

September 2025

Key takeaways

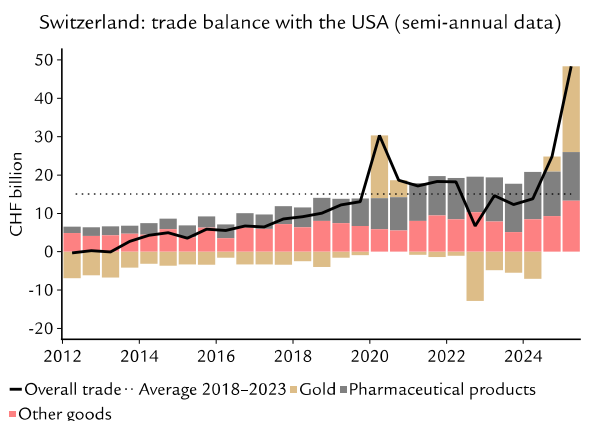
- USA: the gradual labour market slowdown is likely to prompt the central bank to cut interest rates p. 2
- Germany: sentiment indicators are continuing to rise despite economic setbacks p. 3
- France: comparatively optimistic forecast for GDP growth p. 3
- Switzerland: varying degrees of concern and scope for manoeuvre regarding tariffs p. 4
- UK: strong growth in the second quarter but few sustainable drivers of growth p. 5
- China: export economy robust, but price decline and real estate risks remain as stress factors p. 5

Comparison of forecasts

	2025 GDP growth		2026 GDP growth		2025 inflation		2026 inflation	
	Swiss Life	Consensus	Swiss Life	Consensus	Swiss Life	Consensus	Swiss Life	Consensus
USA	1.6% ↑	1.6% ↑	1.5%	1.7%	2.8% ↓	2.8% ↓	3.5%	2.7%
Eurozone	1.2%	1.2% ↑	1.1%	1.1%	2.1% ↑	2.1% ↑	2.0% ↑	1.8%
Germany	0.3% ↓	0.3% ↑	1.3% ↓	1.3% ↑	2.0%	2.1%	2.0%	1.9% ↓
France	0.7% ↑	0.6% ↑	1.2%	0.9%	1.1%	1.1% ↑	1.6%	1.5%
Italy	0.5%	0.5% ↓	0.6%	0.7%	1.6%	1.7%	1.8%	1.7% ↑
Spain	2.5%	2.5% ↑	1.7%	1.9% ↑	2.6%	2.4%	1.8%	1.9%
United Kingdom	1.2% ↑	1.0%	1.2%	1.0%	3.3%	3.3% ↑	2.3%	2.5% ↑
Switzerland	1.2%	1.1% ↓	1.1% ↓	1.3% ↓	0.2% ↑	0.2%	0.5%	0.5% ↓
China	4.8%	4.8% ↑	4.0%	4.2%	0.2%	0.2%	1.0%	0.8%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 11 August 2025

Chart of the month



The USA is justifying its tariff policy with its trade balance with the rest of the world. It is true that Switzerland has a high trade balance surplus with the USA. However, one does not have to look back far to find phases with an even balance. Exports of pharmaceutical products and gold have greatly inflated the balance over the last year. Three quarters of the high surplus in the first half of 2025 are attributable to these two goods categories. If the high export figures for pharmaceutical products and gold were brought forward in order to avoid tariffs, a normalisation back to the balances for the period from 2018 to 2023 can be expected.

USA

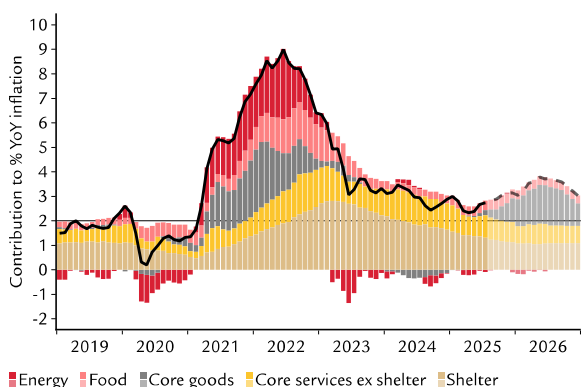
Waiting for the tariff effects

Where will the costs of the US tariffs ultimately fall? This question still remains difficult to gauge. As in the preceding months, there were also no indications in the July data that foreign exporters were altogether making price concessions or that the margins of wholesalers and retailers in the USA were suffering. Although consumer prices continued to rise in July, the strongest increases were in the services sector, which is not directly affected. Nevertheless, inflation also went up among import-intensive core goods (excluding energy, food and vehicles) and we continue to expect a noticeable, albeit temporary rise in inflation over the coming months due to the tariffs (see chart).

