Perspectives
Economics

February 2025

Key takeaways

- The first days of Donald Trump in office: much noise and increasing uncertainty
- Europe: rising sentiment among businesses and consumers triggers optimism
- China: tariffs will come but to a lesser extent than feared in the worst-case scenario

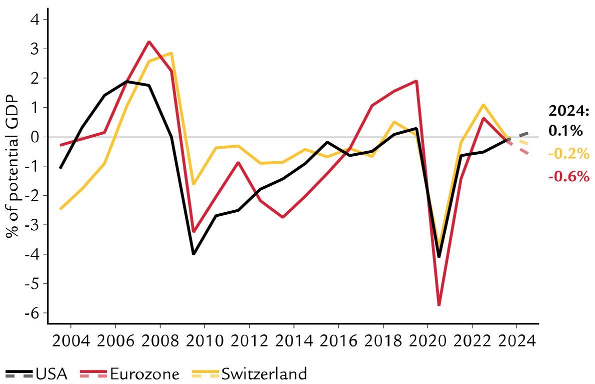
Comparison of forecasts

	2025 GDP growth		2026 GDP growth		2025 inflation		2026 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	2.3 %	2.2 % ↑	2.3 %	2.0 %	2.5 % ↑	2.6 % ↑	2.4 %	2.6 %
Eurozone	0.8 % ↓	1.0 %	1.0 %	1.2 %	1.9 % ↑	1.9 %	1.8 %	1.9 %
Germany	0.4 % ↓	0.4 %	0.8 %	1.0 %	2.0 % ↑	2.0 %	1.8 %	1.9 %
France	0.8 %	0.7 % ↓	1.1 %	1.1 %	1.1 %	1.4 %	1.7 %	1.6 %
Italy	0.6 %	0.7 % ↓	0.8 %	0.9 %	1.7 %	1.7 %	1.8 %	1.7 %
Spain	1.7 %	2.3 % ↑	1.6 %	1.8 %	2.2 % ↑	2.1% ↑	1.9 %	2.0 %
UK	1.2 % ↓	1.2% ↓	1.4%	1.4%	2.5% ↑	2.6%	2.1%	2.3%
Switzerland	1.2%	1.3%	2.0%	1.6%	0.2%	0.6%	0.6%	0.8%
Japan	0.8%	1.2%	0.5%	0.9%	2.4% ↑	2.3%	1.6%	1.8%
China	4.1%	4.4% ↓	3.8%	4.1%	0.9% ↓	0.7% ↓	1.5%	1.2%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 13 January 2025

Chart of the month

Output gaps as estimated by the OECD



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

Following two years of virtual stagnation, an output gap has opened in the eurozone, which means that the capacities of the economy are not fully utilised. We expect growth to normalise in 2025 and 2026, but this will not suffice to close the output gap in the eurozone. This is also the case to a lesser extent in Switzerland. Inflation pressure in Europe is therefore set to remain low in 2025 and 2026. We expect growth close to potential in the USA in 2025 and 2026, with the restrictive monetary policy neutralising the expansive fiscal policy. The output gap in the USA should therefore remain at around 0%.

USA
The first days of Trump II

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 2.3%	2025: 2.2%
2026: 2.3%	2026: 2.0%

The economic figures in the USA remained encouraging in January but barely appeared to interest the financial markets. For once, company news (launch of groundbreaking AI models by DeepSeek) and politics proved more compelling. Donald Trump entered office as expected with a furore. It came as somewhat of a surprise that rather than immediately imposing customs tariffs, he merely issued threats directed primarily against neighbouring countries, Columbia and China in connection with immigration and drug policy. This indicates that on the one hand tariffs are serving as a means of exerting pressure. On the other hand, Trump intends to impose tariffs for trading and fiscal policy purposes as well, but needs time until 1 April to draw these up. Our baseline scenario anticipates targeted rather than high and broad-based tariffs as the end result, although the risk of the latter has risen following the government's most recent statements. In addition, Trump announced a deregulation wave in the energy sector and clearly tightened up immigration and border security. All in all, his initial days in office were in line with our expectations, and we are therefore not revising our GDP forecasts.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.5%	2025: 2.6%
2026: 2.4%	2026: 2.6%

Rising petrol prices drove inflation at the end of 2024 and probably also in January 2025 and we have therefore slightly raised the annual forecast for 2025. With regard to core inflation, which is relevant for monetary policy and excludes energy and food prices, we expect a further decline in 2025 driven by lower shelter inflation. Rents for new leases actually fell by 2.4% year-on-year in the fourth quarter of 2024. This downturn will show through in existing rents with a delay. However, inflation in services should remain high due to wage pressure, while tariffs could revive consumer goods inflation (excluding energy).

