

November/December 2025

## Key takeaways

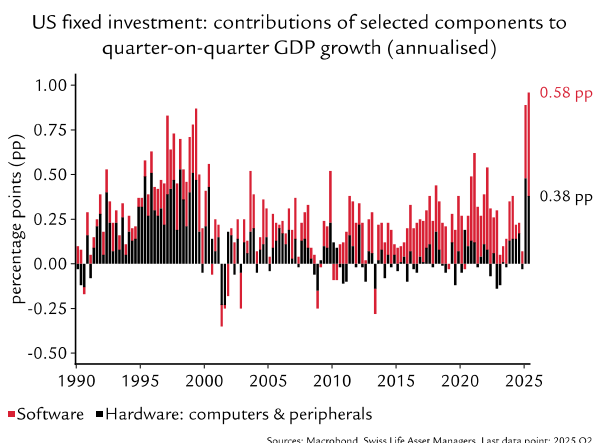
- USA: US monetary policy is being eased further despite the AI boom and a lack of economic data p. 2
- Germany: industry is losing momentum and the fiscal packages have not yet had any impact p. 3
- France: above-average sentiment in industry, below-average inflation rate p. 3
- Switzerland: further increase in unemployment expected p. 4
- UK: tight fiscal headroom is causing increased consolidation pressure in the autumn budget p. 5
- China: China’s strong trading position is forcing the USA to make compromises in the trade dispute p. 5

## Comparison of forecasts

|                | 2025 GDP growth |   |           |   | 2026 GDP growth |   |           |   | 2025 inflation |   |           |   | 2026 inflation |   |           |   |
|----------------|-----------------|---|-----------|---|-----------------|---|-----------|---|----------------|---|-----------|---|----------------|---|-----------|---|
|                | Swiss Life      |   | Consensus |   | Swiss Life      |   | Consensus |   | Swiss Life     |   | Consensus |   | Swiss Life     |   | Consensus |   |
| USA            | 1.7%            |   | 1.9%      | ↑ | 1.7%            | ↑ | 1.9%      | ↑ | 2.8%           |   | 2.8%      |   | 3.5%           |   | 2.8%      | ↑ |
| Eurozone       | 1.3%            | ↑ | 1.3%      | ↑ | 1.0%            |   | 1.0%      | ↓ | 2.1%           |   | 2.1%      |   | 2.0%           |   | 1.8%      |   |
| Germany        | 0.2%            | ↓ | 0.2%      |   | 1.2%            | ↓ | 1.2%      |   | 2.1%           | ↑ | 2.1%      |   | 2.0%           |   | 1.9%      |   |
| France         | 0.7%            |   | 0.7%      | ↑ | 1.0%            |   | 0.9%      |   | 1.0%           | ↓ | 1.0%      | ↓ | 1.4%           | ↓ | 1.4%      | ↓ |
| Italy          | 0.5%            |   | 0.5%      |   | 0.6%            |   | 0.7%      |   | 1.6%           |   | 1.7%      |   | 1.8%           |   | 1.6%      |   |
| Spain          | 2.7%            | ↑ | 2.7%      | ↑ | 1.7%            |   | 2.0%      | ↑ | 2.6%           |   | 2.5%      |   | 1.8%           |   | 1.9%      |   |
| United Kingdom | 1.4%            | ↑ | 1.3%      | ↑ | 1.2%            |   | 1.0%      |   | 3.3%           |   | 3.4%      |   | 2.3%           |   | 2.6%      |   |
| Switzerland    | 1.4%            | ↑ | 1.3%      | ↑ | 1.0%            | ↓ | 1.1%      | ↓ | 0.2%           |   | 0.2%      |   | 0.5%           |   | 0.5%      | ↓ |
| China          | 4.9%            | ↑ | 4.8%      |   | 4.2%            | ↑ | 4.3%      |   | 0.0%           | ↓ | 0.0%      | ↓ | 0.9%           | ↓ | 0.6%      | ↓ |

Arrows indicate change from previous month. Source: Consensus Economics Inc., London, 16 October 2025

## Chart of the month



Economic growth in the US is no longer broad-based but strongly driven by the AI boom. Investments in hardware and software equipment reached record levels in the first half of the year and contributed to more than half of US economic growth. Software investments are particularly relevant, as hardware is mostly imported. In addition, there has been a construction boom in data centres and private consumption is robust. The latter is primarily supported by more affluent households and a falling savings rate, with wealth effects assumed to play an important role due to the equity market boom driven by AI.

