Global Economic Scenario
March 2017

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

	GDP 2017		GDP 2018		CPI 2017		CPI 2018	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	2.3%	2.3%	2.3%	2.4% (2.3%)	2.8% (2.5%)	2.5% (2.4%)	2.1%	2.3%
Eurozone	1.3%	1.6% (1.4%)	1.2%	1.5%	2.0% (1.8%)	1.6% (1.4%)	1.6%	1.4%
Japan	1.1%	1.2% (1.1%)	0.9%	1.0% (0.9%)	0.8% (0.7%)	0.7% (0.6%)	0.1%	1.0% (0.9%)
UK	1.7%	1.5% (1.4%)	1.0%	1.3% (1.4%)	2.5% (2.6%)	2.6% (2.5%)	2.2%	2.7% (2.6%)
Switzerland	1.2%	1.5%	1.5%	1.7%	0.5% (0.3%)	0.4% (0.3%)	0.4%	0.6% (0.7%)

Source for Consensus Estimates: Consensus Economics Inc. London, 13 February 2017

USA – Entrepreneurs remain optimistic

GDP Growth

Swiss Life Asset Managers	*Consensus*
2017: 2.3%	*2017: 2.3%*
2018: 2.3%	*2018: 2.4%*

While Donald Trump has seemingly started campaigning all over again, details on the big policy topics which have the potential to shape the economic outlook and market developments are still missing. The new administration still keeps a rather low profile when it comes to tax policy plans as well as details on future fiscal spending, namely so on infrastructure projects. Nor do we know a lot more details on plans to protect the domestic economy and to discourage imports. Since most of these measures would be beneficial to domestically based companies, business surveys have surged over past months. As a matter of fact, the NFIB small business optimism index has exploded and reached the highest level since the end of 2004 when the economy grew at a pace of nearly 4% on average. Equally so, the Philly Fed manufacturing index surged in February, defying expectations of a correction after the strong readings since November. Similar to other regional PMI data, the Philly Fed is thus suggesting a surge in optimism and activity in recent months. Industrial production and manufacturing data for January were soft however, and have yet to show the business optimism translating into output growth for the sector. At this stage, we remain hesitant to include a noteworthy boost from investment spending for overall GDP projections. As regards the heavy-weight in GDP calculation, namely so personal consumption expenditures, the retail sales data point to solid momentum at the turn of the year. That said, much of the strength in nominal spending is driven by price effects. The January CPI report was stronger than commonly expected. Hence, we conclude that much of the momentum is in nominal spending, not real spending which is relevant for real GDP growth. Yet, the pronounced weakness of first quarter GDP growth which was observed over past years, seems to be avoided this time around, judging from available macro data thus far. One needs to keep in mind however, that discretionary spending of personal households is being restricted by the higher price tag at gasoline stations and for energy in general. Therefore, the big impulse from cheap energy has played out and headline inflation is approaching an early peak this year.

Inflation

Swiss Life Asset Managers	*Consensus*
2017: 2.8%	*2017: 2.5%*
2018: 2.1%	*2018: 2.3%.*

The headline inflation reading for January surprised to the upside and was double the monthly pace than what we had expected. The increase from December was 0.6% and the annual change from January last year now stands at 2.5%. In our own inflation path, the reading will just stop short of 3% in February and March. Yet, extrapolating this pace of increase is not appropriate. Many of the strong rises come from volatile components such as energy, apparel and airfares and are unlikely to be sustained at the January pace going forward. Core inflation was pushed higher by the shelter component which continues to benefit from the tightening rental market. We expect the core CPI to remain between 2.2% and 2.3% for the remainder of the year.

Eurozone – Politics trump the economy

GDP Growth

Swiss Life Asset Managers	*Consensus*
2017: 1.3%	*2017: 1.6%*
2018: 1.2%	*2018: 1.5%*

As if political risks this year in core Europe would not keep everybody on edge already, Greece has returned as an issue for financial markets. Above all, investors are increasingly concerned about the upcoming elections in France and a potential win of an extremist candidate. The election in the Netherlands mid-March may just be a precursor of these fears. We consider a victory of Marine le Pen and her Front National as highly unlikely, do not however close our eyes towards such a potential outcome. The high degree of political uncertainty is reflected in our below-consensus forecast for GDP growth for the current and the next year. Apart from politics, economic dynamics in the currency union look sturdy. Sentiment remains upbeat and survey data continue to point to solid economic growth in the first half of this year. Moreover strong export orders indicate an upturn in foreign demand, suggesting that the Eurozone is participating in the global cyclical upswing. While the economic surprise index for the Eurozone remains close to the top of the range that has prevailed for the last six years, the normalisation of the labour market remains slow and varies a lot between member countries. In Italy, the unemployment rate has started to increase again as of late. More generally, job creation is running at a respectable rate and has been a pillar for sound domestic dynamics in the currency union. If politics do not spoil the party, we expect growth to broaden out throughout the region and sectors, helping the expansion to become self-sustaining.

Inflation

Swiss Life Asset Managers	*Consensus*
2017: 2.0%	*2017: 1.6%*
2018: 1.6%	*2018: 1.4%*

In our own forecast path, headline inflation will reach 2% in the next reading, will however not move a lot higher from there. The base effect has played out as expected and core inflation is currently half the rate of headline inflation, as slack in certain member economies is still abundant. Therefore, the latest energy-driven rise in inflation is unlikely to change the policy stance of the ECB.

