Perspectives
Economics

Annual outlook 2023

Key messages

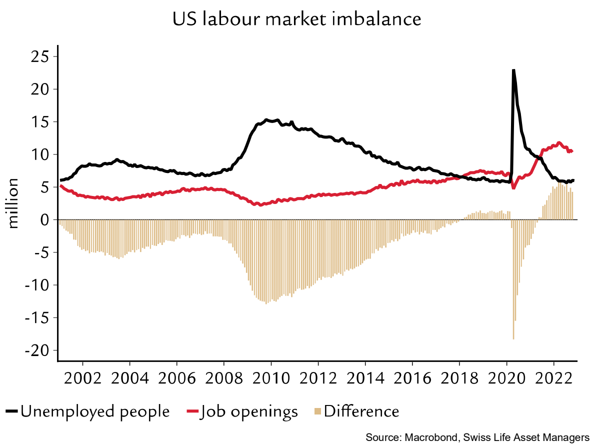
- Eurozone 2023: weak recovery after mild winter recession; inflation falling, but not below 2%
- USA 2023: mild recession from second quarter, slight increase in unemployment, falling inflation
- China 2023: earlier than expected cyclical upturn due to departure from zero-Covid policy

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%	1.9% ↑	0.2% ↓	0.2%	8.1%	8.1%	3.9%	4.1%
Eurozone	3.3% ↑	3.2%	0.0% ↓	-0.1%	8.5%	8.5%	6.2%	6.3% ↑
Germany	1.8% ↑	1.7% ↑	-0.6%	-0.7% ↑	8.1%	8.3% ↑	6.0%	7.0% ↑
France	2.5%	2.5%	0.3%	0.1% ↓	5.3%	5.5%	4.9%	4.7% ↑
UK	4.3%	4.4% ↑	-1.0% ↓	-1.0% ↓	9.0% ↑	9.0% ↑	7.2% ↑	7.3% ↑
Switzerland	2.1% ↓	2.1%	0.8% ↓	0.5%	2.9%	2.9%	2.1%	2.3% ↑
Japan	1.5%	1.5%	1.1% ↓	1.3% ↓	2.5% ↑	2.4% ↑	1.9% ↑	1.8% ↑
China	3.1% ↓	3.1% ↓	4.9% ↑	4.5%	1.9% ↓	2.1% ↓	2.2% ↑	2.4%

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 5 December 2022

Chart of the year



The decisive factor for the economic and financial market outlook for 2023 will be how long and to what extent the Federal Reserve still has to hike interest rates and whether there is already scope for interest rate cuts at the end of 2023. This, in turn, depends on the US labour market, which continues to deliver solid figures and where the gap between job vacancies and the unemployed is causing wage pressure. However, the labour market is lagging behind the already cooling economy. We therefore expect a slight rise in unemployment and easing wage pressure, especially in the second half of the year, in the wake of a US recession – even if it is only mild.

Global economy
Five theses on 2023

1. A mild recession
The energy crisis is already causing a recession in some European countries, but we expect a smaller dip than consensus, not least because fiscal policy is exerting pressure in the opposite direction. As in 2001, higher interest rates and negative wealth effects are causing a relatively mild US recession, as we do not anticipate a credit or banking crisis.

2. A recession with few unemployed
Given the expected mildness of the recession and the structural nature of skill shortages in many places, unemployment is expected to rise only marginally, especially in Europe. Hence, wage pressure will quickly become an issue again in the next upswing, which is why interest rates are likely to remain higher than before the pandemic.

3. China makes a comeback
China has abandoned the zero-Covid policy, which should lead to a cyclical upturn from the second quarter of 2023. However, due to poor vaccination coverage, the transition period will be bumpy, while weak external demand is likely to weigh on exports.

4. "Peak inflation", more scope for central banks
Annual inflation is expected to decline noticeably in the course of 2023, but will remain above central bank targets. In the US, the focus is on service prices. In Europe, energy prices are likely to remain high and volatile, leading to some second-round effects. The fall in inflation and the economic slowdown are heralding the end of the rate hike cycle and could even induce some central banks to cut interest rates again towards the end of 2023.

5. A little more planning security
Since no easing of sanctions or renewed gas supplies from Russia are in sight, the focus of European policy has been sharpened, particularly on the expansion of alternative energies. The 2023 election calendar is empty in the G7 countries, which further reduces political risks.

Switzerland
Slowdown, no recession

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.1%	2022: 2.1%
2023: 0.8%	2023: 0.5%

We share the consensus opinion: Switzerland will not experience a recession in 2023. At the turn of the year, however, a noticeable slowdown in economic momentum is emerging. For example, the weekly economic activity index of the State Secretariat for Economic Affairs (SECO) has been on a downward trend since the beginning of the fourth quarter of 2022. Theses two and three set out to the left are particularly important for Switzerland. The unemployment rate continued to fall in November despite the emerging recession in neighbouring European countries. Starting from the current 2.0%, we expect the unemployment rate to rise slightly to 2.1% in 2023. China's expected comeback will boost the Swiss economy. No developed economy exported a higher proportion of its gross domestic product to this country before the outbreak of the pandemic. On average, over 8% of Swiss exports went to China from 2015 to 2019. The main question mark relates to the security of the electricity supply in 2023. A shortage in France during the winter months could also require political interventions in Switzerland.

