

November/December 2022

Key messages

- Eurozone: further slump in industrial sentiment signals start of winter recession
- USA: property market price declines herald a decline in cyclical inflation
- China: renewed downward revision of growth prospects in 2023 due to a lack of vaccination progress

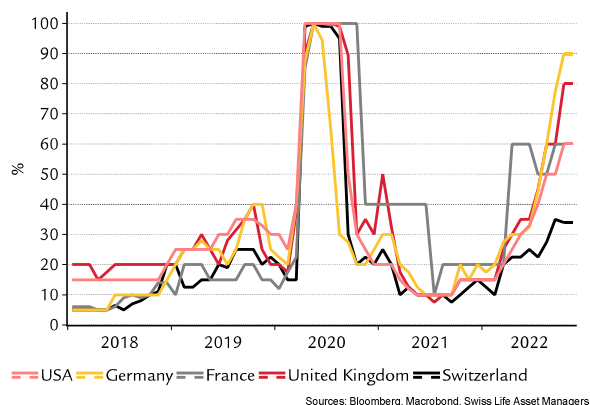
Comparison of forecasts

	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
USA	1.9% ↑	1.7%	0.4%	0.2% ↓	8.1%	8.0%	3.9%	3.9% ↑
Eurozone	3.2% ↑	3.0% ↑	0.2% ↓	0.0% ↓	8.5% ↑	8.3% ↑	6.2% ↑	5.8% ↑
Germany	1.7% ↑	1.4%	-0.6%	-0.9% ↓	8.1% ↑	8.1% ↑	6.0% ↑	6.8% ↑
France	2.5% ↑	2.5% ↑	0.3%	0.3% ↓	5.3% ↓	5.4% ↓	4.9% ↑	4.0% ↑
UK	4.3% ↑	4.1% ↑	-0.3% ↓	-0.3%	8.7%	8.9% ↓	6.2% ↑	6.4% ↓
Switzerland	2.2%	2.2% ↓	0.9%	0.7% ↓	2.9%	3.0% ↑	2.1%	2.3% ↑
Japan	1.5%	1.5%	1.4%	1.5%	2.2%	2.2%	1.5%	1.6% ↑
China	3.3%	3.2% ↓	4.7% ↓	4.8% ↓	2.2%	2.2% ↓	2.0%	2.3%

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 10 October 2022

Chart of the month

Assessment of the likelihood of a recession over the next 12 months



Bloomberg, the financial news services provider, regularly asks economists to give their assessment of the threat of recession for individual countries. Currently, Germany's median expected likelihood of a recession over the next 12 months stands at 90%. The assessment for France is stable at 60%, while experts estimate that the risk of recession in the United Kingdom has recently risen sharply. In the case of Switzerland, a soft landing for the economy remains the most likely scenario for the time being. The sentiment shown in the graph is broadly in line with our own assessment on the following pages.

USA

House prices and rents are falling

GDP growth

Swiss Life Asset Managers	Consensus
2022: 1.9%	2022: 1.7%
2023: 0.4%	2023: 0.2%

In the third quarter, the US economy recovered as expected from the technical recession in the first half of the year – defined as two consecutive quarters with GDP contraction. At 2.6%, however, growth was surprisingly strong compared to the previous quarter (annualised). As expected, private consumption remained strong, thanks to persistent catch-up effects in the services sector and a further reduction in the savings rate to a below-average 3.1% in September. This compensated for the continuing weakness in private investment, which is primarily a consequence of the slump in the housing market. However, the most positive contribution to growth was foreign trade, with surprisingly high exports in view of the strong dollar and a slump in imports – the latter usually a bad omen for future economic development. We therefore continue to expect a gradual cooling of the US economy in the first half of 2023 and a recession from mid-2023 as higher policy interest rates and their consequences (particularly the correction in house prices that is now beginning) will increasingly feed through to private consumption.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.1%	2022: 8.0%
2023: 3.9%	2023: 3.9%

Inflation in the US has peaked. Lower transport costs and improving supply chains are likely to lower consumer goods inflation in 2023. An easing in the residential sector, currently the strongest inflation driver, is also on the horizon. House prices have recently fallen for the first time since 2012, which may lead to lower imputed rental values in the consumer price index. In addition, rents for newly advertised apartments are now falling. The latter will only have an impact on rental price inflation in about four quarters from now, according to a research paper by the Bureau of Labor Statistics, as the official index includes many existing rents.

