

FORECASTS AT A GLANCE

6 May 2016



BERENBERG
PARTNERSHIP SINCE 1590

Modest growth amid serious political risks

Outlook: Developed world continues to recover, emerging markets hit bottom

- **US:** Consumption and housing solid, exports and investment weak
- **China:** Decelerating growth but no hard landing
- **Japan:** Struggling to grow, yen strength hurts
- **Eurozone:** Modest but largely balanced recovery continues
- **UK:** Moderate economic recovery continues, 35% Brexit risk

Policy: More stimulus Japan, US Fed to hike gradually

- **Weak profits and policy uncertainties** weigh on markets
- **Central banks:** Fed to hike rates in July, ECB implements its big stimulus
- **Fiscal policy:** Neutral in the US, tighter in UK, small stimulus in Eurozone

Three big risks: Emerging markets, financial turmoil and political populism

- **Downside risk:** Emerging market crisis deepens again and rattles markets
- **Political risks to watch:** Brexit, migrant crisis in Europe, US elections

Forecast revisions

Eurozone GDP: After strong Q1, we raise our 2016 call from 1.3% to 1.5%

US Fed: Likely to delay next 25bp hike from June to July after the April jobs data

CONTENTS

US: Sustained growth	2
China: Losing momentum	3
Japan: Will Abe deliver?	4
UK: Solid trend, big Brexit risk	5
Eurozone: Temporary dent Q2	6
Germany: Strength at home	7
France: Still the laggard	8
Italy: Renzi reforms help	9
Spain: Reform success	10
Portugal: Reform reversal	11
Berenberg versus consensus	12
Key financial forecasts	12

	Weight	GDP				Inflation				Unemployment				Fiscal balance			
		2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017	2014	2015	2016	2017
World*	100.0	2.4	2.4	2.3	2.6												
US	22.5	2.4	2.4	1.8	2.5	1.6	0.1	1.7	2.5	6.2	5.3	4.8	4.5	-2.8	-2.4	-2.2	-2.1
Japan	6.0	-0.1	0.5	0.6	0.7	2.7	0.8	0.2	1.8	3.6	3.4	3.1	3.0	-7.8	-6.5	-6.3	-5.0
China	13.4	7.3	6.9	6.5	6.1	2.0	1.4	2.3	2.3	4.1	4.0	4.2	4.3	-1.8	-2.3	-3.0	-3.0
India	2.7	7.2	7.5	7.5	7.1	6.8	4.5	4.0	4.0					-6.9	-6.5	-6.0	-5.5
Latin America	7.5	1.1	0.0	0.2	1.8	6.0	6.0	5.0	4.0					-3.5	-4.0	-3.5	-3.0
Europe	29.8	1.3	1.1	1.3	1.6												
Eurozone	17.3	0.9	1.5	1.5	1.6	0.4	0.0	0.3	1.6	11.6	10.9	10.1	9.6	-2.6	-2.1	-2.0	-1.8
Germany	5.0	1.6	1.4	1.6	1.7	0.8	0.1	0.2	1.3	5.0	4.6	4.4	4.8	0.3	0.7	0.5	0.3
France	3.7	0.2	1.2	1.3	1.2	0.6	0.1	0.2	1.3	10.3	10.4	10.3	9.5	-4.0	-3.5	-3.3	-3.1
Italy	2.8	-0.3	0.6	0.9	1.1	0.2	0.1	0.3	1.2	12.7	11.9	11.3	10.9	-3.0	-2.6	-2.6	-2.5
Spain	1.8	1.4	3.2	2.9	2.4	-0.2	-0.6	-0.4	1.2	24.5	22.1	19.7	18.3	-5.9	-5.1	-4.0	-3.2
Portugal	0.3	0.9	1.5	1.2	1.4	-0.2	0.5	0.5	1.5	14.1	12.6	11.9	11.0	-7.2	-4.4	-2.9	-2.6
Other Western Europe																	
UK	3.8	2.9	2.3	1.9	2.1	1.5	0.0	0.9	1.8	6.2	5.4	5.0	4.9	-5.6	-4.4	-3.4	-2.5
Switzerland	0.9	2.0	0.9	1.2	2.0	0.1	-1.1	-0.8	0.3	3.2	3.4	3.4	3.2	0.5	-0.1	0.1	0.2
Sweden	0.7	2.4	3.8	2.7	2.5	0.2	0.8	1.2	2.2	7.8	7.6	7.2	6.7	-1.8	-1.3	-0.8	-0.5
Eastern Europe																	
Russia	2.4	0.6	-3.7	-1.6	0.1	7.8	15.6	7.2	6.2	5.2	5.6	6.5	6.2	-0.7	-2.8	-4.3	-3.3
Turkey	1.0	2.9	4.0	2.9	3.0	8.9	7.7	8.1	8.2	10.0	10.6	10.3	10.2	-1.3	-1.7	-2.0	-2.1

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

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

Weights based on IMF World Global Outlook statistics 2014 estimated GDP figures.

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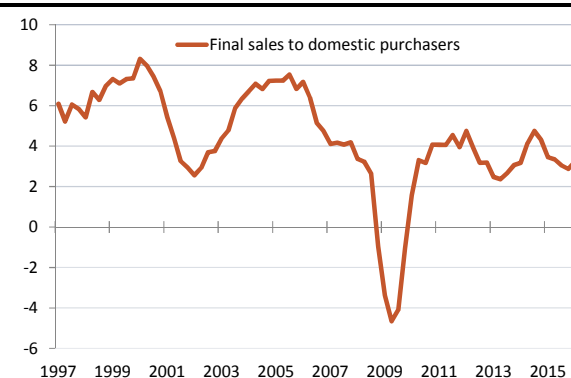
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US: sustained moderate growth

Key drivers of forecast

- **Consumer spending** will remain healthy, supported by solid gains in real personal incomes, while housing activity will strengthen
- **Exports will remain weak** reflecting soft global growth and the lagged impact of the stronger dollar
- **Business fixed investment** will turn positive – the largest declines in the oil patch have already occurred – but uncertainties will be a dampener
- **Employment gains** have been too fast relative to GDP growth and will slow
- **Monetary policy:** Fed will be very gradual in raising rates as concerns about negative market reaction dominate its policy deliberations

Healthy consumer spending



% change yoy. Source: BEA

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.8	2.0	-0.2	2.5	2.3	0.2
Inflation	1.7	1.3	0.4	2.5	2.2	0.3
Unemployment	4.8	4.8	0.0	4.5	4.6	-0.1

