Perspectives
Economics

October 2023

Key takeaways

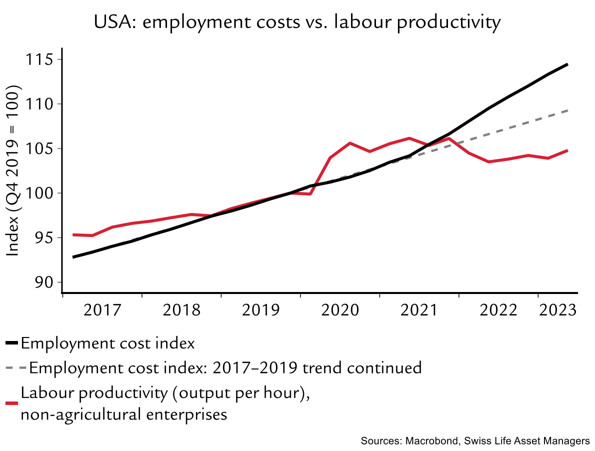
- USA: Rising real interest rates, tighter credit conditions and weak productivity are weighing on companies
- Eurozone: Energy prices rise due to lower supply, but starting position for winter remains positive
- China: Despite the economy stabilising in August, the recovery in China falls short of expectations

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	2.1%	2.1% ↑	0.4%	0.8% ↑	4.2% ↑	4.1%	2.8%	2.5% ↓
Eurozone	0.5%	0.5% ↓	0.6%	0.7% ↓	5.7% ↑	5.5%	2.6% ↑	2.5%
Germany	-0.4%	-0.4% ↓	0.2%	0.6% ↓	6.1% ↑	6.0%	2.5% ↑	2.7% ↑
France	0.7%	0.8% ↑	0.8%	0.8% ↓	5.0% ↑	5.0% ↓	2.4% ↑	2.7% ↑
Italy	0.8% ↓	0.8% ↓	0.5%	0.7%	6.0%	6.0%	2.1%	2.4% ↑
Spain	2.1%	2.2% ↑	1.2%	1.4%	3.8% ↑	3.6% ↑	2.3% ↓	3.0% ↑
UK	0.2%	0.3% ↑	0.3%	0.4%	7.3%	7.4% ↑	3.0% ↑	3.1% ↑
Switzerland	0.7% ↑	0.8% ↑	1.0%	1.3% ↓	2.2% ↑	2.3%	1.9% ↑	1.6% ↑
Japan	1.8%	1.8% ↑	0.6%	0.9% ↓	3.0%	3.1% ↑	1.6%	2.0% ↑
China	5.0%	5.0% ↓	4.7%	4.5% ↓	0.5%	0.7% ↓	1.2%	1.8% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 11 September 2023

Chart of the month



In the US, a gap between wage costs and labour productivity has opened since mid-2021. Between early 2017 and mid-2021, wage costs for US companies increased by 2.7% per year, offset by almost equally high productivity growth. From mid-2021, however, wage costs took off and grew by 4.8% per year up to mid-2023, while labour productivity actually declined. In an initial phase, companies were able to pass on the higher costs to consumers, which fuelled inflation. This has now become more difficult, and the higher wage costs are putting pressure on companies' operating margins.

USA
Higher real rates a curbing factor

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 2.1%	2023: 2.1%
2024: 0.4%	2024: 0.8%

The most recently published US data showed a slight slowdown in economic activity in August in line with our expectations. However, labour market data surprised on the upside, with solid employment growth in August and lower initial applications for unemployment benefits in September. This prompted some market participants and economists to see lower recession risks, which was reflected in higher long-term interest rates and higher GDP growth in 2024 in the Consensus Economics survey. While we do not expect an immediate recession, we remain more cautiously positioned for 2024. The latest S&P Purchasing Managers' Indices showed initial signs of weakness on the services side, while the new business subindex fell below the growth threshold of 50. Much more important, however, is the rise in real interest rates. Adjusted for inflation expectations, a 10-year US government bond currently yields over 2%, the highest level since 2008. Companies are thus facing significantly higher real interest rates, tighter credit conditions and increased margin pressure as a result of rising wage costs (see chart of the month). On the distribution side of GDP, the share of income going to companies is actually down year-on-year. This has historically been a bad omen for private investments and the US economy.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 4.2%	2023: 4.1%
2024: 2.8%	2024: 2.5%

Due to rising petrol prices, headline inflation rose further in August, from 3.2% to 3.7%. However, core inflation, which excludes energy and food, fell further as expected, from 4.7% to 4.3%. Nevertheless, in our view a significant economic slowdown will be necessary for core inflation to decline further to below 3% in accordance with our forecast for the second quarter of 2024.

