

August 2021

Key messages

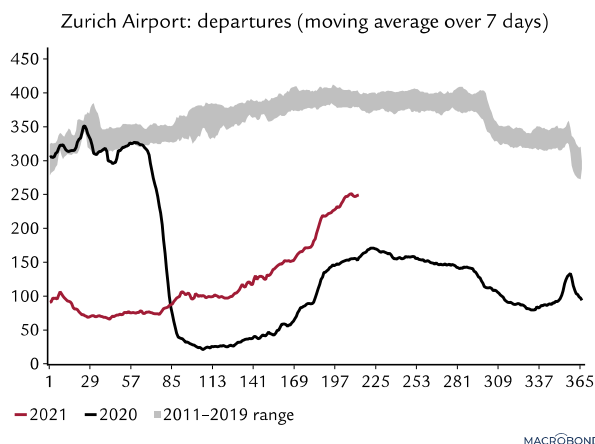
- Restrictions on international travel remain in force
- Inflation in the US will remain above 5% until the end of the year
- Economic momentum is already slowing down again in Europe

Comparison of forecasts

	2021 GDP growth		2022 GDP growth		2021 inflation		2022 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	6.0%	6.6% ↓	3.3%	4.4% ↑	4.3% ↑	3.7% ↑	3.0% ↑	2.8% ↑
Eurozone	4.4%	4.6% ↑	3.3%	4.4%	1.8% ↑	1.9% ↑	1.4% ↑	1.4%
Germany	3.2%	3.4% ↑	3.4% ↑	4.3% ↑	2.5% ↑	2.6% ↑	1.4% ↑	1.8% ↑
France	6.0%	5.6% ↑	3.3% ↑	4.0% ↑	1.5% ↑	1.5% ↑	1.4% ↑	1.2%
UK	6.1%	6.8% ↑	4.3%	5.3%	2.0% ↑	1.9% ↑	2.0% ↑	2.4% ↑
Switzerland	3.6%	3.6% ↑	2.5%	2.9%	0.5%	0.4%	0.7%	0.5%
Japan	2.4% ↓	2.5% ↓	2.1% ↑	3.0% ↑	0.0%	0.0%	0.4%	0.5%
China	8.3% ↑	8.6%	5.4%	5.6%	1.3%	1.5%	2.3%	2.3%

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 12 July 2021

Chart of the month



In the second year of the pandemic, many people in Switzerland are keen to spend their summer holidays abroad. Figures for Zurich Airport show a 60% increase in departures for the second half of July compared with the previous year. While other parts of the economy have already returned to pre-crisis levels, this is in no way the case yet for Europe's passenger transport sector. A comparison of the current figures with those since 2011 shows that flight movements from Zurich are still more than a third lower than in the weakest year before the outbreak of COVID-19.

USA

Inflation tax in action

GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.0%	2021: 6.6%
2022: 3.3%	2022: 4.4%

Inflation remains a core market issue in the US. A US investor who invested in a one-year Treasury bill a year ago lost over 5% in real terms on this allegedly safe investment. Bond investors are indirectly financing the excessive US fiscal policy through this “inflation tax”. US consumers, whose mood has deteriorated surprisingly sharply, are also being asked to pay. The University of Michigan survey particularly laments the higher prices for real estate and durable goods. With wages rising at the same time and huge savings accumulated during the pandemic, consumption is expected to remain intact, but increasingly shift to services. However, higher prices are triggering a slowdown in the real estate sector in particular. Activity figures on the housing market and the sentiment among house builders have both deteriorated. Combined with the escalating “delta wave” and a faltering vaccination campaign, many of our peers have reined in their optimism; for the first time since October 2020, the consensus expectation for GDP growth in 2021 fell, somewhat narrowing the gap from our cautious assessment. Inflation, the pandemic and the gridlocked infrastructure package are also weighing on Joe Biden, whose voter confidence has recently fallen to 50% according to a Gallup poll – a low reading in historical terms.