Bloomberg consensus, taken 6 May 2016

Risks: Balanced

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

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	2.4	2.4	1.8	2.5	2.9	2.7	2.1	2.0	1.9	1.5	1.7	2.0	2.4	2.5	2.5	2.4
	% q/q					0.2	1.0	0.5	0.3	0.1	0.5	0.6	0.6	0.6	0.6	0.6	0.6
	%q/q ann.					0.6	3.9	2.0	1.4	0.5	2.2	2.5	2.5	2.4	2.4	2.4	2.4
Private Consumption	% y/y	2.7	3.1	2.4	2.4	3.3	3.3	3.1	2.7	2.7	2.4	2.3	2.3	2.4	2.5	2.5	2.4
	% q/q					0.4	0.9	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	% y/y	1.3	7.8	7.6	4.9	5.1	8.4	8.2	9.4	9.4	8.1	7.0	6.2	4.9	4.9	4.9	4.9
Residential Investment	% q/q					2.4	2.4	2.3	2.0	2.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	% y/y	5.8	3.8	2.0	4.0	5.5	3.9	3.8	2.2	1.5	2.0	2.0	2.4	4.0	4.1	4.1	4.1
	% q/q					0.2	0.4	1.0	0.6	-0.5	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Non-Residential Investment	% y/y	-0.6	0.7	1.2	1.2	0.4	0.7	0.7	1.1	1.4	1.1	1.0	1.3	1.3	1.2	1.2	1.2
	% q/q					0.0	0.6	0.4	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	2.5	2.9	2.3	2.5	3.1	3.0	3.0	2.6	2.5	2.3	2.2	2.3	2.5	2.6	2.5	2.5
Final Dom Demand ¹	% q/q					0.4	0.8	0.8	0.6	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6
	% y/y	-0.2	-0.6	-0.2	-0.2	-0.7	-0.6	-0.7	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
	% q/q					-0.5	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ^{1,5}	% y/y	0.0	0.2	-0.2	0.0	0.2	0.0	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.0	0.6	0.4	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% y/y	4.1	2.5	3.5	5.0	2.8	2.7	2.3	2.4	3.0	3.2	3.7	4.2	4.8	5.0	5.1	5.1
Nominal GDP	% y/y	2.9	0.3	-0.9	1.9	2.4	0.4	0.1	-1.6	-1.7	-1.2	-1.0	0.3	1.4	2.1	2.1	2.1
	% q/q					-0.4	-0.7	0.4	-0.8	-0.6	-0.2	0.5	0.5	0.5	0.5	0.5	0.5
	%	6.2	5.3	4.8	4.5	5.6	5.4	5.2	5.0	4.9	4.9	4.8	4.7	4.6	4.6	4.5	4.4
CPI ²	% y/y	1.6	0.1	1.7	2.5	-0.1	0.0	0.1	0.4	1.1	1.6	2.0	2.2	2.3	2.5	2.5	2.6
	% q/q					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% y/y	1.5	1.3	1.8	2.2	1.3	1.3	1.3	1.4	1.7	1.7	2.0	2.0	2.1	2.2	2.3	2.3
Core PCE ²	% y/y	-390	-484	-524	-551	-118	-111	-130	-125	-129	-130	-132	-133	-135	-137	-139	-140
	USD bn	-2.3	-2.8	-2.9	-2.9	-2.8	-2.5	-3.0	-2.8	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
	% of GDP	-2.8	-2.4	-2.2	-2.1	-2.8	-2.5	-3.0	-2.8	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
General Govt. Balance ^{3,6}	% of GDP	102.9	102.8	101.5	98.8												
	% of GDP																
	% of GDP																
General Govt. Debt	% of GDP																
	% of GDP																
	% of GDP																
Fed Funds Rate ⁴	%	0.25	0.50	1.00	2.00	0.25	0.25	0.25	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00

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

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

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

China: losing momentum

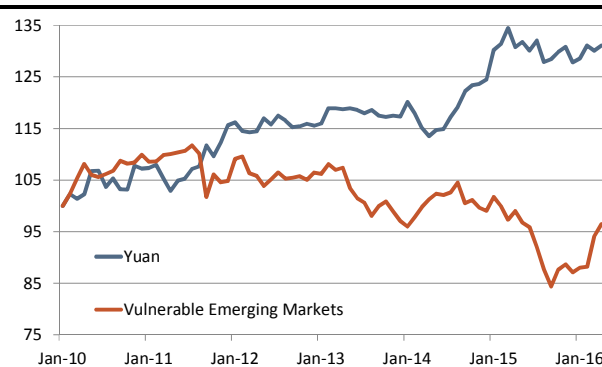
Key drivers of forecast

- **Potential growth is slowing.** Productivity gains ebb as China's economy matures, exports have declined in response to higher unit labour costs and the stronger renminbi
- **No hard-landing.** Domestic consumption and services are growing rapidly, offsetting weak exports
- **Expect more fiscal stimulus** in the form of infrastructure spending to achieve growth goals
- **High debt will be managed.** Government will use resources to avoid systematic defaults
- **The renminbi** eventually may need to depreciate further to soften the decline in exports

Risks: Downside for growth; policy blunders?

- **Downside risks:** Export declines intensify and drag on growth
- **Policy risks:** Misguided initiatives may jar markets

Yuan still strong relative to other EM currencies



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

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	6.5	6.5	0.0	6.1	6.3	-0.2
Inflation	2.3	2.0	0.3	2.3	2.0	0.3
Unemployment	4.2	4.2	0.0	4.3	4.3	0.0
Fiscal balance	-3.0	-3.0	0.0	-3.0	-3.2	0.2

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	7.3	6.9	6.5	6.1	7.0	7.0	6.9	6.8	6.7	6.6	6.4	6.3	6.6	6.2	5.9	5.8
	% q/q					1.4	1.8	1.8	1.5	1.1	1.7	1.6	1.4	1.4	1.3	1.3	1.3
	%q/q ann					5.7	7.4	7.4	6.1	4.5	7.0	6.6	5.7	5.7	5.3	5.3	5.3
Industrial Production	% y/y	8.3	5.9	6.4	5.3	5.6	6.3	5.9	5.9	6.8	6.6	6.3	6.0	5.7	5.4	5.1	4.8
Exports ¹	% y/y	6.0	-2.6	1.6	5.0	4.6	-2.2	-5.9	-5.2	-9.7	4.7	5.0	5.0	5.0	5.0	5.0	5.0
Imports ¹	% y/y	0.7	-14.4	-1.2	5.5	-17.8	-13.6	-14.4	-11.8	-13.3	-2.0	3.6	5.5	5.5	5.5	5.5	5.5
Current Account Balance	\$ bn	280	335	293	22	112.3	78.3	61.8	82.2	70.6	78.3	61.8	82.2	-200.2	78.3	61.8	82.2
	% of GDP	2.7	3.1	2.4	0.2												
Unemployment Rate	%	4.1	4.0	4.2	4.3	4.1	4.0	4.1	4.0	4.0	4.3	4.3	4.3	4.3	4.3	4.3	4.3
CPI ²	% y/y	2.0	1.4	2.3	2.3	1.2	1.4	1.7	1.5	2.1	2.3	2.3	2.3	2.3	2.3	2.3	2.3
General Govt. Balance	% of GDP	-1.8	-2.3	-3.0	-3.0												
General Govt. Debt	% of GDP	20.9	19.3	19.0	22.0												

¹ Growth rates based on monthly value data in USD ² Period averages

Japan: will Abe finally deliver?

