

August 2025

Key takeaways

US: trade deals are reducing uncertainty but pushing up average tariffs.

Eurozone: robust domestic demand but slowing export demand following front-loading of exports.

China: growth target of around 5% within reach but deflationary pressure remains a challenge.

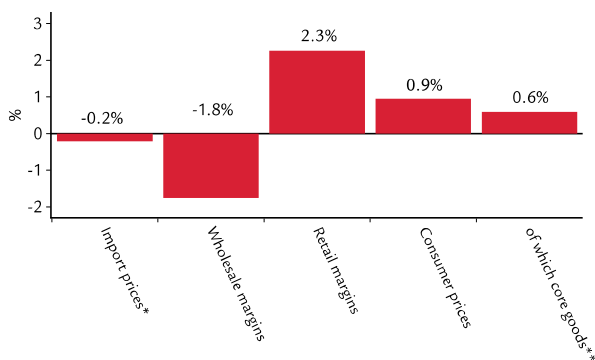
Comparison of forecasts

	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%	1.5%	1.5%	1.7% ↑	3.0%	2.9% ↓	3.5%	2.7% ↓
Eurozone	1.2% ↑	1.1% ↑	1.1%	1.1%	2.0% ↑	2.0%	1.9% ↑	1.8%
Germany	0.5% ↑	0.2% ↑	1.4%	1.2%	2.0%	2.1%	2.0%	2.0%
France	0.6%	0.5%	1.2%	0.9%	1.1% ↑	1.0%	1.6% ↑	1.5%
Italy	0.5%	0.6% ↑	0.6%	0.7%	1.6%	1.7% ↓	1.8%	1.6% ↓
Spain	2.5% ↑	2.4%	1.7%	1.8%	2.6% ↑	2.4% ↑	1.8% ↑	1.9%
UK	1.1%	1.0%	1.2%	1.0%	3.3% ↑	3.2%	2.3% ↑	2.4%
Switzerland	1.2% ↓	1.2% ↑	1.7% ↓	1.4%	0.1%	0.2%	0.5%	0.6%
Japan	1.0%	0.8%	0.6%	0.7%	3.1%	3.0% ↑	1.8%	1.7% ↑
China	4.8% ↑	4.6% ↑	4.0% ↑	4.2%	0.2% ↓	0.2%	1.0% ↓	0.8%

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

Chart of the month

Who is paying the US tariffs? Change of selected US indicators between February and June 2025



* Excludes tariffs, ** All commodities excl. food, energy & vehicles. Source: Macrobond, Swiss Life Asset Managers.

US tariff revenues have quadrupled to 1.1% of GDP since the start of the trade war in February. Contrary to the hopes of the US government, foreign producers have barely made any price concessions; US import prices have only fallen slightly. At the same time, it is not yet clear who in the US value chain is bearing the cost of the tariffs. Consumer prices for import-heavy core goods have increased by a mere 0.9% since February, and retail margins have actually risen. We suspect that this is due to high inventories and that the true tariff costs will only be reflected later on in lower margins and higher consumer prices.

US Deals not generating growth

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.5%	2025: 1.5%
2026: 1.5%	2026: 1.7%

The trade war remains the dominant issue for the US economy. The US deals with the EU and Japan show the US administration's preference for reducing trade policy uncertainty after months of chaos. We therefore expect that deals with other key trading partners will also be sought in the third quarter, with further deadline extensions if necessary. While the trade agreements will reduce uncertainty, they will continue to push up average tariffs on imports as in the latest agreements the base tariff rates have been raised from 10% to 15% (Japan, EU) and up to 20% (Vietnam). We therefore continue to expect weak growth in the US economy in the second half of the year. Private consumption was already disappointing in the first half of the year, marking the poorest six months since the pandemic, with little prospect of improvement if our forecast of rising prices materialises. Residential construction investment declined in the first half of the year due to high mortgage interest rates. The anticipated key interest rate cuts are unlikely to provide much relief as we expect the relevant long-term interest rates to remain high. The tariffs are also likely to weigh on business investments, which until now have performed well. For these reasons, we are upholding our cautious GDP forecasts for the US for 2025 and 2026.

Inflation

Swiss Life Asset Managers	Consensus
2025: 3.0%	2025: 2.9%
2026: 3.5%	2026: 2.7%

Tariff effects were increasingly noticeable in the inflation data in June. Goods prices increased by 0.6% compared to the previous month, if volatile food and energy prices and vehicles are excluded. Surprisingly, the latter sustained a further price fall in June. Service prices rebounded in June following a series of weak months, but given relatively weak consumer demand and easing wage pressure, we see this as a temporary outlier.

