Perspectives
Economics

April 2025

Key takeaways

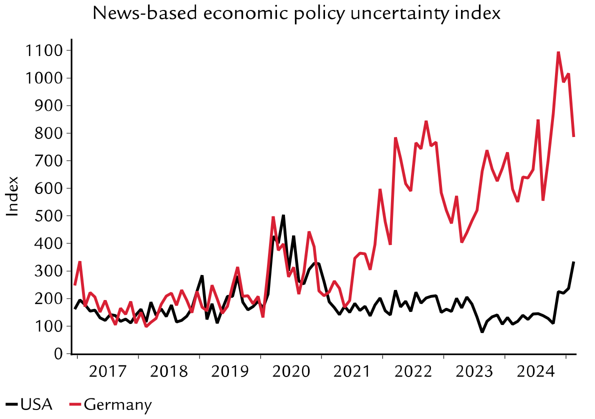
- USA: Subdued outlook for US private consumption is lowering our growth expectations for 2025
- Germany: Fiscal turnaround lays the foundation for medium and long-term revival of growth
- China: US tariffs to weigh on exports, stronger-than-expected fiscal stimulus supports the domestic economy

Comparison of forecasts

	2025 GDP growth		2026 GDP growth		2025 inflation		2026 inflation	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	1.8% ↓	2.0% ↓	2.0% ↓	2.0%	2.8% ↑	2.9% ↑	2.4%	2.6%
Eurozone	0.8%	0.9%	1.2% ↑	1.2%	2.3% ↑	2.2% ↑	2.0% ↑	1.9%
Germany	0.3%	0.2% ↓	1.3% ↑	1.2% ↑	2.1% ↑	2.2%	2.2% ↑	2.0% ↑
France	0.8%	0.7%	1.1%	1.0%	1.2%	1.4%	1.6%	1.6% ↓
Italy	0.5%	0.6% ↓	0.9%	0.9%	1.8%	1.8%	1.8%	1.7%
Spain	2.2%	2.5% ↑	1.7%	1.9%	2.5% ↑	2.4% ↑	1.9%	2.0%
UK	1.2%	0.9% ↓	1.4%	1.2% ↓	2.7%	3.1% ↑	2.1%	2.4%
Switzerland	1.2%	1.2%	1.8% ↓	1.6%	0.3% ↑	0.5%	0.6% ↓	0.8%
Japan	1.1% ↓	1.2%	0.5%	0.9%	2.7% ↓	2.8% ↑	1.6%	1.8%
China	4.3% ↑	4.5%	4.0% ↑	4.2% ↑	0.5% ↓	0.6%	1.5%	1.1%

Arrows indicate change from previous month. Source: Consensus Economics Inc. London, 13 March 2025

Chart of the month



Sources: Macrobond, Swiss Life Asset Managers. Last data point: 02.2025

Unlike Europe, where the energy crisis led to unprecedented uncertainty, US companies faced a stable environment, which supported the economic boom under Joe Biden. Bygone days. The back and forth of tariff policy and the debates that are emerging concerning the "Mar-a-Lago Accord" to bring about a coordinated depreciation of the US dollar with very problematic means, have significantly increased economic policy uncertainty under Donald Trump. In Europe, on the other hand, uncertainty is likely to decline further from the current high level thanks to Germany's long-term fiscal package.

USA
The consumption boom is over

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.8%	2025: 2.0%
2026: 2.0%	2026: 2.0%

After two years of booming consumption, we have consistently assumed a normalisation of US private consumption in our baseline scenario for 2025. However, the data for the past four weeks now point to a sharper-than-expected slowdown, which is why we have revised our GDP growth forecast for 2025 from 2.3% to 1.8%. February's retail sales figures showed a disappointing recovery after January's weather-related weakness. Consumer confidence has declined further since then. We usually place little emphasis on these surveys, as the link to actual spending is weak, and the responses are highly politicised. For example, democratic voters' expectations of the future economic situation have been at rock bottom since the presidential election. Now, however, for the first time, the Republican electorate is also experiencing a sense of disenchantment, which is certainly a warning sign. The reasons are obvious: uncertainty due to tariffs, sharply rising inflation expectations, and a jump in announced job cuts, especially in government and retail. This has not yet been reflected in the "hard" labour market data, especially first applications for unemployment benefits, but a deterioration is expected in the coming months.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.8%	2025: 2.9%
2026: 2.4%	2026: 2.6%