Key drivers of forecast

- **Earlier stimulus and growth momentum side-tracked by 2014 VAT hike:** Real GDP now struggling to grow
- **The Abe administration's reform initiatives** are unfolding but their economic implications will be slow to be realised
- **Consumption and investment remain weak** as households and businesses are cautious in their spending habits
- **Bank of Japan's QQE** has failed to stimulate the economy and the stronger yen is harming profits

Risks: Tilted to the downside

- **Upside:** Cheap oil boosts consumer purchasing power and spending
- **Cyclical risk:** Loss in confidence in Abe's reforms and slumping exports push Japan into recession
- **Long-term risk:** Failure to implement pro-growth reforms – including immigration policy – reinforces abysmally low potential growth, drains confidence and dims Japanese prospects and stature

Abenomics: up and down, cheap oil helps a little



Source: Japanese Cabinet Office.

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.6	0.5	0.1	0.7	0.5	0.2
Inflation	0.2	0.3	-0.1	1.8	1.8	0.0
Unemployment	3.1	3.2	-0.1	3.0	3.1	-0.1
Fiscal balance	-6.3	-5.5	-0.8	-5.0	-4.8	-0.2

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	-0.1	0.5	0.6	0.7	-1.0	0.7	1.7	0.8	0.0	0.6	0.6	1.1	0.9	0.8	0.7	0.5
	% q/q					1.1	-0.4	0.3	-0.3	0.3	0.2	0.3	0.3	0.1	0.1	0.1	0.1
	%q/q ann.					4.6	-1.4	1.4	-1.1	1.3	1.0	1.0	1.3	0.5	0.5	0.5	0.5
Private Consumption	% y/y	-0.9	-1.2	0.0	0.4	-4.1	0.0	0.5	-1.0	-0.9	0.1	-0.1	1.1	0.7	0.5	0.3	0.0
	% q/q					0.3	-0.8	0.3	-0.9	0.4	0.2	0.2	0.3	0.0	0.0	0.0	0.0
Government Consumption	% y/y	0.2	1.1	1.3	1.0	0.6	1.3	1.1	1.4	1.4	1.2	1.3	1.1	1.1	1.0	0.9	0.8
	% q/q					0.2	0.5	0.2	0.5	0.2	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Private Investment	% y/y	1.5	0.8	1.9	1.0	-4.1	0.5	2.9	4.2	1.7	2.6	2.0	1.2	1.1	1.0	0.9	0.8
	% q/q					2.7	-0.6	0.9	1.1	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Public Investment	% y/y	0.2	-2.0	-0.6	2.0	-3.5	2.2	-1.1	-5.3	-0.9	-3.5	-0.9	3.0	2.0	2.0	2.0	2.0
	% q/q					-3.0	3.2	-2.1	-3.4	1.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Final Domestic Demand ¹	% y/y	-0.3	-0.4	0.6	0.7	-3.2	0.4	0.9	0.1	0.0	0.6	0.5	1.2	0.9	0.7	0.6	0.4
	% q/q					0.5	-0.3	0.3	-0.4	0.4	0.2	0.2	0.3	0.1	0.1	0.1	0.1
Net Exports ¹	% y/y	0.3	0.4	0.0	0.1	1.3	0.2	0.3	0.0	-0.2	0.3	0.0	0.0	0.1	0.1	0.1	0.1
	% q/q					0.1	-0.4	0.3	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.1	0.5	0.0	0.0	0.9	0.0	0.4	0.7	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.5	0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	JPY trn	3.9	16.4	17.7	16.5	4.4	3.7	4.9	3.4	5.7	3.7	4.9	3.3	5.4	3.4	4.6	3.0
	% of GDP	0.8	3.2	3.4	3.1												
Industrial Production ²	% y/y	2.1	-1.2	-3.8	1.0	-2.6	-0.8	-0.4	-1.1	-4.4	-4.5	-3.3	-2.9	-0.4	1.4	1.4	1.4
	% q/q					1.1	-1.3	-1.0	0.0	-2.2	-1.5	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	3.6	3.4	3.1	3.0	3.5	3.4	3.4	3.3	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.0
CPI ²	% y/y	2.7	0.8	0.2	1.8	2.3	0.5	0.2	0.3	0.1	0.0	0.4	0.4	1.0	2.1	2.2	1.9
General Govt. Balance	% of GDP	-7.8	-6.5	-6.3	-5.0												
General Govt. Debt	% of GDP	244	246	248	249												

¹ Contribution to GDP growth ² Period averages

UK: resilient economy but Brexit uncertainty drags

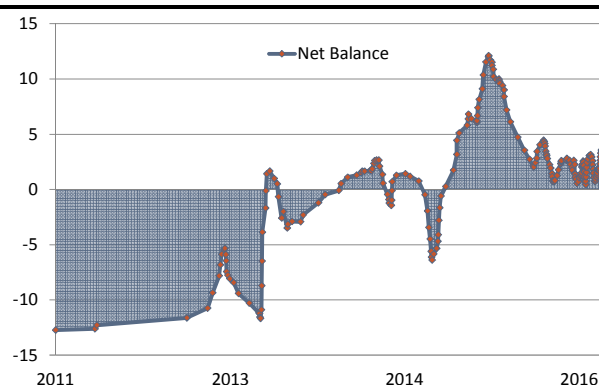
Key drivers of forecast

- **Brexit uncertainty** will weigh on near-term growth. But domestic fundamentals are robust and we anticipate a sharp upturn in growth as long as the UK votes to stay in the EU
- **Strong domestic demand:** Low oil prices are boosting real incomes, consumer credit growth at decade high
- **Policy supportive:** BoE in wait and see mode until risks have passed – first hike in November
- **Labour market:** Employment is at a record high but wage gains remain modest
- **Inflation:** To gradually head higher during 2016 as effects of past oil price declines begin to wash out

Risks: Tilted to the downside

- **Upside chance:** If the UK votes to stay in the EU, growth may accelerate more than expected after the referendum
- **Downside risks:** Brexit risk could lead to a sharper slowdown in Q2 2016; a Brexit could cause a crisis in H2 2016
- **EU referendum on 23 June 2016;** UK likely to stay in the EU, we see a 35% risk of a Brexit

UK: EU referendum polls are too close for comfort



Net balance of polls - 7 survey average sample weighted, data in %
Source: YouGov, Survation, other

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.9	1.9	0.0	2.1	2.2	0.0
Inflation	0.9	0.7	0.2	1.8	1.7	0.1
Unemployment	5.0	5.1	0.0	4.9	4.9	0.0
Fiscal balance	-3.4	-3.2	-0.3	-2.5	-2.2	-0.3

