Perspectives
Economics

September 2024

Key takeaways

- USA: labour market data is likely to cause renewed recession fears in the coming months
- Europe: the industrial sector is slowing due to cyclical and some structural problems
- China: state support for the struggling real estate sector will remain limited

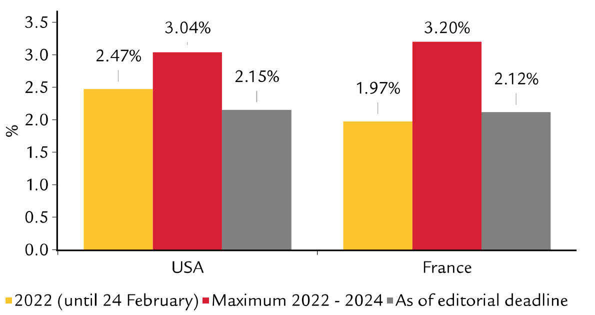
Comparison of forecasts

	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	2.5%	2.5% ↑	1.6% ↓	1.7%	2.9% ↓	3.0% ↓	2.1% ↓	2.2% ↓
Eurozone	0.7%	0.8% ↑	1.0%	1.3% ↓	2.5% ↑	2.4%	2.1% ↑	2.0%
Germany	0.1%	0.1% ↓	1.0%	1.0% ↓	2.3%	2.4% ↑	1.9%	2.0%
France	1.2%	1.1% ↑	1.0%	1.1% ↓	2.1%	2.3% ↓	1.4%	1.8%
Italy	0.8%	0.8% ↓	0.8%	1.0%	1.1%	1.2%	1.9%	1.8% ↑
Spain	2.6%	2.4% ↑	1.5%	1.9%	3.0%	3.1%	2.1%	2.1%
UK	1.1% ↑	1.0% ↑	1.0%	1.2% ↑	2.5% ↓	2.6%	2.1%	2.3%
Switzerland	1.3%	1.4%	1.0%	1.5%	1.2%	1.3%	0.5%	1.1%
Japan	-0.1%	0.0% ↓	0.9%	1.2% ↓	2.5%	2.5%	1.5%	2.1%
China	4.7%	4.9%	4.4%	4.4%	0.4%	0.5% ↓	1.8%	1.3% ↓

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

Chart of the month

Market-implied inflation expectations
«Break-even» inflation rate on average over the next ten years



Sources: Bloomberg, Macrobond, Swiss Life Asset Managers. Last data point: 27/08/2024

The central banks' objective in tightening monetary policy from the spring of 2022 was both to contain immediate inflationary pressure and to firmly re-anchor long-term inflation expectations. The latter can be measured by market prices in those countries with outstanding inflation-protected bonds. In the period immediately preceding the Ukraine war, the so-called break-even inflation rate for the next ten years was close to the inflation target of the respective central banks in both the US and France. Following the subsequent surge, inflation expectations have now normalised again.

USA
The recession debate is thriving

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 2.5%	2024: 2.5%
2025: 1.6%	2025: 1.7%

Poor US labour market data triggered acute recession fears in early August, which caused a short-term sell-off on the markets (see our Flash Comment of 8 August). Since then, concerns have subsided, mainly on the back of positive economic data. In July, retail sales grew more strongly than expected, and the S&P Global Purchasing Managers' Index (PMI) for service providers was clearly in expansionary territory for the third consecutive month in August. Nevertheless, we expect recession fears to flare up again periodically. The expected slowdown of the US economy has materialised, and we expect the unemployment rate to rise further over the coming months from its current 4.3% to 4.7% at the end of 2025, an extent that neither the US Federal Reserve (2025 year-end forecast of 4.1%) nor the consensus (4.2% annual average for 2025) expect. Due to the lower consumption growth, companies are clearly focusing on efficiency: there are fewer job vacancies, and service providers even reported a decline in employment in the August PMI despite robust orders. According to surveys, consumers are increasingly concerned about the situation on the labour market. In order to counter the risk of a negative spiral that could actually lead to a recession, the Chairman of the US Federal Reserve has announced the prospect of an initial interest rate cut in September.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.9%	2024: 3.0%
2025: 2.1%	2025: 2.2%

The July inflation data showed that the sharp declines in inflation seen in the previous two months were outliers. Housing costs and car insurance premiums made a comeback, both elements for which we expect a significant easing by 2025 at the latest. Cyclical services inflation displayed weak momentum, which should give the green light for monetary policy normalisation by the Fed.

