Perspectives
Economics

September 2023

Key takeaways

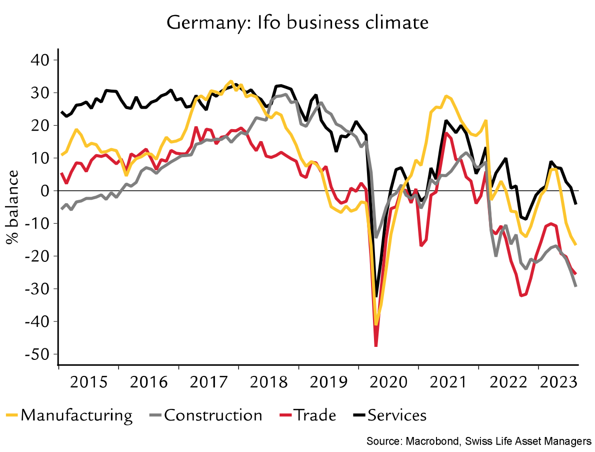
– US: Unexpectedly expansionary fiscal policy undermines monetary policy and supports US economic growth
– Eurozone: Economic momentum continues to weaken, but consumption could provide slight support
– China: The renewed weakness in the real estate sector is likely to further dampen economic growth

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	2.1% ↑	1.9% ↑	0.4% ↑	0.6% ↑	4.0%	4.1%	2.8% ↑	2.6%
Eurozone	0.5% ↑	0.6% ↑	0.6% ↓	0.8% ↓	5.6% ↑	5.5% ↑	2.5% ↑	2.5% ↑
Germany	-0.4% ↓	-0.3%	0.2% ↓	0.9% ↓	6.0%	6.0% ↑	2.3%	2.6%
France	0.7% ↑	0.7% ↑	0.8% ↓	0.9%	4.8%	5.1%	2.1%	2.5%
Italy	0.9% ↓	1.0% ↓	0.5% ↓	0.7% ↓	6.0% ↓	6.0% ↓	2.1%	2.3% ↓
Spain	2.1% ↑	2.1%	1.2%	1.4% ↓	3.7% ↑	3.5% ↓	2.4% ↑	2.8% ↓
UK	0.2% ↑	0.2% ↑	0.3% ↓	0.4%	7.3% ↓	7.3% ↓	2.9%	3.0% ↓
Switzerland	0.5% ↓	0.7% ↓	1.0% ↓	1.4%	2.1%	2.3%	1.6%	1.5%
Japan	1.8% ↑	1.4% ↑	0.6% ↓	1.0%	3.0% ↑	3.0% ↑	1.6% ↑	1.7%
China	5.0% ↓	5.3% ↓	4.7% ↓	4.7% ↓	0.5% ↓	0.8% ↓	1.2% ↓	2.0% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 7 August 2023

Chart of the month



Survey values from German companies have recently deteriorated further. While manufacturing, construction and retail have been slowing for some time, pessimism is now spreading in the services sector as well. According to the ifo survey, business sentiment in this sector was negative in August, with both the current situation and expectations deteriorating. The Purchasing Managers' Index for service providers for August reflects this downturn and is now well below the 50-point growth threshold. It looks increasingly likely that Germany will continue to post negative growth figures in the second half of the year.