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	2.9	2.3	1.9	2.1	2.6	2.4	2.2	2.1	2.1	1.7	1.9	1.8	1.9	2.2	2.2	2.2
	% q/q					0.5	0.6	0.4	0.6	0.4	0.3	0.6	0.5	0.5	0.5	0.5	0.5
	%q/q ann.					1.8	2.4	1.8	2.4	1.6	1.2	2.3	2.1	2.1	2.2	2.2	2.2
Private Consumption	% y/y	2.5	2.7	2.4	2.5	2.7	2.7	2.7	2.8	2.6	2.2	2.4	2.5	2.4	2.6	2.5	2.4
	% q/q					0.8	0.8	0.5	0.6	0.7	0.4	0.7	0.7	0.6	0.6	0.6	0.6
Government Consumption	% y/y	2.5	1.5	2.1	1.3	1.1	1.1	1.5	2.2	2.4	2.1	1.9	1.9	1.5	1.4	1.1	1.0
	% q/q					0.4	0.7	0.7	0.3	0.7	0.4	0.5	0.3	0.3	0.3	0.2	0.2
Investment	% y/y	7.3	4.1	0.7	3.9	6.2	4.9	3.4	2.1	0.9	-0.7	0.1	2.3	3.0	4.3	4.2	4.1
	% q/q					1.5	1.3	0.4	-1.1	0.3	-0.2	1.1	1.1	1.0	1.0	1.0	1.0
Final Domestic Demand ¹	% y/y	3.2	2.7	2.1	2.5	3.0	2.7	2.6	2.5	2.3	1.7	1.9	2.4	2.3	2.6	2.5	2.4
	% q/q					0.9	0.9	0.5	0.3	0.7	0.3	0.7	0.7	0.6	0.6	0.6	0.6
Net Exports ¹	% y/y	-0.4	-0.5	-0.5	-0.6	-1.0	0.2	-0.4	-0.9	0.3	-1.4	-0.5	-0.4	-0.6	-0.7	-0.6	-0.4
	% q/q					-1.2	1.7	-1.1	-0.3	0.0	0.0	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Stockbuilding ¹	% y/y	0.2	-0.4	0.0	0.2	0.3	-0.8	-0.7	-0.4	-0.9	0.8	0.1	-0.2	0.1	0.1	0.1	0.1
	% q/q					0.3	-1.7	0.7	0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	GBP bn	-92.5	-96.2	-119.2	-112.3	-24.5	-19.0	-20.1	-32.7	-30.6	-29.7	-29.6	-29.4	-28.9	-28.4	-27.8	-27.2
	% of GDP	-5.1	-5.2	-6.2	-5.7	-5.3	-4.1	-4.3	-7.0	-6.5	-6.2	-6.1	-6.1	-5.9	-5.7	-5.5	-5.4
Industrial Production ²	% y/y	1.3	1.0	-0.2	1.5	0.8	1.3	1.2	0.8	-0.5	-0.8	-0.4	0.6	2.0	1.8	1.4	1.0
	% q/q					0.3	0.8	0.2	-0.4	-1.0	0.4	0.6	0.6	0.3	0.2	0.2	0.2
Unemployment Rate ²	%	6.2	5.4	5.0	4.9	5.5	5.6	5.3	5.1	5.1	5.1	4.9	4.9	4.9	4.9	4.9	4.9
CPI ²	% y/y	1.5	0.0	0.9	1.8	0.1	0.0	0.0	0.1	0.3	0.6	1.1	1.5	1.8	1.8	1.9	1.9
General Govt. Balance ³	% of GDP	-5.6	-4.4	-3.4	-2.5												
General Govt. Debt ³	% of GDP	88.2	89.2	91.5	90.6												
BoE Bank Rate ⁴		0.50	0.50	0.75	1.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25

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

Eurozone: Financial turmoil weighs on demand despite oil tailwind

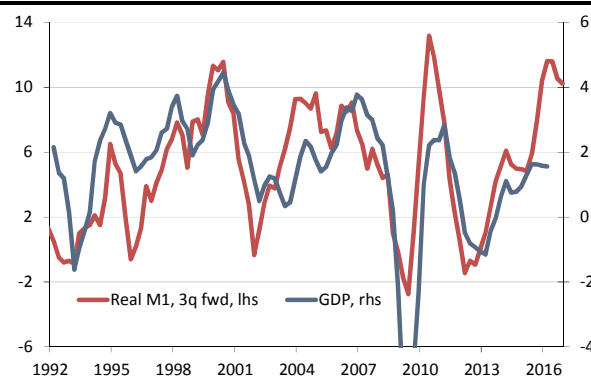
Key drivers of forecast

- **Temporary setback ahead:** After 1.9% annualised growth in H1 2015, the emerging market crisis hit exports and investment in late 2015. Following a strong Q1, we look for a temporary dent in Q2 2016
- **Strong tailwinds** from ECB policy, lagged impact of weaker euro and cheap oil. Once the external shocks of late 2015 and the financial upheaval of early 2016 have faded, growth should firm to its 1.6% trend rate in mid-2016
- **Reform countries ahead:** Spain, Ireland and Cyprus enjoy a solid rebound; growth started to stir even in Italy after the 2015 labour reform
- **Austerity over:** Fiscal stimulus of 0.3% of GDP in 2016
- **Inflation:** Gradual rise back into positive territory likely as oil prices stabilise; still-high unemployment keeps core inflation subdued

Risks: Balanced near term

- **Deeper crisis in emerging markets or escalating financial tensions** could delay investment rebound
- **Political risks:** Brexit, migrant crisis, reform reversals at the periphery

The power of money: surge in real M1 supports growth



Eurozone GDP and real M1 growth advanced by three quarters, yoy changes in %. Source: ECB; Eurostat

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.5	1.5	0.0	1.6	1.6	0.0
Inflation	0.3	0.3	0.0	1.6	1.4	0.2
Unemployment	10.1	10.2	-0.1	9.6	9.9	-0.3
Fiscal balance	-2.0	-1.9	-0.1	-1.8	-1.7	-0.2

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	0.9	1.5	1.5	1.6	1.3	1.6	1.6	1.6	1.6	1.4	1.5	1.5	1.4	1.6	1.6	1.6
	% q/q					0.6	0.4	0.3	0.3	0.6	0.2	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					2.3	1.6	1.2	1.3	2.2	0.8	1.5	1.6	1.6	1.6	1.6	1.6
Private Consumption	% y/y	0.8	1.7	1.4	1.4	1.6	1.7	1.8	1.5	1.4	1.5	1.3	1.4	1.4	1.4	1.4	1.4
	% q/q					0.5	0.3	0.5	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	0.8	1.3	1.8	1.6	1.1	1.2	1.2	1.6	1.7	1.8	1.9	1.7	1.6	1.6	1.6	1.6
	% q/q					0.5	0.3	0.3	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	1.4	2.6	2.2	2.2	2.0	2.6	2.5	3.4	2.5	2.2	2.3	1.6	1.6	2.4	2.4	2.4
	% q/q					1.4	0.1	0.4	1.3	0.6	-0.2	0.6	0.6	0.6	0.6	0.6	0.6
Final Domestic Demand ¹	% y/y	0.9	1.8	1.6	1.6	1.6	1.8	1.8	1.9	1.7	1.7	1.6	1.5	1.5	1.7	1.7	1.7
	% q/q					0.7	0.3	0.4	0.5	0.5	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Net Exports ¹	% y/y	0.0	-0.1	-0.3	0.0	0.0	0.3	-0.2	-0.6	-0.3	-0.7	-0.3	0.0	-0.1	0.0	0.0	0.0
	% q/q					-0.2	0.4	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.0	-0.1	0.2	0.0	-0.2	-0.4	0.1	0.3	0.2	0.4	0.2	0.1	0.0	0.0	0.0	0.0
	% q/q					0.2	-0.2	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	254	334	314	302												
	% of GDP	2.6	3.3	3.1	2.9												
Industrial Production ²	% y/y	0.9	1.6	1.7	1.7	1.5	1.4	1.8	1.5	1.7	1.5	1.7	1.8	1.3	1.8	1.8	1.8
	% q/q					0.8	0.2	0.2	0.4	0.9	0.0	0.4	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ²	%	11.6	10.9	10.1	9.6	11.2	11.0	10.7	10.5	10.3	10.2	10.1	10.0	9.9	9.7	9.5	9.5
CPI ²	% y/y	0.4	0.0	0.3	1.6	-0.3	0.2	0.1	0.2	0.1	-0.1	0.4	0.8	1.5	1.6	1.5	1.7
General Govt. Balance	% of GDP	-2.6	-2.1	-2.0	-1.8												
General Govt. Debt	% of GDP	92.0	90.7	89.3	87.6												
ECB main refinancing rate ³	%	0.25	0.05	0.00	0.00	0.25	0.15	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

