Perspectives
Economics

July 2024

Key takeaways

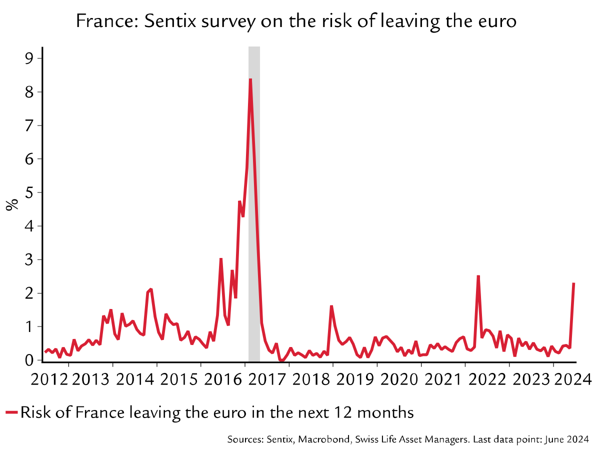
- USA: weak consumption, falling inflation and contradictory labour market figures
- Europe: greater focus on consolidation of national budgets
- China: trade barriers and localisation of manufacturing suggest a higher inflation environment

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	2.3% ↓	2.3% ↓	1.7%	1.7%	3.2% ↓	3.2%	2.4%	2.4% ↑
Eurozone	0.6%	0.7% ↑	1.0%	1.4%	2.3%	2.4% ↑	1.9% ↓	2.0% ↑
Germany	0.1%	0.2%	1.0%	1.2% ↑	2.3%	2.4%	1.9%	2.0%
France	1.0% ↑	0.9% ↑	1.0%	1.2%	2.1% ↓	2.5%	1.4% ↓	1.9% ↑
Italy	0.9% ↑	0.8%	0.8%	1.0%	1.1%	1.4% ↓	1.9%	1.8%
Spain	2.0%	2.1% ↑	1.5%	1.9% ↑	3.1% ↑	3.1%	2.1%	2.1% ↓
UK	0.8%	0.6% ↑	1.0%	1.1%	2.8% ↓	2.6% ↑	2.3% ↓	2.3% ↑
Switzerland	1.3% ↑	1.3% ↑	1.0%	1.6%	1.2%	1.3%	0.5% ↓	1.1%
Japan	0.1%	0.3% ↓	0.7%	1.2%	2.2%	2.6% ↑	1.5%	2.0% ↑
China	4.9%	5.0% ↑	4.4%	4.4%	0.6%	0.6% ↓	1.8%	1.5%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 13 June 2024

Chart of the month



Financial markets are unsettled following President Macron's dissolution of the French parliament. He is unlikely to maintain his current majority. As regards the form that any future majority government may take, it should be noted that even the Rassemblement national party no longer wants to leave the euro. Unlike in the run-up to the 2017 presidential elections, there seem to be no extreme concerns over the break-up of the monetary union. On the other hand, it is unlikely that we will see any fiscal consolidation at any point in the near future. The increased risk premium on French government bonds should remain in place for now.

USA
Is the glass half full?

GDP growth

Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.3%
2025: 1.7%	2025: 1.7%

US Federal Reserve Chair Jerome Powell repeatedly emphasised the strength of the US economy and labour market in the press conference for the June meeting. The Fed therefore clearly has a "glass half full" view of economic data. Surveys reveal a mixed picture, with confident companies but concerned consumers. These concerns are also reflected in the "hard" figures; overall US retail sales have been declining on a nominal basis in the second quarter to date. Labour market data is also contradictory: while companies reported surprisingly strong job growth in May, the household survey showed a decline in employment and rising unemployment. The latter is mainly driven by higher youth unemployment and is still low when viewed over the long term. Nevertheless, we are surprised by the Fed's upbeat interpretation of the figures, especially as critical views about the quality of the more highly regarded nonfarm payrolls business survey are increasingly being voiced. On average, more than 100 000 jobs are being added mechanically each month in order to account for the estimated increase in jobs at newly founded companies that cannot yet be surveyed. However, in an economic slowdown like we are currently observing, this number may be overly positive, as fewer new companies are likely being founded.

Inflation

Swiss Life Asset Managers	Consensus
2024: 3.2%	2024: 3.2%
2025: 2.4%	2025: 2.4%

Overall, we think that signs of an economic slowdown will intensify in the third quarter and that this will prompt the Fed to start cutting its policy rates in September. The sharp fall in inflation in May, which was broad-based, also suggests this will be the case. Prices for cyclically sensitive services (excluding energy and housing) even fell for the first time in 32 months.

