Perspectives
Economics

Swiss Life Asset Managers

May 2023

Key messages

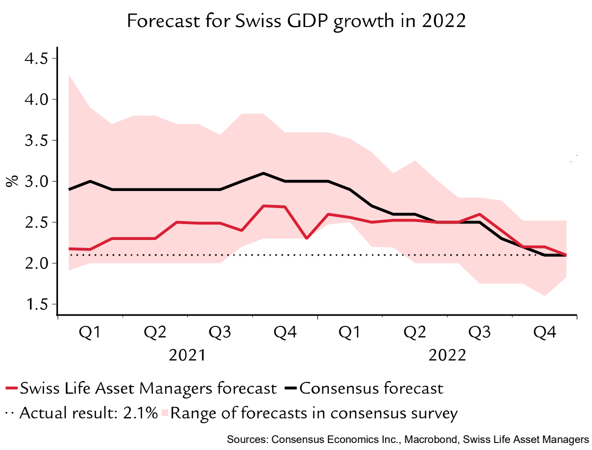
- USA: the forecast economic slowdown is not yet reflected in the data
- Eurozone: services sector continues to gain momentum while industry is weakening
- China: official GDP figures for Q1 confirmed the expected consumption-driven recovery

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	0.9%	1.1% ↑	0.6%	0.7% ↓	4.2%	4.3% ↑	2.5%	2.6%
Eurozone	0.7%	0.7% ↑	0.9%	1.0% ↓	5.8% ↓	5.5% ↓	2.5% ↓	2.4%
Germany	0.3%	0.1% ↑	0.8%	1.2% ↓	6.2% ↑	6.1% ↑	2.4%	2.7%
France	0.5%	0.5%	1.0%	1.0% ↓	4.9% ↑	5.3% ↑	2.2%	2.7% ↑
Italy	0.6%	0.6%	0.6%	1.0%	6.3% ↓	6.0% ↓	2.2% ↑	2.4%
Spain	1.2%	1.4% ↑	1.3%	1.8%	4.6% ↓	4.0% ↓	2.7%	2.8% ↑
UK	-0.1% ↑	-0.2% ↑	0.6%	0.8% ↑	6.9% ↑	6.4%	2.7%	2.8% ↓
Switzerland	0.7%	0.7%	1.5%	1.5% ↓	2.3%	2.6% ↑	1.5%	1.5% ↑
Japan	0.9%	1.1% ↑	0.6%	1.1%	2.4%	2.5% ↑	0.7%	1.4% ↑
China	5.8% ↑	5.5% ↑	5.2%	5.1% ↓	2.2%	2.2% ↓	2.4%	2.4%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 11 April 2023

Chart of the month



Consensus Economics, the world's leading provider of macroeconomic forecast surveys, presents an annual award for the best economic forecast. With the 2022 forecasts for Switzerland, the research team at Swiss Life Asset Managers is at the top of the podium of the Forecast Accuracy Award for the fifth time in recent years. Looking back on the challenging year 2022 shows that our processes for estimating GDP growth for Switzerland are working. The chart shows the historical development of forecasts for GDP growth in Switzerland between January 2021 and December 2022.

USA
Euphoria is out of place

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.9%	2023: 1.1%
2024: 0.6%	2024: 0.7%

Since the turmoil in the US banking sector in March, the situation seems to have calmed down. Financial markets started to recover, and economic data showed the US economy in solid shape. However, we would warn against excessive optimism. Deposit outflows from the US banking system have progressed further in recent weeks, as interest rates on alternative assets such as money market funds remain significantly more attractive. Thanks to the measures taken by the authorities, in particular the Federal Reserve's new liquidity programme, we believe there is only a small risk of a systemic banking crisis. But according to a survey of American SMEs, the availability of credit has continued to decline, not least because of the problems of regional banks. Even in the US labour market, which has been fundamentally solid to date, not all the signs are rosy. Applications for unemployment benefits have been gradually increasing since autumn 2022. In addition, the number of jobs in the temporary work sector is down year-on-year. Although it is a small sector, it is usually leading the economic cycle and served as an early warning sign for the turnaround in the labour market during the recessions of 2001 and 2008-09.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 4.2%	2023: 4.3%
2024: 2.5%	2024: 2.6%

The March inflation figures were largely in line with our expectations. Lower energy prices and base effects led to a significant decline in headline inflation from 6.0% to 5.0%. In terms of the composition of core inflation (5.6% in March) the decline in housing cost inflation, which is finally reflecting the slowdown in the US real estate market, was particularly noticeable. Outside the residential segment, however, service inflation remained stubborn. As a result, the latest inflation figures are not yet sounding the all-clear for the US Federal Reserve.

Eurozone
Mind the gap!

