Perspectives
Economics

March 2024

Key takeaways

- The slump in US commercial real estate is weighing on small US banks, but we do not expect a systemic crisis
- Southern Europe continues to be more dynamic than the eurozone core countries at the start of 2024
- China: Domestic travel reaches record levels, yet real estate sector weakness is weighing on consumption

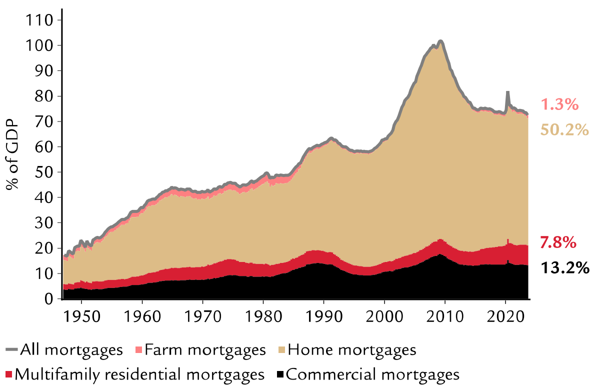
Comparison of forecasts

	2024 GDP growth		2025 GDP growth		2024 inflation		2025 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	2.1% ↑	2.1% ↑	1.7% ↑	1.7%	2.9% ↑	2.6%	2.4%	2.2% ↓
Eurozone	0.3% ↓	0.5%	1.0%	1.3%	2.3% ↑	2.3% ↑	2.0% ↑	2.0%
Germany	-0.2% ↓	0.3%	1.0%	1.1% ↓	2.2% ↑	2.5%	1.9%	2.1%
France	0.6% ↓	0.7%	1.0%	1.3%	2.2% ↑	2.4% ↓	1.8% ↑	1.9%
Italy	0.5%	0.5%	0.8%	1.0%	1.7%	1.9% ↓	1.9%	1.9% ↑
Spain	1.3%	1.5% ↑	1.6%	1.8%	2.8% ↑	2.9%	2.1%	2.1%
UK	0.1% ↓	0.3% ↑	1.0%	1.1% ↑	3.0%	2.6% ↓	2.4%	2.1% ↓
Switzerland	1.0%	1.1% ↓	0.9%	1.6%	1.2% ↓	1.6% ↑	0.9%	1.2%
Japan	0.3% ↓	0.7% ↓	0.7%	1.0%	1.7% ↓	2.3% ↑	1.4%	1.6% ↑
China	4.5%	4.6%	4.4%	4.3%	0.7% ↓	0.9% ↓	1.9%	1.6% ↓

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 12 February 2024

Chart of the month

US mortgages in % of GDP



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 2023 Q3

US commercial property prices have plummeted in the major centres. Higher interest rates and, in particular, under-occupancy due to home working took their toll. However, the following arguments suggest there will not be a repeat of the 2008 financial crisis: (1) Mortgages for commercial real estate account for only 18% of the overall market and have been stable relative to GDP since 2014. (2) There are no signs of weakness in the much larger residential mortgage market. (3) The central bank and banking supervisors are aware of the problem and would probably intervene at the slightest sign of systemic stress in the US banking system.

USA
Smaller banks under pressure

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.1%
2025: 1.7%	2025: 1.7%

Initial data seems to confirm our expectation that the US services sector lost some momentum at the beginning of 2024. Retail sales surprisingly fell in January, and the Purchasing Managers' Index for service providers weakened somewhat in February from solid levels. We continue to expect the US economy to slow somewhat in 2024, but no longer to actually enter recession. However, the big unknown in 2024 is the US commercial real estate crisis and its potential impact on the real economy. According to most market observers, the correction is likely to be further exacerbated given upcoming refinancings and expiring leases. While we consider the risk of a systemic crisis to be low (see chart of the month), obtaining credit is likely to become more difficult, especially for SMEs. With regard to commercial mortgages, US regional banks are predominantly involved, and many of them are likely to be busy restructuring such mortgages in 2024. Many cities, whose tax revenues depend heavily on commercial real estate, are also suffering from the correction. However, the construction industry is unlikely to be affected. The construction of commercial real estate accounts for only around 0.4% of GDP, and the current weakness is likely to be more than offset by the construction boom in the infrastructure and industrial construction sectors.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.9%	2024: 2.6%
2025: 2.4%	2025: 2.2%

In January, US consumer prices (CPI) increased significantly month-on-month. In particular, the surge in services (excluding energy and housing) was a shock. However, this component is likely to rise less sharply in the case of consumer expenditure (PCE) inflation – the US Federal Reserve's actual target – as healthcare spending is accounted for differently here. In this respect, we think that interest rate cuts in the US in 2024 remain realistic.

