Perspectives
Economics

SwissLife
Asset Managers

September 2022

Key messages

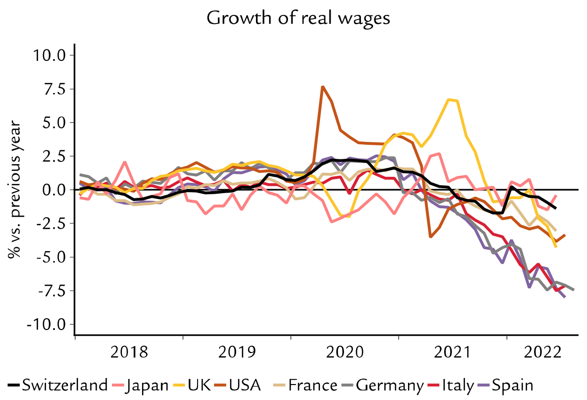
- Rising energy prices in Europe are likely to push inflation up even further, despite political measures
- With the exception of the real estate market, the US economy has so far turned in a solid third quarter
- China with less momentum than expected; consumers remain pessimistic

Comparison of forecasts

	2022 GDP growth		2023 GDP growth		2022 inflation		2023 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
US	1.6% ↓	1.7% ↓	0.6% ↓	0.7% ↓	8.2% ↓	8.1% ↑	3.9% ↑	3.8% ↑
Eurozone	3.0% ↑	2.8% ↑	0.9% ↓	0.9% ↓	7.9% ↑	7.8% ↑	4.3% ↑	4.1% ↑
Germany	1.6%	1.5% ↓	0.6% ↓	0.7% ↓	7.7% ↑	7.5% ↑	4.8% ↑	4.2% ↑
France	2.4%	2.4% ↑	1.0% ↓	1.2% ↓	5.4% ↑	5.5% ↑	3.5% ↑	3.2% ↑
UK	3.5%	3.4% ↑	0.1%	0.1% ↓	9.1% ↑	9.1% ↑	6.8% ↑	6.7% ↑
Switzerland	2.5%	2.5%	1.1% ↓	1.2% ↓	2.8% ↑	2.7% ↑	1.7% ↑	1.6% ↑
Japan	1.3%	1.4% ↓	1.4% ↓	1.6% ↓	2.0%	2.0%	1.2%	1.4% ↑
China	3.3% ↓	3.7% ↓	5.3%	5.4%	2.2% ↓	2.4% ↑	2.0%	2.5% ↑

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 8 August 2022

Chart of the month



Concepts: Germany, Spain: collective wages. US, UK, Italy, France: hourly wages. Japan: monthly salaries. Switzerland: quarterly estimate of annual remuneration. Source: Macrobond, Bloomberg. Swiss Life Asset Managers

Nominal wages in all developed economies are failing to keep up with inflation. The real wage losses are greatest in Germany and southern Europe, where the economies are confronted with an external energy price shock and wage negotiations often prioritise job security over wage increases. France, Switzerland and Japan upheld their purchasing power slightly better than the worst performers due to lower inflation, as did the English-speaking countries thanks to stronger wage growth. Following surprisingly strong growth in the first half of the year in the Eurozone due to catch-up effects, a marked slowdown in private consumption is consequently foreseeable over the coming quarters.

US
Intermediate sprint

GDP growth

Swiss Life Asset Managers	Consensus
2022: 1.6%	2022: 1.7%
2023: 0.6%	2023: 0.7%

The activity figures for the third quarter have been astonishingly solid so far in the US. The exception is the housing market, which fell further in July. In real terms, retail sales and industrial production continued to rise, and the labour market figures for July significantly exceeded expectations. At the time of writing, the Atlanta Fed's real-time "GDPNow" indicator indicated annualised GDP growth of 1.6% for the third quarter. This is in line with our expectation that the GDP contraction in the first half of 2022 was a temporary weakness and not the start of a full-blown recession. Nevertheless, growth is fragile and tending to slow down. Consumer sentiment has recovered somewhat from record low levels under the impact of falling fuel prices and the temporary recovery on the stock markets. However, it is precisely this easing of financial conditions that is set to prompt the Federal Reserve to step on the brakes even more to ease the inflationary pressure. Combined with deteriorating business surveys and the fact that US households have had to cut their savings rate to a below-average 5% in order to sustain consumption, we continue to expect a recession in the coming year.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.2%	2022: 8.1%
2023: 3.9%	2023: 3.8%

