Perspectives
Economics

Annual outlook 2025

Key takeaways

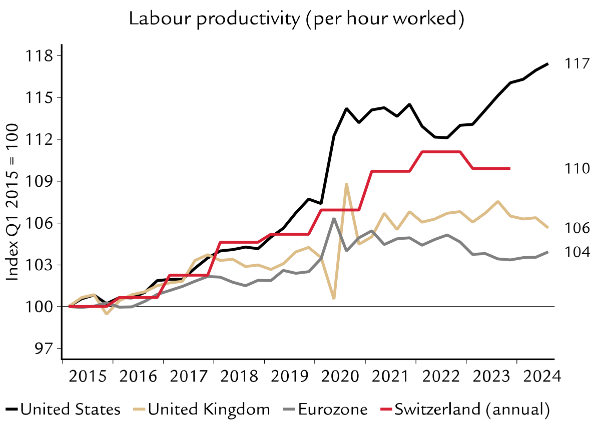
- Eurozone 2025: excess pessimism despite structural problems and high trade uncertainty
- USA 2025: loose fiscal policy and solid private consumption a plus, high interest rates remain a drag
- China 2025: growth risks are shifting from the real estate crisis to trade tariffs

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	2.8% ↑	2.7%	2.3% ↑	2.0% ↑	2.9%	2.9%	2.4% ↑	2.4% ↑
Eurozone	0.8%	0.8%	0.9% ↓	1.0% ↓	2.4%	2.4%	1.7% ↓	1.9%
Germany	-0.1%	-0.1%	0.5% ↓	0.4% ↓	2.2% ↓	2.3%	1.8% ↓	2.0%
France	1.1% ↓	1.1%	0.8% ↓	0.8% ↓	2.0%	2.1% ↓	1.1%	1.4% ↓
Italy	0.5% ↓	0.5% ↓	0.6% ↓	0.8%	1.0%	1.1%	1.7%	1.7% ↓
Spain	3.0%	3.0% ↑	1.7% ↓	2.2%	2.7%	2.8%	1.7% ↓	1.9% ↓
UK	0.9%	0.9%	1.3% ↑	1.3%	2.5%	2.5% ↓	2.4% ↑	2.6% ↑
Switzerland	1.2% ↓	1.4% ↓	1.2%	1.3% ↓	1.1%	1.1%	0.2% ↓	0.6% ↓
Japan	-0.2%	-0.2% ↓	0.8% ↓	1.2%	2.7% ↑	2.6%	2.1% ↑	2.3% ↑
China	4.8%	4.9% ↑	4.1% ↓	4.5%	0.4%	0.4%	1.6% ↓	0.9% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 9 December 2024

Chart of the year



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2024 Q3

Since 2017, a deep productivity gap has opened between the US and Europe. An ECB report identifies the reasons in the industry composition (boom in the highly productive US IT sector), higher US investment in digitalisation, and the more flexible US labour market, which moves workers more quickly into the most productive sectors. In manufacturing, the productivity gap only opened up after 2022, and the energy crisis in Europe is the main culprit. As these structural trends are likely to continue, we expect the European economies to continue to lag behind the US in terms of economic growth in 2025 too.

Global economy
Five theses for 2025

1. The US continues to leave Europe behind
Structurally, the gap between the US and Europe is widening further due to lower energy prices and higher productivity growth in the US. On a cyclical basis, we are warning against excessive optimism in the US for 2025, especially as high long-term interest rates are a drag, as well as against excessive pessimism in Europe, where the weaker euro, the frontloading of exports to the US due to potential trade tariffs and lower interest rates are cushioning factors. In Europe, however, the divergence between solid "periphery" and weak "core" countries is likely to continue.

2. Europe moving to expansionary monetary policy
The SNB's policy is already expansionary as the SNB fears deflation, while the ECB's focus is shifting from inflation risks to growth risks. Trump's policies are intensifying the downward pressure on inflation in Europe, while the ECB's monetary policy will shift from restrictive to expansionary.

3. Trump and inflation: no reason to panic
We expect a lot of political noise under President Trump, but ultimately less dramatic results than initially announced, as he likely aims for election successes in the "midterms" and sees equity markets as the most important gauge of his policies. As inflation has proven unpopular, we expect targeted tariffs instead of broad-based ones, which will also be cushioned by the stronger US dollar. Trump's policy is slightly inflationary overall and will narrow the scope for Fed rate cuts, but we do not expect a significant surge in inflation.

4. No end to the debt economy
Fiscal policy is becoming even looser in the US, while budget consolidation in Europe is falling short of expectations. We do not expect bond investors to "throw a tantrum", but we expect bond yields to remain anchored at elevated levels over the medium term despite policy rate cuts.

5. China: trade conflicts slowing the economy
The challenges facing China's economy are shifting. While the real estate sector remains a drag, it is no longer the greatest downward pressure. This is now mainly the result of external factors. Trade tariffs are weighing on exports and affecting business sentiment. Thus, once again this year, China will not function as the growth engine of the global economy.

