2020: at the gates of a demanding year, again

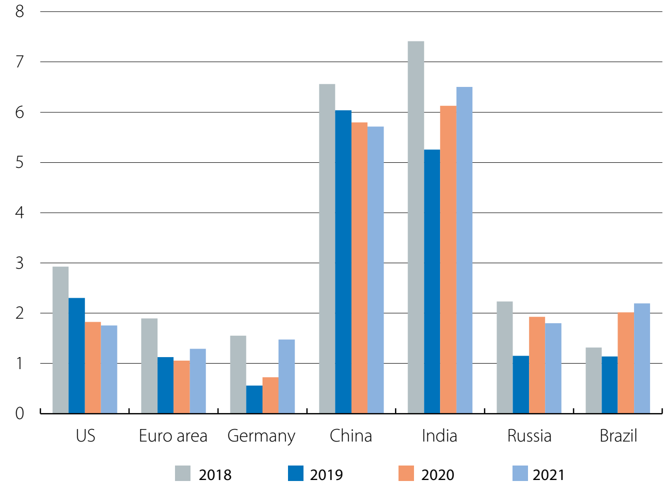
A turning point in the path of global slowdown? Following a few difficult quarters in which the economic sentiment indicators were losing ground at the global level, recently there has been a rebound in some representative confidence indicators. For instance, the global composite PMI indicator for November 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

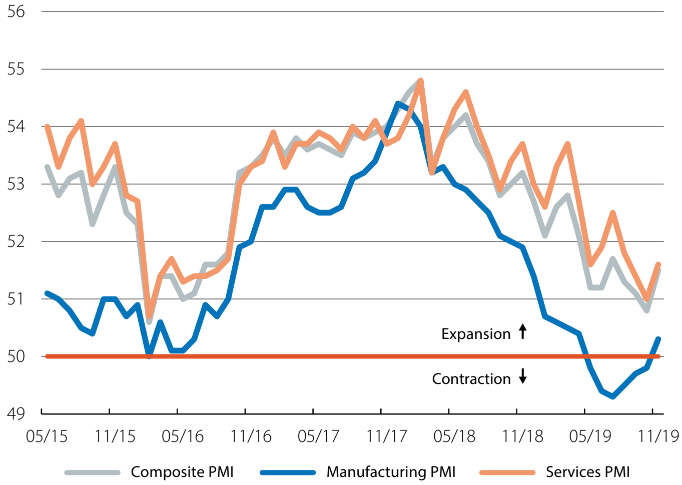
Year-on-year change (%)



Source: *CaixaBank Research.*

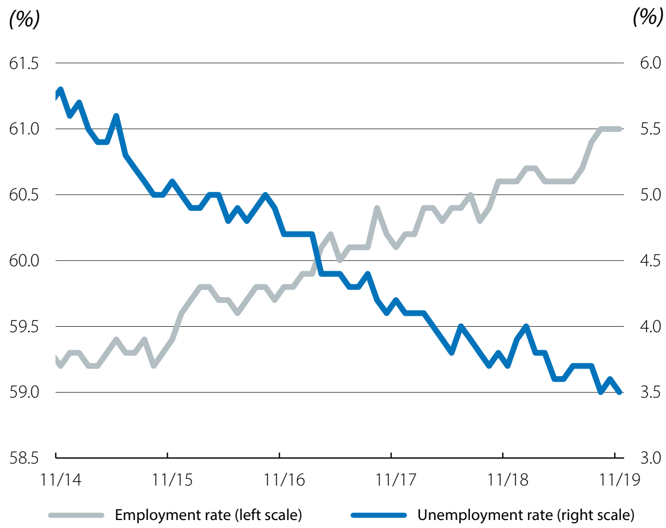
Global economic activity indicators: PMI

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.

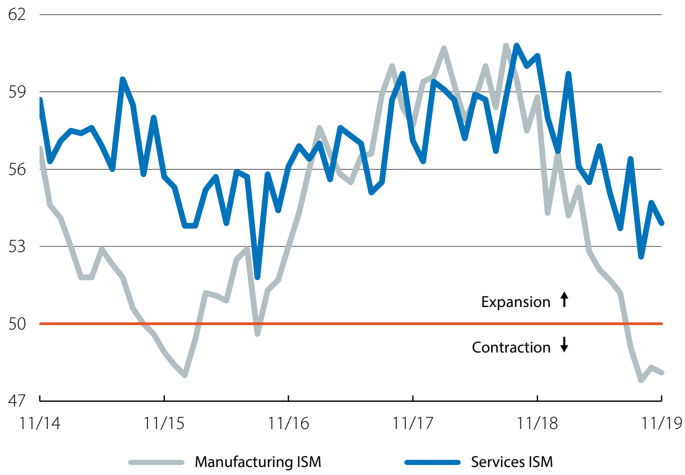
Mixed signals in the closing stages of 2019. The US sentiment indicators continued to point towards a slowdown in economic activity in Q4. The business sentiment index (produced by the ISM) for the manufacturing industry in November decreased slightly from what were already low levels (48.1 points, below 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

