Global Economic Scenario
June 2017

Revisions since last month (in brackets forecasts as per previous month)

	GDP 2017		GDP 2018		CPI 2017		CPI 2018	
	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus	Swiss Life AM	Consensus
USA	2.1% (1.9%)	2.1% (2.2%)	2.3%	2.4%	2.2% (2.3%)	2.4% (2.5%)	2.0% (2.1%)	2.2% (2.3%)
Eurozone	1.7% (1.6%)	1.7%	1.3%	1.6% (1.5%)	1.8% (1.9%)	1.6%	1.5% (1.6%)	1.4%
Japan	1.4% (1.2%)	1.4% (1.3%)	0.9%	1.1% (1.0%)	0.5% (0.3%)	0.7%	0.4% (0.3%)	1.0%
UK	1.5% (1.7%)	1.7%	1.0%	1.4% (1.3%)	2.6%	2.6%	2.2% (2.3%)	2.7%
Switzerland	1.2%	1.5%	1.6%	1.7%	0.6%	0.5%	0.5% (0.4%)	0.6% (0.7%)

Source for Consensus Estimates: Consensus Economics Inc. London, 8 May 2017

USA – Allegations delay important decisions

GDP Growth

Swiss Life Asset Managers *Consensus*
2017: 2.1% *2017: 2.1%*
2018: 2.3% *2018: 2.4%*

Macroeconomic data received so far for the second quarter indicate an acceleration from the disappointing growth dynamics at the start of this year. As a matter of fact, the GDP tracker published by the Atlanta Fed - admittedly based primarily on April data thus far - points to a quarterly growth rate of more than 3.5% on an annualised basis in the current quarter. If past patterns repeat themselves, the GDP tracker is bound to decline as the quarter progresses. Retail sales, industrial production as well as inventory data had a good start into the second quarter. Yet, in our view the tracker largely overestimates dynamics for the quarter as a whole. Our own growth projection for the current quarter is at a quarterly annualised rate of 2.2% which would almost be twice as much as the one reported for the first quarter of this year. This growth pace will be maintained also over the quarters to come according to our own GDP projection, which corresponds to a rate that is somewhat above potential growth as estimated by the OECD. However such a growth rate does not include a noteworthy impulse from the fiscal side, an assumption that is increasingly shared by other colleagues. The new administration is busy with the defense against allegations that President Trump shared highly classified information with Russian officials. A special counsel investigator has been announced to oversee an FBI investigation into the Russian governments efforts to influence the election in the US. Furthermore, the repeal of the Affordable Care Act and ongoing uncertainty as regards the fiscal year 2018 budget, have slowed down the tax reform process as well as potential decisions on increased infrastructure spending. As a result, we feel comfortable with a below-consensus growth forecast. From a cyclical point of view, the economy has reached a fairly mature state. The slack in the labour market has disappeared considering a broad set of data on employment, unemployment and labour force characteristics. Initial jobless claims have reached the lowest level since 1973 and the insured unemployment rate is at an all-time low.

Inflation

Swiss Life Asset Managers *Consensus*
2017: 2.2% *2017: 2.4%*
2018: 2.0% *2018: 2.2%*

The fact that the tightness of the labour market has not led to the usual wage and price pressures which one would expect at this point in the cycle remains somewhat of a conundrum. Although wages have been on an upward trajectory, the level of wage growth remains subdued considering the maturity of the cycle. Low productivity growth is an often cited phenomenon to cause the weakness of wages. Annual growth rates for both, the headline as well as core consumer price indices are beyond their peaks. In line with the sobering of investors as regards a positive growth impact of Trump's agenda, market inflation expectations have turned south again. Unless energy prices move substantially to either side, headline inflation will remain on the current level of slightly above 2% until year-end.

Eurozone – New mood of invigoration

GDP Growth

Swiss Life Asset Managers	Consensus
2017: 1.7%	2017: 1.7%
2018: 1.3%	2018: 1.6%

The election of Emmanuel Macron not only brought relief to financial markets, but seems to have invigorated economic sentiment throughout the region. One of his declared goals is to reform the "European project" and to turn it into a success. Certain optimism has been expressed by purchasing managers indices (PMI) and other sentiment data over past months already confirmed by sturdy economic hard data. Consequently, yet another increase in PMI readings came as a positive surprise. The ifo business climate indicator equally suggests that not only did we witness yet another quarter of above-potential growth in the first quarter, but growth in the current quarter seems to accelerate even further. If this tendency will be confirmed by May and June data, we run the risk of being too prudent for Eurozone GDP growth this year even after this month's slight upside revision. From a maximum level of 12.1% back in March 2013, the unemployment rate for the monetary union as a whole has dropped to 9.5% in March of this year. This rate is the lowest since 2009. On a more cautious note, one needs to highlight that differences as regards the health of the labour market remain pronounced between member countries. Moreover, high rates of youth unemployment in certain member countries persist and represent a burden for potential growth in the long run.

Inflation

Swiss Life Asset Managers	Consensus
2017: 1.8%	2017: 1.6%
2018: 1.5%	2018: 1.4%

After two months with strong monthly increases of consumer prices - in March due to the expected seasonal pattern and in April due to the Easter holiday season - the month of May should bring a more modest rise for both, the core as well as headline measure. In April, core inflation rose to 1.3% and will settle the year at 1.5% according to our own forecast. As regards headline inflation which includes food prices, we considered potential price rises for fresh produce and fruits due to the winter weather in April.

