Perspectives
Economics

February 2023

Key takeaways

- Eurozone: the feared winter recession may well turn out to be a winter slowdown instead
- USA: the rising savings rate is putting additional pressure on consumer spending
- China: traffic data is already showing a clear recovery following the peak of the infection wave

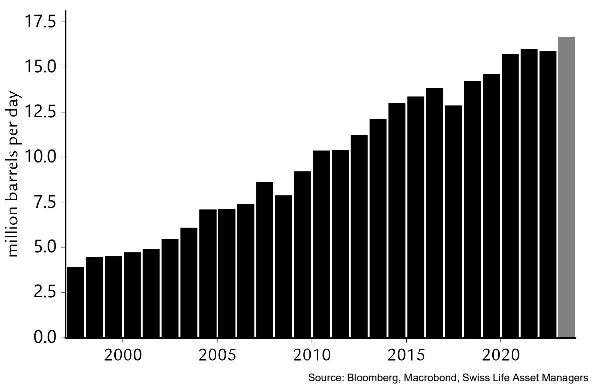
Comparison of forecasts

	2023 GDP growth		2024 GDP growth		2023 inflation		2024 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	0.4% ↑	0.3% ↑	0.8%	1.1%	3.9%	3.8% ↓	2.5%	2.5%
Eurozone	0.6% ↑	0.0% ↑	1.1%	1.2%	6.2%	5.9% ↓	2.6%	2.4%
Germany	0.3% ↑	-0.5% ↑	1.0%	1.4%	6.0%	6.4% ↓	2.4%	2.9%
France	0.5% ↑	0.2% ↑	1.3%	1.2%	4.8% ↓	4.8% ↑	2.3%	2.2%
Italy	0.5%	0.0%	0.7%	1.1%	6.1%	6.6%	1.9%	2.2%
Spain	1.2%	0.9%	1.6%	2.0%	4.6%	4.2%	2.7%	2.6%
UK	-0.8% ↑	-1.0%	0.6%	0.6%	7.2%	7.2% ↓	2.7%	3.1%
Switzerland	0.8%	0.5%	1.5%	1.7%	2.3% ↑	2.2% ↓	1.5%	1.2%
Japan	1.1% ↑	1.2% ↓	0.6%	1.1%	2.4% ↑	1.9% ↑	0.7%	1.2%
China	4.9%	4.6% ↑	5.2%	5.3%	2.4% ↑	2.3% ↓	2.4%	2.3%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 9 January 2023

Chart of the month

Daily oil consumption in China, including forecast for 2023 based on a Bloomberg survey



The expected upturn in China should support the global economy this year via tourism and trade. At the same time, however, this will also keep energy prices at a high level. According to a Bloomberg survey, China's oil consumption will rise by 800 000 barrels per day in 2023, reaching a record level. Demand for liquefied petroleum gas (LNG) is also expected to increase. Unlike oil, however, this will not reach record heights, as China will increase its gas supply from cheaper sources, such as domestic production and increased imports from Russia.

USA
Savings up, consumption down

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.4%	2023: 0.3%
2024: 0.8%	2024: 1.1%

The US economy ended 2022 surprisingly strong. GDP grew by 2.9% in the final quarter compared to the previous quarter (annualised), thereby exceeding expectations. However, the details were rather weak: investment in housing construction continued to plummet, and business investment growth came to a standstill. The inventory cycle was an important growth driver but is likely to turn negative in the first half of 2023. Consumption remained surprisingly stable but declined significantly over the quarter. The December business suffered not only from the sharp onset of winter, but also from the fact that households raised their savings ratio again. This process is expected to continue in 2023. Combined with higher interest costs on rapidly rising consumer loans and dwindling liquidity – the broadest monetary aggregate M2 declined year-on-year for the first time in the history of the series – we continue to expect a mild recession in 2023, followed by a recovery in 2024.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 3.9%	2023: 3.8%
2024: 2.5%	2024: 2.5%

The inflation cycle is most advanced in the US. While second-round effects are still omnipresent in Europe, US inflation has been declining on a broad basis since June. Even wage growth is slowing somewhat from high levels despite persistent shortages in the labour market. Only housing cost inflation remains stubborn, although leading indicators also point to a slowdown here in 2023. In the wake of the mild recession, inflation should return to 3% by the end of 2023 and increasingly create scope for the US Federal Reserve to lower key interest rates again somewhat at the end of 2023 or the beginning of 2024.

Eurozone
Slowdown instead of recession?

