

June 2024

Key takeaways

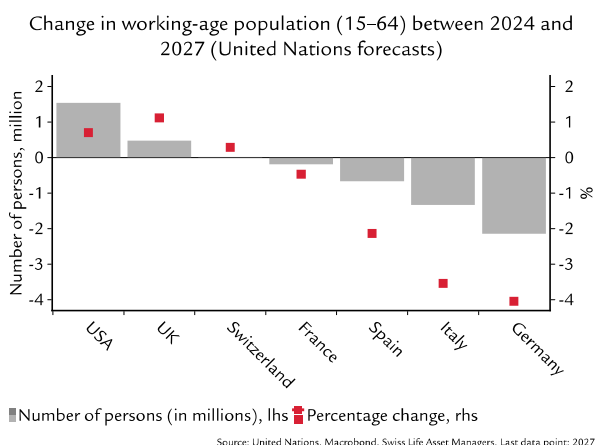
- USA: weaker economy and friendlier inflation figures, interest rate cuts still realistic
- Europe: The European economy returned to positive growth in the first quarter
- China: Trade tariffs complicating China's shift away from real estate to high-tech products

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%	2.4%	1.7%	1.7%	3.3%	3.2%	2.4%	2.3%
Eurozone	0.6%	0.6%	1.0%	1.4%	2.3%	2.3%	2.0%	1.9%
Germany	0.1%	0.2%	1.0%	1.1%	2.3%	2.4%	1.9%	2.0%
France	0.9%	0.8%	1.0%	1.2%	2.3%	2.5%	1.8%	1.8%
Italy	0.8%	0.8%	0.8%	1.0%	1.1%	1.5%	1.9%	1.8%
Spain	2.0%	2.0%	1.5%	1.8%	3.0%	3.1%	2.1%	2.2%
UK	0.8%	0.5%	1.0%	1.1%	2.9%	2.5%	2.4%	2.2%
Switzerland	1.2%	1.2%	1.0%	1.6%	1.2%	1.3%	0.7%	1.1%
Japan	0.1%	0.5%	0.7%	1.2%	2.2%	2.5%	1.5%	1.9%
China	4.9%	4.9%	4.4%	4.4%	0.6%	0.7%	1.8%	1.5%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 15 May 2024

Chart of the month



According to United Nations projections, the working age population in the eurozone is set to decline already within the next three years, while it could increase slightly in the UK until 2030 and in the USA until 2050. As a result, potential growth in the eurozone will also decline in the coming years, unless politicians specifically promote skilled labour immigration. Spain, for example, already made corresponding residence permits more widely available in 2023. In Germany, a new immigration law has been in force since March. However, the imminent demographic challenges will not be eliminated.

USA High uncertainty

GDP growth

Swiss Life Asset Managers	Consensus
2024: 2.4%	2024: 2.4%
2025: 1.7%	2025: 1.7%

Financial market sentiment in the US seems to fluctuate between fears of recession, stagflation and overheating as well as hopes for a “soft landing”. This uncertainty is also reflected in the growth forecasts for 2025, where the gap between the lowest and highest forecasts is significantly wider for the USA than for the eurozone (panel by Consensus Economics). The reason for the uncertainty is that the first quarter US GDP data, current surveys as well as the latest labour market and retail trade data indeed show the slowdown we anticipated, but at the same time inflation picked up in the first quarter. The latter increasingly called the expected rate cuts by the US Federal Reserve into question. However, inflation figures were friendlier again in April, and we think that with the weakening economy, inflationary pressure will ease sufficiently for the Fed to ease its tight monetary policy somewhat, which in turn will dampen the risks of recession. The outcome of the US elections remains a major uncertainty. Here, however, President Biden’s recent announcements to impose drastic tariffs on Chinese electric cars, solar panels, semiconductors, and metals show that, at least on trade policy, positions between presidential candidates are not so far apart, and that the impact of the elections on the US economy may be overestimated by the public.

Inflation

Swiss Life Asset Managers	Consensus
2024: 3.3%	2024: 3.2%
2025: 2.4%	2025: 2.3%

In April, headline inflation eased as expected to 3.4%, while core inflation declined to 3.6%. As in the previous month, the main drivers for core inflation were housing costs and car insurance premiums. Both are lagging behind the economic cycle and are likely to receive little attention from monetary policy. Inflation for all other core goods and services returned to moderate pre-pandemic levels on average in April.