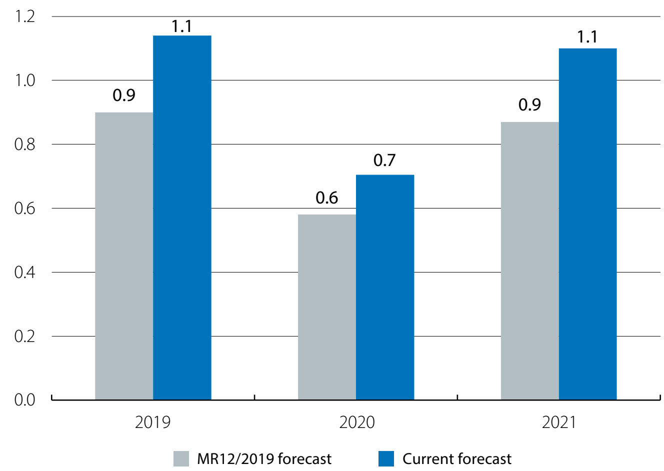
Level



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

Japan: GDP forecasts

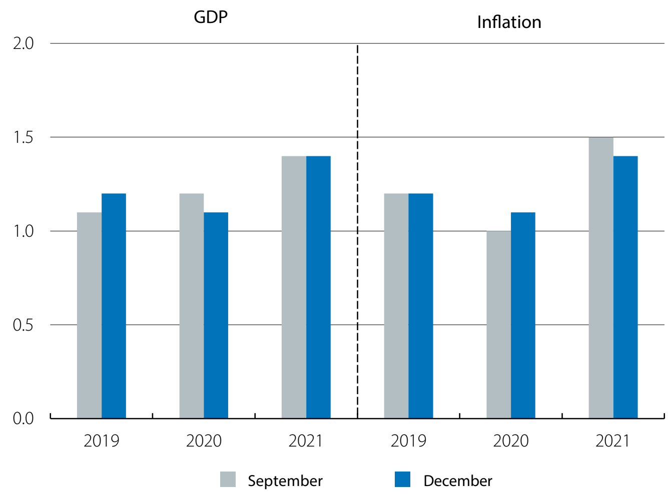
Annual change (%)



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*).

