



## Primary Contacts



## Economic Research

# European Economic Snapshots

### EUROZONE

We expect the eurozone's modest recovery will continue and forecast GDP growth of 1.4% in 2017 and 1.3% in 2018. Economic growth will continue to be primarily driven by domestic demand.

### GERMANY

We slightly lowered our GDP growth forecasts to 1.4% in 2017 and 1.3% in 2018. The slow expansion of world trade and uncertainties about the global outlook are likely to limit investment spending and exports.

### FRANCE

Economic growth is set to remain on track at 1.3% next year before accelerating slightly to 1.4% in 2018. The uncertainty associated with the presidential elections in 2017 is likely to hamper business investment in a context of already subdued world trade growth.

### ITALY

We expect the Italian economy will achieve less than 1% GDP growth per year over 2016-2018. The "No" vote on the constitutional referendum and the associated policy uncertainty is likely to negatively affect banking-sector credit growth, and hamper investment recovery.

### SPAIN

We've maintained our economic forecast for Spain and still expect GDP growth to reach 3.2% this year before slowing to 2.3% in 2017 and 2.0% in 2018. Domestic demand should remain the main economic engine.

### NETHERLANDS

We expect economic growth to slow to 1.5% next year and 1.4% in 2018 from 2% this year. However, overall growth will continue to be supported by accelerating domestic demand and higher housing prices.

### BELGIUM

We forecast economic growth to remain modest, with real GDP expanding by 1.3% next year and 1.2% in 2018 from 1.5% this year.

### UNITED KINGDOM

The robust momentum of the economy in Q4 will likely continue in early 2017 before gradually slowing under the impact of Brexit, as households and businesses adjust spending to a changing economic environment.

### SWITZERLAND

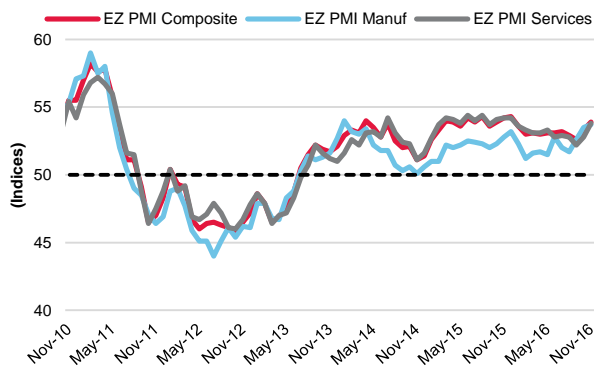
After 1.6% growth this year, we expect the recovery to continue at a measured pace and maintain our previous GDP growth forecast of 1.5% in 2017 and 2018.

## Eurozone Overview

- State of Play:** Moderate but steady growth has remained on track despite the negative shocks from abroad and various domestic uncertainties. Real GDP grew by 0.3% q/q in Q3, the same as in Q2. The pick-up in PMI readings in the first two months of Q4 suggests that the economy started the last quarter on solid footing. However, inflation has failed to rise meaningfully. While inflation expectations are trending up, they are still well below the ECB's 2% target. In November, bond yields increased further and the euro declined sharply, as markets priced in higher growth and inflation in the U.S. following Trump's victory in the presidential elections.
- Outlook:** We expect the eurozone's modest recovery will continue and forecast GDP growth of 1.4% in 2017 and 1.3% in 2018. Economic growth will continue to be primarily driven by domestic demand, while net external trade is expected to make a slightly negative contribution. The weakness of the euro will not entirely offset the softness in global trade. The overall picture remains favorable for consumers, helped by an improving labor market, although the "energy dividend" from lower oil prices is coming to an end. Still favorable financial conditions will continue to benefit the corporate sector, but investment is facing headwinds from slower global growth as well as political and economic uncertainty. The recent rise in bond yields appears as a premature tightening in financial conditions, only partly offset by the weaker euro. Therefore, we believe the ECB is now likely to extend its QE program beyond March 2017, most likely until the end of next year.
- Risk:** Political challenges in Italy following the "No" vote to the constitutional referendum as well as national elections in several European countries next year are another source of uncertainty and potential strain on the economy. If Brexit negotiations between the U.K. and EU become confrontational, the confidence effect on investment and trade prospects could be more severe. Also, any developments around U.S. trade policy that could result in protectionist measures would negatively affect world trade growth and weigh on the region's economic prospects.

### EUROZONE PMIs FURTHER INCREASED IN NOVEMBER

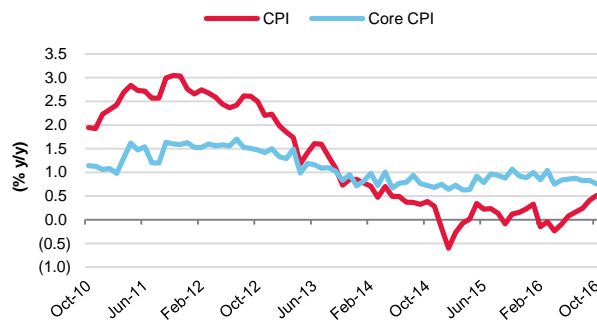
The composite PMI index strengthened further in November, with an expansion in both services and manufacturing indices, especially in Spain and Italy. This pick-up shows a certain optimism and resilience despite political turmoil inside and outside the eurozone.



Source : Markit, Bloomberg

### CPI POSITIVE FOR FIFTH STRAIGHT MONTH IN OCTOBER

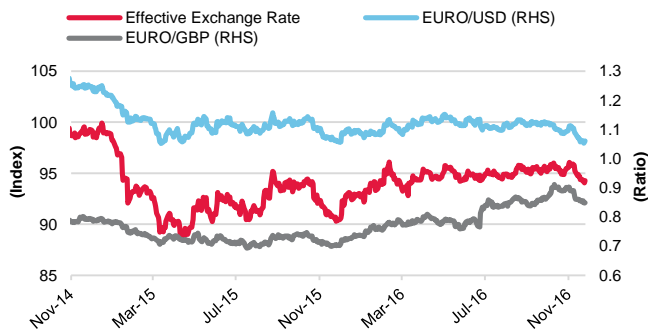
Headline inflation maintained its positive trajectory for the fifth straight month, rising by 0.5% y/y in October. Core inflation remained frail, staying at an annual rate of 0.8% y/y for the third subsequent month. Despite the steadily improving labor market, wage growth has indeed remained muted.



Source: Eurostat

### EURO FALLS FURTHER SINCE TRUMP'S VICTORY

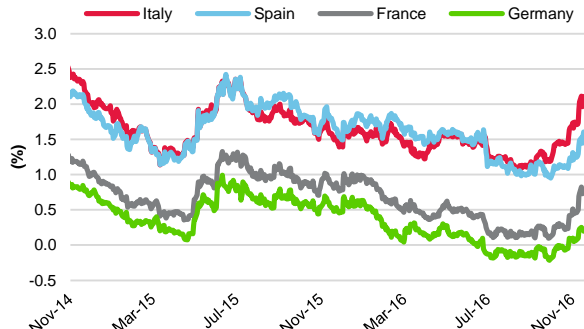
The EUR/USD exchange rate fell by 3.5% between Nov. 8 and Dec. 2. With a decline of 1.4% in the effective exchange rate, the U.S. election erased the gains in trade-weighted terms after the Brexit vote. The euro's weakness is also visible in the EUR/GBP exchange rate which is now 7% lower than the peak reached in mid-October.



Source: ECB, DataStream

### SOVEREIGN BOND YIELDS HAVE SURGED SINCE AUGUST

10-year European sovereign bond yields have increased sharply since August. Rising inflation expectations and Trump's victory in the U.S. elections supported this increase. Italian bond yields reacted more strongly as concerns increased about the fallout of the constitutional referendum results.



Source: DataStream

## Eurozone Economic Data and Forecast Summary

## SELECTED ECONOMIC INDICATORS

	Nov-15	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
CPI (y/y)	0.2	(0.2)	(0.1)	0.1	0.2	0.2	0.4	0.5	0.6
Core CPI (y/y)	0.9	0.7	0.8	0.9	0.9	0.8	0.8	0.8	0.8
Exports (y/y- €)	2.6	(1.9)	(4.5)	(1.6)	(2.9)	2.9	2.1		
Imports (y/y- €)	1.6	(6.1)	(7.5)	(4.8)	(2.8)	(0.4)	(2.4)		
Trade Balance (€ bn)	21314	25112	23891	23567	20821	23440	24861		
Industrial Production (y/y)	2.4	1.9	0.4	0.8	(0.4)	2.3	1.3		
Retail Sales (y/y)	2.2	1.7	1.8	1.8	2.1	1.3	1.2	2.5	

Source: ECB, Eurostat

## REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.4	0.4	0.8	0.4	0.3	0.5	0.5	0.3	0.3
Household Consumption Expenditure (q/q)	0.4	0.6	0.5	0.5	0.4	0.4	0.7	0.2	0.3
Government Consumption Expenditure (q/q)	0.3	0.2	0.4	0.4	0.4	0.6	0.6	0.4	0.5
GFCF (q/q)	0.5	0.5	1.8	0.0	0.7	1.3	0.4	1.2	0.2
Current Account Balance (€ bn)	66.0	72.4	81.9	79.3	89.0	76.0	85.8	94.0	81.7

Source: ECB, Eurostat

## S&amp;P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	2.0	1.6	(0.9)	(0.2)	1.2	1.9	1.6	1.4	1.3
Real Exports %	11.1	6.7	2.9	2.2	4.4	6.2	2.4	2.7	2.5
Real Imports %	9.6	4.6	(0.6)	1.4	4.9	6.2	2.8	3.0	3.1
Real Fixed Investment %	(0.5)	1.7	(3.3)	(2.5)	1.4	2.9	2.8	2.2	2.6
Real Private Consumption %	0.7	(0.1)	(1.2)	(0.5)	0.8	1.8	1.6	1.3	1.3
Real Government Consumption %	0.8	(0.1)	(0.3)	0.3	0.6	1.4	1.8	1.1	1.0
CPI Inflation %	1.6	2.7	2.5	1.3	0.4	0.0	0.2	1.4	1.4
Unemployment Rate %	10.2	10.2	11.4	12.0	11.6	10.9	10.0	9.4	9.1
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	3.62	4.39	3.89	2.99	2.04	1.21	0.86	1.41	1.72
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

