Global Economic Scenario
March 2016

Revisions since last month (in brackets forecasts as per previous month)

	GDP 2016		GDP 2017		CPI 2016		CPI 2017	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	2.0% (2.3%)	2.2% (2.4%)	2.1%	2.4% (2.5%)	1.2% (1.5%)	1.3% (1.5%)	2.2%	2.2% (2.3%)
Euro Area	1.3% (1.4%)	1.6% (1.7%)	1.3%	1.7%	0.4% (0.8%)	0.5% (0.8%)	1.7%	1.5%
Japan	0.5% (1.1%)	1.0% (1.2%)	1.0%	0.6%	-0.1% (0.3%)	0.3% (0.6%)	0.3%	1.8% (2.0%)
UK	1.8%	2.2% (2.3%)	1.8%	2.2% (2.3%)	0.5% (0.7%)	0.8% (1.0%)	1.9% (2.0%)	1.8%
Switzerland	0.7%	1.1% (1.2%)	1.0%	1.6% (1.7%)	-0.5% (-0.3%)	-0.5% (-0.4%)	0.2%	0.3%

Source for Consensus Estimates: Consensus Economics Inc. London, 8 February 2016

USA – Acceleration in the new year

GDP Growth

Swiss Life Asset Managers	*Consensus*
2016: 2.0%	*2016: 2.2%*
2017: 2.1%	*2017: 2.4%*

As outlined in last month's edition of this paper, GDP growth in the last quarter of 2015, which was published in the meantime, came out weaker than many researchers had expected. At 0.2%, it was half the quarterly pace which we had built into our forecast and its purely technical effect on this year's calculation is the main reason for our 2016 growth outlook revision. The main drags on value added in the fourth quarter proved to be the inventory drawdown, exports suffering from the strong US Dollar and finally capital expenditures of businesses. At the same time, one needs to stress that incoming data for the months of January and February point to a pronounced improvement across data series as varied as retail sales, industrial production, business sentiment, jobless claims and wage growth. As Mrs. Yellen stated recently, "the economy is close to normal" and a clear pickup in economic activity during the last two months bodes well for an acceleration of GDP growth in the current quarter. The GDP tracker of the Atlanta Federal Reserve Bank actually signals growth of 2.6% on an annualised quarterly basis which would actually surpass our own estimate of 1.8% to a great extent. Since it is not quite clear yet, if the negative sentiment on financial markets will feed back into the real economy, we feel comfortable with a growth forecast that is positioned below the consensus estimate. Although this negative feedback loop gives reason for caution, pure macroeconomic data look sturdy as mentioned before. Given strong car sales and overall retail sales growth in January, personal consumption in particular should be a pillar of overall GDP growth in Q1. However, one needs to stress that many companies related to the energy sector suffer from the low level of the oil price and the defaults seen last year may extend into this year. Although the weight of energy-related companies in investments as well as total employment does not harbour a systemic risk for the economy as a whole, negative sentiment may well spill over into other sectors. At the same time, the credit cycle is maturing. The Fed's loan officer survey revealed that lenders experienced weaker demand for commercial and industrial loans during Q4 2015. At the same time, lenders reported tighter credit standards for both, large and small companies. Growth caution seems warranted.

Inflation

Swiss Life Asset Managers	*Consensus*
2016: 1.2%	*2016: 1.3%*
2017: 2.2%	*2017: 2.2%*

Not only have prices at the gasoline station continued to correct to the downside during the months of January and February but seasonal factors applied by the statistics office make things even worse. As a result, headline inflation revisions are once again unavoidable and made us cut the whole year forecast by 0.3 percentage points. Core inflation will remain above 2% throughout the year in our projection.

Euro Area – Investment with a dose of strength in Q4

GDP Growth

Swiss Life Asset Managers	Consensus
2016: 1.3%	2016: 1.6%
2017: 1.3%	2017: 1.7%

All eyes in Europe are on the two-day EU summit and the negotiations with Mr. Cameron which will have implications for the timing of UK's referendum on EU membership. Apart from that hurdle, business sentiment indicators in the Eurozone economies have displayed stronger resilience to market turbulences than their North American counterparts. Our forecast for the quarters to come foresees a similar growth pace as over the past few quarters, with the main support still being an improvement in labour market dynamics and solid personal consumption. The flash GDP report for the last quarter of 2015 came in line with our own growth estimate at 0.3% quarterly pace. This completes a year with 1.5% average annual growth, after 0.9% in 2014. Domestic demand was certainly a strong growth driver in the fourth quarter while investment likely surprised to the upside which is a particularly positive sign for the business cycle. Details of the growth composition will only be published on 8 March. The fact that the German ifo business index was weakening lately renders the next publication of purchasing managers' indices even more important. The recent marked widening of bank credit spreads and collapse of equity prices, while being a temporary scare only in our view, poses a certain risk for sentiment in general and for banks' ability to give out loans.

Inflation

Swiss Life Asset Managers	Consensus
2016: 0.4%	2016: 0.5%
2017: 1.7%	2017: 1.5%

We cut our whole year 2016 forecast in half, as energy prices have massively corrected again in the first two months of this year which lends a huge base effect for whole year calculation. Based on this, headline inflation will not be able to detach clearly from the zero line, unless the oil price shows an unexpected and notable increase in coming months. The appreciation of the Euro on a trade-weighted basis since the start of the year, poses downside risks to the inflation outlook and poses an additional headache to the ECB.

