

May 2022

## Key messages

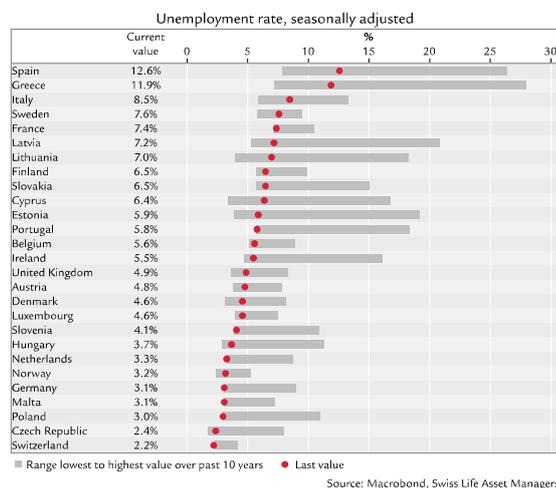
- Global economy facing headwinds: war in Europe, supply bottlenecks and tighter financial conditions
- Slight easing of energy prices should lead to slightly lower inflation rates
- Robust domestic demand in Europe is dampening the immediate threat of recession

## 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
US	3.2% ↓	3.2% ↓	2.3%	2.2% ↓	6.9% ↑	7.0% ↑	3.0% ↑	3.2% ↑
Eurozone	3.1% ↓	2.8% ↓	2.0%	2.3%	6.2% ↑	6.5% ↑	2.3% ↑	2.4% ↑
Germany	2.3% ↓	2.2% ↓	2.2%	2.5% ↓	5.9% ↑	6.3% ↑	2.7% ↑	2.7% ↑
France	3.2%	3.1% ↓	1.5%	1.8% ↑	3.9% ↑	4.2% ↑	2.1%	2.1% ↑
United Kingdom	4.1% ↑	3.9%	1.7% ↓	1.4% ↓	7.0% ↑	7.2% ↑	3.5% ↑	3.9% ↑
Switzerland	2.5%	2.6% ↓	1.4%	1.8% ↑	1.8%	2.0% ↑	0.7%	0.9% ↑
Japan	2.0% ↓	2.1% ↓	1.6%	1.8%	1.7% ↑	1.6% ↑	0.7% ↑	1.0% ↑
China	4.5% ↓	4.9% ↓	5.2% ↑	5.1% ↓	2.3%	2.1% ↓	2.0%	2.2% ↓

Arrows indicate change from previous month  
Source: Consensus Economics Inc. London, 11 April 2022

## Chart of the month



Two years after the outbreak of the pandemic, the unemployment rate is back below pre-crisis levels in many places in Western and Northern Europe. In France, Germany and Switzerland, it is even at a multi-year low. This testifies to the success of the coordinated monetary and fiscal policy steps to prevent an economic crisis as a result of the pandemic. The war in Ukraine is once again causing fears of recession. However, the robust labour market data supports private consumer demand and, in combination with the currently high inflation, indicates increased wage pressure, which the central banks should counter by normalising monetary policy.

## US Services sector losing momentum

### GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.2%	2022: 3.2%
2023: 2.3%	2023: 2.2%

The war in Ukraine is impacting the US economy mainly indirectly via higher commodity prices. The rapid rise in interest rates and the threat of supply bottlenecks for consumer goods from China due to new lockdowns and waiting times at Chinese ports pose a much greater threat for the US economy. Interest rates on 30-year fixed mortgages have risen from 3.2% at the start of the year to over 5% – the fastest increase since 1980. Mortgage refinancing activities have therefore collapsed, and mortgage applications for home purchases and transaction figures are beginning to show signs of weakness. The services sector is generally losing some momentum due to dwindling household purchasing power, although the April Purchasing Managers' Index (PMI) still indicates solid growth. The US industrial sector continues to thrive and has even gained momentum according to the PMI survey with an improved order situation in April – in contrast to Europe. We thus expect the gap between high consumer demand and limited supply to narrow further, which could alleviate some inflationary pressure, at least for domestically produced goods.

