

May 2025

Key takeaways

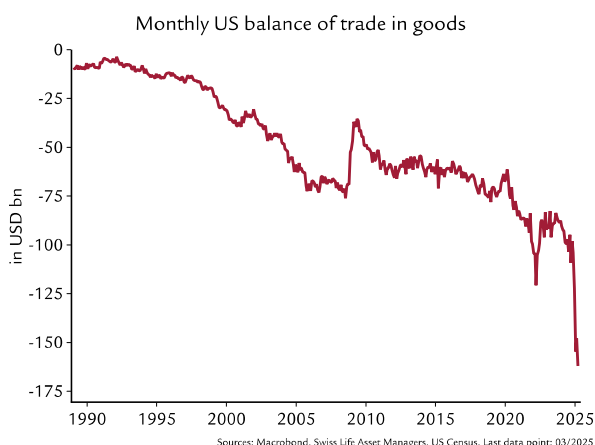
- USA: Front-loaded consumption in Q2 followed by weak demand in the second half of 2025
- Eurozone: fiscal and monetary policy have scope to cushion the negative effects of the tariff dispute
- China: the escalation of the tariff dispute will affect exports; we do not expect a halt in the flow of goods

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	1.4% ↓	1.4% ↓	1.2% ↓	1.7% ↓	3.3% ↑	3.2% ↑	3.8% ↑	2.7% ↑
Eurozone	0.7% ↓	0.9%	1.1% ↓	1.2%	2.0% ↓	2.2%	1.9% ↓	1.9%
Germany	0.2% ↓	0.1% ↓	1.2% ↓	1.3% ↑	2.1%	2.2%	2.0% ↓	2.1% ↑
France	0.6% ↓	0.6% ↓	1.2% ↑	1.0%	1.1% ↓	1.3% ↓	1.6%	1.6%
Italy	0.3% ↓	0.5% ↓	0.9%	0.8% ↓	1.7% ↓	1.9% ↑	1.8%	1.7%
Spain	2.1% ↓	2.5%	1.7%	1.9%	2.3% ↓	2.5% ↑	1.7% ↓	2.0%
UK	1.0% ↓	0.7% ↓	1.2% ↓	1.1% ↓	2.6% ↓	3.1%	2.0% ↓	2.4%
Switzerland	1.0% ↓	1.1% ↓	1.9% ↑	1.5% ↓	0.2% ↓	0.4% ↓	0.5% ↓	0.7% ↓
Japan	1.1%	1.0% ↓	0.5%	0.7% ↓	2.7%	2.9% ↑	1.6%	1.8%
China	4.1% ↓	4.5%	3.5% ↓	4.2%	0.3% ↓	0.6%	1.3% ↓	1.0% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 7 April 2025

Chart of the month



Although the US president has set himself the goal of reducing the US trade deficit, there were record import surpluses in the first three months of 2025. However, this is not a boom in cross-border trade, but rather a front-running of imports to the US to pre-empt announced tariffs. As a result, export data from European and Asian trading partners improved significantly in the first quarter – but this should not be misunderstood as a sign of a sustainable upswing. These effects are likely to reverse over the course of the year.

USA Empty shelves

GDP growth

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

The financial markets are currently the only notable force in the US that is able to ensure presidential checks and balances, at least in terms of economic policy. When US Treasuries suddenly lost ground following the tariff hammer of “Liberation Day”, the President found himself forced to pause certain punitive tariffs for 90 days and, in the case of China, to exclude critical goods from the prohibitively high tariffs. US companies will partially avoid Chinese imports for the time being, which will increasingly disrupt industrial supply chains and lead to empty shelves for certain consumer goods. As we believe that China has the upper hand in the trade war, the US is likely to either initiate negotiations or exempt other products from tariffs. Negotiations with other countries are conceivable, but we do not dare predict the timing or outcome. Let us just say that the latent risk of a sovereign bond crisis could save us from a further tariff escalation and thus an imminent global recession. Under current tariff rates, we consider the following base case scenario for the US to be conceivable: consumption and production continue to be brought forward (as long as stocks permit) followed by a slowdown in the second half of the year. The reorganisation of supply chains and monetary tailwinds could then result in some recovery in 2026.

Inflation

Swiss Life Asset Managers	Consensus
2025: 3.3%	2025: 3.2%
2026: 3.8%	2026: 2.7%

The base case scenario outlined above is highly uncertain as it depends on the mood of the US President. The same applies to inflation forecasts, which is why the US Federal Reserve remains in a waiting position for the time being. The tariff hammer and the weak dollar are leading to a significant increase in our inflation forecasts. However, the surprisingly low data in March showed that inflationary pressure quickly eases when consumption is weak, which would provide the central bank with a reason to ignore tariff-related price increases.

