

March 2021

## Key messages

- Europe: vaccination progress will increase reopening pressure despite concerns over virus mutations
- Switzerland: a swift recovery starting in the second quarter will lift GDP above pre-crisis levels in 2021
- Inflation is rising, with one-off effects in the Eurozone and more underlying price pressure in the US

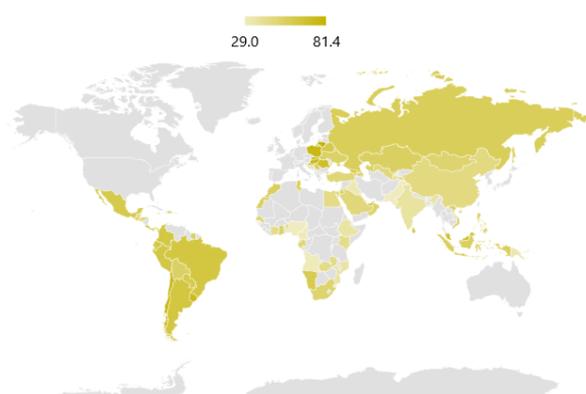
## Comparison of forecasts

	2021 GDP growth		2022 GDP growth		2021 inflation rate		2022 inflation rate	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	4.8%	4.7% ↑	3.2%	3.6%	2.2%	2.3% ↑	2.2%	2.2%
Eurozone	4.5% ↓	4.4%	2.9% ↑	4.1% ↑	1.4% ↑	1.2% ↑	1.4% ↓	1.2% ↓
Germany	3.6% ↓	3.5% ↓	2.8% ↑	3.8% ↑	1.9% ↑	1.7% ↑	1.5% ↓	1.6%
France	6.4% ↓	5.5% ↓	2.6% ↑	3.6% ↓	1.3% ↑	0.8%	1.4% ↓	1.1%
UK	5.3% ↑	4.2% ↓	4.3% ↑	5.6% ↓	1.5%	1.5%	1.6%	2.0%
Switzerland	3.5%	3.0% ↓	2.2%	3.0% ↑	0.5%	0.3%	0.7%	0.5%
Japan	2.9% ↑	2.3% ↓	1.6% ↑	2.3% ↑	0.0%	-0.2% ↓	0.4%	0.4% ↓
China	8.3%	8.4%	5.2%	5.5% ↑	1.4%	1.4%	2.1%	2.1%

Arrows indicate difference from previous month  
Source: Consensus Economics Inc. London, 8 February 2021

## Chart of the month

ESG Score for Emerging Markets  
(the darker the colour, the better the score)



Source: Swiss Life Asset Managers

In addition to the traditional macroeconomic analysis, which considers mainly economic variables and political risks, ESG (Environmental, Social & Governance) factors focus on a sustainable development and are thus an indicator of a country's long-term stability. Meanwhile, ESG scores from leading data providers correlate only weakly with each other, as the scores are dependent on the factors considered as well as their chosen weightings. To obtain more transparency, we built a proprietary ESG model for developing countries, which allows for a deeper analysis, and serves as a basis for our country selection on the ESG-focused product development side.

## USA

### The magic of stimulus

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 4.8 %	2021: 4.7 %
2022: 3.2 %	2022: 3.6 %

Following a sluggish end to 2020, economic activity picked up significantly in the first two months of 2021. While the labour market remained in the doldrums in January due to ongoing restrictions, industrial production posted its fourth consecutive monthly increase, reaching 98% of its pre-crisis level. Meanwhile, retail sales surged in January, as incoming stimulus checks for households unleashed the pent-up demand accumulated during the weak final quarter of 2020. This was only the beginning: Joe Biden's proposed fiscal package will add another USD 1400 of direct government handouts per person to the USD 600 already disbursed from the December fiscal package. The "Biden stimulus" stands a good chance of being approved by Congress before mid-March, when enhanced unemployment benefits are set to expire. Also, most political observers now expect the final size of the package to be much higher than initially estimated, closer to the USD 1.9 trn mark of Joe Biden's original proposal. The fiscal boost, in combination with relatively fast progress on the vaccination front, will lead to a significant outperformance of the US economy in 2021. We expect US GDP to surpass its pre-crisis level already after the second quarter and the economy to post a negative output gap of around 2% at the end of 2021, far smaller than most other developed nations.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 2.2 %	2021: 2.3 %
2022: 2.2 %	2022: 2.2 %

The US currently experiences a significant gap between sluggish services prices and rising core goods prices, which exclude food and energy. The former is a result of labour market slack, the latter the result of higher input costs due to supply side bottlenecks and a surge in commodity prices. Services prices are likely to normalise in the second quarter, while headline inflation will get an additional boost from higher energy prices. In April and May, headline inflation might even temporarily approach the 3% mark in the US.

