2020: at the gates of a demanding year, again

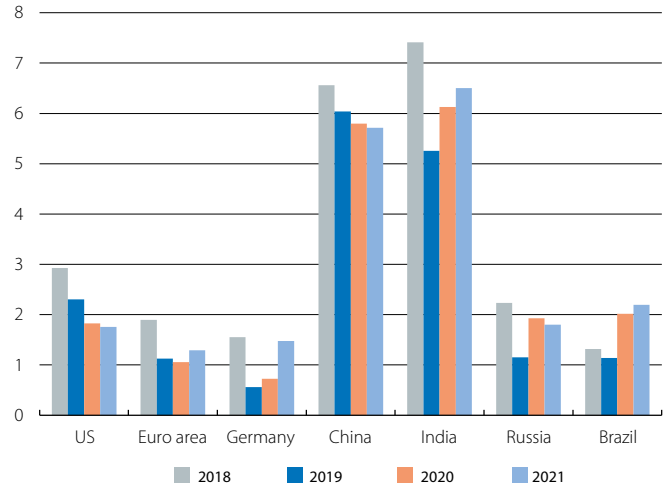
A turning point in the path of global slowdown? Following a few difficult quarters in which the economic sentiment indicators were losing ground at the global level, recently there has been a rebound in some representative confidence indicators. For instance, the global composite PMI indicator for November stood at 51.5 points (+0.7 points compared to October). A similar reading can be drawn from the global manufacturing PMI, which for the first time since April stood in expansive territory (above 50 points) thanks to the recovery of emerging economies following the bump in the sector (not the case in advanced economies). These figures are a harbinger of hope for the slight improvement expected in this new year: we expect global GDP growth to go from the 2.9% of 2019 to 3.3% in 2020. This will be particularly driven by the rebound of those emerging countries that fared worse in 2019 (Brazil, India, Russia and Turkey), while a controlled slowdown is expected in the US and Chinese economies, and in the euro area we expect continuity of the low but nonetheless positive levels of growth.

The trade risks persist, but have been mitigated in the last month. The global economic slowdown witnessed in recent quarters can be explained by a combination of factors of a differing nature that are acting simultaneously and are expected to continue to limit the growth of the major economies (the US, euro area and China) in the near future. These factors are well known by our readers, namely, the trade dispute between the US and China, Brexit and the problems in the European automotive industry. In the last month, there has been an improvement in the outlook for two of these factors, specifically the trade dispute (in particular) and Brexit. In relation to the trade dispute, in mid-December the US and China announced a first trade agreement (the first phase of a total of three). Under the deal, China undertakes to substantially increase its purchases of US goods and services, while the US subsequently suspended a tariff hike scheduled for 15 December, as well as lowering the tariffs imposed in September 2019 (for further details, see the article «International Trade: first impression of the First Phase» in this *Monthly Report*). The balance of the deal is positive, as it helps to reduce the uncertainty that has caused so much damage in 2019, while it also represents a first step towards addressing deeper-routed aspects of the US-China dispute, such as intellectual property rights and forced technology transfer. Thus, it represents a positive first step, albeit with a caveat of caution: we will have to see how the negotiations of the following phases play out and we must bear in mind that it will take time for consumers and businesses to regain confidence.

The uncertainty over Brexit clears... for now. The United Kingdom's general election of 12 December gave Boris Johnson's Conservative Party an absolute majority (with 365 of the 650 seats in the House of Commons). The outcome thus allowed for a quick ratification, in the House of Commons on

GDP forecasts

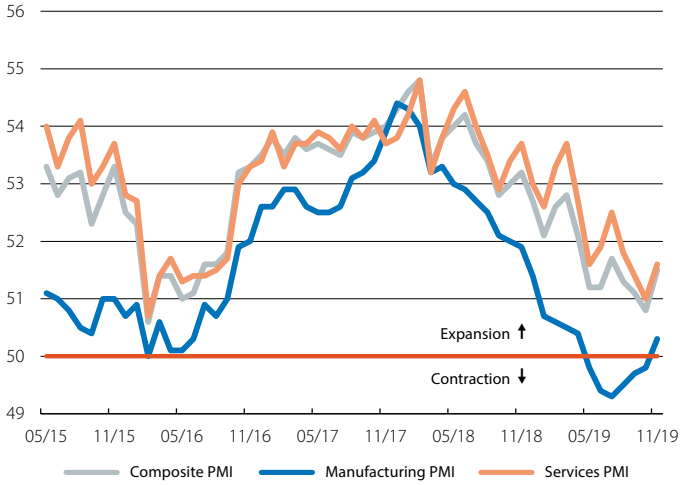
Year-on-year change (%)



