Perspectives
Economics

November/December 2024

Key takeaways

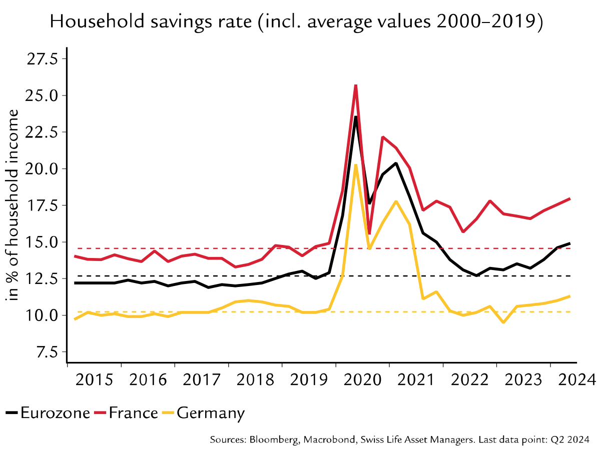
- USA: growth momentum remains robust, but there are still signs of weakness on the labour market
- Europe: slower expected recovery in private consumption provides explanation for weak momentum
- China: stimulus measures do not unleash a spending boom, but reduce downside risks

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	2.7% ↑	2.6% ↑	1.7% ↑	1.8% ↑	2.9%	2.9% ↓	2.1%	2.2%
Eurozone	0.8% ↑	0.7%	1.1% ↑	1.2% ↓	2.4%	2.3% ↓	1.9% ↓	1.9% ↓
Germany	-0.1% ↓	0.0%	0.9% ↓	0.7% ↓	2.3% ↑	2.3%	1.9%	1.9% ↓
France	1.2%	1.1%	1.0%	1.0% ↓	2.0% ↓	2.2% ↓	1.1% ↓	1.6% ↓
Italy	0.7% ↓	0.8%	0.8%	0.9%	1.0%	1.2%	1.7% ↓	1.7% ↓
Spain	3.0% ↑	2.7% ↑	1.8% ↑	2.0%	2.7% ↓	2.9% ↓	1.8% ↓	2.0% ↓
UK	0.9% ↓	1.0%	1.0%	1.3% ↑	2.5%	2.6%	2.1%	2.3% ↓
Switzerland	1.4%	1.4%	1.2% ↑	1.5%	1.1%	1.2%	0.4% ↓	0.9% ↓
Japan	-0.2%	0.0%	0.9%	1.2%	2.5%	2.6% ↑	1.5%	2.1%
China	4.8% ↑	4.8%	4.5% ↑	4.4%	0.4%	0.5%	1.8%	1.2% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 10 October 2024

Chart of the month



A central assumption in our base case at the beginning of the year was the end of the purchasing power crisis in Europe. Indeed, real wages are rising again for the first time since 2021. In surveys, consumers are also confirming an improvement in their own financial situation. Nevertheless, consumption is only slowly gaining momentum. The savings rate shows that households have set aside an above-average amount of resources since the pandemic. In France, the difference between the current savings rate and the long-term average currently amounts to around 2.0% of gross domestic product. Job security concerns and the rise in interest rates may explain the high propensity to save.

USA
Robust and distorted

GDP growth

Swiss Life Asset Managers	Consensus
2024: 2.7%	2024: 2.6%
2025: 1.7%	2025: 1.8%

At 0.7%, gross domestic product growth in the third quarter was higher than expected. Consumption momentum in particular remained robust in the past quarter. The retrospectively revised national accounts now show a higher savings rate and a slower reduction of surplus savings during the years since the pandemic. US households therefore remain in solid shape. Increasingly, however, they are saying that jobs are harder to get. The slowdown in the US labour market is also reflected in business surveys. The Purchasing Managers' Employment Index (PMI) remained below 50 in October, both in the services sector and in manufacturing. Outside such surveys, it is currently difficult to interpret labour market figures due to various distorting influences. For example, the presidential elections created significantly more jobs than in previous election years. In addition, jobs were generated in the construction industry to support the reconstruction work following Hurricane Beryl. The robust labour market data for September, which showed a strong increase in hiring and a slight decline in the unemployment rate to 4.1%, were therefore distorted upwards. In October, on the other hand, Hurricanes Helene and Milton along with various strikes had a negative impact on labour market data.

Inflation

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

In September, shelter prices increased less than expected. However, price developments in food, core goods and services other than housing surprised on the upside. As a result, core inflation rose slightly to 3.3% from 3.2%, but this is not enough to deter the Fed from further rate cuts. The services PMI also showed a further easing of price pressure in the services sector for October.