Eurozone Growth despite uncertainty

GDP growth

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

The European economy held up better than expected in the second quarter. Instead of the expected stagnation, the eurozone posted quarter-on-quarter growth of 0.1%. A mixed picture emerged at the country level: while the German and Italian economies contracted, France and Spain grew faster than expected. The positive contribution from domestic demand is encouraging, with the exception of France. Ireland sustained the sharpest contraction within the eurozone at -1.0% – this was due to the decline in pharmaceutical exports in the second quarter. Despite the persistently high uncertainty, the data available so far point to a better-than-expected start to the third quarter. The Purchasing Managers' Index for the manufacturing sector improved slightly in July but remained below the growth threshold. At the same time, order intake slowed slightly, which could indicate a possible end to front-loaded US demand. The impact of trade policy is currently difficult to assess due to the delayed release of trade data. While the planned trade agreement between the US and the EU should lead to more planning security, it does not change our baseline scenario of a growth slowdown in the second half of the year.

Inflation

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

Inflation rose slightly to 2% in June. The increase was due on the one hand to higher petrol prices. However, we expect this component to be lower again in July due to the fall in petrol prices in the second half of the month. On the other hand, services inflation posted a slight increase driven by higher prices for transport and holiday-related services such as package tours. Core inflation remained unchanged at 2.3% in June.

Germany

Minimal upward trend

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.5%	2025: 0.2%
2026: 1.4%	2026: 1.2%

Germany's private consumption developed robustly and again contributed positively to GDP growth in the second quarter according to the media release of the Federal Statistical Office. Although shipment front-loading continued in anticipation of higher US tariffs, export momentum declined. The new tariff deal between the EU and the US with a 15% base tariff on most German exports and declining order intake from May point to decreasing foreign demand. However, the services sector remained on a moderate growth path, and the construction sector is also optimistic given the lower interest rates and the pending infrastructure package. However, these minor but broad-based improvements have not yet had any positive impact on the labour market: the number of unemployed remained virtually constant, while the number of vacancies continued to fall. The expected job growth according to the Purchasing Managers' Index is also subdued. A robust labour market would ease the high propensity to save and thus strengthen consumption and the economy as a whole. However, two key factors weighing on German companies are likely to diminish in the second half of the year: the crippling economic policy uncertainty and weak demand, which are at least partly being offset by government fiscal packages.

Inflation

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

Germany's inflation rate reached 2% in June for the first time since October 2024. It has been driven by services inflation, which has been gradually falling since the start of the year. While this confirms our view of an ongoing normalisation, inflation is currently being held back by low energy prices, a strong currency and a weak economy. Should these factors change, inflation could also regain momentum.

France

Signs of economic recovery

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.6%	2025: 0.5%
2026: 1.2%	2026: 0.9%

GDP grew by 0.3% in the second quarter compared to the previous quarter, mainly driven by an inventory build-up. Domestic consumption and net exports were weak due to restrained household consumption and the trade war and according to the INSEE statistical office even contributed negatively to growth. However, according to a survey of around 8500 companies published by the Banque de France, activity recovered in June, which was also reflected in higher consumer spending. With the settlement in the tariff dispute and a further easing of monetary policy by the European Central Bank, growth will accelerate in the second half of the year. In addition to the aforementioned business surveys, the preliminary July readings for the Purchasing Managers' Indices for manufacturing and the services sector also point in this direction. Prime Minister Bayrou's new draft budget is likely to create quite a stir domestically again after the summer recess. The seemingly ambitious plans of the minority government are opposed by the trade unions and parliament. Financial markets are also sceptical about a sudden general willingness to pursue fiscal consolidation: since the announcement of the budget plans, the risk spread on French government bonds compared to German ones has remained virtually unchanged.

Inflation

Swiss Life Asset Managers	Consensus
2025: 1.1%	2025: 1.0%
2026: 1.6%	2026: 1.5%

The inflation rate in France remains below 1%. June saw a rise in prices in the accommodation industry which we attribute to strong demand for tourism from abroad. Other providers of services and goods have little price-setting power given the aforementioned consumer restraint. Lower import prices from the dollar zone and falling energy prices are also contributing to the disinflationary trend.

Italy

Robust consumption

Following solid growth in the first quarter (+0.3% quarter-on-quarter), GDP contracted by 0.1% in the second quarter. According to the national statistical office Istat, the contribution of net exports was negative, while domestic demand remained robust. This confirms our baseline scenario that, following the front-loading of exports (to get ahead of US tariffs), a sobering mood is already setting in during the second quarter, while private consumption in particular continues its upward trend. This pattern is likely to continue to a limited extent in the second half of the year. Purchasing managers' indices pointed to a positive order situation in the services sector in June, while the picture for manufacturing was more mixed. The purchasing managers' indices were poor in June, while Istat's July business survey painted a more benign picture for manufacturing, with orders continuing to recover from low levels (driven by domestic orders). Meanwhile, wage data are pointing towards easing inflationary pressure as expected. Overall, our GDP and inflation forecasts remain unchanged.

