

October 2021

## Key messages

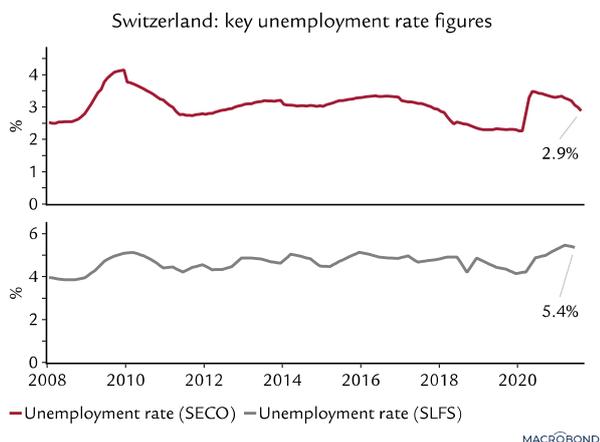
- USA: Setbacks in the third quarter trigger downward revision of GDP growth forecast
- Germany: Search for a senior partner for the coalition with Greens and FDP
- Energy prices boost inflation further in Europe

## Comparison of forecasts

	2021 GDP growth		2022 GDP growth		2021 inflation		2022 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	5.9% ↓	5.9% ↓	3.5%	4.3% ↓	4.3%	4.3% ↑	3.0%	3.1% ↑
Eurozone	5.0% ↑	5.0% ↑	3.4%	4.4%	2.3% ↑	2.2% ↑	1.8% ↑	1.7% ↑
Germany	2.8%	3.1% ↓	3.6%	4.4%	3.0% ↑	2.9% ↑	1.9%	2.0% ↑
France	6.0%	6.1% ↑	3.3%	3.8% ↓	1.6% ↑	1.6% ↑	1.6% ↑	1.5% ↑
United Kingdom	6.3% ↓	6.7% ↓	4.6%	5.4%	2.2% ↑	2.2%	2.6% ↑	2.8% ↑
Switzerland	3.2% ↓	3.5% ↓	2.7% ↑	3.0% ↑	0.6% ↑	0.4%	0.8% ↑	0.6%
Japan	2.4%	2.3% ↓	2.0% ↓	3.0%	-0.3%	-0.2% ↓	0.4%	0.5%
China	8.3%	8.4% ↓	5.4%	5.6%	1.0% ↓	1.3%	2.1% ↓	2.2% ↓

Arrows indicate change from previous month  
Source: Consensus Economics Inc. London, 13 September 2021

## Chart of the month



Real gross domestic product in Switzerland is already above pre-crisis levels again. Seemingly in line with this development, the seasonally-adjusted unemployment rate, as measured by the State Secretariat for Economic Affairs (SECO), has recovered steadily since December 2020 to 2.9%. The unemployment rate in the Swiss Labour Force Survey (SLFS) paints a somewhat different picture. While the SECO unemployment rate is calculated on a reference date on the basis of the job seekers registered with a regional employment centre (RAV), the SLFS counts anyone who has been looking for a job for one month as unemployed.

## USA Delta thwarts plans

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.9%	2021: 5.9%
2022: 3.5%	2022: 4.3%

The script for the US seemed written: the early availability of vaccines would allow a return to normality in the third quarter. Parents would also benefit from the reopening of schools and children's daycare centres and increasingly return to the labour market. The delta wave and the sluggish pace of vaccination put paid to these assumptions. Labour market figures disappointed in August, with 235 000 new jobs created, three times fewer than expected. Education and healthcare, of all things, fell short of expectations. In this sector, 4% of jobs are still lacking compared to pre-crisis levels, and the return to home schooling is a reality or latent risk for parents in some places. Accordingly, the labour force participation rate barely recovered and was at the same level in August 2021 as one year previously (61.7%) despite the economic boom in the interim. So far, it is not clear that the end of unemployment benefit subsidies will increase labour force participation. States that cancelled subsidies early have recently experienced similar employment dynamics to other states. While US growth remains robust, we have arrived at a more cautious growth assumption for the third quarter, which triggered a slight downward revision of GDP growth in 2021.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 4.3%	2021: 4.3%
2022: 3.0%	2022: 3.1%

The assumption by the US Federal Reserve, the majority of investors and by us seems to be coming true: the rise in inflation in the second quarter was probably a temporary phenomenon. Monthly price increases continued to slow as items such as rental cars and airline tickets, major beneficiaries of the reopening, have become cheaper. According to our forecast, the annual inflation rate will remain above 5% until the end of the year; however, it is set to lose significant momentum in 2022.

