Perspectives
Economics

January 2022

Key messages

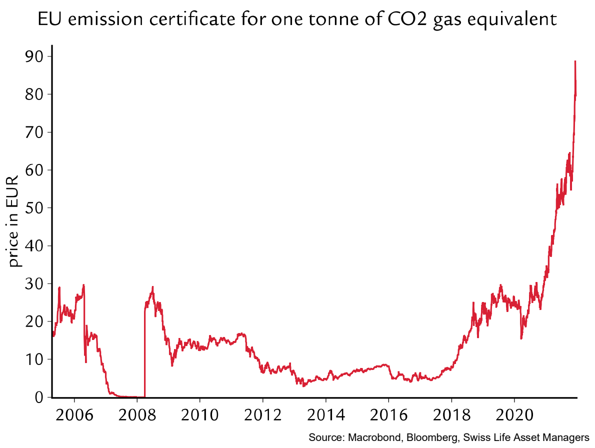
- US: positive fourth-quarter economic development but historically low approval ratings for Joe Biden
- Eurozone: Increased risk of temporary setbacks in growth dynamics due to Omicron
- Inflation: higher-than-expected increase recently, but still a decline expected in 2022

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%	5.6% ↑	3.4%	4.0%	4.7% ↑	4.6% ↑	4.3% ↑	4.2% ↑
Eurozone	5.2%	5.1% ↑	3.7%	4.2% ↓	2.6% ↑	2.5% ↑	2.4% ↑	2.5% ↑
Germany	2.9%	2.7%	3.6%	4.0% ↓	3.1%	3.1% ↑	2.5% ↑	2.7% ↑
France	6.8%	6.6% ↑	3.5%	3.8%	1.7% ↑	1.7%	1.9% ↑	2.1% ↑
UK	6.9%	7.0% ↑	4.2%	4.7%	2.5% ↑	2.5% ↑	3.7% ↑	4.1% ↑
Switzerland	3.5% ↑	3.5% ↑	2.4% ↓	3.0%	0.5% ↓	0.5%	0.8%	0.8% ↑
Japan	1.7% ↓	1.8% ↓	2.1%	3.2% ↑	-0.3%	-0.2%	0.5%	0.7%
China	7.9%	8.0%	5.1%	5.1%	0.9% ↑	0.9% ↓	1.9% ↓	2.1%

Arrows indicate change from previous month
Source: Consensus Economics Inc. London, 6 December 2021

Chart of the month



Decarbonisation receives its price. In the EU, the rising prices for CO2 emission certificates can be partly explained by the current low gas inventories, which are leading to increased coal production and thus to higher demand for certificates. However, the price increase also shows that the markets are increasingly pricing in a stricter climate policy in the future, i.e. a progressive reduction in emission certificates issued by the EU. The companies affected will be tempted to pass on the resulting additional costs to consumers. From today's perspective, it is difficult to quantify how high this "greenflation" will be as a result.

USA
Return of workers

GDP growth	
Swiss Life Asset Managers	Consensus
2021: 5.5%	2021: 5.6%
2022: 3.4%	2022: 4.0%

Following a brief flare-up of stagflation fears (see the last edition of our Perspectives Economics), optimism for growth has returned in the US. The fourth-quarter figures published so far confirm our assumption that the US economy has regained momentum in both the industrial and services sectors. The ISM Purchasing Managers' Index for service providers even hit a new historic high of 69.1 points in November. The gradual easing of supply bottlenecks and the return of people to the labour market are helping to improve the economic situation. In November, the labour force participation rate rose from 61.6% to 61.8%, with an additional 1.1 million people finding employment. A reason to rejoice for Joe Biden? Not at all. His approval ratings have deteriorated dramatically in 2021. The highest consumer price inflation since the 1980s has certainly contributed to the decline in popularity. While the bipartisan infrastructure programme has already been approved, Biden's "Build Back Better Act" faces opposition in the Senate, even among Democrats. The legitimate fear that a renewed expansion of government spending will further fuel inflation should result in a further cut in the programme, which had already lost USD 1.3 trillion in volume on its way from the White House to the House of Representatives.

