

June 2023

Key messages

- USA: tighter conditions and lower demand for corporate credit as a warning signal
- Eurozone: first signs of weakness on the labour market, gap between industry and services widening
- China: the Chinese economy's recovery already seems to be losing speed

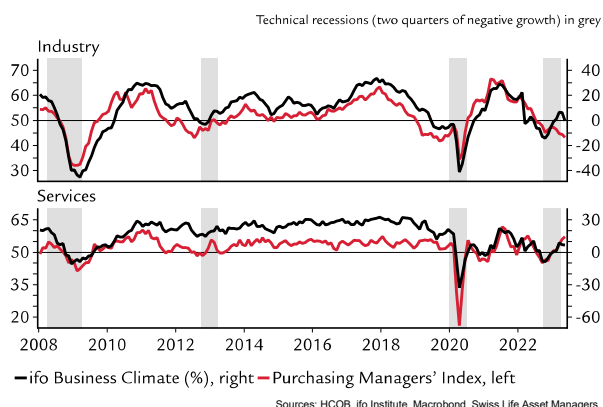
Comparison of forecasts

	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%	1.1%	0.6%	0.6% ↓	4.2%	4.2% ↓	2.5%	2.6%
Eurozone	0.7%	0.7%	0.8% ↓	0.9% ↓	5.5% ↓	5.5%	2.4% ↓	2.4%
Germany	-0.2% ↓	0.1%	0.6% ↓	1.1% ↓	6.0% ↓	6.2% ↑	2.3% ↓	2.7%
France	0.6% ↑	0.6% ↑	0.9% ↓	0.9% ↓	4.8% ↓	5.4% ↑	2.1% ↓	2.6% ↓
Italy	1.1% ↑	0.8% ↑	0.6%	0.9% ↓	6.1% ↓	6.1% ↑	2.1% ↓	2.4%
Spain	1.8% ↑	1.6% ↑	1.2% ↓	1.6% ↓	3.9% ↓	4.1% ↑	2.5% ↓	2.8%
UK	0.0% ↑	-0.1% ↑	0.4% ↓	0.8%	7.4% ↑	6.7% ↑	2.8% ↑	2.8%
Switzerland	0.7%	0.7%	1.5%	1.4% ↓	2.1% ↓	2.5% ↓	1.6% ↑	1.5%
Japan	0.9%	1.0% ↓	0.7% ↑	1.1%	2.7% ↑	2.6% ↑	0.7%	1.4%
China	5.8%	5.8% ↑	5.2%	4.9% ↓	1.7% ↓	1.8% ↓	2.2% ↓	2.4%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 9 May 2023

Chart of the month

Business Surveys for Germany



While business sentiment in the services sector remains brighter, in industry it is deteriorating significantly, according to the Purchasing Managers' Index and the ifo survey. Only four out of 22 sectors within industry have positive expectations for the next six months. Pharmaceutical manufacturers are the most optimistic. The greatest pessimism reigns amongst manufacturers of wood products excluding furniture. We think that the gap between industry and services will narrow over the next few months largely at the expense of service providers.

USA

Lower credit demand

GDP growth

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

First-quarter GDP growth in the USA was surprisingly weak, driven by a strong inventory reduction. As such effects usually offset each other over the quarters, we have left the full-year growth forecast unchanged. In the first quarter, the pattern of the previous year was repeated: strong private consumption and declining investments. Solid retail and industrial data in April as well as initial signs of a positive trend reversal on the US housing market suggest that the second quarter was also off to a good start. However, the Federal Reserve's latest quarterly survey of US commercial banks is a cause for concern, in which most institutions once again reported tighter conditions and lower demand for corporate loans than in the previous quarter. The result of this survey is still at levels associated with recessions in the past. Furthermore, the dispute over raising the debt ceiling was still unresolved at the time of writing. Even if we expect a last-minute solution, the heightened uncertainty is likely to weigh on sentiment indicators. A solution is also likely to involve budget concessions. We therefore expect less fiscal support right when an economic slowdown is looming due to tighter monetary policy.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.2%	2023: 4.2%
2024: 2.5%	2024: 2.6%

April inflation numbers were once again in line with our expectations. Headline and core inflation fell by 0.1 percentage points each to 4.9% and 5.5%, respectively. Encouragingly, services inflation declined somewhat faster than we had expected, with housing cost inflation proving stubborn. In the context of the expected slowdown of the economy, however, the latter is also likely to slide increasingly and provide good arguments for the central bank to pause the interest rate cycle.

Eurozone

Weakness in the labour market?

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.7%
2024: 0.8%	2024: 0.9%

The labour market remains robust in the Eurozone, with the unemployment rate declining further to a historically low 6.5% in March. However, there are initial signs of weakness. While overall employment continues to rise in the Eurozone, temporary hiring, a possible leading indicator for the labour market, has shown a reversal in recent months, particularly in Germany and France. While the Purchasing Managers' Index (PMI) for manufacturing continues to reflect rising employment for the most part, which has even accelerated recently in Spain and Greece, overall, the Eurozone has seen a clear slowdown since mid-2023. In Austria, industrial employment fell in May, according to the PMI, for the first time since 2020. Moreover, surveys show that employment sentiment in France (Insee) and Germany (ifo) deteriorated noticeably in May. In the trade as well as in the real estate sectors, employment in Germany is expected to decline in the next three months. High-frequency Indeed job advertisements are also now down in France and Germany. We expect the economic slowdown to leave more traces on the labour market. In the medium term, however, demographic trends are likely to exacerbate the shortage of skilled workers and thus keep wage pressure elevated.