Spain

In full swing

The Spanish economy is unstoppable. GDP growth in the second quarter again exceeded expectations, rising by 0.7% compared to the previous quarter. Household consumption remained the strongest driver, while government consumption and foreign trade posted slightly negative growth. Nonetheless, Spain remains the outperformer within the eurozone. This is partly due to the fact that Spain is less dependent on foreign trade than other eurozone countries. At the same time, the country benefits from a strong services sector, which grew by 1.2% in the second quarter. The manufacturing sector also remained robust, gaining 0.9%. The strong economic performance continues to be reflected in a relatively low unemployment rate, which remains near its 2008 low, while immigration continues to drive population growth. We expect growth also to slow slightly in Spain in the second half of the year due to the slowdown in foreign trade, but with GDP growth remaining above average by European standards.

Switzerland

A roller-coaster ride for exports

GDP growth

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

Foreign trade was on a veritable rollercoaster in the first half of the year. Enormous efforts were made in the first quarter primarily in the pharmaceutical industry to get ahead of the trade tariffs threatened by the US administration. The front-loaded production and shipping activities then inevitably led to setbacks in the second quarter. In addition, the watch industry is also facing persistently weak demand. The foreign trade data available for the second quarter have prompted us to revise our growth forecast for real gross domestic product downwards. At the time of writing, it was not yet known what the trade agreement with the US would look like. Forecasting uncertainty remains correspondingly high. The surprisingly well-attended UEFA Women's European Championship may yield positive effects that have not yet been taken into account. The venues certainly reported excellent hotel occupancy figures. As elsewhere in Europe, the easing of monetary policy is also creating positive momentum for the domestic construction industry.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.1%	2025: 0.2%
2026: 0.5%	2026: 0.6%

The downward trend in the inflation rate was curbed for the time being in June. Year-on-year, the Swiss Consumer Price Index rose by 0.1%. The increase was mainly due to higher prices for seasonal products and tourism-related services, including accommodation, private vehicle rentals and package holidays. We continue to expect inflation rates of around 0% for the second half of 2025. We see short-term forecast risks both in the wet weather in July, which could lead to further price increases for seasonal products, and in a fall in energy prices.

UK Stormy times

GDP growth

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

Fiscal policy in the UK continues to be marked by persistent unrest. After the Labour government was forced by its own MPs to reverse some cuts in social spending, government debt was also higher than expected in June. These developments have put renewed pressure on UK government bonds and make tax increases in the autumn budget appear necessary in order to ensure compliance with fiscal rules. However, the Labour government surrounding Chancellor Reeves is severely restricted by its own manifesto pledges. For example, Rachel Reeves promised not to raise taxes in the largest tax categories such as value added tax and income tax. While possible sources of revenue are a subject of hot debate among economists, there are still no concrete signals from the Chancellor of the Exchequer. The fiscal uncertainty is unfavourable in the longer term for the economic growth outlook, as it could potentially dampen both corporate investment activity and private consumption. The UK economy weakened slightly in the second quarter and monthly GDP contracted again in May. The decline was mainly due to industrial production, reflecting some reversal of the front-loaded US demand. In view of the strong growth in the first quarter, this development is not too worrying.

Inflation

Swiss Life Asset Managers	Consensus
2025: 3.3%	2025: 3.2%
2026: 2.3%	2026: 2.4%

At 3.6%, inflation rose faster than expected in June. The upside surprise was mainly driven by higher petrol and food prices. Service prices also rose slightly again in June, but this is due to volatile components such as air fares and transport. We expect inflation to remain persistently above the 2% inflation target until the end of the year.

China Growth target achieved?

GDP growth

Swiss Life Asset Managers	Consensus
2025: 4.8%	2025: 4.6%
2026: 4.0%	2026: 4.2%

At 5.2%, China's economy grew faster than expected in the second quarter of this year. As a result, we have raised our growth forecast for 2025 from 4.5% to 4.8%. This would mean that China had reached its official growth target of around 5% this year. The main growth drivers were a robust manufacturing sector and surprisingly strong export figures. Particularly noteworthy is the resilience of exports, which grew by 5.8% in June, despite Chinese goods being subject to US tariffs of more than 40%. The strength of the manufacturing sector underlines China's successful structural transformation to date – away from the real estate sector to a more technology-driven growth strategy. However, there is a downside: domestic demand is not keeping up with the high level of production. At the same time, the state-sponsored expansion of high-tech sectors is leading to intense competition between companies, putting pressure on margins. The result is falling prices – the GDP deflator, which reflects the price development of all domestically produced goods, is in negative territory for the ninth consecutive quarter. Thus, while China's strong GDP growth is impressive, weak domestic demand is barely producing any global momentum. Instead, China exports competitive goods at low prices, thus contributing to global disinflation.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.2%	2025: 0.2%
2026: 1.0%	2026: 0.8%

Annual consumer price growth turned positive again in June for the first time after four negative months but remains very low at 0.1%. The combination of high production with subdued demand and intense competition among domestic companies is leading many companies to lower their prices. While the government is increasingly speaking out against excessive competition, we expect deflationary pressure to persist for the time being.

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.

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