Eurozone
Small rays of hope

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.8%	2025: 1.0%
2026: 1.0%	2026: 1.2%

The initial sentiment indicators for January point to a slight improvement. The purchasing managers' index for the manufacturing sector in the eurozone proved higher than expected. Although at 46.1 it is still below the growth threshold of 50, the trough appears to be behind us. The slight recovery was driven by improved future expectations of companies. They expect production to be higher within a year, which is encouraging. The index for the services sector remains in expansionary territory. The improvement within the eurozone was driven by Germany, where the manufacturing index finally saw a slight improvement, although it still remains below 50. Further sentiment indicators such as the consumer sentiment index in the eurozone also improved slightly in January following two months of deterioration. This raises hopes that the expected recovery in household consumption will gain more momentum in 2025. The easing of monetary policy by the European Central Bank (ECB) should also make itself felt by way of a falling household savings rate.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 1.9%	2025: 1.9%
2026: 1.8%	2026: 1.9%

Headline inflation in the eurozone was slightly up again at the end of 2024 due to rising energy prices. We have therefore also slightly increased our inflation forecast for 2025 for the eurozone. However, core inflation, which excludes energy and food prices and serves as the relevant metric for monetary policy, has remained unchanged at 2.7% since September. As expected, the ECB cut key interest rates by 25 basis points again in December and signalled that it would continue its gradual easing path. We expect inflation in the eurozone to recede again slightly in 2025 and fall to below 2%.

Germany
Cautious optimism

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.4%	2025: 0.4%
2026: 0.8%	2026: 1.0%

Gross domestic product (GDP) fell by 0.2% in 2024, thus recording negative growth for the second year in succession. Despite a rise in real wages, private consumption has so far remained subdued in view of economic uncertainties. However, the increased savings rate could support future consumer spending once sentiment among consumers picks up. According to the purchasing managers' index, there was a slight rise in corporate optimism across the board in January. The slightly improved outlook together with a gradually more expansionary monetary policy give reason to expect a moderate recovery for the current year. We therefore predict growth of 0.4% for 2025. The parliamentary elections on 23 February could generate additional economic momentum. Greater government investments would be conceivable if the debt brake were to be eased or extra-budgetary investment programmes launched. However, the prerequisite for this is for fiscally conservative parties such as the FDP and the AfD not to achieve a blocking minority of more than a third of parliamentary seats. International trade remains a significant risk factor. Potential US customs tariffs on German exports, in particular chemical products and the automotive industry, could place a burden on economic performance and jeopardise the upturn.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.0%	2025: 2.0%
2026: 1.8%	2026: 1.9%

In 2024, inflation normalised further towards 2%, mainly due to the sustained drop in inflation in the services sector. Headline inflation is set to increase again slightly at the start of 2025, driven by higher energy prices and rising wages. However, in view of the subdued economy, we expect it to prove largely stable in the course of the year and level out at around 2%.

France
Positive signals at start of year

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.8%	2025: 0.7%
2026: 1.1%	2026: 1.1%

The consensus forecast of growth for 2025 has been approaching our (cautious) estimate since mid-2024. The consensus now matches the assumptions in our baseline scenario for both 2025 and 2026, according to which the French economy will for the time being grow below its potential of around 1.3%. The uncertainty over economic policy continues to shape the behaviour of consumers and businesses in France. As discussed previously, the already above-average savings rate of private households rose further in the first three quarters of 2024. If households were to reduce their savings rate to the long-term value, this would release purchasing power in the order of 1.9% of GDP. Falling short-term interest rates in response to the easing of monetary policy by the ECB should indeed lead to some dissaving in 2025. Positive signs from the business community at the start of the year support our assumption that the cyclical upturn in Europe is gathering pace. There are increased indications that the lending policy of banks towards businesses is being eased further. Furthermore, the purchasing managers' index for manufacturing rose in January 2025 to its highest level since June 2024.

Inflation

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.4%
2026: 1.7%	2026: 1.6%

We expect a continuation of the disinflationary tendencies, particularly also in view of economic growth below potential. A marked fall in the inflation rate below 1% is to be anticipated following confirmation of the announced reduction in electricity tariffs for private households as of February 2025. The inflation momentum justifies a swift easing of monetary policy, while the economic slowdown in the key member states of the eurozone actually calls for this.

Italy
A tight-fisted NATO country

Italy's economy is currently divided, with a weak manufacturing and a strong services sector driving the sustained employment boom. This recently resulted in a record fall in unemployment that particularly benefited young people and the south of Italy. One risk remains Donald Trump. Italy could come under fire from the USA on two fronts: firstly, the country's high trade surplus with the USA and secondly, its insufficient defence spending. Although Italy has increased the latter from 1.1% to 1.5% of GDP within the last ten years, this places it in the sixth last position among NATO countries and well below the 2% target. Moreover, no other NATO country spends as high a share of its defence budget on staff as Italy (59%), meaning that spending on maintenance and equipment is correspondingly low. While Giorgia Meloni has so far competed successfully for Donald Trump's favour, the political pressure from the USA is set to increase in the coming months.

Spain
Same as before

The Spanish economy was the growth driver of the eurozone in 2024. Although the GDP figures for the fourth quarter were not yet available at the time of writing, annual growth is set to be well above the level of the eurozone as a whole. Government consumption is likely to contribute less to growth in the years to come as Spain will probably have to carry out fiscal consolidation in order to meet EU requirements. We therefore expect a slight slowdown in 2025 compared with 2024, but growth will remain solid. The Spanish economy is set to continue benefiting from a high level of immigration that is explicitly promoted by the government. The strong immigration over recent years has caused the working population to grow by 4% since 2019, which is almost twice as high as in other western European countries. Moreover, Spain would be less affected by potential trade tariffs than other major eurozone countries due to its low share of goods exports to the USA.