## Eurozone

### Manufacturing held back

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 4.5 %	2021: 4.4 %
2022: 2.9 %	2022: 4.1 %

The vaccination campaign has gained momentum in the Eurozone after an embarrassingly slow start, but daily doses administered per 100 people are still much lower than in the US or the UK. At the time of writing, only around 4% of the population have received at least one COVID-19 jab. Hence, containment measures have remained very tight up until February and only minor easing measures are on the cards for March. This was reflected in a disappointingly weak February services PMI (Purchasing Managers' Index), which has been languishing below the 50-points expansion mark for the sixth consecutive month. We thus expect Eurozone GDP to post another drop in the first quarter, before a rapid recovery will likely kick in during the second quarter. It also looks as if the manufacturing sector is currently held back by supply constraints and could accelerate production once these constraints are eased. According to the PMI survey, the orderbook is swelling, while delivery times have surged – in Germany even surpassing the April 2020 levels. On the political side, the mood has improved significantly with Mario Draghi becoming Italian prime minister. For the first time in five years, spreads between Italian and German sovereign bonds have moved below 100 basis points. This has fuelled speculation that Italy could take advantage of looser financial conditions to issue ultra-long debt of 50 years or even longer.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4 %	2021: 1.2 %
2022: 1.4 %	2022: 1.2 %

The annual inflation rate experienced its largest change since the creation of the monetary union, jumping from -0.3% in December to 0.9% in January. Apart from tax effects in Germany and very temporary factors (weather, sales season), new weights played a major role. 2020 inflation numbers were based on the pre-crisis consumption basket, while 2021 numbers use updated weights that reflect the consumption pattern of 2020, attaching for example a much lower weight to package holidays or eating out.

## Germany

### 35 is the new 50

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.6%	2021: 3.5%
2022: 2.8%	2022: 3.8%

New COVID-19 cases per 100'000 people over seven days declined visibly between mid-January and mid-February, before bottoming out at around 60. This latest stagnation is concerning, given Germany's still strict containment measures that have been prolonged until at least 7 March. Worries over the spread of more infectious virus mutations triggered the lockdown extension as well as the implementation of a more conservative target of 35, down from 50, cases per 100'000 over seven days. We expect GDP to contract by 0.4% in the first quarter of 2021 after the disappointing stagnation in the last quarter of 2020. Easings of containment measures are likely after the vaccination of the highest risk groups towards the end of the first quarter. This will trigger a decent recovery in the second quarter 2021. A strong February beat of the manufacturing Purchasing Managers' Index (PMI) at 60.6 confirms that the economy is still supported by an industrial recovery. Meanwhile, the services PMI disappointed consensus expectations at 45.9, down from 46.7 in January. On the bright side, services business expectations improved in the PMI as well as in the ifo survey. Chancellor Merkel aims at offering a vaccine to every adult until 21 September, just before the federal elections on 26 September. Whether this goal will be reached highly depends on the availability of new vaccines, including Johnson & Johnson, CureVac and Novavax.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.9%	2021: 1.7%
2022: 1.5%	2022: 1.6%

The strong industrial recovery comes hand in hand with increasing price pressures as reported in the PMI survey. Both the manufacturing input and output price indices rose further in February. Coupled with multiple one-off effects and base effects from energy prices, we expect inflation to shoot above 3.0% by the end of 2021. As this reflation will be a temporary phenomenon only, the ECB will look through it and keep its accommodative stance.

## France

### Front-loaded damage

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.4%	2021: 5.5%
2022: 2.6%	2022: 3.6%

The economic damage caused by the second wave was front-loaded in France. Tight restrictions led to a 1.3% GDP drop in the fourth quarter 2020, a decline that was only topped by Italy among major economies, but nevertheless better than we had anticipated. While many economists expect a technical recession in France, i.e. another GDP drop in the first quarter, we are more constructive and expect 0.4% quarter-on-quarter growth as restrictions have not been tightened further so far in the first quarter according to the Oxford Stringency Index. Risks are, however, skewed to the downside as COVID-19 infections are stuck at relatively elevated levels and certain regions are mulling new restrictions. This is reflected in weak service sector sentiment, while manufacturing is recovering swiftly, in line with other economies. As the French economy is services-heavy and starting 2021 from only 95% of its pre-crisis output level, we expect the recovery after the "Corona winter" to be more pronounced than in Germany and to be higher than consensus currently expects. Progress on the vaccination front is, however, key. The current vaccination speed is disappointing, but the government intends to accelerate the programme and expects 40% of the population to be vaccinated by June 2021. Despite increasing willingness to be vaccinated among the French, the willingness remains subpar compared to other economies.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.3%	2021: 0.8%
2022: 1.4%	2022: 1.1%

As elsewhere in the Eurozone, new weights for the items in the harmonised consumption basket have led to an inflation surprise in January. Headline inflation increased to 0.8% in January from 0.0% in December. However, a different timing of the sales season fuelled clothing inflation, a factor that is set to reverse in February. Still, we have revised up our 2021 inflation forecast due to the higher starting point to the year and the recent increase in energy prices.

