

October 2025

## Key takeaways

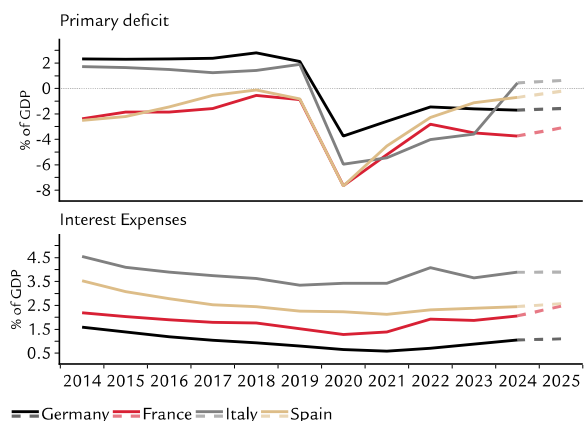
- USA: the labour market weakens, but lower policy rates and the equity market boom support consumption *p. 2*
- Germany: fiscal expansion begins to take shape with the 2025 budget *p. 3*
- France: political uncertainty weighs on consumer confidence *p. 3*
- Switzerland: hopes pinned on successful renegotiations of US tariffs *p. 4*
- UK: declining wage pressure is a welcome development for the Bank of England *p. 5*
- China: no turnaround in deflation yet – globally, China contributes to lower goods prices *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	1.7% ↑	1.7% ↑	1.5%	1.7%	2.8%	2.8%	3.5%	2.7%
Eurozone	1.2%	1.2%	1.0% ↓	1.1%	2.1%	2.1%	2.0%	1.8%
Germany	0.3%	0.2% ↓	1.3%	1.2% ↓	2.0%	2.1%	2.0%	1.9%
France	0.7%	0.6%	1.0% ↓	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%	1.6% ↓
Spain	2.5%	2.6% ↑	1.7%	1.9%	2.6%	2.5% ↑	1.8%	1.9%
United Kingdom	1.2%	1.2% ↑	1.2%	1.0%	3.3%	3.4% ↑	2.3%	2.6% ↑
Switzerland	1.2%	1.2% ↑	1.1%	1.3%	0.2%	0.2%	0.5%	0.6% ↑
China	4.8%	4.8%	4.0%	4.3% ↑	0.1% ↓	0.1% ↓	1.0%	0.7% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc., London, 8 September 2025

## Chart of the month



The challenges facing the eurozone countries are immense. The deteriorating security situation, declining free trade and weak growth require substantial public investment. At the same time, primary deficits in many European countries are already unsustainable and the average debt burden is very high. The outlook for public investment is therefore uncertain. Germany is likely to adopt a significantly more expansionary stance, while Spain and Italy consolidate their public finances. France is politically gridlocked but may still manage to initiate some consolidation measures for its large deficit.

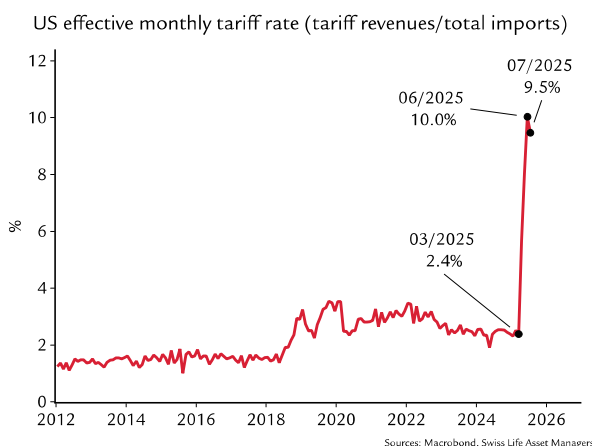
## USA

### Bad news can be good news

The prospect of policy rate cuts has fuelled financial markets in the USA. This has created a paradox: US labour market data must be weak enough to sustain expectations that rates will be cut, but at the same time strong enough to avoid triggering recession fears. So far, the balancing act has succeeded. Economic growth in the US settled at a low level in the second half of 2025, as expected. Booming equity markets and loose financing conditions are supporting, in particular, growth in private consumption and business investment. Business surveys remain solid, although companies are cautious about both hiring and layoffs due to economic policy uncertainty. The housing market, burdened by high mortgage rates, remains a source of concern. Rate cuts are expected to provide only limited relief here, as the relevant long-term interest rates remain elevated.