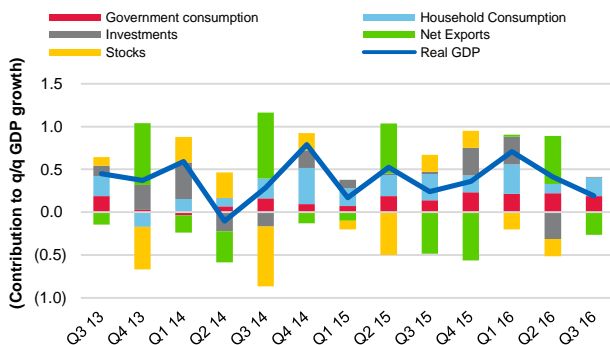
Source: Oxford Economics; f: S&amp;P Forecast

## Germany

- State of Play:** The economy lost more sheen in Q3 due to uncertainties about external developments. Real GDP growth eased for the second consecutive quarter to 0.2% q/q in Q3, from 0.4% in Q2 and 0.7% in Q1. Domestic demand provided some respite, as both household and government consumption held strong. Annual public spending is likely to rise by 4% this year, the highest growth since 1992 and the reunification years. The management of the high number of refugee arrivals is likely to lift government consumption growth. Recent business surveys and hard data such as industrial production and manufacturing orders point to a stronger performance in the last quarter.
- Outlook:** We slightly lowered our GDP growth forecasts to 1.4% and 1.3% in 2017 and 2018. The slow expansion of world trade and uncertainties about the global outlook are likely to limit investment spending and exports. Indeed, we anticipate a slightly negative net export contribution to growth in 2017-2018. However, resilient domestic demand should somewhat insulate Germany from weak external conditions. We forecast domestic demand to remain the key growth driver despite rising inflation in 2017, as household incomes are boosted by a healthy labor market, record-low borrowing costs, and high savings. Meanwhile, the influx of refugees implies a mild expansionary fiscal stance. Rising demand for property will lead to a continued revival in the construction sector.
- Risks:** Given the size of the U.K. economy and the openness of the German one, the economic implications of a Brexit and potential trade restrictions that may ensue could affect Germany more negatively if negotiations between the U.K. and the EU become more tense. The U.K. is Germany's third-largest export destination and accounted for 25% of its trade surplus in 2015. On the domestic front, integrating immigrants into the labor market and transforming the immigration flow into a positive labor supply shock will also be key for the political outcome in the upcoming general elections.

### NET EXPORTS HIT Q3 GROWTH; DOMESTIC DEMAND FIRMS

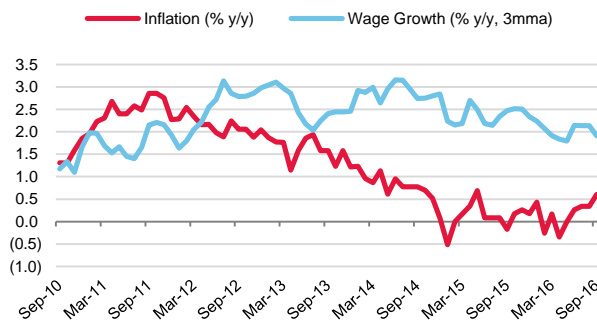
GDP growth weakened in Q3, as strong domestic demand did not completely offset the drag from net exports, reversing the contribution in Q2. Household and public consumption added to growth, whereas investment was nearly stagnant.



Source: Federal Statistical Office

### GAP BETWEEN INFLATION AND WAGES NARROWED IN SEPT

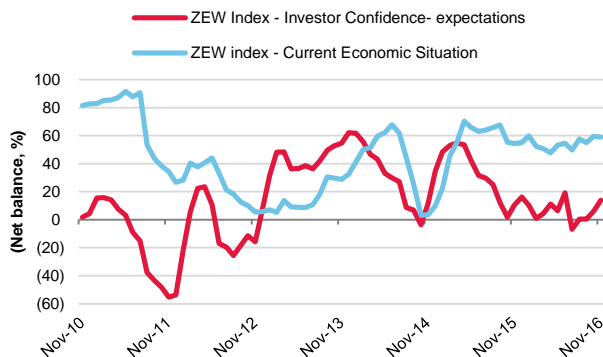
Wage growth momentum eased in September, whereas the inflation rate rose from August. Wage growth has been stronger than price increases since 2012, implying real wage growth. The current acceleration in inflation is limiting consumer purchase power.



Source: Eurostat, Bundesbank

### INVESTOR SENTIMENT SUGGESTS MODEST GROWTH PATH

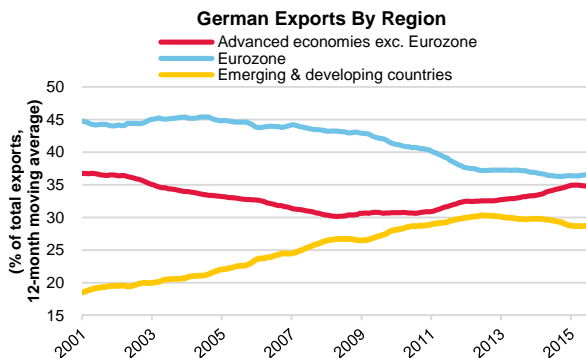
Since spring 2015, the German ZEW indicator of economic sentiment suggests that investors' assessment of the current economic situation has been more positive than expectations concerning the economy.



Source: ZEW (Centre for European Economic Research)

### EXPORT EXPOSURE TOWARD EMs HAS INCREASED

Germany has increased its export exposure toward emerging markets by 10 ppts in the past decade, while lowering its exports to the eurozone by the same proportion. In 2015, 29% of the country's exports went to EMs compared with 20% in 2003.



Source: DataStream, Bundesbank

## Germany Economic Data and Forecast Summary

## SELECTED ECONOMIC INDICATORS

	Oct-15	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
HICP (y/y)	0.2	0.2	(0.3)	0.0	0.3	0.3	0.3	0.6	0.8
Core CPI (y/y)	1.1	1.2	0.7	1.1	1.0	1.0	1.0	1.0	1.0
Exports (y/y- €)	2.6	2.1	0.6	(2.1)	(0.8)	(4.5)	4.5	0.5	
Imports (y/y- €)	3.2	(2.5)	(2.1)	(2.5)	(1.0)	(2.9)	1.7	(1.8)	
Trade Balance (€ bn)	20.0	23.0	22.9	21.6	21.1	19.8	21.8	21.1	
Industrial Production (y/y)	0.4	0.3	0.7	(0.3)	0.8	(1.3)	2.5	1.1	
Retail Sales (y/y)	2.0	1.0	1.0	1.2	1.8	1.5	1.4	0.0	2.6

Source: Eurostat, Bundesbank, Federal Statistical Office

## REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.3	0.8	0.2	0.5	0.2	0.4	0.7	0.4	0.2
Private Consumption Expenditure (q/q)	0.4	0.8	0.4	0.4	0.6	0.4	0.6	0.2	0.4
Government Consumption Expenditure (q/q)	0.9	0.5	0.4	1.0	0.7	1.2	1.1	1.2	1.0
GFCF (q/q)	(0.8)	1.1	0.5	0.1	0.1	1.6	1.6	(1.6)	0.0
Current Account Balance (€ bn)	54.3	65.5	57.9	57.4	65.0	72.2	64.3	72.1	61.6

Source: Federal Statistical Office, Bundesbank

## S&amp;P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	4.0	3.7	0.7	0.6	1.6	1.5	1.8	1.4	1.3
Real Exports %	14.2	8.4	3.5	2.0	4.0	4.6	2.6	2.2	2.1
Real Imports %	12.6	7.2	0.4	3.2	4.0	5.0	2.9	3.1	3.4
Real Fixed Investment %	5.1	7.3	(0.1)	(1.1)	3.4	1.1	2.2	2.3	3.2
Real Private Consumption %	0.3	1.3	1.3	0.9	1.0	1.9	1.4	1.2	1.1
Real Government Consumption %	1.3	0.9	1.0	1.2	1.2	2.8	3.8	1.9	1.4
CPI Inflation %	1.1	2.5	2.1	1.6	0.8	0.1	0.4	1.6	1.6
Unemployment Rate %	6.9	5.9	5.4	5.2	5.0	4.6	4.2	4.2	4.4
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	2.78	2.65	1.57	1.63	1.24	0.54	0.12	0.72	1.07
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

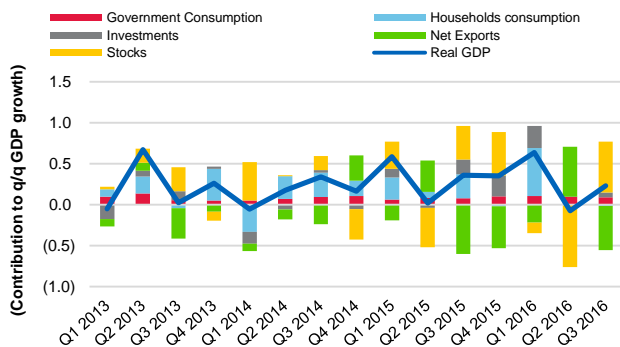
Source: Oxford Economics; f: S&amp;P Forecast

## France

- State of Play:** After experiencing a soft patch in mid-2016, recent indicators suggest growth has resumed modestly in Q4. Unemployment has started to edge down on the back of a stronger recovery, while government measures to train the long-term unemployed have temporarily drawn people out of the labor force. Inflation has turned positive again as energy prices have stopped falling, but core inflation continues to be low as unemployment rate stays high. Investments continue to rise modestly as the drag on the construction sector finally comes to an end.
- Outlook:** Economic growth is set to remain on track at 1.3% next year before accelerating slightly to 1.4% in 2018. The prospects of the U.K. leaving the EU are projected to hold back French exports. Uncertainties associated with the presidential elections in 2017 are likely to hamper business investments in a context of already subdued world trade growth. However, domestic factors should continue to support the economy: the revival of the construction sector, the strengthening in corporate profit margins (mainly owing to corporate tax cuts and lower debt service costs), and positive credit conditions should continue to support capex and hiring.
- Risks:** The growing wait-and-see stance in the EU resulting from post-Brexit political changes could affect investment and consumption patterns, and weigh even more on French trade. Security issues related to terrorism could also weigh more negatively on the tourism sector, which represents 7.4% of GDP in 2014, while the upcoming general elections could incur a more significant economic cost, mostly visible in investment. An unanticipated surge in bond yields could pose difficulties to France's fiscal consolidation.

