	0.6	0.6	1.0	1.0	1.3	1.4	1.5	1.5	1.5
	% q/q					0.3	-0.1	0.4	0.0	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4
	% y/y	1.4	1.1	1.3	1.4	1.3	1.2	0.8	0.9	1.2	1.3	1.5	1.4	1.4	1.4	1.4	1.4
Investment	% q/q					0.1	0.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	% y/y	4.7	2.9	2.0	2.8	3.2	3.3	2.9	2.2	2.5	1.9	1.6	2.1	2.5	2.9	2.9	2.9
	% q/q					0.1	0.8	1.0	0.3	0.4	0.3	0.7	0.7	0.8	0.8	0.7	0.7
Final Domestic Demand ¹	% y/y	2.0	1.4	1.3	1.8	1.8	1.5	1.3	1.0	1.2	1.3	1.2	1.5	1.7	1.8	1.8	1.9
	% q/q					0.2	0.2	0.5	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5
	% y/y	0.1	0.6	0.0	-0.2	1.2	0.1	0.7	0.4	0.3	0.3	0.0	-0.4	-0.3	-0.2	-0.2	-0.2
Net Exports ¹	% q/q					0.0	-0.1	0.3	0.3	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
	% y/y	0.2	-0.4	-0.3	0.1	-0.8	0.1	-0.6	-0.5	-0.5	-0.6	-0.1	0.0	0.1	0.1	0.1	0.1
	% q/q					0.0	0.1	-0.5	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	-13.7	-10.2	-6.2	-2.3	1.0	-6.5	-2.0	-2.7	0.7	-3.7	-1.7	-1.5	0.5	1.4	-2.7	-1.5
	% of GDP	-0.6	-0.4	-0.3	-0.1												
	% y/y	2.3	0.4	1.9	1.7	2.5	0.5	0.3	-1.7	1.0	2.0	1.8	2.6	1.8	1.7	1.7	1.7
Industrial Production ²	% q/q					-1.4	-0.5	0.6	-0.4	1.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4
	%	9.4	9.1	8.5	7.9	9.2	9.1	9.0	8.9	8.8	8.6	8.4	8.3	8.1	8.0	7.9	7.7
	% y/y	1.2	2.1	1.4	1.6	1.5	2.1	2.6	2.2	1.4	1.5	1.2	1.3	1.6	1.5	1.6	1.7
General Govt. Balance	% of GDP	-2.7	-2.7	-3.3	-2.5												
General Govt. Debt	% of GDP	98.5	98.7	99.4	98.6												

¹ Contribution to GDP growth ² Period averages

Italy: political risks jeopardise progress

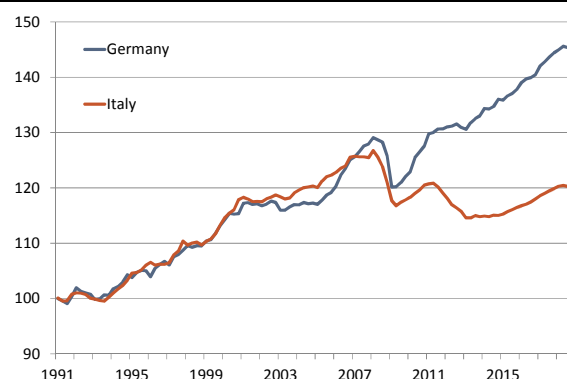
Key drivers of forecast

- **Economic outlook:** Surveys project stagnation ahead, weak industrial data indicate a potential recession
- **Political risks cloud the outlook:** The radicals ruling Italy have promised their voters to raise spending, cut taxes, reduce the retirement age and reverse some pro-growth reforms; they have started to act on these promises
- **Severe debt crisis possible but not yet likely near-term:** Italy's institutions and EU rules provide some safeguards against bad policy choices, but a noisy conflict with Brussels could spook markets
- **Fiscal risks:** Rome now targets a 2.04% of GDP deficit for 2019. The target is based on overly rosy growth assumptions; fiscal shortfalls could spook markets
- **Long-term risks loom large:** Facing a credit crunch, the radicals in Rome have backed down by enough to prevent an immediate debt crisis. However, once the next deep recession lays bare the true costs of misguided policies, Italy could be in deep trouble – a debt crisis in 2022?