Eurozone

Recession in parts of industry

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.2%	2022: 3.0%
2023: 0.2%	2023: 0.0%

To the extent that they are already available, the manufacturing Purchasing Managers' indices paint a bleak picture: the recession expected in our base case scenario has already materialised in this sector. The reasons are clear: higher financing costs and the questions surrounding energy supply are placing a strain on the particularly cyclical sectors of the European economies. Moreover, the impetus from China expected a few months ago is still lacking and is likely to be delayed until China moves away from its zero-Covid policy. The first figures on gross domestic product in the third quarter still show a slightly positive growth rate for the heavyweights Germany and France. With the latest developments in the field of energy supply, at least for the time being, the gloomy rationing scenarios for the coming winter are taking a back seat. Europe's gas storage facilities are largely full, while electricity generation from France's nuclear power plants is being ramped up again. With this, the planning security of companies is increase somewhat. Nevertheless, the coming months will remain shaped by the recession, not least due to weakening consumer demand.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.5%	2022: 8.3%
2023: 6.2%	2023: 5.8%

The preliminary data for the inflation rate in the Eurozone countries for the month of October clearly show how difficult it currently is to assess the short-term effects of fiscal policy measures to cap energy prices. Inflation in Germany, France and Italy exceeded the expectations of the economists surveyed by Bloomberg, while the inflation rate in Spain fell from 9.0% to 7.3%. Wholesale prices for gas and electricity currently signal some temporary relief, as they are well below the peaks recorded in August.

Germany

Expensive Christmas present

GDP growth

Swiss Life Asset Managers	Consensus
2022: 1.7%	2022: 1.4%
2023: -0.6%	2023: -0.9%

The first GDP estimate for the third quarter of 2022 points to positive growth of 0.3%, in defiance of the poor sentiment indicators. Private consumption is likely to have contributed to this surprise. However, this does not change the fact that the winter recession probably started in the fourth quarter. Consumer confidence has recently remained at historically low levels. In October, the Purchasing Managers' index (PMI) for manufacturing fell further below the growth threshold of 50, with declining output and weak order intake. The index for new export orders also recorded a further decline. While the PMI still points to robust employment, according to the ifo Institute the corresponding expectations have declined and are back below zero in the manufacturing sector for the first time since February 2021. The services sector also remains pessimistic, albeit without a further significant deterioration of late. Out of a total of over 130 sectors covered in the ifo survey, only the volatile legal and accounting activities sector has positive business expectations over the next six months.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.1%	2022: 8.1%
2023: 6.0%	2023: 6.8%

German households can at least look forward to a Christmas present: as part of the gas price cap, the government will pay their full bill for December. In addition, from March 2023, a gas price cap of 12 cents per kilowatt hour for 80% of the previous year's consumption is to apply for 14 months. Until then, we expect inflation to remain elevated and particularly volatile in December and January. We believe that annual inflation has not yet reached its peak at 10.4% in October. Even if political interventions are likely to have a dampening impact on energy inflation in 2023, the associated huge fiscal expansion means that overall price pressure will remain higher in the medium term.

France

Nuclear power back on grid

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.5%	2022: 2.5%
2023: 0.3%	2023: 0.3%

In France, we confirm our assumption that the domestic economy will remain less exposed to crisis trends than the other major European economies. For example, unlike in Germany and the United Kingdom, the value of the Purchasing Managers index for the services sector remained in the growth zone at the beginning of the final quarter of 2022. Business surveys of the industrial sector also hint at the French economy's remarkable resilience. The willingness to implement generous fiscal measures is making a major contribution here. This picture is consistent with the fact that consumer confidence in France fell less sharply – and even increased slightly recently even with initial threats of strike action. Securing households' purchasing power and avoiding an energy crisis over the winter months remain crucial. With the resumption of electricity generation from nuclear power plants which had been taken off the grid this summer and the high level of gas storage throughout Europe, the risk of electricity rationing at normal winter temperatures seems to have been reduced markedly.

Inflation

Swiss Life Asset Managers	Consensus
2022: 5.3%	2022: 5.4%
2023: 4.9%	2023: 4.0%

The preliminary data for inflation for October showed a substantial upside surprise. The rise in the inflation rate from 6.2% to 7.1% was due to higher energy and food prices. It remains to be seen how much the strikes in France's oil refineries caused a temporary price increase. Indeed, there are also signs of easing, especially with regard to electricity prices. One driver is the increasing production of nuclear energy after the completion of maintenance work. According to the European electricity exchange EEX, the average price of electricity is now at its lowest level since Russia's attack on Ukraine in February.

UK Back to square one

GDP growth

Swiss Life Asset Managers	Consensus
2022: 4.3%	2022: 4.1%
2023: -0.3%	2023: -0.3%

After Silvio Berlusconi in 2011, Liz Truss also learned, after only 45 days in office, that bond markets can contribute to overthrowing governments. To regain market confidence, the new government under Prime Minister Rishi Sunak and Chancellor Jeremy Hunt has announced a fiscal policy U-turn. The government will not disclose the exact measures until after the editorial deadline, but there are signs that most of the tax cuts planned by Liz Truss will be cancelled and government spending reduced. Prime Minister Sunak even prepared the people for future tax hikes. According to our calculations, a significantly more restrictive fiscal policy is indeed required in order to stabilise the debt ratio even under optimistic growth and interest rate assumptions. The new government's turnaround has calmed the markets and has also eased the pressure on the Bank of England to hike rates excessively. Nevertheless, the combination of rising interest rates, higher energy prices and fiscal consolidation is likely to lead to a recession in the UK in 2023, and we have recently revised the corresponding GDP forecast further downwards.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.7%	2022: 8.9%
2023: 6.2%	2023: 6.4%

As a further confidence-building measure, the new government has announced that it will initially allow the state-subsidised “price cap” for gas and electricity, originally planned for a two-year period, to run until April 2023 and will review it again in the first quarter of 2023. In our view, the sharp drop in purchasing power of UK households might lead to substantial political pressure to continue with certain easing measures. Consequently, we have only raised the inflation forecast slightly for 2023 so far. However, if state aid were to cease altogether, we would have to revise the inflation forecast further upwards.