Eurozone
More data required

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.3%	2024: 0.5%
2025: 1.0%	2025: 1.3%

Current data paints a mixed picture with regard to potential initial rate cuts by the ECB. Economic activity remains weak, particularly in manufacturing, and headline inflation is approaching the 2% target. However, core service price inflation remained stubbornly high in January, albeit driven by one-off effects in Germany. The Purchasing Managers' Index for service providers also surprisingly reached the growth threshold of 50 in February after six months in contraction territory. A main driver was the strong employment component, reflecting the generally resilient labour market. It is precisely this that is of concern to the ECB with regard to salary trends, and several Governing Council members recently stressed the need to wait for further data. However, salary data is only ever available with a time lag. Negotiated wages rose by 4.5% in the fourth quarter of 2023 year-on-year, less than in the previous quarter, but still too fast. Negotiated wages for the first quarter of 2024 will not be published until May. Until then, the focus will be on wage data at country level (Spain, Italy, Germany) as well as on Indeed's wage tracker based on job advertisements. Furthermore, revisions to the ECB's forecasts in March might provide an indication of the timing of the first rate cut. At 0.8% for 2024 and 1.5% for 2025, the ECB's growth forecasts are currently higher than ours.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.3%	2024: 2.3%
2025: 2.0%	2025: 2.1%

At 2.7% for 2024 and 2.1% for 2025, the ECB's inflation forecasts are also higher than our own assumptions. Downward revisions to growth and inflation forecasts would keep the doors open for an interest rate cut in April, provided headline inflation continues to decline in the meantime and wage data demonstrates the right trend. At the moment, however, several ECB Governing Council members consider the risk of a premature interest rate cut to be higher than the risk of easing too late.

Germany
Continued precautionary saving

GDP growth	
Swiss Life Asset Managers	Consensus
2024: -0.2%	2024: 0.3%
2025: 1.0%	2025: 1.3%

The crisis in US commercial real estate has recently made headlines again in Germany, as certain German banks have a large exposure to this market. While major problems cannot be ruled out for individual banks, systemic risks seem to be contained. In our baseline scenario, we do not expect a major crisis of confidence in the banking sector in the US or in Europe, where the commercial real estate market is less troubled. However, German industry is still in crisis. The Purchasing Managers' Index (PMI) surprised negatively in February, with an accelerated decline in output, new orders and employment. This prompted us to revise our growth forecast downwards for the first quarter of 2024. Slightly more constructive signs are coming from the services sector, where the decline has recently been less pronounced and the employment component has remained strong. Consumer sentiment improved slightly in February with a sharp rise in income expectations; however, this is still not reflected in consumers being more willing to make purchases. The current economic situation still seems to encourage precautionary saving. Against the backdrop of the troubled German economy, it may be surprising that the two German ECB Governing Council members in particular continue to take an especially restrictive stance.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.1%	2024: 2.5%
2025: 1.9%	2025: 2.1%

Headline inflation fell from 3.7% to 2.9% in January, bringing it significantly closer to the 2% inflation target. Core inflation has been more stubborn, falling from 3.5% to 3.4%. Core goods prices declined month-on-month, but services prices increased significantly due to the VAT increase. We expect core inflation to remain above headline inflation until year-end, but to temporarily fall to 2.1%.