Germany: domestic stimulus, temporary external shock

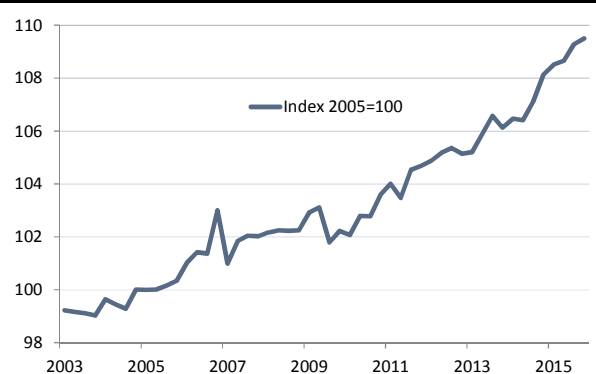
Key drivers of forecast

- **Positive fundamentals:** A strong competitive position, extremely low funding costs and pent-up demand point to a firmer investment trend
- **Buoyant consumer confidence:** Strong gains in employment, rising wages and low inflation support consumption growth
- **Net trade turns negative:** After the weaker euro boosted exports in early 2015, the crisis in many emerging markets interrupted German export growth in late 2015. Financial tensions will likely weigh on sentiment and investment in early 2016
- **Fiscal stimulus:** Extra spending on refugees amounts to a fiscal stimulus of 0.6% of GDP from late 2015 onwards, partly offsetting the external shock
- **Inflation:** Still subdued, but normal wage growth will keep inflation at or above the Eurozone average

Risks: Balanced

- **Upside:** Cheap oil, undervalued euro boost demand
- **Downside:** Emerging market crisis, financial tensions or political risks escalate further

Private consumption: heading up



Real private consumption, 2005 = 100. Source: Destatis

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.6	1.5	0.1	1.7	1.6	0.1
Inflation	0.2	0.4	-0.2	1.3	1.7	-0.4
Unemployment	4.4	n/a	n/a	4.8	n/a	n/a
Fiscal balance	0.5	0.1	0.4	0.3	0.1	0.2

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP ¹	% y/y	1.6	1.4	1.6	1.7	1.1	1.6	1.7	1.3	1.6	1.4	1.6	1.7	1.6	1.8	1.7	1.7
	% q/q					0.4	0.4	0.3	0.3	0.6	0.2	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					1.6	1.6	1.1	1.1	2.4	1.0	1.8	1.8	1.7	1.7	1.7	1.7
Private Consumption	% y/y	1.0	1.9	1.6	1.7	1.9	2.1	2.1	1.4	1.4	1.7	1.6	1.7	1.7	1.7	1.7	1.6
	% q/q					0.4	0.1	0.6	0.3	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Government Consumption	% y/y	1.7	2.4	3.4	2.5	2.2	2.3	2.2	2.8	3.2	3.5	3.6	3.3	2.9	2.6	2.4	2.2
	% q/q					0.5	0.7	0.5	1.0	1.0	0.9	0.7	0.7	0.6	0.6	0.5	0.5
Investment	% y/y	3.5	1.7	2.0	2.3	0.4	1.4	2.2	2.5	1.5	2.2	2.6	1.7	1.8	2.3	2.5	2.6
	% q/q					1.5	-0.6	0.1	1.5	0.5	0.1	0.5	0.6	0.6	0.6	0.7	0.7
Final Domestic Demand ²	% y/y	1.7	1.9	2.1	2.0	1.6	2.0	2.2	1.9	1.8	2.2	2.2	2.1	2.0	2.0	2.0	2.0
	% q/q					0.6	0.1	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net Exports ²	% y/y	0.4	0.1	-0.6	-0.3	0.0	0.8	0.0	-0.3	-0.2	-1.0	-0.8	-0.4	-0.4	-0.3	-0.3	-0.2
	% q/q					-0.2	0.6	-0.3	-0.5	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Stockbuilding ²	% y/y	-0.3	-0.5	0.2	0.1	-0.4	-1.1	-0.3	-0.1	0.0	0.3	0.3	0.2	0.1	0.1	0.1	0.1
	% q/q					0.0	-0.3	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	216	260	249	214	62	64	69	65	67	60	64	59	59	51	55	50
	% of GDP	7.4	8.9	8.0	6.6												
Industrial Production ³	% y/y	1.3	1.0	1.3	1.8	0.6	1.8	1.6	-0.2	1.1	0.5	1.2	2.2	1.3	1.9	2.0	2.1
	% q/q					0.0	0.6	-0.2	-0.6	1.3	-0.1	0.5	0.4	0.5	0.5	0.5	0.5
Unemployment Rate ⁴	%	5.0	4.6	4.4	4.8	4.8	4.7	4.6	4.4	4.3	4.3	4.5	4.6	4.6	4.7	4.9	4.9
CPI ⁵	% y/y	0.8	0.1	0.2	1.3	-0.1	0.4	0.0	0.2	0.1	0.1	0.2	0.6	1.3	1.2	1.4	1.5
General Govt. Balance	% of GDP	0.3	0.7	0.5	0.3												
General Govt. Debt	% of GDP	74.7	71.2	68.4	65.7												

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: Europe's reform laggard

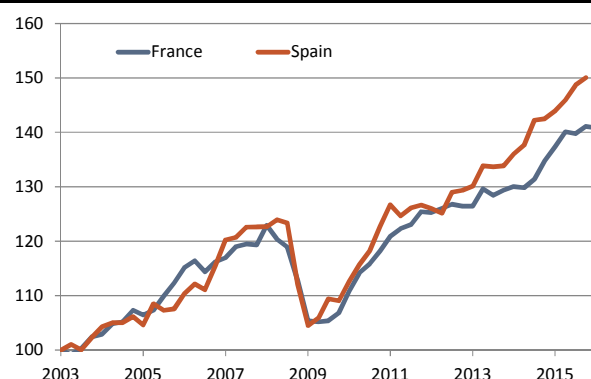
Key drivers of forecast

- **Modest reforms:** President Hollande now wants some reforms. He has side-lined a few left-wingers. But the reforms so far are too timid. The fate of proposed labour market reforms remains unclear
- **France continues to lag behind:** Lack of labour market flexibility prevents stronger recovery; need to restrain public spending also weighs on demand. After a solid Q1 result, we look for a dent in Q2
- **Inflation:** Very low as domestic demand remains subdued

Risks: Tilted to the downside

- **Upside:** More reforms could restore business sentiment and thus investment; cheap oil, weaker euro help
- **Downside:** Watch the politics – left-wingers within the ruling Socialist Party could block future reform efforts in parliament; although the far-right Front National seemed to hit a ceiling around 27% in regional elections in December 2015, the migrant crisis could strengthen the anti-EU forces on the extreme right and extreme left in France

Real exports: who is competitive, who is not?