Japan – How much rotation to domestic drivers?

GDP Growth

Swiss Life Asset Managers	Consensus
2017: 1.4%	2017: 1.4%
2018: 0.9%	2018: 1.1%

The first synchronous global cyclical upswing since 2009 was clearly beneficiary for Japan's manufacturers until the first quarter 2017. The preliminary estimate of 2.2% annualised quarterly GDP growth during the first three months of the year confirmed this view. The official data even came in above our own forecast of 1.4% annualised growth. As mentioned last month, we think that tailwinds from external demand are likely to moderate in the quarters ahead. And indeed, the purchasing managers index for the export oriented manufacturing sector hints at slower dynamics during the second quarter of 2017. Thus, to maintain the current GDP growth pace, domestic drivers should step in to compensate for a softening in demand from abroad. Yet, signs of such a baton change are hardly perceptible for the time being: Recently, the domestically oriented service sector's purchasing managers index softened in parallel with sentiment in manufacturing. The same holds true for Shoko Chukin Bank's small business confidence indicator and consumer confidence. On a more positive note, we continue to observe comparably strong bank lending activity and slightly positive dynamics in retail sales compared with the previous year. Taking all available information together, we continue to expect a moderation of annualised GDP growth rates to around 1% on average going forward. This would still mean that the economy grows faster than its potential. A sustainbale return to positive inflation rates is thus increasingly likely.

Inflation

Swiss Life Asset Managers	Consensus
2017: 0.5%	2017: 0.7%
2018: 0.4%	2018: 1.0%

The inflation data for the month of April came in as expected and would not require a revision in our forecasts for the full-year 2017. And yet, initial information on price developments in the Tokyo area for May suggests that the nationwide consumer price index added another increase of 0.4% from its April level. This assumption alters our inflation profile markedly and lifts the forecast for 2017 to 0.5% from previously 0.3%.

UK – Some surprising details in first quarter data

GDP Growth

Swiss Life Asset Managers	Consensus
2017: 1.5%	2017: 1.7%
2018: 1.0%	2018: 1.4%

Last month, we wrote that the first quarter 2017 GDP marked the tipping point for the UK at which the costs of Brexit started to weigh on the economy. But this conclusion was premature as more details on the composition of GDP were made available since: If Brexit and uncertainties around the negotiations with the EU were to blame for the sluggish pace of just 0.18% quarterly growth, one would expect the following: Soft capital formation by the corporate sector, subdued personal consumption and strong export growth thanks to the weak currency. And yet, the reality shows a different picture: Exports contributed negatively to GDP growth in the first quarter, while corporate investment spending added 1.2% to quarterly growth. With purchasing managers indices for all major sectors remaining well in expansionary territory and retail sales recovering at the start of the second quarter, we expect a mild rebound to GDP growth of 0.3% for the current quarter.

Inflation

Swiss Life Asset Managers	Consensus
2017: 2.6%	2017: 2.6%
2018: 2.2%	2018: 2.7%

The April inflation report came in line with our own forecast of a 0.5% monthly increase in the consumer price index. Annual headline inflation climbed further to 2.7% and is expected to continue rising until a cyclical peak should be reached at 2.9% by October. Inflation in the UK is a combined result of firm labour market conditions, rising import prices due to the weakening currency after the EU referendum one year ago and higher tariffs for gas and electricity. Yet, as goods price inflation stopped accelerating further in April, we assume that pass-through effects from higher import prices will abate over the coming months. The fact that service prices continue to increase at an annual rate of 3% is indicative of resilience in the economy and a certain price setting power of domestic services providers.

Switzerland – Jobless recovery

GDP Growth

Swiss Life Asset Managers	Consensus
2017: 1.2%	2017: 1.5%
2018: 1.6%	2018: 1.7%

Upbeat sentiment does not create jobs: While the purchasing managers index for the manufacturing sector reached extraordinary high levels, employment data for the first quarter 2017 show a continued loss in manufacturing jobs. The jobless recovery is further evidence that the synchronous global upswing benefits Switzerland's economy far less than in earlier cycles. Unfortunately, this document's copy deadline was two days before the release of the official GDP data in the first quarter of 2017. We expect a quarterly growth pace of 0.4% from the previous quarter, which is slightly below the consensus according to a poll of 22 economists conducted by Bloomberg. Forecasts in this poll ranged from 0.3% to 0.9%. As explained repeatedly over the past twelve months, we base our prudent forecast on the observation of lacklustre domestic dynamics: Trends in the labour market are just one reason why domestic consumption remains subdued. Additionally, we observe the discontinuation of major growth drivers: Migration and interest rate dynamics, as well as falling import prices are no longer boosting demand for durable goods or housing. News like the drop in car sales by 2% compared with 2016, or falling business sentiment in the construction sector, suggest that our assessment starts to be reflected in real economic data.

Inflation

Swiss Life Asset Managers	Consensus
2017: 0.6%	2017: 0.5%
2018: 0.5%	2018: 0.6%

We expect energy prices to move within a narrow range which limits any upside potential for inflation near-term. With the exchange rate against the Euro stabilising at around 1.09 for the rest of the year, we do not expect renewed downward pressure on import prices neither. The biggest uncertainty for the time being are higher prices for fresh vegetables and fruits as a consequence of adverse weather conditions in April and May.