Perspectives
Economics

October 2024

Key takeaways

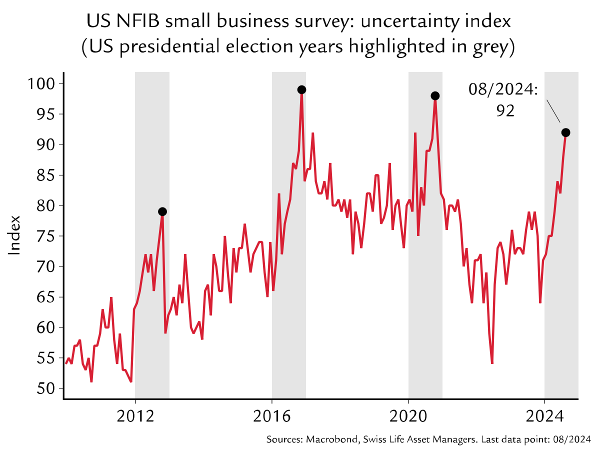
- US: strong private consumption despite growing labour market concerns
- Europe: further interest rate cuts expected due to slowing growth, especially in Germany
- China: the real estate crisis is closer to the end than the beginning, but downward pressure remains

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%	0.7% ↓	1.0%	1.3%	2.4%	2.4%	2.0%	2.0%
Germany	0.1%	0.0% ↓	1.0%	0.8% ↓	2.2% ↓	2.3% ↓	1.9%	2.1% ↑
France	1.2%	1.1%	1.0%	1.1%	2.1%	2.3%	1.4%	1.8%
Italy	0.8%	0.8%	0.8%	0.9% ↓	1.0% ↓	1.2%	1.9%	1.8%
Spain	2.6%	2.5% ↑	1.5%	2.0% ↑	2.9% ↓	3.0% ↓	2.1%	2.1%
United Kingdom	1.1%	1.0%	1.0%	1.2%	2.5%	2.6%	2.1%	2.4% ↑
Switzerland	1.4% ↑	1.4%	1.0%	1.5%	1.1% ↓	1.2% ↓	0.5%	1.0% ↓
Japan	-0.2% ↓	0.0%	0.9%	1.2%	2.5%	2.5%	1.5%	2.1%
China	4.7%	4.8% ↓	4.4%	4.4%	0.4%	0.5%	1.8%	1.3%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 12 September 2024

Chart of the month



Ahead of the US presidential election, business uncertainty usually increases dramatically and then quickly recedes once the result – whatever the outcome – is known. We expect this pattern to be repeated in 2024, which means the situation could ease somewhat after the election, especially on the labour market. This has cooled in the US mainly for economic reasons, but the high political uncertainty has probably contributed to the current weakness. In the best-case scenario, the pattern of 2016 will even be repeated, with clear reluctance to commit to new hires in the election year, followed by a recovery in 2017.

USA
Interest rates are falling

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

In the US, economic data paint a mixed picture. Pessimists point to the unemployment rate, which fell slightly in August due to expiring temporary factors, but is still on an upward trend. In addition, consumers in all major surveys are increasingly concerned about the situation on the US labour market. The most vulnerable players in the economy, SMEs and low-wage households, are increasingly showing signs of stress, whether these are significant declines in corporate profits or rising defaults on credit card debt. Optimists point to low redundancy figures and even falling initial claims for unemployment benefits. Moreover, private consumption remained robust, and the Atlanta Fed's GDPNow indicator even implies an acceleration of GDP growth in the third quarter, which seems exaggerated to us. We think the truth lies in the middle. We expect the weakness in the labour market to persist somewhat longer and weigh on GDP growth. On the positive side, the US Federal Reserve has finally taken note of this and initiated the interest rate turnaround with a larger-than-expected reduction of 0.5 percentage points in September. In our base case scenario, we expect monetary easing to come just in time to avoid a hard landing for the US economy.

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

The August inflation data also gave the US Federal Reserve the green light for the interest rate turnaround. While core inflation picked up again due to higher housing cost inflation, the much more important (more cyclical) services inflation (excluding energy and housing) has been in the central bank's comfort zone for the past four months. Wage growth is still high, but we expect it to slow, due to the weaker labour market.