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.7%
2024: 0.9%	2024: 1.0%

According to initial figures for the Purchasing Managers' Index (PMI) in April, the Eurozone got off to a good start in the second quarter, confirming our assumption of a temporary acceleration in growth before a weaker second half of the year. However, the PMI increase was exclusively driven by the services sector, where the value climbed to its highest level since May 2022. The industrial PMI, on the other hand, fell further below the growth threshold of 50 points. This opened the gap between the two sectors to historically high levels. The gap is particularly large in the incoming orders subcomponent. In the industrial sector, the decline in new orders accelerated again, after slowing since October 2022. By contrast, the positive acceleration trend in services has continued since November 2022. The employment gap is also widening: although the employment index remains above the growth limit in industry, it saw a further slowdown in April. Service providers, on the other hand, recorded employment growth as strong as in the summer of 2007. In addition to the ongoing shift in consumption from goods to services, the greater sensitivity of the industrial sector to the rise in interest rates likely explains this historical gap.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 5.8%	2023: 5.5%
2024: 2.5%	2024: 2.4%

Energy prices' contribution to headline inflation was negative for the first time in March, and was thus the main driver of the fall in inflation from 8.5% to 6.9%. The monthly changes in energy prices were negative in Italy and Spain, but still positive in Germany and France. The negative base effects will become more pronounced over the next few months. However, from a central bank perspective, the development of core inflation, which excludes energy and food, remains more important. Here, the contribution of both services and goods remained high in March and is likely to increase even further in the case of the former.

Germany
Drag in construction sector

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.3%	2023: 0.1%
2024: 0.8%	2024: 1.2%

Another positive surprise in February's industrial production confirmed the recovery in growth at the beginning of the year. According to the Purchasing Managers' Index, momentum remains positive in the second quarter, albeit driven by the services sector, while sentiment in industry deteriorated further. We believe that the higher interest rates will have an increased drag effect from the third quarter. The construction sector is already the most affected. The latest ifo survey confirmed that pessimism over activity in the next six months is most pronounced in the construction sector – amongst all major sectors – and that the assessment of the current situation is just above neutral zero. Of the subsectors, sentiment is worst in residential construction and best in civil engineering. Construction companies are reporting that labour shortages and lack of demand are currently inhibiting production the most, but financing is also increasingly seen as a limiting factor. The gloomy mood is also reflected in the decreasing number of building permits. Construction activity is likely to be weak in the coming months. In the medium term, this could exacerbate the shortage of supply, particularly in the residential sector, and thus limit the scope for downward price corrections.

Inflation

Swiss Life Asset Managers	Consensus
2023: 6.2%	2023: 6.1%
2024: 2.4%	2024: 2.7%

Annual consumer price inflation fell in March from 8.7% to 7.4%, driven by energy base effects, while the monthly change remained at 0.8%. The decline in producer price inflation from 15.8% to 7.5% was also largely due to energy prices. Core consumer price inflation, on the other hand, continued to rise to 5.8%, driven by persistently high price increases in the services sector. We do not believe that the highest levels have been reached yet in this area.

France
The great rift

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.5%
2024: 1.0%	2024: 1.0%

The picture of a divided economy was accentuated further at the beginning of the second quarter of 2023: according to surveys of purchasing managers in the services sector, this part of the French economy rallied again in April, while the figures for manufacturing indicate weaker momentum for the third time in a row. When comparing the two Purchasing Managers' Indices, the gap in favour of service providers – at 10.8 points – is currently greater than ever since data became available from May 1998. This finding is not expected to change so quickly over the coming months. Amongst the service providers, tourism is benefiting strongly from the return of foreign visitors, while manufacturing remains hampered by high financing costs and continuing high energy costs. It remains to be seen to what extent the latest surveys of companies and households have been influenced by the latest protests against the pension reform. However, it is worth noting that an indicator from the INSEE statistical office, which aims to identify cyclical turning points, has fallen to its lowest level since May 2020. According to INSEE, the current value is equivalent to an "unfavourable economic climate". Our forecast reflects this assessment.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.9%	2023: 5.3%
2024: 2.2%	2024: 2.7%

Although the inflation rate in France remains below that of the other two large euro members, Germany and Italy, inflation has recently fallen less rapidly here than in the rest of the Eurozone. This is due to the increase in tobacco taxes and, in particular, to the continued rise in food prices. In addition, the strikes of recent weeks in France have caused petrol prices to rise again. Higher healthcare tariffs will further weaken purchasing power.

Italy
Sharp decline in energy prices

Probably the most important development in Italy at the moment is the rapid decline in inflation. Since November 2022, headline inflation has fallen from 11.8% to 7.6% (March 2023), driven by energy prices, which have fallen by 18% over the same period. As in other European countries, core inflation remained more persistent, but even services and goods prices (excluding energy and food) slowed significantly in March. It remains to be seen whether March was an outlier, as the signs for private consumer demand are still looking good, at least in the short term, which could sustain inflationary pressure. Nominal wage growth is continuing to rise and reducing the inflation gap, which contributed to the further normalisation of consumer sentiment in March. In addition, service providers reported their strongest new business since November 2021 according to the Purchasing Managers' Index. However, we still expect that the lack of fiscal stimulus and the tightening of monetary policy will increasingly leave their mark on economic growth towards the end of 2023 and by 2024 at the latest.