Eurozone
Weaker manufacturing

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.7%	2024: 0.8%
2025: 1.0%	2025: 1.3%

Industrial production in the eurozone is still below pre-pandemic levels. Survey data, such as the currently weak purchasing managers' indices (PMI), also point to depressed industrial sentiment. The sustained weakness is due on the one hand to cyclical factors – companies are still in the process of reducing excess inventories that they accumulated during the post-pandemic demand boom. This is compounded by poor consumer demand from China, which is particularly affecting Germany. Furthermore, the recovery in consumer spending remains weak and is also weighing on domestic demand for industrial production. In addition, higher interest rates are impacting spending and investments. However, we expect most of these cyclical problems to be resolved in the near future and for industrial production in the eurozone at least to stabilise. Nevertheless, in view of the ongoing weakness of manufacturing, there is a question concerning structural problems in this sector. The industrial sector, like the rest of the economy, is affected by broader structural problems such as an ageing workforce. There is also a visible shift towards highly specialised products within the sector. However, we believe that this development will primarily reduce volumes rather than value creation.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.5%	2024: 2.4%
2025: 2.1%	2025: 2.0%

Eurozone headline inflation edged up slightly in July from 2.5% to 2.6%, while core inflation remained unchanged at 2.9%. In the core basket, inflation declined in many components. However, an increase in clothing inflation compensated for this. Clothing prices in Italy fell less sharply in July than is usual during this month.

Germany
Weakened, not beaten

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.1%	2024: 0.1%
2025: 1.0%	2025: 1.0%

German manufacturing is undoubtedly facing a wide range of challenges. During the pandemic, production was curtailed by supply and staff shortages, while today weak demand is the much greater limitation. In particular, the export order books are considered to be inadequately filled. Locational disadvantages such as high wage costs and corporate taxes have existed for some time. Energy prices, which are still significantly higher compared to the US, have additionally impeded competition since 2021, and there may soon also be a faster decline in the working population than elsewhere. However, there are three reasons why from a cyclical perspective we expect industrial production to stabilise. Firstly, the production trend of the energy-intensive sectors is back on the upside. Secondly, building permits also seem to have bottomed out, and the construction sector is likely to be the first to benefit from lower interest rates. Thirdly, part of the weak production is still explained by a normalisation of stocks. However, this should gradually come to an end. We also consider the warnings about de-industrialisation to be too pessimistic from a structural perspective. While employment in manufacturing is continuing its long-term downward trend and production volumes have been declining since 2017, gross value added has so far remained surprisingly stable. Overall, fewer but more high-quality goods are being produced, which is also reflected in increasing employment in the relevant sectors.

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

Inflation rose slightly in July in line with expectations from 2.2% to 2.3%. However, after rounding-off we expect it to return to the central bank target of 2% for the first time in August. Nevertheless, services inflation remains stubborn. We therefore do not expect core inflation to fall to 2% until 2025.

France
Records wherever you look

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.1%
2025: 1.0%	2025: 1.1%

Now France can also boast its summer fairy tale. The Summer Olympics were the perfect staging of France's creative talent. Even the waters of the Seine were clean enough for the pursuit of medals. However, observers of economic and political events are currently fishing in murky waters in their quest for orientation. It is still not known which representative from which camp President Macron will appoint as prime minister. Unsurprisingly, an index published by an American research group on the level of economic policy uncertainty in France soared sharply in July. The better-known economic indicators were distorted by the major sporting event: The purchasing managers' index (PMI) for manufacturing collapsed in August, also due to a sharp drop in domestic orders. In the same month, the equivalent indicator for service providers jumped to its highest level since May 2022. As a result, the difference between the two sectors is at an all-time high. New records can therefore be set not only in the stadiums, but also for some economic data. The net effect of the Summer Games on GDP growth in the current quarter is estimated by the statistical office INSEE to be 0.3 percentage points. Further positive effects on economic growth can be expected in the coming quarters from the construction industry and private household consumption. Decreasing financing charges and rising real wages are the triggers of this trend.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.3%
2025: 1.4%	2025: 1.8%

Investor (see page 1) and consumer inflation expectations are firmly anchored again. According to an ECB survey, French households expect inflation of 2.0% on average over the next three years. It will be even lower in the short term: For August, we expect the inflation rate to fall below 2% for the first time in three years.

Italy
Boom in exports to the US

Italy is unable to evade the current malaise in European manufacturing. Exports to Germany and France, the key export countries for many years, have been declining on a nominal basis since the start of 2023. Fortunately, the export boom to the US has offset some of this. Exports to the US in 2011 amounted to around EUR 23 billion, almost the same as to Switzerland. Since then, exports to Switzerland have increased only marginally, while exports to the US have tripled to EUR 68 billion and the US is now the second most important sales market after Germany and before France. This has been driven particularly by machinery and pharmaceutical products. While the low dependency on China and increasing focus on the US market is fundamentally a positive development, it could weigh on the performance of Italian manufacturing due to the expected cyclical slowdown in the US in the coming months and make the Italian economy more vulnerable to possible tariffs in the event of a renewed Trump presidency.

