Perspectives
Economics

May 2024

Key takeaways

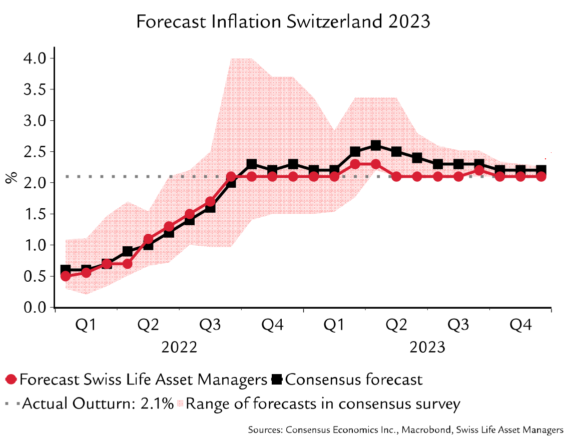
- US: solid growth, higher inflation numbers, still easing wage pressure
- Europe: Southern Europe currently outperforming within the monetary union
- China: Strong growth in Q1, but ongoing weakness in real estate points to slowing momentum

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	2.4% ↑	2.3% ↑	1.7%	1.7% ↑	3.3% ↑	2.9% ↑	2.4%	2.2%
Eurozone	0.3%	0.5%	1.0%	1.4% ↑	2.4% ↓	2.3%	2.0%	1.9% ↓
Germany	-0.2%	0.1%	1.0%	1.1%	2.3% ↑	2.4% ↓	1.9%	2.0% ↓
France	0.7%	0.7%	1.0%	1.3%	2.2% ↓	2.5%	1.7%	1.9%
Italy	0.7% ↑	0.7% ↑	0.8%	1.0%	1.3% ↓	1.6% ↓	1.9%	1.8% ↓
Spain	1.5% ↑	1.7% ↑	1.5% ↓	1.8%	3.0% ↑	3.0%	2.1%	2.1% ↓
UK	0.3% ↑	0.3% ↑	1.0%	1.2% ↑	3.0%	2.5%	2.4%	2.2%
Switzerland	1.2%	1.2% ↑	1.0% ↑	1.6%	1.1% ↓	1.3% ↓	0.7% ↓	1.1%
Japan	0.4%	0.6%	0.7%	1.2% ↑	2.2% ↑	2.4% ↑	1.5%	1.8% ↑
China	4.9% ↑	4.7%	4.4% ↑	4.4%	0.8%	0.8%	1.9%	1.6%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 8 April 2024

Chart of the month



Consensus Economics, the world's leading provider of economic forecast evaluations, annually awards an award for the highest forecast accuracy. For 2023, Swiss Life Asset Managers is once again at the top of the podium of the Forecast Accuracy Award for Switzerland. The chart opposite shows the development of our inflation forecast for 2023 since January 2022: the inflation shock following Russia's attack on Ukraine initially called for regular forecast revisions. From October 2022, however, our slightly lower expectation compared to the consensus forecast was almost spot on.

USA
Decreasing wage pressure

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 2.4%	2024: 2.3%
2025: 1.7%	2025: 1.7%

While the official GDP figures for the first quarter were still pending at the time of writing, the available activity data suggest that growth in the US has now stabilised at around 2% on an annualised basis following a brilliant second half of 2023. Private consumption is robust – here, strong retail figures in March have compensated for the weak start to the year – while industrial production has been trending sideways since mid-2022. However, there are signs of a recovery in the second quarter as orders have improved overall since the start of the year according to the purchasing managers' indices. On the other hand, the significant recovery in transaction figures in the housing market already suffered a hit in March, and the outlook for the second quarter has darkened. This is due to the higher mortgage interest rates as the financial market has become significantly more pessimistic about key interest rate cuts since the start of the year. The labour market remains an important glimmer of hope for the US Federal Reserve, where wage pressure continues to ease somewhat. The number of vacancies is decreasing, and employees are less willing to change jobs than in previous years. If the record-high immigration forecasts for the current year materialise, this could be a so-called "positive supply shock" for the economy, i.e. positive for growth and employment, without generating additional wage pressure.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 3.3%	2024: 2.9%
2025: 2.4%	2025: 2.2%

March inflation data continued to give cause for concern due to rising energy prices, no easing of elevated housing cost inflation and significantly higher car insurance premiums, which have become a key inflation driver. Here, post-pandemic catch-up effects seem to be at work (higher car prices, normalisation of miles driven) and there is a consensus that price pressure should ease by next year at the latest.