## UK Vaccines work

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.3 %	2021: 4.2 %
2022: 4.3 %	2022: 5.6 %

After Israel, the UK is the next major country to experience first-hand the positive effects of a rapid vaccination drive. By observing hospital admissions in Scotland, scientists found that already a single shot of the Pfizer/BioNTech and the Oxford/AstraZeneca vaccines showed effectiveness of 85% and 94%, respectively, against COVID-19-related hospitalisation 28-34 days post-vaccination. At the time of writing, 26% of the population already received at least one shot, so hospitalisations are likely to continue their downward trend, allowing for a gradual re-opening of the economy. Prime Minister Boris Johnson laid out a detailed road map out of the current lockdown in England. Schools will reopen on 8 March, accompanied by a strict testing regime. On 29 March, rules for domestic travel and outdoor sports will be eased. On 12 April, non-essential retail and personal care as well as outdoor hospitality are set to open. On 17 May, indoor hospitality and hotels reopen while 21 June is the earliest date for all restrictions to be removed. All easing steps are conditional on certain medical criteria that need to be met. Pent-up demand in the UK is significant. Retail sales collapsed in January due to the lockdown, and anecdotally, travel bookings surged after the reopening plans were unveiled. Hence, we expect a rapid recovery of the UK economy in the second quarter following a GDP decline in the first quarter and believe that current consensus expectations for full-year 2021 GDP are too cautious.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.5 %	2021: 1.5 %
2022: 1.6 %	2022: 2.0 %

In line with our expectation, the UK started the year with a 0.7% inflation reading in January. We expect inflation to increase to 1.0% in February and to fluctuate within the 1-2% range for the rest of the year. The recent appreciation of GBP is counteracting to some extent the rising inflationary pressure from higher energy prices.

## Switzerland From flop to top 15

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.5 %	2021: 3.0 %
2022: 2.2 %	2022: 3.0 %

Fourth-quarter 2020 GDP numbers for Switzerland will be published after this edition goes to print. We expect a slightly positive 0.2% growth from the previous quarter. The weekly GDP indicator published by Switzerland's State Secretary for Economic Affairs shows a weak downward trend so far this year, mirroring stricter containment measures introduced at the end of December 2020. We forecast weaker growth in the first quarter 2021, before easings of containment measures lead to a swift recovery from the second quarter onwards. The recovery is highly dependent on further progress on the vaccination front. This remains our base case, even though tail risks of disruptions due to the spread of more infectious COVID-19 mutations that render vaccines less effective have risen. After a rather slow start of the vaccination programme, Switzerland now ranks in the top 15 countries when looking at doses administered per 100 people. While the Swiss health ministry reiterated its aim to vaccinate everyone who wants to by the end of June, cantonal doctors are more sceptical about this timeline. Switzerland has ordered enough doses to cover 190% of the population, including orders of vaccines that are not yet approved. Our cautiously optimistic view for 2021 does not change our expectations of an increasing unemployment rate to 3.8% until April 2021, following a rise from 3.47% to 3.54% in January 2021. Likewise, corporate bankruptcies will increase throughout the year.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 0.5 %	2021: 0.3 %
2022: 0.7 %	2022: 0.5 %

While still in deflationary territory, January inflation surprised us and consensus positively at -0.5% over one year. The increase of 0.1% over one month was driven by higher prices for energy products and for hotel overnight stays. We expect an increase of yearly inflation to above 1% towards the end of the year. New weights of the consumption basket that reflect 2020 spending patterns could lead to some volatility.