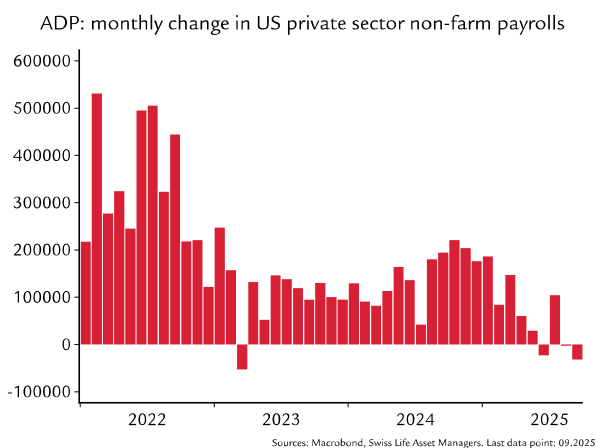
## USA

### Authorities closed, data lacking

As if the trade war were not enough, the government shutdown in the US is now causing additional economic policy uncertainty. There was no end to the shutdown in sight at the time of writing. The prediction markets and many political observers expect a solution to the budget issues to edge closer in November. A glance at the last 35-day shutdown in 2018 suggests that government consumption is likely to contribute negatively to GDP growth in the fourth quarter and private consumption growth will be weaker – effects that will then reverse in the first quarter of 2026 as long as the shutdown is indeed over by then. Owing to the shutdown, no official figures have been published except for inflation, and the overall data landscape will remain distorted for some time due to missing or poor-quality surveys and the resulting challenges in seasonal adjustment. Privately published data continue to paint a picture of robust economic activity – the purchasing managers' indices are well within expansionary territory – while the labour market is struggling. According to the payroll accounting company ADP, jobs were lost in the private sector in September, and consumers remained pessimistic about the situation on the labour market.

### Stepping on the accelerator despite poor visibility

Despite reduced visibility, the available labour market data are likely to suffice for the US Federal Reserve to cut interest rates further. The September inflation figures, which are somewhat lower than expected, are likewise supporting this, although headline and core inflation remain above the Fed's 2% target at 3% each. While services inflation fell, goods prices increased further due to the tariffs. We still consider tariff-related inflation in 2026 to be underestimated and are upholding our inflation forecast of 3.5% for 2026.



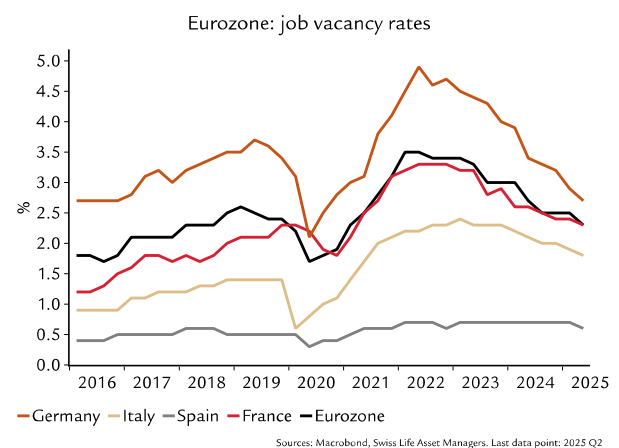
## Eurozone

### Sentiment is picking up further

The European industrial sector is still not showing any signs of serious weakness – quite the opposite. The Purchasing Managers' Index (PMI) for the manufacturing sector surprisingly recorded a marginal improvement to 50 points in October. A particularly pleasing development is that the situation for new orders is improving again. The services sector also remains optimistic. Here the PMI rose to 52.6 points in October on the back of a significant increase in Germany. The GDP figures for the third quarter, which were still pending at the time of writing, will provide further clarity on the resilience of the European economy in the face of the tariff shock. Fiscal policy also remains in focus: in the autumn, EU member states present their draft budgets for the coming year. Although the list is not yet complete, the forecasts published so far point towards a degree of convergence in debt ratios. Should this prove true, Greece could achieve a similar debt ratio to Italy in 2026.

