Perspectives
Economics

Swiss Life Asset Managers

March 2025

Key takeaways

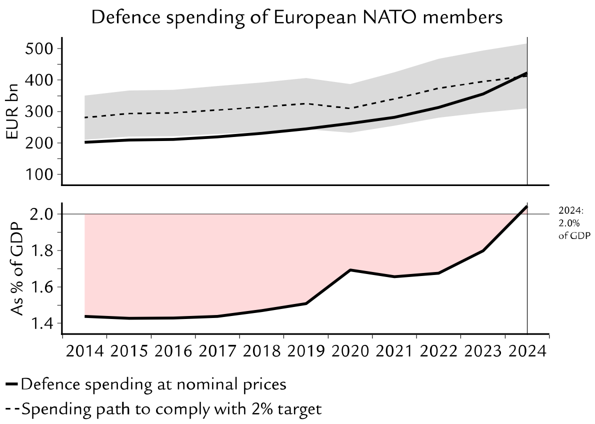
- USA: the “Trump euphoria” in business surveys is subsiding due to the uncertainty about tariffs
- Germany: the prospect of a government capable of acting is supporting the tentative economic upswing
- China: while the 10% tariff will only affect China’s economy to a limited extent, further tariffs are expected

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%	2.6% ↑	2.7% ↑	2.4%	2.6%
Eurozone	0.8%	0.9% ↓	1.0%	1.2%	2.0% ↑	2.1% ↑	1.8%	1.9%
Germany	0.3% ↓	0.3% ↓	0.8%	1.0%	2.0%	2.2% ↑	1.8%	1.9%
France	0.8%	0.7%	1.1%	1.0% ↓	1.2% ↑	1.4%	1.6% ↓	1.7% ↑
Italy	0.5% ↓	0.7%	0.9%	0.9%	1.8% ↑	1.8% ↑	1.8%	1.7%
Spain	2.2% ↑	2.4% ↑	1.7% ↑	1.9% ↑	2.3% ↑	2.2% ↑	1.9%	2.0%
UK	1.2%	1.1% ↓	1.4%	1.3% ↓	2.7% ↑	2.8% ↑	2.1%	2.4% ↑
Switzerland	1.2%	1.2% ↓	2.0%	1.6%	0.2%	0.5% ↓	0.7% ↑	0.8%
Japan	1.2% ↑	1.2%	0.5%	0.9%	2.9% ↑	2.6% ↑	1.6%	1.8%
China	4.1%	4.5% ↑	3.8%	4.1%	0.7% ↓	0.6% ↓	1.5%	1.1%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 10 February 2025

Chart of the month



Sources: Macrobond, Swiss Life Asset Managers. 2024: NATO estimate of defence spending and GDP forecast of IMF

Defence spending in Europe has risen significantly since the Russian invasion of Ukraine in 2022 and is likely to have reached the NATO target of 2% of European gross domestic product for the first time in 2024. Defence is set to remain very high on the political agenda in the EU, and government spending in this area to rise further in the years to come. However, the funding continues to raise questions due to the fiscal rules set out by the EU. The suspension of the fiscal rules for defence spending and the issue of European “war bonds” are two conceivable options.

USA
Reality check

GDP growth

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

While the flood of news from the White House is not abating, it has so far largely confirmed our forecast assumptions: (1) Apart from the 10% tariff on Chinese goods, everything else has stopped short at threats and we expect targeted rather than high and broad-based tariffs in particular towards developed markets. This assumption will be put to the test in the coming weeks when various deadlines expire. The risk is that we underestimate the government's appetite to generate income through tariffs. (2) While the harsh rhetoric has indeed put off immigrants, the threatened "mass deportations" have so far failed to materialise. Although Congress wishes to earmark resources for this purpose, it will be a long time before the staff and infrastructure are available. (3) Deregulation is now set to be expanded to the financial sector. (4) However, with regard to fiscal policy, it could be that we have underestimated the desire to reduce the deficit. Initial budget drafts from Congress include cuts to welfare programmes such as Medicaid in order to fund the extension of tax cuts from Trump's first term in office. The outcome of the debate remains open, and we are therefore hanging on with any corrections to our forecasts. However, it is clear that the uncertainty has increased, and a degree of disillusion is perceptible in many business surveys following the initial Trump euphoria.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.6%	2025: 2.7%
2026: 2.4%	2026: 2.6%

As in the preceding years, January brought with it an upward surprise for headline and core inflation. At present it is still difficult to assess how much of this is attributable to seasonal factors and capricious weather conditions and how much is actually due to increased inflationary pressure. However, inflation expectations consequently rose in financial markets as well as among businesses and consumers and, together with the uncertainty concerning new tariffs, are causing the US Federal Reserve to adopt a wait-and-see approach.

