Perspectives

Economics

February 2024

Key takeaways

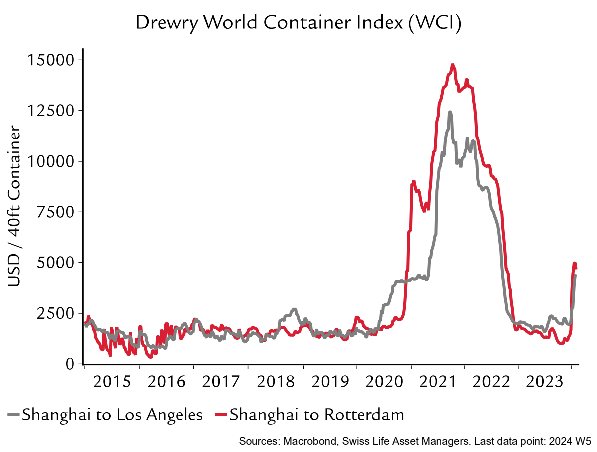
- Attacks on ships in the Red Sea lead to higher transport costs, but with limited inflation risks
- Survey data suggests that the US had a better start to 2024 than Europe
- China: Real estate crisis and gloomy sentiment are causing weak growth and deflation

Comparison of forecasts

	2024 GDP growth		2025 GDP growth		2024 inflation		2025 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	1.9% ↑	1.4% ↑	1.6%	1.7%	2.8%	2.6%	2.4%	2.3%
Eurozone	0.4% ↑	0.5%	1.0%	1.3%	2.2% ↑	2.2% ↓	1.9%	2.0%
Germany	0.0%	0.3% ↓	1.0%	1.2%	2.1%	2.5% ↓	1.9%	2.1%
France	0.7%	0.7%	1.0%	1.3%	2.1%	2.5% ↑	1.7%	1.9%
Italy	0.5% ↑	0.5%	0.8%	1.0%	1.7%	2.0% ↓	1.9%	1.8%
Spain	1.3% ↑	1.3%	1.6%	1.8%	2.7% ↑	2.9% ↓	2.1%	2.1%
UK	0.3% ↓	0.2% ↓	1.0%	1.0%	3.0%	2.7% ↓	2.4%	2.2%
Switzerland	1.0%	1.2% ↑	0.9%	1.6%	1.7%	1.5% ↓	0.9%	1.2%
Japan	0.6% ↓	0.8% ↓	0.7%	1.0%	2.0% ↑	2.2% ↓	1.4%	1.5%
China	4.5% ↓	4.6%	4.4%	4.3%	1.0%	1.2% ↓	1.9%	1.7%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 9 January 2024

Chart of the month



The rapid increases in transport prices since December as a result of the attacks on ships in the Red Sea are bringing back memories of the pandemic and thus inflation fears. However, several factors do not support a similarly strong rise in goods prices. On the supply side, there is currently no global shortage of goods or container ships. The lengthening of delivery times is less pronounced and more predictable. At the same time, demand for goods is tending to decline, whereas it exploded during the pandemic. This is likely to reduce companies' price-setting power. We are now keeping a particularly close eye on the development of import and producer prices.

USA
Upturn in sentiment

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.9%	2024: 1.4%
2025: 1.6%	2025: 1.7%

The US economy seems to be defying gravity and posted surprisingly strong growth in the fourth quarter of 2023, which also pushed up our forecast for 2024. Once again, however, the drivers were one-sided, with private and government consumption almost the only areas supporting growth, while investments stagnated. Nevertheless, since the Federal Reserve's rhetorical turnaround in December 2023, long-term interest rates have fallen, and sentiment among US companies and especially among real estate market participants has brightened somewhat. Consumer sentiment also improved on the back of falling inflation and booming equity markets, although the correlation with actual consumption is mostly low. We are therefore still expecting a slowdown in consumption due to the cooling labour market and dwindling surplus savings. With regard to the US budget crisis, the tone between the Democrats and Republicans has become more constructive. Even if the budget for 2024 has not yet been finalised, the majority leaders in the two chambers of parliament have at least agreed on an expenditure framework that is set at the same level as the previous year. In this respect, a government shutdown could be averted, resulting in a more neutral growth contribution to government consumption instead of the feared fiscal brake in 2024