For the first time since February 2021, US inflation surprised on the downside. Due to lower fuel prices, headline inflation fell from 9.1% to 8.5% in July – 8.7% was expected in Bloomberg surveys. Core inflation, which excludes energy and food, also declined. However, alternative indicators of the breadth of inflationary pressure, such as median inflation, which measures the inflation of average consumer goods, and the strong trend in rents and imputed rental values still suggest a major need for monetary policy action.

Eurozone
Recession without job losses?

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.0%	2022: 2.8%
2023: 0.9%	2023: 0.9%

The purchasing managers' indices (PMI) for manufacturing are falling below the critical threshold of 50 points throughout the Eurozone. This reflects a fall in activity compared to the previous month. The majority of companies are reporting a decline in new orders. Hope that an easing of the supply problems could lead to a revival in the industrial sector, at least in the short term, is thus gradually dying out. The state of the service industry is less uniform. It remains robust, especially in France and Spain. What is striking in all the surveys is that despite the worsening business outlook, companies are reporting that they are not intending to cut jobs at the moment. Previous cycles have known the phenomenon of recoveries without job growth. In contrast to this, the current theory is that demographic change and the widely deplored shortage of skilled workers could lead to a decoupling of the situation on the labour market from the recessionary momentum. Only time will tell whether the increase in unemployment in the coming months is less than in previous cycles, as unemployment is a lagging indicator. In the meantime, our focus will be on tackling the energy crisis and the elections in Italy.s

Inflation

Swiss Life Asset Managers	Consensus
2022: 7.9%	2022: 7.8%
2023: 4.3%	2023: 4.1%

At the time of writing, the initial data on consumer inflation were published. Inflation rates throughout the Eurozone are well above the ECB's target value. Countries with particularly high shares of energy components in their consumer price index are reporting the highest inflation rates, while those with a high share of government intervention in pricing have a lower inflation rate. The weak euro is increasingly becoming an additional inflation driver.

Germany
Neutral net energy price policy

GDP growth

Swiss Life Asset Managers	Consensus
2022: 1.6%	2022: 1.5%
2023: 0.6%	2023: 0.7%

The first half of the year proved more resilient than expected, following an upward revision of GDP growth in the first quarter to 0.8% and 0.1% growth in the second quarter. Private consumption in particular made an above-average positive contribution. However, things will get increasingly uncomfortable especially for consumers in the second half of the year, as wage increases are unable to keep up with rising inflation. Accordingly, consumer sentiment is currently reaching record lows from month to month. Increasing pessimism is also evident among service providers. The purchasing managers' index (PMI) for this sector recently dropped further below the growth mark. According to the ifo survey, expectations and employment intentions deteriorated significantly, particularly in the hospitality sector. Following the pandemic-induced catch-up demand over the summer months, winter is now being awaited with concern. Survey values in manufacturing have recently been surprisingly stable, according to both the PMI and ifo expectations, albeit at rather low levels. Here, too, slowing momentum is to be expected in the coming months due to the difficult energy situation and the national and global cyclical downturn.

Inflation

Swiss Life Asset Managers	Consensus
2022: 7.7%	2022: 7.5%
2023: 4.8%	2023: 4.2%

The reallocation of gas costs from purchasers to consumers and relief for consumers through lower value-added taxes will balance each other out in net terms. Wholesale energy prices thus remain the key drivers of inflation without further political intervention. Following the recent further massive rises, we are increasing our inflation forecasts and expect a rise to almost 10% in the coming months. The end of the nine euro ticket and fuel discounts in September will also contribute to higher prices. The forecasts for 2023 remain extremely uncertain.

