

### Revisions since last month (in brackets forecasts as per previous month)

	GDP 2012				GDP 2013				CPI 2012				CPI 2013			
	SLAM		Consensus		SLAM		Consensus		SLAM		Consensus		SLAM		Consensus	
USA	2.1%		2.1%	(2.2%)	1.8%		2.3%	(2.4%)	1.9%	(2.0%)	2.0%	(2.2%)	1.6%	(1.7%)	1.9%	(2.0%)
Euro Area	-0.3%	(-0.2%)	-0.5%	(-0.4%)	1.0%		0.5%	(0.7%)	2.3%		2.3%		1.3%	(1.1%)	1.7%	
Japan	2.6%		2.5%		1.1%		1.4%	(1.3%)	0.1%	(0.5%)	0.1%		-0.3%	(-0.1%)	0.0%	
UK	0.1%		0.1%	(0.3%)	1.6%		1.6%	(1.8%)	2.3%	(2.5%)	2.7%	(2.9%)	1.2%		2.0%	(2.1%)
Switzerland	1.6%		1.2%	(1.0%)	1.1%		1.4%		-0.6%		-0.5%		0.3%		0.6%	

#### USA – Energy and food prices turn around

##### GDP Growth

Swiss Life Asset Management	Consensus
2012: 2.1%	2012: 2.1%
2013: 1.8%	2013: 2.3%

House prices, homes sales, homebuilders' sentiment, Conference Board leading indicator, durable goods orders, vehicle sales, average hourly earnings, consumer credit, Empire State manufacturing survey, industrial production, housing starts. This is the list of macroeconomic data which managed to surprise positively over the past month, benchmarked against expectations in the respective Bloomberg poll. It needs to be stressed at the same time, however, that market expectations have moderated notably over the past months driven by the looming fiscal cliff and renewed fears as regards the future of Europe. This moderation of expectations opens up the room for positive surprises. All in all, the macro data picture does not look as bleak as the sentiment transmitted by the media and segments of the financial market seems to convey. Yet, two of the key data, namely the ISM survey and payrolls, are painfully missing from the list of positive surprises, which unsettled markets and will keep us on alert as regards economic dynamics going forward. The continued recovery of the labour market, even though it may be a moderate one, remains key on our watch list for the business cycle going forward. Unfortunately, the uncertainties around the eventual path of fiscal policy next year already may be holding back investment and hiring by private companies. Income generation of private households on an inflation-adjusted basis, however, has strengthened noticeably. Real disposable

income growth has picked up from around zero early this year to 2.8% on a 3 month annualised basis in May, the fastest pace since mid 2010. This pickup should translate into somewhat better retail sales data, following the weakness seen in recent months. Moreover, private sector deleveraging is well advanced, to the point where this process no longer poses a significant downside risk to GDP growth. Specifically for households, debt levels have declined to the point where debt service burdens are unusually low, also helped of course by low interest rates, and household net worth has returned fairly close to longer-term levels. Apart from the liability side of the balance sheet, the asset side has improved notably on the back of house prices and equity wealth. Meanwhile, NAHB homebuilder sentiment jumped to a five year high, substantiating the case for the housing sector to increasingly reassume its role of a growth pillar. In our forecast, the second half of this year will generate stronger quarterly GDP prints than what we have seen over the past two quarters.

##### Inflation

Swiss Life Asset Management	Consensus
2012: 1.9%	2012: 2.0%
2013: 1.6%	2013: 1.9%

With the latest increase of energy prices, the trough in monthly inflation rates should lie behind us. Moreover, not least driven by the unusual drought in the US, higher agricultural prices will slowly feed into headline inflation rates around the globe. Despite monthly changes gaining some upward momentum, annual inflation rates will pursue their trend to the downside reaching a low point early next year according to our projected path.

Source for Consensus Estimates: Consensus Economics Inc. London, 9 July 2012

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### Euro Area – Trade balance improvements go unnoticed

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#### GDP Growth

Swiss Life Asset Management	Consensus
2012: -0.3%	2012: -0.5%
2013: 1.0%	2013: 0.5%

According to our own growth projection, the Euro Area should be leaving the territory of negative quarterly growth rates in the current quarter. Although the region's purchasing managers survey remains well below the crucial 50 points threshold, at least they seem to have found a bottom in the big member economies. In this context, one has to stress the Irish case, having started austerity immediately and strictly and having undertaken necessary structural adjustments, the purchasing manager index now stands at 53.1, among the highest readings in Europe. In line with this, we observe noteworthy improvement of underlying economic momentum in Ireland. As a matter of fact, all of the infamous PIIGS countries were able to substantially ameliorate their respective trade balances over the past year or even longer. The weak Euro does its share to bolster price attractiveness of their export goods, while on the more negative side and unsurprisingly import growth in these countries is rather poor. Furthermore, the unemployment rate in the region jumped to a record high of 11.1% in May which should keep domestic demand lacklustre. Sturdy readings on industrial production in June and sound factory orders point to a modest growth acceleration in the second half of this year.