Eurozone All is not lost

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.7%	2025: 0.9%
2026: 1.1%	2026: 1.2%

The economic impact of the imposed US trade tariffs is likely to be felt in the eurozone, particularly in the second half of the year. We have therefore revised our growth forecast down slightly for 2025 and 2026. In addition to reduced global demand, the high level of global uncertainty is having a negative impact on business investment and private consumption in particular. However, a more expansionary fiscal policy should support economic growth in many European economies. In addition to planned infrastructure investments, such as in Germany and Italy, the planned increase in defence spending is also supporting growth. In addition to fiscal policy, there is also scope for a more expansionary monetary policy due to falling inflation risks. Lower inflation should lead to rising real wages, which in turn supports private consumption in the medium term. So far, business surveys remain robust. For example, the Purchasing Managers’ Index for the manufacturing sector rose marginally in April compared to March, but remains below the growth threshold. On the one hand, this is due to a certain advance in US exports and, on the other hand, it is due to lower energy costs. However, we expect the former to reverse in the second half of the year (see also chart of the month).

Inflation

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

Inflationary pressure is easing and should lead to a further decline in inflation in the course of the year due to weak global demand and a further fall in energy prices. The appreciation of the euro is also reducing imported inflationary pressure. This should provide the European Central Bank (ECB) with sufficient arguments to continue its rate-cutting cycle. We expect the ECB to make three more 25-basis-point rate cuts this year.

Germany

New government, slow start

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.1%
2026: 1.2%	2026: 1.3%

The CDU/CSU and SPD have agreed on a coalition government. The coalition agreement mainly contains incremental measures; many economic policy measures remain vague or have been postponed until 2026 and beyond. Tax breaks, investment incentives and relief for energy costs are planned, but will have no effect in the short term. Fiscal headroom remains limited in view of the economic situation and geopolitical risks. Germany remains committed to European fiscal rules, which means that, despite the considerable exceptions to the “debt brake”, no fundamental departure from a stability-oriented fiscal policy is to be expected. Exporting companies are particularly affected by the recent US tariffs and the stronger euro. Business surveys therefore show declining expectations. The ifo Business Climate Index fell slightly recently but remained comparatively stable given the negative developments in the export sector. This suggests some resilience of the German economy, albeit at low levels. The services sector remains stable. Overall, short-term growth prospects remain weak, while a moderate recovery remains likely in the medium term.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.1%	2025: 2.2%
2026: 2.0%	2026: 2.1%

The normalisation of inflation is being accelerated by the disinflationary effect of the US tariff policy and falling energy prices. In addition, the euro has appreciated significantly since the start of the year, reducing imported inflation for energy, consumer goods and capital goods and thus lowering costs for companies and consumers. As a result of these developments, we expect inflationary pressure to ease over the forecast period and are lowering our inflation forecast to 2.1% for 2025 and 2.0% for 2026.

France

Tourism boom

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.6%	2025: 0.6%
2026: 1.2%	2026: 1.0%

The Purchasing Managers’ Indices for the three sectors industry, services and construction all remained below the 50-point growth threshold at the beginning of the second quarter. In this gloomy economic environment, France’s tourism sector stands out. Figures available to date on overnight hotel stays by international visitors point to a new record year for 2025. The retail sector is also benefiting from the buoyant demand. Domestic household consumption is also supported by the easing of monetary policy by the ECB. And particularly in France, interest rates on savings opportunities for private households are falling significantly. As a result, the opportunity costs of consumption are falling. The unusually high propensity to save money amongst the French is therefore likely to be resigned to history. We previously discussed that a return to the long-term average savings rate could release a purchasing power reserve of around 2% of France’s gross domestic product. In addition to trade policy uncertainty, the budget debate is weighing on corporate investment behaviour. The targeted tax-neutral reduction of the budget deficit to 4.6% of gross domestic product by 2026, with a simultaneous increase in defence spending, amounts to squaring the circle.

Inflation

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.3%
2026: 1.6%	2026: 1.6%

France’s inflation rate will remain below 1% over the summer months. Our assessment that the tariff dispute and deflationary trends in China are having a dampening effect on Europe’s economies is increasingly gaining traction. This is reflected in the decline in consensus expectations for 2025 and also in long-term expectations on the inflation-protected bond market. At 1.9%, the priced-in average inflation rate over the next ten years is 0.4 percentage points lower than a year earlier.

Italy Further deterioration

Italy's Purchasing Managers' Indices rose in February, probably on the back of the euphoria surrounding the German fiscal package, but declined again in March, particularly in the industrial sector, as the US-initiated trade war intensified. April figures were not yet available at the time of writing but are likely to have deteriorated further given Italy's exposure to foreign demand. Similar to Japan, Germany and Austria, exports to the US accounted for around 3.4% of GDP in 2024. In contrast to those countries, Italy is currently even less affected by sector-specific tariffs on vehicles, steel and aluminium, as these goods account for only 8% of all exports to the US. The threat of tariffs on pharmaceutical products (15% share) would be more problematic for Italy. The bulk of exports to the US (73%) are goods that currently have to be cleared at a rate of 10%. Due to this higher-than-expected base tariff rate and the surprising appreciation of the euro, we have slightly lowered the growth forecast for 2025.