France
"Rentrée" in difficult times

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.4%	2022: 2.4%
2023: 1.0%	2023: 1.2%

The summer break traditionally ends in France in the first week of September. Particularly important in the annual calendar is the big "Rentrée" not only to schools but also in the political arena. Following the unfavourable outcome of the spring parliamentary elections, President Macron must make a special effort this year to secure solid parliamentary majorities. In view of the debate already underway during the election campaign about the loss of purchasing power of French households, there is broad consensus that as much use as possible must be made of the fiscal leeway. Interestingly, the consumer sentiment index improved slightly in August. However, in the light of emerging bottlenecks in the energy sector, business surveys are deteriorating. At 49.0 points, France's purchasing managers' index (PMI) for manufacturing is also below the growth threshold according to preliminary data for August. The services sector continues to report greater momentum: the broad PMI for this sector remains in expansionary territory. Tourism in particular can look back on an extremely strong summer season following two years under the impact of the pandemic.

Inflation

Swiss Life Asset Managers	Consensus
2022: 5.4%	2022: 5.5%
2023: 3.5%	2023: 3.2%

Among the four major participating countries in the monetary union, France stands out with its comparatively low inflation rate. For the time being, a large proportion of administratively fixed prices in the consumer price index are dampening inflationary pressure, as is the lower proportion of energy components. Administrative measures also continue to be used to combat inflationary pressure. An upper limit of 3.5% has been set for this year's rent fixing and a corresponding measure is already envisaged for next year.

United Kingdom
Energy costs almost tripled

GDP growth	
Swiss Life Asset Managers	Consensus
2022: 3.5%	2022: 3.4%
2023: 0.1%	2023: 0.1%

Like continental Europe, the UK is also likely to enter a stagflationary phase in the coming months. After having looked astonishingly good for a long time, business sentiment surveys declined significantly in August: The purchasing managers' index (PMI) for manufacturing well and truly collapsed in August with a one-month lag to the Eurozone, driven by fewer new orders. The PMI for service providers is holding up better, although consumer sentiment is in free fall. The greatest concern among the general public is the price cap for electricity and gas, which the regulatory authority Ofgem is raising by 80% as of 1 October. Following the already hefty 54% increase in April, this will cause the annual energy costs for a typical household almost to triple from GBP 1277 at the start of the year to GBP 3549 in October 2022. In June, real wages were already 4% lower than in the previous year and the trend is pointing downwards. This will leave its mark on private consumption and confirms our assumption that the UK will slide into a – probably mild – recession. Countermeasures are likely to come from the government, at enormous fiscal costs. The already approved "Cost of Living Support Package" is likely to provide some relief through direct transfers of GBP 400 per household, and both conservative leadership candidates are promising further measures.

Inflation	
Swiss Life Asset Managers	Consensus
2022: 9.1%	2022: 9.1%
2023: 6.8%	2023: 6.7%

In October 2022, UK inflation could rise to almost 12% due to the higher price cap for electricity and gas. There is a risk of a further increase of the price cap in January 2023 unless the government takes countermeasures. We accordingly expect the UK to have the highest average inflation rate among the main developed economies in 2023.

Switzerland
In a privileged situation

GDP growth	
Swiss Life Asset Managers	Consensus
2022: 2.5%	2022: 2.5%
2023: 1.1%	2023: 1.2%

In stark contrast to most other developed economies, there is still no imminent risk of recession in Switzerland. The index of weekly economic activity continued to rise throughout the month of July. The various business sentiment indicators also point to continued growth in the third quarter. This positive finding is attributable in particular to the strong momentum of the domestic economy and the ongoing robust state of the labour market. Swiss households are currently suffering far less from a slump in real disposable income. Nevertheless, consumer sentiment has plummeted recently. This quarterly survey was last carried out in July. The resulting index is currently below its lowest point during the Covid-19 pandemic. The Ukraine war and the threat of an electricity shortage are weighing on sentiment. We have been taking this development into account for some time now and also expect a dampening effect on economic momentum in the form of weaker export demand and higher financing costs. Meanwhile, our initial caution regarding GDP growth in the coming year has become the consensus view. With the adjusted growth expectations, however, the Swiss economy should once again come through the impending crisis months with a black eye.

