Perspectives
Economics

March 2023

Key takeaways

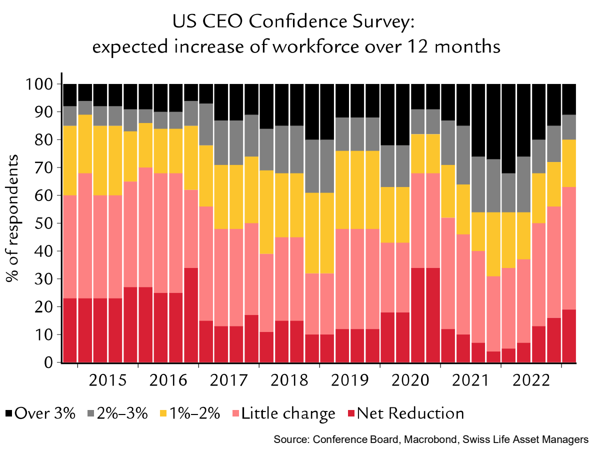
- USA: a good start to the new year, but additional pressure on the US Federal Reserve to hike interest rates
- Eurozone: inflationary pressure from the energy side is easing, but second-round effects have intensified
- China: the economy continues to recover, driven by an upturn in the services sector

Comparison of forecasts

	2023 GDP growth		2024 GDP growth		2023 inflation		2024 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	0.9% ↑	0.7% ↑	0.6% ↓	1.1%	4.2% ↑	3.9% ↑	2.5%	2.5%
Eurozone	0.6%	0.4% ↑	1.1%	1.2%	6.0% ↓	5.5% ↓	2.5% ↓	2.4%
Germany	0.1% ↓	-0.1% ↑	1.0%	1.4%	6.0%	6.2% ↓	2.3% ↓	2.7% ↓
France	0.5%	0.4% ↑	1.3%	1.2%	4.8%	4.8%	2.3%	2.3% ↑
Italy	0.5%	0.4% ↑	0.7%	1.0% ↓	6.5% ↑	6.4% ↓	2.0% ↑	2.2%
Spain	1.2%	1.2% ↑	1.6%	1.9% ↓	5.0% ↑	3.9% ↓	2.5% ↓	2.7% ↑
UK	-0.5% ↑	-0.8% ↑	0.6%	0.7% ↑	6.5% ↓	6.7% ↓	2.7%	2.9% ↓
Switzerland	0.7% ↓	0.6% ↑	1.5%	1.6% ↓	2.3%	2.2%	1.5%	1.2%
Japan	1.0% ↓	1.1% ↓	0.6%	1.1%	2.4%	2.1% ↑	0.7%	1.2%
China	4.9%	5.2% ↑	5.2%	5.1% ↓	2.4%	2.4% ↑	2.4%	2.3%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 13 February 2023

Chart of the month



The US labour market is buzzing, making a recession appear unlikely. The problem, however, is that employment and unemployment figures are lagging behind the economy. Looking ahead, the large number of job openings does not yet point to a marked turnaround on the labour market, although the official figures paint a better picture than alternative indicators using online job advertisements. What is interesting, however, is that medium-term employment plans have normalised according to a Conference Board survey of CEOs, and US SMEs are also becoming more cautious again according to the NFIB survey. This suggests a certain amount of easing on the US labour market.

USA
Successful start to the new year

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.9%	2023: 0.7%
2024: 0.6%	2024: 1.1%

The US economy sent out strong signs of life in January. Following a poor Christmas season, US consumers fought back and generated a surge in revenues in both the goods and services sectors in January. This was also reflected in a notable improvement in the ISM survey of service providers, which in the previous month fell to recessionary levels. Anecdotally, both the weakness in December and the strength in January were boosted by weather effects, i.e. a strong winter onset in December and unusually high temperatures in much of the US in January, which particularly boosted restaurant sales. However, continued solid survey data in February showed that January was probably not a one-off event and that the recession that many are expecting is not yet imminent (see chart of the month). The fact is, however, that the strong economic and inflation figures are likely to induce the Fed to make even more interest rate hikes, and thus increase the likelihood of a recession down the road. We also continue to anticipate a mild US recession in the baseline scenario, but have postponed the onset of the economic downturn to the second half of 2023, with the risk of the US economy remaining above water for even longer.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 4.2%	2023: 3.9%
2024: 2.5%	2024: 2.5%

For once, the publication of the Personal Consumption Expenditures Price Index ("PCE"), the US Federal Reserve's preferred measure of inflation, stole the show from the consumer price index. As it is published with a delay, it usually receives little attention. In January, however, both headline and core PCE inflation rose contrary to expectations – to 5.4% and 4.7% respectively. The persistently high core inflation, which is still far from the Federal Reserve's 2% target, has recently fuelled expectations of further interest rate hikes by the Federal Reserve.

