Perspectives
Economics

April 2024

Key takeaways

- USA: Slowdown in retail, improvement on the real estate market, mixed signals on the labour market
- Europe: Momentum remains weak, but initial glimpses of hope and a surprising interest rate cut
- China: Growth target of 5% unrealistic, and announced fiscal measures remain vague

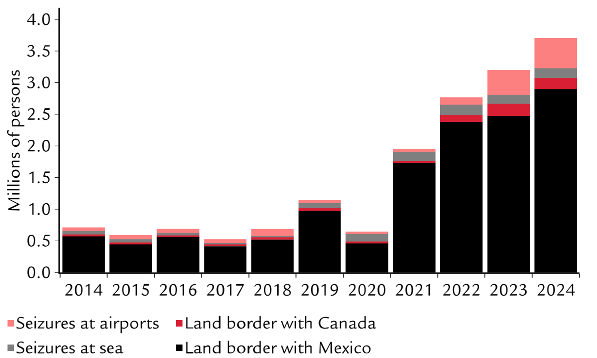
Comparison of forecasts

	2024 GDP growth		2025 GDP growth		2024 inflation		2025 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	2.1%	2.2% ↑	1.7%	1.6% ↓	3.1% ↑	2.8% ↑	2.4%	2.2%
Eurozone	0.3%	0.5%	1.0%	1.3%	2.5% ↑	2.3%	2.0%	2.0%
Germany	-0.2%	0.1% ↓	1.0%	1.1%	2.2%	2.5%	1.9%	2.1%
France	0.7% ↑	0.7%	1.0%	1.3%	2.3% ↑	2.5% ↑	1.7% ↓	1.9%
Italy	0.6% ↑	0.6% ↑	0.8%	1.0%	1.7%	1.8% ↓	1.9%	1.9%
Spain	1.3%	1.6% ↑	1.6%	1.8%	2.9% ↑	3.0% ↑	2.1%	2.2% ↑
UK	0.1%	0.2% ↓	1.0%	1.1%	3.0%	2.5% ↓	2.4%	2.2% ↑
Switzerland	1.2% ↑	1.1%	0.9%	1.6%	1.2%	1.4% ↓	0.9%	1.1% ↓
Japan	0.4% ↑	0.6% ↓	0.7%	1.1% ↑	2.0% ↑	2.3%	1.5% ↑	1.6%
China	4.5%	4.7% ↑	4.4%	4.4% ↑	0.8% ↑	0.8% ↓	1.9%	1.6%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 11 March 2024

Chart of the month

US Customs and Border Protection: encounters of inadmissible noncitizens by fiscal year, 2024 numbers extrapolated



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

In the USA, immigration pressure has increased significantly during the Biden presidency, particularly from Latin America. Border guards apprehended six times more people without a residence permit in 2023 than in 2020. Many illegal border crossings are successful, however, and the independent Congressional Budget Office (CBO) estimates that illegal immigration amounted to 2.4 million people in 2023 alone, many times the pre-pandemic level. This immigration surge is likely to have contributed to the unexpectedly robust economic growth in 2023. Immigration will also be a key campaign issue, and could cost the Democrats votes.

USA
Quo vadis, labour market?

GDP growth

Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.2%
2025: 1.7%	2025: 1.6%

As expected, US private consumption lost momentum in the first quarter, with weak retail sales figures in January and February and a decline in the Purchasing Managers' Index for service providers in March. In our view, however, this is a normalisation of consumption growth from the previously unsustainable levels. Meanwhile, the easing of financial conditions is having a positive impact on the real estate sector. Sentiment has improved significantly in the sector according to the NAHB survey, and the transaction market for single-family homes has picked up again since the start of the year. Clear so far. In terms of labour market figures, however, the signals are contradictory. Job growth, which is based on the establishment survey, was well above expectations in January and February, and unemployment benefit claims are not sending any warning signals either. However, the household survey shows a sharp fall in employment and a higher unemployment rate over the same period. We usually pay more attention to the establishment survey, as the sample is larger, but this fact does not really explain the current record divergence. One possible explanation is the high level of illegal immigration (see chart of the month), which is reflected in job growth but is insufficiently covered in the household survey according to some labour market experts.

Inflation

Swiss Life Asset Managers	Consensus
2024: 3.1%	2024: 2.8%
2025: 2.4%	2025: 2.2%

Following the inflation shock in January, the data for February did not sound the all-clear: US headline inflation rose from 3.1% to 3.2%, driven by higher energy prices, while core inflation (excluding energy and food) fell less sharply than expected, from 3.9% to 3.8%. Higher rental cost growth once again made itself felt, which is at variance with easing price pressure in advertised new and asking rents.