## Japan

### Almost back at pre-crisis level

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.9%	2021: 2.3%
2022: 1.6%	2022: 2.3%

The Japanese economy ended the year 2020 better than we had expected, with strong growth in the final quarter that brought GDP back to 99% of its pre-crisis level. Japan thus mastered the COVID-19 crisis comparatively well in 2020. Not only was the economic damage less bad than in other developed markets, Japan also had an excess mortality of just 1.8% (deaths in 2020 vs. average 2015-2019), a number that was only lower in countries such as New Zealand, Norway, Taiwan, Latvia or Iceland. Most impressively, Japan achieved this by relying mostly on voluntary measures. In the first quarter 2021, the government declared another state of emergency and released a set of recommendation to fight the “winter wave” of infections – very successfully so. New cases have dropped significantly, and the government is discussing to lift the state of emergency at least on a regional level. Due to lower private consumption, we expect GDP to drop slightly in the first quarter (-0.7%), before the economy moves back to growth. Manufacturing will remain a crucial growth engine. In February, solid foreign demand has lifted the manufacturing Purchasing Managers’ Index above the 50-points expansion mark for the first time since April 2019. Due to the successful control of the pandemic, the economic outlook is less dependent on the vaccination progress, which is very slow in Japan. Only the Pfizer/BioNTech vaccine is approved so far, and the first shot applied was applied in mid-February only.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 0.0%	2021: -0.2%
2022: 0.4%	2022: 0.4%

Headline inflation increased significantly, from the cyclical trough of -1.2% in December to -0.6% in January. The improvement was driven by the suspension of the government’s “Go To Travel campaign”, which offers discounts for domestic tourism. We expect a swift return of inflation to around 0% in the second quarter due to higher energy price prices. Inflation will likely remain only slightly in positive territory throughout 2021 and 2022.

## China

### Vaccinations not a priority

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 8.3%	2021: 8.4%
2022: 5.2%	2022: 5.5%

China’s week-long Lunar New Year holiday that ended on 18 February had been one of the least mobile in recent time. Amid a surge of COVID-19 cases in northern China at the end of January, Chinese authorities discouraged travel during the holiday season by implementing containment restrictions, such as quarantine obligations when entering another province. Consequently, daily passenger traffic indicators showed a 75% drop compared to last year’s holiday season. While retailers and catering companies in large cities benefited from “staycationing” consumers, the travel restrictions likely still had a dampening effect on overall holiday spending. This will translate into a more tepid quarterly economic expansion. On the positive, the containment restrictions have proven successful, as daily new virus cases dropped significantly, giving hope for a removal of restriction measures in the second quarter this year. Meanwhile, while China has been one of the leaders in containing the virus spread with lockdown measures, it belongs to the laggards when it comes to vaccinations – having so far inoculated only about 3% of its population. One reason for the slow vaccination pace is the country’s lack of urgency as the majority of Chinese citizens lived “COVID free” for close to a year. This means however, that the country’s borders might remain closed for a longer while, with negative implications for economies reliant on Chinese tourists and students.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4%	2021: 1.4%
2022: 2.1%	2022: 2.1%

China’s January headline as well as core CPI entered negative territory, both at -0.3%. Particularly the weak reading on core CPI has been a negative surprise, pointing to weak consumer demand, especially for services. On the positive, the producer price index (PPI) increased for the first time in a year by 0.3%, driven by higher commodity prices – a positive for companies’ profitability and a signal that the manufacturing sector is holding up well.

## Economic Research



**Marc Brüttsch**  
**Chief Economist**  
marc.bruetsch@swisslife.ch  
🐦 @MarcBruetsch



**Damian Künzi**  
**Economist Developed Markets**  
damian.kuenzi@swisslife.ch  
🐦 @kunzi\_damian



**Josipa Markovic**  
**Economist Emerging Markets**  
josipa.markovic@swisslife.ch



**Francesca Boucard**  
**Economist Real Estate**  
francesca.boucard@swisslife.ch  
🐦 @f\_boucard



**Rita Flier**  
**Economist Quantitative Analysis**  
rita.flier@swisslife.ch

**Consensus Economics**  
**Forecast Accuracy**  
**Award Winner**  
Switzerland 2019

**Consensus Economics**  
**Forecast Accuracy**  
**Award Winner**  
Euro zone 2019

**If you have any questions or if you would like to subscribe to this publication,**

please send an email to: [info@swisslife-am.com](mailto:info@swisslife-am.com).

For more information visit our website at: [www.swisslife-am.com](http://www.swisslife-am.com)



**Released and approved by Swiss Life Asset Management Ltd, Zurich**

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements, which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

**France:** This publication is distributed in France by Swiss Life Asset Managers France, 153 rue Saint-Honoré, 75001 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Corpus Sireo Real Estate GmbH, Aachener Strasse 186, D-50931 Köln, Swiss Life Asset Managers Luxembourg Niederlassung Deutschland, Hochstrasse 53, D-60313 Frankfurt am Main and BEOS AG, Kurfürstendamm 188, D-10707 Berlin. **UK:** This publication is distributed by Mayfair Capital Investment Management Ltd., 55 Wells St, London W1T 3PT. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General Guisan Quai 40, CH-8022 Zurich.