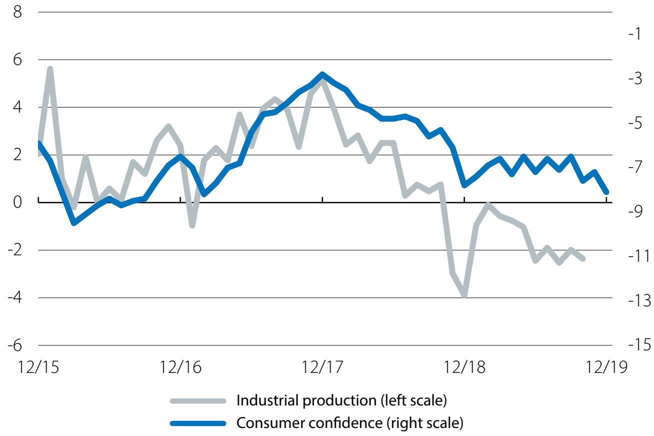
EMERGING MARKETS

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*

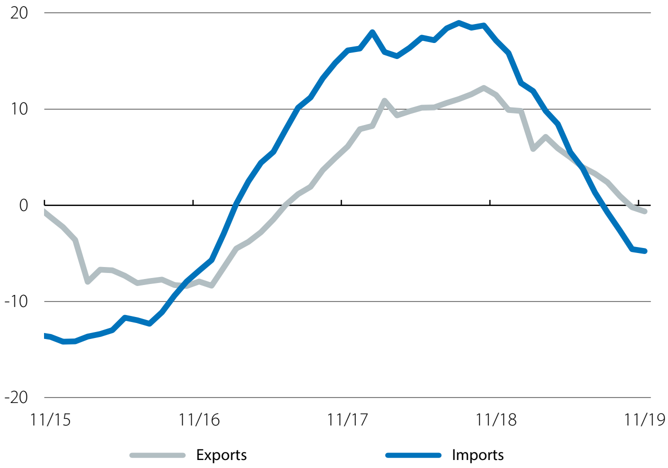
Year-on-year change (%) *Level*



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

*China: foreign trade in goods **

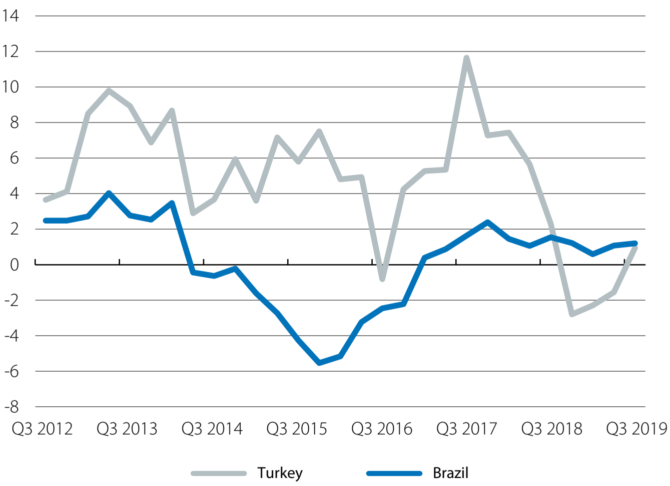
Year-on-year change in the 12-month cumulative balance (%)



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.*

Portugal: favourable momentum despite the international uncertainty

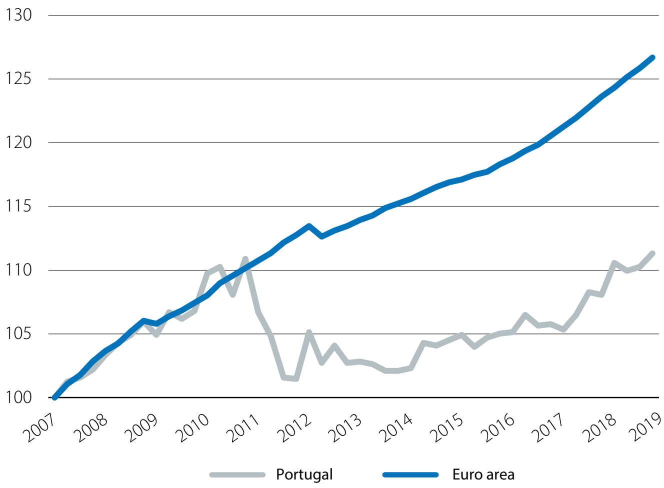
In 2020, Portugal will continue to grow more than the euro area. With the arrival of the new year, the projections suggest that 2020 will be the fifth consecutive year in which Portugal will grow above the euro area as a whole. Between 2016 and 2019, Portugal's average annual growth was 2.5%, 0.6 pps above that of the euro area, and all the indicators suggest that in 2020 the Portuguese economy will maintain this gap. In fact, we anticipate that Portugal will grow by 1.7%, in contrast with the 1.1% projected for the euro area. In the current expansive phase, Portugal has a position of greater resilience, since the macroeconomic imbalances it still suffers from are lower than in the past. In particular, households have less debt (with an indebtedness ratio of around 65% of GDP, whereas in 2007 it was 87%). The same can be observed in the case of companies, with a ratio of 101%, 7 pps less than in 2007. Moreover, in the external accounts, the current account balance has shifted from a deficit of around 10% of GDP in 2007 to one of around 1% in 2019. There has also been a recovery in the competitiveness indicators. In annual average terms, between 2007 and 2019 labour costs rose by 1.4% in Portugal, which contrasts with the 2.1% in the euro area as a whole. Similarly, in 2019 Portugal's inflation was 0.9 pps lower than that of the euro area, whereas in 2007 it was +0.3 pps higher. Nevertheless, there is still work to be done, and as the expansion advances the economy will receive less support from the cyclical momentum. In particular, further progress still needs to be made on the high levels of external indebtedness (net external debt has risen from 66% of GDP in 2007 to 89% in 2019) and indebtedness of the public sector (public debt stands at just below 120% of GDP, compared to around 73% in 2007).

The short-term indicators reflect a good performance of economic activity in the last quarter of 2019. Most notably, in November the Bank of Portugal's coincident indicators stabilised at 1.9% in the case of the aggregate economic activity indicator and at 2.6% in the case of private consumption. This suggests that Q4 growth will have been similar to that of Q3 (when it was 0.3% quarter-on-quarter and 1.9% year-on-year). Other encouraging signals came from the stabilisation of the economic climate indicator at 2.1% and the improvement in consumer confidence up to –6.9 (figures relating to November).