Eurozone
A green industrial plan

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.6%	2023: 0.4%
2024: 1.1%	2024: 1.2%

Following the renewed downward revision of German GDP growth for the fourth quarter of 2022 and the negative disappointment in December regarding industrial production, there is also a slight downside risk to the final GDP estimate in the Eurozone (published after the editorial deadline). We are maintaining our cautious growth path for 2023, and do not see any major growth drivers in 2024 either. An upside risk in the medium term may arise from higher government spending and regulatory simplifications in the EU in response to the US Inflation Reduction Act. Due to the planned subsidies for sustainable investments and further protectionist measures in the US, Europe sees its competitiveness at risk. The EU therefore unveiled its Green Deal Industrial Plan at the beginning of February. This is based on the pillars of a predictable and simplified regulatory environment, faster access to funding, enhancing skills and open trade for resilient supply chains. However, there is currently no funding envisaged beyond the funds already planned under the NGEU and the REPowerEU programmes, and the exact implementation remains unclear.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.0%	2023: 5.5%
2024: 2.5%	2024: 2.4%

The inflation figures for January were strongly influenced by technical changes. Core inflation generally surprised on the upside and the new weighting in the harmonised price index has increased the contributions of the core components to our inflation path. However, due to the further easing of the energy situation, we no longer expect energy costs for households to rise again in the second quarter of 2023. The gas supply currently appears secure in the winter of 2023/24, but the risks remain high.

Germany
New inflation story

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.1%	2023: -0.1%
2024: 1.0%	2024: 1.4%

Following the disappointing retail sales and industrial production figures in December, GDP growth was revised downwards again from -0.2% to -0.4% for the fourth quarter of 2022. Sentiment seems to have brightened somewhat for the first quarter of 2023. The Purchasing Managers' Index (PMI) for the services sector continued to recover and is now well above the 50-point growth threshold again, which can also be attributed to the milder weather. According to the ifo survey, expectations have improved most in the catering sector, where they are now back in positive territory for the first time since June 2022. Employment expectations also rose most in this sector. The PMI for manufacturing has recently remained below 50, although a further normalisation of delivery times largely explains the negative surprise. The ifo survey shows that, despite recent slight increases, expectations are positive for only five of the 24 manufacturing subsectors, with the highest expectations currently being for clothing manufacturers. According to GfK, the consumer climate for February improved for the fifth time in succession, but remains historically low. We continue to expect negative growth in the first quarter and thus a technical recession in Germany. We do not see any significant growth drivers in the following quarters and therefore only a weak recovery.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.0%	2023: 6.2%
2024: 2.3%	2024: 2.7%

The inflation figures for January were lower than expected at 8.7%, mainly due to technical changes (new weightings and indexation to 2020). The inflation rate for 2022 is now calculated at 6.9% instead of 7.9%. Higher-than-expected core inflation and lower-than-expected energy weights are leading to higher inflation forecasts for this year. However, we no longer expect energy costs to rise again in the second quarter.

France
Persistent inflation

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.4%
2024: 1.3%	2024: 1.2%

The signals regarding the economic trend in the first quarter of 2023 remain mixed: business sentiment in the services sector improved according to both the Purchasing Managers' Index (PMI) and the survey by the INSEE statistical office. However, purchasing managers in the manufacturing sector reported a renewed decline in orders from abroad. We are leaving the GDP growth forecast unchanged and note that the consensus forecast for 2023 has come closer to our own assessment. The slowdown in economic momentum as a result of the higher living and financing costs has been confirmed. The latest quarterly survey by the European Central Bank shows that France's banks have significantly tightened the conditions for lending to businesses and households recently. As a result, the normalisation of monetary policy has now arrived in the real economy. An important feature of the expected weak growth in many developed countries remains the fact that it will not lead to a sharp rise in unemployment, in our view. In the case of France, for example, this is confirmed by the February survey of purchasing managers: despite a decline in production and a negative trend in order intake, companies are continuing to hire additional staff.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 4.8%	2023: 4.8%
2024: 2.3%	2024: 2.3%

As anticipated, the inflation rate temporarily rose again at the beginning of the year. In particular, the passing on of electricity prices to private households was included in the provisional calculation of the consumer price index for February. However, this alone is not enough to explain the rise in annual inflation to 6.2%, the highest level since the introduction of the euro. Among other things, food inflation remains stubbornly high.

Italy
Energy crisis overcome for now

Italy, like the rest of Europe, has weathered the energy crisis well thanks to a mild winter. In contrast to other countries that are heavily dependent on gas imports, such as Germany, industry and households reduced their gas consumption by only 3% and 4% respectively in 2022 (compared to the average for 2019-21). This is surprising because electricity and gas prices for households have risen more in Italy than in Germany, France or Spain. However, with the recent decline in wholesale prices for electricity and gas, some relief for strained household budgets is expected here in 2023. Consumer sentiment improved significantly in February, particularly as households have a better assessment of their future financial situation. Combined with an astonishingly stable political situation, gradual improvements in the labour market and an abundance of Next Generation EU funding, Italy is expected to return to moderate economic growth following the winter slowdown despite monetary policy tightening by the ECB.