Eurozone
Consumer recovery postponed

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.8%	2024: 0.7%
2025: 1.1%	2025: 1.2%

Eurozone gross domestic product grew faster than expected in the third quarter, rising by 0.4% compared to the previous quarter. Growth momentum within the eurozone, however, remains heterogeneous. Compared to our forecasts, Spain, France and Germany surprised positively, while Italy's growth was disappointing. The details are not yet known, but the expected recovery in private consumption is likely to show up only tentatively. We had expected private household spending to rise in the third and fourth quarters due to the further increase in real wages. However, this recovery now seems to be somewhat weaker than expected, as the savings rate in the eurozone is still rising (see chart of the month). While this could lead to more consumer spending if uncertainty subsides again, current surveys do not yet suggest this. Due to the slightly weakening labour market, fears of unemployment are increasing. This fear is particularly high in Germany. Also, the employment sub-components of the Purchasing Managers' Indices for France and Germany point to a decline in corporate hiring. While net household wealth is back above pre-pandemic levels in nominal terms, it is still below these levels when adjusted for inflation. We still expect GDP growth for the eurozone to be slightly higher in 2025 than in 2024.

Inflation

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

As expected, the European Central Bank (ECB) cut key interest rates by 25 basis points again in October and signalled that it would continue its gradual easing path. Eurozone headline inflation fell below 2% to 1.7% in September as expected, while core inflation remained unchanged at 2.7%. The development of service prices in September is encouraging; they fell significantly compared to the previous month.

Germany
Small rays of hope

GDP growth

Swiss Life Asset Managers	Consensus
2024: -0.1%	2024: 0.0%
2025: 0.9%	2025: 0.7%

The economy grew by 0.2% in the third quarter, following a downwardly revised decline of 0.3% in the second quarter. The details are not yet known, but the Swiss Federal Statistical Office reported positive contributions from both government and private consumption. Retail sales also showed slight increases again in July and August. As shown in the chart of the month, however, the savings rate is also increasing in Germany and households continue to indicate that they want to save more over the next 12 months. Coupled with this is increasing economic uncertainty, particularly with regard to labour market developments. A certain amount of consumer restraint is therefore still to be expected. On a more positive note, business survey results for manufacturing improved slightly in October for the first time since May, although they remain pessimistic. Banks also indicated for the first time since 2022 that credit standards for companies have eased, and demand for credit is also rising again. Further rate cuts by the ECB should support this momentum. We still think that monetary easing, together with rising real wages, will provide positive economic stimulus, but for the time being, Germany seems to be facing difficult winter quarters again.

Inflation

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

After declines since May, headline inflation increased in October, albeit largely due to base effects. Overall, there is increasing evidence that underlying inflationary pressure is now also easing in the services sector. For example, the Purchasing Managers' Index of service providers' sales prices is now back to exactly where it was before the pandemic. In addition, wage pressure is expected to gradually ease as fewer and fewer service companies cite labour as a limiting factor.

France
Panic saving

GDP growth

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

On page 1, we link the consumption restraint of French households to the increased savings rate. Interestingly, according to the monthly survey by the INSEE statistical office, French consumers have so far consistently reported an improvement in their personal financial situation in 2024. Consequently, an increasing number of consumers also indicate that their ability to make larger purchases has improved. But their actions do not match their words: household consumption has stagnated year-on-year. Once again, one explanation can be found in the consumer confidence survey. These survey respondents also report that they are increasingly worried about job security. A second explanation for the greater propensity to save throughout the eurozone is particularly evident in France. The tax-exempt interest rate on the popular "Livret A" savings plan is currently 3%, following a low of 0.5% in 2020 and 2021. An inflation rate of currently only 1.1% makes this an attractive real interest rate. In addition, fiscal consolidation measures will slow economic growth in the coming quarters. We continue to expect a growth path below the long-term potential of the French economy.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.0%	2024: 2.2%
2025: 1.1%	2025: 1.6%

Disinflation continued in September. At 1.1%, the inflation rate is at its lowest since March 2021. Long-term inflation expectations on the market for inflation-protected government bonds have also settled below 2% again. The above-mentioned growth path below long-term potential means an underutilisation of capacities and further eases inflationary pressure. The restrictive monetary policy of the ECB is therefore no longer appropriate for France.

Italy
Slowdown

The Italian economy stagnated in the third quarter after growing by 0.2% in the second quarter. Leading sentiment indicators also point to weakness in the fourth quarter. For example, general business sentiment fell to a new three-year low in October. This was mainly due to a significant decline in the services sector. However, this decline is a reversal of the improvement of the last two months. Sentiment in the services sector is still above its long-term average. However, sentiment in the manufacturing sector remains very subdued and declined slightly further in October. This is also in line with the figures for industrial production, which is not picking up speed. Sentiment in the construction sector continued to improve. This sector remains the most optimistic. We expect the Italian economy to post slightly positive economic growth on average in the fourth quarter and next year.