The economy maintains its external lending capacity. In Q3 2019, the economy's financing capacity was 0.3% of GDP (four-quarter cumulative figure), 0.2 pps less than in the previous quarter. This mainly reflects the reduction in the state financing capacity down to 0.0% of GDP (0.2% in Q2). As for all other sectors, of particular note was the improvement of the situation of households, especially the increase in their financing capacity and in the savings rate, both of 1 decimal

Portugal: labour costs

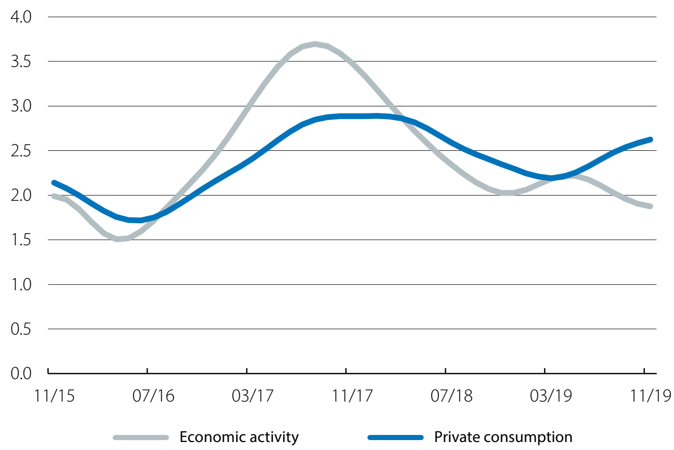
Index (100 = Q4 2007)



Source: *CaixaBank Research, based on data from Eurostat.*

Portugal: coincident economic activity indicators

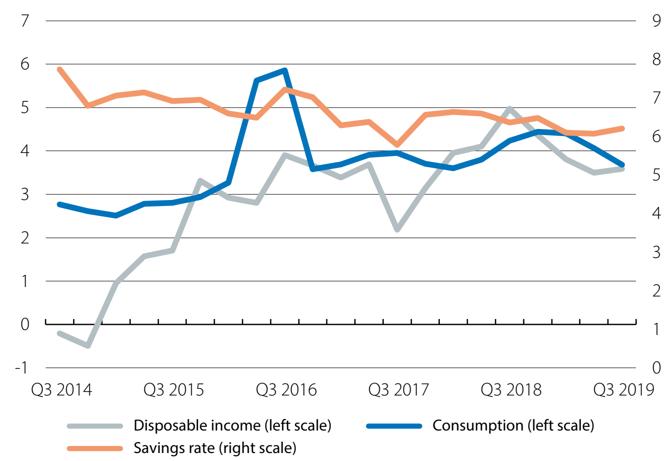
Year-on-year change (%)



Source: *CaixaBank Research, based on data from the Bank of Portugal.*

Portugal: household savings, income and consumption

Year-on-year change (%) *(% of gross disposable income)*



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

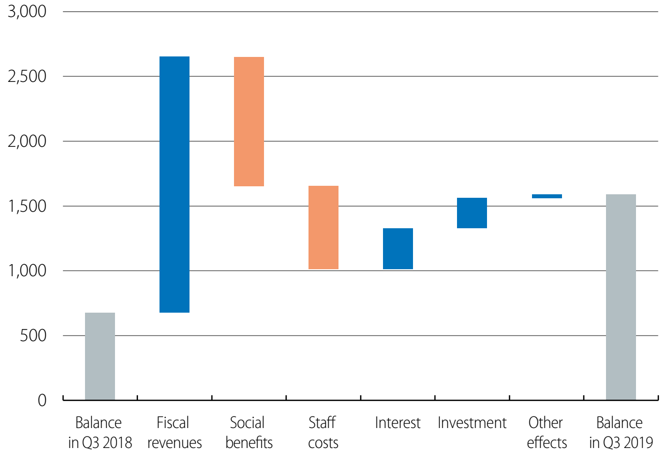
point. Specifically, households' financing capacity rose to 1.2% of GDP, while the savings rate increased up to 6.2% of disposable income. This improvement in the saving rate reflects the acceleration in the pace of growth of disposable income up to 3.6% year-on-year, 1 decimal point more than before, while consumption slowed down to 3.7% year-on-year, 4 decimal points less than in the previous quarter.