Source: *CaixaBank Research.*

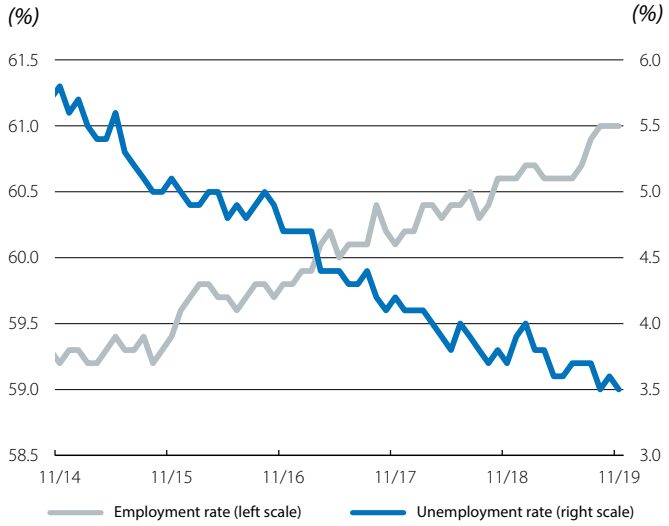
Global economic activity indicators: PMI

Level



Source: *CaixaBank Research, based on data from IHS Markit.*

US: labour market



Source: *CaixaBank Research, based on data from the Bureau of Labor Statistics.*

20 December, of the withdrawal agreement bill that Johnson had agreed with the EU. Brexit will therefore occur no later than 31 January 2020, giving way to a transition period in which the United Kingdom will remain within the European common market and subject to EU rules while the terms of the new relationship are negotiated. Thus, 2020 will be the year of negotiations between the United Kingdom and the EU to seal a new trade agreement, a process that looks set to be complex and that could generate new episodes of uncertainty (in the absence of an agreement, the end of the transition period would give rise to a hard Brexit). In fact, the bill approved includes a new clause forbidding the government from extending the transition phase beyond 31 December 2020, which will add complexity to what are already set to be difficult negotiations.

US

The US faces its most challenging year. In 2020, the economy is expected to continue to slowdown due to the maturity of the business cycle (the US is currently in the longest expansion in its modern history, with over 40 quarters amassed to date) and the fading of the fiscal stimulus implemented in late 2017, although the slowdown will be softened by the dovish shift of the Fed in the second half of 2019. All in all, according to our projections, growth will stand at around 1.8% on average for the year, a reasonably encouraging level that is close to the average for the past two decades (2.1%). In any case, the macroeconomic scenario will not be able to break free from the political ecosystem, with all eyes on the outcome of the impeachment process against President Trump and, above all, the presidential elections on 3 November this year.

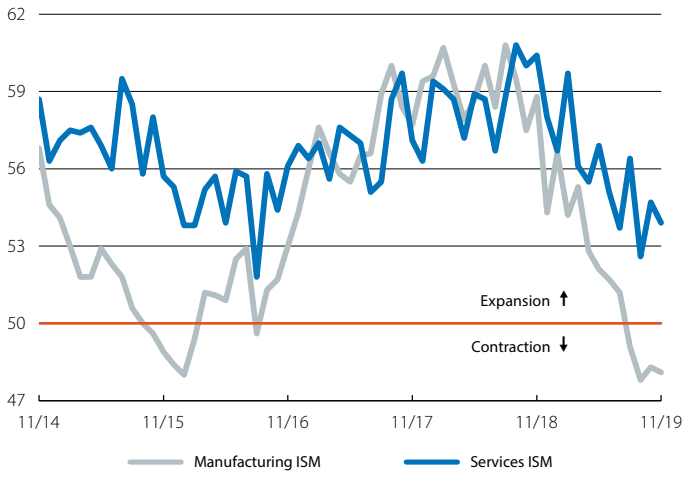
Mixed signals in the closing stages of 2019. The US sentiment indicators continued to point towards a slowdown in economic activity in Q4. The business sentiment index (produced by the ISM) for the manufacturing industry in November decreased slightly from what were already low levels (48.1 points, below the 50-point mark). The services ISM index, meanwhile, also fell (–0.8 points, down to 53.9 points) although this figure remains comfortably above the 50-point threshold. On the other hand, job creation in November proved much stronger than anticipated (266,000 jobs) and than what can be expected from an economy in full employment (the unemployment rate remained at a contained 3.5%).