Inflation

Swiss Life Asset Managers	Consensus
2021: 4.3%	2021: 3.7%
2022: 3.0%	2022: 2.8%

In June, inflation surprisingly surged to 5.4%, still driven by temporary effects such as excessive prices for used and rental cars or airline tickets, which are in great demand as the economy opens up. However, as inflation is increasingly spreading across service prices and rents, we now expect inflation rates above 5% until the end of 2021, before the petering out of temporary effects brings a significant slowdown.

Eurozone

Headlines dominated by politics

GDP growth

Swiss Life Asset Managers	Consensus
2021: 4.4%	2021: 4.6%
2022: 3.3%	2022: 4.4%

Different approaches are being taken in Europe to dealing with the sluggish vaccination progress and the spread of the delta variant of the COVID-19 virus. While France and Italy have decided on measures that come close to compulsory vaccination, Germany is responding with a hesitant easing of the containment measures. In contrast to Germany, these measures are at their lowest level since May 2020 in Estonia, Slovenia, Cyprus and France, according to the Oxford University Indicator. International travel restrictions are being lifted later than internal restrictions in the Eurozone. Meanwhile, consumer sentiment has continued to improve recently. The falling unemployment rate is a major contributor to this. However, sentiment in the manufacturing sector, which has risen strongly since the start of the year, appears to have already passed its peak. As with previous stimulus packages, the impact of the EU recovery plan on the real economy will also be delayed. These funds, which ultimately have a procyclical effect, should provide impetus for growth in the southern countries beyond 2022. The funds are linked to reforms, with judicial reform in Italy and a pension reform in Spain on the agenda in the second half of 2021. Political topics are thus likely to make headlines in the coming months not just in Germany.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.8%	2021: 1.9%
2022: 1.4%	2022: 1.4%

The inflation rates in the eurozone currently range from -0.6% for Portugal to 3.7% for Estonia. Inflation is likely to decline in most countries over the summer months due to base effects from the previous year, before a renewed rise by the final quarter of 2021 causes the eurozone inflation rate to rise to around 2.5%. In our baseline scenario, we expect inflation in this region to settle at around 1.5% after 2024.

Germany Gloomy outlook

GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.2%	2021: 3.4%
2022: 3.4%	2022: 4.3%

In contrast to France and Italy, politicians in Germany are reluctant for the time being to introduce measures that would amount to compulsory vaccination. However, as the vaccination campaign has also stalled in Germany, further travel restrictions are looming in order to stop the spread of the delta variant. However, developments in the Netherlands and the United Kingdom suggest that the economic damage is likely to remain limited even if the number of cases increases again. Nevertheless, according to the ifo Institute's Business Climate Index, sentiment among companies is already deteriorating again due to supply bottlenecks. Business prospects only improved again recently in the construction industry. In the manufacturing sector, expectations regarding future business have been declining for four months now, not least due to a deteriorating outlook for order intake from abroad. Overall, however, capacity utilisation in the manufacturing sector remains well above the long-term average. The extent to which the floods of recent weeks will affect the economic trend remains uncertain, as is their potential impact on Germany's parliamentary elections in September. In the medium to longer term, there is likely to be substantial replacement investment and additional spending to protect against floods.

Inflation

Swiss Life Asset Managers	Consensus
2021: 2.5%	2021: 2.6%
2022: 1.4%	2022: 1.8%

A hundred years ago, the first signs of hyperinflation emerged in 1923. The memory of this catastrophe explains why Germany's recent rise in inflation is being viewed particularly warily. The topic will receive further attention between now and November, when it is expected to have risen from 2.1% at present to 3.5%. However, we are among those who see this increase as temporary. Inflation will drop below 1.5% again in the first quarter of 2022.