Inflation eased significantly in February following the surprisingly high January figures, driven by stagnating service prices and shelter costs. But it is too early for celebration. From March onwards, we expect the tariffs imposed on Chinese goods to be increasingly reflected in goods prices. As the US dollar has depreciated rather than appreciated, contrary to our original assumption, and is thus not cushioning the higher tariffs, we have adjusted the inflation forecast for 2025 upwards.

Eurozone
Improved outlook

GDP growth

Swiss Life Asset Managers	Consensus
2025: 0.8%	2025: 0.9%
2026: 1.2%	2026: 1.2%

Purchasing managers' indices (PMI) for March suggest that growth prospects for European manufacturing have improved slightly again, despite the threat of higher US tariffs. Most of the improved sentiment is likely to be driven by the German fiscal package. The German manufacturing PMI improved from 46.5 in February to 48.3, and industrial companies in France are also less negative about the future. In the European Union, defence spending remained the focus. The EU has published a White Paper on defence entitled "Readiness 2030," on how it intends to prepare for the risks of war by 2030. It also included further details on the financing plans for the increased defence spending. Due to the significant change in German fiscal policy, we have also slightly increased our GDP forecast for the eurozone in 2026. We have not yet incorporated the effects of increased defence spending for the remaining eurozone countries, as not enough details are known yet. Despite the clear common commitment to Ukraine, there are differences of opinion within the EU. Spain and Italy, for example, are rather critical of rearmament plans, while the Baltic and Nordic countries, France, Germany and Poland are in favour of them.

Inflation

Swiss Life Asset Managers	Consensus
2025: 2.3%	2025: 2.2%
2026: 2.0%	2026: 1.9%

Eurozone inflation fell slightly again in February, following a slight increase in the previous four months. Energy prices contributed most to the decline. We have revised our inflation forecast up slightly for 2025 and 2026. The adjustment for 2025 is due to higher-than-expected inflation rates at the start of the year in Germany and Spain, while the revision of the 2026 forecast is due to the announced fiscal package in Germany.

Germany
Fiscal turnaround

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.3%	2025: 0.2%
2026: 1.3%	2026: 1.2%

Germany has abandoned its previously restrictive fiscal policy and will focus on growth-oriented government investment in the future. This political course should lead to significantly more dynamic growth in the medium term than in the past two years. In the short term, however, the economic outlook remains subdued. The economy is stagnating, uncertainty is high, and both consumption and export demand remains subdued. US tariffs on German exports are likely to be an additional burden on its economic recovery. This is where government impetus can have a positive impact. Parts of the construction and manufacturing sectors will benefit in particular – two sectors that are in recession as well as undergoing structural change, and for which additional demand is very welcome. Furthermore, falling inflation and declining interest rates should support the economic recovery and improve financing conditions for companies and households. Should these factors boost private consumption and business investment, this would further support the recovery. Due to the improved medium-term outlook, we are raising our GDP forecast for 2026 by 0.5 percentage points to 1.3%.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.1%	2025: 2.2%
2026: 2.2%	2026: 2.0%

The extent of the announced fiscal programmes is likely to put significant pressure on production capacities and prices in the medium term. This effect is further exacerbated by the demographic decline in the working population. As there is a time lag before government spending programmes impact on the real economy, we expect a delayed but significant increase in inflation. Against this backdrop, we are revising our inflation forecast for 2026 from 1.8% to 2.3%.