Weaker labour market bringing interest rate cuts

This is putting the US Federal Reserve in a difficult position. While Fed Chairman Powell also considers the tariff-related inflation to be a temporary phenomenon, the high core inflation (3.1% in July) does not suggest there will be an easing of monetary policy. At the same time, the political pressure for interest rate cuts is huge and the poor economic growth and deteriorating situation on the labour market could also justify a less restrictive monetary policy economically. Job growth in July was weak, and the preceding months were significantly corrected downwards. Although the unemployment rate remained stable compared with the previous year at 4.2%, many other indicators suggest that job seekers are finding it increasingly difficult to find work. This has also caused a slight decrease in wage pressure. Altogether, we expect the weaker economic momentum to result in a higher unemployment rate and to prompt the US Federal Reserve to carry out several interest rate cuts despite inflation lying above the central bank's target.

USA: contributions to headline inflation incl. our forecasts



Eurozone

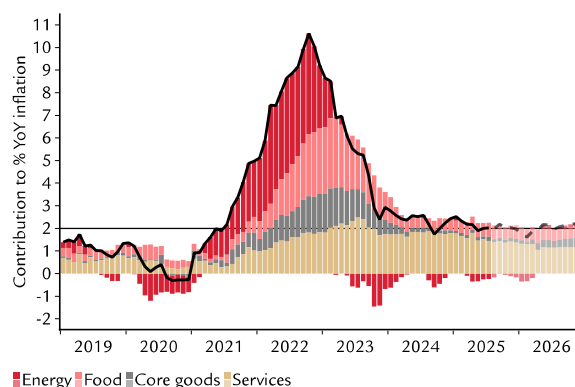
Declining wage pressure

Although the unemployment rates in the individual eurozone countries remain at low levels, various indicators are pointing to decreasing shortages in the European labour market. On the one hand, wage growth appears to have stabilised or even to be falling slightly. Although there is a long delay in the publication of wage data, a further decline in remuneration per employee is emerging for the first quarter. The ECB Wage Tracker, which is a contemporary indicator, also confirms this trend for the second quarter and points towards a significant slowdown in wage growth. On the other hand, the job vacancy rate for the eurozone has also been falling for some quarters and the employment component in the Purchasing Managers' Index for manufacturing also weakened again in August following a brief recovery in July. However, the picture for the services sector is rather better. The declining shortages in the labour market are a welcome development for the inflation outlook. The convergence of labour market momentum within the eurozone in particular should make the ECB's work easier.

Inflation settling at around 2%

Headline inflation in the eurozone remains marginally above the inflation target of 2%. We expect it to settle at this level over the coming months. As well as the decreasing wage pressure, the re-routing of Chinese exports to the eurozone (instead of the USA) should also have a dampening effect on prices, which is likely to counter the ongoing inflationary pressure on service prices. As the ECB signalled at its last press conference that the barrier for further interest rate cuts was higher than previously expected, we do not expect any further interest rate cuts by the ECB.

Eurozone: contributions to headline inflation incl. our forecasts



Germany

Between setback and optimism

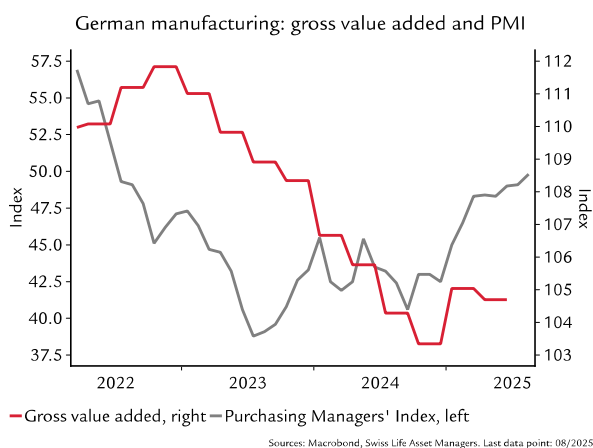
The latest revision of German gross domestic product points to a sharper slump in the second quarter than previously assumed, thereby wiping out the growth from the first quarter. There was a broad-based downturn on the production side, with the setback following the front-loading of exports particularly apparent in June. The construction sector also recorded a marked downturn, although this is partially put into perspective by the strong first quarter due to weather-related factors.