USA
Fiscal policy is accelerating

GDP growth

Swiss Life Asset Managers	Consensus
2023: 2.1%	2023: 1.9%
2024: 0.4%	2024: 0.6%

Recent economic data out of the US came as a positive surprise. After GDP grew by an annualised 2.4% in the second quarter, the Atlanta Fed's "GDP Now" indicator even hints at an acceleration of GDP growth in the third quarter following excellent retail and industrial data in July. We think July activity data are exaggerated due to one-off factors and expect weaker growth in the coming quarters and a recession in 2024 (slightly later than previously forecast). However, the latest data once again shows that it is taking longer than anticipated for the braking effect of interest rate hikes to be felt. This was also noted by Fed Chairman Jerome Powell in his Jackson Hole speech, which we interpreted as a further indication that if the US economy reaccelerates unexpectedly, a "soft landing" would still not become the most likely scenario. Rather, more interest rate hikes would become necessary as a way to contain inflation risks. One growth factor that we have underestimated is fiscal policy. Weak tax revenues in 2023 and the simultaneous rise in government spending and interest costs have led to a drastic deterioration of the federal budget over the past twelve months. Fiscal policy is thus undermining the efforts of monetary policy to contain inflationary risks.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.0%	2023: 4.1%
2024: 2.8%	2024: 2.6%

In July, headline inflation rose again for the first time since the peak in June 2022, from 3.0% to 3.2%. This was mainly due to expiring energy base effects. Core inflation fell from 4.8% to 4.7% but is still well above the central bank target due to high services inflation. As the recession could set in somewhat later than previously expected, we expect the disinflation process to be prolonged somewhat, which explains our higher inflation forecast for 2024.

Eurozone
Consumers to the rescue?

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.6%
2024: 0.6%	2024: 0.8%

Eurozone quarterly GDP growth surprised positively in the second quarter at +0.3%, albeit strongly driven by volatile data from Ireland. Italy, Portugal, Austria, Latvia, Cyprus and the Netherlands recorded negative growth. The Netherlands – the fifth-largest economy in the eurozone – thus found itself in a technical recession in the first half of the year. The third quarter started with mostly negative data surprises for the Eurozone. The Purchasing Managers' Index for the services sector surprisingly fell below the growth threshold of 50 in August. The weakness of incoming new business is particularly worrying. The value for manufacturing remains clearly in contractionary territory, despite the recent slight recovery. For the second half of the year, we now expect growth rates for the eurozone to be close to or slightly below zero. A slight boost could come from private consumption, as lower inflation rates and still-rising wages are impacting positively on purchasing power. Accordingly, household surveys show a recovery in the expected financial situation next year, and fears of unemployment remain relatively low. However, expected savings are currently rising faster than planned spending on major purchases. An outright consumption boom is therefore not to be expected in the coming months.

Inflation

Swiss Life Asset Managers	Consensus
2023: 5.6%	2023: 5.5%
2024: 2.5%	2024: 2.5%

Eurozone headline inflation fell from 5.5% to 5.3% in July. Energy prices again contributed negatively, and the contributions from food and goods prices continued to decline. However, the expected easing of price pressure in services has not yet materialised, and their contribution has even reached new highs. As a result, core inflation also remained at 5.5%, putting it higher than headline inflation, which is unlikely to change before the end of 2023.

Germany
Ongoing downturn

GDP growth

Swiss Life Asset Managers	Consensus
2023: -0.4%	2023: -0.3%
2024: 0.2%	2024: 0.9%

Without the positive contribution of the residual item inventories, the German economy would have contracted again in the second quarter of 2023. After two negative quarters, only investments now made a positive contribution. Consumption and imports stagnated, and exports declined. For the second half of the year, we are changing our previously slightly positive growth forecasts and are now looking at two more quarters of a slight economic downturn due to the following factors. Firstly, sentiment in the services sector has recently deteriorated significantly more than expected (see chart of the month). Secondly, negative news from China's economy continued. Germany is particularly exposed here and at the same time suffers from increasing competition from Chinese electric cars. Thirdly, recent movements in gas prices due to the threat of strikes in Australia have shown how fragile the situation remains despite historically high gas stocks. The recovery of energy-intensive production may be delayed in this uncertain environment. Fourthly, household surveys show that while income expectations are improving due to lower inflation, consumption intentions remain low, and fears of unemployment are rising. Thus, private consumption could be less supportive in the coming quarters than previously assumed.