Inflation

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

Since August 2022, the inflation rate fell from 3.5% to below 3.0% at the end of the year. With the offsetting of the increased electricity prices to end users from January 2023, a renewed rise in annual inflation is to be expected. We anticipate a return to an inflation rate of 3.3% in January 2023. Inflation will then fall noticeably. In the third quarter of 2023, the inflation rate should return to the Swiss National Bank's target range of 0% to 2%.

USA
A mild recession

GDP growth

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

Economists rarely saw previous US recessions coming. So it's all the more surprising that almost everyone, including us, is now forecasting a recession for 2023. Our "script" is roughly based on the relatively mild recession that hit the US after the dotcom bubble burst. As then, the US Federal Reserve stalled the financial market boom in 2022 with high interest rates. After equities and bonds, real estate prices, the most important asset of US households, are now also sliding. These negative wealth effects, combined with higher interest rates on consumer loans in 2023, will cause private consumption, which has recently proved robust, to weaken. We expect GDP to decline as early as the second quarter, which could lead to a higher unemployment rate by mid-year at the latest (see "Chart of the Year" on page 1). However, if our forecast of a mild recession is correct, the rise in the unemployment rate will be contained, not least for structural reasons (skilled labour shortages). The biggest risk remains that the central bank will have to tighten up more than expected, triggering a real financial crisis (for example on the credit markets) and thus a sharper recession.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.1%	2022: 8.1%
2023: 3.9%	2023: 4.1%

We expect the decline in inflation that has already begun to continue in 2023. This is due to lower transport costs, a storage cycle for consumer goods, the cooling housing market and, last but not least, weaker consumer demand. The current most important inflation driver – labour costs – is likely to lose momentum over the course of the year due to the expected downturn in the US labour market. We expect inflation to fall below 3% by the end of 2023.

Eurozone
A little more planning security

GDP growth

Swiss Life Asset Managers	Consensus
2022: 3.3%	2022: 3.2%
2023: 0.0%	2023: -0.1%

The eurozone will be enriched by one more member state as of 1 January 2023. Croatia, a country with a solid fiscal position in terms of its public debt ratio of 60%, is joining the monetary union. In Europe in particular, regaining planning security compared to the previous year is a decisive step towards avoiding a deeper recession. Sufficient high-frequency data are now available to monitor Europe's energy supply in a timely manner. The cold spell in December has reminded us that Europe's gas storage systems will be partially emptied by the end of winter. A current study by the International Energy Agency expects that around 10% to 15% of European demand for gas for the winter of 2023/2024 cannot be covered by the new supply contracts and imports of liquefied gas. Increases in efficiency and substitution by renewable energy sources remain crucial. Investors and homeowners can hope for increased planning security from the imminent end of interest rate hikes by the European Central Bank (ECB). Although financing and energy costs have increased significantly compared to the situation a year ago, a further significant increase in these cost factors compared to current conditions can only be assumed in an adverse crisis scenario.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.5%	2022: 8.5%
2023: 6.2%	2023: 6.3%

In November 2022, the inflation rate in 15 of the then 19 countries in the eurozone fell compared to the previous month. Although consumer prices for oil products, gas and electricity will lead to uneven developments in the first quarter depending on the influence of fiscal policy, this trend will continue throughout 2023. By the end of the year, we expect an inflation rate of around 3% for the eurozone.

Germany
Loss of competitiveness

GDP growth

Swiss Life Asset Managers	Consensus
2022: 1.8%	2022: 1.7%
2023: -0.6%	2023: -0.7%

Germany is probably already in a recession and is likely to experience the strongest slump in growth this winter among the major eurozone countries. We expect a moderate recovery from the second quarter of 2023 onwards. China poses a two-way risk: on the one hand, the automotive industry in particular is likely to benefit from the cyclical upswing and the normalisation of supply chains. On the other hand, increased energy demand from China is expected to lead to a renewed rise in energy prices and continue to weigh on energy-intensive sectors such as metals, paper, chemicals and wood, which account for around 30% of German industrial production. In the medium term, German industry is likely to suffer from lower competitiveness and the outsourcing of some energy-intensive production. Despite the recession, we do not expect a further sharp rise in the unemployment rate. The previous increase from 5.0% to 5.6% was also driven by the inclusion of Ukrainian refugees in the statistics. According to surveys by the European Commission, German companies are the most affected by the shortage of skilled workers in Europe and expect this to worsen in the coming months. They are therefore likely to be cautious with regard to redundancies.

Inflation

Swiss Life Asset Managers	Consensus
2022: 8.1%	2022: 8.3%
2023: 6.0%	2023: 7.0%

Energy prices will remain the main inflation risk factor in 2023. We anticipate a further increase over the full year, albeit significantly lower than in the past 12 months. However, base effects will cause the contribution to annual inflation to decline. The effect of political price interventions remains difficult to quantify, but we expect a slight dampening effect. Second-round effects in energy-intensive industrial and services sectors should ensure that inflation does not fall below 3% in 2023, thus remaining above the ECB target.