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

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.3	1.3	0.0	1.2	1.4	-0.2
Inflation	0.2	0.2	0.0	1.3	1.3	0.0
Unemployment	10.3	10.2	0.1	9.5	9.8	-0.3
Fiscal balance	-3.3	-3.4	0.1	-3.1	-3.2	0.1

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	0.2	1.2	1.3	1.2	1.0	1.1	1.2	1.4	1.3	1.3	1.2	1.2	1.0	1.2	1.3	1.3
	% q/q					0.7	0.0	0.4	0.3	0.5	0.1	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					2.7	0.1	1.5	1.4	2.2	0.3	1.1	1.1	1.3	1.3	1.3	1.3
Private Consumption	% y/y	0.7	1.4	1.5	1.0	1.8	1.4	1.4	1.0	1.5	1.5	1.3	1.7	0.8	1.1	1.1	1.1
	% q/q					0.6	0.0	0.4	-0.1	1.2	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	1.5	1.5	1.2	0.4	1.6	1.5	1.5	1.5	1.7	1.4	1.1	0.7	0.4	0.4	0.4	0.4
	% q/q					0.2	0.3	0.4	0.5	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	-1.2	0.0	1.8	1.5	-0.8	-0.3	0.1	1.1	1.7	1.8	2.1	1.8	1.2	1.6	1.6	1.6
	% q/q					0.3	0.0	0.1	0.7	0.9	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Final Domestic Demand ¹	% y/y	0.5	1.1	1.5	1.0	1.2	1.1	1.2	1.1	1.6	1.5	1.4	1.5	0.8	1.0	1.0	1.0
	% q/q					0.5	0.1	0.3	0.2	0.9	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	-0.5	-0.2	-0.7	0.1	-0.2	0.4	-0.1	-0.8	-0.9	-1.2	-0.6	-0.2	0.0	0.0	0.1	0.2
	% q/q					-0.1	0.3	-0.6	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.2	0.2	0.5	0.1	0.0	-0.3	0.2	1.1	0.6	1.0	0.4	-0.1	0.1	0.1	0.1	0.1
	% q/q					0.3	-0.4	0.7	0.5	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	-23	-4	-7	0	-1.7	0.4	0.0	-2.9	-7.7	-0.2	1.8	-0.5	-4.5	-0.6	2.8	2.5
	% of GDP	-1.1	-0.2	-0.3	0.0												
Industrial Production ²	% y/y	-0.8	1.8	0.7	1.5	1.6	1.9	1.4	2.4	0.9	0.7	0.7	0.4	1.1	1.5	1.6	1.6
	% q/q					1.2	0.2	0.4	0.6	-0.3	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	10.3	10.4	10.3	9.5	10.3	10.4	10.5	10.2	10.1	10.0	9.9	9.9	9.7	9.5	9.4	9.2
	CPI ²	0.6	0.1	0.2	1.3	-0.2	0.3	0.1	0.2	0.1	0.0	0.2	0.5	1.2	1.3	1.4	1.4
General Govt. Balance	% of GDP	-4.0	-3.5	-3.3	-3.1												
General Govt. Debt	% of GDP	95.4	95.8	96.1	96.1												

¹ Contribution to GDP growth ² Period averages

Italy: Renzi's reform drive pays off

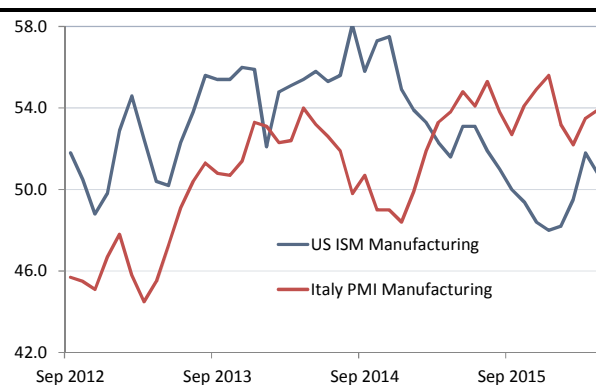
Key drivers of forecast

- **Reforms at last:** Prime Minister Renzi's labour reform boosted business sentiment in 2015. While Renzi's attempt to tackle banking issues in early 2016 is positive, concerns about losses for junior bond holders are now weighing on consumer sentiment
- **Less austerity:** The end of major tax hikes removed that drag on growth in 2014; small stimulus for 2016
- **Recession over:** After annualised growth of 1.4% in early 2015, strong by Italian standards, demand growth moderated in late 2015. Financial tensions to keep growth subdued until mid-2016
- **Politics key:** Renzi's reform agenda could lift Italy's weak growth trend; next regular elections in spring 2018 but could the October 2016 referendum on Senate reform put his position at risk?
- **Inflation:** Very low due to internal devaluation

Risks: Balanced

- **Upside:** Serious structural reforms boost potential growth; EU grants some fiscal flexibility; cheap oil, weaker euro
- **Downside:** Emerging market crisis aborts rebound; financial upheaval causes new credit crunch

Manufacturing PMI still above US ISM



Sources: Markit, ISM

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	0.9	1.0	-0.1	1.1	1.2	-0.1
Inflation	0.3	0.1	0.2	1.2	1.2	0.0
Unemployment	11.3	11.3	0.0	10.9	10.9	0.0
Fiscal balance	-2.6	-2.5	-0.1	-2.5	-2.0	-0.5