France Political endurance test

GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.0%	2021: 5.6%
2022: 3.3%	2022: 4.0%

Economic data in France has improved significantly with the easing of lockdown measures. Unfortunately, the first GDP estimate will be published shortly after this paper's editorial deadline. Our forecast was for 1.3% growth on the previous quarter. By contrast, the median expectation among 28 institutes surveyed by the news provider Bloomberg was considerably more cautious at just 0.8%. However, the responses to this survey on GDP growth ranged from 0.3% to 1.6%. This range reflects analysts' uncertainty in times of pandemic. As in Switzerland (see page 1), international travel is recovering, but there is still a significant gap compared with the figures for the years preceding 2019. It will still be some time before guests return from the major Asian markets, and a structurally lower demand for business travel is also to be anticipated. The stalled vaccination campaign prompted France's government to take drastic steps that are tantamount to compulsory vaccination for care staff. The measure has served its purpose in the short term, with willingness to vaccinate soaring. However, the risk of an endurance test for Emmanuel Macron in the form of renewed waves of protest after the summer break remains considerable.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.5%	2021: 1.5%
2022: 1.4%	2022: 1.2%

The inflation rate has also risen significantly in France recently. An inflation rate of 1.9% was calculated for June. Base effects from the previous year suggest that inflation should ease considerably in the coming months before once again reaching 2% or even slightly higher towards the end of the year. However, apart from the price of petrol, inflation has so far played a minor role in public debate in France.

UK

A country in self-isolation?

GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.1%	2021: 6.8%
2022: 4.3%	2022: 5.3%

“Brexit self-isolation” no longer seemed to be the biggest concern for British businesses of late. Instead, problems were caused by the sharp increase in the number of employees going into self-isolation after receiving an alert (“ping”) from the coronavirus tracing app. This “pingdemic” has been hailed as a threat to the UK economy and a possible blueprint for other countries. Two reasons speak against the latter: firstly, particularly in continental Europe, tracing apps are less widespread. Secondly, isolation rules are particularly strict in the UK, although easing measures are now imminent: fully vaccinated persons and young people in England will only have to undergo self-isolation from 16 August if they test positive. In addition, for critical occupational groups that cannot work from home (such as fire brigades or border guards), a daily test regime is replacing precautionary self-isolation. In combination with the rapidly falling number of cases, the “pingdemic” is likely to be alleviated already in August. It is in any case unclear whether it has caused any noticeable economic damage at all in July. In fact, data from Google show that recreational mobility increased in July and that commuting did not decline any more than the seasonal pattern (summer holidays) would suggest. Only the decline in the July services PMI indicates a – probably temporary – downturn in sentiment.

Inflation

Swiss Life Asset Managers	Consensus
2021: 2.0%	2021: 1.9%
2022: 2.0%	2022: 2.4%

Following the renewed inflation surprise in June, we raised the full-year 2021 forecast from 1.7% to 2.0%. Goods and services, which benefited from the opening-up of the economy, were once again the inflation drivers. We expect the inflation cycle to peak at just under 3% in the winter before a slowdown sets in from April 2022.

Switzerland

Falling momentum

GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.6%	2021: 3.6%
2022: 2.5%	2022: 2.9%

Even before the first official GDP estimate for the second quarter is published, new real-time data allow a more reliable approximation than in the years prior to the pandemic. The index of weekly economic activity of the State Secretariat for Economic Affairs (SECO) rose by around 1.7% on average compared to the first quarter. Licence income earned by UEFA, the organiser of the European Football Championships, is likely to have additionally boosted GDP in the second quarter. We therefore expect growth of around 2% quarter-on-quarter. The “nowcast” of the KOF Swiss Economic Institute even indicates growth of 4%. With the exception of international travel (see graph on page 1), the remaining containment measures are only having a very limited impact on trade in goods and services. For the time being, household consumer spending is set to focus more on services, as the pent-up demand in this area is likely to be even greater after one and a half years than for purchases of consumer durables. Going forward, we expect the recovery to continue at a noticeably slower pace. The recent cooling of business sentiment in major export markets and the fact that fiscal and monetary stimulus are gradually fading explain our comparably cautious forecast for the coming year.

