

September 2021

Key messages

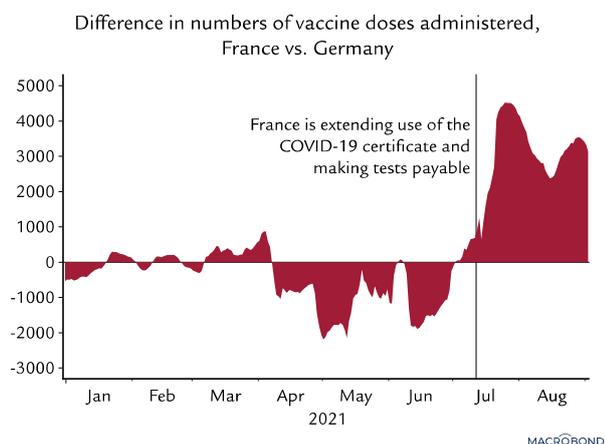
- A “world with COVID-19” remains a more realistic scenario than a “world after COVID-19”
- Election outcome in Germany likely to have only minor economic consequences
- Switzerland: price stability remains safeguarded despite tripling of inflation

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 | 6.0% | 6.2% ↓ | 3.5% ↑ | 4.4% | 4.3% | 4.1% ↑ | 3.0% | 2.9% ↑ |
| Eurozone | 4.7% ↑ | 4.8% ↑ | 3.4% ↑ | 4.4% | 2.1% ↑ | 2.1% ↑ | 1.7% ↑ | 1.5% ↑ |
| Germany | 2.8% ↓ | 3.3% ↓ | 3.6% ↑ | 4.4% ↑ | 2.8% ↑ | 2.8% ↑ | 1.9% ↑ | 1.9% ↑ |
| France | 6.0% | 5.9% ↑ | 3.3% | 3.9% ↓ | 1.5% | 1.5% | 1.4% | 1.3% ↑ |
| UK | 6.5% ↑ | 6.8% | 4.6% ↑ | 5.4% ↑ | 2.0% | 2.2% ↑ | 2.1% ↑ | 2.7% ↑ |
| Switzerland | 3.5% ↓ | 3.7% ↑ | 2.5% | 2.9% | 0.5% | 0.4% | 0.7% | 0.6% ↑ |
| Japan | 2.4% | 2.4% ↓ | 2.1% | 3.0% | -0.3% ↓ | 0.1% ↑ | 0.4% | 0.5% |
| China | 8.3% | 8.6% | 5.4% | 5.6% | 1.3% | 1.4% | 2.3% | 2.3% |

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 9 August 2021

Chart of the month



While China remains committed to a zero-tolerance policy during the pandemic, the political will to reintroduce far-reaching restrictions in the USA and Europe is low. Instead, it is hoped that the fourth wave can be brought under control through increased vaccination incentives. France already significantly expanded the use of the COVID certificate in July and made tests chargeable. From a political point of view, this step is highly controversial. However, vaccination figures in comparison to Germany show that at least the hoped-for effect has been achieved so far. Similar steps are now expected in more and more countries. Developed countries are also now starting to administer third vaccinations.

USA

End of cheap money?

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 6.0% | 2021: 6.2% |
| 2022: 3.5% | 2022: 4.4% |

Growth euphoria has continued to ease in the US. For the second month in a row, the consensus forecast for 2021 declined, thus approaching our relatively cautious forecast of 6.0%. This was driven by disappointing second quarter GDP data, which were shaped by declining investments and lower government consumption. In addition, the “delta wave” led to significantly weaker sentiment among service providers and consumers in the third quarter. In August, the University of Michigan Index of Consumer Sentiment even fell below the pandemic lows seen in April 2020. No wonder, then, that Central Bank Governor Jerome Powell adopted a restrained tone at his Jackson Hole speech. The Fed is holding out the prospect of reducing bond purchases, but rate hikes are not expected to follow on for some time. The Fed is still counting on inflation to be temporary and wage pressure to ease due to people returning to the labour market. Moreover, productivity developments have kept pace with corporate wage costs, which has also dampened inflation concerns. Overall, the era of cheap money is therefore not yet coming to an end, even though the positive stimulus from monetary policy is set to weaken over the next twelve months.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 4.3% | 2021: 4.1% |
| 2022: 3.0% | 2022: 2.9% |