Inflation	
Swiss Life Asset Managers	Consensus
2021: 4.7%	2021: 4.6%
2022: 4.3%	2022: 4.2%

Inflation continued to rise in November, reaching 6.8%. This was driven by energy and consumer goods prices, while services inflation was surprisingly low. We expect energy and goods prices to make a neutral to negative contribution to inflation in 2022, and believe that the situation should normalise from January onwards. However, as the US is dragging a strong base effect into the new year, the inflation rate is not likely to fall below 3% until October 2022.

Eurozone
Fiscal peace signs

GDP growth	
Swiss Life Asset Managers	Consensus
2021: 5.2%	2021: 5.1%
2022: 3.7%	2022: 4.2%

The change of government in Germany aroused fears in France and the southern member countries of the currency union that the FDP, as part of the traffic light coalition, might demand a swift return to fiscal discipline. However, the first statements by the new German Finance Minister, Christian Lindner, do not indicate this at all. On the contrary, during his first days in office he launched a supplementary budget of around EUR 60 billion. Loans not yet used but already budgeted are to be used for climate protection and digitalisation policies. The new coalition appears to be open to discussing more flexible budget rules with its European partners. Thus there is an opportunity to take further steps to consolidate the monetary union. Germany will hold the G7 presidency in 2022, and France the EU Council presidency. There is some room for manoeuvre. Apart from such long-term visions, the pandemic continues to weigh on economic momentum two years after its outbreak. Austria has been particularly affected by the recent winter wave, with its government putting the country into a short-term lockdown at the end of November. With the emergence of the Omicron variant, the risk of temporary setbacks on the road to economic recovery remains considerable throughout Europe.

Inflation	
Swiss Life Asset Managers	Consensus
2021: 2.6%	2021: 2.5%
2022: 2.4%	2022: 2.5%

The rising inflation figures have triggered a wave of criticism of the ECB. The fact that inflation in the Eurozone currently stands at 4.9% is undoubtedly fuelling economic policy. However, we must not forget that more than half of the current inflation rate is due to the rise in energy prices. Unlike the US, rising energy prices remain a fleeting phenomenon limited to a few goods in the basket.

Germany
Catch-up potential

GDP growth

Swiss Life Asset Managers	Consensus
2021: 2.9%	2021: 2.7%
2022: 3.6%	2022: 4.0%

Despite the renewed tightening of containment measures in various Länder, economic momentum had picked up by week 49 according to the Bundesbank's high-frequency figures on economic activity. A further dip in growth in connection with the new Omicron variant cannot be ruled out in the short term. Nevertheless, Germany has the greatest catch-up potential among the leading economies. So far, its domestic economy has recovered less quickly from the previous year's slump than that of the US or its neighbours Switzerland and France. Compared to France, Germany has the disadvantage that its export economy had focused more on the non-European market following the financial crisis. However, in the current upswing, unlike in 2009, the emerging economies of Asia and South America are not assuming the role of growth drivers for the global economy. In addition, many Asian countries are operating a strict zero-Covid regime. This means that Germany is doubly affected: Demand from emerging markets is lower than that from richer economies. At the same time, the supply bottlenecks in intermediate products are putting pressure on car manufacturers. There have recently been signs of easing in the supply of semiconductors. As a result, industrial production is likely to have picked up strongly in the fourth quarter 2021.

Inflation

Swiss Life Asset Managers	Consensus
2021: 3.1%	2021: 3.1%
2022: 2.5%	2022: 2.7%

The inflation rate at consumer level, as measured by the Federal Statistical Office's price index, rose by 5.2% up to November 2021. Prices for individual products for daily use and for petrol, diesel and gas rose even more sharply. The fact that one-off effects were a major contributor to this increase is often forgotten in the commotion about individual observations. The coming months will already bring a sharp decline in inflation rates. We expect annual inflation to return to 2% by mid-2022.