### Falling wage pressure

The labour market remains a key factor for the inflation outlook. Although employment appears robust, there are increasing signs of a gradual deterioration. Although the job vacancy rate – the ratio of vacancies to the total number of all jobs (see chart) – has eased further, it still remains well above the pre-pandemic level. Together with indicators such as the wage tracker of the European Central Bank (ECB), which is also signalling a slowdown, there are increasing signs of easing wage pressure. This is set to have a particularly advantageous impact on services inflation, as this price component is particularly wage-sensitive.



## Germany

### Waiting for fiscal stimulus

The German economy in the autumn of 2025 remains shaped by a weak industrial economy as well as uncertainty. The negative effects of the tariffs are now reflected in the production data for August. Incoming orders from abroad, which have had a stabilising effect since 2023, also collapsed in August. While domestic orders were up, they failed to offset the weakness in the export sector (see chart).

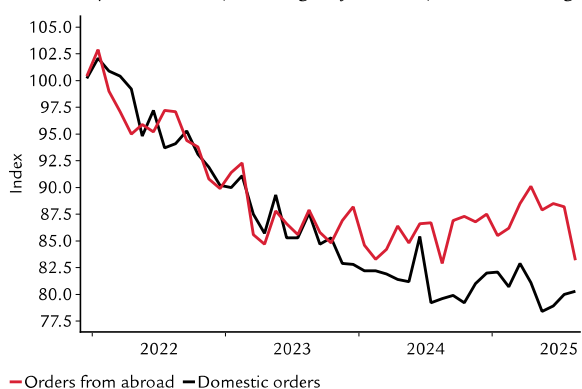
With its budget adopted at the end of September, the government initiated one of the largest fiscal expansions in decades. Orders in the defence sector in particular are pointing towards a rapid expansion. They are set to strengthen European providers and high-tech sectors, a positive surprise increasing the multiplier effect. In infrastructure, the focus is initially being placed on repairing existing roads and railways as this is more quickly achievable than building new ones. The speed of implementation will depend significantly on regulatory relief, which is still uncertain.

Overall, the fiscal expansion from the fourth quarter of 2025 onwards should provide some initial stimulus. While the effects are likely to be noticeable, they will remain limited for now and are kicking in at a time of weak industrial momentum. The structural challenges for productivity and competitiveness continue to persist and the fiscal packages are unlikely to be able to address them adequately.

### Stable goods prices, rising service prices

A clear split can be seen in inflation: energy and goods prices remain stable, while the cost of services and food continues to rise sharply. This is chiefly driven by higher wage costs in the services sector. In view of this development, we have raised our forecast for 2025 slightly but do not expect any lasting increase in inflation.

Germany: new orders (excluding major orders), manufacturing



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 08.2025

## France

### Above-average industrial sentiment

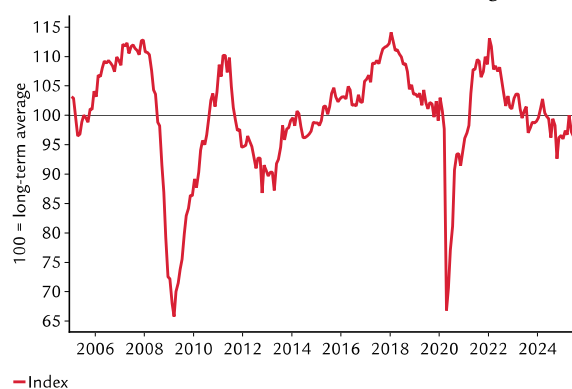
Notwithstanding all the uncertainty regarding fiscal policy and the future of the pension reform, France's private sector is proving astonishingly resilient. The latest figures on business sentiment and consumer confidence point to an improvement at the start of the final quarter of 2025. The construction sector in particular is continuing to benefit from the cyclical tailwind due to the prior easing of monetary policy by the ECB. If its monetary policy were tailored to the conditions in France and the below-average inflation rate, it could actually be made even more expansive.

A positive trend is emerging in foreign trade: according to a survey among purchasing managers in manufacturing, order intake from abroad has stabilised. The withdrawal of savings from the tax-advantaged "Livret A" – which we had long anticipated due to falling interest rates – now appears to be getting underway. September saw the largest monthly outflow of funds from this savings vehicle in 15 years. Annualised, this outflow amounts to around 0.9% of France's gross domestic product. If even some of these funds are used for consumption, this would represent a significant boost to domestic demand.