Eurozone
Southern Europe pushes ahead

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.3%	2024: 0.5%
2025: 1.0%	2025: 1.4%

Overall, the eurozone has performed in line with our expectations since the beginning of the year. Southern Europe, especially Italy and Spain, is proving to be a high-flyer. March Purchasing Managers' Indices (PMI) for Italy and Spain print above the growth threshold of 50 for both the services and manufacturing sectors and came in stronger than expected in March. Meanwhile, the same indicators for France and Germany were still below 50. The April figures, which were only available for France and Germany at the time of writing, at least show a further improvement in sentiment in the services sector. Thus, the manufacturing sector still needs to catch up with the services sector. The first encouraging signs came from Germany, where industrial production for February surprised strongly to the upside. The picture is also brightening on the consumer side. Admittedly, the slight increase in the savings rate implies that there is still room for improvement. Consumer confidence in the eurozone has risen steadily over the past months but is still below the long-term average. However, we expect further increases in real wages due to the decline in inflation. This should further boost consumer confidence and household consumer spending over the coming months.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.4%	2024: 2.3%
2025: 2.0%	2025: 1.9%

Inflation data for March were encouraging. Headline inflation came in at 2.4% year-on-year. Core inflation also fell further to 2.9%. The 2% inflation target of the European Central Bank (ECB) is thus within reach. We expect that the ECB will be ready to cut interest rates for the first time in this cycle at its next monetary policy meeting in June. This expectation is also shared by the market.

Germany
Constructive construction figures

GDP growth

Swiss Life Asset Managers	Consensus
2024: -0.2%	2024: 0.1%
2025: 1.0%	2025: 1.1%

Activity figures for February showed a mixed picture. Retail sales fell by 0.4% month-on-month, against an expected increase of 0.5%. The slump was particularly pronounced in e-commerce, which continues to normalise but is still 8.4% above pre-pandemic levels. Sales of fuel and foodstuffs also declined significantly. On the other hand, industrial production surprised positively, with strong increases in construction and energy-intensive sectors. Production in the construction sector is thus above its June 2022 level (just before the ECB started its cycle of interest rate hikes) for the first time. The recovery is less visible in building permits, which, although also up slightly in February, are still around 40% below the June 2022 level. According to the ifo survey, construction companies remain pessimistic despite a marginal improvement, especially in the residential sector. However, the upcoming interest rate cuts by the ECB should further ease the situation. Although the manufacturing Purchasing Managers' Index (PMI) still disappointed expectations in April, we also expect improved data here over the next few months. Positive signals are already coming from the services sector, where the PMI climbed to its highest level since July 2023.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.4%
2025: 1.9%	2025: 2.0%

Headline inflation fell further in March to 2.2%, with core inflation down slightly less sharply to 3.2%. On a seasonally adjusted basis, month-on-month increases in services prices were less pronounced than expected. However, we still see some stickiness, for example in the price indices of the services PMI. Seasonally adjusted core goods prices even fell for the first time since April 2021. We do not expect further monthly declines in goods prices. Headline inflation is likely to rise slightly again for the time being due to the normalisation of value added tax.

France
Inflation soon to fall below 2%

GDP growth

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

The news that France's budget deficit for 2023 amounted to 5.5% of gross domestic product has recently made waves. The fiscal impulse resulting from this widening of the deficit explains the robust growth of the French economy in comparison with Germany in the previous year. The fact that fiscal policy will now exert a drag has been a key element of our 2024 forecast for some time now. With a government debt ratio of 111%, France also falls far short of the second Maastricht criterion. President Macron continues to aim to reduce the deficit to below 3% by 2027. However, tax increases for fiscal consolidation remain a taboo for him and Prime Minister Gabriel Attal. Expenditure cuts, on the other hand, have already been announced for the current year. We still expect the economic cycle to pick up, which should support tax revenues to some extent. In fact, by February, revenues exceeded the 2023 result. Whether this trend will continue remains to be seen. After all, the economic indicators available since then point to an improvement in the economic environment. Consumer sentiment in particular rose sharply at the end of the first quarter.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.2%	2024: 2.5%
2025: 1.7%	2025: 1.9%

In March, the inflation rate was significantly below expectations according to a survey by the news service provider Bloomberg. At 2.3%, it was a total of 0.7 percentage points below the figure of the previous month. This decline is all the more impressive as seasonal effects due to the early Easter date would have been more likely to lead to an upward bias. Despite renewed increases in energy prices, the 2% target is moving closer and closer. According to our projection, the inflation rate will return to below 2% in the third quarter for the first time since August 2021.

Italy
Turnaround in industry

In March, all the figures again indicate that southern Europe, including Italy, is moving more dynamically than the so-called core countries of the eurozone, such as Germany and France. Even the industrial cycle seems to be more advanced: for the first time in a year, a relative majority of industrial companies reported in the March 2024 Purchasing Managers' Survey (PMI) that production and orders had improved. Among service providers, the new business subindex even reached its highest level since August 2021. It is gratifying that the foreseeable decline in momentum in the construction sector due to the decline in "super bonus" subsidies can apparently be offset by the services sector. In terms of employment, at least, the decline in the construction sector was more than compensated for by the services sector, and total employment reached historical highs at the end of 2023. The fall in inflation in Italy was also surprisingly strong in March 2024 and thus supports purchasing power. Overall, we have adjusted the growth forecast for 2024 slightly upwards and that for inflation downwards.