## Eurozone Waiting for Berlin

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.0%	2021: 5.0%
2022: 3.4%	2022: 4.4%

Our forecast for GDP growth for the eurozone as a whole is slightly higher compared with last month. This is due to the fact that growth in countries on which we do not comment in detail here has recently been stronger than originally thought. These countries include Spain, Italy and Ireland. Major progress in vaccination is permitting further opening steps in individual countries, such as Portugal, while elsewhere the certificate requirement continues to dampen sales in the affected sectors. Generally speaking, economic momentum is slowing in many places, not least because Germany's industrial sector is not very buoyant. This can be seen, for example, in the declining Purchasing Managers' Index (PMI) for manufacturing. There are also other reasons why Europe is looking towards Berlin with bated breath: implementation of the "Fit for 55" legislative package to achieve the EU Commission's climate targets will only be taken into hand once the new German government is in place. The same applies to decisions on the future handling of the Maastricht criteria, which are currently suspended. This illustrates the kind of pledge with which both the Green Party and the FDP will enter into coalition negotiations with one of the two previous governing parties.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 2.3%	2021: 2.2%
2022: 1.8%	2022: 1.7%

Inflation climbed to 3.0% in August. Inflation in all four major euro member countries is now well above 2% and the core inflation rate is also approaching the ECB's target of 2%. According to a Bloomberg survey, the consensus expectation for September stands at 3.3%, and we even expect inflation to rise to 3.4%. However, we continue to expect a significant decline in the course of 2022. By December 2022, we expect an inflation rate of just 1.1%.

## Germany

### Senior partner sought

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.8%	2021: 3.1%
2022: 3.6%	2022: 4.4%

On the evening of the Bundestag election, the impression could be gained that the Greens and FDP, which were not involved in the previous government, were ready to enter into a coalition for which only the senior partner was missing. The third and fourth-placed parties are in a formidable position to win substantial concessions from the party that will ultimately provide the Chancellor. However, a rapid formation of government should not be expected. Interesting is the fact that first-time voters gave the FDP and the Greens the most votes. These parties have positioned themselves particularly strongly regarding the long-term major issues of climate change and EU fiscal policy. In the short term, the economic outlook remains unaffected by these political choices. Business surveys have deteriorated recently, with companies sending some conflicting signals. On the one hand, the ifo Institute's surveys show that companies expect business to slow down. On the other, a sharp rise in foreign demand is reported. The key to resolving this apparent contradiction lies in the supply bottlenecks in industry: as soon as these dissipate, a strong recovery in output is to be expected.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 3.0%	2021: 2.9%
2022: 1.9%	2022: 2.0%

As late as December 2020, the consensus forecast for the 2021 inflation rate was 1.4%; now it is already 2.9%. The rapid upswing in the global economy and high energy prices have particularly contributed to this surprise. For purely mathematical reasons, inflation will fall sharply at the beginning of 2022: the effect of the temporary reduction of VAT in the second half of 2020 will be out of the calculation, as will the introduction of a CO<sub>2</sub> tax at the beginning of the current year.

## France

### Strong recovery

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.0%	2021: 6.1%
2022: 3.3%	2022: 3.8%

Compared with the previous month, France's vaccination campaign is losing momentum. However, at over 65%, the proportion of people doubly vaccinated against COVID-19 in the total population is higher than in Germany or Switzerland. A calm approach to the certificate requirement means that the economic damage caused by the containment measures still in force can be considered negligible. While the catering and accommodation sector continues to lack international guests, domestic demand has recovered noticeably across all sectors. For the month of September, the national statistical office INSEE reports a significant increase in consumer sentiment. This is now at its highest level since the days immediately preceding the lockdown in March 2020. Industrial surveys, such as those used to calculate Purchasing Managers' Indices, also suggest continued growth over the course of the third quarter. France's gross domestic product is thus also on track to return to pre-crisis levels during the first quarter of 2022. President Macron will not fail to mention in next spring's election campaign that this recovery is faster than in neighbouring Germany.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.6%	2021: 1.6%
2022: 1.6%	2022: 1.5%

Inflation in France will also continue to rise until the end of the year. Fresh food prices rose sharply in August, in addition to the usual suspects in the form of higher prices for energy and transport services. In contrast to Germany, inflation has not yet been a major public issue in France. This may change when the election campaign for the presidency starts at the beginning of 2022.

## United Kingdom

### End of short-time working

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.3%	2021: 6.7%
2022: 4.6%	2022: 5.4%

In no other developed country is the imbalance between increased demand after the reopenings and a lack of supply more apparent than in the UK. The logistics problems are causing empty supermarket shelves and queues in front of petrol stations and will undoubtedly impair growth in the second half of the year, although to what extent is difficult to estimate. On the one hand, the government's response of issuing 10 500 temporary visas to foreign lorry drivers falls into the category "too little, too late". On the other hand, surveys of purchasing managers (PMI) in both manufacturing and among service providers continue to suggest robust economic growth, although the indices are generally somewhat lower than on the continent. Overall, we have a slightly more cautious assessment of economic growth for 2021. The expiry of the "furlough scheme", the British version of short-time working, at the end of September 2021 could trigger some movement on the supply side. As this tool is new, it is not yet possible to estimate how many of the more than one million employees in this scheme will lose their jobs, and whether these job seekers fit the profiles of the many vacancies that are often in the low-wage sector.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 2.2%	2021: 2.2%
2022: 2.6%	2022: 2.8%

In August, inflation rose surprisingly sharply, from 2.0% to 3.2%. Restaurant prices contributed most to annual inflation at around 0.65 percentage points (also due to a base effect). The sharp rise in gas and electricity prices in the wholesale sector is not reflected directly in consumer prices due to a regulatory price cap. The price cap was raised by 12% as of 1 October, which means that energy should contribute about 0.4 percentage points more to inflation over the next few months.

