

February 2022

Key messages

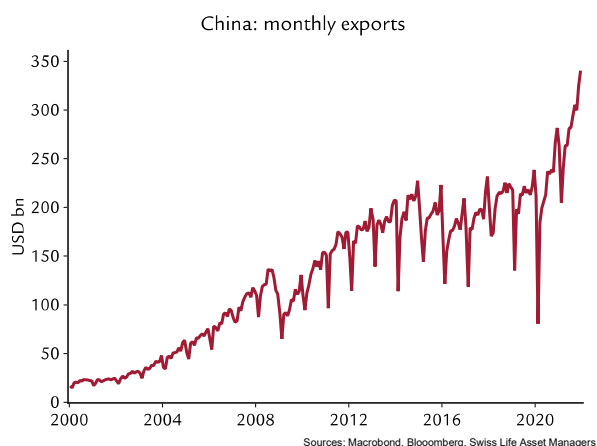
- Energy prices continue to pose a significant risk to the inflation forecast
- Eurozone: Service providers lament Omicron wave, Germany's industrial sector starts the new year well
- With regard to GDP growth forecasts for 2023, we remain more cautious than the consensus

Comparison of forecasts

	2022 GDP growth		2023 GDP growth		2022 inflation		2023 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	3.6% ↑	3.9% ↓	2.3%	2.6%	4.5% ↑	4.8% ↑	2.3%	2.6%
Eurozone	3.7%	4.0% ↓	1.7%	2.5%	2.8% ↑	3.1% ↑	1.5%	1.6%
Germany	3.6%	3.7% ↓	1.8%	2.5%	2.8% ↑	2.9% ↑	1.9%	1.9%
France	3.5%	3.8%	1.5%	2.0%	2.0% ↑	2.2% ↑	1.5%	1.5%
UK	4.2%	4.3% ↓	2.1%	2.2%	4.4% ↑	4.6% ↑	2.2%	2.5%
Switzerland	2.6% ↑	3.0%	1.4%	1.9%	0.8%	0.9% ↑	0.6%	0.6%
Japan	2.4% ↑	3.1% ↓	1.6%	1.5%	0.7% ↑	0.8% ↑	0.3%	0.7%
China	5.0% ↓	5.0% ↓	5.1%	5.3%	1.9%	2.2% ↑	2.1%	2.3%

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 10 January 2022

Chart of the month



World trade reached record levels last year. China's global exports climbed to over USD 340 bn in December, refuting the "deglobalisation myth" that had prevailed at the start of the pandemic. Strong worldwide demand for goods has put pressure on supply chains in many countries due to bottlenecks for containers and ships. While renewed virus outbreaks and China's zero-Covid strategy could weigh on supply chains in the short term, the situation is likely to ease further in the second half of 2022.

USA

Interest rates are rising

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.6%	2022: 3.9%
2023: 2.3%	2023: 2.6%

The US labour market saw an excellent recovery in 2021. The unemployment rate stood at 6.7% at the beginning of 2021 and fell to 3.9% by the end of the year. The last time the US unemployment rate was below 4% – in May 2018 – US key interest rates were nearing the 2% mark at an inflation rate of 2.8%. Today, the Fed is still busy reducing bond purchases, even though inflation has already reached 7%. It comes as no surprise that the pressure to increase policy rates is mounting and, like the financial markets, we are expecting four interest rate hikes of 25 basis points each this year. The prospect of rising interest rates has already led to unease on the markets, exacerbated by geopolitical tensions. This illustrates that the cycle of interest rate hikes will by no means be easy and is likely to cause some economic drag, especially as the US economy had a weak start to the new year due to the Omicron wave. Nevertheless, there is much in favour of a tightening course: First, financial conditions were possibly looser than they have ever been at the start of the year. Second, the weaker demand is quite intentional. The large inflation differential between the US and Europe for tradable goods shows that US inflation is being driven not only by supply bottlenecks but also by excess demand.

Inflation

Swiss Life Asset Managers	Consensus
2022: 4.5%	2022: 4.8%
2023: 2.3%	2023: 2.6%

Inflation reached 7% in December, with goods prices still the main driver. Used car prices continued to rise, for example, and are now 52% higher than in January 2020. Services inflation was once again surprisingly low. While we continue to expect inflation momentum to shift from energy and goods prices to services in 2022, we are still expecting monthly price increases to ease somewhat on balance.