Eurozone
A cautious first step

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.6%	2024: 0.7%
2025: 1.0%	2025: 1.4%

As expected, the European Central Bank cut its key interest rate by 25 basis points in mid-June. However, the outlook is less certain. The ECB did not commit itself to a future interest rate trajectory in its communication after the latest interest rate decision and it remained cautious, pointing out that future rate cuts will depend on the data. Countries with high levels of debt in particular are hoping for further cuts. The European Commission recently identified seven countries for which an Excessive Deficit Procedure should be initiated after their general government deficit exceeded 3% of GDP in 2023: Italy (7.4% deficit in 2023), Hungary (6.7%), France (5.5%), Poland (5.1%), Malta (4.9%), Slovakia (4.9%) and Belgium (4.4%). Czechia (3.7%), Spain (3.6%) and Estonia (3.4%) also had a deficit above 3% in 2023, but were excluded from the process due to special factors. The precise extent to which the structural budget deficit must be reduced under the Excessive Deficit Procedure is still to be defined, as some of the currently higher interest costs will not be included in the calculations until 2027. The disciplinary measures that can be taken by the Commission if countries do not comply with the agreed reduction path are rather limited, but the debacle surrounding Liz Truss in 2022 and the recent sharp increase in the risk premium on French government bonds have shown that the punishment that can be meted out by the financial markets can be swift and painful.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.4%
2025: 1.9%	2025: 2.0%

In May, headline inflation rose slightly to 2.6% and core inflation to 2.9%. For headline inflation, this slight increase had been expected, but for core inflation, the market had expected the rate to remain unchanged at 2.7%. Services inflation, which remains stubborn, was once again the main driver. Core inflation, on the other hand, continued to fall in May.

Germany
Was that it already?

GDP growth

Swiss Life Asset Managers	Consensus
2024: 0.1%	2024: 0.2%
2025: 1.0%	2025: 1.2%

After the recovery in January and February, industrial production in Germany declined again in March and April. The main driver of this was construction and manufacturing in energy-intensive industries. While the construction sector can look forward to somewhat lower interest rates, the effect of the fall in energy prices and the extension of tax breaks for energy-intensive producers already seems to be fizzling out. In surveys, companies are continuing to report a loss of international competitiveness. The fact remains that they continue to face significantly higher energy prices than their competitors, especially those in the US and China. The recently announced EU tariffs on electric vehicles from China are also unlikely to do much to boost the German industry. Chinese producers are likely to be able to absorb these tariffs, mainly through lower margins. On the other hand, however, China has threatened to impose higher tariffs on large-engine cars and opened an anti-dumping investigation in the area of engineering plastics in May. This puts two important German sectors in the crosshairs for potential countermeasures. In this environment, the latest industrial survey data also deteriorated further, having fallen surprisingly sharply. Is the upturn in manufacturing already over before it really got going?

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.4%
2025: 1.9%	2025: 2.0%

In our forecasts at the start of the year, we were already only assuming a modest improvement rather than a significant upturn in manufacturing. Rather, we think that the now rising real wages will support consumption in the second half of the year. In May, inflation stood at 2.4% and wage growth around 5%, which marked positive real wage growth for the third consecutive month year-on-year.

France
Greek drama

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.0%	2024: 0.9%
2025: 1.0%	2025: 1.2%

Just a few weeks before the start of the Summer Olympics in Paris, the political situation in France evokes unexpected memories of Greece's cultural heritage. In spite of all the drama surrounding who will have a government majority, there is no doubt about France's involvement in the European institutions. As such, we do not expect there to be a repeat of the 2012 European debt crisis. However, nor is it likely that President Macron will emerge from the two rounds of elections like a *Deus ex machina*. Nevertheless, it should be noted that his labour market reforms of recent years are bearing fruit and that the country has recently attracted a lot of foreign direct investment. France also performs favourably compared to other major European countries when it comes to digitalisation. Furthermore, there have been recent signs of a cyclical recovery. This was reflected in both consumer surveys and business sentiment up to May. So far, only preliminary results for the Purchasing Managers' Indices are available for June. These figures are interesting because they were collected after the European elections. On the positive side, the companies' responses mention that the lower financing costs are already filtering through to the real economy. The decline in order intake indicated by service providers was a negative aspect.

Inflation

Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.5%
2025: 1.4%	2025: 1.9%

As individual election promises made by the various parties are aimed at increasing household purchasing power by cutting VAT rates, there are significant risks when it comes to the inflation forecast. Compared to the previous month, there are two new factors to consider: higher gas prices are already weighing on households' budgets in July 2024. On the other hand, we can expect a double-digit percentage fall in electricity bills as of February 2025.

Italy
Superbonus and super deficit

Giorgia Meloni's Brothers of Italy party won the European elections with 29% of the vote, increasing its share of votes by three percentage points compared to the Italian parliamentary elections in 2022. Meloni benefited from the country's positive economic performance, albeit this was based on record government spending. However, the pressure for fiscal consolidation is now increasing: in June, the EU Commission launched an "Excessive Deficit Procedure" and risk spreads on Italian government bonds increased after the European elections. The main reason for the deficit is the "superbonus", a tax incentive for energy-efficient building refurbishment. However, a study by the Banca d'Italia published in June did not rate the programme highly: between 2021 and 2023, it cost around EUR 170 billion (around 3% of GDP per year). However, the authors estimate that a quarter of the investments would have been made even without any subsidies (so-called "deadweight effect") and that the fiscal multiplier effect is less than one, i.e. each euro provided as a subsidy created less than one euro of value added.

