Perspectives
Economics

Annual outlook 2024

Key takeaways

- Eurozone 2024: Slight recovery due to the interest rate turnaround and the recovery of purchasing power
- USA 2024: The cooling labour market and dwindling excess savings are weighing on consumption
- China 2024: No growth impetus for the global economy due to weakness in the real estate sector

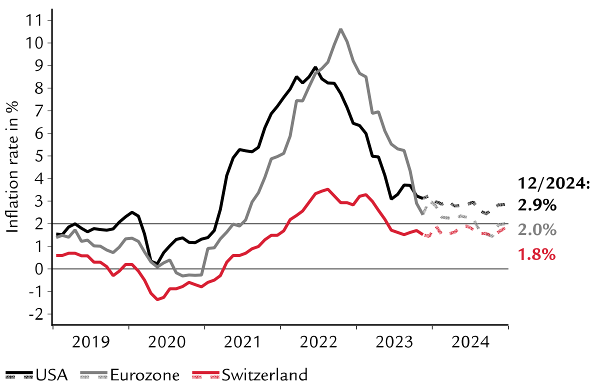
Comparison of forecasts

	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	2.4%	2.4%	1.0% ↑	1.2% ↑	4.1% ↓	4.1% ↓	2.8%	2.6% ↓
Eurozone	0.5%	0.5%	0.3% ↓	0.5% ↓	5.5% ↓	5.5%	2.1% ↓	2.4% ↓
Germany	-0.2%	-0.3% ↑	0.0% ↓	0.4% ↓	6.0% ↓	6.0%	2.1% ↓	2.6% ↓
France	0.8% ↓	0.9%	0.7% ↓	0.7% ↓	4.9%	4.9% ↓	2.1% ↓	2.4% ↓
Italy	0.7%	0.7%	0.4% ↓	0.5%	5.7% ↓	5.9%	1.7% ↓	2.2% ↓
Spain	2.3%	2.4% ↑	0.9% ↓	1.3%	3.5% ↓	3.6% ↓	2.1%	3.0% ↓
UK	0.6% ↑	0.5% ↑	0.4% ↑	0.3% ↑	7.4% ↓	7.4%	3.0%	3.1%
Switzerland	0.7%	0.8%	1.0%	1.1% ↓	2.1%	2.2%	1.7% ↓	1.6%
Japan	1.7% ↓	1.7% ↓	0.7% ↑	0.9% ↓	3.2% ↑	3.2%	1.9% ↑	2.3% ↑
China	5.4%	5.2%	4.7%	4.6% ↑	0.2% ↓	0.4% ↓	1.0% ↓	1.4% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 4 December 2023

Chart of the year

Headline inflation incl. Swiss Life Asset Managers baseline scenario



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 12/2024

Disruptions in supply chains and high energy prices have shaped the inflation trend over the past two years, but finally came to an end in 2023. The double-digit inflation rates seen in Europe at times are likely to go down in history as an anomaly. The inflation trend is now primarily demand-driven again, and the central banks' focus is thus on wage growth and service price inflation, both of which are cyclical. The weak economy should therefore ensure that inflation is around 2% in the eurozone and Switzerland at the end of 2024 – within the central banks' "comfort zone". We see inflation risks in the US as somewhat higher.

Global economy
Five theses for 2024

1. A cyclical low will be reached
For once, Europe is ahead of the US in the economic cycle: the energy crisis caused weak growth in Europe in 2023, which will stabilise at a low level in 2024. The slowdown in the US is ongoing and is expected to continue in the first half of 2024. Thanks to the expected monetary policy response, however, we expect the developed markets to reach a cyclical low in the second half of the year.

2. Inflation: central bank targets are within reach
In the developed world, falling inflation (see chart for the year) and weak economic activity will allow for the first interest rate cuts to be made. However, the fear of rapidly recurring wage pressure due to structural labour shortages will limit the central banks' room for manoeuvre.

3. The fiscal and monetary policy tide will turn
Due to the key interest rate cuts, monetary policy in the developed world will change from a headwind to a tailwind in the course of 2024. The opposite will happen for fiscal policy, with fiscal policy turning less expansionary in most developed countries.