Inflation

Swiss Life Asset Managers	Consensus
2023: 6.0%	2023: 6.0%
2024: 2.3%	2024: 2.6%

After consumer price inflation remained above 6% in July, we now expect a decline to below 4% by the end of the year. Producer prices fell more than expected in July, which should now increasingly lead to declining inflationary pressure on goods prices. However, service prices are continuing to rise stubbornly, and the latest purchasing managers' survey has not yet given the all-clear, with price momentum actually picking up again recently.

France
Swimming against the current

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.7%
2024: 0.8%	2024: 0.9%

One of the prestigious projects of the organisers of the 2024 Summer Olympics in Paris is to improve the water quality of the Seine. Like the Olympians, France's economy must currently swim against a strong opposing current. According to initial reports, gross domestic product growth in the second quarter of 2023 probably surprised positively. However, this figure should be viewed with caution as it may be due to the delivery of a single large passenger vessel. More details will not be available until 31 August. A glance at a wide range of indicators, such as business surveys or consumer assessments of their economic situation, clearly points to slowing economic momentum. At the beginning of the school year, an increasing number of consumers report cuts in their household budget. On the business side, there have recently been increasing signs that service providers are also reporting a decline in demand. The stabilisation of business sentiment in industry and the number of job advertisements placed online offer a glimmer of brightness. We are sticking to our assessment that the French economy as a whole has enough muscle to avoid a recession. Major infrastructure projects, not just for the Olympic Games, and the fruits of previous labour market reforms are contributing to this.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.8%	2023: 5.1%
2024: 2.1%	2024: 2.5%

Our inflation forecast stands out significantly from the consensus expectation. We expect falling producer prices to be passed on to end consumers. In the retail sector, campaigns by leading suppliers are underway, also in the context of an agreement between business partners and under gentle pressure from the government. Our forecast is subject to a risk from energy prices, which have recently undergone a broad-based increase.

Italy
A job miracle (in construction)

The Italian economy has created many jobs thanks to the post-pandemic economic boom. Employment in the first quarter of 2023 was 297 000 higher than in the final quarter of 2019. However, the lion's share of employment growth (+244 000) was accounted for by the construction sector, which benefited from a wave of tax-privileged renovations. As an upstream sector, industry also grew (+99 000), while the service sector almost stagnated (+13 000) and agriculture lost employees (-59 000). The positive side of the construction boom is that it was nationwide, and employment grew even more strongly in percentage terms in the south and centre of the country than in the north. Another positive aspect is that, despite the probably temporary nature of the construction boom, many employees received a permanent contract and both men and women benefited. What is interesting, however, is that since the end of 2019, employment amongst 55–64-year-olds in particular has risen significantly, as has that of 15–24-year-olds – albeit only amongst men. In the other age groups, employment stagnated for the most part.

Spain
Positive real wage growth

The inflation rate in Spain surprisingly rose again in July and stood at 2.1% year-on-year. This was mainly due to higher petrol and food prices as well as higher package tour prices. Despite the rise in inflation, the real wage trend in Spain is back in positive territory, after Spain recorded one of the largest real wage losses in the eurozone in 2022. On the one hand, the sharp fall in inflation is helping; on the other hand, the minimum wage has been raised by 8% this year. Consumer spending, which is an important growth driver, is also likely to benefit from the gain in purchasing power. We therefore expect GDP growth in Spain of 2.1% this year, well above the average for the eurozone as a whole. Only political uncertainty clouds the picture somewhat. Due to the narrow election results, the formation of a government is difficult. Opposition leader Alberto Feijóo has been tasked with forming the government, but at the moment he does not have enough support from the other parties.