### Below-average inflation rate

At 1.1%, France's inflation rate in September was half that of the eurozone as a whole. Excluding the volatile prices for energy, food, alcohol and tobacco, the inflation rate lay at 1.5%. Only Cyprus has a lower core inflation rate. At 1.4%, we also anticipate below-average inflation compared to other countries in 2026, which is in line with the consensus expectation. We are currently forecasting an inflation rate for the eurozone of 2.0%.

France: business sentiment in manufacturing



Sources: Insee, Macrobond, Swiss Life Asset Managers. Last data point: 10.2025

## Italy

### Further fiscal consolidation in 2026

The draft budget submitted by Italy to the EU Commission envisages further fiscal consolidation. Italy already achieved a return to a primary surplus (budget surplus before interest payments) in 2024 and plans to further increase the primary surplus between 2026 and 2028. However, because interest payments are weighing heavily on the budget (they amount to around 3% of gross domestic product) and economic growth in 2025 and 2026 is set to plateau at a low level of around 0.5-0.6%, Italy's gross debt as a percentage of GDP is continuing to rise slightly. This is compounded by the fact that the NextGenerationEU programme, from which Italy has benefited enormously, is due to expire in 2026 and the last payment from Brussels will arrive at the end of December 2026 at the latest. Nevertheless, the domestic economy appears to remain in solid form despite the declining tailwind. Purchasing managers' indices continue to indicate an expansion and job growth for service providers. The positive cycle of falling unemployment and rising consumption is therefore likely to continue further.

## Spain

### No draft budget in sight

The Spanish government is yet to approve a draft budget for 2026 despite the official national deadline having passed on 30 September. The reason for this is Spain's minority government under Prime Minister Pedro Sánchez, which is struggling to secure enough votes to pass a new budget plan in the fragmented lower house. The demands of the various parties are many and varied. The situation is additionally hampered by the decision of the Catalan separatist party to revoke its support for Sánchez's government, thereby further weakening his minority coalition. According to the Spanish constitution, if no draft budget is approved, the previous year's budget is automatically extended until a new one is in place. This is precisely what has been happening since 2023. In other words, the Sánchez government is still operating under budget plans from two years ago. Threats from US President Trump concerning Spain's failure to comply with the NATO target for defence spending have also intensified again, further exacerbating the political situation.

## Switzerland

### Downturn on the labour market

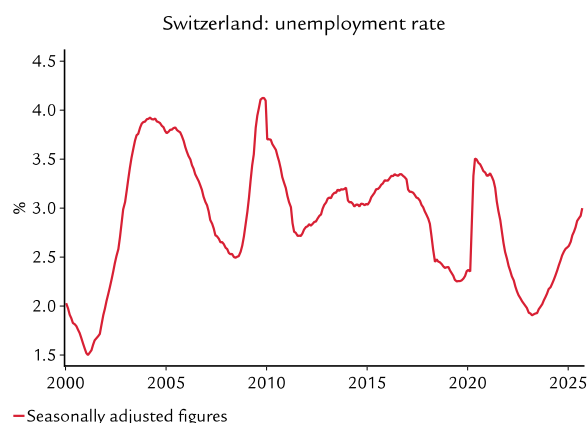
The uncertainty surrounding US tariffs continues to weigh on large parts of the export sector. According to reports by the Swiss National Bank (SNB), around a fifth of companies surveyed said they were affected by this. These companies primarily come from the mechanical, electrical and metal (MEM) industry and the watch industry.

A separate survey by the Swiss Economic Institute at ETH Zurich shows that industrial companies are still exercising restraint in orders of upstream products even three months after the announcement of the 39% tariffs. We infer from this a pessimistic view of order intake in Switzerland. In the coming months, the impact of challenging global economic conditions will become increasingly evident in labour market data.

After bottoming out at 1.9% in March 2023, the unemployment rate rose to 3.0% in September 2025. We assume that an increasing number of companies have made use of short-time working since August. Official figures for the period from August onwards will not be available until December. We expect unemployment to continue rising beyond the turn of the year.

### Inflation rate positive again since June

Fears of a renewed deflationary phase have not materialised. As elsewhere, service prices increased above the average. In the recently published summary of its discussion on monetary policy assessment, the SNB highlights the significant rise in prices for tourist services. We expect a gradual increase in annual inflation over the coming quarters. While it averaged just 0.2% in the third quarter of 2025, it is projected to reach 0.6% by the final quarter of 2026.