### Importers avoid higher tariffs

US inflation is rising, driven by higher consumer goods prices and tariff effects, though the latter remain below our expectations. Based on last year's import basket, the average tariff rate has ranged between 17% and 19% since May. In fact, tariff revenues in June and July amounted to just 10% of US imports. This suggests that importers are attempting to avoid high tariffs by front-loading imports and substituting products. Due to these substitution effects, our relatively high inflation forecast of 3.5% for 2026 carries downside risks. However, concerns over the weakening labour market and political pressure are likely to dominate, prompting the US Federal Reserve to continue adjusting interest rates.



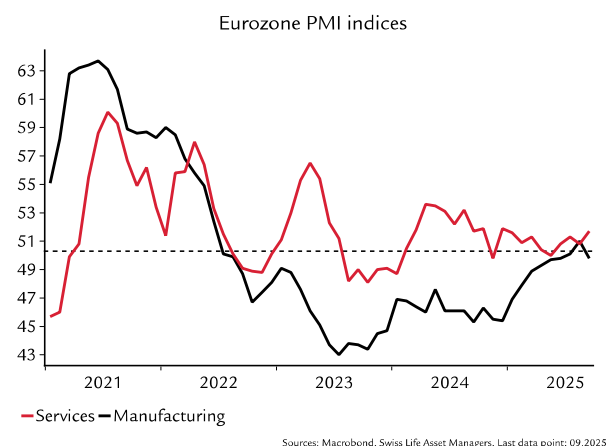
## Eurozone

### Industrial sector remains robust

Industrial production remains resilient despite the US tariff shock, growing by 0.3% in July compared to the previous month, while the decline in June was less severe than previously reported. July's recovery was driven primarily by Germany, where industrial production grew by 1.5%. At the same time, output declined in Spain and France. However, due to delayed publication, these figures offer only a limited insight into the current situation. More timely indicators, such as Purchasing Managers' Indices (PMIs), also continue to paint a robust picture of the industrial sector, although the preliminary September PMI for manufacturing dipped slightly below the growth threshold of 50. However, the sub-index for industrial production showed growth, albeit slightly weaker than in August. The PMI for the services sector remains more robust than its industrial counterpart, remaining well above 50 and raising the PMI for the economy as a whole in September to its highest level since May 2024.

### Significant inflation disparities within the eurozone

While headline inflation rose slightly to 2.1% in August, it remains well anchored near the inflation target. Services inflation, which is still above 3%, fell further in August. This development is likely to continue in the coming months due to easing wage pressure. However, inflation rates vary widely across the eurozone, ranging from -0.1% in Cyprus to 6.2% in Estonia. Among the major economies in the monetary union, France stands out as its inflation rate has been below 1% for months. These differences within the eurozone do not make the ECB's work any easier. Its current monetary policy may remain too restrictive for countries such as France, for example.



## Germany

### Fiscal expansion takes shape

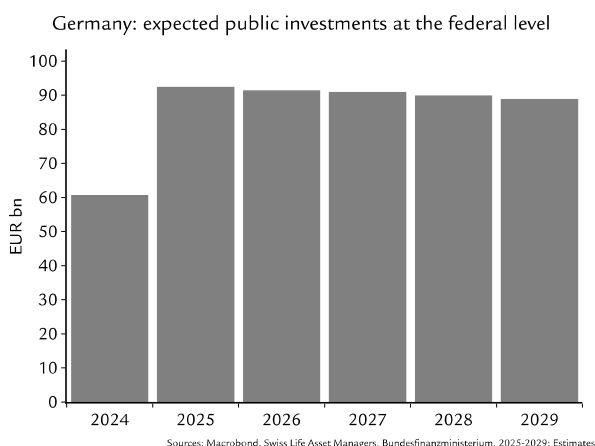
With the 2025 federal budget, the long-announced fiscal expansion is being implemented. The budget includes spending of EUR 502 billion, around EUR 25 billion more than in the previous year. This raises annual new borrowing to over EUR 140 billion. From the fourth quarter, public investment can therefore be significantly increased (see chart).