Inflation

Swiss Life Asset Managers	Consensus
2023: 5.5%	2023: 5.5%
2024: 2.4%	2024: 2.4%

Although the first estimate for May inflation in the Eurozone will not be published until after the editorial deadline, due to the lower-than-expected figures in Germany, France and Spain, we have already revised the value and thus the 2023 annual forecast downwards. According to the PMI, output prices in manufacturing declined slightly for the first time since 2020. What is likely to worry the ECB, however, is the resumption of price increases among service providers, with more reports of higher labour costs.

Germany

A winter recession after all

GDP growth

Swiss Life Asset Managers	Consensus
2023: -0.2%	2023: 0.1%
2024: 0.6%	2024: 1.1%

A downward revision of the growth estimate for the first quarter of 2023 to -0.3% showed that Germany was in a (technical) recession after all. The consumption component contributed negatively. Private consumption fell by 1.2% from the previous quarter, driven by lower real disposable income. Weaker than expected activity figures for March confirm the slump: retail sales fell by 2.4% from the previous month and thus by 2% cumulatively in the first quarter. Industrial production plummeted by 3.4% in March but still rose by 2.3% in the first quarter. Business sentiment indicators still show a mixed picture (see also chart of the month). However, we believe that the surprisingly positive momentum in the services sector is unsustainable. In industry, demand and expectations deteriorated more than expected and, according to the ifo business barometer, trade and construction are now in the recession quadrant (negative current business situation and negative expectations). Although we still believe that some reacceleration of growth is possible, especially as private consumption could recover somewhat on the back of falling inflation and wage increases, we are again lowering our growth path for the second half of 2023 and the beginning of 2024.

Inflation

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

Inflation posted a surprising result in May with 6.1% for annual growth and -0.1% for monthly growth, prompting us to revise our full-year forecast downwards. However, we still see stubborn core inflation driven by services prices. Producer prices in April saw the first monthly increase since October 2022. However, the annual change remains on a clear downward trend, and price pressure on the consumer goods side is likely to ease further over time.

France

Signs of a slowing labour market

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.6%	2023: 0.6%
2024: 0.9%	2024: 0.9%

France's labour market has recently made positive headlines: the unemployment rate fell below 7%, to its lowest level in over 40 years. At the same time, the employment rate reached a record level of 68.6% in the first quarter of 2023. However, there are signs of a cyclical deterioration. Both the traditional business surveys conducted by the statistical office Insee and the number of jobs advertised online by Indeed indicate an increasing reluctance on the part of employers in the second quarter. The monetary policy tightening by the ECB is now having an impact and reaching the real economy: almost two thirds of medium-sized enterprises report that financing costs have risen. According to figures from the Banque de France, the average interest rate for new loans was 3.7% in the first quarter of 2023, the highest value since spring 2009 and 150 basis points higher than in March 2022. Although France is likely to avoid a technical recession, economic momentum is slowing noticeably. Business sentiment deteriorated across all sectors in May, according to a range of available surveys. Positive momentum is still coming from foreign trade, including tourism.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.8%	2023: 5.4%
2024: 2.1%	2024: 2.4%

Preliminary figures for May show a marked decline in the inflation rate from 5.9% to 5.1%. We are revising our forecast for the full-year 2023 downwards slightly, which now differs significantly from the consensus expectation. The sharply declining momentum in producer prices points to a further easing of price pressure for manufactured goods at the consumer level. Energy prices are also currently contributing to a disinflationary trend.

Italy

Always good for a surprise

Italy remains the Eurozone country that has posted the most astonishing growth since the pandemic – apart from Ireland, which is booming at least on paper. Despite weak growth potential due to demographics, GDP in the first quarter of 2023 is 2.5% higher than before the pandemic. This puts Italy ahead of France (1.2% higher GDP than before the pandemic), Germany and Spain. In the latter two countries, GDP even remains at the level of the fourth quarter of 2019. And while the other EMU4 countries reported a decline or stagnation in private consumption in the first quarter of 2023, Italy's consumption continued to rise. Thus, the investment boom supported by government incentives and EU funds seems to have had significant multiplier effects. However, we remain doubtful as to whether the strong momentum can be sustained as the stimuli are coming to an end and are leaving the GDP growth forecast for 2024 unchanged at 0.6%, which is lower than the consensus expectation. However, we are revising the growth forecast for 2023 to 1.1% following the strong GDP data for the first quarter.