Spain
Excellent mood

The Purchasing Managers' Indices (PMI) recently pointed to a strong upturn in sentiment in Spain, far above that for the Eurozone as a whole. While the PMI for manufacturing in the Eurozone was well below the growth threshold of 50, it was much higher in Spain at 51.3 in March. The PMI for the Spanish services sector was the highest in the Eurozone at 59.4 in March. According to the survey results, the strongest driver is the high level of new business. The employment component still indicates a strong increase in hires. While we already have preliminary PMI data for April for the Eurozone as a whole, the Spanish figures have yet to be released. However, the official press release suggests that the renewed rise in the overall PMI in the Eurozone was driven by countries outside France and Germany. This should reflect a continued optimistic outlook for the Spanish economy.

Switzerland
Decreasing price pressure

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.7%
2024: 1.5%	2024: 1.5%

The available economic data continue to flounder. Strong growth impulses are lacking, even if the supply chain problems in industry have largely disappeared. There has also been a gap between the purchasing managers' indices for manufacturing and services in Switzerland since the beginning of the year. Service providers are less exposed to headwinds in the form of higher financing costs and declining demand on world markets than the construction industry or large parts of the export sector. Nevertheless, the previous impetus is also gradually being lost for service providers: a particular feature from 2020 to 2022 was the high level of domestic tourism, which ensured high numbers of overnight stays by local guests in Swiss hotels even beyond the period of the most stringent measures to contain the pandemic. Customers with high purchasing power who stayed at home also supported demand in the retail sector. This tailwind of recent years is now disappearing. Flight movements from Zurich Airport returned to pre-pandemic levels for the first time in April. The tourism balance is unlikely to be as favourable in 2023 as in previous years.

Inflation

Swiss Life Asset Managers	Consensus
2023: 2.3%	2023: 2.6%
2024: 1.5%	2024: 1.5%

At the manufacturer level, inflationary pressure is easing. While the producer and import price index rose by 6.9% in June 2022 compared with the previous year, annual inflation at this level was 2.1% in March 2023. Lower energy and transport costs and the strengthening of the Swiss franc against the US dollar have eased the situation. This trend will not be reflected in consumer prices for a while: rising rents in the final quarters of 2023 and 2024 will be included in the Swiss consumer price index.

UK
Persistent price pressure

GDP growth	
Swiss Life Asset Managers	Consensus
2023: -0.1%	2023: -0.2%
2024: 0.6%	2024: 0.8%

Monthly GDP growth of 0.0% for February compared to the previous month slightly disappointed consensus expectations but exceeded our prediction. Service output and industrial production recorded a slight decline compared to the previous month. The effects of the past strikes are now visible in the data. The public sector in particular collapsed and was severely affected by the teachers' strikes. However, the rest of the services sector again showed strong growth. All in all, private consumption remains more robust than expected in view of the still-persistent inflation. In addition, a reversal of the strike effect is likely to occur in March. Due to stronger growth in the first two months, we do no longer expect negative growth in the first quarter and have therefore slightly increased our GDP growth forecast for this year to –0.1%. We have postponed the negative growth quarters by a quarter (to the second and third quarters of 2023). The Purchasing Managers' Indices (PMI) also rose strongly again in April. However, we continue to expect the tighter monetary policy to have a delayed impact on economic activity and the positive drivers for private consumption to subside.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.9%	2023: 6.4%
2024: 2.7%	2024: 2.8%

Inflation was higher than expected in March and remains above 10%. Core inflation in particular is proving persistent. But food price inflation also continued to rise in March, reaching its highest level in 45 years. While inflation is expected to fall this year due to base effects in the energy sector, continued high wage growth due to tight labour markets is further damaging the picture.

China
Consumption-driven recovery

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 5.8%	2023: 5.5%
2024: 5.2%	2024: 5.1%

The publication of the official GDP figures for the first quarter confirmed the recovery of the Chinese economy that had already been reflected in the leading indicators. However, the Chinese economy grew faster than we had expected, at 4.5% year-on-year. The recovery was mainly driven by strong consumer spending. Particularly those sectors that had suffered from the severe lockdowns, such as retail sales of food, jewellery, clothing and restaurant spending, grew strongly again. Despite the recovery, retail sales growth remains below pre-pandemic levels. The real estate market is continuing to recover, which should support the economic recovery this year. On the other hand, the industrial sector is still lagging behind in the recovery. We have significantly increased our GDP growth forecast for this year to 5.8% due to the strong recovery in the first quarter. We expect consumer spending to remain an important driver in the second quarter. However, the government's 5% growth target for 2023 is moderate and signals that Beijing does not intend to launch a strong stimulus programme. In addition, weak global demand is a barrier to China's economic growth.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 2.2%	2023: 2.2%
2024: 2.4%	2024: 2.4%

China's inflation rate in March was surprisingly low at 0.7% year-on-year. The renewed decline in the inflation rate was driven by consumer goods, which showed a significantly slower price increase than in the previous month. However, core inflation rose slightly compared to the previous month. Nevertheless, China still has the lowest inflation rate among emerging markets.

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Forecast Accuracy Award Winner
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