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.6%	2023: 0.0%
2024: 1.1%	2024: 1.2%

The Eurozone ended 2022 better than expected. Contrary to consensus expectations, GDP even increased slightly in the fourth quarter of 2022 (+0.1% quarter-on-quarter). The previously feared winter recession looks likely to be a winter slowdown, which will probably continue in the first quarter of 2023. While the purchasing managers' indices for manufacturing improved slightly, overall they remained below the growth threshold of 50. However, optimism has recently risen in both the industry and the service sector. Consumers have also been less pessimistic recently about the economic outlook and their own expected financial situation. However, their plans to increase spending over the next 12 months remain very low. Private consumption is unlikely to be a key growth driver in either 2023 or 2024. We see a somewhat better growth path in the first half of 2023 but less catch-up potential thereafter. We forecast growth close to potential in 2024.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.2%	2023: 5.9%
2024: 2.6%	2024: 2.4%

Core inflation remains high in the Eurozone. It thus reflects the ongoing robust labour market and consumption. We expect price pressure, particularly in the services sector, to remain high beyond 2023 and core inflation therefore only to fall below 2% towards the end of 2024. Headline inflation is expected to halve in the course of 2023 from around 9% in January (the figures were not yet available at the time of writing) to 4.3% in December. The driver here is the falling inflation of energy prices. However, forecast uncertainty remains high in this regard, as electricity and gas prices are likely to remain volatile and political price interventions are difficult to gauge.

Germany
Persistent core inflation

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.3%	2023: -0.5%
2024: 1.0%	2024: 1.4%

Initial estimates show only a slight decline in gross domestic product of 0.2% for the fourth quarter of 2022, driven by weaker private consumption. The long-feared collapse of the German economy as a result of the energy crisis did not materialise. In addition to the better-than-expected energy supply situation, catch-up effects in the automotive industry also contributed to this. The improvement in supply chains is allowing the latter to process well-filled order books. Forward-looking indicators have brightened somewhat recently. Although the purchasing managers' index for manufacturing as a whole is still contracting, the companies surveyed are more optimistic again about their future production. Expectations have also recently risen in the service sector. This is due to the better-than-expected energy situation: the gas storage tanks are still well filled, and wholesale energy prices are significantly lower than they were at their peaks. Although a technical recession – i.e. two consecutive quarters of negative GDP – remains our basic assumption, the expected growth path in the first half of 2023 is better than it was a month ago. However, we do not see any strong growth drivers from the second half of the year or in 2024 and are therefore forecasting a rather cautious path with growth close to potential.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.0%	2023: 6.4%
2024: 2.4%	2024: 2.9%

The gas price brake triggered a fall in inflation in December 2022 that was probably followed by a resurgence in January 2023 when households had to pay their gas bills themselves again. Nevertheless, general inflationary pressure is likely to ease somewhat due to lower energy prices. However, core inflation remains stubbornly high. We think core inflation – unlike headline inflation – will not fall below 2% before the end of 2024.

France
Unclear signals in new year

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.2%
2024: 1.3%	2024: 1.2%

Real gross domestic product rose by 0.1% in the final quarter of 2022. According to the Monthly Business Survey of the Banque de France, momentum picked up in all sectors towards the end of the year after a weak October. According to business sentiment indicators, this momentum is being upheld in the first months of the new year. However, order books are becoming leaner, indicating that the economy is slowing down due to higher financing costs. Nevertheless, business surveys still show a high willingness to create new jobs. The economic slowdown is unlikely to leave any mark on the labour market in 2023. We anticipate an average unemployment rate of 7.5% for the year as a whole, a slight increase from 7.3% recently. In contrast to recent developments in the other major economies of the Eurozone, consumer sentiment in France has deteriorated over the past two months. In addition to the loss of purchasing power and concerns about energy supplies over the winter months, the renewed debate on pension reform could also weigh on sentiment. It is still too early to estimate the potential economic damage of the incoming wave of strikes. However, President Macron's project will certainly dominate the debate in the coming months.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 4.8%	2023: 4.8%
2024: 2.3%	2024: 2.2%

The preliminary inflation figures for January 2023 came as no surprise. At 6.0%, France continues to record a significantly below-average inflation rate on a Eurozone comparison, and we expect it to fall to around 4% over the course of the year. However, a return to the European Central Bank's 2% inflation target is also not expected in France until 2024.

Italy
A technical recession

In the final quarter of 2022, Italy's GDP contracted by 0.1% compared to the previous quarter, which was a positive surprise in view of declining industrial production and weak survey data. We consider a further GDP contraction in the first quarter and thus a technical recession to be likely. According to the Istat statistical office, companies were somewhat more optimistic in January, but the recovery in consumer sentiment suffered a damper due to the ongoing loss of purchasing power. Although inflation will fall significantly in 2023, Italy is likely to have the highest average inflation rate, together with Germany, among the four largest EU countries (we expect 6.1%). With regard to GDP growth, we expect a certain degree of recovery from the winter slowdown in the second quarter of 2023. Overall, the opening of China is exerting a positive impact, although the effect for Italy should not be overrated: in 2019, goods exports to China accounted for only 0.7% of Italy's GDP, and Chinese tourists accounted for a modest 2.4% of all overnight stays by foreign tourists.