Japan – Abenomics are a failure

GDP Growth

Swiss Life Asset Managers	Consensus
2016: 0.5%	2016: 1.0%
2017: 1.0%	2017: 0.6%

Three years after prime minister Abe introduced a new economic and monetary policy program to boost domestic demand and ensure a return to sustainable inflation above 2%, the success of these policies is more than doubtful. As for the third quarter 2015 already, weak private consumption was such a severe drag on economic activity, that the initial GDP data for the final quarter show a contraction from the previous quarter by -0.4%. Preliminary data to Japan's national account are usually subject to massive revisions and quarterly rates can often even change the prefix after revisions. This happened with the report for third quarter 2015, which initially showed a contraction by -0.2% just to be subsequently revised to +0.3%. Yet, for the time being, we base our assumptions for the future growth profile on the official data currently available. This means that we need to lower the forecast for average annual real GDP growth massively. The failure of Abenomics is best visible in the broken promise that wage growth should accelerate once inflation returns into the system.

Inflation

Swiss Life Asset Managers	Consensus
2016: -0.1%	2016: 0.3%
2017: 0.3%	2017: 1.8%

The aim to reflate Japan's economy could not be achieved in a period when the rest of the world discusses deflation risks. The massive depreciation of the Yen since the end of 2012 resulted in rising import prices, yet this was not sufficient to compensate for the lack of domestic inflationary pressure. As the Yen has regained 10% of its external value in trade weighted terms since summer 2015, we now expect the consumer price index to decline in annual comparison for most of this year. As elsewhere in the industrialised world, a sudden rise in commodity prices poses the most important upside risk to our forecast. In light of the weak domestic fundamentals, we remain reluctant to include a consumption tax hike in 2017 into our inflation and GDP growth profile. As a consequence, our forecasts for growth and inflation in 2017 are difficult to compare with the consensus.

UK – EU referendum – the earlier the better

GDP Growth

Swiss Life Asset Managers	*Consensus*
2016: 1.8%	*2016: 2.2%*
2017: 1.8%	*2017: 2.2%*

Although the campaign for staying in the EU still lacks a leading figure with remarkable profile, prime minister Cameron is well advised to hold the referendum as long as voters remain convinced that their economy is doing well and that jobs are plentiful. Since the vote takes place as early as in June already, the tight labour market conditions and rising house prices would probably make a majority of voters prefer the status quo over an experiment in isolation. Strong retail sales data for January indicate that consumers are willing to spend a substantial amount of income gains from rising wages, the falling energy bill and wealth effects from the property market. In contrast to our assessment, the EU referendum has no negative impact on firms' hiring or investment intentions: According to the European Commission's business sentiment survey, the net number of firms in manufacturing, construction and services with plans to hire more staff has increased markedly over the past three months. At the same time, CBI (Confederation of British Industry) reports that a majority of its member plans investments in plant and machinery: This is a marked improvement after three consecutive quarters with a negative net result in the same survey.

Inflation

Swiss Life Asset Managers	*Consensus*
2016: 0.5%	*2016: 0.8%*
2017: 1.9%	*2017: 1.8%*

Economic dynamics as described above let us conclude that the risk of rapidly resuming inflationary tendencies is more important in the UK than in other industrialised economies. At 2.3%, service price inflation stays at elevated levels. Goods prices continued to drop, albeit at their slowest pace since January 2015. It is welcome news for the Bank of England that the EU referendum has just been announced for the earliest possible moment. This gives the central bank room for manoeuvre after if a sudden rise of commodity prices ignites a surge in headline inflation.

Switzerland – Stabilising demand from abroad

GDP Growth

Swiss Life Asset Managers	*Consensus*
2016: 0.7%	*2016: 1.1%*
2017: 1.0%	*2017: 1.6%*

Ahead of the release of GDP data on March 2, we stick to our assumption that Switzerland's economy grew just 0.1% through the last quarter 2015. If confirmed, this would mean that Switzerland escaped a recession despite a substantial currency shock. Net immigration continued to support economic activity throughout the year. The continued recovery of the economy in the neighbouring Euro Area dampened the exchange rate effect. Even hotel overnight stays booked by Euro Area residents recovered through the last quarter 2015. While demand from abroad is apparently stabilising, our prudent view on domestic dynamics remains unaltered: Sales of durable goods such as cars came down markedly since the third quarter 2015. A survey among construction firms conducted by the business association "Schweizerischer Baumeisterverband" and Credit Suisse suggests that residential construction activity has peaked in mid-2015 and will contract modestly during the current year.

Inflation

Swiss Life Asset Managers	*Consensus*
2016: -0.5%	*2016: -0.5%*
2017: 0.2%	*2017: 0.3%*

Assuming an unchanged oil price, annual inflation will return into positive territory not before December 2016. An alternative scenario with the oil price recovering to the average observed through the second half of 2015, will result in almost 0.7% higher inflation. In the light of the substantial currency appreciation since 2010, details in the consumer price statistics reveal different price adjustment strategies: While prices for new cars dropped by 20% over the past six years, the average rate for a hotel overnight stay dropped by 5%. Completely against this trend to lower prices, fees for mountain railways and ski lifts climbed more than 12%.