

June 2025

Key takeaways

US: the debt situation is becoming exacerbated as tariff revenues are not offsetting the planned tax cuts

Eurozone: advance exports to the US are supporting growth, but are likely to tail off soon

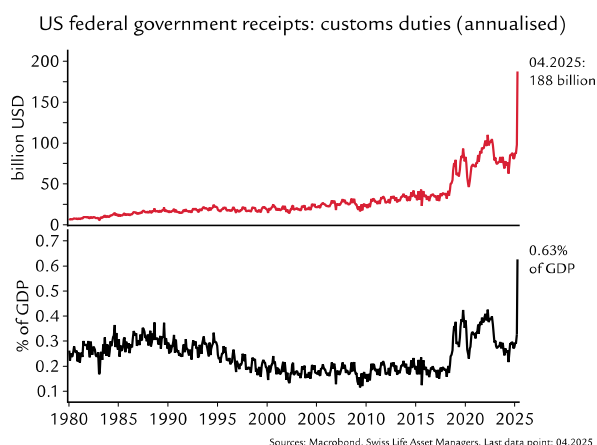
China: the 90-day tariff pause brings export relief, but no guarantee for smooth negotiations

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	1.5% ↑	1.2% ↓	1.5% ↑	1.5% ↓	3.2% ↓	3.1% ↓	3.5% ↓	2.8% ↑
Eurozone	0.9% ↑	0.9%	1.1%	1.1% ↓	2.1% ↑	2.0% ↓	1.9%	1.8% ↓
Germany	0.2%	0.0% ↓	1.2%	1.2% ↓	2.1%	2.1% ↓	2.0%	2.0% ↓
France	0.7% ↑	0.6%	1.2%	0.9% ↓	1.1%	1.2% ↓	1.6%	1.6%
Italy	0.5% ↑	0.5%	0.6% ↓	0.7% ↓	1.7%	1.8% ↓	1.8%	1.7%
Spain	2.2% ↑	2.4% ↓	1.7%	1.8% ↓	2.3%	2.4% ↓	1.7%	1.9% ↓
UK	1.1% ↑	0.8% ↑	1.2%	1.0% ↓	3.1% ↑	3.0% ↓	2.2% ↑	2.3% ↓
Switzerland	1.1% ↑	1.0% ↓	1.8% ↓	1.4% ↓	0.1% ↓	0.3% ↓	0.5%	0.6% ↓
Japan	1.0% ↓	0.8% ↓	0.6% ↑	0.6% ↓	3.1% ↑	2.8% ↓	1.8% ↑	1.6% ↓
China	4.5% ↑	4.3% ↓	3.9% ↑	4.0% ↓	0.3%	0.3% ↓	1.3%	0.9% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 12 May 2025

Chart of the month



An important objective of US tariffs is to generate government revenues. In April 2025, tariff revenues reached 0.6% of GDP on a projected annual basis, and according to the Yale Budget Lab, they could reach 0.9% of GDP under the current tariff regime. That is respectable, but it will not solve the US debt problem. Tariffs are seen as problematic taxes in economics as they (1) promote inefficient economic structures and (2) lead to substitution effects, eroding the tax base for tariffs. They are also regressive, placing a disproportionate burden on low-income households, which is likely to reduce the overall growth potential in the US.

USA

Focus on fiscal policy

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.5%	2025: 1.2%
2026: 1.5%	2026: 1.5%

US companies are keeping a cool head despite the flood of announcements from the White House. Daily data on container shipping between China and the US show no breakdown in trade relations, not even during the heated period in April, when 145% tariffs on Chinese goods were in place. Purchasing Managers' Indices remain solid, and initial jobless claims do not yet indicate a cooling of the labour market. We think that "Liberation Day" (2 April) marked the climax of the trade war and that the US economy will slow significantly in the second half of the year, but will avoid outright recession due to intact corporate animal spirits. The focus is now increasingly on fiscal policy. While the House of Representative's current draft budget includes spending cuts, the extension and broader application of the tax cuts from Trump's first term would keep the deficit at around 7% of GDP, according to calculations by the independent institute CRFB. As tariff revenues of just under 1% of GDP will be collected (not part of the budget, see chart of the month), overall fiscal policy is likely to even be a drag on economic growth, especially in 2025. The Senate's verdict on the Budget Act was still pending at the time of writing.

Inflation

Swiss Life Asset Managers	Consensus
2025: 3.2%	2025: 3.1%
2026: 3.5%	2026: 2.8%

The surprisingly fast and widespread withdrawal of "reciprocal" tariffs on Chinese imports is resulting in a lower US inflation forecast than in the previous month. Inflation data for April still showed no significant impact from tariffs, but this is set to change in the coming months. However, the inflation-dampening effect of tariffs (via lower consumer demand) on services was noticeable in April, which supports our assumption that the tariff-related surge in inflation is likely to be temporary.