Eurozone

Transition to endemic disease?

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.7%	2022: 4.0%
2023: 1.7%	2023: 2.5%

The emerging flattening of the Omicron wave is raising hopes throughout Europe that the containment measures still in force will be largely relaxed. Whether Omicron has favoured the transition to an endemic phase remains to be seen. However, the service sectors particularly affected by the containment measures have reason to hope that the situation will normalise across Europe during the summer months, although providers in the accommodation sector remain affected by a labour shortage. In the industrial sector, the development is dependent on the continued easing of global supply problems, which recently began to emerge in the semiconductor sector. Suppliers throughout Europe are benefiting from the short-term catch-up potential of the German automotive industry. In the medium term, the recovery in Europe is losing momentum due to the negative fiscal impetus and tighter monetary policy in the US and some emerging markets. Added to these cyclical headwinds are geopolitical uncertainties. The Ukraine conflict is currently affecting consumers and businesses in Europe, mainly in the form of higher energy prices. However, any further escalation would significantly increase economic uncertainty.

Inflation

Swiss Life Asset Managers	Consensus
2022: 2.8%	2022: 3.1%
2023: 1.5%	2023: 1.6%

Four eurozone countries recently reported a lower inflation rate compared to the previous month. Inflation remains particularly high in countries that have a high weighting of fossil energy products in the consumer price index. However, in contrast to developments in the US and the UK, credit growth and salary increases still do not point to increased inflationary pressure. Assuming that energy prices remain unchanged, we anticipate a noticeable decline in the inflation rate from 5% at present to 3% by mid-2022.

Germany Signs of life from industry

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.6%	2022: 3.7%
2023: 1.8%	2023: 2.5%

Germany has lagged behind the other major European economies in recent quarters. Compared to France and Italy, the share of industry in Germany's gross domestic product is high. As a result, the global supply chain problems dampened its overall economic growth in 2021. At the end of last year, however, there were increasing signs of easing. For example, production in the automotive industry has recently gained considerable momentum. At the beginning of the new year, it became apparent that the upswing in industry is continuing to accelerate. Both the preliminary figures for the Purchasing Managers' Index (PMI) for the manufacturing sector and the broader Ifo Business Climate Index suggest improved business sentiment for January. In the case of the Ifo Institute's indicator, expectations for future business development in particular have recently improved significantly. Two positive effects are contributing to the change in sentiment: On the one hand, the aforementioned easing of delivery problems and, on the other, the emerging prospects of a relaxation of the measures to contain the pandemic.

Inflation

Swiss Life Asset Managers	Consensus
2022: 2.8%	2022: 2.9%
2023: 1.9%	2023: 1.9%

Proponents of the view that the rise in inflation would be mainly temporary are expecting a sharp decline in annual inflation for Germany in the coming weeks. We too anticipate that the inflation rate will fall from 5.3% in December 2021 to 4.3% in January 2022. The base effects of temporary changes in consumer tax rates are responsible for this rapid decline in the inflation rate. Assuming unchanged energy prices, we expect the inflation rate to drop below 2% in the fourth quarter of 2022.

France Peak in the inflation cycle

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.5%	2022: 3.8%
2023: 1.5%	2023: 2.0%

In contrast to the development in Germany, business sentiment in France remained robust over the second half of 2021. However, preliminary figures for the Purchasing Managers' Index in the services sector suggest that momentum has slowed since the start of the new year. It remains to be seen whether this is a temporary dip due to the spread of the Omicron variant. This assessment is supported by the fact that industrial indicators remain at high levels. In the favourable case of Europe's imminent transition to an endemic situation, France's services sector should benefit disproportionately. The fiscal impulse, i.e., the change in the cyclically adjusted primary budget deficit, will dampen economic momentum in France. The headwinds in the form of lower fiscal growth momentum are more significant in France than in Germany, for example. Like the rest of Europe, our GDP growth forecast for France in 2023 is clearly below the consensus estimate.