### GDP GROWTH REBOUNDED MODESTLY IN Q3 2016

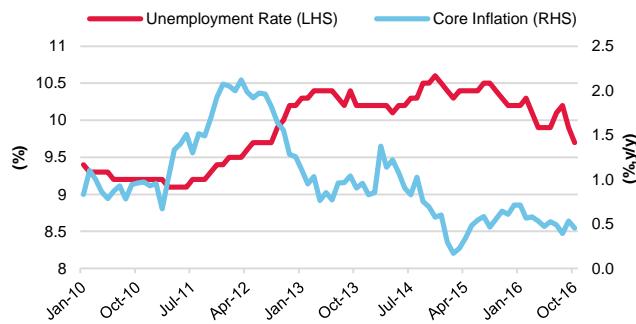
GDP grew by 0.2% q/q in Q3, recovering modestly after contracting 0.1% in Q2, mainly driven by inventory accumulation that contributed 0.6 ppt to growth. Private consumption remained weak, failing to register any growth for the second straight quarter.



Source: INSEE

### UNEMPLOYMENT RATE FELL TO 9.7% IN OCTOBER

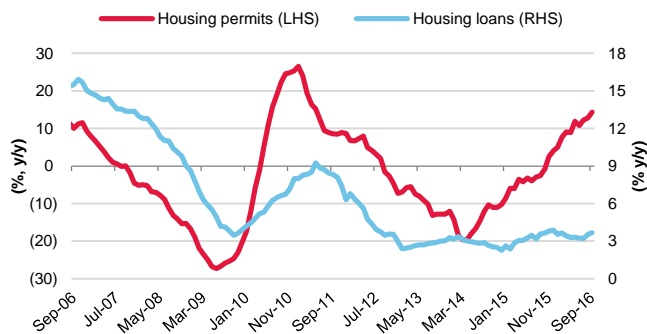
The seasonally adjusted unemployment rate fell to 9.7% in October, down from a one-year high of 10.5% in August as the jobless count dropped by 12,000 during the month. Meanwhile, October core inflation remained steady at a very low 0.5%.



Source: INSEE, Eurostat

### HOUSING MARKET CONTINUES TO GROW STRONGLY

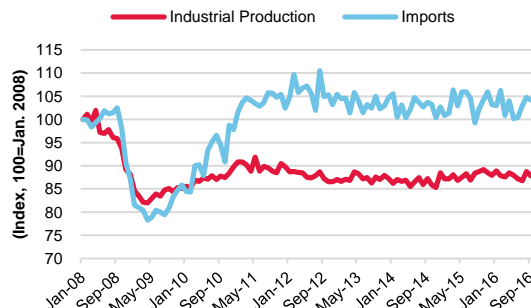
Residential property development continues to grow rapidly as housing permits grew by over 23% y/y in September. Meanwhile, housing loans rose about 3.6%, primarily supported by lower mortgage rates.



Source: Ministère de l'Ecologie du développement et de l'aménagement durables

### INDUSTRIAL OUTPUT FAILS TO KEEP UP WITH DOMESTIC AND FOREIGN DEMAND

Imports of goods increased by 28% between 2009 and 2015, six times that of industrial output, suggesting that an increase in domestic demand is of little benefit to industrial output.



Source: INSEE, Banque de France

## France Economic Data and Forecast Summary

### SELECTED ECONOMIC INDICATORS

	Nov-15	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
HICP (y/y)	0.1	(0.1)	0.1	0.3	0.4	0.4	0.5	0.5	0.7
Core CPI (y/y)	0.6	0.5	0.5	0.5	0.5	0.4	0.5	0.5	
Exports (y/y- €)	3.8	(3.6)	(0.6)	(7.2)	(3.8)	2.0	(0.9)		
Imports (y/y- €)	5.6	1.0	(5.5)	(5.2)	(1.5)	5.6	1.8		
Trade Balance (€ mn)	(2407)	(1974)	(1059)	(1581)	(2671)	(3569)	(2940)		
Industrial Production (y/y)	3.7	1.9	0.5	(1.3)	(0.2)	0.4	(1.1)		
Retail Sales (y/y)	2.6	3.0	2.5	1.7	2.6	1.0	1.8		

Source: INSEE, Banque de France, Eurostat

### REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.4	0.2	0.6	0.0	0.4	0.4	0.6	(0.1)	0.2
Private Consumption Expenditure (q/q)	0.5	0.3	0.5	0.1	0.5	0.0	1.1	0.0	0.0
Government Consumption Expenditure (q/q)	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.3
GFCF (q/q)	0.1	(0.3)	0.5	(0.2)	0.9	1.2	1.2	0.0	0.3
Current Account Balance (€ mn)	(4359)	(2972)	(1554)	(114.0)	437.0	(3164)	(4880)	(4891)	

Source: INSEE

### S&P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	1.9	2.1	0.2	0.6	0.7	1.2	1.3	1.3	1.4
Real Exports %	8.7	7.1	2.7	1.9	3.4	6.0	0.9	2.5	3.0
Real Imports %	8.4	6.6	0.8	2.2	4.8	6.4	2.7	2.7	3.3
Real Fixed Investment %	1.9	2.1	0.4	(0.7)	(0.4)	0.9	2.8	1.9	2.7
Real Private Consumption %	1.8	0.4	(0.2)	0.6	0.7	1.5	1.4	1.2	1.6
Real Government Consumption %	1.2	1.1	1.6	1.5	1.2	1.4	1.6	1.3	1.2
CPI Inflation %	1.7	2.3	2.2	1.0	0.6	0.1	0.3	1.3	1.4
Unemployment Rate %	9.3	9.2	9.8	10.3	10.3	10.4	9.9	9.6	9.4
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	3.12	3.32	2.54	2.20	1.67	0.84	0.45	1.05	1.40
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

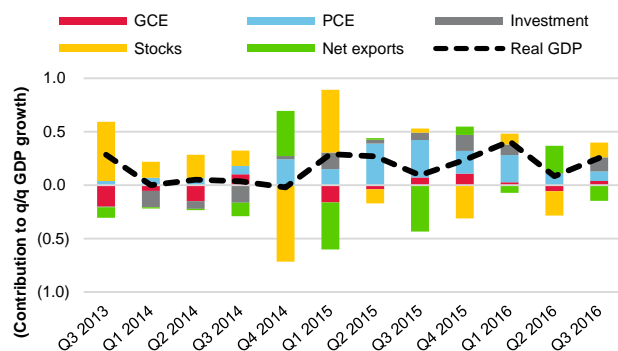
Source: Oxford Economics; f: S&amp;P Forecast

## Italy

- State of Play:** Momentum in the Italian economy accelerated in Q3 as real GDP expanded by 0.3% q/q. The upswing is likely to be only temporary as the pickup in industrial production lost strength in September. More importantly, the fallout of the “No” vote on the constitutional referendum is likely to hurt the business climate as it could lead to persisting policy uncertainty. Indeed, with a large majority of “No” votes and a participation rate close to 70%, Prime Minister Renzi’s reforms of the election system were clearly rejected. The widening in spreads between Italian and German long-term sovereign bond yields are already reflecting market concerns that political instability will result in insufficient progress on structural reforms. Another risk lies in the banking sector, including completion of the restructuring plan for Monte dei Paschi before the end of the year.
- Outlook:** We expect the Italian economy will achieve less than 1% GDP growth per year over 2016-2018. The “No” vote on the constitutional referendum and the associated policy uncertainty are likely to negatively affect banking-sector credit growth, and hamper investment recovery. More fundamentally, poor competitiveness remains a major hurdle of the Italian economy, which has suffered from a misalignment between stagnating productivity and rising wages. However, domestic demand is likely to continue to be supported by consumer spending on the back of an improving labor market and supportive fiscal measures targeting consumers.
- Risks:** Italian banks’ woes create downside risks to our growth projections given the potential implications for tightening credit conditions. While high NPL ratios need to be addressed, the “No” vote and the rejection of the reforms proposed by Mr. Renzi are likely to prevent the formation of a comprehensive solution in the near term. Any further market tensions in the banking sector would hurt the economy. Besides, policy uncertainty could increase if the Italian president fails to find a new government and elections are called. Snap elections could lead to a victory of the populist M5S movement.

### DOMESTIC DEMAND AIDED MODEST Q3 GDP RECOVERY

In Q3 2016, GDP posted 0.3% q/q growth, following 0.1% in Q2. In annual terms, GDP accelerated to 1% from 0.8% in Q2. The main driver was domestic demand while net trade contributed negatively to growth.