Eurozone
What if…

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.8%	2025: 0.9%
2026: 1.0%	2026: 1.2%

President Trump has created a stir with his endeavours to secure a peace agreement between Russia and Ukraine. The obstacles to an agreement with robust security guarantees are large, and the negotiations are likely to take months. For this reason, we have not yet made any forecast adjustments. Such an agreement would above all have the following economic implications for Europe: firstly, sanctions on Russia could be eased, which would result in lower gas prices. This would have a favourable impact on inflation in the eurozone and for industry, which is suffering from the high energy prices. The second channel is the labour market. There are currently around 2.6 million Ukrainian refugees living in the eurozone who have helped to boost the European labour market in the last few years. According to surveys, 50% of these refugees intend to return to Ukraine when the war ends, which is likely to further exacerbate the shortage of skilled labour and the demographic problems in the eurozone. Regardless of the further course of the negotiations, defence spending will rise in all European countries in the years to come (see chart of the month), which is set to have a positive impact on economic growth and has already been included in our baseline scenario.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.0%	2025: 2.1%
2026: 1.8%	2026: 1.9%

Headline inflation in the eurozone rose further in January to 2.5%. The increase was primarily driven by a sharp acceleration in energy prices. Core inflation remained unchanged in December at 2.7%. Energy prices have fallen again since the start of February, which should help to cushion January's rise. We expect inflation in the eurozone to recede again slightly in 2025 and fall to below 2%.

Germany
Expectations improving

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.3%	2025: 0.3%
2026: 0.8%	2026: 1.0%

The German economy remains undecided. The ifo Business Climate Index showed a mixed picture in February. While enterprises assessed the current business situation more critically, their expectations improved slightly. The purchasing managers' index (PMI) for the manufacturing sector displayed a similar trend that again pointed to a positive development. The political environment is also helping to ease tensions. The parliamentary elections in February produced a result that will make it easier to form a stable government in a short time. Fiscal easing to boost investments in infrastructure and defence is conceivable but will require compromises with the Greens and the Left Party in order to achieve the necessary two-thirds majority. However, the economic environment remains challenging in the short term. Private consumption is only recovering slowly as many households remain cautious. The export sector is also facing major challenges due to international uncertainties and structural problems. Nevertheless, the combination of increased optimism, a more expansive monetary policy and a government capable of acting should help the upturn to gradually consolidate and Germany to return to growth.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.0%	2025: 2.2%
2026: 1.8%	2026: 1.9%

Inflation in Germany continues to pursue a disinflationary trend and unlike in many other western countries has not recently surprised on the upside. Our assessment remains unchanged: a normalisation towards 2% is likely. The stubborn services inflation driven by wage increases and labour market shortages remains decisive for the medium and long-term inflation trend. At 4%, it remains well above the target for price stability.

France
Service providers: low sentiment

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.8%	2025: 0.7%
2026: 1.1%	2026: 1.0%

According to preliminary data, the purchasing managers' index for the services sector fell in February to its lowest level since September 2023. The low sentiment is due to sharply falling order intake. The political stability regained for the time being is clearly not having any directly positive effect on business confidence in the services sector. The situation on the labour market has also deteriorated further. According to the online employment agency Indeed, the number of vacancies has fallen to its lowest level since October 2021. According to a Bloomberg survey, the considerable uncertainty has also caused the risk of a recession over the coming twelve months in France to climb to its highest level in two years. We are still not expecting a technical recession with negative gross domestic product growth rates. However, we are upholding our assumption that France's economy will grow less strongly this year and next than would be possible with full capacity utilisation. An increase in the unemployment rate is therefore to be expected over the coming quarters. We expect momentum from falling financing costs following further interest rate cuts by the ECB.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 1.4%
2026: 1.6%	2026: 1.7%

Annual inflation in January was higher than we expected. This has led to a slight upward revision of our inflation forecast for 2025. Nevertheless, our baseline scenario for price momentum at the consumer level remains below the consensus expectations. The fall in electricity tariffs caused the inflation rate to fall significantly in February. We also expect price pressure in the services sector to recede as the year continues in view of the below-potential growth of the domestic economy.

Italy
Half a year of stagnation

According to preliminary data from the statistical office, Italy's economy stagnated in the third and fourth quarters of 2024. While strong private consumption offset the weakness of the external sector in the third quarter, according to the media release of the statistical office the indicators in the fourth quarter were exactly the opposite. Weak imports and strong exports in particular to other EU countries especially in December contributed to this. Interestingly, however, exports to the USA continued to point downwards at the end of the year, and there was little sign of exports being brought forward due to impending US tariffs. The signs for the new year are mixed. Growth of real wages remains positive and should continue to support private consumption, but according to the purchasing managers' indices, no acceleration of momentum is to be expected in the services sector. Meanwhile, sentiment in the industrial sector remains poor. All in all, we continue to feel comfortable with our growth forecast of 0.5% for 2025, which is below the consensus expectations.