The budgetary balance remains in positive territory in Q3. With cumulative data for the first three quarters of 2019, the balance reached +1.0% of GDP in Q3 2019 (1,590 million euros), representing an improvement of 0.4 pps of GDP compared to Q3 2018. This increase is due to a bigger rise in income (4.2%) than in expenditure (2.8%), driven especially by the growth of social security contributions (6.1%) and the reduction of interest expenses (–6.1%). On the other hand, staff costs and social benefits account for almost all of the increase in expenditure in this period. Also of note is the decline in investment, down 9.0% from Q3 2018. Thus, as a whole, the budget execution up until Q3 2019 reinforces the government's estimates for the budgetary balance for the whole of the year reflected in the 2020 State Budget (–0.1% of GDP). With regard to 2020, the budget, which have been developed with a forecast for GDP growth of 1.9%, project a surplus of 0.2% of GDP. This is supported by fiscal and contributory tax revenues and a lower interest expense, despite the increase in staff costs and social benefits. In parallel, the budgets foresee a fall in the public debt ratio down to 116% of GDP, compared to an estimate of 119.2% of GDP in 2019.

The real estate market remains buoyant. In Q3 2019, real estate prices rose by more than expected (1.2% quarter-on-quarter and 10.3% year-on-year), driven by the acceleration in the growth rate of prices of existing housing. In the same period, the number of house sales fell by 0.2% year-on-year, after registering a drop of 6.6% in the previous quarter. Over the coming quarters, the increase in residential construction, the effect of a potential slowdown in the tourism sector and the effects of uncertainty at the global level can be expected to contribute to generating a more moderate growth in prices.

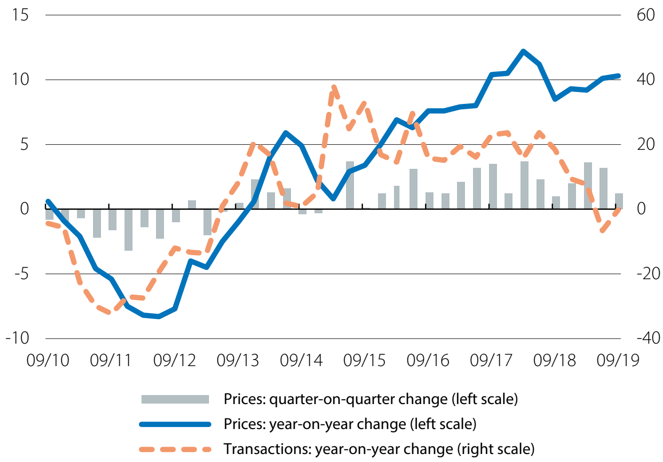
New lending proves buoyant in the second half of the year. More specifically, new lending to the non-financial private sector accelerated by 9.4% year-on-year in October (cumulative year to date), above the 7.2% figure for September. This performance was driven by the acceleration of new loans to companies (8.0% year-on-year, versus the 5.7% up to September) as well as to households (11.7%, versus 9.8% up to September). In the household segment, lending for housing showed particular buoyancy, benefiting from the context of low interest rates. However, growth rates remain below the double-digit rates registered in 2018. At the same time, despite this acceleration in new lending, the stock of non-financial private sector loans continues to contract (–0.5% year-on-year in October), highlighting that the trend in new lending is also accompanied by the early repayment of loans granted in the past.

Portugal: government balance
(EUR millions)



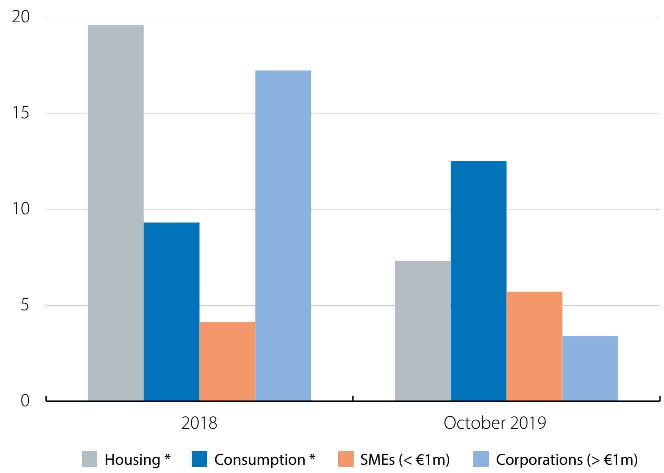
Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: housing prices and transactions
(%) *(%)*



Source: *CaixaBank Research, based on data from the National Statistics Institute of Portugal.*

Portugal: new lending
Year-on-year change (%)



Note: ** Excludes renegotiations.*
Source: *CaixaBank Research, based on data from the Bank of Portugal.*