France
Slower manufacturing downturn

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.6%	2024: 0.7%
2025: 1.0%	2025: 1.1%

It is currently difficult to describe the state of the French economy. The Purchasing Managers' Indices for manufacturing and services show the expected upward trend. The smaller decline of new orders in manufacturing is encouraging. The stagnation in the second half of 2023 has not yet been reflected in the labour market. Together with expectations that inflation will continue to fall, this would pave the way for the end of the purchasing power crisis and for higher private consumption. However, the decline in consumer confidence in February 2024 runs contrary to this expectation. This may be related to the fear that wage growth in 2024 could turn out lower than hoped. According to a survey by Rexecode and the "Laboratoire d'idées pour les PME-ETI", salaries are set to rise by 2.6% in 2024, after increasing 3.4% in the previous year. Fiscal policy remains an unknown: following a slightly positive fiscal impetus in the previous year, the government is now announcing austerity programmes, the extent of which cannot yet be estimated for 2024. Finally, analysis is complicated by the hosting of the Summer Olympics. The event will certainly attract visitors from within France and abroad. The real size of the net effect depends on the extent to which the local population and businesses are prevented from going about their day-to-day activities during the summer months.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 2.2%	2024: 2.5%
2025: 1.8%	2025: 1.9%

Inflation fell to 3.1% in January, the lowest level since January 2022. We expect the inflation rate to drop below 3% in February. This trend will continue over the course of the year: we anticipate an inflation rate of below 2% in the final quarter of 2024.

Italy
Rising real wages

According to the Purchasing Managers' Indices (PMI), Italy started 2024 more dynamically than the eurozone core countries of Germany and France. The manufacturing PMI rose further and scraped the growth threshold in January. However, the situation within the sector varies, with solid production figures in the pharmaceutical and chemical sectors and overall stagnating figures in the rest of manufacturing. The signs are better in the services sector. Here, the PMI is back in growth territory, driven by higher output and better business and employment expectations. Consumption is likely to benefit from rising real wages in 2024. Inflation has been below the 1% mark since November 2023, while hourly wages rose by 2.7% year-on-year in November. Growth in December even reached 7.9%, but this figure can be safely ignored as one-off payments were handed out to state employees in December covering the whole of 2024. In contrast to Germany and France, Italy does not warrant a downward revision for its 2024 GDP due to the more positive data.

Spain
Boom in the electrical sector

In Spain, the aggregate Purchasing Managers' Index climbed to 51.5 in January, driven by improvements in manufacturing and continued solid values in the services sector. This makes the Spanish economy significantly more dynamic than the eurozone average (48.9). Amongst all eurozone countries to publish data, the PMI is currently higher only in Greece (54.7). In 2023, producers of computers, electrical and optical equipment registered a particularly strong increase (27%), followed by machinery repairs and installations (10%) and chemical products (8%). The largest fall in output was recorded by the beverage industry (-12%), the printing industry (-8%) and the pharmaceutical industry (-7%). Of note in this environment is the decline in core inflation in January from 3.8% to 3.6%, while headline inflation rose from 3.1% to 3.4%, driven by the energy tax hike and a sharp rise in processed food prices. At the start of March, Spain will be the first country to publish its eagerly awaited wage data for February.

Switzerland
Surprisingly low inflation rate

GDP growth

Swiss Life Asset Managers	Consensus
2024: 1.0%	2024: 1.1%
2025: 0.9%	2025: 1.6%

As usual, Swiss GDP figures for the final quarter of 2023 will not be published until 29 February, which is after the editorial deadline for this publication. A recent poll by Bloomberg shows that the consensus expectation is a moderate 0.1% quarter-on-quarter real GDP growth. This is completely in line with our own assumptions. In the absence of any major surprises, real GDP growth is set to be 0.7% for 2023 as a whole. This means that the Swiss economy has avoided a technical recession. However, current observations show that the economy is still creeping along, particularly in the industrial sector. Unemployment has been rising slightly since summer 2023, especially in the heavily industrialised cantons of the Jura Arc. Following an average of 2.0% in the previous year, we expect an average unemployment rate of 2.3% in 2024. We continue to expect a cyclical upturn around the middle of the year. Reduced financing costs resulting from lower interest rates and rising real wages in neighbouring European countries should lead to this upswing.