Eurozone
Rising energy prices

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

A year ago, the eurozone was anticipating the energy situation in the coming winter with concern. Although the gas storage facilities were 87% full at the time, Russia had just announced the official halting of gas deliveries via Nord Stream 1. The worst fears did not materialise, however. Today, the gas storage facilities are in fact unusually full for this time of year at 95%. Various longer-term weather models are also predicting another mild winter. However, having approached their pre-crisis levels during 2023, energy prices have recently risen again. In the gas market, a strike at Australian gas producer Chevron, which produces 7% of global liquefied natural gas, has caused short-term volatility. The conflict in Azerbaijan is another uncertainty, as the EU wishes to double its gas imports from the country by 2027. At present, however, Azerbaijan accounts for only 3% of EU gas imports. The price increases for petrol and diesel have been driven by supply restrictions by the OPEC+ countries Saudi Arabia and Russia. For the next three months, we see further upside risks here against stable demand. In 2024, flexible producers such as the US could increase supply and the slowing economy dampen demand, thus contributing to a normalisation of oil prices.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 5.7%	2023: 5.5%
2024: 2.6%	2024: 2.5%

Consumer prices for gas and electricity only partially reflect wholesale price developments. They did not increase to the same extent last year, and have since mostly remained at their elevated level. The recent volatility in the gas market should therefore be negligible for consumer prices. However, we have raised our inflation forecast for this year due to rising petrol and diesel prices, which are reflected more directly in consumer prices.

Germany
Stabilisation at low levels

GDP growth

Swiss Life Asset Managers	Consensus
2023: -0.4%	2023: -0.4%
2024: 0.2%	2024: 0.6%

The latest survey data amongst purchasing managers (PMI) and the ifo Institute suggests that sentiment in German industry has stabilised, albeit at very low levels. While the PMI shows a slight upturn in new orders, the downward trend in expected future output has now resumed following a brief pause in the previous month, and the employment component also fell further below the growth threshold of 50. The low point of pessimism in German industry may have been reached, but a quick return to optimism is not to be expected. In the services sector, the recovery of the overall PMI almost back to 50 belied weak sub-components. The employment index fell below 50 for the first time since the pandemic, and business expectations are only marginally positive. The ifo survey also showed a further deterioration in the shaken construction sector to its lowest level since 2009, driven by both the current situation and expectations. In the residential sector, 21% of the companies surveyed in August reported project cancellations, and around 12% complained of financial difficulties – levels not seen since the survey began in 1991. The latest rate hike by the ECB, which we did not expect, is likely to dampen sentiment in this sector further.

Inflation

Swiss Life Asset Managers	Consensus
2023: 6.1%	2023: 6.0%
2024: 2.5%	2024: 2.7%

August headline inflation eased less than expected to 6.2%. There were upside surprises in energy prices as well as in service and core goods prices. Core inflation thus remained at 5.5%. We expect it to fall below 5% in the coming months, but see risks on the upside. In particular, costs in the services sector are rising faster again according to the PMI.

France
Growth below potential

GDP growth

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

Preliminary September data for the Purchasing Managers' Index indicates a further slowdown in momentum for both manufacturing and service providers. By contrast, according to a separate survey conducted by the INSEE statistical office, business sentiment in manufacturing has recently improved slightly. Another positive outcome of this survey is that, for the first time this year, companies' employment plans were not restricted any further. A similar conclusion can be drawn from data from the online job platform Indeed, according to which the seasonally adjusted number of job advertisements placed has risen noticeably again since the end of July. Declining global demand and cautious investment behaviour by companies as a result of the increase in financing costs are only being partially offset by one-off effects from major public infrastructure programmes and mass events such as the Rugby World Cup currently taking place and the 2024 Olympic Games. We expect the French economy to grow below its long-term potential until mid-2024. With the end of the cycle of interest rate hikes, planning security should return among long-term oriented investors and project developers. There are already signs of a slight recovery in residential building permits.

Inflation

Swiss Life Asset Managers	Consensus
2023: 5.0%	2023: 5.0%
2024: 2.4%	2024: 2.7%

The recent increase in crude oil prices caused the price of fuel at petrol stations to climb to a high for 2023. We are reflecting this development with an upward revision of our inflation forecast. Fiscal countermeasures are currently being discussed again to safeguard the purchasing power of the households particularly affected. Meanwhile, surveys are showing a continuation in the trend towards lower selling prices in the goods sector.

Italy
Hangover mood on Ferragosto?

The latest economic data shows that the Italian economy, which has been booming over the past two years, is also unable to avoid the global headwinds. Precisely in August, the most important holiday month of the year, service providers complained of declining new business for the first time since November 2022. While activity figures such as retail sales are not yet available for this month, price developments in the services sector suggest weak price-setting power and therefore presumably weaker demand. Service providers complained in the S&P Purchasing Managers' Survey that their input prices were growing faster than their output prices. Services inflation, which was still a key inflation driver in Italy until May 2023, came to a standstill in July and August 2023 according to our calculations. We are therefore refraining from revising our inflation forecasts despite higher energy prices, and remain more cautiously positioned than the consensus for both inflation and economic growth in the coming year.