France
Cold winter, hot spring?

GDP growth

Swiss Life Asset Managers	Consensus
2022: 2.5%	2022: 2.5%
2023: 0.3%	2023: 0.1%

Among the major eurozone countries, France is best placed to avoid a recession at the beginning of 2023. Although the country’s purchasing managers’ indices for manufacturing and services also showed slowing momentum during the fourth quarter of 2022, domestic demand remains robust. However, the energy supply issue affects France in particular. As a precautionary measure, the population is being prepared for the possible risk of a power shortage. To avoid this, industry and households are being asked to save power. On the supply side, there has been a sharp increase in electricity generation from nuclear power plants in recent weeks. However, production remains below the previous year's figures. 2023 will be heavily shaped by political decisions in France. It has already been announced that the duration of unemployment benefits will be more closely aligned with the economic cycle. In addition, the repeatedly postponed pension reform is casting shadows. Both reforms are fiercely disputed in the left camp. It would be a surprise if opposition to these plans were not expressed in the streets later this year.

Inflation

Swiss Life Asset Managers	Consensus
2022: 5.3%	2022: 5.5%
2023: 4.9%	2023: 4.7%

In France, there is reason to believe that the loss of purchasing power due to high inflation will lead to broad-based wage increases. The price-setting power of service providers is therefore likely to remain substantial for the time being. There is still uncertainty about the extent of the price increase for household electricity consumption and public transport tariffs. Despite all these uncertainties, we assume that the French inflation rate will fall in the coming months from a peak of 6.9% in February to below 3% by the end of the year.

UK
Bleak mood

GDP growth	
Swiss Life Asset Managers	Consensus
2022: 4.3%	2022: 4.4%
2023: -1.0%	2023: -1.0%

Since the new government took office under Prime Minister Rishi Sunak, the political situation in the UK has calmed down somewhat. Fiscal policy remains slightly supportive in the short term. The new government has maintained the energy price guarantee for 2022, which should help cushion the impending recession somewhat. However, fiscal support will be reduced from April 2023. The price cap on gas and electricity will then be raised to GBP 3,000 per household for at least one year (from GBP 2,500 at present), and financial support for low-income households will be reduced. Targeted tax increases are also possible in 2023. By contrast, most of the fiscal tightening measures have been postponed until 2025–27. On the other hand, the economic outlook for 2023 remains gloomy. Real disposable income will continue to decline in 2023. High inflation, persistently high energy costs and higher interest rates will weigh on consumer spending. The outlook for corporate investment likewise remains bleak in 2023 due to weak demand and rising financing costs. In addition, the weaker global economy and the ongoing Brexit restrictions are likely to weigh on British exports. We are accordingly lowering our GDP forecast for 2023 from -0.3% to -1.0%.

Inflation	
Swiss Life Asset Managers	Consensus
2022: 9.0%	2022: 9.0%
2023: 7.2%	2023: 7.3%

We revised our inflation forecast upward as we had previously anticipated more fiscal cushioning on energy costs. We expect the inflation problem in the UK to remain the most persistent among the industrialised countries. The imminent recession should cool the labour market and thus curb wage growth somewhat, but wage pressure will remain high due to structural factors (skilled labour shortages, Brexit).

China
Zero-Covid policy obsolete

GDP growth	
Swiss Life Asset Managers	Consensus
2022: 3.1%	2022: 3.1%
2023: 4.9%	2023: 4.5%

The Chinese government has announced a significant easing of Covid measures, which shows that the zero-Covid policy to contain the virus has become obsolete. This means that city-wide lockdowns and daily PCR testing of millions of people are a thing of the past. These easing measures were introduced much earlier and are more widespread than expected, thus bringing forward the timing of an economic recovery. We therefore expect the economy to experience an upturn from the second quarter of 2023. However, the transition to this economic recovery will be bumpy. Firstly, only 40% of the population aged over 80 have received a booster vaccination. The target of getting 90% of this age group to receive at least the first two vaccinations or a booster vaccination by the end of January seems very ambitious. Given the poor level of immunisation among the population, it remains to be seen how quickly local authorities will be able to ease the restrictions if an increase in cases puts a strain on the country's healthcare system. Secondly, while the easing of Covid restrictions will boost the domestic economy, the external environment remains difficult and is likely to weigh on the country's export performance. For this reason, we are only raising our GDP forecast for 2023 slightly, from 4.7% to 4.9%.

Inflation	
Swiss Life Asset Managers	Consensus
2022: 1.9%	2022: 2.1%
2023: 2.2%	2023: 2.4%

Inflation in China remained at moderate levels in 2022 due to the ongoing Covid measures. With the expected reopening in 2023, core inflation should rise somewhat from the second quarter of 2023 onwards. However, we expect core inflation to remain at a level that leaves the central bank scope to maintain its loose monetary policy.

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