## Switzerland

### Energy prices at annual highs

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.2%	2021: 3.5%
2022: 2.7%	2022: 3.0%

The first official estimate of gross domestic product for the second quarter showed growth of 1.8% on the previous quarter. This figure is only slightly below our forecast of 2.0% and the consensus forecast of 1.9%. Nevertheless, we consider it necessary to lower our full-year 2021 forecast for real GDP growth for the second month in succession. This is due to revisions of the previous year's GDP according to which the collapse in the recession year 2020 was less dramatic than originally calculated. Accordingly, the annual rates of change for 2021 are now somewhat less pronounced than previously expected. The consensus forecast is also reduced accordingly but remains above our expectations for both 2021 and 2022. In our view, there is no sign of any acceleration in growth momentum over the coming months: the index of weekly economic activity (WEA) provided by the SECO proved to be a fairly accurate indicator for estimating GDP growth in the second quarter. For the third quarter, this indicator points to a slowdown in growth compared to the previous quarter. In the short term, the extended certification requirement introduced on 13 September is also likely to reduce turnover in restaurants, accommodation and fitness centres.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 0.6%	2021: 0.4%
2022: 0.8%	2022: 0.6%

Persistently high energy prices will lead to a temporary rise in the inflation rate to 1.3% by the end of the year. The retail price for heating oil is currently around a third higher than at the beginning of the year. In the medium term, our scenario is in line with the conditional inflation forecast of the Swiss National Bank (SNB). Beyond this, even if monetary policy remains unchanged, the inflation rate will not rise above the upper end of the range of 0% to 2% equated with price stability until mid-2024.

## Japan Wanted: new Prime Minister

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.4%	2021: 2.3%
2022: 2.0%	2022: 3.0%

The approval rating for Prime Minister Suga's government has been plummeting since the start of the year. It was 70% when he took office in 2020 and just 29% in August 2021. Suga's decision to announce his resignation before the elections for the presidency of the Liberal Democratic Party (LDP) and the parliamentary elections on 28 November is therefore understandable. The still very uncertain winner of the LDP elections on 29 September will almost certainly also succeed Suga as prime minister. A change of political direction is not expected. Meanwhile, the pandemic situation in Japan is easing: cases have been falling since early September and around 70% of the population has now been vaccinated at least once, more than in the US or Germany. The state of emergency is therefore to be lifted at the end of September and the isolation requirement for vaccinated persons as of November. Thanks to these prospects, the Purchasing Managers' Index (PMI) of service providers surprised on the upside in September with a rise of 4.5 points to 47.4. However, manufacturing continues to struggle with supply constraints and the PMI fell below the 50 mark for the first time since January to 48.1. Delivery times even reached new record levels. The bottlenecks are a particular problem for car manufacturers. In August, real car exports contracted by 14.6% following a substantial reduction in inventories up to July.

### Inflation

Swiss Life Asset Managers	Consensus
2021: -0.3%	2021: -0.2%
2022: 0.4%	2022: 0.5%

At -0.4%, national consumer price inflation also remained in negative territory in August. However, driven by base effects from hotel prices following last year's subsidised discounts, core inflation (inflation excluding fresh food) climbed to 0.0% for the first time since July 2020. Meanwhile, producer price inflation remained close to its peaks at 5.5% in August. However, we still expect only a limited knock-on effect to consumer prices.

## China Conflagration unlikely

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 8.3%	2021: 8.4%
2022: 5.4%	2022: 5.6%

The Chinese real estate market is once again keeping the world on tenterhooks. The Evergrande crisis follows on from regulatory tightening in the previous year and is therefore being accepted by the authorities. The objective seems clear: to correct the misallocation of capital to the bloated real estate sector and channel capital into more productive activities. The government will try to avoid a collapse in real estate prices at all costs in order to avert a chain reaction to private consumption and previously healthy property developers. The regulatory focus therefore remains on the high level of indebtedness of many real estate developers. As debt and equity are mostly placed domestically and the lending commercial banks are under state control, the authorities have a free hand in crisis management. A financial crisis is therefore very unlikely and would result from a government error. However, a further slowdown in the real estate sector, which together with construction contributes 14.5% to China's GDP, is likely due to higher financing costs for developers and temporary buyer restraint. Nevertheless, the last government-induced "real estate crisis" in 2015 showed that there was hardly any impact on the resilient services sector. We are therefore upholding our growth forecasts of 8.3% (2021) and 5.4% (2022), which remain below consensus.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.0%	2021: 1.3%
2022: 2.1%	2022: 2.2%

As a major exception among emerging markets, consumer price inflation in China remains below 1%, squeezed by low food and communications prices. At 1.2%, core inflation also remained at low levels in August. This leaves the central bank plenty of leeway for a more expansive monetary policy should the economy slow down more than expected following the recent real estate market turmoil.

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