France
Exaggerated recession fears

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 0.8%	2025: 0.7%
2026: 1.1%	2026: 1.0%

According to a Bloomberg survey conducted in March, the economists surveyed put the probability of a recession in France over the next 12 months at 57%. This figure is higher than that for Germany, Europe's current problem child. We consider such recession fears to be exaggerated and largely due to political uncertainty. Incoming data gives us confidence that the economic cycle will also gain momentum in France in the coming months. As noted earlier, the savings rate of French households is currently unusually high. With the fall in savings interest on bank accounts and tax-privileged savings plans, the opportunity costs of consumption are now declining. A return to a normal savings rate could release purchasing power in the order of 2% of France's gross domestic product. France's industry is also well positioned to benefit quickly from the announced European defence and infrastructure programmes. Meanwhile, the boom in the tourism sector continues unabated. In seasonally adjusted terms, the number of overnight stays by foreign guests in France's hotels in January climbed to the highest level since 2011, the starting point of the latest INSEE statistics.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 1.4%
2026: 1.6%	2026: 1.6%

The scenario described above implies that the French economy will grow below its potential over the coming quarters, further easing inflationary pressure. Interestingly, the long-term inflation expectations of consumers and investors in inflation-protected bonds remain equally stable following the announced fiscal programmes at around 2%. In the short-term baseline scenario, we expect an inflation rate of below 2% for the current year and for 2026 as a whole.

Italy
Defence industry benefits

Purchasing managers' indices for January and February suggest that economic growth in Italy has picked up slightly after six months of sluggishness. Our model currently expects quarterly growth of 0.2% in the first quarter. Purchasing managers' indices for March were not yet available at the time of writing, but the preliminary results for Germany and France point to an improvement in the industrial sector, triggered by Germany's agreed fiscal package. The implications for Italy are double-edged. On the one hand, long-term interest rates have risen across Europe, further limiting the already tight fiscal room for manoeuvre in Italy. As a result, Italy will not be able to keep up with the pan-European armaments drive, despite the need to catch up. On the other hand, in addition to the continuing flow of NextGenerationEU funds, Italy should now also benefit from foreign arms contracts. Italy is home to Leonardo, the largest armaments company in continental Europe, and Fincantieri, one of the world's largest shipbuilders, the latter being involved in the production of warships.

Spain
Armaments reticence

Spain spends little money on defence compared to other European countries. In 2024, it was around 1.2% of GDP. An increase in defence spending has not met with great enthusiasm in Spain, either from the public or from the government. While Spanish Prime Minister Pedro Sánchez significantly increased defence spending in 2024, this had little impact in relation to GDP due to strong economic growth. In addition, Pedro Sánchez currently leads a minority government that depends on small parties. This is making it very difficult for the government to get its budget approved by parliament, and the issue of armaments spending is leading to further conflicts. Nevertheless, the Spanish defence industry, which is particularly strong in the aerospace sector, should benefit economically from the European defence plans. However, the still-tight labour market is likely to become a constraining factor in the medium term due to a shortage of skilled workers for this highly specialised sector.

Switzerland
Construction activity on the rise

GDP growth

Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 1.2%
2026: 1.8%	2026: 1.6%

The economic outlook remains mixed. The challenging investment environment in the light of the threatening trade policy gestures from Washington is weighing on the MEM industries in particular. As in Donald Trump's first term, a negative effect on companies' domestic investment in equipment is to be expected for the time being. At the time of writing, it was unclear to what extent the Trump administration will impose tariffs on pharmaceutical imports. Such a move would potentially have a significant impact on the activities of this sector in Switzerland. The special funds and spending programmes in Germany and the EU are not currently prompting us to revise our growth expectations up to 2026. On the other hand, the change of course since December 2023 by the Swiss National Bank, whose monetary policy can now be regarded as expansionary, is improving economic momentum. Amongst other things, the resulting lower financing costs are contributing to an increase in approved construction projects: in the area of rental apartments, the value of approved projects has increased by around a third at current prices since the final quarter of 2023. This will lead to a noticeable upturn in construction activity this year.