Switzerland
Back to zero inflation

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.4%
2025: 1.2%	2025: 1.3%

The economic slowdown in Europe is mainly weighing on the export-dependent Swiss MEM industries. As a result, the unemployment rate has risen significantly over the past few months in the Jura Arc and other locations of the mechanical industry. In the cantons of Jura, Vaud, Solothurn and Neuchâtel, the seasonally adjusted unemployment rate rose by 0.3 percentage points or more from August to November 2024. For Switzerland as a whole, we anticipate an average unemployment rate of 2.5% for 2024. We expect an annual average of 2.8% in 2025. This development is also weighing on consumer confidence, which has been on a downward trend since August. With its now expansionary monetary policy, the Swiss National Bank is creating the necessary conditions to protect the domestic economy from a further cyclical slowdown.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.1%	2024: 1.1%
2025: 0.2%	2025: 0.6%

The fact that the average inflation rate in Switzerland over the decade before the pandemic was 0% has been somewhat forgotten. Five years later, the annual rate of change of the Swiss Consumer Price Index, excluding the rental component, was back to zero as at November 2024. At the start of 2025, lower electricity prices will ensure a continuation of the disinflationary momentum. There is also now certainty that the mortgage reference interest rate will be lowered in March 2025, resulting in lower existing rents from July 2025. This development will then be reflected in the assessment of the inflation rate in August. According to our current projection, annual inflation will indeed fall back to 0% over the summer months of 2025. Lower energy prices or a renewed appreciation of the Swiss franc are significant forecast risks, which could even lead to temporary negative inflation rates.

USA
Noisy politics, solid economy

GDP growth

Swiss Life Asset Managers	Consensus
2024: 2.8%	2024: 2.7%
2025: 2.3%	2025: 2.0%

Taking his first presidency as a blueprint, Donald Trump's erratic style of government will contribute significantly to forecast uncertainty in 2025. We anticipate targeted rather than high and broad-based tariffs and a significant decline in immigration but are sceptical that Trump will be able to pursue the "mass deportation" of immigrants as he has threatened, as he is likely to encounter financial, legal and political hurdles. However, our conviction is low, particularly regarding the outlook for tariffs, and a tougher policy stance is conceivable. Lower immigration and higher tariffs will impede growth in 2025, as will the high and well-anchored long-term interest rates, which continue to weigh on the real estate sector. On the "positive" side, fiscal policy is becoming even more expansionary. There is little scope for significant expenditure cuts outside mandatory social spending and the military. The Republican-dominated Congress will be wary of touching these areas in view of the "midterms" and will tackle corporate tax cuts in 2025 and extend the tax cuts from Trump's first term. At the same time, we expect deregulation, especially in the financial and energy sectors. On balance, Trump's policies are likely to make a slightly positive contribution to economic growth via government and private consumption.

Inflation

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

US inflation weakened to a lesser extent than in Europe in 2024 due to solid growth and is likely to remain above the central bank target of 2% in 2025 due to the expansionary fiscal policy under Donald Trump. The US Federal Reserve thus has less scope to ease its still-restrictive monetary policy further. Tariffs could also make a one-off contribution to inflation, but according to the textbook should be ignored by monetary policy (like any tax).

Eurozone
Headwind, but no storm

GDP growth

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

While the above-mentioned structural problems in the eurozone justify some pessimism, we believe that the worries on the cyclical side are exaggerated. While uncertainty about possible US trade tariffs is likely to be a drag on growth, the impact on individual eurozone countries would be heterogeneous. Germany is likely to be the worst affected due to its export structure and exposure to the industrial sector, while Spain is the least exposed. However, the depreciation of the EUR against the USD is likely to offset some of the negative impact on competitiveness. A certain front-loading of US import demand for eurozone goods should also cushion the negative effect. Within the eurozone, the peripheral countries such as Spain and Italy in particular were an important growth pillar in 2024. This divergence between the periphery and the core countries, such as Germany and France, is expected to continue in 2025. Spain stands out in particular. The Spanish labour market remains robust, boosted by record-high immigration supported by the government. This should also give further impetus to the important tourism sector. In addition to Spain, other peripheral countries such as Croatia and Greece are also reporting impressively solid growth expectations for 2025.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.4%	2024: 2.4%
2025: 1.7%	2025: 1.9%

Inflationary pressure declined further in 2024, albeit at a slower pace than in 2023. The inflation dynamics should allow the ECB to ease its monetary policy further in 2025 and thus support growth. Lower external demand, price pressure on export goods and the diversion of Chinese exports to Europe due to potential US trade tariffs should further reduce inflationary pressure in the eurozone.