Source: ISTAT

### RIISING WAGES AND STAGNATING PRODUCTIVITY RESTRAINS COMPETITIVENESS

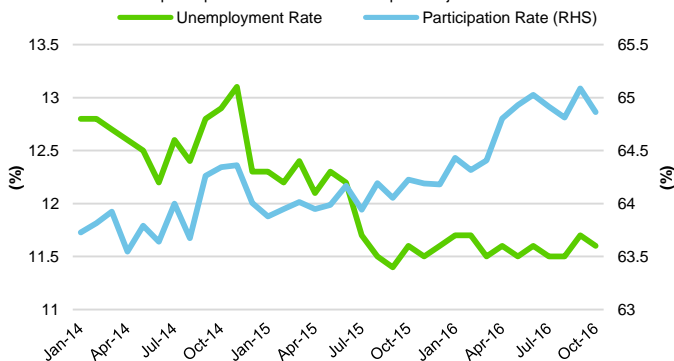
The lack of dynamism in productivity that could have lifted overall potential growth and boosted competitiveness remains Italy's major weakness. Competitiveness has suffered from a misalignment between stagnating productivity and rising wages.



Source: ISTAT

### LABOR MARKET REFORMS SEEM TO SHOW SOME IMPACT

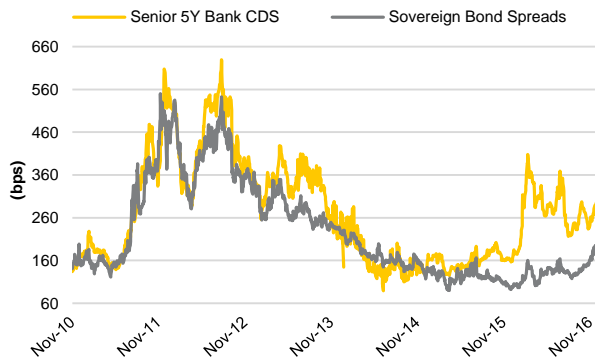
The Jobs Act approved in late 2014, along with important tax cuts for companies, which hired workers on open-ended contracts in 2015 and 2016, pushed the unemployment rate down more than 2 ppts since November 2014, which attained 11.6% in October. However, the increase in the participation rate reduced the impact on joblessness.



Source: ISTAT

### BANK CDS AND SOVEREIGN BOND SPREADS SURGED IN 2016

Senior CDS spreads of major Italian banks surged in early 2016, reaching levels not seen since late 2012. In the context of large shares of NPLs and a weak economic recovery, concerns about the stability of the banking sector increased. While sovereign bond spreads remained unaffected in the H1 16, they rose sharply from mid-August, reflecting increasing uncertainties due to the referendum fallout.



Source: Bloomberg

## Italy Economic Data and Forecast Summary

## SELECTED ECONOMIC INDICATORS

	Nov-15	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
HICP (y/y)	0.1	(0.4)	(0.3)	(0.2)	(0.2)	(0.1)	0.1	(0.1)	0.1
Core CPI (y/y)	0.6	0.5	0.6	0.5	0.6	0.4	0.5	0.2	0.4
Exports (y/y- €)	5.4	1.1	(0.1)	(0.2)	(0.8)	8.2	3.3		
Imports (y/y- €)	4.2	(2.6)	(3.6)	(7.1)	(3.4)	6.7	(1.5)		
Trade Balance (€ mn)	3896	4433	4737	4543	4237	3854	4685		
Industrial Production (y/y)	1.5	1.7	(0.3)	0.2	0.0	3.4	1.8		
Retail Sales (y/y)	0.7	(0.7)	(0.2)	0.5	(0.3)	(0.7)	(1.7)		

Source: Bank of Italy, Eurostat, ISTAT

## REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.0	(0.0)	0.3	0.3	0.1	0.2	0.4	0.1	0.3
Household Consumption Expenditure (q/q)	0.1	0.4	0.2	0.7	0.6	0.4	0.4	0.2	0.1
Government Consumption Expenditure (q/q)	0.5	(0.0)	(0.8)	(0.2)	0.4	0.5	0.1	(0.3)	0.2
GFCF (q/q)	(1.0)	0.2	0.9	0.2	0.4	0.9	0.6	0.0	0.8
Current Account Balance (€ mn)	9695	14989	(1620)	4390	10843	13038	2657	11600	15635

Source: Bank of Italy, Eurostat, ISTAT

## S&amp;P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	1.6	0.7	(2.9)	(1.7)	0.2	0.6	0.9	0.8	0.9
Real Exports %	11.4	6.1	2.0	1.0	2.6	4.0	2.0	3.1	2.3
Real Imports %	12.1	1.2	(8.3)	(2.2)	3.2	5.8	2.2	3.1	2.8
Real Fixed Investment %	(0.6)	(1.7)	(9.4)	(6.6)	(2.9)	1.1	2.2	1.6	2.0
Real Private Consumption %	1.2	(0.0)	(4.0)	(2.4)	0.4	1.5	1.2	0.8	0.9
Real Government Consumption %	0.6	(1.8)	(1.4)	(0.3)	(0.9)	(0.6)	0.6	0.4	0.4
CPI Inflation %	1.6	2.9	3.3	1.2	0.2	0.1	(0.0)	1.2	1.3
Unemployment Rate %	8.4	8.4	10.7	12.2	12.7	11.9	11.5	11.2	10.8
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	4.03	5.36	5.49	4.30	2.88	1.71	1.47	2.29	2.47
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

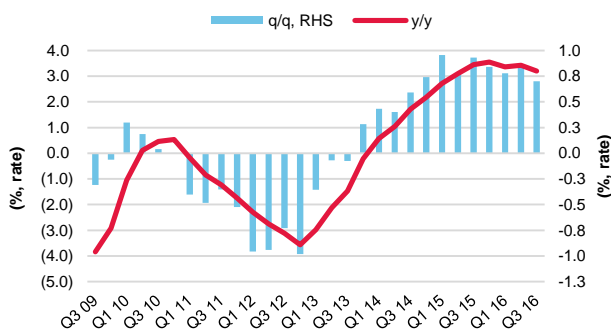
Source: Oxford Economics; f: S&amp;P Forecast

## Spain

- State of Play:** The Spanish economy continues to weather external shocks and domestic uncertainties relatively well. Job creation remained strong over the past year, despite political instability, while retail sales have stayed on an upward trend. Manufacturing surveys and hard data are pointing only to a modest slowdown. Real GDP growth seem to be past its peak but is still outperforming that of most other eurozone economies. On the political front, after more than 10 months of political gridlock, Mariano Rajoy (Popular Party) has been reappointed as prime minister but leads a minority government. Following a slowdown in deficit reduction this year given the extended period without a government, a fiscal adjustment of about €8 bn is needed to reach the 3.1% deficit target in 2017. Therefore the fiscal stance will provide only modest support.
- Outlook:** We've maintained our economic outlook for Spain, and still expect GDP growth to reach 3.2% this year and to slow to 2.3% in 2017 and 2.0% in 2018. Domestic demand should remain the main economic engine: household consumption should continue to benefit from strong job creation and low interest rates. But higher inflation, still low wage growth, and the end of tax cuts should curb the growth of private spending. Improved demand prospects, reduced indebtedness, and solid profit margins will support the investment outlook. Regarding the external sector, exports will continue to benefit from previous gains in competitiveness, a significant increase in market share, and the weak euro, but the contribution from external demand will remain subdued given weakness in world trade.
- Risks:** Policy uncertainty remains one of the key risks surrounding the outlook. The lack of a parliamentary majority could be a factor for political instability, preventing the new government from implementing much-needed reforms (labor market, education, professional services) to boost growth sustainability. The poor shape of public finances, including high public debt and deficits, are limiting fiscal headroom. The new government is also likely to address the Catalan independence issue, adding more political uncertainties.

### GDP GROWTH MODERATED SLIGHTLY IN Q3

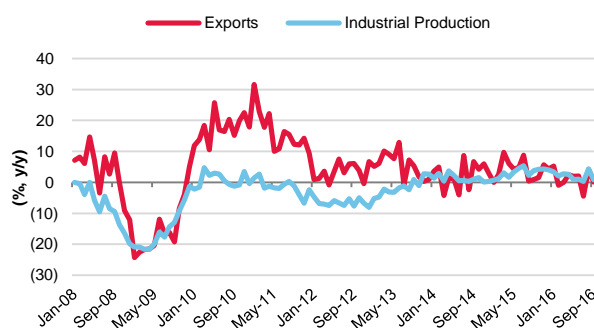
GDP growth eased to 0.7% q/q in Q3 from 0.8% in Q2. Household and government consumption were the main drivers of growth, at 0.6% and 1.0%, respectively. Investment growth decreased but remained slightly positive. In y/y terms, GDP grew 3.2%, down from 3.4% in Q2.



Source: National Statistics Institute (INE)

### INDUSTRIAL PRODUCTION SLIPS AS EXPORTS SLOW

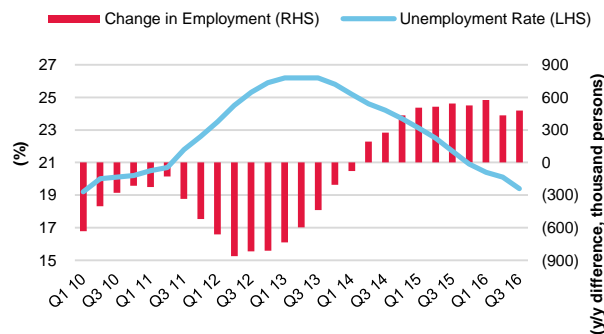
While high foreign trade was initially a supportive factor in the recovery of industrial production growth between 2010 and mid-2013, industrial output growth is now primarily driven by domestic demand as world trade growth remains subdued.