JAPAN

Improved outlook for the Japanese economy. The country's cabinet has launched a fiscal stimuli plan which, in addition to fiscal incentives, includes major expenditure measures. These are aimed at mitigating the negative impact of the VAT rise implemented in October 2019 and the slowdown in global trade, as well as the risk derived from a slowdown of the economy following the Olympic Games in Tokyo 2020. This stimulus, coupled with the significant upward revision of GDP growth in Q3 2019 (from the preliminary 0.1% quarter-on-quarter to 0.4%), has improved the outlook for Japan's growth in 2020 and 2021.

US: economic activity indicators

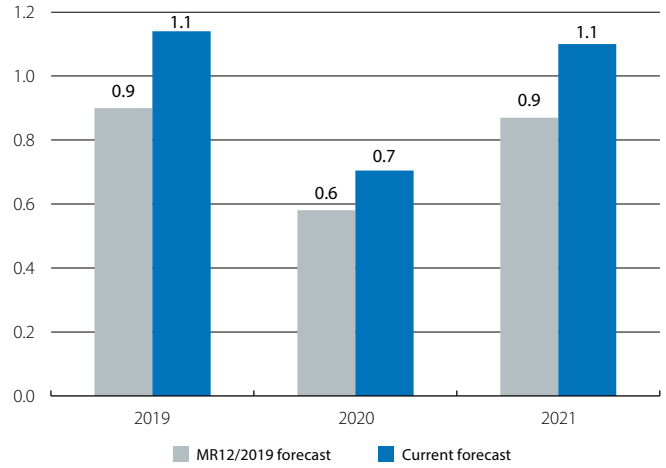
Level



Source: *CaixaBank Research, based on data from the ISM.*

Japan: GDP forecasts

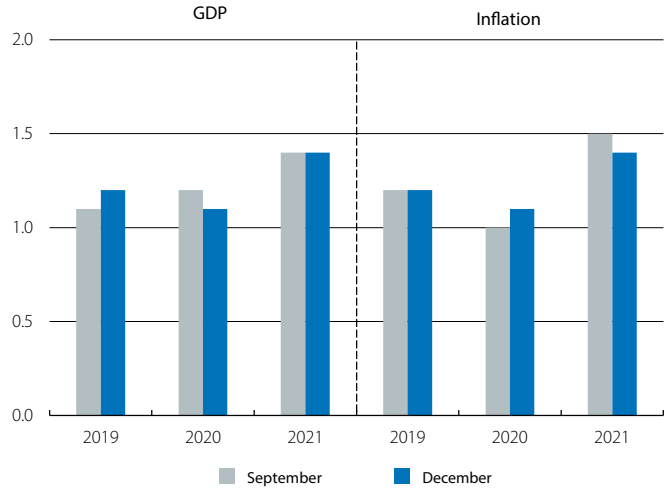
Annual change (%)



Source: *CaixaBank Research.*

Euro area: ECB forecasts for GDP and inflation

Annual change (%)



Source: *CaixaBank Research, based on data from the ECB.*

EURO AREA

A year of transition? We anticipate that the euro area will maintain a similar rate of growth in 2020 to that of last year, at around 1.1%. 2020 will therefore be a year of transition devoted to healing recent wounds: if the trade dispute between the US and China tempers and the injured automotive sector gradually recovers, the euro area could see an improvement and end 2020 in a somewhat better position to face the coming years with more optimism (albeit keeping in mind that relatively modest productivity growth and adverse demographics will remain ever present). A similar reading can be drawn from the update of the ECB's economic forecasts, which point towards greater buoyancy from 2021 thanks to the reduction of uncertainty following an orderly Brexit, the improvement in foreign demand and a relaxation of fiscal policy in some countries.

Indicators at differing levels. The manufacturing sector remains in recession, as indicated by both the sector's PMI, which stood at 45.9 points in December (46.9 in November, clearly below the 50-point threshold that separates the expansive and contractive territory), and the latest industrial production data (–2.4% year-on-year in October). By country, of particular note was the significant decline in industrial production in Germany (–6.3% year-on-year), indicating that the German economy has not yet left its problems behind. In contrast, both business sentiment in the services sector and consumer confidence performed well in the closing stages of the year. This provides some hope as it shows that the problems in the industrial sector have not extended to the economy as a whole (we analyse this potential contagion in the article «The difficulties of the industrial sector: will there be contagion to services?» in this *Monthly Report*).