However, current economic signals remain mixed. Weak demand and persistent uncertainty continue to weigh on growth, especially in manufacturing and exports. Weak order intake also indicates that a rapid improvement in the current situation is unlikely.

At the same time, criticism is mounting over the use of the new special funds. According to calculations by the ifo Institute, EUR 16 billion in investment is being shifted from the core budget to the infrastructure fund, while the freed-up resources will be used, among other things, to increase social spending by EUR 11 billion. This will delay pension system reforms. In the medium term, the higher investment is expected to have a clearly positive impact and could already contribute to accelerating growth this year – irrespective of whether it leads to higher productivity and stronger potential growth in the long term.

### Core inflation remains elevated

Core inflation remained at 2.7% in August, as services (+3.1%) and food (+2.5%) in particular posted significant year-on-year price increases. Energy prices continued to have a dampening effect (-2.4%). However, this effect is weakening, leading to base effects and temporarily slightly higher inflation. In the medium term, however, we expect inflation rates to remain stable close to the 2% target.



## France

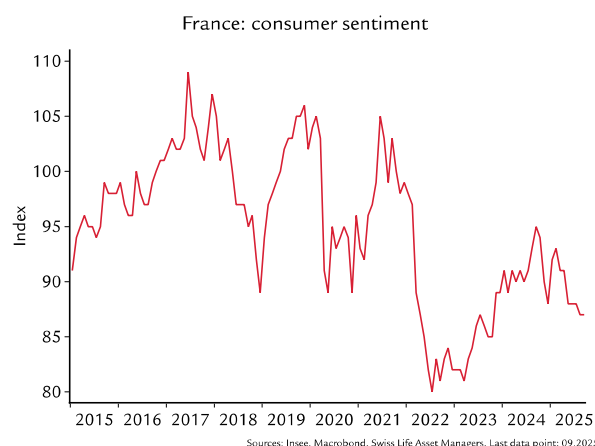
### Declining consumer confidence

Political paralysis since the dissolution of parliament by President Macron in summer 2024 is clouding the outlook for a moderate economic upswing. The Banque de France continues to expect a quarter-on-quarter growth rate of 0.3% in the third quarter of 2025. Following negative growth in the final quarter of 2024, the recovery is continuing towards the long-term potential growth rate. This is consistent with the fact that economists surveyed by the Bloomberg news agency now consider the probability of a recession to be lower on balance than they did a month ago. Particularly noteworthy is the tailwind in the construction industry. The number of residential building permits up to July rose by 20% year-on-year.

However, there is currently a diverging trend between slightly improved business sentiment and significantly declining consumer confidence. Despite rising real wages, loss of purchasing power remains a key concern among the working-age population. Combined with the assumption that no further fiscal stimulus is likely before the 2027 presidential elections, this has led to a downward revision of our 2026 GDP growth forecast.

### Expected rise in inflation rate

In 2025, we anticipate that average annual inflation will be 1.1%, significantly lower than the 2.0% of the previous year. Despite a slight increase in the coming months, the inflation rate in the baseline scenario will remain below the 2% threshold until the end of 2026. Based on the prices of inflation-linked bonds, investors' long-term inflation expectations remain very well anchored. If the ECB were to align its monetary policy solely with conditions in France, it would have scope for further interest rate cuts.