Switzerland
Flirting with recession

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.7%
2024: 1.0%	2024: 1.4%

The first estimate of GDP growth during the second quarter will not be published until after this analysis has been completed. Data available so far suggest a significant slowdown in economic momentum. Exports in particular suffered from falling demand. The weak state of the two important export markets Germany and China is already clearly reflected in the export statistics of the Federal Office for Customs and Border Security (FOCBS). On a year-on-year basis, exports to China are even declining. Hopes of a tailwind from China following the abandonment of the Chinese zero-Covid policy at the end of last year are thus being dashed. In the services sector, too, initial figures and anecdotal reports point to a rather disappointing development of the tourist season. All in all, this led to a further decline in purchasing managers' indices at the beginning of the current quarter, both for manufacturing and for service providers as well as for domestically oriented SMEs. We are reflecting this trend by lowering our growth assumptions for the coming quarters.

Inflation

Swiss Life Asset Managers	Consensus
2023: 2.1%	2023: 2.3%
2024: 1.6%	2024: 1.5%

The fall in inflation rates back to the Swiss National Bank's target range will come to an end in the second half of the year. Recent rises in energy prices even slightly increase the forecast risk in the short term. However, in the case of goods prices, falling import and producer costs are expected to be passed on to end consumers. For 2024, special factors will come into play, all of which will prevent a further decline in inflation rates for the time being: these include the rise in rents and the VAT rate, higher costs for public transport and postal services, and in many places renewed increases in electricity tariffs.

UK
Slight cooling expected

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.2%	2023: 0.2%
2024: 0.3%	2024: 0.4%

Economic activity in June was again higher than expected. The stronger growth was mainly driven by industrial production. Also, a technical recovery from May, when an extra holiday distorted the result slightly to the downside, helped GDP growth in June. With stronger-than-expected growth in June, GDP growth for the second quarter of 2023, up 0.2% on the previous quarter, also exceeded our and the market's expectations. We have therefore slightly increased our full-year forecast for 2023. Private consumption continued to make a positive contribution to growth in the second quarter. It looks as if the higher financing costs due to the rise in interest rates have not yet had a major impact on consumer behaviour. Persistently high wage growth in June is also likely to have helped. With falling inflation, real wage growth is now also in positive territory. However, we do not expect this momentum to continue in the second half of the year. The purchasing managers' indices for both industrial production and the services sector are below the 50-point growth threshold. The forward-looking components in particular showed a clear deterioration in August. The labour market is also showing initial signs of weakness. For example, the unemployment rate rose in June, and the number of vacancies is declining.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 7.3%	2023: 7.3%
2024: 2.9%	2024: 3.0%

Headline inflation again fell significantly in July, decreasing to 6.8% year-on-year. The decline was mainly driven by lower household energy bills after the energy price cap was lowered by the regulator. However, core inflation remained unchanged at 6.9%. Services inflation remains stubbornly elevated, making it more difficult for the Bank of England, where we expect a further rate hike.

China
No brightening in sight

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 5.0%	2023: 5.3%
2024: 4.7%	2024: 4.7%

The economic situation in China has not improved over the past month either. Industrial production for July was again significantly below expectations, and the impact of weak exports and the weak real estate sector is becoming more apparent. Retail sales also saw only weak growth in July. In particular, areas directly related to the real estate sector, such as furniture, domestic appliances or decorative items, were ailing. The only positive surprise was the robust growth of the hospitality sector. Furthermore, the latest real estate data do not reflect a recovery either. Activity in the real estate sector continued to contract in July and early August, and property prices continued to fall across all regions. Weak data prompted the Chinese central bank to cut reference interest rates again. But that alone is not enough to stabilise the Chinese economy. The broader real estate and construction sector accounts for around 30% of China's GDP. The slowdown is therefore likely to have a substantial impact on the economy as a whole. Employment and wage growth are expected to slow, implying lower disposable income for consumption. Stabilising measures in the real estate sector are therefore essential to stem the slowdown of the economy as a whole.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.8%
2024: 1.2%	2024: 2.0%

However, we believe that significant government intervention is unlikely at the moment. We have therefore revised down our growth forecast for this year again. The inflation figures also illustrate the current weakness in growth. At -0.3%, the July consumer price inflation rate was in deflationary territory, while producer price inflation was less negative than in June.

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