Inflation

Swiss Life Asset Managers	Consensus
2024: 1.2%	2024: 1.6%
2025: 0.9%	2025: 1.2%

In January, inflation surprised strongly to the downside. Instead of the rise we were expecting to above 2%, annual inflation fell to 1.3%. This decline raised hopes of a key interest rate cut by the SNB as early as March. However, the effect of past rent increases is not yet fully reflected in the consumer price index. In addition, asking rents are continuing to rise according to current figures, and additional rent increases cannot be ruled out. Furthermore, the increase in VAT could only be passed on to customers with a delay.

UK
2024 starts with positive signs

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 0.1%	2024: 0.3%
2025: 1.0%	2025: 1.1%

GDP data for the fourth quarter of 2023 disappointed and confirmed that the UK was in a technical recession in the second half of 2023 – defined as two consecutive quarters of GDP decline. However, the signs at the beginning of 2024 are overall positive and reinforce our cautiously optimistic forecast of a return to modest growth in the UK in 2024. In February, the Purchasing Managers' Index for service providers was in growth territory (54.3) for the third consecutive month, with orders and employment continuing to improve in particular. Retail sales recovered surprisingly strongly in January from very low levels and the latest figures do not suggest that the labour market has been damaged by the technical recession. Unemployment has again been falling since mid-2023 and is once more below 4%. Meanwhile, nominal wage growth is still surprisingly strong at around 6% year-on-year, which is higher than inflation. Real wage increases are likely to lead to a slight recovery in private consumption, which has so far been weak in 2024. As is the case in continental Europe, the UK economy's weak spot remains its industrial sector, which is struggling to get on track according to both production figures and survey data.

Inflation	
Swiss Life Asset Managers	Consensus
2024: 3.0%	2024: 2.6%
2025: 2.4%	2025: 2.1%

For a change, UK inflation figures came as little surprise in January and were remarkably stable. Headline inflation was 4.0% and core inflation (excluding energy and food) still stood at an impressive 5.1%. Strong wage growth implies that inflation in (labour-intensive) services – at 6.5% in January – is likely to remain high.

China
Appetite for travel grows

GDP growth	
Swiss Life Asset Managers	Consensus
2024: 4.5%	2024: 4.6%
2025: 4.4%	2025: 4.3%

China reported impressive figures during its New Year celebrations. Consumer spending data was strong, while an astounding 474 million trips were made within the country. That is 19% more than in 2019 – before the pandemic. Nevertheless, tourism revenue per trip was still around 10% below 2019 levels. This shows that while people are regaining their previous appetite for travel, they have not yet reached their previous spending levels and are shying away from major purchases. This is also reflected in the flight data: domestic flights are 20% above 2019 levels, while more expensive international flights are still more than 20% below that level. The main reason for this incomplete recovery is the weakness of the real estate sector, which is weighing on consumer confidence. China cut its key five-year loan rate – the benchmark for mortgage rates – by 25 basis points, the largest cut ever, and a sign of the government's willingness to slow the downward trend in the real estate market. Nevertheless, lowering mortgage rates will not be enough to boost real estate sales, as the reason for the weakness is not mortgage rates, which are already at a record low, but a crisis of confidence.

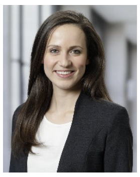
Inflation	
Swiss Life Asset Managers	Consensus
2024: 0.7%	2024: 0.9%
2025: 1.9%	2025: 1.6%

Inflation in January came in lower than expected at -0.8%. We expect inflation in China to return to positive territory over the course of the year as pork prices, which are weighing heavily on headline inflation, are expected to stabilise. Nevertheless, core inflation will remain low as prices related to the real estate market are expected to remain subdued.

Economic Research

Marc Brütsch
Chief Economist
marc.bruetsch@swisslife-am.com
𝕏 @MarcBruetsch

Damian Künzi
Head Macroeconomic Research
damian.kuenzi@swisslife-am.com
𝕏 @kunzi_damian



Josipa Markovic
Economist Emerging Markets
josipa.markovic@swisslife-am.com

Rita Fleer
Economist Quantitative Analysis
rita.fleer@swisslife-am.com

Florence Hartmann
Economist Developed Markets
florence.hartmann@swisslife-am.com

If you have any questions or if you would like to subscribe to this publication,
please send an email to: info@swisslife-am.com.
For more information visit our website at: www.swisslife-am.com/research