US inflation momentum declined in July as expected. Although prices are still 5.4% higher than in the previous year, this is also due to the low prior-year basis for comparison. Compared to the previous month, goods prices in particular lost momentum – prices for used cars, for example, barely rose after posting double-digit growth rates in the previous months. Surprisingly, inflation in prices of services also declined, but this should remain an exception.

Eurozone

Pro-cyclical fiscal policy

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 4.7% | 2021: 4.8% |
| 2022: 3.4% | 2022: 4.4% |

Europe’s recovery plan is gradually taking shape. Under the “Next Generation EU” umbrella, funding totaling EUR 750 billion is to be made available to the euro member states until 2026. All borrowed funds must be repaid by 2058. Fiscal programs frequently develop a delayed pro-cyclical effect in addition to the economic upswing already underway. This is also the case here: the instrument was adopted in July 2020, when the economy had already started to recover from the previous shock. The projects are now being planned and will be implemented from 2022. Priority will be given to supporting investments to promote climate targets or digitalisation. It is difficult to quantify the contribution that the reconstruction fund assets will make to growth over the next few years. The figures quoted by politicians are likely to be gross estimates: we know from Japan that such infrastructure packages are subject to “announcement effects” and “bandwagon effects”. Some projects would have been planned anyway and are now simply easier to finance. Bandwagon effects occur when not all the total value creation associated with the projects can be generated by manufacturers within the eurozone.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 2.1% | 2021: 2.1% |
| 2022: 1.7% | 2022: 1.5% |

Inflation rates range from 0.3% for Malta to 5.0% for Estonia. Both the bottom and top values of this range have risen further on the previous month. Only in the Netherlands has inflation fallen recently. In our baseline scenario, we continue to expect inflation in the eurozone to settle at around 1.5% by 2024. There is therefore no urgent need for the European Central Bank (ECB) to tighten its monetary policy.

Germany

Same as before

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 2.8% | 2021: 3.3% |
| 2022: 3.6% | 2022: 4.4% |

Even if the elections to the Bundestag and the subsequent coalition discussions claim all the attention of commentators, the outcome of the election will have little economic impact in the short term. In the unlikely event of a red-red-green coalition, a continuation of the current fiscal policy is to be expected in all possible constellations for the first half of the legislative period. Interestingly, the SPD, now in the lead in the polls, is running for election with the most restrictive programme in terms of fiscal policy. This is due to the planned tax increases on higher incomes. In the longer term, the key fiscal issue will be the reintroduction of the debt brake. This decision will become necessary at some future point and does not affect our forecast for GDP growth over the next eighteen months. In the universe of all the institutes surveyed by Consensus Economics, our forecast is in the lowest percentile. The main reason for our caution lies in the supply shortages in industry, the damaging effect of which is underscored by gloomy business sentiment. A swift removal of bottlenecks in the supply chains clearly represents our main forecast risk for the coming quarters.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 2.8% | 2021: 2.8% |
| 2022: 1.9% | 2022: 1.9% |

Preliminary data for August suggest that inflation has now risen to 3.9%. This development has prompted the Bundesbank to warn against a temporary rise in the inflation rate to between 4% and 5% by the end of the year. We expect the cyclical peak to be reached in November at 4.2%. The elimination of several one-off effects will soon remove the risk of inflation. We anticipate an inflation rate of just 2.1% for the first quarter of 2022, i.e. half the temporary peak.