Risks: Tilted to downside due to bad policy choices at home

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

What ails Italy? Not the euro. Italy fell behind Germany later



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.0	0.1	-0.1	0.9	0.7	0.2
Inflation	1.0	1.0	0.0	1.3	1.3	0.0
Unemployment	10.7	10.5	0.2	10.6	10.5	0.1
Fiscal balance	-3.2	-2.6	-0.6	-3.1	-2.8	-0.3

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.7	0.8	0.0	0.9	1.4	1.1	0.6	0.0	-0.2	-0.2	0.1	0.4	0.7	0.9	1.0	1.1
	% q/q					0.2	0.1	-0.1	-0.1	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3
	%q/q ann.					0.9	0.3	-0.6	-0.4	0.0	0.2	0.7	0.9	1.1	1.1	1.1	1.1
Private Consumption	% y/y	1.5	0.6	0.6	1.0	0.8	0.7	0.4	0.5	0.3	0.5	0.7	0.8	0.9	1.0	1.0	1.0
	% q/q					0.3	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	-0.2	0.2	0.6	1.3	0.1	0.3	0.3	-0.1	0.2	0.4	0.8	1.2	1.3	1.3	1.3	1.3
	% q/q					0.0	0.1	-0.1	-0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment	% y/y	4.5	3.2	-0.1	0.8	5.0	6.3	1.7	0.1	1.1	-1.4	0.0	-0.1	0.5	0.8	1.0	1.1
	% q/q					-1.3	2.5	-1.3	0.3	-0.3	-0.1	0.1	0.2	0.3	0.3	0.3	0.3
Final Domestic Demand ¹	% y/y	1.7	1.0	0.5	1.0	1.4	1.6	0.6	0.3	0.4	0.1	0.6	0.7	0.9	1.0	1.1	1.1
	% q/q					-0.1	0.5	-0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	0.3	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	0.0	0.0	0.2	-0.1	-0.3	-0.2	-0.1	0.0	0.0
	% q/q					0.0	-0.3	0.2	0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.3	-0.1	-0.4	0.0	0.3	-0.4	0.0	-0.3	-0.6	-0.5	-0.4	0.1	0.0	0.0	0.0	0.0
	% q/q					0.3	-0.1	-0.1	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	44.9	44.0	46.0	46.0	4.3	10.6	15.7	13.4	6.3	10.6	15.7	13.4	6.3	10.6	15.7	13.4
	% of GDP	2.6	2.5	2.6	2.5												
Industrial Production ²	% y/y	3.7	0.5	0.6	1.2	3.4	1.8	-0.4	-2.5	-0.3	0.1	0.7	1.9	0.9	1.2	1.3	1.3
	% q/q					-1.0	-0.4	-0.3	-0.9	1.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Unemployment Rate ²	%	11.3	10.6	10.7	10.6	10.9	10.7	10.3	10.6	10.6	10.7	10.7	10.7	10.7	10.7	10.6	10.5
	%	1.3	1.2	1.0	1.3	0.8	1.0	1.6	1.5	1.1	1.1	1.0	1.0	1.2	1.2	1.3	1.4
General Govt. Balance	% of GDP	-2.4	-2.1	-3.2	-3.1												
General Govt. Debt	% of GDP	131.2	131.7	133.5	133.7												