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.8%	2024: 2.6%
2025: 2.4%	2025: 2.3%

The consumer expenditure deflator for core goods ("core PCE," excluding food and energy) increased by only 1.9% on an annualised basis in the second half of 2023. This measure of inflation is highly respected by the US Federal Reserve, and was thus in line with the 2% inflation target. We expect the inflation development in 2024 to provide the Fed with scope for the first interest rate cuts from June onwards, with inflation risks pointing to the upside due to robust consumption.

Eurozone
Weak start to the year

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.4%	2024: 0.5%
2025: 1.0%	2025: 1.3%

Instead of the anticipated slight decline, the eurozone economy stagnated in the fourth quarter of 2023 according to the initial estimate, thus avoiding a technical recession. The overall development remains weak, however. Neither does the survey data at the beginning of the year show any marked improvement. The Purchasing Managers' Index (PMI) for manufacturing remains well below the growth threshold of 50 despite the recent uptick. Around 30% of the improvement was due to the lengthening of delivery times, which was caused by the attacks on ships in the Red Sea and is therefore not to be seen as a positive factor. The services PMI fell short of expectations in January with an accelerated fall in outstanding business. Consumer confidence also weakened in January, despite a slight increase in real wages in the eurozone. The eurozone is thus likely to have had a sluggish start to the new year. Nevertheless, the latest bank surveys show that credit conditions have only been tightened a little further, and banks are not expecting demand for mortgages and corporate loans to decline any further in the next three months. There are therefore initial signs that the transmission of higher interest rates via the lending channel has gradually peaked. Lower interest rates in the course of 2024 should ease the situation somewhat.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.2%	2024: 2.2%
2025: 1.9%	2025: 2.0%

The ECB would like to await data on wage developments at the beginning of 2024 before making its inflation assessment. A survey of 70 companies published at the end of January predicts wage growth of 4.4% for 2024, with the ECB most recently forecasting 4.6%. The first collective wage data for January will be published in February for Italy and Spain and in March for Germany, with an indicator based on Indeed's online job advertisements likely in mid-February. We expect an initial interest rate cut to come in April.

Germany
Subdued mood

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.0%	2024: 0.3%
2025: 1.0%	2025: 1.2%

According to initial estimates, the technical recession has been averted again due to the upward revision of growth to 0% in the third quarter of 2023. However, the economy fell by 0.3% in the fourth quarter. The survey data remains subdued at the start of 2024, although both the Purchasing Managers' Index (PMI) and the ifo survey are showing a slight improvement – i.e. a slower decline – in the manufacturing sector. New orders in particular continued to approach the growth threshold of 50. On the other hand, sentiment deteriorated further in the services sector, driven by a worsening assessment of the current situation (ifo) and an accelerated fall in incoming new business (PMI). The increase in VAT for restaurants from 7% to 19% in January may go some way to explaining the gloomy sentiment. The improved business expectations according to the PMI provide a glimmer of hope. In the construction sector, on the other hand, both the current situation and expectations continued to deteriorate. Consumer confidence declined again in January after a slight rise in the previous month, while the improvement in expected income and planned large purchases over the next 12 months was also short-lived. Overall, we therefore see downside risks to our growth forecast (0%) for the first quarter of 2024.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.5%
2025: 1.9%	2025: 2.1%

The inflation figures for December 2023 and January 2024 (not yet available at the time of writing) were distorted upwards by special and one-off effects. Overall, however, we are still expecting inflationary pressure to ease. Producer prices fell by 8.6% year-on-year in December – providing a downside surprise – and the PMI survey is still indicating a slight fall in prices for the manufacturing sector despite globally rising transport costs.