Eurozone The consumer comeback

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.6%	2024: 0.6%
2025: 1.0%	2025: 1.4%

The economy in the eurozone grew by 0.3% in the first quarter compared to the previous quarter, thus exceeding market expectations and our forecast. This also explains the upward revision of our growth forecast for 2024. This represents a significant recovery from the negative growth in the second half of 2023. On a country level, the upside surprise was greatest in Spain with quarterly growth of 0.7% and in Germany with 0.2%. While detailed data for the eurozone as a whole were not yet available at the time of writing, country data suggest a positive contribution from household consumption in the first quarter. However, there is still room for improvement. Rising real wages should contribute to a further recovery in consumer spending over the course of the year. The manufacturing sector continues to lag behind the services sector. However, according to the latest Purchasing Managers’ Indices (PMI) for May, this gap seems to be narrowing somewhat. While the PMI for the services sector is stagnating at a high level of 53.3, the PMI for the manufacturing sector has improved, but at 47.4 it is still below the growth threshold of 50. However, forward-looking sub-indicators such as “new orders” suggest that the economic environment for the industrial sector is improving.

Inflation

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

April headline inflation remained unchanged at 2.4%. Core inflation fell slightly but was above market expectations at 2.7%. Services inflation remained stubborn in April. This trend could continue in May. However, we do not see the latest inflation data as an obstacle in terms of the European Central Bank cutting interest rates for the first time in June.

Germany Back to positive growth

GDP growth

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

Economic growth surprised positively in the first quarter with an increase of 0.2%, which explains our upward revision for 2024 growth. Germany can thus look back on stagnating growth since the first quarter of 2022 and has been able to avoid a technical recession. The details present a mixed picture. Private consumption fell again in the first quarter. The positive surprise was driven by the first increase in exports and investments in four quarters. Imports also picked up, which is usually a positive signal for domestic demand. More recent indicators, too, suggest that the German economy will now emerge from its stagnation. The Purchasing Managers' Index (PMI) for manufacturing showed a further recovery in May – albeit at a still low level – driven by new orders and production. The services PMI continues to indicate growth in this sector. In both manufacturing and services, the more benign global environment is reflected in an improvement in new export business. However, we believe that a sustainable return to potential growth will only be possible once private consumption picks up, which we expect in the second half of the year.

Inflation

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

The latest wage data showed that wage pressure remains high. According to the Bundesbank, collective wages rose by 6.2% year-on-year in the first quarter. However, a large part of this was driven by subsequent inflation compensatory premiums. Without this, the increase amounted to 3.0%. Trade union demands remain high, but wage pressure is now expected to gradually ease. Yet, apart from the risk of a renewed energy price shock in the event of an escalation in the Middle East, it represents the biggest upside risk to our inflation forecasts.

France Olympic hurdles

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.9%	2024: 0.8%
2025: 1.0%	2025: 1.2%

Thanks to a strong fiscal impetus and a robust labour market, France's domestic activity has fared comparatively well in recent quarters despite a tightening of monetary policy. In the first quarter, GDP growth slightly exceeded our expectations, which triggered an upward revision of the forecast for 2024. However, business surveys now point to a deterioration in business prospects in the industrial sector. The details of the preliminary data for the manufacturing Purchasing Managers' Index published on 23 May show a decline in order intake. The following day, the statistical office INSEE reported that according to its own surveys, the majority of firms in the manufacturing sector expect output to decline over the coming months. Because this development contrasts with a friendlier trend in other western industrialised countries, it is reasonable to assume that companies expect production losses during the period of the Paris Summer Olympics. In the medium term, however, we also expect a cyclical economic recovery in France. This is underpinned by rising real wages, lower financing charges for the corporate sector and a more generous lending policy by banks.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.5%
2025: 1.8%	2025: 1.8%

The range of forecasts for the inflation rate for 2024 is narrowing. The 24 forecasts taken into account by Consensus Economics currently range from 2.2% to 2.9%. In January, the dispersion ranged from 1.8% to 3.3%. Our forecast of 2.3% is at the lower end of expectations. For the rest of the year, we expect the inflation rate to fall below 2% in the final quarter of 2024. As for the near-term growth outlook, prices of services are subject to forecast risks due to the hosting of the Summer Games.

Italy Falling energy prices

The Italian economy grew by 0.3% in the first quarter from the previous quarter, beating the consensus forecast of 0.1% and our expectation of 0.2%. As a result, we raised the 2024 GDP growth forecast from 0.7% to 0.8%. However, the details were mixed; the statistical office reported in particular a decline in domestic demand, while net exports contributed positively to growth. According to the Purchasing Managers' Indices (PMI), the start to the second quarter was sluggish in manufacturing: the PMI dropped below the 50-points "growth threshold" again in April, especially as a relative majority of companies reported declining new orders. The situation is better in the services sector, where the PMI showed slightly lower momentum in new business, but overall still points to solid growth in the sector. Inflation, meanwhile, remains around the 1% mark. In particular, the continuing fall in gas and electricity prices contributed to this pleasing result, which relieves household budgets and should revive private consumption in the following quarters.