4. (Geo)politics: a "new global disorder"
Geopolitical risks will remain elevated in 2024 and will force companies to continuously review their supply chains. We do not expect the current conflicts, such as the war between Israel and Hamas, to escalate further. Any significant deterioration in the current situation or new geopolitical hotspots will therefore pose a downside risk to our forecasts. The elections in Taiwan, the EU (European Parliament) and the US are most likely to cause financial market volatility, but are not expected to have much impact on economic activity in 2024.

5. China fails as a global growth engine
China's growth will again be shaped by the downward correction in the real estate sector in 2024, which in turn will mean that consumer confidence remains low. We therefore do not expect any significant positive impetus for the global economy. While the old growth drivers are waning, there are other sectors that are accelerating, such as those related to the energy transition.

Switzerland
Surprisingly low inflation

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.8%
2024: 1.0%	2024: 1.1%

The figures now available on GDP growth in the third quarter of 2023 may lead to incorrect conclusions. Real gross domestic product increased by 0.3% compared to the previous quarter, which is a sizeable amount by European standards. However, data revisions for the previous quarter show that this growth followed a quarter of declining economic output. Moreover, the contribution from household consumption was the weakest since the second quarter of 2021. Switzerland's permanent resident population grew by around 108,000 people, or more than 1%, over the past 12 months. In spring 2024, there will be nine million people living in the country. The expected GDP growth of 1.0% in 2024 will thus be driven purely by volume. On a per capita basis, Switzerland's gross domestic product is currently stagnating.

Inflation

Swiss Life Asset Managers	Consensus
2023: 2.1%	2023: 2.2%
2024: 1.7%	2024: 1.6%

Rarely has the publication of the Swiss Consumer Price Index been as eagerly awaited as recently for the month of November. The result of 1.4% annual inflation surprised strongly on the downside. The forecast was extremely uncertain, as higher rents for existing contracts were included in the statistics for the first time. The moderate increase of just 1.1% compared to the last rental price survey three months earlier suggests that the rise of this important component in the basket will only become statistically apparent after a delay. Moreover, rents are set to be increased at least once more in the coming months. In addition, higher electricity prices and tariff increases for public transport services and the post office are creating upward pressure on prices. We therefore expect the inflation rate to rise again to an interim peak of 1.9% by mid-2024.

USA
Running out of steam?

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 2.4%	2023: 2.4%
2024: 1.0%	2024: 1.2%

A year ago, there was consensus in the markets that the US would slide into recession in 2023. Instead, US growth proved robust. However, private consumption – almost the only growth pillar recently – is being kept alive by dwindling excess savings from the pandemic, whereas surveys indicate that it is becoming increasingly difficult to take out consumer credit. A turnaround is also emerging on the labour market, where there has recently been a rise in underutilisation of the workforce (more unemployment, discouraged jobseekers and involuntarily part-time workers). Fiscal policy is likely to have a slight dampening effect in 2024 compared to the previous year. The Republicans continue to push for significant spending cuts in the current fiscal year, and if no agreement is reached the moderate spending cuts agreed as part of the bipartisan deal to suspend the debt ceiling in mid-2023 will automatically be applied. We therefore expect the US economy to cool in the first half of the year, although the extent of the slowdown is likely to be less than previously anticipated following the Federal Reserve's rhetorical U-turn in December. Interest-rate-sensitive sectors, such as the housing market, which stagnated in 2023, are likely to regain some momentum due to the significant fall in long-term interest rates.

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

The decline in inflation will continue in 2024 to a more modest extent than in 2023. In the consumer goods sector, falling used car prices in particular are contributing to disinflation. With regard to service prices, the projected normalisation of inflation will only succeed if the economy cools as expected, which will ease the labour shortage and associated wage pressure. The persistently high level of housing cost inflation represents the biggest inflation risk for 2024.