Eurozone
Fear of November

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.3%	2024: 0.5%
2025: 1.0%	2025: 1.3%

The eurozone is struggling not only with a cyclical weakness in growth, which continued in the first quarter of 2024, but also with structural problems, particularly the ongoing loss of international competitiveness. At the same time, developments in the Ukraine war are worrying and show a clear need for more defence spending at EU level. A second Trump presidency would further exacerbate both trade and defence issues, even if Trump's threats of a 10% tariff on all goods imports and withdrawal from NATO are unlikely to be fully carried out. The eurozone would suffer much more than the US from a broad-based trade war: exports to the US account for around 3.4% of eurozone GDP, while exports from the US to the eurozone come to around 1.4% of US GDP. It is questionable whether the formulation of a non-binding intent to buy more US products would appease Trump this time. Moreover, such a "promise" would contradict the aim of the new EU defence strategy of securing 60% of procurement within the EU by 2035 – the EU currently procures 63% of its defence equipment from the US. Financing remains another weakness of the new strategy, especially at a time when fiscal consolidation is once again called for on a national level.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.5%	2024: 2.3%
2025: 2.0%	2025: 2.0%

A second Trump presidency would have a negative impact on growth in Europe, whereas the effect on inflation is unclear. More trade barriers and higher government spending on defence would increase inflation, at least temporarily, while generally weaker demand would have a dampening effect. However, we expect inflation to decline further in the run-up to the November elections, after a slight upside surprise was seen in February at 2.6%.

Germany
Weak activity in January

GDP growth	
Swiss Life Asset Managers	Consensus
2024: -0.2%	2024: 0.1%
2025: 1.0%	2025: 1.1%

In 2022, exports to the US accounted for 4% of Germany's GDP. Its share within Europe was only higher in Ireland (11.8%), Switzerland (8.0%) and Belgium (6.4%). Germany is thus much more exposed to the risk of a more protectionist US government than the three other major eurozone economies (Italy: 3.3%, France: 1.8%, Spain: 1.4%). In addition, car imports are a particular thorn in Trump's side, and a focus on new trade barriers in this sector would be painful for Germany. Even without Trump, Germany's economy is lagging behind other economies. Industrial production in January did not fully compensate for the slump in December, and remains 10.7% below the pre-pandemic level (eurozone: -2.5%). Retail sales fell further and are again 1.2% below the level of January 2020 (eurozone: +1.4%). The Purchasing Managers' Index for manufacturing also remains particularly weak in Germany. While most of the further decline in March was driven by a normalisation of delivery times, the employment index also continued to fall, whereas the production and new orders indices improved only slightly. One glimmer of hope was the significant improvement in sentiment across all main sectors according to the ifo survey, albeit mostly from low levels.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.2%	2024: 2.5%
2025: 1.9%	2025: 2.1%

Headline inflation fell from 2.9% to 2.5% in February. However, core inflation remained at 3.4%, with persistently high inflation in services and surprisingly high core goods inflation. Annual growth in negotiated wages also remained constant in January at 2.4%, after having steadily declined from 3.5% since July 2023. We do not expect core inflation to fall below 2% until next year.

France
A sporting challenge

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.7%	2024: 0.7%
2025: 1.0%	2025: 1.3%

The most recent corporate surveys offered something for everyone. Anyone who still considers the glass half-empty can point to the decline in the Purchasing Managers' Indices (PMI) for manufacturing and the services sector in March. With the exception of January 2023, the PMI for manufacturing has now been below the 50-point growth threshold for 19 months. The PMI for service providers has now also fallen below the above-mentioned threshold ten times in a row. Those who are more optimistic about the rest of the year can take pleasure in the results of the business surveys conducted by the statistical office INSEE, which showed a clear rise in March. According to this source, manufacturing companies' order books have been filling up since the beginning of the year. The corresponding indicator is currently at its highest level since December 2022, which could be an indication that the end of the purchasing power crisis is indeed imminent. The combination of real wages rising for the first time since 2021 and the expectation of lower finance charges gives us confidence that consumer and investment demand will recover in the course of the year. The quantitative forecast for GDP growth in 2024 is made more difficult by the fact that the net effects of hosting the Summer Olympics on gross domestic product cannot currently be estimated.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.5%
2025: 1.7%	2025: 1.9%

The inflation forecast is also being challenged by the summer Olympics. Service providers are likely to utilise their price-setting power on sports-loving tourists during the summer months. However, the general inflation trend is downward, especially for clothing, communications and household appliances. We are expecting the inflation rate to fall below 2% by the final quarter of 2024.

Italy
Risk spread decreases

The economic figures from Italy remain favourable. The March Purchasing Managers' Index (PMI) was not available at the time of writing, but developments up to and including February suggest accelerating momentum in the services sector while the manufacturing sector, like in the rest of Europe, is slowing. Our simple model, which regresses the PMI to economic growth, projects growth of 0.2% in the first quarter of 2024 compared to the previous quarter. Italy could thus maintain its momentum from the second half of 2023 and once again perform better than Germany. Italy also performed better in terms of government bonds. Yields on 10-year German government bonds have increased by 0.3 percentage points since the start of 2024, while those on Italian bonds with the same duration even fell marginally. "Lo spread," i.e. the risk spread on Italian government bonds over German government bonds, fell to its lowest level in two years – a "pledge of confidence" by the financial markets that could also have a positive impact on Italian growth in 2024 due to looser financial conditions.