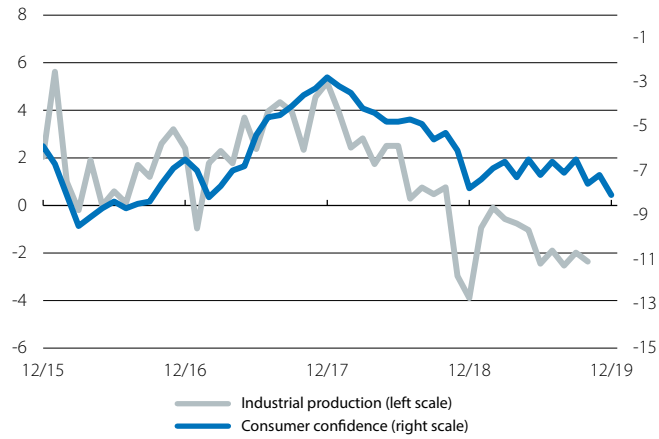
EMERGING MARKETS

China enjoys a little more breathing space. The economic activity indicators recovered some steam at the end of 2019. Coupled with the signing of the trade agreement with the US, this renders the possibility of China suffering a sudden slowdown in the coming quarters even more unlikely (remember that the foreign sector has been penalised in recent months by the US protectionist measures). As such, 2020 should be a year marked by a very gentle slowdown in the economy.

The recovery of the rest of the emerging bloc is already set in motion. We stated in the introduction that the rebound of some emerging countries that have experienced difficulties in 2019 will explain the slight improvement in the global economy in 2020. In fact, this rebound has already begun in some economies at the end of 2019. In Brazil, GDP growth in Q3 was higher than expected, with a rate of 1.2% year-on-year supported by the recovery of consumption and investment. Turkey, meanwhile, also grew more than expected (0.9% year-on-year). That said, doubts persist over its future growth, since the corporate restructuring process has not yet been completed, the country is vulnerable to geopolitical risks and its use of external financing remains high.

Euro area: industrial production and consumer confidence*

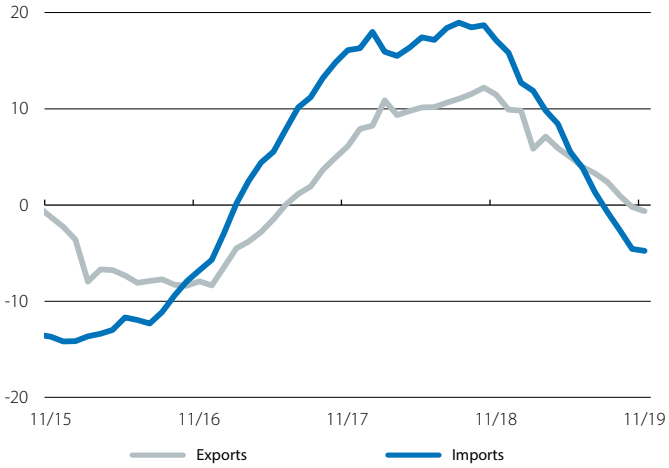
Year-on-year change (%) *Level*



Note: ** Seasonally adjusted series.*
Source: *CaixaBank Research, based on data from Eurostat and the European Commission.*

*China: foreign trade in goods **

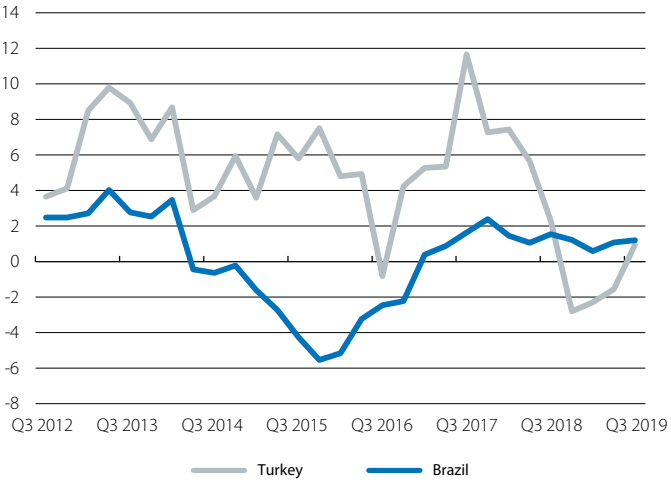
Year-on-year change in the 12-month cumulative balance (%)



Note: ** Change obtained using nominal data in dollars.*
Source: *CaixaBank Research, based on data from Chinese customs.*

Turkey and Brazil: GDP

Year-on-year change (%)



Source: *CaixaBank Research, based on data from Thomson Reuters Datastream.*