France
Optimistic companies

GDP growth

Swiss Life Asset Managers	Consensus
2021: 6.8%	2021: 6.6%
2022: 3.5%	2022: 3.8%

Business sentiment in France has improved noticeably during the fourth quarter so far. This has recently opened up a gap in the assessment of the situation by German companies, which are far more pessimistic about the situation. So far, France has been less affected by the renewed spread of the pandemic than Germany or the United Kingdom. With regard to the Omicron variant, however, this situation can only be temporary. Not enough is known about the danger of the variant. For France too, it can be assumed that the economic recovery will be restrained by renewed containment measures. However, we expect the economic damage to be less severe than during the previous waves. As elsewhere in Europe, the tailwind from monetary and fiscal policy measures to support the economy will slow in 2022. Nevertheless, the expected negative fiscal impulse is probably dampening economic growth to a lesser extent in France compared to other members of the Eurozone. According to IMF estimates, France's primary budget deficit will be reduced by around 2.6% of its gross domestic product next year. Meanwhile, a negative fiscal impulse of around 3% of GDP is expected for the Eurozone as a whole.

Inflation

Swiss Life Asset Managers	Consensus
2021: 1.7%	2021: 1.7%
2022: 1.9%	2022: 2.1%

As of November, the inflation rate was 2.8%. We are anticipating a further increase to 2.9% by the end of the year, which represents the peak in the current cycle. We expect the inflation rate to decline to 1.0% by the end of 2022, assuming there is no change in energy prices. In the medium term, we are expecting inflation to settle close to the ECB's inflation target, i.e. around 1.8%. Compared to the decade before the pandemic, this is 0.6 percentage points higher.

UK
Freedom lasted briefly

GDP growth	
Swiss Life Asset Managers	Consensus
2021: 6.9%	2021: 7.0%
2022: 4.2%	2022: 4.7%

After Boris Johnson joyfully proclaimed "Freedom Day" in July 2021 – the abolition of all restrictions in England – there is already a threat of new measures. In addition to the rampant Delta wave, the new Omicron variant is now hitting the UK with full force. The country is exemplary in the sequencing of tests, and recently reported an explosion of infections with the Omicron variant. Despite it being thought to cause milder symptoms, there is a risk of rising hospitalisations due to its higher transmissibility. In addition, a study by Oxford University reported that the AstraZeneca vaccine, which is most widespread in the UK, provides insufficient protection after two doses. So it is no wonder that the Prime Minister announced a booster campaign to deliver a million vaccine doses a day. However, measures were only introduced that had long been standard on the continent (mask and certificate requirement for certain activities, recommendation to work from home) and were intended to minimise the negative impact on the economy. In this respect, we are not changing our cautious growth forecasts for 2021 and 2022 for the time being, especially since the UK economy has started this new Covid wave with more momentum than expected. Both the services and the industrial Purchasing Managers' Indices (PMI) remained close to the 60 points mark in November.

Inflation	
Swiss Life Asset Managers	Consensus
2021: 2.5%	2021: 2.5%
2022: 3.7%	2022: 4.1%

In October, the government cap on consumer prices for electricity and gas was increased as wholesale prices soared. Headline inflation rose from 3.1% to 4.2% and is unlikely to peak until March 2022. The Bank of England is thus faced with the dilemma of having to respond simultaneously to rising inflation and pandemic risks.

Switzerland
Strong franc, low inflation

GDP growth	
Swiss Life Asset Managers	Consensus
2021: 3.5%	2021: 3.5%
2022: 2.4%	2022: 3.0%

Two years after the first news of a novel virus emerging, the traces of the pandemic are becoming increasingly apparent in the Swiss economy: For example, in the third quarter of 2021, the gross value added of the hospitality sector was still 17% below the pre-crisis level of the final quarter of 2019. By contrast, the pharmaceutical industry and the retail sector grew by around 14% and 6%, respectively, over the same period. In recent months, Switzerland's flexible labour market has led to a reorientation of employees in the sectors particularly affected by the pandemic. Accordingly, the shortage of skilled workers in these sectors will continue to worsen. In the short term the renewed rise in cases and the threat of the healthcare system being overrun are dampening the prospects for the domestic economy. However, this is not the main reason for our cautious GDP growth forecast. Instead, we anticipate a diminishing tailwind from the monetary and fiscal policy support measures to affect the world economy as a whole. Compared to the latest forecasts by the State Secretariat for Economic Affairs (SECO), our forecasts are significantly lower: While SECO estimates GDP growth of 3.0% and 2.0% for 2022 and 2023 respectively, we are expecting just 2.4% growth in 2022 and 1.2% for 2023.

