

June 2021

Key messages

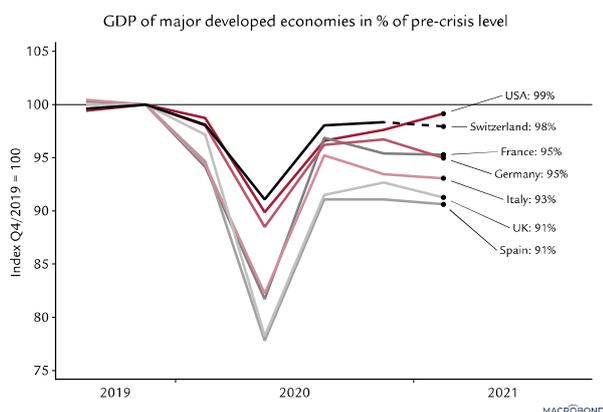
- USA: Clear rise in wage pressure
- Eurozone: Unlike in the years after 2009, fiscal policy is having a pro-cyclical effect
- Switzerland: A return to normal for shopping tourism as well

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	5.8% ↑	6.6% ↑	3.3%	4.2% ↑	3.3% ↑	2.8% ↑	2.3% ↑	2.3%
Eurozone	4.3% ↓	4.2%	3.3% ↑	4.3%	1.6% ↑	1.7% ↑	1.3% ↑	1.3%
Germany	3.4% ↓	3.3%	3.2% ↑	4.1%	2.4% ↑	2.2% ↑	1.3% ↑	1.6%
France	6.3%	5.5% ↑	3.0% ↑	3.9%	1.4% ↑	1.3% ↑	1.3%	1.1%
UK	5.4% ↑	6.0% ↑	4.3%	5.4% ↓	1.4%	1.6%	1.6%	2.2% ↑
Switzerland	3.6%	3.3%	2.3% ↑	2.9%	0.5%	0.3% ↓	0.7%	0.5%
Japan	2.5% ↓	2.8%	2.0% ↑	2.6% ↑	0.0% ↓	0.0%	0.4%	0.5%
China	8.2%	8.7%	5.4%	5.6% ↑	1.3% ↓	1.5%	2.3% ↑	2.2%

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 10 May 2021

Chart of the month



The "coronavirus winter" was long and harsh but, as expected, did not bring a repeat of the economic upheavals of spring 2020. Between October 2020 and March 2021, economic output stagnated or declined slightly in most developed economies, which is likely to be the case in Switzerland, with the USA showing the most dynamic performance. Both US and Swiss GDP came close to pre-crisis levels in the first quarter of 2021 and are expected to outperform them in the second quarter. The European countries, especially those on the periphery, are still a long way off this and underperformed expectations in the first quarter, which is why we revised our forecasts for the Eurozone slightly downwards.

USA Spectre of inflation looms

GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.8%	2021: 6.6%
2022: 3.3%	2022: 4.2%

With the rapid recovery of the US economy, financial markets' expectations of economic data have risen somewhat too much, resulting in more frequent disappointments of late. For example, retail sales fell slightly in April, but this is not a cause for concern after the rapid increase since the beginning of the year (around 15%). Labour market data were somewhat more surprising. Instead of the expected million, only 266,000 jobs were created in April and the unemployment rate rose from 6.0% to 6.1%. Ironically, the worsening labour market bottlenecks could explain the low job growth. US companies report that it is difficult to find suitable personnel – the corresponding sub-indicator in the NFIB SME survey reached its highest-ever level in April. This suggests that job-seekers from crisis sectors increasingly do not match job advertisements in boom sectors. In addition, temporary federal subsidies to unemployment benefits may prevent some unemployed people in low-wage sectors from returning to the labour market on pre-crisis wages for the time being. Wage pressure has thus risen significantly since the beginning of the year, especially in sectors such as retail, catering and the hotel segment.

Inflation

Swiss Life Asset Managers	Consensus
2021: 3.3%	2021: 2.8%
2022: 2.3%	2022: 2.3%

US headline inflation soared from 2.6% to 4.2% in April – well above expectations. This was due to higher energy prices and a sharp rise in goods prices – especially for used cars. Many price increases are cyclical (high demand encountering limited supply following easings) and are likely to prove temporary. Monetary policy will focus on services prices and wages, which have been rising at a much slower pace since the start of the year.

Eurozone Significant differences to 2009

GDP growth

Swiss Life Asset Managers	Consensus
2021: 4.3%	2021: 4.2%
2022: 3.3%	2022: 4.3%

At first glance, the global economic upswing seems to follow the pattern of the years following the financial crisis. As in the past, the economic area of the European Monetary Union has so far been recovering more slowly than the USA, Switzerland or large parts of East Asia. However, it is particularly clear in the eurozone that the current situation is not comparable to the situation of 2009. Unlike back then, the external shock was not followed this time by a banking or sovereign debt crisis in Europe's domestic markets. The coordinated response of monetary and fiscal policy prevented a sharp rise in unemployment in all Member States. The unemployment rate in the eurozone stood at 8.1% in March 2021, well below the rate of 12.1% recorded at the peak of the European debt crisis. In addition, the unemployment rate is already on a downward trend, which should continue with the further opening of the services sectors. For the second quarter, we expect gross domestic product to grow by 2.1% over the previous quarter. In contrast to 2009, the medium-term course is also set for growth: while austerity programmes slowed the recovery back then, large-scale infrastructure programmes will have a pro-cyclical effect in the next few years.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.6%	2021: 1.7%
2022: 1.3%	2022: 1.3%