Source: National Statistics Institute (INE), Ministry of the Economy and Finance

### UNEMPLOYMENT RATE EASED TO A SIX-YEAR LOW IN Q3

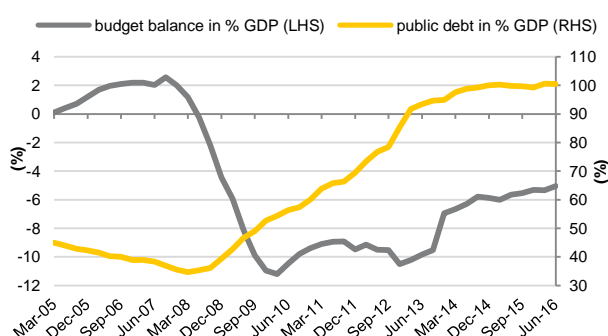
The unemployment rate moderated in Q3 due to robust job additions, particularly in the services and tourism-related services sectors. Unemployment has declined from 26% to just 19% in 3.5 years, but remains higher than the regional average.



Source: National Statistics Institute (INE), Eurostat

### POOR SHAPE OF PUBLIC FINANCES LIMITS FISCAL SPACE

After narrowing significantly in 2013, the fiscal balance remains negative and below the 3% deficit target. This prevents a reduction of public debt (100.5% of GDP in Q2 2016) and considerably reduces the country's ability to implement economic policies.



Source: National Statistics Institute (INE), IGAE, Eurostat

## Spain Economic Data and Forecast Summary

## SELECTED ECONOMIC INDICATORS

	Oct-15	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
HICP (y/y)	(0.9)	(1.0)	(1.2)	(1.1)	(0.9)	(0.7)	(0.3)	0.0	0.5
Core CPI (y/y)	0.7	0.8	0.5	0.5	0.5	0.5	0.6	0.5	0.5
Exports (y/y- €)	1.5	(0.0)	2.5	1.9	2.1	(4.5)	4.3	0.1	
Imports (y/y- €)	(0.2)	(1.7)	(3.7)	(1.4)	(1.1)	(7.2)	(0.2)	(1.4)	
Trade Balance (€ bn)	(2.0)	(1.6)	(1.0)	(1.4)	(1.6)	(1.3)	(1.8)	(1.4)	
Industrial Production (y/y)	4.3	2.8	2.6	0.9	1.0	0.2	4.2	0.6	0.5
Retail Sales (y/y)	5.0	2.9	2.6	0.8	4.2	3.6	2.5	2.4	2.1

Source: Eurostat, Ministry of the Economy and Finance, INE

## REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.6	0.7	1.0	0.8	0.9	0.8	0.8	0.8	0.7
Private Consumption Expenditure (q/q)	0.3	0.8	0.5	0.9	1.0	0.7	0.8	0.7	0.6
Government Consumption Expenditure (q/q)	0.0	0.1	1.2	0.5	0.4	0.6	0.4	(0.6)	1.0
GFCF (q/q)	0.3	1.2	2.4	2.3	0.7	0.9	0.9	1.1	0.1
Current Account Balance (€ mn)	5515	8311	(1255)	3221	5724	7034	(600)	7273	7373

Source: Eurostat, Banco de Espana

## S&amp;P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	0.0	(1.0)	(2.9)	(1.7)	1.4	3.2	3.2	2.3	2.0
Real Exports %	9.4	7.4	1.1	4.3	4.2	4.9	4.6	2.5	2.7
Real Imports %	6.9	(0.8)	(6.4)	(0.5)	6.5	5.6	4.9	2.8	3.2
Real Fixed Investment %	(4.9)	(6.9)	(8.6)	(3.4)	3.8	6.0	4.2	3.3	2.9
Real Private Consumption %	0.3	(2.4)	(3.5)	(3.1)	1.6	2.9	3.2	2.4	2.1
Real Government Consumption %	1.5	(0.3)	(4.7)	(2.1)	(0.3)	2.0	0.8	0.7	1.0
CPI Inflation %	2.0	3.1	2.4	1.5	(0.2)	(0.6)	(0.4)	1.4	1.5
Unemployment Rate %	19.9	21.4	24.8	26.1	24.5	22.1	19.8	17.8	16.3
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	4.25	5.44	5.86	4.56	2.73	1.74	1.41	1.94	2.32
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

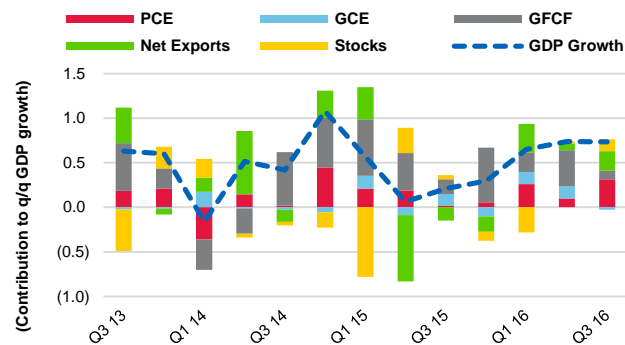
Source: Oxford Economics; f: S&amp;P Forecast

## Netherlands

- State of Play:** The economy continues to experience a steady recovery, mainly driven by domestic demand. Real GDP expanded 0.7% q/q, unchanged from the previous two quarters. The economy is expected to grow by 2% this year, well above the eurozone rate (+1.6%). Growing employment, low inflation, and tax cuts have boosted real wages, consumer confidence, and spending. The high level of consumer confidence is also linked to the solid recovery in the housing market, which helped construction investment contribute strongly to economic growth this year. Unlike in most other eurozone members, net trade has contributed positively to growth.
- Outlook:** We expect economic growth to slow to 1.5% next year and 1.4% in 2018 from 2% this year. Solid fundamentals in the Dutch economy, driven by accelerating domestic demand, higher housing prices, and a rise in investments--with support from improving employment--is expected to drive overall economic growth. However, we believe that uncertainties associated with the Brexit vote are likely to weigh on investment spending. The country is more exposed to Brexit than other European country due to strong trade and financial links with the U.K. Besides, domestic spending is likely to lose momentum as the significant growth in residential investment decelerates and as a rise in inflation limits consumer purchasing power.
- Risks:** The general election in March 2017 and the surge of the right-wing, anti-EU Freedom Party (PVV) could dent the confidence of investors, consumers, and businesses. However, the populist surge is likely to be held in check by the country's coalition system and balanced by the upper house. While a consultative referendum can be called by the majority in parliament, it would be nonbinding. Besides, an actual withdrawal from the EU is only possible with a majority in both the lower and upper houses, which is unlikely. On the economic front, in the Netherlands, being a small country highly dependent on foreign trade, potential risks from post-Brexit negotiations, Trump's election, and an increasingly protectionist climate linger in the background.

### Q3 2016 GDP GROWTH REMAINED STEADY AND ROBUST

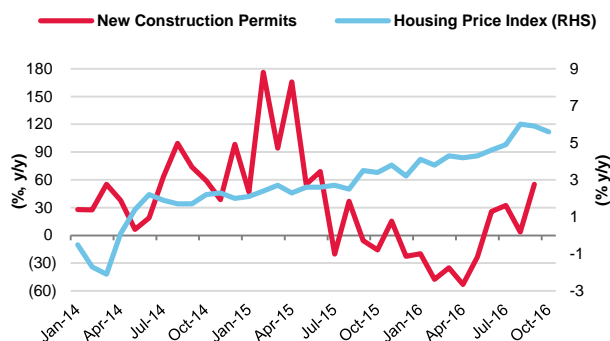
Real GDP grew by 0.7% q/q in Q3 2016, remaining at the same level as in Q2, mainly driven by private consumption, which added 0.3 ppt to overall growth. Real exports increased 1.2% while imports gained 1.1%, leading to positive net exports, which added 0.2 ppt.



Source: CBS- Statistics Netherlands

### HOUSE PRICES FURTHER INCREASED IN OCTOBER

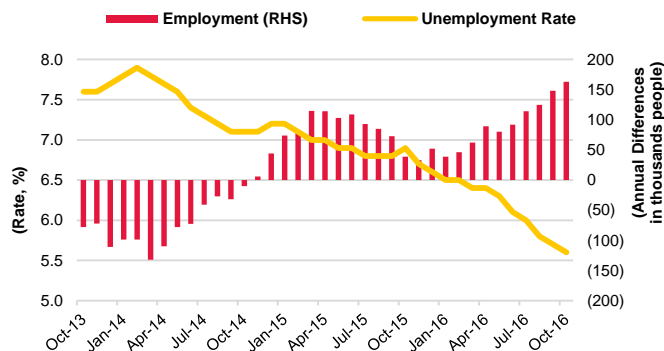
House prices increased by 11% since January 2014. They had reached a record high in August 2008 and subsequently fell until June 2013. The yearly growth rate was at 5.6% in October. Meanwhile, new construction permits continue to gain momentum, adding to the sentiment of a heating housing market.



Source: CBS- Statistics Netherlands

### UNEMPLOYMENT RATE FELL FURTHER IN OCTOBER

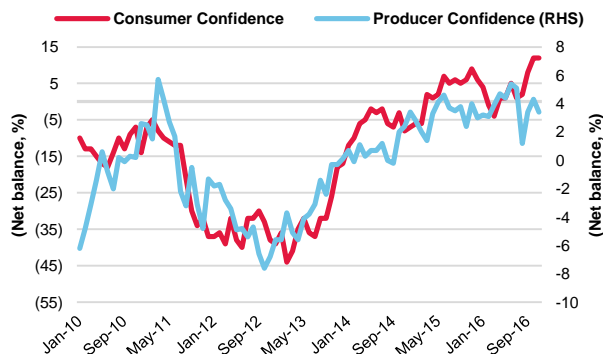
The seasonally adjusted unemployment rate fell further to 5.6%, its lowest level since March 2012. Meanwhile, employment continues to grow steadily and 153,000 jobs were added so far this year, compared with 42,000 jobs added in the same period of 2015.



Source: CBS- Statistics Netherlands

### CONSUMER AND PRODUCER SENTIMENT REMAINS STRONG

The consumer confidence index improved sharply since August. Consumers are more optimistic about the current economic situation, supported by lower unemployment. Meanwhile, producer confidence in November declined from the previous month, but still remains robust.