Inflation	
Swiss Life Asset Managers	Consensus
2021: 0.5%	2021: 0.5%
2022: 0.8%	2022: 0.8%

Inflationary pressure is much less pronounced in Switzerland than in other developed economies. The lower weight of energy prices in the calculation of inflation plays just as much a role as the price-reducing effect of the market entry of new foreign retailers. What is decisive for the outlook, however, is the strengthening of the Swiss franc against the euro. Prices for certain imported goods will go down in 2022.

Japan
Comeback of the car industry

GDP growth	
Swiss Life Asset Managers	Consensus
2021: 1.7%	2021: 1.8%
2022: 2.1%	2022: 3.2%

Despite the Olympic Games, the third quarter was a quarter to forget in Japan. A renewed wave of the pandemic triggered considerable restraint on the part of the population, with private consumption and investment falling more sharply than expected. We consequently had to revise our 2021 full-year growth forecast downwards. However, the signs in the fourth quarter are pointing to growth. The December Tankan survey revealed a surprisingly strong improvement in sentiment among service providers, especially in the hospitality and personal services sectors that have been severely affected by the pandemic. As in other countries, Omicron also poses a risk for the short-term economic outlook in Japan. Ironically, the extremely late start to the vaccination campaign could now turn out to be a good thing, as the population's vaccination protection is still relatively fresh. We have increased our GDP forecast for 2022 – Japan is the only major country apart from Germany where we expect growth to accelerate in 2022. The main reason for this is the expected gradual easing of supply bottlenecks, especially in the automotive industry. Semiconductor production is now in full swing globally, and car manufacturers have announced that they will be able to ramp up production somewhat in the fourth quarter of 2021. Indeed, for the first time since January 2021, Japanese car production increased in October, by 28% compared with the previous month.

Inflation	
Swiss Life Asset Managers	Consensus
2021: –0.3%	2021: –0.2%
2022: 0.5%	2022: 0.7%

While consumers around the world are complaining of rising prices, Japanese consumers are currently enjoying falling prices for consumer goods, telecommunications and medical services. However, the pendulum is likely to move into positive territory next year as economic growth accelerates, and we are expecting an average inflation rate of 0.5%.

China
Monetary policy easing

GDP growth	
Swiss Life Asset Managers	Consensus
2021: 7.9%	2021: 8.0%
2022: 5.1%	2022: 5.1%

The situation of highly indebted real estate developers in China has worsened. Evergrande's rating, the largest affected company, was downgraded by Fitch to “restricted default” at the beginning of December after the grace period for a coupon payment expired. The authorities are still trying to let some air out of the bloated real estate sector through regulatory pressure, while at the same time supporting the broader domestic economy with a more expansionary monetary policy. Whether this balancing act succeeds remains to be seen. The crisis has led to a decline in construction activity and recently even residential property prices, which could lead to a persistent weakness in domestic consumption and investments. The biggest impulse for growth in 2022 is likely to continue to come from the foreign economy. Global demand is buzzing, capacity bottlenecks are easing, and Chinese exports are likely to take the surprisingly good momentum of the second half of 2021 into the new year. It is worth noting that the good export performance was not primarily driven by rising prices and base effects, but by rising volumes. Despite the positive industrial cycle, momentum could take a hit at the start of the year. In addition to the latent risks of the pandemic, there is still a threat of a temporary decline in production as the authorities want to contain air pollution during the Olympic Games.

Inflation	
Swiss Life Asset Managers	Consensus
2021: 0.9%	2021: 0.9%
2022: 1.9%	2022: 2.1%

Contrary to the trend in other emerging markets, the central bank loosened its monetary policy in December by lowering the reserve ratio for banks from 12.0% to 11.5%. Moderate inflation allows for further easing. The inflation rate rose from 1.5% to 2.3% in November due to base effects, but is expected to average just 1.9% in 2022.

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