Spain Above average

Business sentiment in Spain remained above the average for the eurozone in March. While the strong services sector is mainly responsible for this strength, sentiment amongst industrial companies has only fallen slightly below the expansion threshold since the start of the year. This is probably partly due to the fact that Spain's foreign trade has less exposure to the US than other European countries. Exports to the US amount to only around 1.4% of Spain's GDP. Similar to Italy, Spain has so far been less affected by sector-specific tariffs (aluminium and steel, cars) and the majority of US exports are currently subject to tariffs at a flat rate of 10%. According to the Purchasing Managers' Index, orders received by Spanish industrial companies have declined since the beginning of the year – including in exports. Nevertheless, we expect Spanish economic growth to remain significantly above the European average this year, supported by a strong tourism sector and a robust labour market.

Switzerland Memories of 2015

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.0%	2025: 1.1%
2026: 1.9%	2026: 1.5%

In the first quarter, the high-frequency economic activity indicator of the State Secretariat for Economic Affairs (SECO) rose to its highest level in almost four years. This observation is astonishing given the negative news from the MEM industries. The economic framework is divided into two parts. Domestically oriented businesses including those in the construction industry are benefiting from the expansionary monetary policy of the Swiss National Bank and robust consumer demand, while export-oriented sectors are suffering from protectionist measures. This division will become even more pronounced in the coming months. Despite considerable uncertainty about US trade tariffs, we are only slightly revising our growth forecast for the time being. Uncertainty about economic policy is likely to weigh on corporate investment activity. However, the expected negative external demand shock is offset by a positive domestic demand shock: as was the case during the Swiss franc shock in 2015, the appreciation of the franc significantly strengthens domestic consumers' purchasing power. Real consumer spending by private households increased by more than 2% year-on-year in each quarter of this year. Surprisingly for many, this prevented the Swiss economy from slipping into recession.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.4%
2026: 0.5%	2026: 0.7%

There is now a broad consensus that the trade dispute is having disinflationary consequences for Europe. Lower energy prices are already reflected in the inflation data for April, while the strong franc is reducing import prices for imported goods. Efforts by Asian suppliers to tap into new export markets continue to dampen price dynamics in Europe in the medium term.

UK Fiscal policy adjustments

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.0%	2025: 0.7%
2026: 1.2%	2026: 1.1%

The latest domestic and foreign policy developments have prompted us to revise our UK GDP growth forecasts downwards for 2025 and 2026. In her spring statement, the British Chancellor of the Exchequer announced the expected tightening of government spending, but no tax hikes. The spending cuts were necessary to bring government spending back into line with tax revenues, as interest costs and weaker-than-expected growth destroyed the GBP 9.9 billion fiscal headroom set in the autumn budget. The measures announced increase this fiscal buffer back to GBP 9.9 billion, but it remains tight. Another risk is the optimistic growth forecasts of the Office for Budget Responsibility (OBR). Although the OBR has halved the GDP growth forecast for 2025, the forecasts for the following years remain well above consensus. There will likely be pressure to further revise growth forecasts downwards at this year's autumn budget due to the ongoing trade dispute. Although the announced US trade tariffs on UK goods were initially lower than expected at 10%, the UK is no longer better off following the reduction of tariffs on goods from the eurozone to 10% as well. It is therefore possible that tax hikes will follow in the autumn after all.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.6%	2025: 3.1%
2026: 2.0%	2026: 2.4%

Inflation was lower than expected at 2.6% in March. This was mainly due to lower energy prices, which fell sharply due to global recession fears. We expect inflation to decline further for the rest of the year, due, on the one hand, to falling global demand and, on the other, to the ongoing decline in energy prices. This should allow the Bank of England to cut interest rates further. We expect four further rate cuts in 2025.

China Tariff dispute escalates

GDP growth

Swiss Life Asset Managers	Consensus
2025: 4.1%	2025: 4.5%
2026: 3.5%	2026: 4.2%

Despite stronger-than-expected economic data for the first quarter of 2025, we are revising our growth forecasts for China for this year and next down to 4.1% and 3.5% respectively (previously: 4.3% and 4.0%). The reason for the downward revision is the tariff escalation with the US, with the latter imposing an additional 145% tariff on Chinese goods. Certain items such as smartphones and computers are excluded. As a result of this exorbitant level of tariffs, the export of many of the products concerned will come to a standstill. Given that Chinese exports to the US account for more than 2.5% of GDP, our GDP growth forecast however appears robust. There are several reasons for this. First, the Chinese government has announced a substantial economic stimulus package directly aimed at boosting domestic demand. Second, the large tariff differential between China and the rest of the world allows for a diversion of exports and increased diversification of trading partners. Third, we do not expect a complete halt to trade flows: for a variety of products, the US is heavily dependent on Chinese imports, while China is one of the world's dominant producers for some of these items. Therefore, it will not be feasible to find substitutions for a large number of imported goods in the short term.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.3%	2025: 0.6%
2026: 1.3%	2026: 1.0%

The escalation of US tariffs on Chinese goods will add to deflationary pressures. External demand will be affected by tariffs, while domestic demand remains weak. This will exacerbate the existing supply-demand imbalance, limit companies' price-setting power and further increase deflationary pressures.

Economic Research



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