Eurozone
Lack of growth drivers

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

After the first quarter of 2024 the eurozone will likely be looking back on one and a half years of stagnation, and we see hardly any growth drivers for 2024. If the US economy slows down as expected, and China still fails to provide any growth impetus to the global economy, external demand for the eurozone will be weak. In addition, the fiscal impulse will be more negative than 2023 for most countries according to International Monetary Fund (IMF) estimates as well as national budget plans (the IMF is only anticipating a positive fiscal impulse for the Netherlands, Malta, Luxembourg and Lithuania in 2024). Nevertheless, we see slightly positive economic growth for the eurozone in the second half of 2024. On the one hand, the ECB is likely to ease its monetary policy over the course of the year, probably ahead of the US Federal Reserve. On the other, private consumption could recover somewhat. The drivers here are a return to positive real wage growth thanks to lower inflation, the relatively robust labour market (we are expecting only a slight increase in the unemployment rate) and the high level of savings. While US consumers financed their consumption through lower savings rates and pandemic excess savings, eurozone consumers have so far remained cautious and stuck to their savings.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 5.5%	2023: 5.5%
2024: 2.1%	2024: 2.4%

Inflation dropped surprisingly in the eurozone to 2.4% in November. The decline in core inflation was also stronger than expected. Base and weighting effects, as well as the first political energy price measures expiring, are likely to cause another temporary increase. We then anticipate a further decline in the course of 2024 with average inflation of 1.9% in the second half of the year despite persistent structurally elevated services inflation.

Germany
Still bringing up the rear

GDP growth

Swiss Life Asset Managers	Consensus
2023: -0.2%	2023: -0.3%
2024: 0.0%	2024: 0.4%

The already long list of challenges facing the German economy has been extended by another one: after the Constitutional Court declared the reallocation of the unused EUR 60 billion for tackling the pandemic to the Climate and Transformation Fund to be unconstitutional, the fiscal impulse in Germany is likely to be even more negative than expected in 2024. Although the exact extent is still uncertain, this recently prompted us to revise our 2024 growth forecast downwards to 0%. The German economy will thus remain the weakest of the big four countries in the eurozone in 2024. Over the course of the year, however, we continue to see a slight reacceleration, driven in particular by private consumption. Germany has the greatest catch-up potential here, followed by Austria and Finland – after the third quarter of 2023, private consumption in these three eurozone countries was still 2.3%, 0.6% and 0.1% below pre-pandemic levels respectively. However, consumers' intentions to increase spending over the next 12 months have recently declined again and, relative to historical averages, are only lower than Germany in Finland, Austria and Luxembourg. Overall, we see risks to the downside, despite the already low growth forecast.

Inflation

Swiss Life Asset Managers	Consensus
2023: 6.0%	2023: 6.0%
2024: 2.1%	2024: 2.6%

At 3.2%, inflation came in significantly lower than expected in November and led to a downward revision of our forecasts. Several one-off effects will cause volatile inflation dynamics at the turn of the year. From March 2024, inflation is expected to fluctuate around the ECB's target of 2%, reaching a low of 1.7% and a year-end level of 2.2%. Downward risks to growth pose a downside risk to services inflation in particular. The greatest upside risk stems from higher-than-expected wage pressure.

France
Fiscal impulse is fading

GDP growth

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

According to International Monetary Fund calculations, France, in contrast to the eurozone as a whole, benefited from a positive fiscal impulse in 2023. This means that the primary budget deficit widened compared to the previous year. As outlined in our five theses for 2024, the fiscal impulse will no longer support growth in France either, but will instead exert a slowing effect. In a slight contrast to the eurozone as a whole, we assume that the cyclical low in France has already been reached. Hosting the Summer Olympics will require infrastructure investments up to the last minute, and should generate additional consumer demand in the summer months. In addition, falling inflation will also lead to real wage growth in France for the first time since spring 2021. The slight easing of this purchasing power crisis should revive domestic demand in the second half of 2024. We are expecting the same from the declining financing costs. Despite the cyclical improvement, growth will remain below the potential of the French economy for the foreseeable future. This will lead to a slight increase in the unemployment rate and also reduce inflationary pressure.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.9%	2023: 4.9%
2024: 2.1%	2024: 2.4%

Inflation fell to 3.4% in November, its lowest level since January 2022. We are expecting a temporary rise to 3.8% in December due to base effects from the previous year. Despite higher taxes on tobacco products and further increases in electricity prices for private households, as well as rising accommodation prices during the Summer Olympic Games in Paris, the trend towards lower inflation rates will continue in 2024. Annual inflation is likely to be just 1.5% on average in the final quarter of 2024.