Spain The high flyer

The Spanish economy continued to posted solid growth in the first quarter of 2024 too. Real GDP grew by 0.7% compared to the previous quarter and thus significantly exceeded the market and our expectations, which explains the upward revision of the 2024 GDP growth forecast to 2.0%. The main growth drivers in the first quarter were household consumption and net exports. The contribution of net exports reflects strength in exports as well as imports. On the production side, growth in the manufacturing, construction and services sectors was equally broad-based in the first quarter. The services sector continues to benefit from a strong recovery in the tourism sector. The Purchasing Managers' Indices (PMI) for April suggest continued strong economic momentum into the second quarter. The PMI for the services and industrial sectors remained well above the "growth threshold" of 50.

Switzerland Did the SNB break the code?

GDP growth

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

The State Secretariat for Economic Affairs (SECO) recently started publishing a flash estimate of gross domestic product on the production side, which will appear around two weeks before the official detailed estimate of the data for the past quarter. According to this report, real and sport-adjusted GDP in Switzerland is likely to grow by 0.2% in the first quarter of 2024. This is in line with our own assumption. Accordingly, we are leaving the growth forecast unchanged in the baseline scenario. The services sector made a positive contribution to economic growth, while industrial development continues to slow. Business surveys, which already reflect events in the second quarter, show no change in this general trend. This is particularly true for the Purchasing Managers' Indices (PMI), below which the manufacturing index in April may be at its lowest level since October 2023. The SNB should have now broken the code for a cyclical upturn with its surprisingly early rate cut in March. Favourable financing conditions and, above all, a 6% lower real external value of the Swiss franc compared to the start of the year should provide tailwind for the export economy in particular.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.3%
2025: 0.7%	2025: 1.1%

The flip side of the recent depreciation of the Swiss franc is the trend towards rising import prices. At consumer level, import prices rose by 1.1% in April; they were still 0.4% lower year-on-year. The depreciation of the franc continued in May. As a result, imported goods are likely to have once again become somewhat more expensive this month. As no further devaluation of the Swiss franc is to be expected for the time being with the expected interest rate cuts by the ECB, we are only making a minor change in our forecast.

UK Summer elections

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.8%	2024: 0.5%
2025: 1.0%	2025: 1.1%

Finally, the date everyone has been waiting for is now known. UK Prime Minister Rishi Sunak has announced an early general election to be held on 4 July 2024. The elections were only expected to take place in the autumn. The early election date is surprising, as Sunak's Tories are currently well behind the Labour Party in the polls. In the local elections at the beginning of May, the Tories have already suffered significant losses of seats. Rishi Sunak only has a few weeks to turn the mood around. One possible glimmer of hope is the improved economic situation. First-quarter GDP growth data point to a return to positive growth. The UK economy grew by 0.2% year-on-year in the first quarter, significantly exceeding our expectations. Private consumption is recovering slowly and has contributed positively to growth. On the production side, industrial production and the services sector have seen solid growth, while the construction sector continues to weaken. We expect household consumption to recover further due to rising real wages and now expect GDP growth of 0.8% for the UK economy this year.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.9%	2024: 2.5%
2025: 2.4%	2025: 2.2%

April inflation fell significantly to 2.3% from 3.2% in March. However, the decline was smaller than expected. While energy prices remain the main driver of the decline, services inflation remained stubborn. Core inflation remains significantly above headline inflation at 3.9%. An initial interest rate cut by the Bank of England in June is thus likely to be off the table. Apart from higher inflationary pressures, we think that an interest rate cut ahead of the elections is unlikely.

China Even more trade tariffs

GDP growth

Swiss Life Asset Managers	Consensus
2024: 4.9%	2024: 4.9%
2025: 4.4%	2025: 4.4%

Chinese economic indicators for April show that the real estate market remains the biggest problem for the country's economy. Real estate investments fell by more than 10% year-on-year, while property prices recorded the sharpest decline since 2015. The government has re-introduced stimulus measures to slow this downward trend, which is positive as it signals that it is keeping an eye on the situation and wants to avoid a more pronounced drop. Nevertheless, the measures taken are too limited to bring about a turnaround. In the midst of the slowing real estate market, China has made high-tech manufacturing a priority and aims to harness sectors such as electric vehicles and sustainable energy as new growth engines. However, this objective is significantly hampered by the introduction by the US of new tariffs on electric vehicles, semiconductors, lithium-ion batteries and solar cells. Currently, exports of these products to the US represent only about 0.1% of China's GDP, so the immediate impact of the tariffs on the Chinese economy will be minimal. In the medium term, however, China's shift away from real estate towards high-tech products will be significantly hampered, as China will be cut off from the world's largest consumer market, the USA.

Inflation

Swiss Life Asset Managers	Consensus
2024: 0.6%	2024: 0.7%
2025: 1.8%	2025: 1.5%

Given the weak demand, the price-setting power of companies remains limited. Producer price inflation in April fell by 2.5% year-on-year, and consumer prices rose by just 0.3%. As long as the problems in the real estate market weigh on sentiment, we continue to expect positive but low inflation levels.

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