¹ Contribution to GDP growth ² Period averages

Spain: still doing well despite political risks

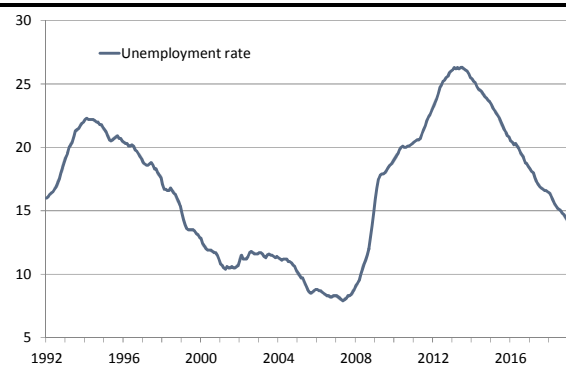
Key drivers of forecast

- **Rebound in domestic demand:** Financial crisis over – consumption and investment have rebounded solidly
- **Fiscal drag over:** While still uncomfortable, the fiscal position has allowed an easing of austerity
- **Competitive:** Wage restraint and labour market reforms have reduced labour costs; exports benefit. But wage restraint is now over. The government raised the minimum wage by an excessive 22.3% this year
- **Third election in less than four years:** After failing to push through the 2019 budget, Prime Minister Sanchez has called for new elections on 28 April. Following the strong reform drive in the years after the euro crisis, political gridlock or weak governments that struggle to push through major changes may not be too bad after all

Risks: Balanced

- **Upside:** The sharp fall in borrowing costs boosts investment; the risk of big social giveaways would be lower with a new centre-right alliance
- **Downside:** Spillover from Italy and global concerns could hurt Spain temporarily

Spain: reforms help to bring unemployment down again



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	21	22	-0.1	21	1.9	0.2
Inflation	1.3	1.2	0.1	1.7	1.5	0.2
Unemployment	13.6	13.9	-0.3	12.7	12.8	-0.1
Fiscal balance	-2.6	-2.3	-0.3	-2.3	-2.0	-0.3

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	3.0	2.6	2.1	2.1	2.9	2.6	2.5	2.3	2.2	2.0	2.0	2.0	2.1	2.2	2.2	2.1
	% q/q					0.6	0.6	0.5	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
	%q/q ann.					2.5	2.4	2.2	2.2	1.9	1.8	2.1	2.2	2.2	2.2	2.1	2.1
Private Consumption	% y/y	2.5	2.3	2.1	2.3	3.0	2.3	1.9	1.9	1.7	2.2	2.1	2.3	2.3	2.3	2.3	2.3
	% q/q					0.9	0.1	0.6	0.4	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Government Consumption	% y/y	1.9	2.1	2.0	2.0	2.2	2.0	2.2	2.2	2.0	2.2	1.9	2.0	2.0	2.0	2.0	2.0
	% q/q					0.6	0.3	0.8	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investment	% y/y	4.8	5.3	2.2	3.1	3.9	7.5	5.2	4.4	3.7	1.0	1.5	2.5	2.8	3.2	3.2	3.2
	% q/q					1.2	3.2	0.2	-0.2	0.5	0.5	0.7	0.8	0.8	0.8	0.8	0.8
Final Domestic Demand ¹	% y/y	2.8	2.8	2.0	2.3	2.9	3.2	2.6	2.4	2.1	1.8	1.9	2.2	2.2	2.3	2.3	2.3
	% q/q					0.9	0.8	0.5	0.2	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Net Exports ¹	% y/y	0.1	-0.2	0.0	-0.2	-0.1	-0.6	-0.1	-0.1	0.0	0.1	0.1	-0.2	-0.2	-0.2	-0.2	-0.2
	% q/q					-0.2	-0.2	0.0	0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1
Stockbuilding ¹	% y/y	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	% q/q					0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	215	113	7.6	4.6	-2.0	3.6	3.0	6.6	-3.3	3.0	2.1	5.7	-3.9	2.4	1.2	4.8
	% of GDP	1.8	0.9	0.6	0.4												
Industrial Production ²	% y/y	3.2	0.3	1.6	1.7	2.4	1.1	0.5	-2.7	0.4	1.4	1.8	2.9	1.8	1.8	1.7	1.6
	% q/q					-1.6	-0.5	0.0	-0.7	1.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	17.2	15.3	13.6	12.7	16.2	15.4	15.0	14.5	14.0	13.8	13.5	13.3	13.1	12.8	12.6	12.4
CPI ²	% y/y	2.0	1.7	1.3	1.7	0.9	2.0	2.3	1.8	1.2	1.5	1.3	1.2	1.4	1.5	1.8	2.1
General Govt. Balance	% of GDP	-3.1	-2.8	-2.6	-2.3												
General Govt. Debt	% of GDP	98.1	96.5	94.0	92.0												