While the picture of a struggling export sector but robust domestic economy prevailed in the previous months, weaknesses are now also emerging in overall domestic demand. Business investments in particular fell sharply. As an important leading indicator, this sends out a negative signal even if investments are known by experience to be volatile. At the same time, government spending decreased in the first half of 2025 as the provisional federal budget does not permit any fiscal stimulus.

Although the economic setback had been partly expected, it nevertheless runs contrary to sentiment indicators such as the Ifo Business Climate Index and the Purchasing Managers' Index (PMI), which have been rising since the start of the year. The latter reached its highest level in the manufacturing sector in three years despite production remaining close to an all-time low.

Stable inflation, rising wages

While consumer price inflation remained stable at 2.0%, the GDP deflator tracking the price performance of overall economic output lay at 2.8% in the second quarter compared with the same quarter of the previous year. Gross wages simultaneously rose by 4.7%, thereby pointing to a margin reduction. Wage growth and therefore also inflationary pressure should decline noticeably in the next 12 months.



France

Continuation of the moderate upturn

The moderate upturn appears to have consolidated over the summer months. The Banque de France expects a further increase in gross domestic product in the third quarter of 0.3% compared to the previous quarter.

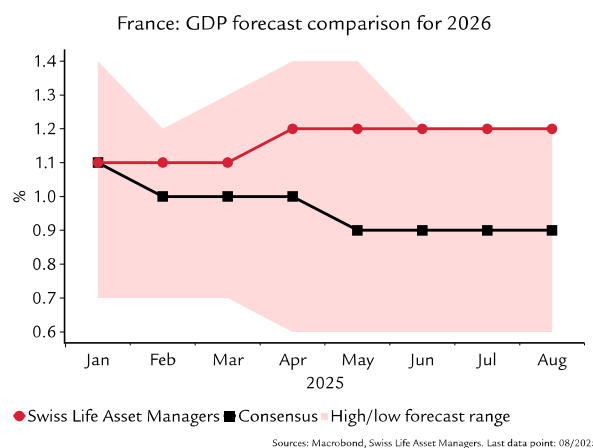
It is important for the quality of the growth also to improve, with private consumer demand making a more sustainable contribution to growth. Growth in the second quarter continued to be driven by increasing inventories. The Purchasing Managers' Index was pointing upwards at the start of the third quarter for both service providers and manufacturing. Manufacturing reached its highest level since January 2023. The easing of monetary policy is supporting Europe's domestic economy. The increase in building permits accordingly suggests a rise in construction activity. However, the austerity plans announced some weeks ago by the government now need to withstand opposition in parliament and on the streets in September. Whether the mobilisation of the opposition results in a wave of strikes that cripple the economy will become apparent over the days to come and during the vote of confidence on 8 September.

Our growth forecast remains optimistic for the time being compared to other institutions. As shown in the chart below, our forecast for 2026 is the most positive one contributed to the survey carried out by Consensus Economics.

Inflation rate well below the eurozone average

At 0.9%, France's inflation rate remained at less than half that of the eurozone as a whole in July. France has the lowest inflation rate of the major participating countries. We also expect this to remain the case in 2026.

The long-term inflation expectations of consumers and investors have been well anchored at the ECB's target level of 2% for some months.



Italy

Taking stock after the summer

Reports have been circulating in the media about allegedly empty beaches during the Italian summer season. The final reckoning is still to come, as the peak of the season is in August around the Ferragosto public holiday, at least for Italian tourists. However, data for the entire country available up to and including June suggests anything but a shortage of tourists. It is true that the number of overnight stays by domestic tourists has been fluctuating between 16 and 18 million per month (on a seasonally adjusted basis) for 20 years and that it stagnated in the first half of 2025 compared with the previous year. However, overnight stays by tourists from abroad almost doubled over the same period from a good 12 million to 22 million per month and were 6.3% up year on year in the first half of 2025. Activity figures outside the tourism sector were rather poor in June, but, according to the Purchasing Managers' Indices, appeared to make a good start to the third quarter of 2025. Sentiment in manufacturing regarding future business performance has brightened significantly, although orders remain weak. Meanwhile, the services sector reported continued good business performance and a positive outlook.