France
End of purchasing power crisis

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.7%	2024: 0.7%
2025: 1.0%	2025: 1.3%

Is France at the beginning of the end of the purchasing power crisis? There is a good chance that real wages for French households will rise again this year for the first time since 2021. In anticipation of this development, consumer sentiment has been rising for some time according to the monthly survey conducted by the Insee statistics office. In January 2024 it reached its highest level since the outbreak of the war in Ukraine. Households are responding more and more positively to the question of whether they are planning any major purchases over the next twelve months. In fact, the number of newly registered cars in December 2023 was the highest since October 2020. Alongside improved consumer confidence, the easing of supply bottlenecks following the pandemic may also have contributed to this development. In addition to the option of increasing consumer spending, households may also save more or pay off debts. Their choice depends on their job security and the development of interest rates. Over the coming months, it will be worth closely monitoring whether new orders indicate a recovery in demand. The January figures for the services sector are pointing in this direction. One realistic scenario is that the cyclical low will be passed in the course of the year.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.5%
2025: 1.7%	2025: 1.9%

The preliminary estimate of consumer price developments in January will not be available until after the editorial deadline. However, there is a consensus that inflationary pressure has eased further. The rise in food prices will also ease over the coming months. Inflation should thus be below 2% again in the second half of the year. One upside risk to our inflation forecasts for 2024 and 2025 comes from energy prices in the short-term.

Italy
Untapped potential

The Italian economy provided a positive surprise in the fourth quarter. Instead of the expected stagnation, its GDP grew by 0.2% compared to the previous quarter. According to the statistical office, however, rising net exports were mainly responsible for the pleasing result, while domestic demand declined in the fourth quarter. The outlook for 2024 and 2025 is cautiously positive. As elsewhere in Europe, households should benefit from modest increases in real wages, and the latest labour market data points to a further improvement. Accordingly, consumer confidence has recovered slightly. The industrial sector remains weak. There is still untapped growth potential in the labour market in particular, provided business sentiment improves as expected in 2024 and 2025. Despite strong employment growth over the past three years, labour force participation among 15 to 64-year-olds in Italy was only 65% in the third quarter of 2023, well below the average of 74% for the eurozone (World Bank figures).

Spain
A surprising final sprint

At 0.6% Spain's economy grew more rapidly than expected in the final quarter of 2023, which explains the upward revision of our 2024 GDP forecast. According to the INE statistical office, growth was boosted by both government spending and private consumption. Spain was the only one of the four major eurozone economies to benefit from positive real wage growth as early as June 2023. Surveys also show that Spanish households are especially willing to make larger purchases in the next 12 months by historical comparison. On the other hand, investments declined in the fourth quarter of 2023. However, credit conditions in Spain have not tightened any further recently, and investments under the "NextGenerationEU" programme may counter some of the headwinds from fiscal policy in 2024. Inflation rose from 3.3% to 3.4% in January, while core inflation fell from 3.8% to 3.6%, which was less than expected. Apart from the gradual phasing out of energy tax relief, higher weights for services could explain the upside inflation surprise.

Switzerland
Waiting for the SNB

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.0%	2024: 1.2%
2025: 0.9%	2025: 1.6%

Economic growth is likely to remain purely volume-driven, supported by strong net immigration. The latest figures from the State Secretariat for Migration (SEM) suggest that the permanent resident population could exceed nine million by spring. Our expectation of 1% growth in real gross domestic product therefore means that the economy is stagnating on a per capita basis. Apart from special factors such as strong weather-related demand for tourism in winter sports areas, or the licensing income of the IOC and UEFA sports associations for the organisation of the Summer Olympics and the European Football Championship, there is currently a lack of momentum. In contrast to its neighbours in Europe, higher real wages will contribute little to rising domestic demand this year. A revival of economic momentum must therefore be triggered either by rising global demand or by a greater willingness to invest within Switzerland. Lower interest rates or a weaker Swiss franc (or both at the same time) would be advantageous, and the Swiss National Bank (SNB) holds the key to both.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.7%	2024: 1.5%
2025: 0.9%	2025: 1.2%