Spain
The struggle for government

Forming a government in Spain remains difficult. Following the unclear outcome of the July elections, opposition leader Alberto Núñez Feijóo, who won the election, was tasked with forming a government. So far, however, he has not succeeded in finding a parliamentary majority for a government. There will be two installation votes in the parliament (after our editorial deadline). We do not expect Feijóo to achieve the required majority. If Feijóo does indeed lose the votes, this will mark the start of a two-month period during which the current Prime Minister, Pedro Sánchez, will have the opportunity to form a government. His chances are considered to be slightly higher, as he is willing to enter into talks with the Catalan separatist party. Should Sánchez also fail to form a government, new elections will be held in January.

Switzerland
Extensive explanation required

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.8%
2024: 1.0%	2024: 1.3%

Commenting on the Swiss economy has been made more rather than less difficult by the latest publication of quarterly GDP figures. Although zero quarter-on-quarter growth in the second quarter of 2023 was broadly in line with expectations, revisions to the figures for the previous quarters – some of them significant – now entailed an average annual rate of change in gross domestic product in 2023 almost double that originally assumed. If we now project growth of 0.7%, this actually means that we are revising our assumptions for economic development in the second half of 2023 downwards. The reasons for this include signals from the purchasing managers surveys (PMI). In particular, the data for the manufacturing PMI points towards a further decline in economic momentum in manufacturing over the coming months. Moreover, little impetus is to be expected from private consumption. Household budgets will be burdened in the coming year by tax increases, rent increases and around 18% higher electricity tariffs.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 2.2%	2023: 2.3%
2024: 1.9%	2024: 1.6%

Our revised inflation forecast includes three new pieces of information: Firstly, higher energy prices are currently driving up the cost of petrol and heating oil. Secondly, data is now available on the increase in electricity tariffs for private households in 2024. And last but not least, it is also conceivable that the mortgage reference interest rate will be raised again on 1 June 2024 following the key date of 1 December 2023. We are accordingly bringing forward an increase in rents previously expected for 2025 to the final quarter of 2024. Higher rents are thus contributing 0.8 percentage points to the expected annual inflation for 2024.

UK
Autumn is just around the corner

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.2%	2023: 0.3%
2024: 0.3%	2024: 0.4%

The expected slowdown came in July. Monthly GDP growth for July was significantly weaker than expected at -0.5% compared to the previous month. All three sectors – services, construction and manufacturing – posted negative growth. The decline in the services sector was particularly surprising. The strikes in the healthcare sector appear to have had a larger negative impact on activity than previously expected. The preliminary PMIs for September also point to slowing growth momentum. Although the manufacturing index has risen slightly, it remains very low, while the services index has fallen sharply. The employment component in particular shows a sharp deterioration, which is also in line with other labour market indicators. The unemployment rate has continued to rise and shows a clear upward trend. The number of vacancies and the number of hours worked are declining. However, wage growth remains high, and was above the inflation rate in July for the first time since March 2022. This is good news for UK consumers, which is also reflected in improving consumer confidence. However, we still expect growth to slow in the second half of 2023 due to tighter financing conditions.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 7.3%	2023: 7.4%
2024: 3.0%	2024: 3.1%

The inflation rate in August was significantly lower than expected at 6.7%. The decline was broad-based. Core and services inflation also fell significantly. This led to a surprising rate decision by the Bank of England (BoE), which left key interest rates unchanged. However, the BoE continues to stress its commitment to further rate hikes if there are signs of persistent inflationary pressure.

China
No more than a stabilisation

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 5.0%	2023: 5.0%
2024: 4.7%	2024: 4.5%

After a weak July, activity data in China surprised to the upside in August. Both industrial production and retail sales saw an unexpected improvement in growth compared to the previous month. The strong recovery in retail sales was particularly surprising as it contrasts with the decrease in the PMI for the services sector in August. Higher revenues in sectors that benefited particularly from the summer holidays, such as restaurants, accommodation and travel, were the main drivers. Industrial production was mainly supported by a recovery in automobile production and the production of solar batteries. These are both sectors that are likely to have benefited from the political support measures introduced. The turnaround in producer prices is another indication that the industrial sector is slowly stabilising again. Although producer price inflation is still in deflationary territory, developments in recent months have shown an upward trend. In addition to activity data, foreign trade data also improved slightly in August compared to the previous month. While economic data hints at a slight stabilisation, the Chinese real estate sector again showed no signs of improving in August.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.7%
2024: 1.2%	2024: 1.8%

All in all, it looks as if the support measures introduced by the government could finally be having a visible impact on the economic data. While this is a welcome development, we still do not expect these measures to boost growth significantly; rather, they are likely to have a stabilising effect.

Economic Research

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Forecast Accuracy Award Winner
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