Spain

Immigration as a growth pillar

The high immigration remains an important growth pillar for the Spanish economy that is continuing to grow well above the European average. Compared to other European countries, Spain has a high share of immigrants from Latin America, which does not come as a surprise in view of the linguistic and cultural proximity. Spain has one of the highest employment rates among immigrants in the EU and the latter make a disproportionate contribution to employment growth. Immigrants have on the one hand eased the labour shortage. However, surveys among companies such as the Purchasing Managers' Index suggest that the shortage of labour still remains more acute than the European average. The important tourism sector in particular is still reporting a significant shortage of labour. On the other hand, immigrants also contribute decisively to GDP growth as consumers. This positive feedback loop between high labour force participation and consumption is also set to continue supporting GDP growth.

Switzerland

The tariff hammer strikes in the "Swiss made" pitfall

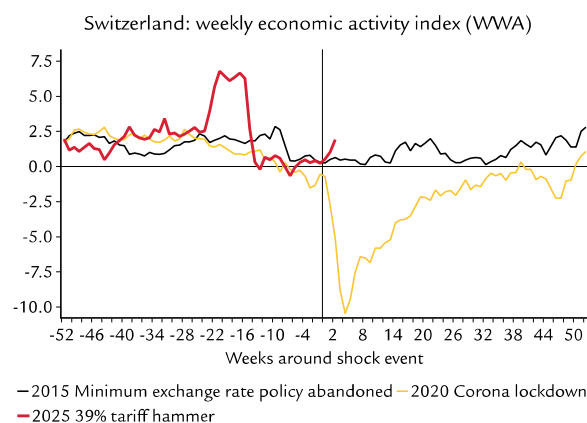
Large parts of Swiss industry are struggling on an uneven playing field against their European and Japanese competitors for US business. The USA is imposing tariffs on Swiss imports that are 24 percentage points higher.

We distinguish between five different levels of concern for Swiss exporters: the tariff hammer is hitting hardest those producers for which the Swiss designation of origin represents the unique selling point. This group includes the watch industry. The other end of the spectrum is occupied by global market leaders with high-quality niche products and little international competition. These companies are able to pass the tariffs on to their customers in the USA. Moreover, they also have the option of relocating their production if the tariff drawback should last. The middle field between these two extremes is occupied by manufacturers with medium-term scope for outsourcing or the option of withdrawing from the US market. Our revised forecast takes account of these potential courses of action and the time needed for such changeovers. We assume that the known tariffs remain unchanged. Should Switzerland experience less disadvantageous treatment, the forecast will need to be readjusted.

The high-frequency index of weekly economic activity (WEA) published by the State Secretariat for Economic Affairs (SECO) is an ideal tool for monitoring economic momentum. Performance in the second half of 2025 is likely to run slightly below the black line.

Labour market fuelling disinflationary trend

The longer the disadvantage of the Swiss export economy against its competition lasts, the greater the incentives to outsource production. This development entails negative consequences for the labour market and would fuel disinflation over time.



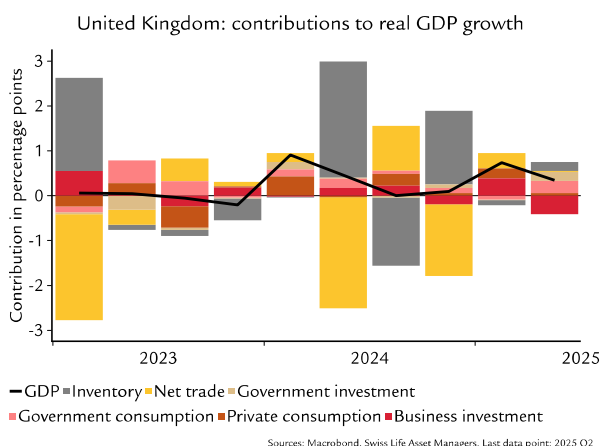
United Kingdom

Government consumption strong, other sectors weak

British gross domestic product surprised in the second quarter with stronger-than-expected growth of 0.3%. The decisive factor behind this was above all a very strong June with monthly growth of 0.4% that offset the weak performance in April and May. Furthermore, a delayed government boost contributed to the positive performance and appears to be attributable to measures from the October budget. However, details from the private sector reveal a significantly weaker picture. Private consumer expenditure increased by just 0.1%, while corporate investments declined by 4% – presumably a countermovement to the strong performance in the first quarter. Altogether this results in a growth mix that lacks sustainability. The government support is not set to last, as is already reflected in a fall in government spending in the June data. We therefore expect a reversal of the strong growth in the third and fourth quarters and have accordingly revised our quarterly growth forecast for these quarters slightly downwards. Leading indicators such as the Purchasing Managers' Index for manufacturing provide an initial indication of this picture. Following a slight recovery in July, the index declined again in August.