### Inflation

Swiss Life Asset Managers	Consensus
2022: 6.9%	2022: 7.0%
2023: 3.0%	2023: 3.2%

US inflation rose to 8.5% in March, thus most likely reaching its cyclical peak. Energy prices are now likely to enter somewhat calmer waters following the significant increase in March, while core inflation surprised to the downside in March for the first time since September 2021 (up by 10 basis points to 6.5%). This was due to a major drop in used car prices, although they are still 48% higher than before the pandemic. We expect inflation to remain between 4-5% at the end of the year, despite the easing in the months ahead.

## Eurozone Assumptions confirmed so far

### GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.1%	2022: 2.8%
2023: 2.0%	2023: 2.3%

To date, the course of the war in Ukraine and the currently available economic data confirm our base case assumptions. For example, the war is largely concentrated in the east of Ukraine, while European buyers are refraining from boycotting Russian gas supplies. In France and Slovenia, pro-European parties achieved success at the polls, and the foreseeable accession of Sweden and Finland to NATO indicates a further rapprochement among the European partners. Unfortunately, in the base case, we do not expect a rapid end to the war, instead we see a "protracted stalemate". If the economy is to achieve a soft landing against this backdrop, a rapid easing of supply bottlenecks in industry is just as necessary as a prudent normalisation of monetary policy by the European Central Bank. Regardless of the outbreak of war in its immediate vicinity, renewed lockdowns in China and a significant widening of credit spreads for the southern member states of the monetary union pose significant economic risks. The robust labour market (see also page 1) and increased government spending are supporting domestic demand for the time being.

### Inflation

Swiss Life Asset Managers	Consensus
2022: 6.2%	2022: 6.5%
2023: 2.3%	2023: 2.4%

Since November 2021, inflation across the Eurozone has remained above the ECB's target of 2%. Annual inflation even reached double-digit levels in March 2022 in countries with a high share of energy components in the consumer price index. This development threatens to disengage inflation expectations from their current level. An expected annual inflation rate of 2.9% can be derived from the price of inflation-indexed 10-year bonds issued by the French or German governments. This is over 90 basis points more than before the outbreak of war.

## Germany Signs of stabilisation

### GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.3%	2022: 2.2%
2023: 2.2%	2023: 2.5%

In our last comment, we referred to the difference between sentiment and actual activity indicators. This is apparent in the latest figures for the ifo Business Climate Index. Data on the current business situation (activity) again moved sideways in April, while responses to future business development (sentiment) were somewhat more positive again following the sharp slump in the previous month. Nevertheless, industrial activity is close to a standstill. If data for the manufacturing Purchasing Managers' Index (PMI) are corrected for elevated delivery times, industrial momentum stagnated in April compared with the previous month. Electricity consumption during recent weeks as another indicator of industry production also confirms this finding. At the same time, Germany's industry is suffering as much from the rise in energy costs as from the recent interruption in supply chains. The situation in the services sector is completely different: for this domestically oriented sector of the German economy, the Purchasing Managers' Index (PMI) has trended consistently upwards since the beginning of the year. Despite the war in the vicinity, there is thus no sign of a widespread danger of recession for the time being.

### Inflation

Swiss Life Asset Managers	Consensus
2022: 5.9%	2022: 6.3%
2023: 2.7%	2023: 2.7%

The preliminary inflation values for April will not be released until after the editorial deadline. We expect the consumer price index to rise by 0.4% from the previous month. This would equate to a fall in annual inflation from 7.3% to 7.0%. There are signs of a slight easing in fuel prices, which have fallen by more than 10% since mid-March. A further fall in energy prices poses a significant downward risk going forward. However, assuming unchanged energy prices, the inflation rate is likely to remain above 2.0% until mid-2024.