Inflation	
Swiss Life Asset Managers	Consensus
2022: 2.8%	2022: 2.7%
2023: 1.7%	2023: 1.6%

At the traditional meeting of central bank governors in Jackson Hole, the Chairman of the Swiss National Bank (SNB) emphasised that Switzerland also needed to make further interest rate moves to combat inflation. The SNB is benefiting from the fact that the recent appreciation of the Swiss franc versus the euro is mitigating the rise in import prices. Since May, the annual rate of change of the producer and import price index has stopped rising.

Japan
2+2 = more semiconductors?

GDP growth	
Swiss Life Asset Managers	Consensus
2022: 1.3%	2022: 1.4%
2023: 1.4%	2023: 1.6%

Japan and the US met for the first time at the end of July for a "two-plus-two" economic dialogue. The focus topics were the strengthening of supply chains, protection of new technologies and stabilisation of energy supplies. According to Japanese newspapers, a joint research centre for semiconductor chips is to be set up in Japan. This is intended to counter the risk that tensions between China and Taiwan could affect semiconductor supplies from Taiwan. The research institute is one of many measures being taken by the Japanese government to reduce its dependence on foreign semiconductor suppliers. This effort has been triggered in particular by production problems in the automobile industry, the motor of the Japanese economy, due to the supply bottlenecks caused by the pandemic. Although industrial production grew by 9.2% in June, it remains 3% below pre-pandemic levels. Motor vehicle production is even 15% lower than before the pandemic. The long-term investments will not shield Japan from a slowdown in the second half of the year. The purchasing managers' index (PMI) for the manufacturing sector in August was at its lowest level since January and the index of new export orders fell further from 48.8 to 47.0. Moreover, the services PMI is also showing weakness due to record high Covid infections and recently closed below the 50-point growth mark.

Inflation	
Swiss Life Asset Managers	Consensus
2022: 2.0%	2022: 2.0%
2023: 1.2%	2023: 1.4%

Inflationary pressure is also continuing to increase in Japan. Headline inflation and core inflation, which excludes fresh food and energy, each rose by 0.2 percentage points in July to 2.6% and 1.2% respectively. The rise in core inflation was driven by prices for non-fresh food products and mobile phones. The latter increased sharply due to the depreciation of the yen.

China
Slowdown in economic upturn

GDP growth	
Swiss Life Asset Managers	Consensus
2022: 3.3%	2022: 3.7%
2023: 5.3%	2023: 5.4%

China's economy had a much weaker start into the second half of the year than expected. Annual growth rates for retail sales, investments and industrial production in July were lower than in the previous month, prompting us to lower our growth forecast for this year for the second time in succession from 3.5% to 3.3%. Since the economically painful lockdown in Shanghai, China has prepared an adapted Covid strategy that envisages implementing lockdowns much faster, but also in a much narrower framework. This strategy has helped to further improve economic activity and has kept mobility indicators at elevated levels despite the flare-up of Covid cases. Nevertheless, the threat of uncertainty weighs heavily on the mood of the population. China's consumer confidence index remains at a record low and is therefore significantly impairing recovery potential. In addition, uncertainty about the future economic outlook has caused households to hold back from buying property, further weighing on the battered real estate sector. While the government is introducing easing measures to alleviate the downward pressure on the sector, we do not expect a reversal of the downward trend as long as the zero-Covid strategy weighs on sentiment and China continues to focus on deleveraging in the highly indebted sector.

Inflation	
Swiss Life Asset Managers	Consensus
2022: 2.2%	2022: 2.4%
2023: 2.0%	2023: 2.5%

China's July inflation rate of 2.7% came in slightly lower than expected, causing us to marginally lower our annual inflation forecast from 2.3% to 2.2%. While energy price inflation fell somewhat, core inflation was also very low at 0.8% due to the low public confidence shock. This means that China's central bank still has scope to support the economy.

Economic Research

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

Damian Künzi
Economist Developed Markets
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

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