Spain
Olive oil crisis

Spain currently has one of the highest inflation rates in the eurozone. Headline inflation stood at 2.8% in July, but is already significantly lower than in June (3.4%). Momentum over the past few months has been mainly shaped by food prices, where one component stands out in particular: olive oil. As the weighting of olive oil in the Spanish consumer index is higher than the European average, the price increase is particularly evident here. Olive oil prices peaked in March with a price increase of 70% year-on-year due to poor harvest forecasts. The Spanish government has reduced VAT on olive oil since the beginning of the year to counter the price increases. Favourable rainfall in March and April eased the situation somewhat, and olive oil prices have been falling month by month since May. Olive oil inflation was down to 38.3% year-on-year in July. However, olive oil prices should remain volatile until the exact yields for this year are known in the autumn.

Switzerland
Falling inflation

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.3%	2024: 1.4%
2025: 1.0%	2025: 1.5%

The data on the state of the Swiss economy remains difficult to interpret: the State Secretariat for Economic Affairs (SECO) recently started publishing a preliminary estimate of GDP growth 45 days after the end of each quarter. For the second quarter, this figure was somewhat stronger than would have been expected on the basis of the data available so far. What is known as flash GDP indicates an acceleration of economic momentum compared to the first quarter of 2024. What is striking about this data is the fact that manufacturing made a strong contribution to the above-average growth. Business surveys from this sector continue to paint a less positive picture. The purchasing managers' index (PMI) for manufacturing in particular has been continuously below the threshold of 50 points since January 2023, indicating a decline in growth compared to the previous month. The expected normalisation of monetary policy in Europe and the US should provide tailwind for exporters in the coming quarters. Positive effects are also to be expected from the easing of the purchasing power crisis. In recent surveys, consumers in Switzerland and elsewhere in Europe have indicated that they consider the current time to be increasingly favourable for major purchases.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.3%
2025: 0.5%	2025: 1.1%

Our inflation forecast for the coming year is significantly below consensus expectations. This is partly due to the more cautious assumption for GDP growth. However, price pressure will ease further in 2025 as existing rents will not be increased further and electricity tariffs will be reduced significantly in most places. The strong appreciation of the Swiss franc over recent weeks is also swiftly translating into lower import prices.

UK
Expectations exceeded

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 1.1%	2024: 1.0%
2025: 1.0%	2025: 1.2%

The UK economy is continuing to show its strength. Following the first quarter, second-quarter GDP figures also came in better than expected. The UK economy grew by 0.6% in the second quarter compared to the previous quarter. However, the underlying details were somewhat less encouraging. Government consumption was the strongest growth driver on the demand side, while household consumption and business investment fell short of expectations. However, we continue to see positive signs for household consumption. Real incomes have risen further, and consumer confidence is continuing to recover. In addition, retail sales recovered in July from the sharp decline in June. In addition to consumer confidence, sentiment is also strong in the manufacturing and services sectors. The preliminary purchasing managers' indices (PMI) for August accordingly continued to indicate a solid outlook for the private sector, which is due in particular to a substantial upturn in new orders. Strong demand conditions contributed to a greater increase in hiring. This is also reflected in the unemployment figures: the unemployment rate fell surprisingly from 4.4% to 4.2% in June. Here too, however, the underlying momentum is less encouraging as part-time and temporary jobs accounted for most of the employment growth.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.5%	2024: 2.6%
2025: 2.1%	2025: 2.3%

July headline inflation rose less sharply than expected to 2.2%. However, the increase in the annual rate compared to June was expected due to expiring base effects in energy prices. Services inflation, which rose less than expected, for once proved encouraging. Services inflation has been stubborn for months.

China
Support remains limited

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

After weaker-than-expected economic growth in the second quarter, the initial indicators for the third quarter also show no signs of improvement. The real estate market in particular is experiencing a sustained downward trend compared to the previous year, be this in terms of sales, property prices or investments. The government is nevertheless foregoing more substantial support which would stimulate the economy. This is because the government wishes to move away from the old growth drivers and is seeking a further slowdown of investment activity while channelling resources into the production of new energy and high-tech technologies. The downward trend in the real estate market also appears to be proceeding in line with the government's plan. Real estate sales in particular remain at a very low level but have only fallen marginally this year. Nevertheless, there is reason to be cautious. Firstly, income prospects remain uncertain as the employment situation is bleak. This is not an environment in which people are willing to invest in residential property. Secondly, the declines in real estate prices are moderate compared to the slump in demand. New construction prices have only fallen by around 8%, while property sales have declined by more than 50% compared to mid-2021. Expectations of further price falls will prompt buyers to wait and see.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 0.4%	2024: 0.5%
2025: 1.8%	2025: 1.3%

Headline inflation soared to 0.5% in July, up from 0.2% in June. The main driver of the increase was a recovery in pork prices which will prevent a return to a deflationary environment this year. However, the low core inflation of 0.4% (0.6% in June) continues to point to weak demand conditions.

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