France

Inflation now above 2%

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 6.0% | 2021: 5.9% |
| 2022: 3.3% | 2022: 3.9% |

President Macron achieved a remarkable acceleration in the vaccination rate by extending the requirement to present COVID certificates and the introduction of fees for tests (see page 1). The country is thus leading the way for the rest of Europe to deal with the pandemic in the future: as long as the coronavirus variants can be countered with vaccines, renewed containment measures comparable with those imposed in the previous lockdowns are very unlikely and the continuation of the economic upswing is not at risk. However, delivery problems on the supply side and a slackening of pent-up demand are slowing down economic momentum. The high GDP growth rate of 1.1% recorded in the second quarter cannot be repeated. Nevertheless, the pace of growth remains so high that the French economy will return to pre-crisis levels in the first quarter of 2022. This event will coincide with the presidential election campaign. The EU recovery plan is also coming to the aid of the incumbent. According to the information currently available, France is focusing on green projects in this investment programme, which totals around 2% of its gross domestic product.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 1.5% | 2021: 1.5% |
| 2022: 1.4% | 2022: 1.3% |

The latest inflation figures are now painting a similar picture to the one we already know from the USA and Germany. Annual inflation also climbed in France to 2.4% in August, thus exceeding the European Central Bank's target value. Inflation rates above 2% are still to be expected until the end of the year. However, long-term inflation expectations remain anchored below 2%. This is corroborated by the consensus forecast for 2022 and is also reflected in the market prices for inflation-linked bonds.

UK

Labour shortage an obstacle

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 6.5% | 2021: 6.8% |
| 2022: 4.6% | 2022: 5.4% |

In the second quarter, the UK recorded impressive growth of 4.8% compared to the previous quarter. This was slightly higher than we expected. We adjusted our forecasts upwards accordingly. Despite the comeback, the British economy is lagging behind the continent. There remains a 4% gap to pre-crisis levels which, according to our projections, should close by the third quarter of 2022. Supply-side shortages are posing an obstacle to recovery. The labour market has recovered much faster than expected. In July, 953,000 vacancies were reported – the highest in the history of the data series – and the pool of unemployed is shrinking. It therefore comes as little surprise that British companies are complaining about recruitment difficulties. The situation is said to be exacerbated by the higher immigration obstacles for EU citizens following Brexit. The haulage sector, for example, having lost foreign drivers during the pandemic, is now suffering from delivery delays in industry and the retail sector as the economy picks up. Wage pressure has increased, but the official figures (8.8% year-on-year wage growth in June) are distorted by technical factors. Even after adjusting for these effects, the Bank of England still estimates underlying wage growth at a whopping 3-4%.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 2.0% | 2021: 2.2% |
| 2022: 2.1% | 2022: 2.7% |

The inflation data for July confirmed our forecast (2.0% year-on-year), which was more cautious than that of our peers. Accordingly, there was no change to our full-year forecast for 2021. Inflation will rise significantly in the following months due to a base effect (temporary reduction in value added tax in the previous year) and will peak at around 3% at the end of the year. In 2022, we expect inflation to average 2.1%, significantly lower than the consensus estimate.

Switzerland

Ambiguous inflation outlook

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 3.5% | 2021: 3.7% |
| 2022: 2.5% | 2022: 2.9% |

The first official GDP data for the second quarter will not be available until after our editorial deadline. We anticipate a 2% quarterly growth rate, which is slightly above the median 1.9% forecast by news service provider Bloomberg. Paradoxically, however, our forecasts for the whole of 2021 and also for 2022 are below consensus expectations. On the other hand, the data already available on the economic momentum raise questions about this economic optimism of many institutes – which has even increased of late. The economic barometer of the KOF, for example, has already lost considerable momentum over the past two months, and the index of weekly economic activity issued by the State Secretariat for Economic Affairs (SECO) also points to a significantly slower growth rate for the third quarter. Supply bottlenecks in parts of industry, the recent disillusionment in the fight against the pandemic and increasingly the shortage of skilled labour in those sectors particularly affected by the previous containment measures are set to prevent the Swiss economy from realising its full potential in the coming quarters.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 0.5% | 2021: 0.4% |
| 2022: 0.7% | 2022: 0.6% |

Inflation is also rising in Switzerland. We anticipate a peak of 1.2% by the end of 2021. Inflation thus remains comfortably within the range of 0% to 2% which the Swiss National Bank (SNB) equates with price stability. Nevertheless, this is a new “inflation regime”. In our baseline scenario, we assume an average annual inflation rate of 0.6% over the next few years. Inflation will thus be three times higher than in the 2006-2019 period.

