

May 2021

Key messages

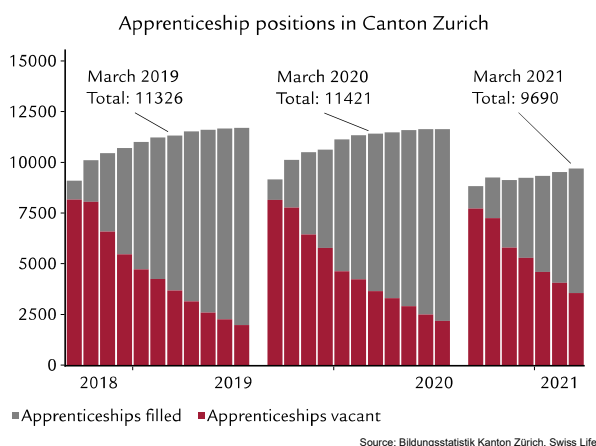
- USA: "excess" household savings keep the consumption engine running
- In the Eurozone, the focus is on Italy's investment plans
- The strong but temporary rise in inflation rates remains the predominant market topic

Comparison of forecasts

	2021 GDP growth		2022 GDP growth		2021 inflation		2022 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	5.6% ↑	6.2% ↑	3.3%	4.1% ↑	2.7% ↑	2.6% ↑	2.2%	2.3% ↑
Eurozone	4.4%	4.2% ↓	3.0%	4.3% ↑	1.5%	1.6% ↑	1.2%	1.3%
Germany	3.5%	3.3% ↓	3.0%	4.1% ↑	2.1%	2.1% ↑	1.2%	1.6%
France	6.3%	5.3% ↓	2.9%	3.9% ↑	1.3%	1.2% ↑	1.3%	1.1%
UK	5.3%	5.4% ↑	4.3%	5.6% ↓	1.4%	1.6%	1.6%	2.1% ↑
Switzerland	3.6%	3.3% ↑	2.2%	2.9%	0.5%	0.4% ↑	0.7%	0.5%
Japan	2.9%	2.8%	1.8%	2.4% ↑	0.1%	0.0% ↑	0.4%	0.5%
China	8.2% ↓	8.7%	5.4% ↑	5.5% ↑	1.4%	1.5%	2.1%	2.2% ↑

Arrows indicate difference from previous month
Source: Consensus Economics Inc. London, 12 April 2021

Chart of the month



Unlike previous recessions, the cyclical turning point for unemployment came at an early stage – in Switzerland it reached 3.5% in January 2021. In addition, generous short-time work programmes in Europe caused an astonishingly small variation in unemployment figures and leading indicators suggest that service providers are hiring again. Nevertheless, we also expect structural damage to the labour market in this crisis, especially in hard-hit sectors. Moreover, graduates and school leavers are likely to suffer from a more cautious recruitment policy. In Canton Zurich, for example, the number of registered apprenticeships this school year is significantly lower than in previous years.

USA

High savings rate: "ammunition"

GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.6%	2021: 6.2%
2022: 3.3%	2022: 4.1%

The USA will drive the global economy in 2021. While China is putting a political brake on growth and Europe's economy is slowing under the ongoing containment measures, the USA has consistently recorded robust growth figures since the slump in the first half of 2020. We expect pre-crisis GDP levels to be surpassed as early as the current quarter, thanks to rapid vaccination progress and a series of stimulus packages. At the same time, retail sales seem to have been kept on the drip of "stimulus cheques" to US households – the increase thereof in January and March 2021 generated growth rates of 8% and 10% respectively. However, the danger of this being an outlier seems low. The monthly savings rate has averaged 17.5% of disposable income since March 2020. Compared with the 2018-2019 savings rate of just 7.7%, on average, US households have accumulated USD 1.9 trillion (8.9% of GDP) of "surplus" savings since the start of the pandemic. Even if these savings are unevenly distributed and partly used for debt reduction or investment, it is a notable stockpile of "ammunition" to sustain private consumption over the next few months. However, after the openings, we expect the weighting to move away from retail to other consumer sectors such as travel, leisure and healthcare.

Inflation

Swiss Life Asset Managers	Consensus
2021: 2.7%	2021: 2.6%
2022: 2.2%	2022: 2.3%

Rising energy prices had an even stronger impact in March than expected, especially via higher prices for transportation services. Combined with a significant base effect – last year's prices collapsed in March – the inflation rate rose from 1.7% in February to 2.6% in March. We expect a further increase to well over 3% in the second quarter, before a relaxation sets in.