Eurozone

Export-driven growth

GDP growth

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

European gross domestic product grew more strongly than expected in the first quarter of 2025. Part of this 0.3% quarter-on-quarter (QoQ) growth was driven by Ireland's volatile economic output (3.2% QoQ). Amongst the four largest eurozone countries, Spain continued to grow the fastest (0.6% QoQ), followed by Germany (0.4% QoQ), Italy (0.3% QoQ) and France (0.1% QoQ). The better-than-expected figures are partly due to the front-loading of exports to the US in order to pre-empt potential tariff increases. Eurozone exports to the US grew by a record 27% in the first quarter. A significant part of the increase is attributable to Ireland, as many US companies, particularly from the pharmaceutical sector, are based there. Irish goods exports to the US grew by 144% in the first quarter. This also explains the very strong quarterly growth in Ireland's GDP. Export figures were much weaker in those countries that are less exposed to the US, especially France and Spain. Despite the economic strength of the eurozone in the first quarter, we expect a slowdown over the course of the year as the pendulum is likely to shift in the opposite direction following the front-loading of exports. However, support comes from monetary and fiscal policy as well as the still solid labour market.

Inflation

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

Inflation stagnated in April at 2.2%, while core inflation rose slightly to 2.7%. The increase was stronger than expected and driven by higher service prices. This could be due to the late Easter date at the end of April this year. In Germany, prices for package holidays rose sharply. For the rest of the year, however, we expect inflationary pressure to continue to fall.

Germany

Slight confidence despite risks

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.0%
2026: 1.2%	2026: 1.2%

The German economy surprised with a quarter-on-quarter growth of 0.4% in the first three months of the year. Part of this increase is attributable to advance exports to the US. Similar front-running effects are likely to have an impact in the second quarter but will be partially offset in the second half of the year. At the same time, both private consumption and business investment picked up slightly, suggesting an incipient stabilisation of the economy. However, the ongoing uncertainty related to US trade policy remains high and is likely to continue to weigh on investment activity and the export sector. However, the ifo surveys show an overall positive development so far. While the business climate remains noticeably more subdued, both the current business situation and business expectations have shown small but continuous improvements since the beginning of the year in the retail, manufacturing and construction sectors. The services sector remained in positive territory but has recently shown initial signs of slowing due to weak domestic and foreign demand. Overall, the available data point to a moderate recovery over the rest of the year.

Inflation

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

The latest data confirm the downward trend of inflation. We expect the rise in core inflation in April to be temporary and largely due to seasonal effects. This does not really change the medium and long-term prospects. Falling global demand, declining energy prices and the stronger euro are still easing import prices and reducing cost pressure on companies and households. US tariff policy is also having a disinflationary effect, as it dampens demand for European exports.

France

Construction industry revival

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.7%	2025: 0.6%
2026: 1.2%	2026: 0.9%

In France, too, economic data are currently showing increased volatility. Of particular note is the decline in consumer sentiment in May, which we attribute to economic policy uncertainty. Despite the gloomy sentiment, we still expect domestic demand to pick up over the coming quarters. Real wages are currently rising by more than one percent. Opportunity costs of consumption will continue to fall due to further interest rate cuts by the ECB in the coming months. Both should boost household demand. More generally, the easing of monetary policy is now reaching the real economy: adjusted for seasonal factors, the number of building permits for residential properties rose in April to its highest level since August 2022. The performance of the construction industry will thus support growth in the coming quarters. The presidential election in 2027 is gradually drawing closer. Whether the government will have sufficient room for manoeuvre in the meantime to tackle fiscal consolidation and implement the pension reform remains unclear. After all, the risk premium on French government bonds has fallen somewhat versus German government bonds.

Inflation

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.2%
2026: 1.6%	2026: 1.6%

At 0.7% as of May, the inflation rate in France is at its lowest level in over four years. The accelerated easing of inflationary pressure is due to the appreciation of the euro. Consumer and investor inflation expectations also remain well anchored: consumers expect an average inflation rate of 2% over three years, according to an ECB survey. The implicitly priced inflation rate on inflation-protected 10-year bonds issued by the French government is currently 1.9%.

Italy Back to a primary surplus

Sentiment amongst Italian companies was mixed in April given trade uncertainty. While purchasing managers' indices hinted at solid economic activity, surveys conducted by the Istat statistical institute showed a broad deterioration in sentiment. The decline was particularly pronounced amongst service providers, with the construction sector as well as the wholesale and retail trade remaining buoyant. In the industrial sector, front-loaded exports due to tariff threats are an issue; in April, exports to the US grew by 41% year-on-year. However, the forward-looking components in Istat's industrial survey remained gloomy. Good news arrived in April regarding the debt situation. In its notification to the European Commission, Istat reported a return of government finances to a primary surplus for 2024 (budget surplus before interest payments) for the first time since the pandemic. The interest rate differential between Italian and German government bonds narrowed further and stood at just one percentage point (10-year maturity) at the time of writing.