Currently, seven of the nineteen euro-member countries have an inflation rate of 1.8% or higher. Hence the growing number of voices warning of a sustained rise in inflation. To understand the latest developments, it is worth noting that over two thirds of the current 1.6% inflation rate is attributable to energy and food. In our view, a broad-based repetition of the rise in consumer prices is unlikely.

Germany

Producers pay the price

GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.4%	2021: 3.3%
2022: 3.2%	2022: 4.1%

When the federal emergency brake was introduced at the end of April, the seven-day incidence of COVID-19 cases was above the threshold of 100 in 15 of 16 federal states. A month later, all federal states with the exception of Saxony and Thuringia fell below this threshold and began to open shops and outdoor areas of restaurants. At the same time, Germany is recording steady progress with vaccinations. Further easings are likely to follow soon, prompting purchasing managers in the services sector to take a more positive view. Their PMI is currently at 52.8, i.e. back above the level of August 2020. We are therefore still expecting a significant recovery in economic activity for the current quarter. This follows a slightly stronger than expected contraction in GDP of -1.8% in the first quarter of 2021. Not surprisingly, private consumption in particular had a negative impact on growth during the winter months. GDP at the end of March was thus still 4.9% below the level of the fourth quarter of 2019. After the slumps in January and February, industrial production picked up again in March, at +2.5%. The even stronger increase in order intake indicates that producers are still struggling with supply bottlenecks. This assumption is also confirmed by the further increase in delivery times in the PMI for industry in May.

Inflation

Swiss Life Asset Managers	Consensus
2021: 2.4%	2021: 2.2%
2022: 1.3%	2022: 1.6%

In addition to low-baseline effects, global supply bottlenecks continue to drive prices. Producer price inflation in Germany rose to 5.2% in April, the highest level since August 2011. The main drivers were energy prices and prices for intermediate goods such as scrap metal and wood. This development should ultimately contribute to the temporary overshooting of consumer price inflation this year.

France

Little interest in inflation

GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.3%	2021: 5.5%
2022: 3.0%	2022: 3.9%

The French economy suffered far less damage than Germany's economy in recent months, although containment measures were comparable with the start of the second wave in autumn 2020. In particular, service providers have now found solutions to bring their products and services to customers. For example, online commerce, which had previously been rather frowned upon, has now been greatly expanded. An extensive fiscal package helped to ensure that domestic demand remained robust in the first quarter 2021 in a European comparison. Consumption by private households and capital spending both contributed positively to GDP growth of 0.4%. While this number was in line with our own forecast, it significantly exceeded the consensus estimate. As a result, the forecast for GDP growth in 2021 was recently revised upwards in many places. In our still relatively optimistic scenario, we assume that the labour market situation will not deteriorate further and that tourism in the summer months will suffer less from the absence of foreign guests than in the previous year. Sentiment surveys covering all sectors of the French economy confirm our assumption that economic momentum accelerated significantly in the second quarter.

Inflation

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

According to Google Trends, the US internet search volume for the term "inflation" rose to a record level in May, while France received just half the number of searches compared to the previous record month of October 2004. Unlike Germany, stable VAT rates ensure there will not be any additional increase in consumer prices from that source. Accordingly, France's inflation rate will not rise above 2% for 2021 as a whole.

UK

Vaccinations and growth spurt

GDP growth

Swiss Life Asset Managers	Consensus
2021: 5.4%	2021: 6.0%
2022: 4.3%	2022: 5.4%

While UK output fell somewhat less than feared in the first quarter 2021 (-1.5% from the previous quarter), it still lagged most developed economies after the "coronavirus winter." Only in Spain was the gap to pre-crisis GDP (9.4%) even greater than in the UK (8.7%). The poor performance was due partly to the harsh containment measures but also to a more restrictive interpretation of national accounts, especially for government services, which have been hit by closures. Due to the low starting point and the brisk reopening timetable, the UK will see the highest quarterly growth rate among all developed markets in the second quarter: we currently expect 3.6%, with further upside potential. The figures published so far confirmed this. The UK is part of the exclusive club of economies, including the US, where the Purchasing Managers' Index (PMI) for services has been above 60 since April. Moreover, jobs were created again in March 2021 in a rolling quarter-on-quarter comparison for the first time since the beginning of the pandemic, and the unemployment rate fell from 4.9% to 4.8%. For the time being, the rapid recovery and progress with the vaccination programme are likely to outshine structural problems such as the country's flagging Brexit-induced export performance and the domestic political tug-of-war over Scotland's independence efforts.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.4%	2021: 1.6%
2022: 1.6%	2022: 2.2%

Inflation in April 2021 increased as expected from 0.7% to 1.5%. This was due to higher energy prices and the normalisation of goods and services prices as COVID restrictions were eased. In contrast to the USA and Germany, we do not expect inflation to exceed the Bank of England's 2% target in 2021 due to the large output gap.