Eurozone

All eyes on Italy

GDP growth

Swiss Life Asset Managers	Consensus
2021: 4.4%	2021: 4.2%
2022: 3.0%	2022: 4.3%

The agreement on the reconstruction fund in the summer of 2020 was the most important measure to limit the economic damage from the pandemic, alongside monetary policy support measures and short-time work programmes in the individual participating countries. It was also an attempt to avoid the consequential damage that occurred after the global financial crisis. Almost twelve months later, the worst fears have not materialised for Europe's southern periphery. Unemployment has neither risen to the same extent as after 2008, nor has the risk spread on Italian or Spanish government bonds once again widened significantly. Nevertheless, the focus of investors these days is still on Italy. Its government under Mario Draghi has now presented the investment plan for reconstruction aid worth around EUR 200 billion. The funds available will account for around 11% of nominal gross domestic product in 2021 and will be spent mainly on projects to improve medical care, railway infrastructure and digitalisation over a period of five years. In addition, ecological renovation projects in the construction sector will be promoted. Spain is preparing similar programmes. Compared with the recent past, these countries will be able to increase their investment spending by around a third in the coming years.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.5%	2021: 1.6%
2022: 1.2%	2022: 1.3%

Inflation rates continue to rise in the second quarter. Annual inflation is now 1.8% or higher in four member countries of the monetary union and thus close to or above the ECB's target. For the Eurozone as a whole, we expect the inflation rate to rise to 1.8% by the fourth quarter this year.

Germany

Return to growth

GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.5%	2021: 3.3%
2022: 3.0%	2022: 4.1%

While containment measures have eased in many European countries or are at least scheduled for scaling back, Germany recently tightened its measures. The extent to which these measures aimed at nationwide standardisation will slow down economic recovery remains to be seen. As the second quarter begins, traditional business sentiment indicators look robust. According to provisional data, the Purchasing Managers' Index for the industrial sector in particular points to a very strong upturn in new orders, both domestic and international. In the case of service providers who are geared more to the domestic market and are more severely affected by the containment measures, however, the upswing is likely to be somewhat delayed again. The official GDP data for the first quarter of 2021 will be published on 30 April. We anticipate a setback of 1.5% compared with the previous quarter, which corresponds exactly to the consensus in a Bloomberg poll. For the current quarter, we still expect gross domestic product to increase by 3.3%. This assessment is supported by high frequency economic data. For example, the Bundesbank's weekly activity index (WAI) for the week ending 25 April shows growth for the rolling quarterly period for the first time since early January this year.

Inflation

Swiss Life Asset Managers	Consensus
2021: 2.1%	2021: 2.1%
2022: 1.2%	2022: 1.6%

In Germany, those commentators who constantly warn against inflation will once again have an audience in the coming months. Indeed, inflation risks in the developed world are higher than they've been for the past twenty years due to coordinated monetary and fiscal policies. However, the rise in the inflation rate in Germany to just under 3% by the end of 2021 is only temporary in nature.

France

Fiscal intensive care medicine

GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.3%	2021: 5.3%
2022: 2.9%	2022: 3.9%

France's vaccination campaign is gaining momentum. Measured by the number of vaccine doses administered per 100 inhabitants, the country now ranks among the 30 countries with the fastest progress in vaccination. Currently, strict containment measures are in place by European standards, but easing measures are now in sight. Business sentiment surveys reveal an astonishingly robust economic situation. Unsurprisingly, industrial activity remained much less affected by the measures during the second lockdown, as France also ensured that supply chains were maintained. According to a survey conducted by the national statistical office INSEE, sentiment among industrial firms has climbed to its highest level in the last two years. This is clearly above the long-term average. However, the big surprise is the momentum in the services sector: according to preliminary data for the Purchasing Managers' Index, this sector recovered overall in April for the first time since August 2020. This development limits the risk of a significant rise in unemployment until next year's presidential elections. However, continuing exceptions in insolvency procedures and the lending to businesses co-ordinated between public authorities and the private sector show that fiscal efforts to tackle the crisis remain significant.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.3%	2021: 1.2%
2022: 1.3%	2022: 1.1%

We are leaving our forecast for average annual inflation unchanged at 1.3%. Inflation numbers continue to be heavily influenced by the base effect on energy prices. In addition, it remains difficult to accurately track prices in the accommodation and gastronomy sectors as long as these services cannot be provided in the usual framework.

UK

The template for Europe

GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.3%	2021: 5.4%
2022: 4.3%	2022: 5.6%

The British vaccination campaign slowed in March as deliveries were delayed and younger people were excluded from receiving the AstraZeneca vaccine. Nevertheless, the vaccination campaign remains a great success. At the time of writing, 50% of the population had already received a first dose, more than in any other European country apart from the micro-state of San Marino. The UK's bold strategy of giving a first dose to as many people as possible as quickly as possible has paid off so far. Hospitalisation rates have declined significantly more in the older, priority-vaccinated population than among younger people. Combined with harsh containment measures, the rate of new infections and deaths has literally collapsed. The UK is thus presenting what other European economies can expect during the second quarter. This applies from both a medical and economic point of view. Sentiment in the services sector increased further in April, with the corresponding Purchasing Managers' Index outperforming all other European economies and rising to its highest level since 2013. This also heralded a turnaround in the labour market. In February, the unemployment rate – which is reported as a three-month average in the UK – declined from 5.1% to 4.9% for the first time since the start of the pandemic.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4%	2021: 1.6%
2022: 1.6%	2022: 2.1%

As in February, inflation in March 2021 was surprisingly weak at 0.7%, mainly due to lower food prices in March. However, the upcoming gradual opening of the economy is likely to lead to a rapid normalisation of inflation – we expect an average inflation rate of 1.5% in the second quarter.