Focus remaining on food prices

Headline inflation rose again in July on the back of a further increase in service prices. Volatile air fares largely accounted for this. While the Bank of England (BoE) is likely to ignore the transport-related inflationary pressure, its focus is increasingly being placed on food prices, which have risen for the second month in succession and – together with the price pressure in the services sector – remain a worrying development for the BoE.



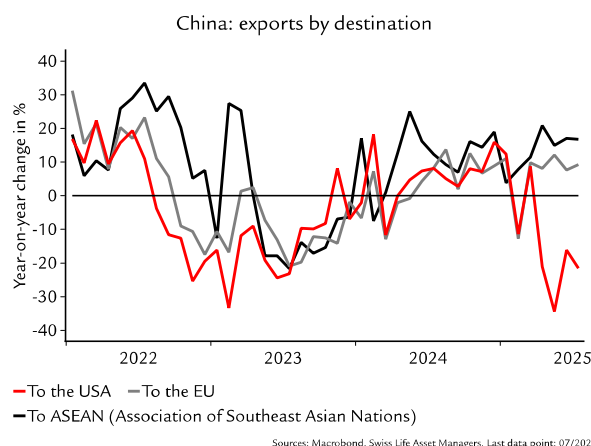
China

Another breather

Compared with the USA's confrontational rhetoric towards China in the first months of Donald Trump's term of office, the tone has recently become significantly more moderate. A tariff negotiation deadline that expired in mid-August has been extended for a further 90 days. The new critical cut-off date is now 9 November. Although many potential areas of conflict remain between the two countries (from export restrictions and the US trade deficit to China's industry policy and state-subsidised key sectors), the willingness to find solutions rather than allowing the tariff conflict to re-escalate is currently prevailing. China is in the meantime already faced with a significant tariff rate of 40% but is proving remarkably resilient: exports rose by over 7% in July. One factor explaining this robustness is the re-routing of trade flows to circumvent tariffs – an effect, however, that is set to diminish as soon as tariffs are also levied on re-routed goods. The geographical diversification of the trading partners is also having a stabilising impact. Meanwhile, the real estate market is coming to the fore again. Following several months of stable demand, downward trends are emerging again for sales and prices. Should these trends continue, the government is likely to devote more attention to this issue again.

"Anti-involution" will not halt the price collapse

Inflation in China was 0% in July. The causes of this are an oversupply, weak demand and strong competition. The government has announced a so-called "anti-involution" campaign to counter the price decline, which is set only to take effect on a sector-specific basis and rather cautiously as a strong intervention in industrial overcapacities entails the risk of rising unemployment.



Economic Research



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



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



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



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



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

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

in

Released and approved by the Macroeconomic Research Department, Swiss Life Investment Management Holding Ltd, Zurich

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

France: This publication is distributed in France by Swiss Life Asset Managers France, 153 rue Saint-Honoré, F-75001 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Swiss Life Asset Managers Deutschland GmbH, Clever Strasse 36, D-50668 Köln, Swiss Life Asset Managers Luxembourg, Niederlassung Deutschland, Darmstädter Landstraße 125, D-60598 Frankfurt am Main and BEOS AG, Kurfürstendamm 188, D-10707 Berlin. **UK:** This publication is distributed by Swiss Life Asset Managers UK Ltd., 55 Wells Street, London W1T 3PT. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General-Guisan-Quai 40, CH-8022 Zürich. **Norway:** This publication is distributed by Swiss Life Asset Managers Holding AS, Haakon VII's gt 1, NO-0161 Oslo. **Italy:** This publication is distributed by Swiss Life Asset Managers Luxembourg, succursale Italia, Via San Prospero 1, I-20121 Milano. **Denmark:** This publication is distributed by Swiss Life Asset Managers Danmark, filial af Swiss Life Asset Managers Luxembourg, Luxembourg Frederiksgade 11, 1. tv, 1265 København K.