Switzerland
Foreign demand proving a drag

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 1.3%
2026: 2.0%	2026: 1.6%

Our growth forecast for 2025 envisages economic momentum below the growth potential of the Swiss economy. The MEM industries are still suffering from poor demand from the sales markets of Germany and China. However, the domestic economy is proving more robust: extrapolated to a year, the net migration of the permanent resident population remains above 90 000 persons. Furthermore, according to the State Secretariat for Economic Affairs (SECO), consumer sentiment has risen sharply. According to this survey, households consider the current time to be more favourable again for major purchases. There are signs that the expansionary monetary policy of the SNB will further boost the domestic economy in 2025. The sharp rise in the GDP growth rate to 2.0% for 2026 is attributable to the licensing income of the IOC and UEFA sports associations that are based in Switzerland. According to our calculations, GDP adjusted for the sports events will increase by 1.5% in 2025 and 1.6% in 2026.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.6%
2026: 0.6%	2026: 0.8%

Our forecast for 2025 lies below the consensus expectations. However, short-term forecasting risks due to the fluctuations on the foreign exchange and commodity markets have shifted upwards. The reasons for this are the lack of any further appreciation of the Swiss franc against the euro for the time being and higher energy prices. Falling electricity prices for households and ongoing structural price pressure in retail continue to underlie our forecast for 2025. Lower existing rents will also be included in the calculation of the Swiss Consumer Price Index in the second half of the year.

UK
Fiscal policy back in focus

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 1.2%
2026: 1.4%	2026: 1.4%

Yields on British government bonds have risen sharply since December 2024 and reached the level of 1998. Unlike the "Liz Truss moment" in 2022 when the presentation of an expansive autumn budget triggered a sell-off of British bonds, the market movement this time was in line with global government bonds and less abrupt. However, as well as global factors, domestic factors such as fears of persistent inflation and less monetary policy easing also drove the market movement. Accordingly, borrowing costs have risen since the presentation of the new budget last October and compliance with the self-imposed budgetary rule has become more difficult. Chancellor Rachel Reeves has only left minimal fiscal leeway in her budget. It currently looks as though this will be exhausted, although a precise estimate of the deficit is difficult. We therefore eagerly await the publication of the spring forecast of the Office for Budget Responsibility on 26 March 2025 and the subsequent speech by Reeves. The most likely prospect at present is that the deficit will be plugged by spending cuts. It is still unclear where these will be made. The Labour Party has geared its growth strategy to the stimulation of investments, which means that spending cuts in this area will be difficult to reconcile with its objectives.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.5%	2025: 2.6%
2026: 2.1%	2026: 2.3%

At 2.5%, inflation in December was less than expected. The decline was primarily driven by lower air fares – a very volatile inflation component. Nonetheless, the downside surprise came as welcome news for the bond markets. We expect inflation to move back towards 2% in the course of the year.

China
Gentle start

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 4.1%	2025: 4.4%
2026: 3.8%	2026: 4.1%

China's economy has grown by 5% in the last year. The main drivers of this solid growth were high-tech investments and a rise in exports of more than 7% over the year. However, the export sector in particular will come under pressure this year. Although Donald Trump has so far refrained from imposing a broad tariff on all Chinese products, trade barriers are set to follow in the course of the year that will weigh on exports. He is using customs tariffs on the one hand as a means of exerting pressure to obtain concessions from China, for instance with regard to the fentanyl crisis and the purchase of more US products. As China is likely to remain open to such deals, the actual implementation and preservation of the tariffs could prove less drastic than threatened. We nevertheless expect some tariffs to be introduced as Trump also aims to use them to reduce the trade deficit with China, make Chinese industrial products less competitive and in this way support the overarching goal of reindustrialising the USA. Meanwhile, the real estate sector is showing signs of stabilisation on the demand side, with real estate sales once again up on the previous year in December. Thanks to this clearer outlook on demand conditions, the real estate sector no longer poses the greatest growth risk.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 0.9%	2025: 0.7%
2026: 1.5%	2026: 1.2%

While industrial production is booming, consumer demand remains sluggish. This imbalance between supply and demand is leaving companies little scope to raise prices. As this situation is set to continue or even be exacerbated by US tariff threats in 2025, we are reducing our inflation forecast to 0.9%.

Economic Research

Marc Brütsch
Chief Economist
marc.bruetsch@swisslife-am.com
@MarcBruetsch

Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
@kunzi_damian

Josipa Markovic
Economist Emerging Markets
josipa.markovic@swisslife-am.com

Christoph Lauper
Economist Quantitative Analysis
christoph.lauper@swisslife-am.com

Florence Hartmann
Economist Developed Markets
florence.hartmann@swisslife-am.com

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please send an email to: info@swisslife-am.com.
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