¹ Contribution to GDP growth ² Period averages

Portugal: healthy growth as earlier reforms pay off

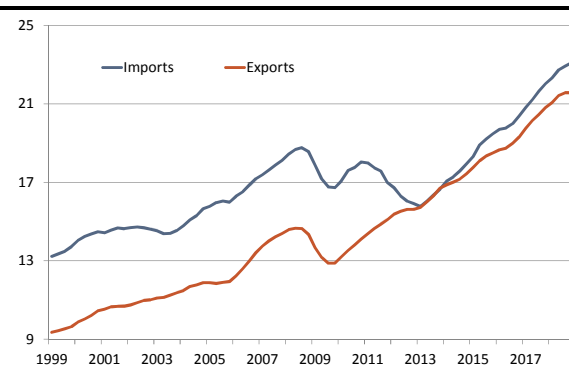
Key drivers of forecast

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

Risks: Tilted to downside due to external risks

- **Foreign demand:** After strong gains in exports and imports in 2017, net exports turned into a major drag on GDP growth in 2018
- **Political risks:** potential fallout from Italian events

Successful external adjustment



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

Berenberg versus consensus

	2019			2020		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.5	1.6	-0.1	1.8	1.5	0.3
Inflation	0.9	1.0	-0.1	1.6	1.5	0.1
Unemployment	6.2	6.4	-0.2	5.7	6.2	-0.4
Fiscal balance	-0.4	-0.5	0.1	-0.3	-0.5	0.2

Bloomberg consensus, taken on 18 April 2019. Numbers may not add up due to rounding

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	2.8	2.1	1.5	1.8	2.2	2.5	2.1	1.7	1.5	1.2	1.5	1.6	1.7	1.9	1.9	1.9
	% q/q					0.5	0.6	0.3	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
	%q/q ann.					1.8	2.5	1.0	1.4	1.3	1.3	1.9	1.9	1.9	1.9	1.9	1.9
Private Consumption	% y/y	2.3	2.5	2.5	2.0	2.2	2.8	2.3	2.8	2.5	2.9	2.7	2.0	2.0	2.0	2.0	2.0
	% q/q					0.7	0.1	0.7	1.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Government Consumption	% y/y	0.2	0.8	1.1	1.6	0.9	1.1	0.8	0.7	0.7	0.9	1.4	1.6	1.6	1.6	1.6	1.6
	% q/q					0.3	0.3	-0.1	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	9.2	4.4	2.3	2.9	4.5	4.7	5.0	3.5	3.0	1.6	1.6	2.8	3.0	3.0	2.9	2.8
	% q/q					1.0	2.1	0.8	-0.4	0.5	0.7	0.8	0.8	0.7	0.7	0.7	0.7
Final Domestic Demand ¹	% y/y	3.0	2.6	2.3	2.1	2.4	2.8	2.5	2.5	2.3	2.3	2.3	2.1	2.2	2.2	2.1	2.1
	% q/q					0.7	0.5	0.6	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports ¹	% y/y	-0.2	-0.6	-1.1	-0.3	-0.4	-0.3	-0.3	-1.5	-1.4	-1.5	-0.9	-0.5	-0.4	-0.3	-0.3	-0.3
	% q/q					-0.3	0.0	-0.7	-0.5	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Stockbuilding ¹	% y/y	0.0	0.2	0.3	0.0	0.2	0.0	-0.1	0.7	0.6	0.4	0.1	0.0	0.0	0.0	0.0	0.0
	% q/q					0.1	0.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	1.1	-0.7	-1.1	-1.4	0.1	-0.4	-0.2	-0.2	-0.1	-0.4	-0.2	-0.3	-0.2	-0.5	-0.3	-0.4
	% of GDP	0.6	-0.4	-0.5	-0.6												
Industrial Production ²	% y/y	4.0	-1.0	-1.5	1.8	2.3	0.4	-4.7	-1.7	-4.0	-2.0	-0.7	0.6	1.8	1.8	1.9	1.9
	% q/q					1.6	-1.6	-0.9	-0.8	-0.7	0.4	0.4	0.4	0.5	0.4	0.5	0.5
Unemployment Rate ²	%	9.0	7.0	6.2	5.7	7.6	7.1	6.8	6.6	6.4	6.2	6.1	6.0	5.9	5.8	5.6	5.5
CPI ²	% y/y	1.6	1.2	0.9	1.6	0.9	1.2	1.7	0.8	0.9	1.0	0.9	0.9	1.4	1.4	1.7	1.9
General Govt. Balance	% of GDP	-3.0	-0.5	-0.4	-0.3												
General Govt. Debt	% of GDP	124.8	121.0	118.5	114.9												