Inflation

Swiss Life Asset Managers	Consensus
2021: 0.5%	2021: 0.4%
2022: 0.7%	2022: 0.5%

The rise in inflation is causing less of a stir in Switzerland than in the US and Germany. Following four deflationary phases since 2008, a period of inflation rates in the range of the Swiss National Bank’s target range of 0% to 2% is now on the horizon. In the coming months, higher fruit and vegetable prices are expected to create further price pressure following the July storms.

Japan The Olympic gamble

GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.4%	2021: 2.5%
2022: 2.1%	2022: 3.0%

The Japanese government defied the ongoing public pressure and opened the Tokyo Olympics as planned. In doing so, it has taken a considerable political and epidemiological risk. Firstly, the government is about to hold a general election, which will take place no later than 22 October 2021, but is struggling with catastrophic approval ratings that recently amounted to just 34%. The government has received the most criticism for its pandemic management, while its insistence on holding the Olympic Games has also been badly received in many quarters. Secondly, the Games have been opened amid a renewed wave of COVID-19 that may look harmless by international standards, but is hitting a population that still remains poorly vaccinated (only 26% of the population was fully vaccinated at the time of going to press). In combination with relatively low hospital bed capacities for COVID-19 patients, there is growing pressure for measures going beyond the mere declaration of regional states of emergency, especially since, according to data from Google, the mobility of the population has actually increased recently. Unsurprisingly, survey data barely show any Olympic euphoria: the services PMI dropped to 46.4 in July, remaining below the 50-point growth threshold for the eighteenth consecutive month. The biggest glimmer of hope is the investment cycle, which according to the latest Tankan survey remains intact.

Inflation

Swiss Life Asset Managers	Consensus
2021: 0.0%	2021: 0.0%
2022: 0.4%	2022: 0.5%

As expected, Japanese consumer price inflation jumped into positive territory in June (0.2%), following eight months of deflation. While – as in other countries – prices for goods are rising solidly (1.0% year-on-year), inflation in the services sector remains negative. This is partly due to lower telecom prices, but it also reflects anaemic wage growth in Japan over the past two years.

China The screw is being tightened

GDP growth

Swiss Life Asset Managers	Consensus
2021: 8.3%	2021: 8.6%
2022: 5.4%	2022: 5.6%

The Chinese authorities have recently succumbed to a frenzy of regulation that has scared investors around the world and led to a sell-off of Chinese equities. The measures range from the enforced deletion of apps from allegedly market-dominating tech companies and restrictions on private learning studios and food delivery services to limitations on the listing of Chinese companies on foreign exchanges. The risks of this strategy are significant in the medium term. China's leaders are sending a clear signal to the private sector that the primacy lies with the government and the rules can change at any time, with potentially negative effects on companies' "animal spirits". In addition, the decoupling from the West is being driven forward on the capital side, which will reduce the international exchange of know-how. However, the immediate impact on economic activity is likely to be minor, as most Chinese companies do not have much difficulty in obtaining financing within China. In addition, the central bank eased financing conditions at the beginning of July by reducing the reserve requirement ratio (RRR) for banks by 50 basis points. This is also a reaction to the slowdown in growth, which has hit the domestic economy and is expected to continue in the second half of the year. Overall, we feel comfortable with our cautious, slightly below-consensus growth forecast for 2021 and 2022.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.3%	2021: 1.5%
2022: 2.3%	2022: 2.3%

As expected, producer price inflation turned the corner and again fell below the 8% mark in June. Consumer price inflation, however, surprised to the downside at just 1.1% in June, driven by lower food price inflation (especially pork). We expect a normalisation in consumer price inflation at slightly above 2% by the end of the year.

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