Inflation

Swiss Life Asset Managers	Consensus
2022: 2.0%	2022: 2.2%
2023: 1.5%	2023: 1.5%

As for Germany, we anticipate a significant decline in France's inflation rate from the recent 3.4% to 2.6% for January 2022. The fact that France's inflation rate rose less sharply than elsewhere in the eurozone has to do with the comparatively low weighting of energy components in the consumer price index. Nevertheless, the rise in electricity prices is playing a key role in the run-up to the presidential elections. France's Minister of the Economy Bruno Le Maire has announced that the increase in retail electricity prices will be capped at 4%.

UK

Is the party over?

GDP growth

Swiss Life Asset Managers	Consensus
2022: 4.2%	2022: 4.3%
2023: 2.1%	2023: 2.2%

UK politics are always good for a surprise. Prime Minister Boris Johnson's chair is shakier than ever due to "partygate," although this discussion is unlikely to have much impact on the economy and markets. Monetary policy is more important, with the Bank of England (BoE) upholding its reputation for surprises with a rise in interest rates in mid-December. Similarly to the US, the labour market is healing faster than originally expected, with the pre-crisis unemployment rate of 3.8% within reach. The BoE apparently gave more weight to the corresponding wage pressure and recent surprisingly sharp rise in core inflation than the temporary pandemic-induced economic slowdown, which manifested in extremely weak retail sales in December and declining Purchasing Managers' Indices in January. Despite the end of the "low interest rate party," we expect the economic recovery to be robust in 2022 as the UK has significant catch-up potential – its monthly GDP only touched pre-crisis levels in November 2021. Like Germany and France, industrial production is seeing a notable gap compared with pre-crisis levels (3% in November), especially in the automotive sector, which is affected by supply bottlenecks. In addition, the domestic tourism sector could benefit from the easing of entry requirements following the winter pandemic wave.

Inflation

Swiss Life Asset Managers	Consensus
2022: 4.4%	2022: 4.6%
2023: 2.2%	2023: 2.5%

Inflation again surprised on the upside in December 2021, rising to 5.4%. In contrast to the continent and similarly to the US, higher goods prices, especially for used cars, are playing a key role in the recent surge in inflation. Inflation dynamics are likely to remain elevated in 2022, as higher wholesale gas and electricity prices are not yet fully reflected in consumer prices due to regulation.

Switzerland

Cautious forecast for 2023

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.6%	2022: 3.0%
2023: 1.4%	2023: 1.9%

In the short term it would appear that the Omicron variant dampened Switzerland's domestic economic momentum somewhat at the beginning of the year. For example, the index of weekly economic activity from the State Secretariat for Economic Affairs (SECO) recently showed a downward trend. This slowdown is probably due to a high number of quarantine orders; the further tightening of containment measures is no longer under discussion in Switzerland. The opportunities and risks for the economic outlook are roughly balanced in light of Europe's possible transition to an endemic situation. Suppliers to the German automotive industry are benefiting in the short term from the easing of supply bottlenecks, while in the medium term the strong Swiss franc is likely to have a negative impact. The Swiss franc is currently at its highest level for six years against the euro. With the pandemic developing favourably in Europe, increased travel abroad and cross-border shopping are likely to slow the further recovery in domestic demand. In these circumstances, and given the diminishing support of monetary and fiscal policy for global economic growth, many forecasting institutions are astonishingly optimistic regarding the GDP growth outlook beyond the current year. Our forecast of 1.4% GDP growth for 2023 is the most prudent among all the estimates incorporated by Consensus Economics.

Inflation

Swiss Life Asset Managers	Consensus
2022: 0.8%	2022: 0.9%
2023: 0.6%	2023: 0.6%

As is already evident in import and producer prices, we believe that the rise in consumer prices has also passed its cyclical peak. After annual inflation of 1.5% in the last two months of 2021, we anticipate a decline to 1.3% in January 2022. In the short term, the recent rise in fossil fuel prices poses a forecast risk.