Spain
Resilient labour market

Spain's Purchasing Managers' Index for manufacturing climbed above the 50-mark in February for the first time since March 2023, with improvements in the manufacturing, new orders and employment indices. The employment index rose to its highest level since May 2023. The labour market is generally resilient. The unemployment rate fell further to 11.6% in January, compared to 13.0% a year earlier. The decline was sharpest for female workers in the 15–24 age group, which came to 27.7%, while men in the same age group recorded an increase to 29.4%. The unemployment rate of 8.5% for men aged 25 and over is significantly lower than for women in the same age group, at 12.1%. In February, the number of employed people showed the strongest increase since April 2023, and fears of unemployment continued to decline according to the consumer survey. People aged between 30 and 49 are currently most worried. Year-on-year wages grew 2.6% in February. However, real wages fell slightly again with inflation at 2.8%.

Switzerland
Policy rate down, inflation too?

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.1%
2025: 0.9%	2025: 1.6%

The index of weekly economic activity published by the State Secretariat for Economic Affairs (SECO) and other high-frequency regional indicators stagnated throughout the first quarter. This confirms our finding of creeping economic development in recent weeks. Against this backdrop, the Swiss National Bank (SNB) came into play on 21 March with an interest rate cut that few analysts expected. The SNB justified the interest rate move in very clear terms by its standards, not only with the stabilisation of inflation achieved, but also by saying that the rate cut supports economic development. We also expect economic momentum to accelerate in the course of the year. For this to happen, the Purchasing Managers' Indices for all sectors need to rise above 50 points in the second quarter. We would also expect an increase in consumer confidence, which is now being surveyed monthly by the SECO. Rising real wages in Europe for the first time since 2021 and supportive monetary policy herald such a development.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.4%
2025: 0.9%	2025: 1.1%

As expected, the SNB's interest rate cut led to the depreciation of the Swiss franc, thus increasing the likelihood of higher import prices in the short term. However, the interest rate cut is also having a counterintuitive dampening effect on the further development of the Swiss Consumer Price Index (CPI) due to a peculiarity in Switzerland: It is now less likely that the mortgage reference interest rate used to determine existing rents will be increased further. If this does indeed not happen, the increase in rents in the CPI next year will be lower than previously expected.

UK
Tax cuts announced

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.1%	2024: 0.2%
2025: 1.0%	2025: 1.1%

In March, the focus in the UK shifted from economic data to fiscal and monetary policy. Chancellor Jeremy Hunt presented his "spring budget," in which the main measure is to reduce National Insurance contributions by two percentage points. The fuel duty freeze is also being extended. These measures will cost around 0.5% of UK GDP. In return, the tax rules are to be tightened for (mostly wealthy) foreigners claiming their main residence outside the UK ("non-domiciled residents"). The further "counter-financing" measures, such as higher productivity assumptions, are questionable, which is why the budget could deliver a marginally positive fiscal impulse overall. First and foremost, however, the budget is also following electoral tactics. The general election will take place no later than 28 January 2025, and the Tories are lagging behind in the polls. The budget creates a "fait accompli" with measures that are popular with some Labour voters. However, monetary policy is even more important for the economic outlook. Statements by the Governor of the Bank of England (BoE), as well as the vote distribution in the March rate decision, have brought market expectations of interest rate cuts forward, with 20 June being seen as a possible date for a first rate move.

Inflation

Swiss Life Asset Managers	Consensus
2024: 3.0%	2024: 2.5%
2025: 2.4%	2025: 2.2%

February's inflation figures also boosted hopes that the BoE would cut rates earlier than previously expected. Both headline and core inflation fell more sharply than expected by the market, the former from 4.0% to 3.4% and the latter from 5.1% to 4.5%. Recent labour market data has also been weak, leading to a further slowdown in wage growth.

China
Growth target will be missed

GDP growth

Swiss Life Asset Managers	Consensus
2024: 4.5%	2024: 4.7%
2025: 4.4%	2025: 4.4%

China has announced a growth target of "around 5%" for 2024, which remains unchanged from the previous year. We consider this to be a very ambitious target, as substantial stimulus measures would be required to achieve such a growth target. However, the 2024 budget deficit target, including the issuance of "special government bonds", was only slightly increased to 4.1% of GDP (compared to 3.5% in the previous year). Support measures for the real estate sector – currently the biggest drag on China's economy – also remained vague. While the government stressed that it wants to support the real estate sector with public projects for affordable housing and urban redevelopment, which could lead to an increase in real estate investment, the announcement remained vague with no concrete figures. We therefore expect the government to take a cautious approach to these real estate investments. Given the moderate fiscal announcements and the unclear measures for the real estate sector, we are not revising our current growth forecast of 4.5%. This would mean that the announced growth target will be missed – a rare event, but one that has occurred in the past.

Inflation

Swiss Life Asset Managers	Consensus
2024: 0.8%	2024: 0.8%
2025: 1.9%	2025: 1.6%

China's headline inflation rate rose to 0.7% in February, exceeding our expectations. This increase was attributable to New Year factors that led to higher prices for food and travel activities. We are expecting moderate inflation rates for the remainder of 2024 due to overcapacity and subdued demand.

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