At the time of our analysis, the figures for the Swiss Consumer Price Index for January were not yet available. In our view, a range of administratively set prices and an increase in the VAT rate should help to bring the inflation rate back above 2% temporarily. This development is all the more likely given that the data for December already provided an upside surprise. This increase was driven by higher prices in the services sector. In addition, we are also observing a further rise in fuel and heating oil prices.

UK
Volatile inflation

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.3%	2024: 0.2%
2025: 1.0%	2025: 1.0%

The recent revision of the UK's GDP data means that history has been rewritten somewhat. Instead of 0.6% growth, the result for 2023 as a whole was modest growth of 0.3%, which is nevertheless a better result than was feared at the beginning of 2023. The UK economy shows a mixed picture at the beginning of 2024. The Purchasing Managers' Indices (PMI) for January indicate an ongoing slump in manufacturing, with companies reporting a renewed deterioration in the supply situation for the first time since January 2023. However, the PMI for service providers continued to rise, and according to the GfK survey, consumers were looking to the future with more confidence than they have since the beginning of 2022 as a result of lower inflation and rising real wages. Nevertheless, not all the signs are rosy for the consumer outlook. The scale and timing of the much-anticipated rate cuts by the Bank of England are more uncertain than elsewhere, as inflation remains high and volatile in the UK (see below). In addition, the labour market cooled in the second half of 2023. Employment almost stagnated and the number of job vacancies fell, but so far this has had little impact on the unemployment rate. Overall, we expect weak economic growth, particularly in the first half of 2024, followed by an acceleration as a result of the first interest rate cuts.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 3.0%	2024: 2.7%
2025: 2.4%	2025: 2.2%

Surprisingly, UK inflation rose again in December from 3.9% to 4.0%. Core inflation remained at 5.1% instead of easing as expected. While inflation in the price of goods is falling significantly, services inflation stood at a high 6.4%. Although the inflation drivers included highly volatile prices in the travel sector, the December figures somewhat dampened expectations of interest rate cuts by the Bank of England.

China
Deflationary pressure

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.5%	2024: 4.6%
2025: 4.4%	2025: 4.3%

China's economy grew by 5.2% in 2023, in line with expectations and above the government's growth target of "around 5%". Nevertheless, the underlying data showed a number of weaknesses. Aggregate prices for the Chinese economy recorded the longest decline since 1999. The GDP deflator – the difference between nominal and real GDP – has been shrinking for three consecutive quarters, indicating that the economy has been under deflationary pressure. There are two main reasons for this weakness. Firstly, the ongoing weakness of the real estate sector. Secondly, the weak consumer confidence triggered by the recession in the housing market. We believe that the weakness in the real estate market will continue to weigh on the economy this year as the government aims to further reduce investment in order to rebalance the market. Property sales are also expected to remain weak, as confidence in the sector cannot be easily restored. We are therefore revising our GDP forecast for 2024 downwards to 4.5%. Our GDP growth forecast of 4.4% for 2025 is slightly above the consensus, as although we expect real estate investments to slow further, demand will have stabilised by then, which should improve the general sentiment.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 1.0%	2024: 1.2%
2025: 1.9%	2025: 1.7%

Last year, China suffered from deflationary pressure for a number of reasons: On the one hand, demand was weak overall, which limited companies' price-setting power. On the other, China saw a sharp decline in pork prices and falling commodity prices. We expect the latter two factors to stabilise next year, which should bring inflation back into positive territory.

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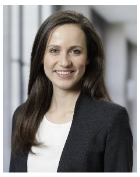

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