## France Macron: one more time

### GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.2%	2022: 3.1%
2023: 1.5%	2023: 1.8%

"One more time" and "Ode to Joy": Emmanuel Macron celebrated his re-election with these musical contributions by Daft Punk and Beethoven. Despite the success of his labour market reforms (see chart of the month on page 1) and high international standing, his election is somewhat tainted by half the French voters having selected extreme left or right-wing parties. There thus remains some uncertainty about Macron's future policy options until the parliamentary elections in June. The current economic conditions appear advantageous: data on economic momentum since the outbreak of war show resilience. According to preliminary figures, the Purchasing Managers' Index for services climbed to its highest level since January 2018 in April. The lifting of the last containment measures is boosting private consumer demand as well as international tourism. Compared with the sharp slump in business sentiment in Germany, surveys on manufacturing in France also indicate a continuation of the economic upturn over the coming quarters.

### Inflation

Swiss Life Asset Managers	Consensus
2022: 3.9%	2022: 4.2%
2023: 2.1%	2023: 2.1%

In contrast to business sentiment, French household surveys are showing a significant downside. In addition to the fears associated with the outbreak of war in Europe, the loss of purchasing power is increasingly becoming an everyday issue. According to our current assessment (assuming stable energy prices in international commodity markets), inflation may well have peaked at 4.6% in April. We expect inflation rates to subsequently decline. In the final quarter of 2022, inflation is again below 3.5% in the base case.

## United Kingdom

### Strong first quarter

#### GDP growth

Swiss Life Asset Managers	Consensus
2022: 4.1%	2022: 3.9%
2023: 1.7%	2023: 1.4%

Data published to date indicates that the UK economy probably posted the strongest growth among the major industrial countries in the first quarter. The service sector is particularly dynamic: for example, after the winter slump, hotels and restaurants returned to pre-pandemic levels in February. The positive development of services exports is a lot more important: they are as important in the UK as exports of goods and – seemingly unaffected by Brexit – they rose by 13.5% within a year. Domestic consumption spending has shifted from goods to services – real retail sales have been on a downward trend since their April 2021 peak. The real estate sector remains a major drag on the UK economy, its added value remained 2.4% below pre-pandemic levels in February 2022, with little prospect of a rapid recovery against a backdrop of rising interest rates. The second quarter got off to a more sluggish start: the April survey of purchasing managers showed signs of weakness, especially for the forward-looking components. Order growth declined in both the service and industrial sectors, especially for orders from abroad in industrials.

#### Inflation

Swiss Life Asset Managers	Consensus
2022: 7.0%	2022: 7.2%
2023: 3.5%	2023: 3.9%

Both headline and core inflation again surprised to the upside in March, rising to 7.0% and 5.7%, respectively. There may be a renewed inflationary surge in April as the regulated price cap for gas and electricity has been lifted. Average wage growth also accelerated, from 4.8% in January to 5.4% in February (no data yet available for March). As a result, the British are still less affected by real wage reductions than employees in many Eurozone countries.

## Switzerland

### Falling export momentum

#### GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.5%	2022: 2.6%
2023: 1.4%	2023: 1.8%

In Switzerland, domestic consumer behaviour remains unaffected by the outbreak of the war in Ukraine, and the recovery in international travel, measured by flight movements from Zurich, is ongoing. Private demand for goods and services is supported by the robust labour market situation and the lifting of the last remaining measures to contain the pandemic. In apparent contradiction to the above statements, the index of weekly economic activity (WEA) of the State Secretariat for Economic Affairs (SECO) points to a slowdown in economic momentum since the end of February. However, SECO points out that this slowdown is largely due to the normalisation of the previously high export volumes of pharmaceutical and chemical companies. The most recent values of the Purchasing Managers' Index SME compiled by Raiffeisen Switzerland indicate an upturn in the more domestically oriented economic sectors. We therefore still refrain from a significant downward revision of our GDP growth forecast for 2022: while at the beginning of the year we still expected average growth of 2.6%, our current estimate of 2.5% is only slightly lower. Over the same period, the consensus forecast fell from 3.0% to 2.6%.