Source: CBS- Statistics Netherlands

## Netherlands Economic Data and Forecast Summary

### SELECTED ECONOMIC INDICATORS

	Oct-15	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
HICP (y/y)	0.4	0.5	(0.2)	(0.2)	(0.2)	(0.6)	0.1	(0.1)	0.3
Core HICP (y/y)	1.0	1.2	0.5	0.4	0.4	0.1	0.7	0.2	0.5
Exports (y/y- €)	(5.9)	(2.0)	(1.5)	2.6	(1.7)	(5.8)	6.4	3.1	
Imports (y/y- €)	(2.7)	(8.9)	(4.5)	(1.6)	(2.6)	(6.4)	3.8	(1.0)	
Trade Balance (€ mn)	3443	5239	4161	4134	4788	3968	3620	5332	
Industrial Production (y/y)	(1.5)	1.6	5.8	1.1	(0.5)	(1.5)	5.1	5.3	
Retail Sales (y/y)	3.1	3.3	0.0	0.0	2.1	1.0	1.1	0.0	

Source: CBS -Statistics Netherlands, Eurostat

### REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.4	1.1	0.6	0.1	0.2	0.3	0.7	0.7	0.7
Private Consumption Expenditure (q/q)	0.0	1.0	0.5	0.4	0.0	0.1	0.6	0.2	0.7
Government Consumption Expenditure (q/q)	(0.1)	(0.2)	0.6	(0.4)	0.5	(0.4)	0.5	0.6	(0.1)
GFCF (q/q)	3.3	3.0	3.3	2.1	0.8	3.0	1.0	1.9	0.5
Current Account Balance (€ mn)	14555	12377	18939	15507	12944	11226	16517	13104	

Source: CBS - Statistics Netherlands, De Nederlandsche Bank

### S&P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	1.3	1.7	(1.1)	(0.1)	1.4	2.0	2.0	1.5	1.4
Real Exports %	10.3	4.4	3.8	2.3	4.4	5.0	3.3	2.8	2.7
Real Imports %	9.1	3.5	2.7	1.1	4.2	5.8	3.6	2.9	2.9
Real Fixed Investment %	(6.5)	5.6	(6.3)	(4.3)	2.3	9.9	6.1	2.2	2.7
Real Private Consumption %	0.0	0.2	(1.2)	(1.0)	0.3	1.8	1.5	1.6	1.2
Real Government Consumption %	1.0	(0.2)	(1.3)	(0.1)	0.3	0.2	0.9	0.2	0.4
CPI Inflation %	0.9	2.5	2.8	2.6	0.3	0.2	0.2	1.3	1.5
Unemployment Rate %	5.0	5.0	5.8	7.3	7.4	6.9	6.0	5.6	5.6
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	3.01	2.99	1.95	1.97	1.45	0.69	0.28	0.92	1.27
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

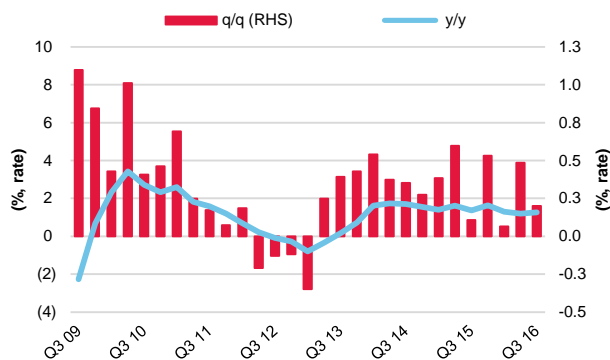
Source: Oxford Economics; f:S&amp;P Forecast

## Belgium

- State of Play:** The Belgian economic recovery remains timid, driven primarily by domestic spending. Quarterly economic growth has slowed to 0.2% in Q3 from 0.5% in the previous quarter. The annual growth rate slightly rose, however, from 1.2% to a modest 1.3%. Recent consumer surveys are now showing signs of improvement after a fall caused by the announcement of redundancies in the financial services and manufacturing sector. Consumer prices are softening but remain high at 1.9% in October, compared with the regional average, primarily owing to increases in indirect taxes. Economic reforms aiming to improve competitiveness are starting to show signs: Unit labor costs fell while supporting exports.
- Outlook:** We forecast economic growth to remain modest, with real GDP expanding by 1.3% next year and 1.2% in 2018 from 1.5% this year. Belgium is a small, open country with high exposure to the eurozone, and as such could particularly suffer from Brexit. The U.K. vote to leave the EU, along with other global economic uncertainties, are expected to hit trade and investment activity in the country. Domestic demand should remain resilient, however, as we expect a continued recovery in employment. The deceleration in labor costs and the introduction of labor market reforms to tackle rigidities should ease firms' ability to adapt to the economic cycle and benefit the country's economic performance.
- Risks:** Brexit negotiations constitute a potential threat for the Belgian economy that strongly depends on external demand. High government debt is another challenge for economic growth in the medium term as it limits fiscal space and the implementation of countercyclical policies.

### QUARTERLY GDP GROWTH MODERATED IN Q3

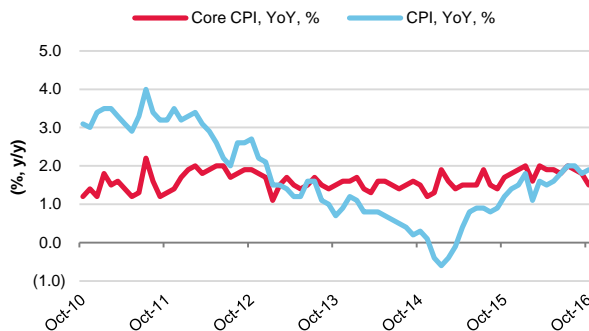
Real GDP growth in Q3 moderated to 0.2% q/q from 0.5% in Q2. The main driver of growth was household consumption (0.4%). The annual GDP growth rate was 1.3%, compared with 1.2% in the previous quarter.



Source: National Bank of Belgium

### CPI INFLATION ABOVE EURO AREA AVERAGE

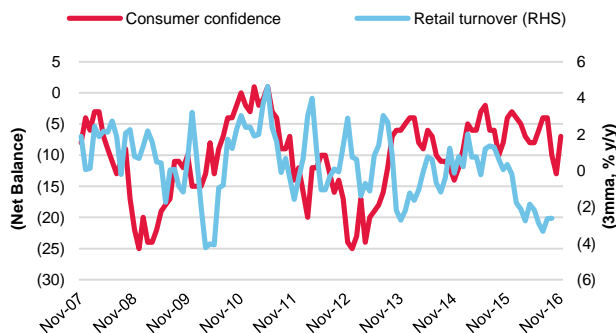
Headline inflation rose again to 1.9% in October, up from 1.8% in September, but down from 2% in August. Core CPI slowed markedly to 1.5% in October from 1.8% on previous month. Inflation is well above that in the euro area (0.5% in Oct.) mainly because of an increase in indirect taxes (and electricity in particular) and an increase in tuition fees in the Flanders region.



Source: Statistics Belgium, Eurostat

### CONSUMER CONFIDENCE IMPROVED IN NOVEMBER

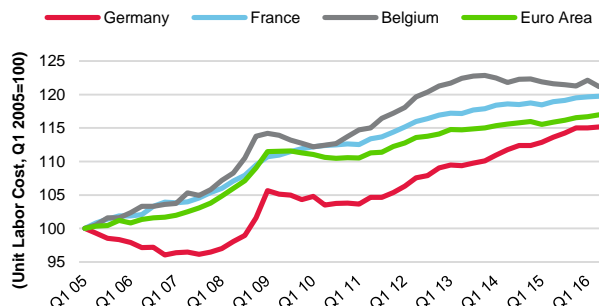
Consumer confidence improved in November, as consumers turned less pessimistic about the future of the economy. Retail trade turnover remained negative in September but the pace of decline is slowly easing.



Source: National Bank of Belgium, Statistics Belgium

### UNIT LABOR COSTS EASED IN Q2 BUT ARE STILL HIGH

Given relatively higher labor costs than other European countries, the Belgian government decided to lengthen the period of wage moderation until next year. This measure aims to improve the country's competitiveness and facilitate a recovery in the labor market.



Source: European Central Bank

## Belgium Economic Data and Forecast Summary

### SELECTED ECONOMIC INDICATORS

	Nov-15	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
HICP (y/y)	1.5	2.0	2.2	2.2	2.3	2.2	1.9	1.8	1.8
Core CPI (y/y)	1.8	1.9	1.9	1.8	2.0	1.9	1.8	1.5	
Exports (y/y- €)	0.0	(6.1)	(0.4)	(5.0)	(9.3)	5.0	(2.6)		
Imports (y/y- €)	1.0	(6.8)	(5.7)	(9.7)	(12.0)	(3.4)	(5.0)		
Trade Balance (€ mn)	1314	1886	3094	3421	3078	2894	2899		
Industrial Production (y/y)	5.4	4.7	6.1	5.3	2.4	10.4	3.8		
Retail Sales (y/y)	(0.8)	(2.4)	(2.8)	(3.5)	(3.6)	(0.5)	(3.5)		

Source: National Bank of Belgium, Statistics Belgium, Eurostat

### REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.4	0.3	0.4	0.6	0.1	0.5	0.1	0.5	0.2
Household Consumption Expenditure (q/q)	(0.1)	0.0	0.6	0.6	(0.3)	0.1	0.0	0.4	0.4
Government Consumption Expenditure (q/q)	0.7	0.3	(0.1)	(0.0)	(0.3)	(0.0)	0.2	(0.2)	(0.1)
GFCF (q/q)	6.9	(5.0)	9.6	(10.2)	2.1	1.8	1.5	1.5	0.0
Current Account Balance (€ mn)	(3769)	633	(1868)	1223	(157)	2615	1698	154	