¹ Contribution to GDP growth ² Period averages

FORECASTS AT A GLANCE

Economics

Forecast changes

We make to major changes to our forecasts this week.

Berenberg compared with consensus

	GDP		Inflation		Unemployment		Fiscal balance	
	2019	2020	2019	2020	2019	2020	2019	2020
US	0.0	0.4	0.0	0.1	0.0	0.0	n/a	n/a
China	-0.1	-0.1	0.1	-0.1	-0.1	-0.2	-0.3	-0.8
Japan	0.0	0.5	0.1	0.2	-0.1	-0.1	0.1	0.4
UK	0.0	0.6	-0.1	0.1	-0.2	-0.4	-0.1	0.2
Eurozone	-0.1	0.2	0.0	0.1	0.0	-0.2	-0.1	0.1
Germany	-0.2	0.2	-0.1	-0.1	n/a	n/a	0.2	0.2
France	-0.1	0.3	0.1	0.0	-0.3	-0.7	-0.1	0.0
Italy	-0.1	0.2	0.0	0.0	0.2	0.1	-0.6	-0.3
Spain	-0.1	0.2	0.1	0.2	-0.3	-0.1	-0.3	-0.3
Portugal	-0.1	0.3	-0.1	0.1	-0.2	-0.4	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 is taken on 18 April 2019. Berenberg's German unemployment forecasts are based on the ILO measure, which is not comparable to consensus figures that are based on the national unemployment definition. Source: Bloomberg, Berenberg

Key financial forecasts

	Current ¹	Mid-2019	End-2019	Mid-2020	End-2020
Central bank rates					
US Fed	2.25-2.50%	2.25-2.50%	2.25-2.50%	2.25-2.50%	2.25-2.50%
ECB	0.00%	0.00%	0.00%	0.25%	0.50%
BoE	0.75%	0.75%	1.00%	1.25%	1.50%
BoJ	-0.10%	-0.10%	-0.10%	-0.10%	0.00%
10-year bond yields					
US	2.56%	2.90%	3.00%	3.05%	3.10%
Germany	0.05%	0.20%	0.50%	0.80%	1.00%
UK	1.22%	1.40%	1.90%	2.10%	2.30%
Currencies					
EUR-USD	1.13	1.15	1.19	1.21	1.22
EUR-GBP	0.86	0.83	0.83	0.83	0.83
GBP-USD	1.30	1.39	1.44	1.46	1.47
USD-JPY	112	111	112	112	112
EUR-JPY	126	128	133	136	137
EUR-CHF	1.14	1.15	1.18	1.20	1.20
USD-CNY	6.70	6.85	7.00	7.00	7.00

¹ Taken on 18 April 2019 at 09:45 UK time. Currency forecasts may not add up due to rounding