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	-0.3	0.6	0.9	1.1	0.2	0.6	0.8	1.0	0.8	0.7	0.8	1.0	1.1	1.1	1.1	1.1
	% q/q					0.4	0.3	0.2	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
	%q/q ann.					1.7	1.2	0.8	0.4	1.0	0.8	1.2	1.1	1.1	1.1	1.1	1.2
Private Consumption	% y/y	0.6	0.9	1.0	0.8	0.5	0.7	1.1	1.3	1.3	1.1	0.9	0.8	0.8	0.8	0.8	0.8
	% q/q					0.1	0.4	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Government Consumption	% y/y	-1.0	-0.7	0.7	0.4	-1.1	-0.6	-0.8	-0.2	0.6	1.0	0.9	0.4	0.4	0.4	0.4	0.4
	% q/q					-0.6	-0.3	0.2	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investment	% y/y	-3.3	0.6	1.3	1.2	-0.4	0.4	0.8	1.6	1.3	1.4	1.5	1.0	1.0	1.2	1.2	1.2
	% q/q					0.6	0.0	0.2	0.8	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Final Domestic Demand ¹	% y/y	-0.4	0.5	1.0	0.8	0.0	0.4	0.7	1.0	1.2	1.2	1.0	0.8	0.8	0.8	0.8	0.8
	% q/q					0.0	0.2	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Exports ¹	% y/y	0.0	-0.3	0.0	0.2	-0.1	-0.2	-0.4	-0.7	-0.2	-0.2	0.2	0.1	0.2	0.2	0.3	0.3
	% q/q					-0.4	0.0	-0.3	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Stockbuilding ¹	% y/y	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.7	-0.1	-0.2	-0.3	0.1	0.1	0.1	0.1	0.1
	% q/q					0.8	0.1	0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	29.7	35.8	41.8	47.8	0.7	6.4	13.1	15.6	2.2	7.9	14.6	17.1	3.7	9.4	16.1	18.6
	% of GDP	1.9	2.2	2.6	2.9												
Industrial Production ²	% y/y	-0.6	0.9	1.6	1.5	-0.4	0.8	1.8	1.4	1.9	1.4	1.4	1.7	1.3	1.6	1.6	1.6
	% q/q					0.3	0.6	0.4	0.0	0.8	0.1	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	12.7	11.9	11.3	10.9	12.3	12.2	11.6	11.6	11.5	11.3	11.2	11.1	11.0	10.9	10.8	10.7
CPI ²	% y/y	0.2	0.1	0.3	1.2	-0.1	0.1	0.3	0.1	0.0	0.1	0.5	0.6	1.0	1.1	1.2	1.4
General Govt. Balance	% of GDP	-3.0	-2.6	-2.6	-2.5												
General Govt. Debt	% of GDP	132.5	132.7	132.4	132.0												

¹ Contribution to GDP growth ² Period averages

Spain: the poster child for reform

Key drivers of forecast

- **Very competitive:** Wage restraint and labour market reforms have reduced labour costs; exports benefit
- **Fiscal drag over:** While still uncomfortable, the fiscal position has allowed an easing of austerity
- **Rebound in domestic demand:** Consumer confidence is back, consumption and residential investment are rebounding solidly
- **Inflation** to stay below the Eurozone average despite strong demand growth due to internal devaluation

Risks: Watch the politics

- **Upside:** A sharper fall in borrowing costs boosts investment; cheap oil helps
- **Downside:** Emerging market crisis escalates; growth slows in major markets; risk of reform reversal weighs on investment
- **Political risks:** No majority for pro-reform forces at 20 December 2015 election; serious risk of reform reversals if leftist parties form alliance with separatist forces after new elections on 26 June

Spain: reforms create hope for the unemployed



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

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	2.9	2.7	0.2	2.4	2.3	0.1
Inflation	-0.4	-0.2	-0.2	1.2	1.2	0.0
Unemployment	19.7	20.1	-0.4	18.3	18.8	-0.6
Fiscal balance	-4.0	-3.7	-0.3	-3.2	-2.9	-0.3

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	1.4	3.2	2.9	2.4	2.7	3.2	3.4	3.5	3.4	3.0	2.8	2.6	2.4	2.4	2.4	2.4
	% q/q					0.9	1.0	0.8	0.8	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.6
	%q/q ann.					3.7	3.9	3.3	3.3	3.2	2.1	2.6	2.4	2.4	2.4	2.4	2.4
Private Consumption	% y/y	1.2	3.1	3.0	2.4	2.5	2.8	3.5	3.5	3.5	3.2	2.7	2.5	2.3	2.4	2.4	2.4
	% q/q					0.8	0.8	1.1	0.8	0.8	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Government Consumption	% y/y	0.0	2.7	1.4	0.8	1.5	2.5	3.0	3.7	2.0	1.5	1.1	0.9	0.8	0.8	0.8	0.8
	% q/q					1.9	0.7	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment	% y/y	3.5	6.4	4.6	4.0	6.1	6.3	6.7	6.4	5.8	4.4	4.1	4.0	4.0	4.1	4.1	4.1
	% q/q					1.6	2.3	1.3	1.1	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Final Domestic Demand ¹	% y/y	1.4	3.7	3.0	2.4	3.1	3.5	4.1	4.2	3.7	3.1	2.7	2.5	2.4	2.5	2.5	2.5
	% q/q					1.2	1.1	1.0	0.8	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Net Exports ¹	% y/y	-0.1	-0.3	0.0	0.0	-0.2	-0.1	-0.6	-0.4	-0.1	-0.1	0.2	0.0	0.0	0.0	0.0	0.0
	% q/q					-0.4	0.0	-0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	-0.1	0.0	0.0	0.2	0.1	0.1	0.0	0.0
	% q/q					0.2	-0.1	0.1	-0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	10	15	15	15	-1.6	2.5	6.0	8.2	-1.3	2.5	6.0	8.2	-1.3	2.5	6.0	8.2
	% of GDP	1.0	1.4	1.4	1.4												
Industrial Production ²	% y/y	1.3	3.3	1.8	2.4	1.7	3.0	3.9	4.6	2.7	1.7	1.6	1.4	2.3	2.4	2.4	2.4
	% q/q					1.6	1.4	0.7	0.8	-0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Unemployment Rate ²	%	24.5	22.1	19.7	18.3	23.2	22.6	21.6	20.9	20.5	20.0	19.4	19.0	18.7	18.4	18.1	17.8
	% y/y	-0.2	-0.6	-0.4	1.2	-1.1	-0.3	-0.6	-0.5	-0.8	-1.1	-0.2	0.4	0.8	1.1	1.4	1.6
General Govt. Balance	% of GDP	-5.9	-5.1	-4.0	-3.2												
General Govt. Debt	% of GDP	99.3	99.2	98.6	97.5												

¹ Contribution to GDP growth ² Period averages

Portugal: reform reversals pose serious risks

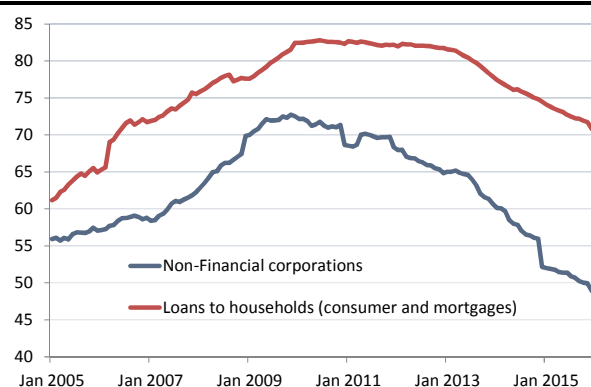
Key drivers of forecast

- **Regained competitiveness** supports an export- and investment-led recovery
- **Debt overhang drops** as private debt burden declines
- **Reform reversal:** Left-wing government has reversed key supply-side reform and threatens to renege on fiscal commitments
- **Inflation:** Internal devaluation keeps inflation low
- **GDP:** Moderate recovery stalled in H2 2015. Reform reversals could weigh on sentiment and investment
- **Politics:** New leftist government may be unstable. It has no mandate for confrontation with EU.