Japan – Consumption remains weak

GDP Growth

Swiss Life Asset Managers	*Consensus*
2017: 1.1%	*2017: 1.2%*
2018: 0.9%	*2018: 1.0%*

Fourth quarter GDP growth was reported at 0.24% from the previous quarter and was thus in line with our own forecast. As always, the first publication of GDP growth may be revised significantly in the second estimate which is due on 8 March. The report on fourth quarter growth completes a year where each single quarter delivered a positive growth rate, which has not happened since the year 2005. Faster global growth and the weaker Yen were a big help in the last quarter. Thus, the main growth driver in the fourth quarter were exports adding 0.2 percentage points to the quarterly growth pace. Consumption on the other hand remains sluggish despite the rise in labour income and a fairly tight labor market. A slower increase in consumption on trend may be inevitable, given Japan's shrinking and aging population, however the recent softness appears at odds with income data and positive developments on the labour market. As elsewhere, the largest forecast uncertainty for the Japanese economy lies with US economic policy as regards, content, timing and size of its fiscal stimulus, border tax adjustments in corporate income tax and protectionist trade policy.

Inflation

Swiss Life Asset Managers	*Consensus*
2017: 0.8%	*2017: 0.7%*
2018: 0.1%	*2018: 1.0%*

A slightly higher than expected inflation print for the month of December causes us to lift the average forecast for the full year 2017. Japan's annual inflation rate crossed the zero line back in October last year and is expected to stay there until the second quarter next year. The weaker Yen and global reflation suggest that the return to positive inflation rates is sustainable. But like elsewehere, the peak in Japan's inflation cycle will be reached this year already. According to our current projections, annual inflation is set to rise to as high as 1.3% until September 2017. Without any massive push from higher energy prices or a renewed sharp drop in the Yen's external value, inflation momentum should start to moderate during the final quartal 2017 already.

UK – Another jump in inflation through 2017

GDP Growth

Swiss Life Asset Managers	Consensus
2017: 1.7%	2017: 1.5%
2018: 1.0%	2018: 1.3%

Last month we raised our assumption for growth during the final quarter 2016 to 0.6%. Since then, the first official GDP report confirmed this estimate. Incoming data suggest that economic momentum remained strong heading into 2017: Our simple model based on the manufacturing purchasing managers index even suggests that GDP growth might have accelerated a bit further in the first quarter of the year. Britain's export industries continue to benefit from double tailwinds in the form of an ongoing global recovery and a weak currency. Yet, what is true for the global economy also applies for the UK: These days, politics are the elephant in the room. It is unclear whether a free trade agreement with the EU is in reach within two years. What looms medium term is a regime of provisional regulations which may tame animal spirits among British entrepreneurs.

Inflation

Swiss Life Asset Managers	Consensus
2017: 2.5%	2017: 2.6%
2018: 2.2%	2018: 2.7%

Like elsewhere, inflation is on the rise in the UK. Consumer price inflation has reached 2.0% by January. Considering that the oil price hit a multi-year low one year ago and that the Pound's external value was 10% above current levels, the actual inflation rate looks comparably benign. According to a separate report, retailers continue to struggle passing on higher input prices to the consumer: The British Retail Consortium's (BRC) shop price index dropped 1.7% in the year until January. More regulated industries like utility providers find it easier to lift their tariffs. Two of the big six UK energy providers announced that the typical gas and electricity bill will rise by almost 10% from March. Other competitors may follow later this year. As a consequence, we adjust our inflation profile slightly. We now expect annual inflation to approach 3% by October 2017 and to stay around 2% until end of 2018.

Switzerland – Consumer confidence recovers

GDP Growth

Swiss Life Asset Managers	Consensus
2017: 1.2%	2017: 1.5%
2018: 1.5%	2018: 1.7%

We raised our growth forecast on the back of encouraging news from the consumer last month. While consumer confidence jumped in the meantime to its highest reading since summer 2014, the latest data for retail and car sales failed to hint at further acceleration. The same holds true for the purchasing managers index (PMI). Swiss manufacturers continue to benefit from the global upswing, but less than in previous cycles. Compared with the previous month, the orders backlog component of the PMI slowed substantially. The renewed appreciation of the Swiss Franc as of late means more headwinds for Swiss exporters. In sum, we think that economic data published since the start of the year justify our sub-consensus forecast until 2018. Admittedly, political uncertainty is unusually high after Brexit and the US elections, but also in the light of the pending elections in Europe. This warrants a careful consideration of threats and opportunities for Switzerland's economy in the medium term: First and foremost, exporters fear combined effects of contracting global trade volumes and a further surge in the Franc's external value. In some fields Brexit means new competition on markets outside the EU. On the other hand, large infrastructure projects by the new US government and the deregulation of the financial sector may be beneficiary for suppliers in the respective sectors.

Inflation

Swiss Life Asset Managers	Consensus
2017: 0.5%	2017: 0.4%
2018: 0.4%	2018: 0.6%.

Inflation returned to positive territory in January, but accelerating inflation pressure is not in sight. Energy prices are likely to contribute negatively to inflation in February and the strong currency continues to exert disinflationary pressure. Almost unnoticed by the broader public, the Swiss Franc's external value rose by more than 4% again over the past twelve months.