Source: National Bank of Belgium

### S&P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	2.7	1.8	0.1	(0.1)	1.7	1.5	1.3	1.3	1.2
Real Exports %	10.3	6.7	1.8	0.8	5.1	4.3	4.2	3.0	2.7
Real Imports %	9.6	7.3	1.4	0.3	5.9	4.3	3.3	3.1	2.6
Real Fixed Investment %	(0.8)	4.2	0.2	(1.5)	5.1	2.4	3.5	2.7	1.8
Real Private Consumption %	2.7	0.3	0.6	0.7	0.6	1.1	0.7	1.2	1.0
Real Government Consumption %	1.0	1.3	1.4	0.1	1.4	0.5	(0.1)	0.4	0.9
CPI Inflation %	2.4	3.3	2.6	1.2	0.5	0.6	1.8	1.9	1.5
Unemployment Rate %	8.3	7.2	7.5	8.5	8.6	8.5	8.1	7.8	7.6
Short Term Interest Rate %	1.00	1.25	0.88	0.56	0.16	0.05	0.01	0.00	0.00
Long Term Interest Rate %	3.47	4.25	3.04	2.41	1.71	0.87	0.49	1.07	1.42
Exchange Rate (\$ Per €)	1.33	1.39	1.28	1.33	1.33	1.11	1.11	1.06	1.08

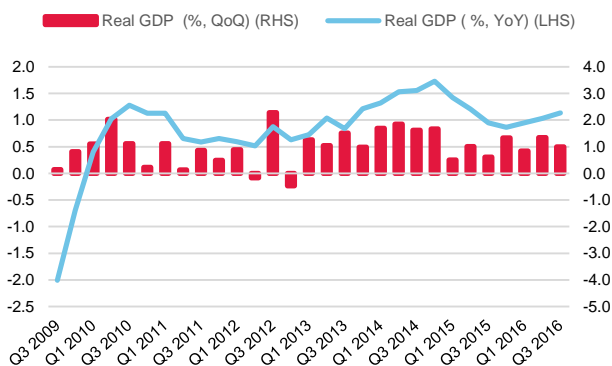
Source: Oxford Economics; f: S&amp;P Forecast

## United Kingdom

- State of Play:** The economy continues to display remarkable resilience following the U.K. referendum to leave the E.U., illustrated by strong 0.5% quarterly GDP growth in Q3, the first full quarter of data after the vote. Since the vote, negative confidence effects seem to be playing much less of a role than many observers had expected. Data available for Q4, in particular PMIs, suggest resilience has extended into Q4. Meanwhile, the new government adopted, in its first Autumn Statement, a somewhat looser fiscal stance including more flexible fiscal rules, with a focus on infrastructure spending and productivity enhancement. The new projections also leave some wiggle room for extra spending should the economy deteriorate more than anticipated.
- Outlook:** On balance, the measures will be only moderately positive for growth, while cumulative borrowing, according to the OBR, will increase by £120 billion at the end of 2020 from levels in the March budget. The robust momentum of the economy in Q4 will likely continue into early 2017 before the impact of Brexit starts to be gradually felt, as households and businesses adjust spending to a changing economic environment. The economy's resilience as well as upward revisions to historical GDP data have lead us to revise upward our forecast. After 2.1% this year, we now expect GDP growth of 1.4% and 1.3% in 2017 and 2018 (up from 1.0% and 1.1% earlier). While the depreciation of the pound sterling should boost net trade in 2017, it will also stoke inflation well above 2%, squeezing household budgets in real terms.
- Risks:** The outlook remains surrounded by pronounced uncertainties, as the exit procedure has yet to be triggered and details of the exit deal will start emerging only then. The High Court's decision that the triggering of Article 50 has to go through parliament is likely to be upheld by the Supreme Court, after an appeal by the government. This adds an extra layer of uncertainty and risks that could derail the government's plan to trigger by March next year. Besides, should sterling continue to depreciate much further, the BoE would face a very difficult trade-off between containing very high inflation and stabilizing the currency, with no clear winner whatever it decides.

### GDP CONTINUED TO GROW STRONGLY IN Q3

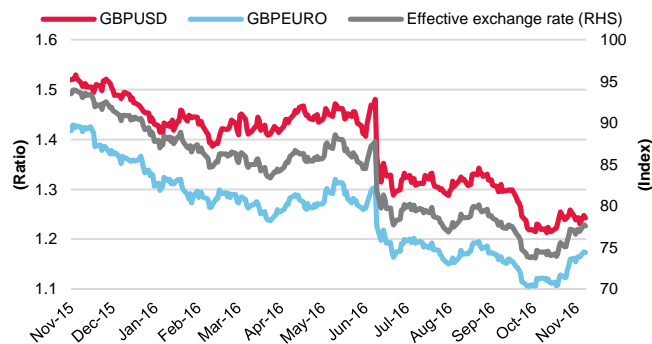
GDP grew 0.5% q/q in Q3, beating market expectations, on track to achieve 2% growth for 2016 as a whole. Growth benefitted from ongoing strength in household consumption.



Source: ONS

### POUND STERLING STRENGTHENED SOMEWHAT IN NOV.

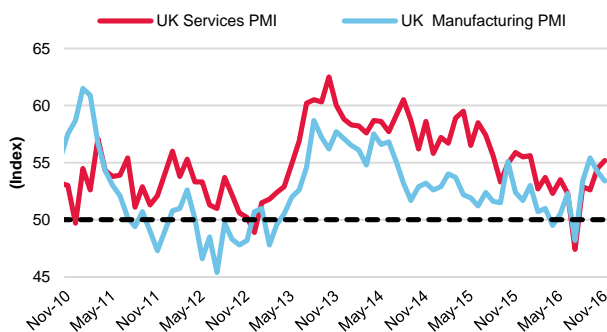
In October, sterling dropped to its lowest level against the U.S. dollar in three decades, before recovering somewhat in November. We expect sterling to hover around current levels in the next two years, with a slight upward trend as details of the exit deal start to emerge and uncertainty very gradually lifts.



Source: DataStream, Bank of England

### PMIs REMAIN FIRMLY IN POSITIVE TERRITORY

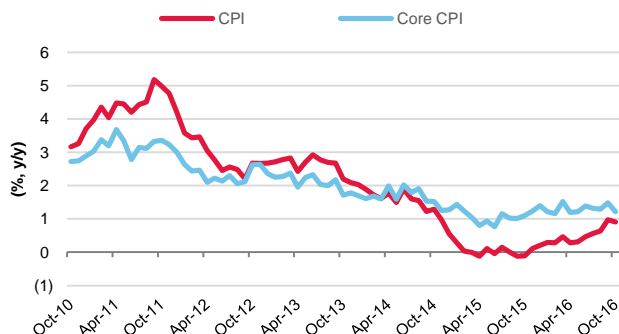
The manufacturing PMI saw a slight downward correction in October and November, but remains firmly in positive territory, underpinned by activity and new business. Meanwhile, the services PMI saw a strong increase, driven by an uptick in output, new orders (thanks to the competitive exchange rate), as well as job creation.



Source: Markit, Bloomberg

### HEADLINE INFLATION EASED IN OCTOBER

CPI inflation was 0.9% in October, easing surprisingly from 1.0% in September, despite higher import prices on the back of a now much weaker pound. As higher import prices feed through to the production chain, inflation should accelerate to above 2% already early in 2017, with the annual average forecast at 2.7%.



Source: ONS

## United Kingdom Economic Data and Forecast Summary

### SELECTED ECONOMIC INDICATORS

	Oct-15	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
CPI (y/y)	(0.1)	0.5	0.3	0.3	0.5	0.6	0.6	1.0	0.9
Core CPI (y/y)	1.1	1.5	1.2	1.2	1.4	1.3	1.3	1.5	1.2
Exports (y/y- £)	(9.0)	3.9	7.4	(5.3)	(2.0)	15.1	12.8	10.2	
Imports (y/y- £ )	(0.6)	(1.6)	6.4	3.7	8.5	4.2	11.6	18.2	
Trade Balance (£ mn)	(11365)	(9471)	(10379)	(11359)	(12920)	(9361)	(11147)	(12698)	
Industrial Production (y/y)	1.9	0.1	2.2	1.3	1.4	2.1	0.8	0.3	
Retail Sales (y/y)	4.0	3.6	4.1	5.1	3.9	5.9	6.5	4.2	7.4

Source: ONS

### REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.8	0.8	0.3	0.5	0.3	0.7	0.4	0.7	0.5
Household Consumption Expenditure (q/q)	1.3	(0.2)	0.8	0.7	0.9	0.4	0.7	0.9	0.6
Government Consumption Expenditure (q/q)	0.2	(0.2)	0.4	1.0	0.6	(0.0)	0.4	(0.0)	0.4
GFCF (q/q)	1.4	0.7	1.7	0.9	0.9	(1.3)	(0.1)	1.6	1.1
Current Account Balance (£ mn)	(26031)	(22819)	(24640)	(19327)	(25641)	(30559)	(25592)	(25981)	

Source: ONS

### S&P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	1.9	1.5	1.3	1.9	3.1	2.2	2.1	1.4	1.3
Real Exports %	5.8	5.8	0.6	1.1	1.5	4.5	2.9	3.9	3.6
Real Imports %	8.2	0.8	2.9	3.4	2.5	5.4	2.8	0.8	1.5
Real Fixed Investment %	5.0	1.9	2.3	3.2	6.7	3.4	(0.1)	(0.7)	0.7
Real Private Consumption %	0.7	(0.7)	1.9	1.6	2.1	2.6	2.7	0.9	0.4
Real Government Consumption %	0.2	0.2	1.7	0.3	2.3	1.5	1.1	0.6	0.7
CPI Inflation %	3.3	4.5	2.8	2.6	1.5	0.1	0.7	2.7	2.1
Unemployment Rate %	7.9	8.1	8.0	7.6	6.2	5.4	5.0	5.5	5.7
Short Term Interest Rate %	0.50	0.50	0.50	0.50	0.50	0.50	0.40	0.10	0.05
Long Term Interest Rate %	3.62	3.14	1.92	2.39	2.57	1.90	1.29	1.49	1.87
Exchange Rate (€ Per Pound)	1.17	1.15	1.23	1.18	1.24	1.38	1.22	1.12	1.14