Spain
Investment upturn

Compared to the previous quarter the Spanish economy again grew by 0.8% in the fourth quarter of 2024, putting overall growth for 2024 at 3.2%. The impressive growth performance held up despite the severe floods in October. The reconstruction efforts appear to have at least partially offset the negative effects. The significant fourth-quarter recovery in investments, which have been sluggish in recent years, could be an indication of this. The growth of investments in machinery and equipment was particularly strong. The ongoing recovery of private consumer spending is also encouraging and is set to remain a growth driver in 2025. By contrast, government consumption, which has been an important growth engine in recent years, slowed down sharply in the fourth quarter. However, the growth contribution remained positive, thanks also to state support for the regions affected by the floods. We expect a slight slowdown in 2025 compared with 2024, but growth will remain solid.

Switzerland
Unchanged inflation forecast

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

Initial data for the final quarter of 2024 adjusted for the licensing income of associations in connection with major international sports events indicate that Switzerland has escaped the declining economic momentum of its larger neighbours. The continued improvement of consumer sentiment and the upturn on the real estate market point to one explanation for the comparatively robust state of the Swiss economy: the brisk approach of the Swiss National Bank (SNB) and its swift transfer of monetary policy to an expansive state are already lending momentum to the domestic economy. However, a second explanation is the ongoing high net migration of the foreign resident population, which once more increased by over 90 000 in 2024. It therefore remains reasonable to say that the growth of Switzerland's gross domestic product is above all a broad-based one. The export-oriented MEM industries are still suffering from weak demand. This is also evident in the labour market data of the cantons of the Jura Arc. The average unemployment rate in Switzerland is set to rise in the course of the year from 2.5% in 2024 to 2.8%.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.5%
2026: 0.7%	2026: 0.8%

The figures for the Swiss Consumer Price Index for January contained a surprise that led to a moderate reassessment on the market of the SNB's future monetary policy: the core rate of inflation rose from 0.6% to 0.9%. We believe that this rise is chiefly due to altered weightings in the market basket. Our forecast for 2025 remains below consensus expectations. It should be remembered that in the baseline scenario we are expecting lower import and energy prices. Lower existing rents have also been included in the inflation measurement since August.

UK
Government spending mainstay

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 1.1%
2026: 1.4%	2026: 1.3%

British gross domestic product grew by 0.1% in the fourth quarter compared to the previous quarter and by 0.4% in December compared to the previous month and has therefore regained some momentum. However, a glance at the growth drivers is less encouraging. The growth in the fourth quarter is largely attributable to the public sector. By contrast, private consumption remained poor and stagnated in the fourth quarter, while business investment and trade curbed growth. However, to a certain extent this growth composition matches the expectations following the autumn budget, which contained higher government spending that is now having an impact earlier than expected. The private sector is set to remain the weak point in the British economy over the coming months as the effects of the announced tax rises due to enter into force in April are expected to become noticeable. This is also indicated by the purchasing managers' indices for February. Although the index for the services sector has surprised slightly on the upside and remains above the growth threshold at 51.1, the considerable deterioration in the employment component points to a slowdown. Nevertheless, we expect some acceleration of GDP growth this year compared with 2024, driven by the increase in government spending.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.7%	2025: 2.8%
2026: 2.1%	2026: 2.4%

At 3.0%, inflation rose significantly more than expected in January. This increase was driven by higher energy and food prices. Core inflation also rose sharply due to higher ticket prices for public transport and the introduction of value-added tax for private schools. We are therefore correcting our inflation forecast for 2025 upwards to 2.7%.

China
Trade war 2.0

GDP growth

Swiss Life Asset Managers	Consensus
2025: 4.1%	2025: 4.5%
2026: 3.8%	2026: 4.1%

While Mexico and Canada have been temporarily spared the initial US threat of a 25% tariff, this is not the case for China. A 10% tariff on Chinese goods entered into force on 4 February and is expanding the trade war that Donald Trump started during his first term in office. Unlike the initial trade war when tariffs were levied on specific product groups, the 10% tariff now applies universally to all Chinese products exported to the USA. Although this will impair China's export performance to the USA, we expect the impact on GDP to remain limited. The importance of the USA as an export market for China has declined significantly. Furthermore, China can cushion the impact with increased fiscal support, a shift to other trading partners and a currency devaluation that could soon neutralise the effects of the tariffs. However, we do not expect the 10% tariff to be the end of the story. Trump has instructed various authorities to submit reports on multiple issues he wishes to tackle with customs tariffs by 1 April. With regards to China, such issues range from compliance with the trade agreement to unfair trading practices. Higher tariffs on specific Chinese goods are therefore likely, above all where this serves the purpose of increasing tariff revenues and reindustrialising the US economy.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.7%	2025: 0.6%
2026: 1.5%	2026: 1.1%

Despite a rise in inflation in January to 0.5% (up from 0.1% in December), it remained below our expectations. This increase was foreseeable due to greater spending during the Chinese New Year public holiday. However, the unexpectedly low inflation has prompted us to lower our inflation forecast for 2025 slightly from 0.9% to 0.7%.

Economic Research

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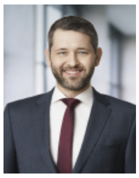

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