Risks: Tilted to the downside

- **Economic risks:** Emerging market shock or market turmoil hurt sentiment
- **Political risks:** Reform reversals, confrontation with Brussels or market sell-off push Portugal back into crisis. A new crisis with a new bailout is unlikely but not impossible if leftist government does not revert to sensible policies

Portugal: paying back the debt



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

Berenberg versus consensus

	2016			2017		
	Ber	Cons	Gap	Ber	Cons	Gap
GDP	1.2	1.3	-0.1	1.4	1.5	-0.1
Inflation	0.5	0.6	-0.1	1.5	1.2	0.3
Unemployment	11.9	11.7	0.2	11.0	11.0	0.0
Fiscal balance	-2.9	-2.8	-0.1	-2.6	-2.6	0.0

Bloomberg consensus, taken 6 May 2016

		2014	2015	2016	2017	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
GDP	% y/y	0.9	1.5	1.2	1.4	1.7	1.5	1.4	1.3	1.1	1.1	1.3	1.4	1.4	1.4	1.4	1.4
	% q/q					0.5	0.4	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	%q/q ann.					2.1	1.5	0.5	1.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Private Consumption	% y/y	2.2	2.6	1.4	1.2	2.6	3.3	2.3	2.4	2.0	1.3	1.1	1.2	1.2	1.2	1.2	1.2
	% q/q					0.7	1.0	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Government Consumption	% y/y	-0.5	0.6	0.7	1.2	-0.2	1.1	0.8	0.7	0.6	0.0	0.9	1.2	1.2	1.2	1.2	1.2
	% q/q					0.4	0.9	-0.6	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment	% y/y	2.8	3.9	-0.4	1.7	8.6	5.2	2.0	0.2	-1.4	-2.4	0.7	1.6	1.6	1.6	1.6	1.8
	% q/q					2.1	1.4	-2.6	-0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.6
Final Domestic Demand ¹	% y/y	1.8	2.4	1.0	1.3	2.9	3.1	2.0	1.7	1.2	0.4	1.0	1.3	1.3	1.3	1.3	1.3
	% q/q					0.9	1.1	-0.3	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net Exports ¹	% y/y	-1.2	-0.9	0.3	0.1	-0.1	-2.0	-0.6	-0.9	-0.1	0.8	0.3	0.1	0.1	0.1	0.1	0.1
	% q/q					-0.7	-0.9	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	0.3	-0.1	0.0	0.0	-1.1	0.4	0.0	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
	% q/q					0.4	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	1.1	1.7	1.4	1.6	0.7	-0.2	0.7	0.4	0.3	-0.1	0.8	0.5	0.3	-0.1	0.8	0.5
	% of GDP	0.6	0.9	0.8	0.9												
Industrial Production ²	% y/y	1.8	1.7	-0.8	2.2	0.4	1.8	2.3	2.3	0.8	-2.2	-1.4	-0.3	1.6	2.4	2.4	2.4
	% q/q					0.1	3.0	-0.2	-0.5	-1.3	-0.2	0.6	0.6	0.6	0.6	0.6	0.6
Unemployment Rate ²	%	14.1	12.6	11.9	11.0	13.5	12.5	12.3	12.3	12.1	12.0	11.9	11.7	11.4	11.1	10.8	10.5
CPI ²	% y/y	-0.2	0.5	0.5	1.5	0.1	0.7	0.7	0.5	0.5	0.2	0.4	0.9	1.3	1.4	1.5	1.6
General Govt. Balance	% of GDP	-7.2	-4.4	-2.9	-2.6												
General Govt. Debt	% of GDP	130.2	129.0	127.4	125.6												

¹ Contribution to GDP growth ² Period averages

Forecast changes

- **Eurozone GDP:** After a strong 0.55% qoq gain in Q1, we raise our 2016 call from 1.3% to 1.5%
- Within the Eurozone, we increase our forecast for 2016 GDP growth from 1.4% to 1.6% for **Germany**, from 1.0% to 1.3% for **France**, from 0.8% to 0.9% for **Italy** and from 2.8% to 2.9% for **Spain**
- **US Fed:** After the modestly softer April labour market report, we shift our call for the next 25bp Fed rate hike from June to July 2016. We look for a second hike this year in December
- **UK GDP:** After PMI data indicate slower growth ahead of the Brexit vote, we reduce our call for Q2 from 0.4% qoq to 0.3%. But we anticipate a relief rally if the UK votes to stay in the EU, we raise our Q3 call to 0.6% qoq

Berenberg compared to consensus

	GDP		Inflation		Unemployment Rate		Govt. Budget Balance	
	2016	2017	2016	2017	2016	2017	2016	2017
US	-0.2	0.2	0.4	0.3	0.0	-0.1	0.0	0.0
China	0.0	-0.2	0.3	0.3	0.0	0.0	0.0	0.2
Japan	0.1	0.2	-0.1	0.0	-0.1	-0.1	-0.8	-0.2
UK	0.0	0.0	0.2	0.1	0.0	0.0	-0.3	-0.3
EZ	0.0	0.0	0.0	0.2	-0.1	-0.3	-0.1	-0.2
Germany	0.1	0.1	-0.2	-0.4	n/a	n/a	0.4	0.2
France	0.0	-0.2	0.0	0.0	0.1	-0.3	0.1	0.1
Italy	-0.1	-0.1	0.2	0.0	0.0	0.0	-0.1	-0.5
Spain	0.2	0.1	-0.2	0.0	-0.4	-0.6	-0.3	-0.3
Portugal	-0.1	-0.1	-0.1	0.3	0.2	0.0	-0.1	0.0

The table shows the difference between Berenberg forecasts and Bloomberg consensus. The bars show graphically whether Berenberg forecasts are stronger (green) or weaker (red) than consensus. Bloomberg consensus, taken 6 May 2016. Berenberg's German unemployment forecasts are based on the ILO measure, which is not comparable to consensus figures that are based on the national unemployment definition. Source: Bloomberg, Berenberg

Key financial forecasts

	Current ¹	Mid-2016	End-2016
Central bank rates			
US Fed	0.25-0.50%	0.75%	1.00%
ECB	0.00%	0.00%	0.00%
BoE	0.50%	0.50%	0.75%
BoJ	0.10%	0.10%	0.10%
10-year bond yields			
US	1.75%	2.10%	2.30%
Germany	0.15%	0.40%	0.70%
UK	1.42%	1.60%	2.00%
Currencies			
EUR-USD	1.14	1.10	1.10
EUR-GBP	0.79	0.80	0.77
GBP-USD	1.44	1.35	1.43
USD-JPY	107	128	128
EUR-JPY	122	138	141
EUR-CHF	1.11	1.10	1.12

¹ Taken 6 May 2016 at 16:00 GMT

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

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