Eurozone
Whatever it takes 2.0

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

Former President of the European Central Bank and former Italian Prime Minister Mario Draghi has presented a comprehensive report on the competitiveness of the European Union (EU). The report, commissioned by the European Commission, highlights the challenges facing the European Union in the coming years. He highlighted and stressed the urgency of several key areas where the EU needs to act in order to remain competitive. For example, he underlines the need for substantial investment, in particular in renewables, digital innovation and infrastructure. Furthermore, the EU has lagged behind the US and China in terms of productivity growth over recent years. The report therefore also underlines the need to increase productivity in order to sustain GDP growth. However, implementation is likely to be more difficult as it would require the transfer of certain competencies from national governments to EU level. This has proven to be an obstacle in the past. Moreover, spending increases to meet Draghi's plans would be substantial and would most likely require jointly financed EU debt. Opposition to this has already been loud, especially from Germany.

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

As expected, the European Central Bank (ECB) cut key interest rates by 25 basis points in September and signalled that it would continue its gradual easing path. Eurozone headline inflation fell to 2.2% in August, while core inflation remained roughly unchanged at 2.8%. The further decline in core goods inflation was offset by a renewed rise in services inflation.

Germany
Premature winter depression?

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.1%	2024: 0.0%
2025: 1.0%	2025: 0.8%

Last month, most economic indicators in Germany again disappointed, and the flow of news, such as that of possible closures of Volkswagen production sites, was also mostly negative. There was a sharper-than-expected and broad-based fall in industrial production in July. The Purchasing Managers' Index (PMI) also paints a bleak picture. Although it is still just above the 50 mark in the services sector, it has recently collapsed further in manufacturing, reaching a 12-month low. The employment index and the future production index (which is not included in the aggregate index) recorded particularly sharp declines. Companies cited recession risks, uncertainty and weakness in the automotive and construction industries as reasons for their more pessimistic stance. The renewed deterioration in business sentiment is also likely to leave its mark on consumers. Fears of unemployment have been increasing continuously since March 2023, and the index of expected income growth is only just in positive territory. The modest recovery in consumption that we expected to see this year already is thus becoming increasingly unlikely. Although we recently left our cautious growth forecasts unchanged, we see the risks clearly distorted to the downside.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.2%	2024: 2.3%
2025: 1.9%	2025: 2.1%

Inflation fell below 2% (1.9%) in August for the first time since April 2021. Base effects should lead to it picking up somewhat again in the fourth quarter. However, the risks here are distorted to the downside, should the expected economic recovery be delayed. Core inflation came to 2.8% in August. Price pressure remains stubborn, especially in services, while core goods prices declined for the fourth consecutive month.

France
Handover

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

After weeks of uncertainty, the new government team is now in place. However, in view of the election result on 7 July, Michel Barnier's centre-right government is on shaky ground, and a vote of no confidence cannot be ruled out. In addition, it is still unclear how the new government intends to carry out the necessary budget consolidation. This is also reflected in the renewed rise in the risk premium for French compared to German government bonds. Adjusted for seasonal factors, the economic policy uncertainty index based on media coverage is currently at its highest level since 2017 when an election victory appeared possible for Marine Le Pen. It is not only the political sentiment that remains gloomy; business surveys have also disappointed recently. The Purchasing Managers' Index (PMI) for manufacturing remained well below the 50 mark in September, with the future production index even falling to its lowest level this year. Surprisingly, the service providers' PMI also fell below the 50 mark, although one-off effects after the Olympic Games are likely to play a role here. On a positive note, consumer confidence has continued to recover recently, and private consumption is expected to contribute positively to growth in the third quarter as well. There are also signs of stabilisation in the construction sector.

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

In France, too, inflation fell below 2% again (1.8%) in August for the first time in three years, with a significant decline in energy prices being a key driver. Services inflation, on the other hand, picked up slightly. However, the September services PMI price index fell below 50 for the first time since 2021, so price pressure seems to be easing in this area as well. We expect inflation to fall further by the end of the year.

Italy
Unemployment continues to fall

Growth in Italy has levelled off at an annual rate of around 0.9%. That doesn't sound like much but in view of the declining population and the correspondingly low growth potential, it is sufficient to steadily improve the situation on the labour market. The official number of employees continues to reach new record levels month after month, and the unemployment rate stood at 6.5% in July 2024, approaching the low of 6.1% reached in June 2007. Over the past 12 months, the unemployment rate hasn't fallen as sharply in any other eurozone country, with Italy even overtaking France, whose unemployment rate remains at around 7.5%. The broad decline in the unemployment rate across all age groups is encouraging, including the area of youth unemployment, which is still very high. While survey data in the third quarter cooled compared to the second quarter, they still point to positive economic and employment growth.