Switzerland Facing an increase in rents

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.2%	2022: 2.2%
2023: 0.9%	2023: 0.7%

While large parts of Europe are already entering a recession, indicators in Switzerland only point to a slowing of economic momentum. According to a Bloomberg poll, the risk of a recession in Switzerland over the next 12 months is estimated at just 34%. This figure differs significantly from the 90% probability of a recession in Germany. The loss of purchasing power among Swiss households is less pronounced and, at the same time, the composition of the Swiss industrial sector is proving to be less crisis-prone than elsewhere in Europe. This is borne out by the manufacturing Purchasing Managers' Index (PMI), which in Switzerland remains above the 50-point growth threshold. However, the Swiss economy is not immune to risks in the form of higher financing costs and uncertainty about the energy supply. For example, the recently revised Weekly Economic Activity Index (WAI) of the State Secretariat for Economic Affairs (SECO) shows that the economic momentum has started to slow at the beginning of the third quarter.

Inflation

Swiss Life Asset Managers	Consensus
2022: 2.9%	2022: 3.0%
2023: 2.1%	2023: 2.3%

Inflationary pressure has recently eased slightly at both producer and consumer levels. This is partly due to the strong Swiss franc, which has curbed import price increases. Furthermore, many prices are set administratively in Switzerland. In contrast to the Eurozone countries, consumers will not feel the impact of the rise in electricity prices until 2023. Additionally, an increase in the reference interest rate, on which the rents in existing contracts are based, is expected over the next 12 months. Higher rents will therefore only affect consumer price inflation with a delay.

Japan

Solid end to the year

GDP growth

Swiss Life Asset Managers	Consensus
2022: 1.5%	2022: 1.5%
2023: 1.4%	2023: 1.5%

The reopening to tourism has boosted sentiment in the services sector, according to the Purchasing Managers' Index (PMI). Unsurprisingly, the index of new export orders for the sector was particularly robust. Similarly, the manufacturing PMI remained above the growth threshold in October. Initial economic data for September were mixed. After a strong August, industrial production fell for the first time in four months and contrary to expectations. Looking at the third quarter as a whole, however, it will still contribute positively to GDP growth, which will only be published after our editorial deadline. Retail sales continued to increase in September due in part to higher prices. However, the further easing of supply bottlenecks probably explains the strong consumption growth for durable goods, which is likely to continue and, together with increasing tourism, should result in a relatively solid economic end to the year. While we are not forecasting a recession for 2023, growth will slow markedly. Even though both fiscal and monetary policy remain expansionary, Japan will not be able to avoid the global headwinds altogether. Domestic consumption is also likely to slow amid rising core inflation, as indicated by steadily falling consumer confidence since the beginning of the year.

Inflation

Swiss Life Asset Managers	Consensus
2022: 2.2%	2022: 2.2%
2023: 1.5%	2023: 1.6%

September's headline inflation remained stable at 3.0%. However, core inflation rose from 1.6% to 1.8%, and producer price inflation shot up again unexpectedly from 9.0% to 9.7%, just below the previous peak of 9.8% in April. The government recently announced an additional, generous fiscal package, which is aimed at easing the burden of high energy and food prices on households.

China

Xi has a firm grip on power

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.3%	2022: 3.2%
2023: 4.7%	2023: 4.8%

Although China's economic growth was slightly stronger than expected in the third quarter at 3.9% year-on-year, the September activity data nevertheless point to a continuing weakness in the real estate sector and private consumption. One of the main drivers of this weakness is China's strict Covid strategy, which is keeping consumer confidence at a record low due to recurring lockdowns. As the vaccination campaign is not progressing and the population remains inadequately immunised, we do not expect an immediate reversal of this strategy and are therefore lowering our GDP forecast for 2023 from 5.1% to 4.7%. The reorientation of the governing body, which was decided during the Party Congress, also does not include any politicians who are likely to promote a new Covid approach. Rather, Xi Jinping has consolidated his power and is surrounded by close allies. Meanwhile, the Party Congress has revealed that the focus will remain on economic advancement. For example, the potential future prime minister, Li Qiang – although a close ally of Xi's – is seen as a growth- and market-oriented politician with extensive experience in managing the country's wealthiest provinces. Nevertheless, Xi's consolidation of power poses a risk to China's growth potential, as his harsh and interventionist measures may depress innovation potential.

Inflation

Swiss Life Asset Managers	Consensus
2022: 2.2%	2022: 2.2%
2023: 2.0%	2023: 2.3%

China's inflation remained at a moderate level in September at 2.8% (August: 2.5%). The low inflationary pressure is mainly the result of low core inflation, which fell from 0.8% to 0.6%. The reason for this is a downturn in consumer confidence due to the persistently strict Covid strategy, which is limiting pricing power for consumer goods and services.

Economic Research



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