Perspectives
Economics

April 2023

Key takeaways

- US: Banks could become more cautious with regard to lending and tighten financing conditions
- Eurozone: Strong economic figures and a resilient banking sector, but growth drivers are coming to an end
- China: Retail sales and the real estate sector are showing initial signs of stabilisation

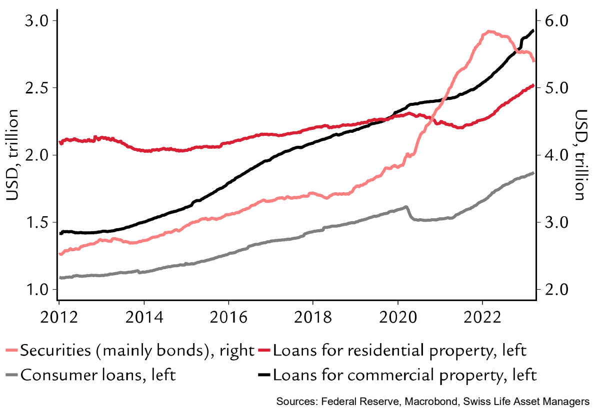
Comparison of forecasts

	2023 GDP growth		2024 GDP growth		2023 inflation		2024 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
US	0.9%	1.0% ↑	0.6%	0.9% ↓	4.2%	4.2% ↑	2.5%	2.6% ↑
Eurozone	0.7% ↑	0.6% ↑	0.9% ↓	1.1% ↓	5.9% ↓	5.6% ↑	2.6% ↑	2.4%
Germany	0.3% ↑	0.0% ↑	0.8% ↓	1.3% ↓	6.0%	6.0% ↓	2.4% ↑	2.7%
France	0.5%	0.5% ↑	1.0% ↓	1.1% ↓	4.8%	4.9% ↑	2.2% ↓	2.5% ↑
Italy	0.6% ↑	0.6% ↑	0.6% ↓	1.0%	6.5%	6.2% ↓	2.1% ↑	2.4% ↑
Spain	1.2%	1.3% ↑	1.3% ↓	1.8% ↓	4.8% ↓	4.1% ↑	2.7% ↑	2.7%
UK	-0.3% ↑	-0.5% ↑	0.6%	0.7%	6.7% ↑	6.4% ↓	2.7%	2.9%
Switzerland	0.7%	0.7% ↑	1.5%	1.6%	2.3%	2.5% ↑	1.5%	1.4% ↑
Japan	0.9% ↓	1.0% ↓	0.6%	1.1%	2.4%	2.3% ↑	0.7%	1.3% ↑
China	5.0% ↑	5.3% ↑	5.2%	5.2% ↑	2.2% ↓	2.3% ↓	2.4%	2.4% ↑

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 13 March 2023

Chart of the month

US banking system, selected assets



Due to the rise in interest rates, US banks are recording large accounting losses on safe bonds– precisely the asset class in which the banks "parked" a lot of money in 2020 and 2021. Interest rate risks are not a problem if properly hedged, as the quality of these investments should remain high even in a recession. Losses in credit quality or even a credit crisis are much more problematic during downturns. The biggest credit boom in the past ten years has occurred in commercial real estate – an area in which regional banks are very active. As a result, the focus of the financial markets is likely to shift strongly towards this sector in the coming months.

US
More restrictive lending

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.9%	2023: 1.0%
2024: 0.6%	2024: 0.9%

Is the recent turmoil in the US banking system an indication of a systemic banking crisis or financial crisis? We do not believe so, as the value adjustments do not affect the banks' loan books (see chart of the month) and the deposit outflows can be brought under control with appropriate measures (higher interest rates on deposits, liquidity injections by the central bank). The greatest economic risk stems from the fact that banks could become a lot more cautious when lending, which would exacerbate the already tight financing conditions for companies and households. This is part of our baseline scenario and reinforces our view that the US is heading for a recession. However, the economic figures published so far, which present a rear-view mirror perspective, do not yet show any signs of weakness. Labour market figures remained solid, and the preliminary March Purchasing Managers' Index (PMI) figures improved, particularly in the services sector. Even the troubled real estate sector has recently shown signs of life. The good figures, combined with ongoing inflationary pressure, are making the US Federal Reserve's work more difficult, and it is only likely to start a rhetorical turnaround when the signs of a recession intensify.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 4.2%	2023: 4.2%
2024: 2.5%	2024: 2.6%