Spain
A blessing and a curse

Spain can look back on another record summer and remains one of the top holiday destinations in Europe. Tourist numbers exceeded those of 2023, even though prices for hotel overnight stays have also continued to rise. The hotel price index rose by 6.4% year-on-year in August. Nights spent in hotels increased by 2.6% in August compared to the same month in the previous year, reaching a new record level of 47.8 million. The most popular destinations for non-Spaniards are the Balearic Islands, Catalonia and the Canary Islands. The tourism sector accounts for around 13% of Spain's GDP, which underlines the importance of this sector for the Spanish economy. However, this summer, the holiday destination was increasingly in the headlines due to protests against mass tourism. Particularly in tourism strongholds such as Majorca, Barcelona and Malaga, public resentment is growing ever louder. Residents complain particularly about sharp increases in rents and noise.

Switzerland
Labour market normalisation

GDP growth

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

Business surveys remain volatile. The Purchasing Managers' Index (PMI) for service providers has been fluctuating around the growth mark since the beginning of the year, with a positive value in August and, in particular, the index of new order intake rising significantly. The manufacturing PMI most recently climbed to its highest level since February 2023 and is thus just below 50. However, the employment index fell slightly again. The tight labour market seems to be normalising slowly. Although employment continued to rise in the second quarter, service providers continue to complain of difficulties in filling vacancies and compared to the pre-pandemic period, there are still many vacancies. However, the ratio of vacancies to the number of unemployed is almost back to the same low levels as in 2019. Furthermore, according to the SECO consumer survey, fears of unemployment have risen since the start of the year, and job security is viewed as lower. We expect the unemployment rate to rise from its current level of 2.5% to 2.7% in the course of 2025.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.1%	2024: 1.2%
2025: 0.5%	2025: 1.0%

Until a month ago, our expectation for 2025 was well below the other inflation forecasts compiled by Consensus Economics. Now the consensus expectation is approaching our assessment. The State Secretariat for Economic Affairs (SECO) also shares the expectation that inflation rates in the coming months will remain in the lower half of the SNB's target range of 0% to 2%. If the SNB were to loosen its monetary policy too quickly, it would even exacerbate this trend, as this would result in a lower mortgage reference interest rate and thus a decline in existing rents.

United Kingdom
Fiscal policy back in focus

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

The autumn budget will be published on 30 October. Prime Minister Keir Starmer has already warned in a speech that this budget will be "painful". The budget is expected to include some tax increases to finance the expenditure deficit. However, during the election campaign, the Labour Party ruled out an increase in VAT, income tax and corporate tax. These three tax categories account for the bulk of tax revenue. At the moment, an increase in the investment income tax, the abolition of inheritance tax breaks and a change in the tax breaks on pension contributions are most likely to plug the spending gap. Some expenditure cuts have also already been announced, such as the reduction of the automatic assumption of winter heating costs for pensioners. Consumer confidence suffered an unexpectedly sharp drop in September and is now back to its January level. The survey was conducted in the first half of September and was probably negatively influenced by Prime Minister Starmer's above-mentioned speech and the expected tax increases. However, retail sales are still looking good so far. In August, they increased by 1% compared to the previous month.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.5%	2024: 2.6%
2025: 2.1%	2025: 2.4%

In addition to fiscal policy, monetary policy is also in focus at the moment. In contrast to the US Federal Reserve, the Bank of England left the key interest rate unchanged at 5.0% in September. However, it signalled that further interest rate cuts would follow at a gradual pace. Headline inflation remained unchanged at 2.2% in August, but services inflation rebounded.

China
Is a trend reversal approaching?

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.7%	2024: 4.8%
2025: 4.4%	2025: 4.4%

China's domestic economy remains weak. The trigger for this weak demand is the ongoing real estate crisis, which is keeping consumer confidence at a record low. Three years after the start of the crisis, the question is how long we will have to wait for the trend to turn around. While an exact timing cannot be predicted, recent indicators suggest that we are closer to the end than the beginning of the crisis. On the one hand, the downward trend in seasonally adjusted monthly property sales this year was much flatter than in the past three years, and the latest August data has stabilised compared to the previous month. In addition, the financial analysis group Gavekal estimates that real estate purchases by households will decline to around 6% of GDP in 2024, which is in the range of 5% - 7.5% before the real estate boom and is considered the standard internationally. Any further decline from this significantly more moderate level of real estate sales will be less significant than the previous downward correction. Nevertheless, we are not yet heralding a turnaround in the near future. Sluggish completion of pre-sold properties is creating uncertainty, while ongoing price declines are causing potential buyers to wait and see how far the downward correction goes.

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

Inflation rose to 0.6% in August from 0.4% previously, mainly driven by a recovery in pork prices. However, underlying inflationary pressures remain very weak, giving the central bank room and reason to stimulate the economy. For example, the minimum reserve ratio, key interest rates and mortgage rates were lowered in September.

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