UK
Stepping on the brake

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.6%	2023: 0.5%
2024: 0.4%	2024: 0.3%

The UK economy held up better than expected in 2023. One possible reason is the significant increase in net immigration from outside the EU since 2021, which, while peaking at the end of 2022, still implied an increase in the UK's resident population of around 1% by mid-2023. This immigration was mainly driven by the healthcare and care sector and helped alleviate labour shortages in those sectors. Population growth led to some purely volume-driven growth, mainly through consumption, while per capita economic growth disappointed. Immigration is likely to lose momentum as a growth driver in 2024. Particularly alarmed by the high level of immigration by dependents, Home Secretary Cleverly held out the prospect of a significant reduction in immigration in 2024. At the same time, the government plans to cut spending and has started to scale back large infrastructure projects such as HS2, while monetary policy is still holding back economic activity for the time being. The latter could change in the second half of 2024 if the inflation outlook improves and allows for initial policy rate cuts. The fall in inflation has also caused real wages to rise slightly again since mid-2023, which is counteracting the above-mentioned drag factors to some extent.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 7.4%	2023: 7.4%
2024: 3.0%	2024: 3.1%

Despite the decline in inflation in 2023, the situation in the UK remains more fragile than elsewhere. The country is starting 2024 with a significantly higher core inflation rate than the US or the eurozone, and according to our forecasts, will not fully meet the central bank's 2% target for headline or core inflation during the course of the year. Therefore, the extent of the interest rate cuts expected by us and the financial markets in 2024 is less than in other economic areas.

China
No global growth impetus

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 5.4%	2023: 5.2%
2024: 4.7%	2024: 4.6%

China's economic outlook for 2024 will be shaped by the prospects of the real estate sector. The government's aim is to reduce the oversupply that has built up in the sector in recent years, and to bring supply into line with actual demand. We therefore expect the slowdown to continue in 2024 and beyond. As the real estate sector accounts for about a quarter of the Chinese economy, this slowdown will impact the economic conditions and weigh on consumer confidence. The government will introduce further support measures, which are not intended to stimulate investment but only to slow the downward trend. However, while the old growth drivers are fading, there are other areas that are expanding rapidly. Exports of what are known as the "new three," i.e. solar cells, lithium-ion batteries and electric vehicles, are skyrocketing. As a result, China has been able to maintain its share of global exports despite diversification efforts by other countries under the "China plus one" strategy. At the same time, however, increased trade competition could open another chapter in the trade war.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 0.2%	2023: 0.4%
2024: 1.0%	2024: 1.4%

Unlike other major economies, China struggled with falling prices rather than rising ones in 2023. The weakness in the real estate market meant that the goods prices associated with the sector remained low, while food prices also fell in 2023. While we expect a slight recovery for 2024, inflation will remain at a moderate level and provide room for manoeuvre as regards monetary policy.

Economic Research

Marc Brütsch
Chief Economist
marc.bruetsch@swisslife-am.com
@MarcBruetsch

Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
@kunzi_damian

Josipa Markovic
Economist Emerging Markets
josipa.markovic@swisslife-am.com

Rita Fleer
Economist Quantitative Analysis
rita.fleer@swisslife-am.com

Florence Hartmann
Economist Developed Markets
florence.hartmann@swisslife-am.com

Consensus Economics
Forecast Accuracy Award Winner
Switzerland 2022

If you have any questions or if you would like to subscribe to this publication,
please send an email to: info@swisslife-am.com.
For more information visit our website at: www.swisslife-am.com/research