Spain
Catch-up potential

The Spanish economy ended 2022 stronger than expected (+0.2% growth in the fourth quarter). Spanish GDP growth thus amounted to 5.5% overall in 2022. However, economic performance is still below pre-pandemic levels. The consumption component is proving to be the biggest brake on growth, as high inflation is also weighing on household disposable income in Spain. However, we expect domestic demand to recover in 2023 due to falling inflation, a robust labour market and additional fiscal measures such as VAT cuts and the EU Next Generation Programme. We therefore expect growth of 1.2% for 2023. Inflation in Spain should also ease in 2023 (we expect 4.6%), despite the surprising rise in January. European energy prices have recently fallen sharply, from which Spain is currently benefiting less than the rest of the Eurozone as the country has been less exposed to rising gas prices since June 2022 due to its relative independence from the European energy market and an early gas price cap.

Switzerland
Contradictory data situation

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.8%	2023: 0.5%
2024: 1.5%	2024: 1.7%

The expected mild recession in large parts of the global economy will only affect Switzerland to a limited extent. We still have to wait until 28 February for the gross domestic product figures in the final quarter of 2022. While Germany, Sweden and Austria – three similarly strong export-oriented countries – recorded a decline in gross domestic product over this period, we expect Switzerland to increase by 0.3% compared to the previous quarter. Unlike other countries in Europe, households and companies in Switzerland have so far remained less affected by inflation and higher financing costs. Indicators already attempting to capture economic momentum at the start of the current year are painting a varied picture: following an upward trend in the fourth quarter, the index of weekly economic activity (WEA) of the State Secretariat for Economic Affairs (SECO) is now pointing to a slowdown in the economy. By contrast, the economic barometer of the KOF Swiss Economic Institute at ETH Zurich has been rising again since December. These confusing signals are serving to exacerbate the current high forecast uncertainty in the light of energy supply issues and the continuation of monetary policy normalisation.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 2.3%	2023: 2.2%
2024: 1.5%	2024: 1.2%

Compared to the previous year, producer and import prices rose by 3.2% in December 2022. This was down from 6.9% in June. This trend will also be reflected in consumer prices in the coming months. The inflation rate is expected to fall below 2% by mid-2023. However, an increase in rents is to be expected for the final quarter of 2023 and also for 2024. The inflation rate in Switzerland will therefore temporarily rise above the 2% mark again in the second half of 2023.

UK
Mild recession still our base case

GDP growth	
Swiss Life Asset Managers	Consensus
2023: -0.8%	2023: -1.0%
2024: 0.6%	2024: 0.6%

In contrast to the Eurozone, we continue to anticipate a recession for the UK in 2023. Although economic activity was somewhat more robust than expected at the end of last year, the inflation growth mix in the United Kingdom remains unfavourable. The start of the year is also being overshadowed by nationwide strikes which are set to put pressure on growth in the short term. The resilience in the fourth quarter was mainly due to the service sector, while industrial production continues to contract due to rising energy prices and weak demand for consumer goods. Consumer sentiment remains clouded due to inflationary pressure on real disposable income and rising interest rates, which also explains the recent poor retail sales. The outlook for corporate investments remains gloomy in 2023 due to weak demand and rising financing costs. In addition, the situation on the labour market remains tense. Wage pressure should ease somewhat due to the impending recession. However, structural factors such as the ongoing skills shortage and Brexit restrictions are set to mean that wage growth only declines slowly. In addition, fiscal policy is likely to offer less support in 2023 compared to the previous year. We expect a slight recovery of the economy in 2024, but the inflation growth mix will probably remain unfavourable.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 7.2%	2023: 7.2%
2024: 2.7%	2024: 3.1%

We expect the inflation problem in the UK to remain persistent. The wage pressure described above remains the main reason for this. The decline in gas prices is of limited help at the moment, as they are still above the government's energy price guarantee. However, if the decline continues, this should lead to a faster decline in inflation, particularly in the second half of the year.

China
Recovery brought forward

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 4.9%	2023: 4.6%
2024: 5.2%	2024: 5.3%

China's abrupt abolition of coronavirus measures is leading to a rapid rise in infections, so that the infection wave has already peaked in most parts of the country. This should bring forward the anticipated economic recovery, which we had not been expecting until the second quarter of 2023, by a few weeks. Daily data on traffic congestion and metro usage are already showing a significant recovery compared to December. Once the health situation has stabilised and the population regains economic confidence, the excess savings over the past three years of the pandemic should boost consumption significantly. As China's cyclical upswing will be heavily driven by the service sector rather than by industry, as has often been the case in the past, the positive impact on the global economy via exports is likely to be limited. However, countries dependent on tourism will experience a major positive boost. We expect GDP growth of just over 5% for 2024. However, quarter-on-quarter momentum is somewhat lower than before the pandemic, due to the weaker contribution to growth from the real estate sector, an ageing population, the ongoing decoupling of the technology sector from the US and the increasing shift of economic growth to consumption.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 2.4%	2023: 2.3%
2024: 2.4%	2024: 2.3%

The economic recovery in China is likely to raise inflation somewhat this year. In particular, core inflation, which remained at a level well below 1% over the past year, is set to rise, especially in the transport and hotel sectors. However, due to lower commodity and food inflation, we expect headline inflation to remain moderate at 2.4% for 2023.

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