Spain
Driving force in Europe

At 0.8%, economic growth in Spain was also strong in the third quarter, once again significantly above that for the eurozone as a whole. The situation on the Spanish labour market is also continuing to improve. According to figures from the Spanish statistical office INE, the unemployment rate fell to 11.2% in the third quarter. The number of unemployed is also declining at the eurozone level. However, this trend is being driven by just two countries, namely Italy and Spain, while the number of unemployed has risen in Germany and is stagnating in France. Although at 6.1% the unemployment rate in Germany is significantly lower than in Spain, the momentum on the Spanish labour market is encouraging. The unemployment rate is falling across all age categories, and youth unemployment, which is still high, is also declining slightly. However, the end of the tourism season is likely to put some upward pressure on Spain's unemployment rate in the coming months.

Switzerland
Cacophony of economic data

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 1.4%	2024: 1.4%
2025: 1.2%	2025: 1.5%

It remains difficult to interpret the available data on the Swiss economy. On the surface, data on gross domestic product growth in the first half of the year point to a robust state of the economy. This contrasts with the continued weakness of the Purchasing Managers' Indices (PMI). The PMI for manufacturing in particular has remained consistently below the 50-point growth threshold since January 2023. However, we are receiving different signals from this sector, which is under notable pressure: a survey conducted by ETH Zurich reveals a positive trend in expected order intake, while a comparable survey by the association for MEM industries paints a much bleaker picture. Labour market data, on the other hand, show a clear trend. The unemployment rate has been rising steadily since May 2023. The Swiss National Bank's transition from a restrictive to an accommodative monetary policy is providing positive impetus at the right time. We also expect tailwinds from the end of the purchasing power crisis in Europe. A potential increase in demand due to the latest fiscal programmes in China is not yet included in our current forecast.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 1.1%	2024: 1.2%
2025: 0.4%	2025: 0.9%

Lower energy prices are leading to another downward revision of the inflation forecast for 2025. Our estimates are still therefore the lowest of all those included in the consensus forecast. Nevertheless, the risks are currently all to the downside: a further interest rate cut by the SNB in December would lead to lower rents by mid-2025 via the mechanism of the administratively set mortgage reference interest rate.

UK
Slight slowdown

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.9%	2024: 1.0%
2025: 1.0%	2025: 1.3%

The UK labour market is performing surprisingly well. The unemployment rate fell again between June and August and stands at 4%. It is therefore back to last October's levels. Wage growth is also declining. This should give the Bank of England (BoE) more scope to reduce key interest rates further. This is because the economy is slowing somewhat after growth in the first half of the year was stronger than expected. Monthly GDP growth in August was 0.2% compared to the previous month. This is a slight improvement compared to June and July, when growth stagnated. In August, the manufacturing and construction sectors recovered from their weak position at the beginning of the quarter. However, the services sector slowed somewhat in the same month. What gives us grounds for optimism is that consumer-related services posted positive growth in August, in line with the increase in retail sales for the month. The first leading indicators for October point to a slight slowdown. The Purchasing Managers' Indices for the services and manufacturing sectors weakened slightly in October, but remain above the growth threshold of 50. The focus remains squarely on fiscal policy and the long-awaited autumn budget, which, however, was published after editorial deadline.

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

Inflation fell more than expected in September to 1.7%, dropping below 2% for the first time since April 2021. The decline was mainly driven by lower core goods prices, but also a stronger fall in services inflation, which had proved particularly stubborn in recent months.

China
Fiscal package reduces risks

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.8%	2024: 4.8%
2025: 4.5%	2025: 4.4%

Following slightly stronger-than-expected GDP growth of 4.6% in the third quarter, we have raised our growth forecast for 2024 by 10 basis points to 4.8%. This would meet the lower limit of the growth target of "around 5%". While welcome, the stimulus measures announced by the Chinese government to address the weak economic development caused by the real estate crisis will not trigger a spending boom. Unlike in the past, the measures do not target infrastructure projects that lead directly to higher investment and growth. Nor do they involve a large-scale consumer package that would significantly boost consumption. They are also limited: analysts expect a fiscal package of around 2.5% of GDP – significantly less than the post-financial crisis measures, which accounted for 12.5% of GDP. The aim of the measures is to improve the transmission channel of fiscal and monetary policy by strengthening the balance sheets of local governments and major banks so that they can play a more efficient role in the real estate market – by buying unsold real estate projects or providing liquidity for the completion of real estate projects. Improving the transmission channel would significantly reduce the downside risks to the Chinese economy.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 0.4%	2024: 0.5%
2025: 1.8%	2025: 1.2%

Inflation in China fell further to 0.4% in September (from 0.6% in August), while core inflation was just above zero at 0.1%. The GDP deflator (which measures changes in the prices of all new domestically produced goods and services) was negative for the sixth consecutive quarter – a major driver for the announced stimulus measures.

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