Switzerland

Flirt with pre-crisis levels

GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.6%	2021: 3.3%
2022: 2.2%	2022: 2.9%

The opening stages that have been implemented since March are boosting domestic economic momentum. Positive economic data have started to accumulate recently: On the labour market, for example, the peak in the unemployment rate of 3.5% seems to have already been surpassed in January. We had expected this turning point for the month of April. We also revised our estimate of the average unemployment rate for 2021 downward from 3.6% to 3.2%. The fact that the crisis is likely to cost fewer jobs than originally feared is consistent with observations in other European countries and can be traced back to the massive fiscal response. Unanswered questions remain: it is not yet clear how well the labour market will absorb newly qualified apprentices and university graduates (see page 1) or whether the ending of short-time working measures will lead to a rise in unemployment. In the third quarter we still expect Switzerland's real gross domestic product to reach the level of the final quarter of 2019. In addition to the astonishing resilience of large parts of the domestic service economy, the manufacturing sector benefits from strong demand from abroad. Like elsewhere in Europe, the Purchasing Managers' Index (PMI) for industry remains close to historic highs. In line with this picture, exports to China reached a new record level in March.

Inflation

Swiss Life Asset Managers	Consensus
2021: 0.5%	2021: 0.4%
2022: 0.7%	2022: 0.5%

The risk of rising inflation is also a market topic in Switzerland. In the first quarter, search volumes for the term "inflation" soared, according to Google, to their highest level since 2011. The headline inflation rate will indeed rise to 1.0% by December 2021. However, we anticipate a temporary development, mainly fuelled by rising energy prices and pent-up demand.

Japan

Third state of emergency

GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.9%	2021: 2.8%
2022: 1.8%	2022: 2.4%

In Japan, a state of emergency has been declared again in several prefectures, as new infections have increased significantly again since March. This third wave is particularly problematic because immunity in the older population is still completely inadequate – Japan's vaccination campaign has only just begun – and the first cases of what is likely to be the more problematic Indian virus mutation have emerged. As in Europe, the Japanese government has pushed vaccination targets backwards, but given the current circumstances of staff shortages and a lack of vaccines, even the target of vaccinating at least the older population groups by the end of July seems increasingly ambitious. The recent development brings downside risks to our GDP forecast which, following a setback in the first quarter, expects robust growth in the second quarter. Mobility indicators, which correlate relatively well with consumption indicators, declined significantly in April, following a rapid recovery in the two previous months. Industry remains the big ray of hope. Incoming orders – especially from abroad – picked up markedly in April, and unlike in Europe and the USA, supply bottlenecks seem to weigh less heavily on industrial production. According to the most recent survey of purchasing managers, delivery times and prices for inputs have risen less sharply than elsewhere.

Inflation

Swiss Life Asset Managers	Consensus
2021: 0.1%	2021: 0.0%
2022: 0.4%	2022: 0.5%

After six months of deflation, the price front looks set to ease from April. This is due not only to positive energy base effects and the weaker yen, but also to a turnaround in the labour market, which has already led to slightly higher producer prices for service providers. However, the increase will be modest, with inflation reaching a cyclical peak of just 0.8% in December 2021 and weakening in 2022.

China

Changing growth drivers

GDP growth

Swiss Life Asset Managers	Consensus
2021: 8.2%	2021: 8.7%
2022: 5.4%	2022: 5.5%

China's economy grew by 18.3% in the first quarter. However, this record rate is of limited significance as it compares with last year's very low base, when the country went into nationwide lockdown at the height of the pandemic outbreak. Quarter-on-quarter growth, on the other hand, indicates slowing momentum. The sequential attenuation was driven by two main factors: renewed restrictions on mobility during the Chinese New Year in February 2021 in order to contain a resurgence of the virus, as well as fiscal and monetary policy normalisation, which has depressed investment. Chinese growth should regain momentum over the next quarters. Improved labour market conditions, excess savings as well as reduced uncertainty regarding the pandemic should boost consumption in the coming months. Retail sales rose significantly already in March, exceeding consensus expectations. At the same time, the global recovery will support Chinese exports. On the other hand, investment, the main driver of the recovery in 2020, will continue to weaken as the Chinese government focuses on mitigating financial risks and curbing lending, especially for the highly indebted real estate sector.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4%	2021: 1.5%
2022: 2.1%	2022: 2.2%

Inflation in China increased slightly to 0.4% in March, from 0.3% previously. Moreover, core inflation showed positive momentum, especially as prices for cultural services and domestic airline tickets increased, suggesting a recovery in consumer demand. Producer prices accelerated sharply to 4.4%, driven by higher commodity prices, but are expected to weaken again in the second half of the year.

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