Switzerland

Cross-border shopping resumes

GDP growth

Swiss Life Asset Managers	Consensus
2021: 3.6%	2021: 3.3%
2022: 2.3%	2022: 2.9%

On 1 June, the State Secretariat for Economic Affairs SECO will publish its first estimate of GDP for the first quarter of 2021. We expect GDP to be 0.4% down on the previous quarter. Measured against the median forecast of -0.9% from a Bloomberg survey of thirteen institutes, our forecast is comparatively optimistic. We base our observations on the following: SECO's Weekly Economic Activity Index (WWA) recovered from the middle of the first quarter and at times already surpassed the previous year's levels. With the reopening of stores in March, retail sales increased strongly by 22% from the previous month. The recovery of industrial production continued in the first quarter, and exports of goods to China reached record levels. In the medium term, Swiss exporters will benefit from infrastructure programmes in the US and southern Europe. The course is also set for growth in the short term. We expect GDP to grow by 1.7% in the current quarter. Since mid-May, the return to normal has also meant a return to cross-border shopping. Sales of food, beverages and tobacco in stores in southern Germany are already returning to pre-crisis levels. One risk to our forecast is the cancellation of the Olympic Summer Games in Tokyo and the resulting loss of the licensing income of the Swiss-based organiser IOC.

Inflation

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

In April, consumer inflation rose to 0.3%. This marked the end of the fourth deflationary phase since 2008. We expect a further increase in the coming months, driven in particular by higher prices in the hospitality and hotel industry, as well as for foreign travel. Retailers' price-setting power remains limited by new entries and cross-border offers.

Japan

An unpopular prime minister

GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.5%	2021: 2.8%
2022: 2.0%	2022: 2.6%

Japan's Prime Minister Yoshihide Suga is truly unenviable at the moment – approval ratings have recently fallen to lows since he took over the reins in September 2020. Japan is still struggling with a third (or, depending on the counting, fourth) wave of infections. This is pushing up fatalities while the vaccination campaign is only now gaining momentum due to lengthy approval procedures. In terms of vaccination progress, Japan is three months behind the countries of continental Europe, which were themselves considered to be sluggish. For a long time, only the Pfizer vaccine was available. The Moderna and AstraZeneca vaccines were only approved on 20 May – a prerequisite for a faster pace of vaccination before the Olympic Games. The latter remain under public fire. While the government is trying to whip up enthusiasm, all the polls show that the population prefers to cancel or postpone the games again. Clearly, such a (rather improbable) scenario would entail downside risks to our GDP forecast, which we have recently revised downwards due to poorer-than-expected first quarter data (GDP contraction by 1.3%). This was due to a surprising drop in business investment, but it should remain an exception this year as investment intentions are still intact.

Inflation

Swiss Life Asset Managers	Consensus
2021: 0.0%	2021: 0.0%
2022: 0.4%	2022: 0.5%

Against the backdrop of ubiquitous inflation fears, inflation numbers in Japan were surprisingly low and triggered a downward revision of our forecasts for 2021. In April, the annual inflation rate declined due to significantly lower mobile phone prices and, at -0.4%, remains in negative territory, which is probably unique worldwide. We only anticipate slight and short-lived rises in inflation rates (to between 0.5% and 0.7%) at the end of the year.

China

Accelerated vaccination campaign

GDP growth

Swiss Life Asset Managers	Consensus
2021: 8.2%	2021: 8.7%
2022: 5.4%	2022: 5.6%

Vaccinations are also proceeding quickly in China. As at 25 May, 36.6 vaccine doses had been administered per 100 inhabitants. The news of rising case numbers in neighbouring Asian countries is likely to lead to intensified efforts in the coming weeks. China's domestic economy recovered much faster than those in Europe or northern America. In the graph on page 1, China's gross domestic product, would already have reached 106.9% in terms of its pre-crisis level. Accordingly, the growth impulse of pent-up demand and increased savings already seems to be ebbing somewhat. A bigger impetus to manufacturing and foreign trade should come from an upturn in consumer demand from Europe. Domestic dynamic is being slowed, inter alia, by public authorities focusing on mitigating financial risks and limiting lending, in particular for the heavily leveraged real estate sector. At 8.2%, our GDP growth forecast for 2021 remains below the consensus expectation. In contrast to the aftermath of the great financial crisis, the emerging markets' demand impulses for the global economy remain comparatively low. Instead, countries like China are benefiting from the knock-on effects of infrastructure programmes in the USA and Europe.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.3%	2021: 1.5%
2022: 2.3%	2022: 2.2%

Inflation in China increased slightly to 0.9% in April from 0.4% previously. Producer prices are rising much more sharply and are 6.8% above the previous year's level. Chinese producers seem unable to pass on higher commodity prices to consumers, which could be an expression of increased competition. China's current role in the economic cycle does not seem to be that of the global economy's growth engine, but rather that of a price regulator.

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