The February inflation figures did not yet indicate an all-clear. While energy prices declined on a month-on-month basis, service and food prices continued to rise. What is particularly surprising is the persistently high housing cost inflation, despite lower new rents and falling property prices. For headline inflation to fall from 6.0% in February to 3.2% in December 2023 (our forecast), the US economy will need to continue to cool significantly in the second half of the year.

Eurozone
More resilient banks?

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.6%
2024: 0.9%	2024: 1.1%

Although the ECB is lagging behind the US Federal Reserve in its interest rate cycle, financing conditions have also significantly tightened in the Eurozone. In the first quarter of 2023, the ECB survey on the change in credit standards over the past three months reached the highest level since 2012 and more and more companies cite financing as an impending factor to production. The European banking sector is considered to be more resilient than its US counterpart. Customer funds tend to be withdrawn less quickly, liquidity regulation is stricter, especially for smaller banks, and interest rate management requirements are more restrictive. Nevertheless, the recent turmoil in the banking sector is likely to lead to the further tightening of financing conditions in the Eurozone too. We expect this to impact the real economy from the second half of 2023. Although the latest survey figures only partly reflect the recent turbulence, we believe they give cause for optimism in the short term. The Purchasing Managers' Index of service providers is at a 10-month high, and expectations over 12 months remain relatively high for both service providers and manufacturing. This is due to lower recession risks, supply chain normalisation and the fall in energy prices.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 5.9%	2023: 5.6%
2024: 2.6%	2024: 2.4%

In February, headline inflation fell less than expected from 8.6% to 8.5%, while core inflation remained at 5.6%. Prices for food, services and non-energy goods rose more quickly than expected. While we are expecting food inflation to peak soon, we see a further rise in core inflation in the coming months and only a slow decrease thereafter. For the ECB, therefore, the fight against inflation should remain at the forefront.

Germany
No recession after all?

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.3%	2023: 0.0%
2024: 0.8%	2024: 1.3%

Based on solid data for the current quarter, we now expect Germany to narrowly escape a technical winter recession. Surveys from the service sector in particular have recently painted an optimistic picture. The Purchasing Managers' Index (PMI) for this sector provided a positive surprise with its highest value since May 2022, driven by a strong employment index. According to the ifo survey, service expectations for the next six months remain slightly negative, although they recovered in March to reach their highest level for a year. The picture remains more gloomy for manufacturing, however. Although the monthly growth in industrial production surprised on the upside with 3.5% in January, this was partly driven by weather-related fluctuations in the construction sector. On the other hand, the sharp deterioration in the industrial PMI exaggerates the downturn as it is largely attributable to the further normalisation of delivery times. The recent financial market turbulence is only partially taken into account in the surveys and could lead to uncertainty in the coming months. Banks are likely to become more cautious in their lending overall. In the short term, however, the tailwind caused by the more relaxed energy situation is likely to be stronger than the headwind of tighter financing conditions. Nevertheless, we predict a marked slowdown in growth towards the end of the year.

Inflation

Swiss Life Asset Managers	Consensus
2023: 6.0%	2023: 6.0%
2024: 2.4%	2024: 2.7%

Headline inflation remained at a high 8.7% in February. We anticipate a significant decline over the coming months, driven by base effects in energy prices. However, we see further upside potential in core inflation. Companies still appear to be enjoying high price-setting power, and wage pressure is likely to remain elevated, especially in the services sector.