#### Inflation

Swiss Life Asset Managers	Consensus
2022: 1.8%	2022: 2.0%
2023: 0.7%	2023: 0.9%

At 2.4%, the inflation rate in March 2022 again exceeded the upper end of the Swiss National Bank's target range of 0% to 2%. According to our calculations, inflation should exceed its cyclical peak in the second quarter. The high proportion of administered prices in the basket used to measure inflation entails a delay in the transmission of increased purchase prices, and inflation will therefore remain perceptible in 2023.

## Japan

### The state comes to the rescue

#### GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.0%	2022: 2.1%
2023: 1.6%	2023: 1.8%

In Japan, April's biggest economic policy topic was the plunge in the yen. Despite geopolitical risks, the Japanese currency has lost around 10% of its value against the US dollar since the beginning of March – mainly due to the widening interest differential. This makes imports more expensive, exacerbating the problem of rising energy prices in Japan – a country fully dependent on foreign fossil energy sources, with the exception of coal. Prior experience in Japan shows that imported inflation does not usually lead to significant wage increases or price increases for export goods, and ultimately has a negative impact on consumption and investment. Prime Minister Kishida's government has therefore announced a package worth 6.2 trillion yen (about EUR 45 billion) to cushion these looming negative effects. The package comprises a wide range of measures, including subsidies to fuel wholesalers, direct money transfers to low-income households, and government contributions to loan costs for small and medium-sized enterprises. Nevertheless, economic data have remained astonishingly stable. In April, the Purchasing Managers' Index for service providers once again moved above the growth threshold for the first time since December 2021, orders in industrials remained stable, and the unemployment rate fell to a modest 2.6% in March.

#### Inflation

Swiss Life Asset Managers	Consensus
2022: 1.7%	2022: 1.6%
2023: 0.7%	2023: 1.0%

Inflation is also rising in Japan, albeit from very low levels. Headline inflation moved from 0.9% to 1.2% in March, while the Japanese core inflation variant, which excludes perishable food and energy, rose from -1.0% to -0.7%. Inflation will continue to rise, but probably not to the extent that the Bank of Japan will have to change its expansionary monetary policy.

## China

### Lockdown threatens economy

#### GDP growth

Swiss Life Asset Managers	Consensus
2022: 4.5%	2022: 4.9%
2023: 5.2%	2023: 5.1%

Although China's first-quarter economic growth was stronger than expected at 4.8% year-on-year, the Omicron wave left its mark on the March economic data, which showed a marked slowdown. As the financial metropolis Shanghai did not enter a lockdown until the end of March, the economy will plummet sharply in the second quarter. High frequency indicators such as daily car sales and mobility indicators already indicate growing weakness in April. Hence, we expect China's economy to contract in the second quarter relative to the first three months of the year and revise our growth forecast to 4.5% from 5% previously. As many other provinces are taking precautionary measures to avoid such a harsh lockdown, Covid cases outside Shanghai have so far largely been contained. In view of this approach, there is reason to believe that China will not enter into a situation requiring a nationwide lockdown. However, the rapid spread of the Omicron wave remains a major risk to our outlook. In addition, disruptions to logistics chains are weighing on manufacturing activity in the country, while congestion at the world's largest container port is also increasing. The Shanghai lockdown thus not only weighs on the domestic economy but also threatens global supply chains.

#### Inflation

Swiss Life Asset Managers	Consensus
2022: 2.3%	2022: 2.1%
2023: 2.0%	2023: 2.2%

China's inflation rate stood at a modest 1.5% in March. While the global increase in agricultural prices has led to higher prices of selected items such as flour and edible oil, pork prices, which account for around 2.5% of China's consumer price index, are being dragged down by growing supply. In addition, lockdown measures, which are dampening consumer spending, will keep core inflation at a low level.

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