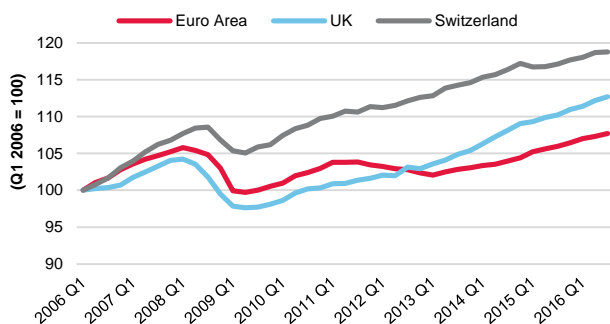
Source: Oxford Economics; f: S&amp;P Forecast

## Switzerland

- State of Play:** The economy is still adjusting to weaker external competitiveness following abandonment of the Swiss franc-euro ceiling, and subsequently strong currency appreciation in January 2015. After surprisingly strong GDP growth in H1 2016, the economy stagnated in the third quarter due to sluggish domestic demand and weak trade flows. Despite high uncertainty about external demand and the impact of Brexit, business confidence has recovered fully, as illustrated by the strong rebound in PMI readings, providing support for short-term prospects. Expectations of higher domestic inflation and Donald Trump's victory in the U.S. elections, with a promise of a fiscal stimulus, provided support to bond yields, which have tracked higher in line with global trends.
- Outlook:** After 1.6% this year, we expect the recovery to continue at a measured pace and maintained our previous GDP growth forecast of 1.5% in 2017 and 2018. The impact of the 2015 appreciation shock is fading away, but the weaker external outlook and Brexit-related uncertainties should continue to weigh on both investment and exports in the next few years. Price growth should turn positive in 2017 as external deflationary pressures from exchange rate appreciation and lower oil prices dissipate. We expect the the Swiss National Bank to start normalizing its monetary policy cautiously from 2018 as a result of the rise in inflation. However, vigilance is likely to remain and the bank is likely to intervene in the foreign exchange market if necessary to counteract upward pressure on the Swiss franc.
- Risks:** Despite positive economic fundamentals, Switzerland might be exposed to outside risk. Given global uncertainties, including the busy European election schedule for 2017, the Swiss franc might face strong upward pressure, which could drag down exports. Brexit and modest global growth could hurt exports and weaken investment further. New immigration rules should come into force in 2017 following the 2014 referendum outcome against "mass immigration." Negotiations with the EU may become more difficult on the back of Brexit, which could potentially result in a less favorable agreement, possibly restricting access to the EU markets.

### SWISS ECONOMY IS RELATIVELY BETTER OFF

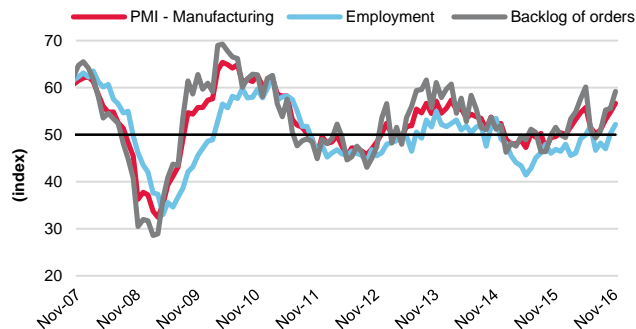
The Swiss economy grew steadily during the last 10 years, unlike peer countries. Since the beginning of 2015, however, its growth has slowed owing to strong currency appreciation.



Source: State Secretariat for Economic Affairs, Eurostat, ONS

### MANUFACTURING PMI EXPANDED STRONGLY IN NOVEMBER

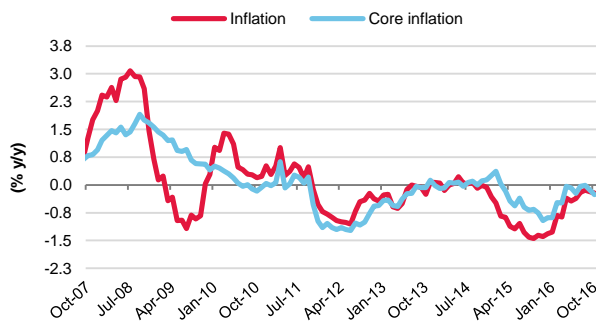
The headline manufacturing PMI increased to 56.6 in November, up from 54.7 in the previous month and following a steady positive trend since July. The employment subindex rebounded to 52.2, increasing for a second straight month.



Source: Credit Suisse Group

### CORE INFLATION FELL FURTHER IN OCTOBER

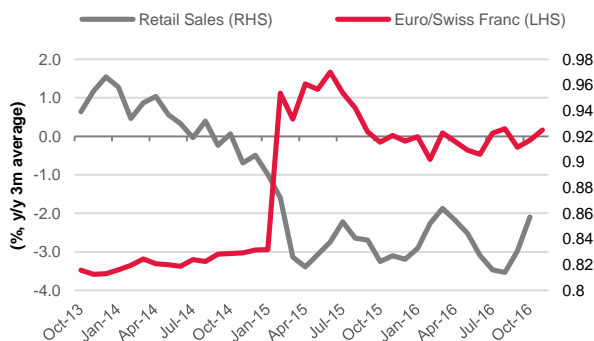
Headline inflation has remained in negative territory for nearly two years, but the decline sharply decelerated throughout 2016, and was -0.2% in October. Meanwhile, core inflation declined further to -0.3% in its steepest fall since March.



Source: Swiss Federal Statistical Office

### RIISING PURCHASING POWER BUT FALLING RETAIL SALES

The appreciation of the Swiss Franc led to a rise in Swiss consumers' purchasing power. But a lot of the boost benefitted other countries: Swiss consumers shopped more in France and Germany. Retail sales growth was still negative in October, declining by 2.1% y/y.



Source: Swiss Federal Statistical Office, DataStream

## Switzerland Economic Data and Forecast Summary

## SELECTED ECONOMIC INDICATORS

	Oct-15	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
CPI (y/y)	(1.4)	(0.9)	(0.4)	(0.4)	(0.4)	(0.2)	(0.1)	(0.2)	(0.2)
Core Inflation (y/y)	(0.8)	(0.5)	(0.0)	(0.1)	(0.2)	(0.0)	(0.0)	(0.1)	(0.3)
Exports of goods excluding precious metals, stones (y/y- CHF)	(4.6)	(0.8)	11.6	11.0	1.6	(2.2)	12.1	10.5	(5.6)
Imports of goods excluding precious metals, stones (y/y- CHF)	(10.6)	1.0	14.4	11.7	2.3	2.1	13.9	4.3	1.8
Trade Balance (CHF mn)	4150	(17)	2433	5059	3561	4250	3350	5129	4033
Industrial Production (y/y)	(1.2)	6.2	(1.7)	(3.2)	2.8	2.6	0.3	(1.5)	
Retail Sales (y/y)	(2.6)	(2.5)	(2.7)	(2.5)	(4.1)	(3.8)	(2.7)	(2.5)	(1.1)

Source: State Secretariat for Economic Affairs (SECO), Federal Statistical Office (FSO), FCA (Federal Customs Administration)

## REAL GDP COMPONENTS, FISCAL POSITION, AND BALANCE OF PAYMENTS

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Real GDP (q/q)	0.6	0.7	(0.4)	0.0	0.3	0.5	0.3	0.6	0.0
Private Consumption Expenditure (q/q)	0.4	0.4	0.0	0.4	0.3	0.1	0.5	0.0	0.1
Government Consumption Expenditure (q/q)	0.5	1.4	0.2	0.6	0.1	0.6	0.4	1.7	(0.1)
GFCF (q/q)	0.9	1.3	(1.1)	1.7	(0.2)	0.0	2.2	(0.6)	0.5
Current Account Balance (CHF mn)	12222	20310	13357	20650	23345	14583	9380	17281	

Source: SECO, Swiss National Bank (SNB)

## S&amp;P ECONOMIC OUTLOOK

	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Real GDP %	3.0	1.8	1.0	1.8	2.0	0.8	1.6	1.5	1.5
Real Exports %	7.9	3.5	3.0	0.0	5.2	2.2	4.9	2.3	4.2
Real Imports %	9.5	4.7	4.4	1.4	3.2	3.0	3.2	2.9	5.2
Real Fixed Investment %	4.4	4.3	2.9	1.1	2.8	1.6	2.0	1.3	3.3
Real Private Consumption %	1.6	0.8	2.6	2.2	1.2	1.1	1.0	1.2	1.6
Real Government Consumption %	0.2	2.1	2.1	2.3	1.5	2.2	2.3	1.2	1.0
CPI Inflation %	0.7	0.2	(0.7)	(0.2)	(0.0)	(1.1)	(0.3)	0.2	0.6
Unemployment Rate %	3.9	3.1	2.9	3.2	3.2	3.3	3.4	3.4	3.3
Short Term Interest Rate %	0.38	0.25	0.13	0.13	0.03	(0.75)	(0.75)	(0.75)	(0.63)
Long Term Interest Rate %	1.63	1.47	0.65	0.95	0.73	(0.06)	(0.38)	0.37	0.72
Exchange Rate (CHF Per €)	1.38	1.23	1.21	1.23	1.21	1.07	1.09	1.10	1.11

Source: Oxford Economics; f: S&amp;P Forecast: