

April 2021

## Key messages

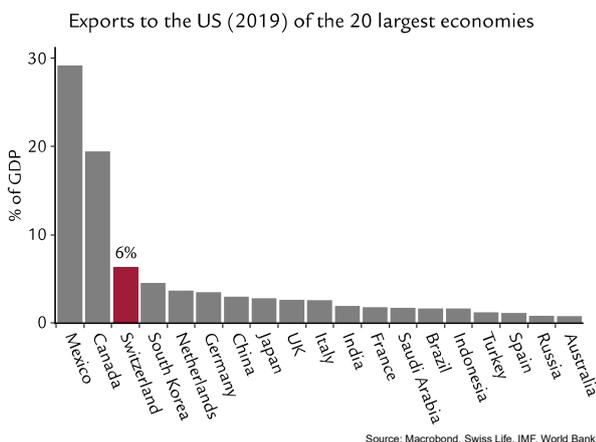
- Increased vaccination pace likely to improve sentiment in continental Europe in the second quarter
- The US drives the global economy in 2021 thanks to progress in the vaccination programme and fiscal stimuli
- Temporary surge in inflation in the second quarter due to energy prices and economic normalisation

## Comparison of forecasts

	2021 GDP growth		2022 GDP growth		2021 inflation		2022 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	5.5% ↑	5.7% ↑	3.3% ↑	4.0% ↑	2.5% ↑	2.4% ↑	2.2%	2.2%
Eurozone	4.4% ↓	4.3% ↓	3.0% ↑	4.2% ↑	1.5% ↑	1.5% ↑	1.2% ↓	1.3% ↑
Germany	3.5% ↓	3.4% ↓	3.0% ↑	3.8%	2.1% ↑	2.0% ↑	1.2% ↓	1.6%
France	6.3% ↓	5.5%	2.9% ↑	3.7% ↑	1.3%	1.0% ↑	1.3% ↓	1.1%
UK	5.3%	4.6% ↑	4.3%	5.8% ↑	1.4% ↓	1.6% ↑	1.6%	2.0%
Switzerland	3.6% ↑	3.2% ↑	2.2%	2.9% ↓	0.5%	0.3%	0.7%	0.5%
Japan	2.9%	2.8% ↑	1.8% ↑	2.3%	0.1% ↑	-0.1% ↑	0.4%	0.5% ↑
China	8.3%	8.4%	5.2%	5.4% ↓	1.4%	1.5%	2.1%	2.5% ↑

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

## Chart of the month



On 11 March Joe Biden signed the USD 1.9 trillion American Rescue Plan into law, and just a few days later the first stimulus cheques of this stimulus package were sent out to US households. Part of the money will be used for immediate consumer spending, which will fuel imports and further widen the chronic US current account deficit. US fiscal stimulus is thus always an economic stimulus programme for the whole world. The neighbouring countries will benefit most from this, followed by export-oriented economies in Europe and Asia – including Switzerland in the best position, where exports to the USA account for around 6% of economic output.

## USA

### Higher interest rates as a brake?

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.5%	2021: 5.7%
2022: 3.3%	2022: 4.0%

US fiscal policy is lurching from stimulus to stimulus. Just shortly after the adoption of the "American Rescue Plan" (page 1), the Biden administration is targeting the "Build Back Better Plan." Details of this infrastructure programme were not yet known at the time of writing. According to media reports, the programme will last several years and encompass around USD 4 trillion, initially with a focus on transport infrastructure and in the second phase on social infrastructure (e.g. free universities). In contrast to the "American Rescue Plan," most of the spending is to be financed with tax increases, which is why the growth effect is likely to be much smaller. Nevertheless, the persistent "fiscal incontinence" together with higher growth expectations due to the speedy progress of the vaccination campaign has led to a rise in long-term interest rates since the beginning of the year. This could particularly weigh on the housing market, which was an important growth pillar in 2019 and 2020. However, the drag on activity figures in the housing market has so far been low, and interest rates on a 30-year fixed mortgage, the standard financing for real estate, are still low by historical standards. Nevertheless, we are taking a cautious stance and have recently increased the 2021 and 2022 GDP projections less strongly than our peers.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 2.5%	2021: 2.4%
2022: 2.2%	2022: 2.2%

While the ghost of inflation is haunting the US media, the actual reported inflation figures have so far been astonishingly low. This will change in the second quarter as we expect core inflation to normalise from low levels and anticipate that higher energy prices and base effects will temporarily push headline inflation rates above 3%.

## Eurozone

### Confidence is back

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 4.4%	2021: 4.3%
2022: 3.0%	2022: 4.2%

At the end of the first quarter, business sentiment indicators showed a surprisingly strong increase. Besides consumer confidence in France, which climbed to the highest level in 2021, it was mainly the Purchasing Managers' Indices (PMI) that indicated that economic activity in the Eurozone has picked up speed again. In the industrial sector, the improvement in business sentiment is mainly due to a strong increase in orders received. In the case of Germany, the survey data on incoming orders from domestic and foreign clients reached record figures. The recent containment measures have been designed to keep supply chains intact, which has benefited both industrial companies and related service providers in the transportation business. The real surprise, however, came from the services sector. Here, too, the mood has improved in recent weeks. Apparently, some providers are now able to adjust their business activity to the prevailing demand even during a lockdown. However, the slow progress of the vaccination campaigns in the large member countries and another extension of containment measures have dampened the outlook for the severely affected parts of the services sector at least in the short-term.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.5%	2021: 1.5%
2022: 1.2%	2022: 1.3%

Following the strong rise in inflation at the turn of the year, price data remain subject to strong fluctuations. Depending on the timing of further easing, prices for accommodation services are likely to be adjusted to the new opportunities in different regions. For those areas where the lockdown threatens to continue for longer, price reductions are expected outside the usual season sell-off times.

## Germany Stimulus package 2021: vaccines

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.5%	2021: 3.4%
2022: 3.0%	2022: 3.8%

2021 will not only mark the end of Chancellor Merkel's term of office. There is a high likelihood that the grand coalition will no longer retain governmental responsibility. This is increasing uncertainty among companies and investors about the future economic and budget-related orientation. The short-term economic outlook is still dominated by the rather sluggish response to the pandemic and companies' steadily improving expectations regarding future business trends. After business sentiment improved significantly in the first quarter according to the Ifo Business Climate Index and surveys of purchasing managers, the renewed containment measures threaten to disappoint hopes of the economic recovery at least temporarily. While order intake in industry has recently developed positively, rapid progress with the vaccination campaign would be the best fiscal stimulus package for the services sectors. Of the four large euro member states, Germany has the lowest rate of vaccination. Progress in this regard is doubly important for Germany's ruling parties: it will help to broaden the upswing and is also likely to secure votes.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 2.1%	2021: 2.0%
2022: 1.2%	2022: 1.6%

Manufacturing input and output price indices continue to rise. Together with one-off effects such as the return to normal VAT rates and the introduction of a CO2 tax, higher year-on-year energy prices will ensure a significant, but only temporary, rise in inflation until the end of 2021. Germany's inflation rate will rise to 3.0% by December according to our calculations. By then, however, the cyclical peak will already have been reached. Inflation is expected to fall below 1% again in January 2022.

## France Is Macron keeping his promise?

### GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.3%	2021: 5.5%
2022: 2.9%	2022: 3.7%

France's vaccination campaign is also sluggish. In an international comparison, the country is not among the 30 countries with the highest rate of vaccination. To make matters worse, willingness to be vaccinated is comparatively low among the French population. The outlook for an economic recovery is also clouded by rapidly rising case numbers and the threat of a renewed overload of the healthcare system in particularly affected regions. The imposition of stricter containment measures seems unavoidable, which will further slow the upswing. France's real gross domestic product is not expected to return to pre-crisis levels before the second quarter of 2022. This date coincides with France's presidential elections. Emmanuel Macron's main campaign promise in 2017 was to reduce the unemployment rate to 7%. He was on track with his reforms prior to the pandemic, but by the end of 2020 unemployment had risen again to 7.7%. A detail from the INSEE consumer confidence survey shows that fears about unemployment remain high. Measures to support the labour market are therefore likely to remain at the top of the political agenda even after the economy opens up anew later in the year.

### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.3%	2021: 1.0%
2022: 1.3%	2022: 1.1%

Monthly inflation figures in France are likely to remain subject to significant volatility in 2021. On the one hand, the containment measures entail sell-offs at unusual times. On the other hand, a broad-based rise in service prices is likely this year. This expectation explains our comparably high inflation forecast. In addition, the base effect on energy prices is pushing up annual inflation. At the beginning of the fourth quarter, headline inflation is expected to reach its cyclical peak at 1.6%.

## United Kingdom

### Vaccination brightens the mood

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.3%	2021: 4.6%
2022: 4.3%	2022: 5.8%

The UK continues to lead all vaccination statistics in Europe and was able to increase the rate of vaccination towards the end of the first quarter to around 8,000 doses a day per million inhabitants. If this rate is maintained, all adults may have received at least a first dose by May. The success of the vaccination campaign has significantly improved sentiment in the UK. Although the country remained in one of Europe's strictest lockdown regimes in March, the Purchasing Managers' Index for the services sector has made a surprisingly strong move into the growth zone (56.8 points), and consumer confidence has continued to improve. The vaccination progress and steadily decreasing numbers of cases and deaths make Boris Johnson's gradual opening plan for the second quarter appear realistic, with all restrictions ending on 21 June at the earliest. We expect the UK to outperform all other major industrialised countries in terms of economic growth in the second quarter. The need to catch up is huge, especially in the domestic sector, given the low starting level. A downside remains: higher trade barriers due to Brexit caused exports to plummet in January. Customs clearance problems are likely to be resolved over time, but the situation with regard to industrial orders – particularly foreign orders – is much less rosy than in the rest of Europe or the US.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4%	2021: 1.6%
2022: 1.6%	2022: 2.0%

The strict lockdown has again depressed prices in the UK. Instead of the expected recovery in February, headline inflation eased to 0.4% from 0.7% in the previous month, mainly driven by sell-off prices in the apparel segment. However, we still expect inflation to recover in 2021 and to reach around 2% by the end of the year due to base effects.

## Switzerland

### End of deflation

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.6%	2021: 3.2%
2022: 2.2%	2022: 2.9%

The newly available high-frequency data to measure economic activity are sending promising signals: for example, the WWA index of weekly economic activity of the State Secretariat for Economic Affairs (SECO) has been rising strongly since calendar week 8 and is now around 1% above the previous year's level. The main reasons for the resumption of the growth trajectory are the robust export activity and the reopening of stores in March. The solid data for purchasing managers' indices for industry from the most important sales markets confirm the favourable environment for the export economy. A large part of summer holiday activity will again be concentrated at home this year, which should boost hotels, restaurants and retailers. Furthermore, the success of the vaccination campaign is decisive for the pace of growth over the coming quarters. In the authorities' scenario in which all people willing to be vaccinated will have had their jabs by the summer months, Switzerland's real gross domestic product is set to return to pre-crisis levels in the second half of 2021. In the short-term, however, the imponderables remain considerable: in particular, setbacks in coping with the pandemic cannot be ruled out. It is also uncertain how well the labour market will be able to absorb apprentices and school leavers in the current year.

#### Inflation

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

After fourteen months of a negative annual rate of change in the national consumer price index, the fourth deflationary episode of the last twelve years is coming to an end. We expect inflation to rise to 1% over the course of the year, which is exactly the middle of the Swiss National Bank's (SNB) target range of 0% to 2%.

## Japan

### Vaccination Minister has no jobs

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.9%	2021: 2.8%
2022: 1.8%	2022: 2.3%

Japan is bringing up the rear in terms of vaccination progress. At the time of writing, the island state, with a population of around 36 million over the age of 65, has only administered 800,000 vaccine doses. As the regulatory authority has so far been very hesitant, only the Pfizer/ BioNTech vaccine is currently available. The government is under pressure as Prime Minister Yoshihide Suga has promised to provide sufficient vaccine doses for the entire population before the Olympic Games in July. According to "Vaccination Minister" Taro Kono, however, the vaccination campaign, similar to continental Europe, should gain considerable momentum as of May due to new approvals and deliveries. On a positive note, Japan's economy has come through the crisis well, and the "coronavirus winter," which brought renewed restrictions, is likely to leave only minor drag marks. While sentiment indicators are tentatively pointing upwards, the labour market may return to the positive trend that has existed since October 2020 after a rather weak month of February. One uncertainty over our 2021 GDP forecast seems to be increasingly evaporating: a further postponement of the Olympic Games in Tokyo is not envisaged, even if the ban on foreign visitors destroys the hoped-for upswing in international tourism. The number of foreign tourists has plunged by as much as 99.7% since the record year of 2019.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 0.1%	2021: -0.1%
2022: 0.4%	2022: 0.5%

The inflation rate will change from negative to positive over the next few months, driven in particular by higher energy prices and base effects. Inflationary pressure, however, remains generally low. After the crisis year 2020, the spring wage negotiations ("shunto") are set to become the weakest collective bargaining round in years. We do not expect inflation rates to rise above 1% in either 2021 or 2022.

## China

### Growth is not everything

#### GDP growth

Swiss Life Asset Managers	Consensus
2021: 8.3%	2021: 8.4%
2022: 5.2%	2022: 5.4%

China's industry continued to show strong growth dynamics in the first two months of the year, while consumption took a hit. Restrictions on mobility during the Chinese New Year supported industrial production, as 75% of migrant workers remained in their cities of work and production facilities continued to operate. At the same time, travel restrictions have had a dampening effect on consumer spending. However, after a moderate start to 2021, we expect China's economy to post solid growth this year, as consumption should continue to recover while exports are being boosted by the accelerating global economic recovery. However, Beijing's economic policy focus is shifting to a more sustainable growth path. At the opening of the National People's Congress last month, China announced a moderate GDP growth target for 2021 of just "above 6%." While there is no upper limit to the target, it reflects that quality prevails over quantity and also gives policy makers more room for reform. Beijing also stressed that Research & Development spending is expected to grow by 7% over the next five years, a sign that innovation and self-reliance should be promoted, especially in the face of increasing external risks, with ongoing US-China tensions.

#### Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4%	2021: 1.5%
2022: 2.1%	2022: 2.5%

Headline inflation remained at a low level in February at -0.2% (previously -0.3%), while core inflation increased slightly to 0% (-0.3% in January). Higher commodity prices and a recovery in consumption should bring inflation back into positive territory in the months ahead. Meanwhile, the producer price index rose by 1.7% year-on-year, the highest level in two years.

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