France
The fruits of past reforms

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.5%	2023: 0.5%
2024: 1.0%	2024: 1.1%

At first glance, the pictures of burning waste bins and the widespread rejection of the pension reform seem to confirm the long-held clichés about the supposed inflexibility of French society. It is easy to forget that important prerequisites for strengthening the economic framework have been created over the past few years. Digitalisation is advancing rapidly. One effect of the pandemic was a broad boost to e-commerce. Hybrid working also reduces the vulnerability of the service sector to strikes in the transport sector. Extensive infrastructure projects in the public transport sector are nearing completion. The successes of a previous labour market reform should also be highlighted. The employment rate among the 15 to 64 age group increased by two percentage points compared to the pre-pandemic period. Despite slowing global economic momentum and higher financing costs for the private sector, the Purchasing Managers Index shows that companies are sticking to their expansionary employment plans. According to the Indeed online jobs platform, fewer jobs were advertised in only 5 out of 36 economic sectors in the first quarter of 2023 than in the final quarter of 2022. A growth pause in the winter followed by moderate growth thus remains the most likely scenario for 2023.

Inflation

Swiss Life Asset Managers	Consensus
2023: 4.8%	2023: 4.9%
2024: 2.2%	2024: 2.5%

The inflation forecast remains unchanged for the time being. Energy and food prices are decreasing on world markets. However, it cannot be ruled out that petrol prices for French consumers will rise again in the coming weeks due to strikes. We also anticipate a further spillover of price momentum into the service categories over the coming months.

Italy
The end of the investment boom?

In February, Italy was one of the few developed countries where the Purchasing Managers' Index (PMI) for manufacturing was in the growth zone. Momentum was slightly weaker in the services sector, but overall survey data suggests that Italy may escape a technical recession following the GDP contraction in the fourth quarter of 2022. Investments are likely to remain an important growth driver in 2023. Following the pandemic, a real construction boom erupted thanks to EU funds (Next Generation EU) and tax incentives for energy-related renovations ("superbonus" scheme), and investment in industrial assets is also well above the (admittedly weak) pre-pandemic levels. While sustained EU cash flows and the surprisingly stable political situation suggest a continuation of the investment cycle, the risks of a slowdown in 2024 are increasing due to rising key interest rates in the Eurozone and the end of the superbonus programme. As a result, contrary to the consensus, we do not expect economic growth to accelerate in 2024.

Spain
Rising food prices

Spain's inflation rose unexpectedly in February. Higher energy and food prices were the main reasons for the increase. Food prices have risen despite the fact that the government reduced or suspended VAT on a number of staple foods in January. For example, VAT on oil and pasta was halved, and was suspended altogether on vegetables, cereals, fruit and bread. The "paella index", which measures the cost of purchasing the main ingredients for a paella, shows that Spanish households paid 15.6% more for a paella in February compared to the previous year. The main drivers were rice and olive oil: the price of rice rose by 20%, while olive oil is 30.5% more expensive in relation to last year. Despite the high food prices, headline inflation in Spain remains below the average for the Eurozone. However, the cost of basic foodstuffs is likely to remain a political issue in Spain, particularly in view of the parliamentary elections at the end of this year in which Prime Minister Pedro Sánchez is expected to run for re-election.

Switzerland
Not only built on banks

GDP growth

Swiss Life Asset Managers	Consensus
2023: 0.7%	2023: 0.7%
2024: 1.5%	2024: 1.6%

The upheaval in the financial centre has further exacerbated the uncertainties surrounding the economic outlook. After an initial assessment, we will refrain from revising our short-term growth forecast for the time being. The forced takeover of Credit Suisse by its rival UBS ensured that the financial centre remained functional at all times. The importance of (large) banks for Switzerland is often overestimated. On their own, they only contribute around 5% to the gross value added of the Swiss economy. Of all the jobs outside agriculture, only about 2% are attributable to the banks. If the emergence of an overpowering market leader were to restrict competition, problems may arise in the medium term with regard to excessive financing costs, especially for companies operating internationally, and to the lack of innovative strength in the financial sector. On the other hand, there is intense competition in domestic lending and asset management, and skilled workers are still in demand. One risk scenario for the medium term would result from the combination of low impetus from the construction industry, a banking landscape in turmoil, and recurring uncertainties in relation to Europe. These three factors, together with a previous rise in interest rates, were partly responsible for a multi-year period of weak growth 30 years ago.