## Italy

### Inflation at target

In Italy, core inflation, which excludes energy and food, has held steady at exactly 2% for three months in line with the ECB's inflation target. Headline inflation stood at just 1.6% in August due to falling energy prices, making it the third-lowest in the eurozone after France and Cyprus. The trade war is further easing inflationary pressure. Industrial producer prices (excluding construction and energy) have moved sideways for the domestic market since the start of the year, while they fell slightly for export products, particularly between April and June. Exporters thus suffered some price losses, presumably due to a combination of a weaker US dollar and higher tariffs on exports to the USA. Meanwhile, activity and survey data remain relatively stable and so far point to weak but positive economic growth of around 0.1% in the third quarter. Italy is therefore not exploiting its growth potential, and with inflation below 2%, this suggests that the ECB's monetary policy is currently too restrictive for Italy.

## Spain

### Price pressure on the rise again

After a temporary decline to the level of the ECB's 2% inflation target in May, headline inflation in Spain rose again to 2.7% in August. Core inflation posted a similar increase to 2.4% in August. The rise in headline inflation was mainly driven by higher energy prices and fuel costs. It is also reasonable to assume that strong demand from the tourism sector has exerted some upward pressure on prices. Tourism data points to another record year for 2025. For example, inflation in important tourist regions such as the Balearic Islands and Valencia is well above the national average. The "hotels & restaurants" inflation component, which typically reflects the tourism sector, also made a higher-than-average contribution to the increase in August. The continued strong economic growth is expected to keep price pressure higher than in the eurozone as a whole. We therefore expect annual inflation to remain above 2% for the rest of the year. We do not anticipate a decline below the inflation target until early 2026.

## Switzerland

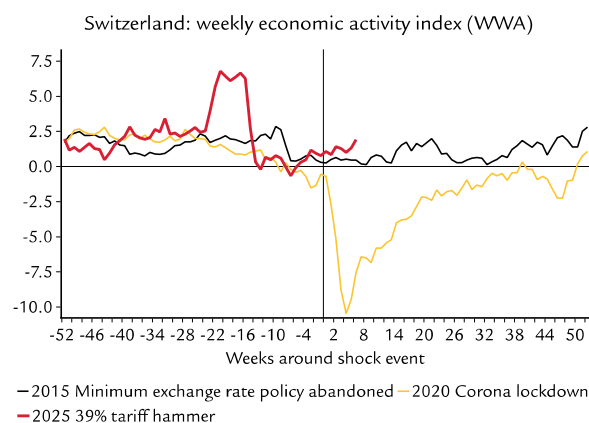
### Real wage growth cushions export decline

Negotiations on the tariff front have not been successful so far. Accordingly, our forecasts continue to assume that Switzerland's industrial sector will remain disadvantaged by the tariff gap between it and its competitors from Europe and Japan. The effects on Switzerland's gross domestic product will first become visible in the coming quarters through declining exports to the USA. Durable goods, such as watches, were shipped to this market early in order to avoid tariffs. Accordingly, August's trade data showed a marked decline in exports. The agile private sector is also exploring options for relocating production, which, if the unequal treatment of Swiss industry compared to its competitors persists, will weigh on its growth potential. The labour market is deteriorating as a result. According to a survey by the Swiss Economic Institute at ETH Zurich, industrial companies significantly scaled back their plans to purchase upstream products in August.

Based on data available up to the first week of September, the SECO index of weekly economic activity (WEA), which reflects the state of the economy as a whole, suggests continued growth. Domestic activity is supported by a real wage increase of around 2% compared to 2024. The construction industry continues to benefit from the expansionary monetary policy of the Swiss National Bank.

### Sharp decline in producer prices

The slowdown in the labour market is dampening inflationary pressures in the medium term. At present, falling import and energy prices are having a disinflationary effect at producer level. By August 2025, the index of producer and import prices had declined by 1.8% year-on-year.