Spain
Labour market reforms take hold

Historically, Spain has one of the highest unemployment rates in Europe. This can be attributed in particular to structural factors and to a high share of fixed-term employment contracts compared to the European average. In order to address these structural problems, a number of labour market reforms have been launched in recent years. The last one was introduced at the beginning of 2022, and is mainly aimed at regulating fixed-term contracts. It is still a bit early to assess the full impact of the reform. However, what can already be seen in the data is a marked reduction in the share of very short-term contracts (< 7 days) and a clear shift towards permanent contracts. This development could explain why the Spanish labour market has proved very robust over the past year. Despite a marginal increase in the unemployment rate in Q3 and Q4 2022, the number of vacancies remains relatively high.

Switzerland
Renewed rise in inflation

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.6%
2024: 1.5%	2024: 1.6%

Surprisingly, Switzerland's gross domestic product (GDP) stagnated in the final quarter of 2022. The figures published by the State Secretariat for Economic Affairs (SECO) on 27 February point in particular to a negative contribution to growth in the construction sector. However, after revisions to the figures for the previous quarters, there is still strong average growth of 2.1% year-on-year for 2022 as a whole. We are sticking to our basic assumptions that the risk of a technical recession in the form of two consecutive quarters of negative growth is low, and that the economic slowdown will have little impact on the labour market. Our GDP growth forecast for 2023 remains slightly above the consensus estimate. The unemployment rate is expected to rise slightly from 1.9% at present to 2.1% over the course of the year. A striking feature of the current economic situation is the increased volatility of the high-frequency data available so far for 2023. In particular, the manufacturing sector outside the cyclically resilient chemicals and pharmaceuticals sector remains shaped by the slowing momentum of the global economy. However, according to surveys of purchasing managers, the more domestically oriented services sector is expanding.

Inflation

Swiss Life Asset Managers	Consensus
2023: 2.3%	2023: 2.2%
2024: 1.5%	2024: 1.2%

The inflation rate rose in January as expected to 3.3%. A large number of prices in Switzerland are set according to administrative criteria. The rise in electricity prices is therefore only now having an impact on the consumer price index. A similar trend will be observed for residential rents over the next two years. Following the expected increase in the mortgage reference interest rate, existing rents will rise from October 2023. The inflation rate is therefore set to rise and fall over the coming months.

UK
Improved sentiment

GDP growth	
Swiss Life Asset Managers	Consensus
2023: -0.5%	2023: -0.8%
2024: 0.6%	2024: 0.7%

The UK economy narrowly escaped a technical recession last year. GDP growth was 0.0% in the fourth quarter of 2022 compared to the previous quarter, after the UK economy contracted by 0.2% in the third quarter. Household consumption in the fourth quarter was slightly positive – despite the high inflation which is weighing on purchasing power. Although the fourth quarter was more robust than expected, the annual results were poor, with significantly negative monthly growth in December. The services sector in particular faltered towards the end of the year. Since the beginning of the year, however, forward-looking indicators in particular suggest that sentiment in the economy as a whole has improved somewhat. The Purchasing Managers' Indices rose sharply in February, mainly due to the services sector. However, we continue to expect the UK to fall into a recession in 2023, albeit a somewhat weaker one than previously assumed. The nationwide strikes continued in January and February. In addition, inflation, particularly food prices, remains at a high level, despite the decline in January. This is set to continue to put pressure on household purchasing power. In addition, the tighter monetary policy is likely to restrict investments, and fiscal policy will offer less support in 2023 compared to the previous year.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.5%	2023: 6.7%
2024: 2.7%	2024: 2.9%

Inflation was significantly lower than expected at 10.1% in January. This is due in particular to a sharp fall in service prices and to the updating of calculation weights at the beginning of each year. We expect the inflation problem in the UK to remain persistent. The robust labour market should continue to keep wage pressure high.

China
Recovery brought forward

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 4.9%	2023: 5.2%
2024: 5.2%	2024: 5.1%

China's economic recovery is gaining momentum. The Chinese New Year did not trigger a second Covid wave and, according to anecdotal reports, the health situation is returning to normal. Meanwhile, daily mobility indicators and cinema revenues have already exceeded pre-pandemic levels. In addition to the mobility and service indicators, which are picking up again due to the lifting of Covid restrictions, there are also initial signs of an improvement in the real estate sector. For the first time in 16 months, prices for new homes have not fallen, but have stabilised compared to the previous month, which may be due to the increasing easing stance of regulators towards the sector. However, despite the constructive growth outlook, there are various developments that are limiting the recovery. House sales are still down sharply year-on-year, major purchases such as cars so far remain weak, and at the same time the export sector will no longer boost the economy as it did last year, as global growth is slowing. We are therefore sticking to our growth forecast of 4.9% for this year, which is below the consensus expectation.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 2.4%	2023: 2.4%
2024: 2.4%	2024: 2.3%

The lifting of Covid restrictions has led to a significant increase in demand for travel and entertainment, which is also reflected in the January inflation figures. Core inflation rose slightly to 1% from 0.7% in the previous month. However, as price pressure is still moderate and the economic recovery needs support, the central bank could cut interest rates further.

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