Japan Catching up with vaccinations

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 2.4% | 2021: 2.4% |
| 2022: 2.1% | 2022: 3.0% |

According to Citi's "Economic Surprise Index", Japan is one of the few economies recently to have generated mainly positive surprises in data releases. This is primarily due to a fall in expectations among economists – for example, the consensus forecast for 2021 GDP growth in the latest survey aligned with our prudent estimate of 2.4%. We assume that the pendulum, which shifted from optimism at the beginning of the year to pessimism in the middle of the year, will now swing back to the optimistic side. Firstly, following serious delays, the vaccination campaign has picked up massively. At the time of writing, 57% of the population had been vaccinated at least once. This puts Japan on a par with Switzerland, although, unlike in Switzerland, vaccination rates show no signs of slowing. Secondly, industry is expected to pick up speed following a disappointing performance during the first seven months of the year. As in Europe, industrial activity in Japan has largely been curbed by the lack of semiconductors in automotive production. Japan is itself one of the most important manufacturers of semiconductor for cars and has significantly increased both semiconductor production and exports recently. The same applies to Japanese semiconductor manufacturing machines. In this respect, the situation for car manufacturers is set gradually to ease.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: -0.3% | 2021: 0.1% |
| 2022: 0.4% | 2022: 0.5% |

On 20 August, after the data had been captured for the consensus forecasts, Japan's inflation data for July 2021 were published and the base year was changed from 2015 to 2020, including a rebalancing of the shopping basket. The changes resulting from this are dramatic. Due to a higher weighting of mobile phone tariffs, the June headline inflation figure was revised down from 0.2% to -0.5%. We have accordingly revised down our full-year inflation forecast from 0.0% to -0.3%.

China Temporary triumph over delta

GDP growth

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 8.3% | 2021: 8.6% |
| 2022: 5.4% | 2022: 5.6% |

For the first time since July, there were no new locally transmitted COVID-19 cases in China on 24 August and only 21 imported cases. This means that the zero tolerance policy has paid off from a pandemic point of view. However, the measures have left their mark on the economy. Retail sales in July was far short of expectations, with growth of 8.5% year-on-year. The PMI for the non-manufacturing sector fell below the 50-point growth threshold to 47.5 in August. Both incoming orders and business expectations contributed to the slump. The manufacturing index also declined in August but remained slightly above the growth threshold at 50.1. Alongside the COVID restrictions, disruptions due to regional flooding and the regulatory measures are also likely to have contributed to the subdued activity and sentiment. The uncertainty associated with the wave of regulation is set to remain high in the future as well. Recently, for example, restrictions on online gaming were tightened up. In addition, considerable downside risks remain with regard to COVID-19 even if the pandemic appears to have been contained for the time being: mobility in cities that were badly affected of late has recovered significantly since mid-August. We therefore continue to feel comfortable with our cautious growth forecasts.

Inflation

| Swiss Life Asset Managers | Consensus |
|---------------------------|------------|
| 2021: 1.3% | 2021: 1.4% |
| 2022: 2.3% | 2022: 2.3% |

Annual consumer price inflation fell further in July, but came in at 1.0%, slightly above consensus expectations. Food price deflation eased from -2.2% to -0.4% month-on-month. Producer price inflation rebounded to 9.0%, following a short-term decline in June. However, we continue to expect a very limited impact of producer costs on consumer prices.

Economic Research



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