Germany
Recovery is being overshadowed

GDP growth

Swiss Life Asset Managers	Consensus
2024: -0.1%	2024: -0.1%
2025: 0.5%	2025: 0.4%

Between December 2023 and September 2024, the German economy grew by just 0.05%. For 2025, we see slightly better momentum, but many challenges remain. From an economic point of view, we have a rather positive view of the snap elections, but the election of President Trump casts a shadow over the already sluggish economic recovery. The USA is now by far Germany's most important export destination. In 2023, road vehicles, electrical products and medical and pharmaceutical products represented the three most important export groups. Even if we do not currently expect broad-based tariffs, these sectors in particular could be targeted by Trump. The higher uncertainty alone is likely to have a negative impact on investment spending, and we have therefore revised our growth forecasts for 2025 downwards. On a cyclical basis, we continue to expect private consumption to provide slightly positive impetus in the course of 2025. The now-greater scope for interest rate cuts by the ECB should also help to avoid a recession. Should the new elections in February result in a large coalition between the CDU/CSU and the SPD, this could also slightly increase the fiscal room for manoeuvre. The most positive scenario would probably be an extra-budgetary infrastructure fund, but for which a two-thirds majority would be required.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.2%	2024: 2.3%
2025: 1.8%	2025: 2.0%

Headline inflation in 2024 fell from 2.9% in January to 2.2% in November, while core inflation fell from 3.4% to 3.0%. While annual inflation in energy prices was negative every month and inflation in goods prices fell significantly, service price inflation rose from 3.8% to 4.8%. In 2025, we expect inflation to slow significantly in the services sector, too, against the backdrop of a weak economic development.

France
Slump in mood

GDP growth

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

Compared to Germany, the French economy as the other economic heavyweight in the eurozone posted robust values for much of 2024. This was due to the ongoing expansionary fiscal policy and reduced dependence on industrial exports. In the meantime, however, the picture has deteriorated considerably: purchasing managers' indices show a contraction for both manufacturing and service providers. In the manufacturing sector, a sharp drop in order intake is noticeable. Driven by rising real wages and seemingly unimpressed by domestic political uncertainties, consumer confidence continued to rise until September. Since then, the mood has collapsed. Taking into account current inflation dynamics, the monetary policy of the European Central Bank (ECB), which remained restrictive throughout 2024, can no longer be justified retrospectively. Of our five theses for 2025, the expected transition to an expansionary monetary policy is thus shaping our short-term outlook for France most sustainably. It goes without saying that the assumptions regarding the absence of fiscal consolidation also relate specifically to France. Being unaware of the composition of the future government following the vote of no confidence on 4 December, we do not see any medium-term scenario under which France's sovereign debt ratio could fall.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.0%	2024: 2.1%
2025: 1.1%	2025: 1.4%

The annual rate of change of the consumer price indices shows inflation dynamics only with a lag. If we only look at the price changes over the past six months (annualised), we get a more timely indication of inflation dynamics. On this basis, annualised inflation is currently just 0.5%. We are sticking to our forecast for inflation in 2025, which has been significantly below consensus expectations for months.

UK
Political support

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

The UK economy grew faster than expected, particularly in the first half of 2024. Some recovery in household consumption has been an important pillar of growth. In 2025, government consumption will come to the fore as a growth driver. On the one hand, the spending increases presented by the Labour government in the autumn budget are more expansive than we had expected. They include, for example, infrastructure investments in various areas as well as increased ongoing funding for healthcare. On the other hand, the announced tax increases are likely to have a negative impact on private consumption. Increases in employers' social security contributions are most significant. Some of these increases are likely to be passed on to consumers through higher prices. Also, lower net salaries may reduce disposable income. On balance, however, we expect a positive net effect on economic growth. One advantage of the UK economy is its higher share of exports of services relative to goods. The direct negative impact of any US tariffs would therefore be lower than in the eurozone. Overall, we have increased our GDP growth forecast for 2025 from 1.0% to 1.3%.

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

The new government's budget is also having an impact on inflation. For example, we expect inflation in the services sector to remain at an elevated level for longer than previously assumed. While services inflation fell further from its peak in 2024, the aforementioned increases in employers' contributions will most likely be passed on to consumer prices, and the services sector is likely to be disproportionately affected. We have raised our inflation forecast for 2025 to 2.3%.

China
New growth risks

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.8%	2024: 4.9%
2025: 4.1%	2025: 4.5%

The challenges facing China's economy are shifting. While the real estate sector remains a burden, it no longer poses the biggest growth risk. This is now mainly the result of external factors. Trade tariffs are weighing on exports and affecting the business climate, which is impacting negatively on investment. While we do not expect the worst-case scenario in which the Trump administration imposes a comprehensive 60% tariff on all Chinese goods, we do expect a gradual phasing-in of tariffs that could potentially be implemented soon after Donald Trump takes office. As China's exports to the US still account for around 3% of its GDP, these trade restrictions will have a negative impact on its economy. However, shifting exports ahead of the actual introduction of tariffs, trade diversification and a depreciation of the Chinese currency will help mitigate the negative impact on economic growth. Overall, we are lowering China's GDP growth forecast for 2025 from 4.5% to 4.1%.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 0.4%	2024: 0.4%
2025: 1.6%	2025: 0.9%

Due to increased growth risks, consumer confidence in China is expected to remain subdued again in 2025, generating only slight price pressure. The moderate inflation expected for 2025 gives the central bank scope for an expansionary monetary policy, which should support the domestic economy somewhat.

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