Spain
Group winners

Spain is not only leading Italy after the European Championship group stage. Spanish manufacturing has also recently overtaken Italy, producing 2.5% below pre-pandemic levels. Italy's manufacturing sector was the first of the big four eurozone economies to return to pre-pandemic production levels. However, following the renewed decline in April, it is now 4% below. Surveys also indicate that a divide has recently opened up between the two southern European industries in favour of Spain. While the manufacturing Purchasing Managers' Index in Italy is once again clearly below the 50 mark, its Spanish counterpart continued to rise above this level in May. Spanish companies are reporting increases in employment, output and new orders. Spain continues to receive money from the NextGenerationEU Fund. In addition, Spain could also benefit from EU tariffs on Chinese electric cars. Chinese manufacturer Chery, for example, has already announced that it will build a factory in Barcelona and rumour has it that BYD may soon produce batteries for electric cars in Spain.

Switzerland
Different forecasts for 2025

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.3%	2024: 1.3%
2025: 1.0%	2025: 1.6%

Based on high-frequency data series available today, economic momentum continued to pick up in the second quarter. In May, the monthly economic sentiment index published by the State Secretariat for Economic Affairs (SECO) climbed to its highest level since December 2022. The key interest rate cut by the Swiss National Bank (SNB) in March is already filtering through to the real economy in the form of lower mortgage rates. The second cut in June will further reduce financing costs for investors in Switzerland. In our view, the SNB's monetary policy stance is no longer restrictive. Further momentum for the Swiss economy must therefore now come from a recovery in global economic demand. Since the start of the year, we have assumed that increasing geopolitical disorder will limit the potential for a medium-term recovery. In France, there is tangible uncertainty over the direction of economic policy. In terms of growth, over the medium term we expect rates to return close to their potential in Europe in a best-case scenario. This comparatively cautious assessment also explains why our forecast for GDP growth in Switzerland for the coming year is significantly below consensus expectations.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.3%
2025: 0.5%	2025: 1.1%

Our inflation forecast for 2025 also deviates significantly from consensus expectations. This is due to lower demand in our growth scenario, expected tariff reductions by electricity suppliers and there being no rent increases for existing contracts. We also expect the Swiss franc to continue to appreciate against the euro. The imported inflationary pressure will therefore ease further in the coming months.

UK
Labour set for landslide

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.8%	2024: 0.6%
2025: 1.0%	2025: 1.1%

The election campaign in the UK has gathered pace over the past few weeks. The latest polls still show the Labour party with a clear lead over the Conservatives of 20 percentage points. Now that the parties have published their manifestos, we know all the details of their planned policies. While the Tories are focusing more on security and taxes, Labour is prioritising measures to stimulate growth. Labour's stated objective is to achieve the highest level of sustainable growth amongst G7 countries, with a range of supply-side reforms, economic security and a focus on investment. Infrastructure investments with a focus on renewable energies and the creation of new housing are key elements of this plan. Funding these policies will be a challenge as the UK's public finances are already strained. Labour has proposed a number of potential sources of revenue, such as a tax on energy profits for oil and gas companies, introducing VAT on private school fees and stepping up the fight against tax avoidance, particularly for multinational companies. Another key challenge is to revive private investment in education, technology and construction. For this to happen, companies need to be convinced that the outlook for the economy is stable. This requires greater confidence in politicians and their policies.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.8%	2024: 2.6%
2025: 2.3%	2025: 2.3%

Inflation temporarily reached the central bank target of 2.0% in May. However, services inflation remained stubborn. Financial markets expect the Bank of England to be able to deliver a rate cut this year. Together with rising real wages, this should have a positive impact on household consumer spending, where we expect an improvement over the course of the year.

China
From global to local

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.9%	2024: 5.0%
2025: 4.4%	2025: 4.4%

China's economy faces significant challenges. Although various incentives for the real estate sector were introduced in May – including a further cut to mortgage interest rates, more relaxed capital adequacy requirements and a call for local governments to purchase surplus property stocks – real estate market indicators are continuing to decline from an already low starting point. In addition to the US tariffs on various Chinese high-tech products, the European Commission has now also announced an average additional tariff of 21% on electric vehicles. While these tariffs will slow the growth of China's electric vehicle sector, they will not stop it. Chinese car manufacturers, which sell their products in Europe at significantly higher prices than domestically, can reduce their prices to absorb some of the impact of the EU tariffs. They will also increasingly relocate their manufacturing operations to their target markets in order to avoid tariffs and further increase their market share. However, increasing trade conflicts and the shift towards local manufacturing will lead to an increase in their cost structure, which supports our assumption of a higher inflation rate compared to the pre-pandemic period.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 0.6%	2024: 0.6%
2025: 1.8%	2025: 1.5%

Inflation remained unchanged at the low level of 0.3% in May. Price-setting power for goods and services remains weak as domestic demand is not keeping pace with growth on the manufacturing side. We expect inflation to be in positive territory this year, but to remain at a low level.

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