Japan Omicron strikes

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.4%	2022: 3.1%
2023: 1.6%	2023: 1.5%

More than any other country, Japan shows how incredibly infectious the Omicron variant is. On 1 December 2021, the country recorded just 100 new cases per day, on 1 January 2022 it was 344 cases, and just three weeks later, a record 45 440 cases (7-day averages), and the trend continues to rise. The situation with regard to vaccinations is mixed. In an international comparison, a remarkable 80% of the population has been double-vaccinated, but due to the late start of the vaccination campaign hardly any boosters have been administered. The government has therefore once again imposed a state of emergency in 34 out of 47 prefectures, which allows the regional governments to impose certain restrictions such as limiting opening hours in the hospitality sector. The economic drag is likely to be higher than in Europe and the US, where few new containment measures have been implemented. The Purchasing Managers' Index (PMI) for the services sector plunged from 52.1 points to 46.6 points in January. The industrial sector remains a glimmer of hope, as it recorded the highest monthly increase in production in November 2021 (+7.0% from October) since the start of the data series. According to the Industry PMI, both production and orders continued to rise in December and January. Export demand remains robust, with demand from China and the US in particular boosting export figures in December 2021.

Inflation

Swiss Life Asset Managers	Consensus
2022: 0.7%	2022: 0.8%
2023: 0.3%	2023: 0.7%

Inflation in Japan is rising from low levels and is expected to reach the peak of its cycle at around 1.5% in April 2022. We expect inflation rates to be just above zero again in 2023. As a result, the Bank of Japan is under no pressure to turn the interest screw, and has vehemently denied recent rumours of an imminent monetary turnaround.

China Zero-Covid strategy continues

GDP growth

Swiss Life Asset Managers	Consensus
2022: 5.0%	2022: 5.0%
2023: 5.1%	2023: 5.3%

The Chinese economy grew more strongly than expected in the final quarter of 2021, posting a quarterly growth rate of 4.0% compared to a year ago. However, the monthly indicators for December showed that while industrial production and exports were very strong, consumption and various property-related indicators were weak. We expect this weakness to continue into the first quarter of this year and are therefore revising our annual GDP forecast for 2022 down from 5.1% to 5.0%. There are two factors that will slow China's economic growth. First, we believe that China will stick to its zero-Covid strategy – especially in the run-up to the Winter Olympics and the Chinese New Year celebrations, which will take place in early February. This in turn will continue to weigh on the services sector and consumption. Second, the problems in the real estate market are expected to continue due to weak investor sentiment and lower demand. All property-related indicators such as property sales, house prices and new mortgage loans weakened in December. In response, China is stepping up its monetary easing measures. We are therefore expecting a rather weak first quarter, followed by a rebound in the second quarter when the easing measures show their effect.

Inflation

Swiss Life Asset Managers	Consensus
2022: 1.9%	2022: 2.2%
2023: 2.1%	2023: 2.3%

Headline inflation in China eased markedly in December compared with the previous month to 1.5% (November: 2.3%), mainly due to a decline in food prices. Unlike most other economies around the world, China's moderate inflation levels provide the central bank with scope to support the economy through further monetary easing measures.

Economic Research



Marc Brüttsch
Chief Economist
marc.bruetsch@swisslife-am.com
🐦 @MarcBruetsch



Damian Künzi
Economist Developed Markets
damian.kuenzi@swisslife-am.com
🐦 @kunzi_damian



Josipa Markovic
Economist Emerging Markets
josipa.markovic@swisslife-am.com



Francesca Boucard
Economist Real Estate
francesca.boucard@swisslife-am.com
🐦 @f_boucard



Rita Fleer
Economist Quantitative Analysis
rita.fleer@swisslife-am.com



If you have any questions or if you would like to subscribe to this publication,

please send an email to: info@swisslife-am.com.

For more information visit our website at: www.swisslife-am.com/research



Released and approved by Swiss Life Asset Management Ltd, Zurich

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements, which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

France: This publication is distributed in France by Swiss Life Asset Managers France, 153 rue Saint-Honoré, 75001 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Swiss Life Asset Managers Deutschland GmbH, Aachener Strasse 186, D-50931 Köln, Swiss Life Asset Managers Luxembourg Niederlassung Deutschland, Hochstrasse 53, D-60313 Frankfurt am Main and BEOS AG, Kurfürstendamm 188, D-10707 Berlin. **UK:** This publication is distributed by Mayfair Capital Investment Management Ltd., 55 Wells St, London W1T 3PT. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General Guisan Quai 40, CH-8022 Zurich.