#### Inflation

Swiss Life Asset Management	Consensus
2012: 2.3%	2012: 2.3%
2013: 1.3%	2013: 1.7%

We had to integrate the announced VAT hike in Spain into our inflation path, which will take effect from September onwards. Despite this lift, annual headline inflation should drop below 2% from October onwards. Obviously, given the latest climatic conditions around the globe and Middle East tensions, the path will be highly dependent on food and energy price developments.

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### Japan – Fewer signs of slow-down than elsewhere

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#### GDP Growth

Swiss Life Asset Management	Consensus
2012: 2.6%	2012: 2.5%
2013: 1.1%	2013: 1.4%

Even before the distortions triggered by last year's earthquake, Japan's quarterly GDP growth rates displayed extreme volatility. Since 2008, the percentage change in GDP from one quarter to another fell in a wide range from around -4% to +1.6%. On average, real gross domestic product contracted by 0.1% in each quarter since 2008, leaving it more than 2% lower today compared to its level three years ago. This suggests that there is a certain amount of pent-up demand in Japan's domestic economy left. Going forward, we continue to expect fewer swings and on average positive quarterly growth until the end of 2013. While dynamics in the global economy have clearly changed gear to a slower pace through the second quarter, the underlying trend in domestic activity in Japan showed resilience. Both coincident and leading indicators as well as business sentiment surveys did not contract by the same way observed in Europe or the US. Public works are still contributing substantially to domestic growth, while lower import prices for fuels have a beneficiary impact on net trade data compared to 2011. The marked contrast between business sentiment in Japan and other economies continued into the current quarter: According to the Reuters Tankan survey, manufacturers and services firms expect improving business conditions in three months.

#### Inflation

Swiss Life Asset Management	Consensus
2012: 0.1%	2012: 0.1%
2013: -0.3%	2013: 0.0%

Lower energy prices through the second quarter mean that we have to revise the inflation forecast down. The positive prefix to inflation seen during the first half of the year was a base effect and a retreat into deflationary territory will probably materialise sooner than previously expected. Political progress has been made as concerns the raise of the consumption tax. The effects of this measure to restore public finances will not become visible in the inflation data before 2014.

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### UK – Inflation plunges to 32-month low

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#### GDP Growth

Swiss Life Asset Management	Consensus
2012: 0.1%	2012: 0.1%
2013: 1.6%	2013: 1.6%

The first official guess of second quarter GDP growth based on a mix of less than 50% of actual output data and survey results will be published on July 25. A poll by Bloomberg shows that 31 out of 36 economists expect a third straight quarterly contraction and thus a continued recession. Based on modestly improved data such as manufacturing production and net trade, we think a return to mildly positive growth of around 0.2% in the second quarter is likely. Comments by other economists highlight the difficulties to gauge economic activity in the UK during the second and also the third quarter. The extra holiday for the Queen's jubilee and the Olympic Games are affecting a broad range of economic statistics in ways difficult to predict. To make things worse, poor weather conditions in June are said to have dampened activity in many sectors. Rapidly falling inflation provides a boost to disposable incomes in coming months. Important preconditions for improving economic dynamics through the second half of 2012 are further signs of stabilisation on both the labour and housing market and a continued recovery of the purchasing managers index through the third quarter.

#### Inflation

Swiss Life Asset Management	Consensus
2012: 2.3%	2012: 2.7%
2013: 1.2%	2013: 2.0%

Our conviction that inflation should drop substantially due to austerity explained the wide gap between our own forecast and the consensus estimate. And indeed, inflation is now falling rapidly from 5.2% last September to just 2.4% in June. Soaring commodity prices as a consequence of the drought in the United States are the most important upside risks to the forecast.

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### Switzerland – On balance more positive surprises

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#### GDP Growth

Swiss Life Asset Management	Consensus
2012: 1.6%	2012: 1.2%
2013: 1.1%	2013: 1.4%

Last month, we raised our forecast for average annual growth this year from 0.6% to 1.6% on the back of strong data reported for the last quarter 2011 and the first three months of 2012. One month later, apparently, a majority of our peers has also adjusted their own growth profile to the upside, resulting in a higher consensus forecast. Judging by a Citigroup index, Switzerland ranks first among the five regions covered in this paper in posting positive economic data surprises. Over the past month, labour market data, the purchasing managers index and retail sales figures all confirmed Switzerland's resilience against Europe's sovereign debt crisis. Adjusted for seasonal factors, car sales rose 1.8% through the second quarter. Since car dealers started to pass on lower import prices to consumers last summer, car sales surged by more than 13%, a sign of vital domestic demand. Low interest rates continue to support construction and thus partly explain our favourable outlook. Including the second quarter, for which official GDP statistics will not be made available before September 4, we expect average quarterly GDP growth to reach 0.3% until end of 2013.

#### Inflation

Swiss Life Asset Management	Consensus
2012: -0.6%	2012: -0.5%
2013: 0.3%	2013: 0.6%

In annual comparison, Switzerland's consumer price index contracted in each of the past nine months. This deflationary period will phase out in the second half of 2012. Assuming unchanged energy prices, we expect the return to positive annual headline inflation rates for October 2012. Yet, nobody in Switzerland should be kept awake by inflation fears these days. We expect inflation to stay well below 1% until the end of the forecast horizon.

#### Released and approved by the Economics Department, Swiss Life Asset Management AG, Zurich

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