Spain
Resilient industrial sector

Spain shows a similar trend to Italy. As a result, the current economic data paint a robust picture. The April Purchasing Managers' Index (PMI) for Spain was not yet available at the time of writing, but data for the first three months of the year point to solid performance in both the services and industrial sectors. The latter is still stuttering in the eurozone as a whole. The PMI for the industrial sector in Spain stood at 51.4 in March (compared to 46.1 for the eurozone), well above the growth threshold of 50. The strongest components behind the overall index score were future production and employment. This momentum is also reflected in the figures for industrial production, which grew by around 0.6% in January and February compared to the previous month. These are good signs that this momentum may continue beyond the first quarter. We have therefore lifted our GDP growth forecast for this year to 1.5%.

Switzerland
Foreign trade shrinking

GDP growth

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

The Swiss National Bank SNB in hindsight received confirmation from various economic data for its surprising interest rate cut in March. This monetary policy decision was also explicitly justified by the SNB in order to support economic development. Figures from the Federal Office for Customs and Border Security (BAZG) show, for example, that exports of eight of the eleven product groups recorded declined in the first quarter compared to the previous quarter. Our core assumption that demand impetus from China will continue to fail is strongly supported by these figures. Seasonally adjusted figures for car sales also show that domestic consumption is still slowing. Compared with the previous quarter, 4.8% fewer new cars were registered. In addition to these real economic figures, the results of the surveys among purchasing managers in industry, the service sector and SMEs also remain below the 50-point growth threshold in March. At least, consumer confidence showed a slight upward trend in March. As elsewhere, we expect demand stimulus in the coming quarters from rising real wages and more favourable financing conditions for project developments and equipment investments. Compared to the consensus expectation for 2025, however, our forecast remains only cautiously optimistic.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.1%	2024: 1.3%
2025: 0.7%	2025: 1.1%

The inflation figures also confirm the SNB's view that a monetary policy U-turn was warranted. As of March, the inflation rate stood at 1.0% and thus exactly in the middle of the SNB's target range of 0% to 2%. Higher energy prices and apartment rents will cause a slight temporary rise in annual inflation until July. By the end of the year, however, the inflation rate should be just below 1%.

UK
On the way back

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

Monthly GDP growth for February confirmed that the UK is on its way out of the technical recession of the second half of 2023. Monthly GDP grew by 0.1% in February compared to the previous month, with a rebound in the manufacturing sector as a major driver. However, initial economic data for March, especially retail sales, came in slightly weaker than expected. The April Purchasing Managers' Indices (PMI) also hint at a slowdown, at least for the manufacturing sector. Nevertheless, we are lifting our GDP growth forecast for this year slightly to 0.3%, as the first two months of the year have exceeded our expectations. The latest labour market data paint a mixed picture. On the one hand, private wage growth remained consistently high, but on the other hand, the data showed a weaker employment picture. The unemployment rate rose surprisingly from 4.0% to 4.2%. At the same time, the number of vacancies is still declining. However, as monthly growth data as well as business surveys suggest a brighter economic picture in the UK, this should support the labour market but also keep wage growth elevated. For the Bank of England (BoE), this, alongside inflation data, will remain an important indicator for the start of interest rate cuts.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 3.0%	2024: 2.5%
2025: 2.4%	2025: 2.2%

Inflation in March was higher than expected at 3.2% year-on-year. Services inflation in particular remained stubbornly high. Market expectations for any interest rate cuts by the BoE have shifted significantly over the past month. The market now expects the first rate cut in August (compared to June a month ago). For the BoE, inflation data for April and May will be an important indicator of whether price pressure will ease sustainably.

China
Peak reached

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.9%	2024: 4.7%
2025: 4.4%	2025: 4.4%

The Chinese economy posted strong growth of 5.3% in the first quarter, well above our expectations. This positive value is due to two main factors. On the one hand, 2024 was the first year since 2019 in which the Chinese New Year took place without pandemic-related restrictions. As a result, there was a significant backlog in travel and related spending, which boosted consumption. In addition, the government has strongly supported manufacturing and infrastructure projects, while the resilient economies in the US and emerging markets have supported China's exports. Due to this stronger-than-expected growth, we have raised our annual forecast for 2024 from 4.5% to 4.9%. However, we expect sequential growth to have peaked in the current quarter and to be lower for the rest of the year. Monthly indicators for March already point to a slowdown, especially in retail sales and industrial production. In addition, real estate indicators related to investments, sales and prices have fallen further, and we do not expect this to improve significantly in the near future. This should keep consumer confidence at a low level.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 0.8%	2024: 0.8%
2025: 1.9%	2025: 1.6%

China's March inflation rate came in just 0.1% below our expectations. At the same time, producer prices remained in deflationary territory. This is due to low demand and overcapacity in various sectors. This means that China will support the global disinflationary trend with lower goods prices.

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