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

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EQUITY RESEARCH

GENERAL MID CAP

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 Kieran Lee +44 20 3465 2736
 Lush Mahendrarajah +44 20 3207 7896
 Benjamin May +44 20 3465 2667
 Iain Pearce +44 20 3465 2665
 Anthony Plom +44 20 3207 7908
 Eoghan Reid +44 20 3753 3055
 Owen Shirley +44 20 3465 2731
 Donald Tait +44 20 3753 3031
 Sean Thapar +44 20 3465 2657

THEMATIC RESEARCH

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 Julia Schrameier +44 20 3753 3172

EQUITY SALES

SPECIALIST SALES

AEROSPACE & DEFENCE & CAPITAL GOODS
 Cara Luciano +44 20 3753 3146

AUTOS & TECHNOLOGY

Edward Wales +44 20 3207 7815

BANKS & DIVERSIFIED FINANCIALS

Alex Medhurst +44 20 3753 3047

BUSINESS SERVICES, LEISURE & TRANSPORT

Rebecca Langley +44 20 3207 7930

CONSUMER DISCRETIONARY

Victoria Maigrot +44 20 3753 3010

CONSUMER STAPLES

Ramnique Sroa +44 20 3753 3064

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MEDIA & TELECOMS

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METALS & MINING

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OIL & GAS AND UTILITIES

Jason Turner +44 20 3753 3063

THEMATICS

Chris Armstrong +44 20 3207 7809

SALES

BENELUX

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

SALES TRADING

LONDON

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
 Luke Holmes +44 20 3465 2750
 Peter King +44 20 3753 3139
 Simon Messman +44 20 3465 2754

BUSINESS SERVICES, LEISURE & TRANSPORT

BUSINESS SERVICES

Zaim Beekawa +44 20 3207 7855
 Tom Buriton +44 20 3207 7852

LEISURE

Roberta Ciaccia +44 20 3207 7805
 Jack Cummings +44 20 3753 3161
 Stuart Gordon +44 20 3207 7858
 Annabel Hay-Jahans +44 20 3465 2720

TRANSPORT & LOGISTICS

William Fitzalan Howard +44 20 3465 2640
 Joel Spungin +44 20 3207 7867
 Adrian Yanoshik +44 20 3753 3073

CONSUMER

BEVERAGES

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

FOOD MANUFACTURING AND HPC

Ebba Bjorklid +44 20 3753 3247
 Rosie Edwards +44 20 3207 7880
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FOOD RETAIL

Dusan Milosavljevic +44 20 3753 3123

GENERAL RETAIL

Michael Benedict +44 20 3753 3175
 Thomas Davies +44 20 3753 3104
 Oliver Anderson +44 20 3753 3173
 Graham Renwick +44 20 3207 7851
 Michelle Wilson +44 20 3465 2663

LUXURY GOODS

Mariana Horn +44 20 3753 3044
 Lauren Molyneux +44 20 3207 7892

ENERGY

OIL & GAS

Baha Bassatine +44 20 3753 3158
 John Gleeson +44 20 3465 2716
 Ilkin Karimli +44 20 3465 2684

FRANCE

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UK

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 David Franklin +44 20 3465 2747
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 Stuart Holt +44 20 3465 2646
 James Hunt +44 20 3753 3007
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 Kushal Patel +44 20 3753 3038
 Richard Payman +44 20 3207 7825

LONDON (cont'd)

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 Paul Somers +44 20 3465 2753
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ENERGY (cont'd)

OIL & GAS (cont'd)

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UTILITIES

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FINANCIALS

BANKS

Adam Barrass +44 20 3207 7923
 Frederick Brennan +44 20 3753 3171
 Michael Christodoulou +44 20 3207 7920
 Andrew Lowe +44 20 3465 2743
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DIVERSIFIED FINANCIALS

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REAL ESTATE

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 Klara Fernandes +44 20 3465 2718
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INDUSTRIALS (cont'd)

CAPITAL GOODS

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FORECASTS AT A GLANCE

Economics



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SALES

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