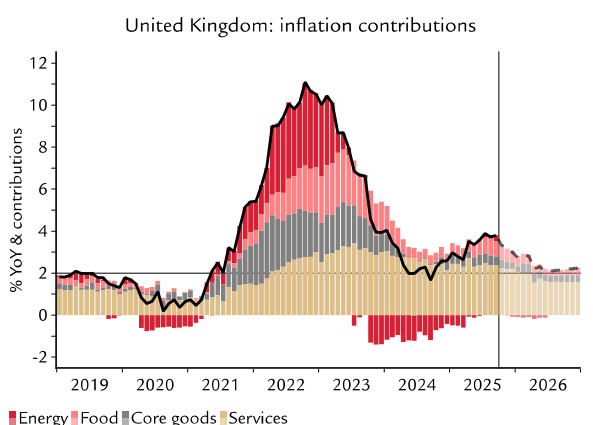
## United Kingdom

### Autumn budget just around the corner

The signals from the British economy remain mixed. Monthly GDP grew in August by 0.1% as expected on the back of a sharp upturn in industrial production. Although the purchasing managers' indices for September point to a disappointing end to the third quarter, the preliminary index for October indicates improved sentiment at the start of the fourth quarter – especially in the manufacturing sector. However, the focus in November will be on fiscal policy. Chancellor of the Exchequer Reeves will present the autumn budget on 26 November 2025. The Chancellor's fiscal headroom amounts to just £9.9 billion, a historically low figure. The headroom has been drastically reduced by increased bond yields, the withdrawal of cuts in social spending and potentially low growth and productivity assumptions of the Office for Budget Responsibility (OBR). Fiscal consolidation will therefore be unavoidable in the autumn budget. We expect the fiscal headroom to be restored by a combination of spending cuts and moderate tax increases. Depending on their scope and time of implementation, the measures could have a slightly negative impact on GDP growth in 2026.

### Inflation is likely to have peaked

Inflation was 3.8% in September, which was in line with our expectations but negatively surprised the market. This led to a significant repricing of market expectations regarding the Bank of England's rate-cutting path. The market now anticipates two and a half interest rate cuts. This brings market expectations closer to our forecast of three further rate cuts by the middle of next year. Encouragingly, the decline in services inflation in September was relatively broad-based.



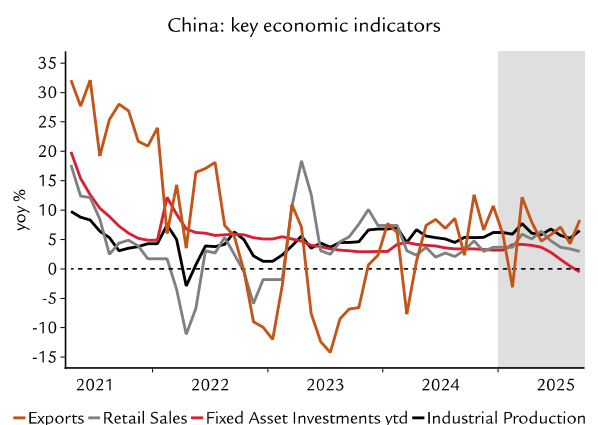
## China

### China maintains a strong position in the trade conflict

China's economy grew by 4.8% year on year in the third quarter of 2025, in line with our expectations. While investments and consumption are disappointing, China is displaying remarkable strength in the export sector. Year-on-year exports rose by more than 8% in September despite a US tariff of 40%. Furthermore, industrial production in the high-tech sector is accelerating significantly. The recently concluded fourth plenum – a key annual meeting of the Communist leadership – confirmed China's continued focus on expanding its high-tech capabilities. China's dominance is already evident in several areas, particularly rare earths. It had already begun investing strategically in the extraction and processing of these resources under Deng Xiaoping in the 1980s. As a result, China (including a mine under China's control in Myanmar) holds 98% of the world's reserves of heavy rare earths – a critical component for the defence industry and high-performance magnets. Furthermore, China controls 90% of global processing capacities. Although we are unable to rule out a temporary escalation in the trade conflict, China's strong position shows that the US is unlikely to pursue full decoupling in the short term but will be forced to make compromises.

### Easing deflationary pressure

Both consumer and producer price inflation remained negative on an annual basis in September, although the deflation has slowed down. The anti-involution campaign designed to curb excessive price competition helped to stabilise producer prices. Consumer prices were down above all due to falling food prices. Excluding this component, however, core inflation was in positive territory at 1%.



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