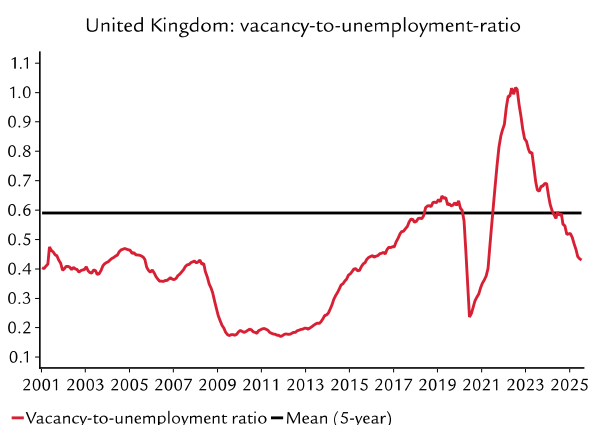
## United Kingdom

### Slowing growth

Following stronger-than-expected growth in the second quarter, the UK economy cooled somewhat at the start of the third quarter, as expected. Monthly GDP data for July shows stagnation, albeit after strong growth in the previous month. Details reveal modest growth in the services sector, offset by a decline in industrial production. Retail sales also picked up in July, with consumer demand remaining robust in August. Meanwhile, the labour market is slowly but steadily weakening. However, this weakness does not (yet) seem to have negatively impacted private household consumption, although consumer confidence declined in September. Leading indicators such as PMIs still point to a relatively resilient outlook for the remainder of the third quarter, albeit with some loss of momentum. While the PMI for the economy as a whole remained at a solid 51.0 in September, it saw a significant drop from its peak in August.

### Ray of hope for the central bank: easing wage pressure

Inflation remained stubborn in August, holding steady at 3.8%. The weakening labour market, especially slowing wage cost growth, is likely to be one of the Bank of England's (BoE) few hopes for lower inflation rates at the moment, especially as it does not expect a rapid deterioration in labour market conditions. However, job vacancies have continued to decline. As a result, the ratio of job vacancies to unemployed people – a key indicator for the BoE – is now significantly below the long-term average, pointing to a slack labour market. This should help ease wage pressure, and thus inflationary pressure, somewhat over the coming months.



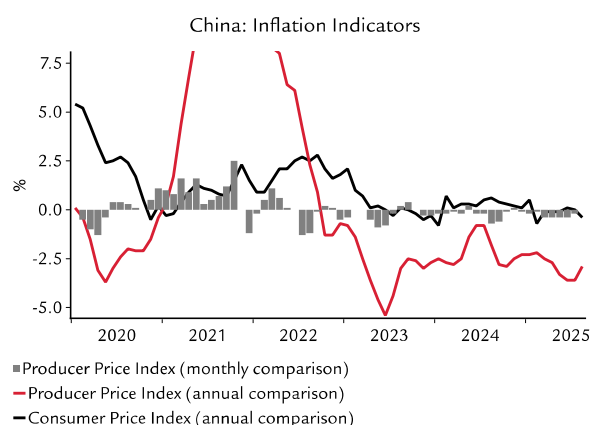
## China

### “Anti-involution”: blessing or curse?

China's recent economic data came in weaker than expected. In addition to the well-known correction in the real estate market, a new government campaign is now weighing on economic momentum: the so-called “anti-involution” initiative aims to curb overcapacity and ruinous competition in industrial sectors. Its aim is to halt falling prices and declining corporate profits – producer prices have been dwindling for over 30 months. Sectors such as steel, chemicals, cement and glass as well as future-oriented sectors such as electric vehicles, batteries and solar energy are affected. So far, the specific measures have been moderate: rather than broad-based production cuts, the focus is on phasing out local government subsidies and tightening market access rules. In the short term, the campaign is dampening investment in the industrial sector. In the medium to long term, however, it could help stabilise prices and strengthen profitable companies. Overall, it is a cautious attempt to make industrial growth more sustainable. The high-tech sector in particular, which is now the central backbone of China's economic momentum, is expected to benefit in the long run.

### Easing deflation in producer prices

In August, for the first time in nine months, producer prices did not show a month-on-month decline. This development reflects initial effects of the anti-involution campaign, particularly in sectors such as coal, metals, solar and e-mobility. However, as the measures remain moderate and the production level continues to outpace demand, a significant reversal of the deflationary price trend is not to be expected in the short term. Accordingly, China will also contribute to lower goods prices globally.



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