Spain Weaker, but not weak

Economic growth in Spain slowed slightly in the first quarter of 2025 but remains strong in a European comparison at 0.6% compared to the previous quarter. Household consumption is mainly responsible for the slowdown, as its growth has almost halved compared to the previous quarter. On the other hand, export growth has accelerated. Unlike other European countries, however, this is not due to an advance in exports to the US, as Spain's share of exports to the US is small. Export data even show a slight decline in exports to the US for the first quarter of 2025. The second quarter got off to a mixed start. Sentiment amongst Spanish industrial companies weakened further in April, while the Purchasing Managers' Index (PMI) for the eurozone as a whole recovered slightly. The PMI for the services sector remains robust, which should remain an important pillar of growth for the Spanish economy.

Switzerland Traces of deflation

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.0%
2026: 1.8%	2026: 1.4%

The economic data received need to be carefully examined. Gross domestic product growth in the first quarter of 2025 was inflated by front-loading effects in anticipation of import tariffs on shipments of goods to the US. The production and export figures of the pharmaceutical industry speak volumes here. In March alone, production in this sector increased by 60% compared to the previous month. Foreign trade figures for April are already showing a significant drop in exports to the US again. The extent to which this important export sector will be affected by the US government's trade policy remains unclear. This makes any impetus having a positive impact on the domestic economy all the more important. The expansive monetary policy of the Swiss National Bank (SNB) has now led to a sharp increase in building permits. The construction volume in residential construction approved for implementation is more than a third higher in nominal terms than in 2023. As in 2015, the rise in the Swiss franc's external value is strengthening households' purchasing power. The SECO consumer confidence survey suggests that while consumers are concerned about the state of the global economy, they continue to view their own financial situation as favourable.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.1%	2025: 0.3%
2026: 0.5%	2026: 0.6%

Given the annual rate of change of the Swiss consumer price index, we are facing a short period of mild deflation. The main reason is the combination of falling import prices due to the appreciation of the Swiss franc and declining fossil fuel prices. In the decade prior to the pandemic, Switzerland experienced four periods of deflation. The SNB's key interest rate is also likely to return to negative territory this year, as an echo of what was thought to be a past era.

UK

Excessive momentum

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 0.8%
2026: 1.2%	2026: 1.0%

The UK economy grew faster than expected in the first quarter. The strong growth of 0.7% compared to the previous quarter was driven in particular by strong business investments, but foreign trade also made a positive contribution. This could point to some front-loading of exports to the US before trade tariffs took effect at the beginning of April. However, the decline in government consumption is more surprising, as the autumn budget provided for front-loaded government spending, which should take effect in the first half of 2025. It could be that due to the financial market turbulence and the ensuing spring declaration by the Chancellor of the Exchequer, some government spending was withheld and may only be used later in the year. Private consumption was also weaker than expected, although the contribution remained positive. All in all, first-quarter GDP growth is likely to overestimate the current strength of the UK economy as various one-off effects distort the picture. Some of the growth drivers, especially foreign trade, are likely to reverse in the second quarter, which could lead to a somewhat weaker growth picture for the second quarter than previously expected. However, we expect government spending to contribute positively to economic activity for the rest of the year. The UK labour market also remains robust.

Inflation

Swiss Life Asset Managers	Consensus
2025: 3.1%	2025: 3.0%
2026: 2.2%	2026: 2.3%

Inflation rose significantly in April. However, the situation is less dramatic than it seems. In particular, the sharp increase in vehicle excise duty and volatile package tours distorted the overall picture. What remains striking is that core inflation in the UK is significantly higher than in the rest of Europe. This is also due to more stubborn services prices, while core goods inflation is lower than in continental Europe.

China

De-escalation, but for how long?

GDP growth

Swiss Life Asset Managers	Consensus
2025: 4.5%	2025: 4.3%
2026: 3.9%	2026: 4.0%

Following the escalation of the US-China tariff dispute, in which US tariffs on Chinese goods rose to 145% and effectively amounted to an embargo, a phase of de-escalation has now begun. Despite this easing, the average US tariff on Chinese products remains at around 41%, composed of a pre-existing tariff, a 20% tariff related to the fentanyl issue, and a 10% base tariff. The current tariff pause is initially limited to 90 days and is to be used for new negotiations building on the Phase One trade agreement of January 2020. The focus will again be on issues such as increasing US exports to China and creating fairer competitive conditions for American companies. If these are the only points on the agenda, China is likely to be willing to make some promises – which would allow the US government to achieve a political success and leave the issue alone for the time being. However, there is a chance that much more complex issues will be taken up – such as China's abandonment of its economic model that is shaped by industrial policy or an appreciation of the Chinese currency. In this case, the hurdles to a comprehensive agreement would be significantly higher, which could make the negotiations considerably more difficult.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.3%	2025: 0.3%
2026: 1.3%	2026: 0.9%

Despite the Chinese government's increased efforts to boost private consumption, deflationary trends have not abated so far. Headline inflation in April was slightly negative year-on-year. The ongoing trade conflict is also weighing on foreign demand and is likely to further restrict companies' room for manoeuvre in setting prices.

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

If you have any questions or if you would like to subscribe to this publication,
please send an email to: info@swisslife-am.com.

For more information visit our website at: www.swisslife-am.com/research



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