Spain

Further normalisation

At 0.5% quarter-on-quarter, the Spanish economy grew significantly faster than expected in the first quarter of 2023. However, the details were rather disappointing. Household consumption has fallen for the second consecutive quarter. While GDP is now back to almost the same level as in the fourth quarter 2019, private consumption still remains significantly below pre-pandemic levels. Most of the growth in the first quarter came from a sharp rise in tourism revenues. After a weak fourth quarter of 2022, investment spending also rose significantly again, supported by business investments and construction. On the back of strong GDP data for the first quarter, we are raising our growth forecast for this year to 1.8%. Inflation in Spain was also down more than expected in May thanks to falling energy prices and a less pronounced increase in food prices, as preliminary data show. At 6.4%, core inflation in particular also provided a negative surprise compared to the previous year.

Switzerland

Economy moving at a snail's pace

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.7%
2024: 1.5%	2024: 1.4%

Looking back on the first quarter of 2023, gross domestic product (GDP) figures were surprisingly positive. Buoyed by household consumption and robust investment activity by domestic firms, real GDP grew by 0.3% over the previous quarter. The data available so far on the course of economic activity in the current quarter looks less rosy. The sharp decline in survey values among purchasing managers in industry and the services sector is particularly noteworthy. Declining order intake shows that the industrial sector cannot completely decouple from global trends. The State Secretariat for Economic Affairs (SECO)'s indicator of weekly economic activity (WWA), which has been languishing since the beginning of the second quarter, has also recently shown a downward trend. Although demand from private households remains robust due to the labour market situation, we continue to expect cautious construction and investment activity in the coming months. Growth momentum from China is also noticeably lower than we had been hoped at the beginning of the year.

Inflation

Swiss Life Asset Managers	Consensus
2023: 2.1%	2023: 2.5%
2024: 1.6%	2024: 1.5%

Inflationary pressure in Switzerland continues to ease. Annual inflation for producer and import prices stood at just 1.0% in April. The recent appreciation of the Swiss franc against the euro and the US dollar is likely to have further amplified this trend over the past few weeks. Wholesale distributors have indicated that the retail price hikes may come to an end in the summer months. We expect the inflation rate at consumer level, i.e. measured by the annual rate of change of the Swiss Consumer Price Index, to drop below the 2% mark in June 2023.

UK More resilient than expected

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.0%	2023: -0.1%
2024: 0.4%	2024: 0.8%

Despite a weak March, British GDP grew by 0.1% in the first quarter. The UK economy was thus more resilient in the first quarter than we had expected. GDP growth in March was surprisingly negative (-0.3% compared to the previous month). The negative surprise was mainly driven by the services sector, while industrial production was strong. The Office for National Statistics cites the unusually rainy weather in March as a possible reason for the services sector weakness. The development of the Purchasing Managers' Indices (PMIs) stands in sharp contrast to GDP trends. The PMIs also show a wide gap between expectations for the manufacturing and services sectors in the UK. While both indices fell slightly in May, the industrial index at 46.9 is well below the growth threshold of 50. New order intake is particularly negative. The services index, which accounts for a much larger share of UK economic output, remains much more resilient at 55.1, despite the slight decline in May. We have again slightly raised our growth forecast for this year due to stronger growth in the first quarter. However, we still expect economic growth to be negative in the second half of the year due to tighter monetary policy.

Inflation

Swiss Life Asset Managers	Consensus
2023: 7.4%	2023: 6.7%
2024: 2.8%	2024: 2.8%

Inflation posted another upside surprise in April, but fell from 10.1% to 8.7% year-on-year. The main drivers were once again core goods and services prices. However, energy prices have fallen significantly due to base effects. We expect this trend to continue, but core inflation to remain stubborn. This should keep up the pressure on the Bank of England to hike interest rates further.

China Recovery loses momentum

GDP growth

Swiss Life Asset Managers	Consensus
2023: 5.8%	2023: 5.8%
2024: 5.2%	2024: 4.9%

Chinese economic data for April fell significantly short of expectations and are already pointing to a recovery slowdown. Industrial production grew by 5.6% in April, well below consensus expectations of 10.9%. Car production was strong, but the remaining components were weak. In May, the Purchasing Managers' Index (PMI) for manufacturing declined further below the growth threshold of 50. The services index also recorded its second consecutive decline in May, although at 53.8, it is still well above the 50 mark. While growth in retail sales in April was strong at 18.4% year-on-year, it also remained below expectations. The strong recovery was mainly driven by base effects due to the lockdown measures last year. Trade data also showed a slight slowdown recently, especially for imports. On the export side, exports to neighbouring ASEAN countries in particular fell sharply in April, while exports to the EU and the US remain weak. We continue to expect the recovery in China to be mainly driven by domestic consumption, in contrast to previous industry-driven upswings. Therefore, we see the positive spillover effects to Europe or the US as limited.

Inflation

Swiss Life Asset Managers	Consensus
2023: 1.7%	2023: 1.8%
2024: 2.2%	2024: 2.4%

China's consumer price inflation rate in April was again surprisingly low at 0.1% year-on-year. Producer prices were also once again more negative than expected and are clearly in deflationary territory at -3.6% year-on-year. The low price pressure also does not indicate an overheating economy and means that China is currently exporting disinflation rather than contributing to global price pressure as feared.

Economic Research



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