Inflation

Swiss Life Asset Managers	Consensus
2023: 2.3%	2023: 2.5%
2024: 1.5%	2024: 1.4%

Consumer prices will follow the decline at producer level with a time lag. The inflation rate will return to below 2% in the third quarter. However, it should be noted that due to legal provisions, landlords will not be able to raise their rents on current contracts until October 2023. This will temporarily increase the inflation rate above 2% again.

UK
Milder recession

GDP growth	
Swiss Life Asset Managers	Consensus
2023: -0.3%	2023: -0.5%
2024: 0.6%	2024: 0.7%

After the purchasing managers' indices (PMI) rose sharply in February, preliminary figures now point to a slight decline in March. This decline is due to manufacturing, while the services sector is still strong. Despite the weaker print, the PMI for the economy as a whole remains above the growth threshold of 50 points. We have again revised our growth forecast for 2023 slightly upwards, but continue to expect a mild recession in 2023. Monthly GDP growth for January shows continued robust household consumption, which is surprising as high inflation is putting pressure on purchasing power. However, some households may be bringing forward their consumption at the moment if they assume that consumer goods will only become more expensive. This consumption expenditure would then be lacking over the course of the year. The UK government's spring budget included a slightly larger-than-expected short-term stimulus package, including a one-year freeze on fuel tax, the waiver of the April energy price cap increase, and a three-year tax exemption for corporate investment. Various measures were also presented to attract people not in employment into the labour market. However, the impact on economic growth is likely to be modest.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 6.7%	2023: 6.4%
2024: 2.7%	2024: 2.9%

Inflation surprisingly rose in February after falling significantly over the past three months. Price increases, particularly in the services sector and in clothing and food, contributed to the strong rise. Wage growth remains high, which is why we expect inflation to decline over the course of the year, although the Bank of England's 2% inflation target for the rest of the year is likely to remain out of reach.

China
Growth amid obstacles

GDP growth	
Swiss Life Asset Managers	Consensus
2023: 5.0%	2023: 5.3%
2024: 5.2%	2024: 5.2%

The first official economic indicators for January and February taken together show a significant recovery in the Chinese economy. Retail sales increased by 3.5% compared to the first two months of the previous year, and the real estate sector, which considerably slowed down economic activity last year, is showing initial signs of stabilising. In addition to positive real estate sales, the completion of pending real estate projects showed a growth rate of 8%. The latter development is also of great importance in the medium term, as the completion and delivery of pre-sold real estate projects is a key factor in restoring public confidence and ensuring stabilisation in this economically important sector. Meanwhile, the government's 5% growth target for this year remains moderate, which is also in line with our own assessment. There are various obstacles to economic growth, such as weak global demand and continuing poor consumer sentiment. The moderate growth target also indicates that Beijing does not intend to launch a strong stimulus programme in the infrastructure or real estate sectors.

Inflation	
Swiss Life Asset Managers	Consensus
2023: 2.2%	2023: 2.3%
2024: 2.4%	2024: 2.4%

China's inflation rate was extremely low at 1.0% in February. On the one hand, this low value can be explained by the high base last year, as the Chinese New Year was celebrated in February last year, while this year it was in January. On the other hand, the growth rate was also very low compared with the previous month, indicating that the economic recovery and the upswing in demand are still in their early stages.

Economic Research

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

Damian Künzi
Head Macroeconomic Research
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

Florence Hartmann
Economist Developed Markets
florence.hartmann@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