Inflation

Swiss Life Asset Managers	Consensus
2025: 0.3%	2025: 0.5%
2026: 0.6%	2026: 0.8%

Energy prices, which have risen in the meantime, and the stronger euro are reducing the risk of negative inflation rates in the summer of 2025. In our baseline scenario we expect annual inflation to reach a low of 0.2% in August. Lower existing rents following the reduction in the mortgage reference interest rate are being partly offset by rising market rents. A further reduction in electricity prices for private households is to be expected in 2026. According to our projection, the inflation rate will be 1.0% at the end of 2026.

UK
Sluggish start to the year

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 1.2%	2025: 0.9%
2026: 1.4%	2026: 1.2%

The UK economy has had a sluggish start to 2025. Its monthly GDP contracted by 0.1% in January. This weakness was driven by industrial production, which fell by 0.9% in January. The services sector was the only sector with slightly positive growth. A similar development is also reflected in the purchasing managers' indices (PMI). The manufacturing purchasing managers' index (PMI) continued to decline in March and was well below the growth threshold of 50 at 44.6. The forward-looking sub-indices such as new (export) orders look even gloomier than the overall index, which is particularly worrying. On the other hand, the PMI for the services sector improved again to 53.2 in March, pointing to solid growth in the sector. The labour market seems to be normalising slowly. Average weekly earnings growth in the private sector slowed in January, which should provide some comfort to the Bank of England (BoE) regarding inflationary pressure for the rest of the year. The unemployment rate has remained constant at 4.4% over the past few months. However, this figure should still be interpreted with caution due to the ongoing data problems. The fiscal situation is likely to return to the spotlight next month due to the upcoming spring budget statement on 26 March (after the editorial deadline), which is expected to include some budget cuts.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 2.7%	2025: 3.1%
2026: 2.1%	2026: 2.4%

In addition to actual inflation, the inflation expectations in the UK have also risen again. For example, inflation expectations for the next 12 months climbed to 3.4% in a survey conducted by the BoE. As expected, the BoE left the key interest rate unchanged at its mid-March meeting and expressed caution over whether the underlying disinflationary process would continue.

China
Focus on consumption

GDP growth	
Swiss Life Asset Managers	Consensus
2025: 4.3%	2025: 4.5%
2026: 4.0%	2026: 4.2%

Donald Trump has already imposed additional 20% tariffs on China so far this year, resulting in an effective average tariff rate of around 30%. Further tariffs are expected. Since Trump's first trade tariffs in 2018, China has significantly reduced its dependence on the US as an export market. Nevertheless, US exports still account for 2.5% of GDP, and the impact of the US tariffs will be felt accordingly. Given the gloomy external environment, the Chinese government is shifting its focus to the domestic economy, especially consumption. The pandemic and the real estate crisis that started in 2021 led to a deep shock that cost jobs and continues to affect consumer confidence to this day. In addition, the savings rate in China is structurally high. Households save about a third of their income due to inadequate social security systems. The Chinese government has begun to address precisely these issues by seeking to increase household incomes and improve the social security system. The higher-than-expected fiscal momentum with a heightened focus on the domestic economy has prompted us to revise our GDP growth forecast to 4.3% – which, however, is still well below China's 5% growth target.

Inflation	
Swiss Life Asset Managers	Consensus
2025: 0.5%	2025: 0.6%
2026: 1.5%	2026: 1.1%

Economic data for the first two months of the year can be very volatile in China due to the Chinese New Year and should be interpreted with caution. Over a longer period, core inflation (excluding food and energy prices) shows persistent weakness and follows a downward trend, indicating continued weakness in domestic demand.

Economic Research

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

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

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

Christoph Lauper
Economist Quantitative Analysis
christoph.lauper@swisslife-am.com

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

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please send an email to: info@swisslife-am.com.
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