

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

	GDP 2010				GDP 2011				CPI 2010				CPI 2011			
	SLAM		Consensus		SLAM		Consensus		SLAM		Consensus		SLAM		Consensus	
USA	3.2%	(3.0%)	3.1%	(2.9%)	2.5%	3.0%	(3.1%)	2.6%		2.3%	(2.2%)	2.1%		2.0%	(1.9%)	
Euro Area	1.2%	(1.5%)	1.3%		1.6%	1.5%	(1.6%)	0.9%	(1.1%)	1.2%		0.9%		1.5%		
Japan	2.1%	(1.8%)	1.5%	(1.3%)	1.3%	1.5%		-0.7%	(-0.4%)	-1.0%		0.1%	(0.3%)	-0.3%		
UK	1.0%		1.4%	(1.5%)	1.8%	2.2%		2.1%	(1.9%)	2.6%	(2.4%)	0.6%		1.7%		
Switzerland	1.6%		1.3%	(1.2%)	1.6%	1.8%	(1.7%)	0.7%	(0.5%)	0.7%		0.7%		1.0%		

#### USA – Slow healing of the labour market

##### GDP Growth

Swiss Life Asset Management	Consensus
2010: 3.2%	2010: 3.1%
2011: 2.5%	2011: 3.0%

The Bureau of Labour Statistics published its annual benchmark revision to the number of payrolls with its latest labour market report. The total number of payrolls during the past two years was revised substantially to the downside. Instead of 7.2 million, the recession claimed 8.4 million jobs. While the long-awaited growth in new non-farm payrolls did not occur in January (though November 2009 did create a net increase of 64,000 jobs), the details of the report looked promising, substantiating our case of job gains in the current quarter. Furthermore, going beyond the jobs figures, hourly earnings and hours worked point to relatively strong gains in personal income. Real earnings thus suggest that the private sectors of the economy generated real purchasing power gains for consumers even without special government transfers and tax initiatives. Yet, once again some upcoming macro data will be distorted due to the severe snow storms in February which caused economic activity to grind to a halt in some of the states. Construction continues to be hard hit not only by the crisis but now also by the weather – nearly a quarter of construction workers are unemployed as non-residential building continues to be in the doldrums. The odds are however, that the February payroll report will generate a strong positive surprise as the upcoming census should lead to hiring on the federal government level. Business surveys have the merit to remain largely unimpressed by weather distortions which shifts the focus towards the upcoming publications. Small business optimism has clearly detached from the record low level

reached in March of last year but is dwarfed by the rigorous surge of business sentiment among large companies as illustrated in the ISM readings. Despite the recent improvement, small business owners entered the new year the same way as they left 2009 – rather depressed. Poor sales figures are still being regarded as the single most important problem. The latest retail sales figures, on the other hand, provided a fairly strong monthly increase in January, driven largely by substantial growth in online sales as people avoided to leave the house. These sales figures caused us to slightly adjust our GDP forecast for the current quarter with respect to the composition of growth. Without changing the GDP forecast as such, we expect a somewhat stronger contribution from consumer spending and the inventory restoration, but have at the same time grown more sceptical as regards the contribution from residential investments and non-residential building.

##### Inflation

Swiss Life Asset Management	Consensus
2010: 2.6%	2010: 2.3%
2011: 2.1%	2011: 2.0%

As in other economies, harsh weather conditions may leave some traces in agricultural prices and give a slight lift to the consumer price index for the next two months. However, this does not change our case for headline inflation readings to hover around current levels for the rest of the year, nor does it endanger our path of receding core inflation throughout 2010. In the absence of substantial price pressures emanating from the energy complex, the large capacity overhang, moderate wage pressures and restricted pricing power of companies will continue to dominate the inflation outlook.

Source for Consensus Estimates: Consensus Economics Inc. London, 8 February 2010

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### Euro Area – Domestic demand decelerates the recovery

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#### GDP Growth

Swiss Life Asset Management	Consensus
2010: 1.2%	2010: 1.3%
2011: 1.6%	2011: 1.5%

Although Greek clouds continue to darken the outlook horizon, we do not expect them to bring the unfolding economic recovery to a halt. The main risks in our view stem from potentially higher financing costs, also in the corporate space which may then again put the brakes on business investments and from banks' exposure to sovereign risk and the ensuing constriction when it comes to lending to the private sector. Fiscal tightening has formed part of our growth outlook since quite a while already and constitutes a main determinant of our sub-par growth outlook, not only for the Eurozone economies. Yet, a double-dip is not in our cards. Thus far, the macroeconomic landscape seems rather unscathed. Purchasing manager indices in manufacturing as well as services managed to creep higher yet again, resounding the positive activity outlook conveyed by national business surveys. Although the region's GDP growth in the fourth 2009 was up a surprisingly small 0.1% from the previous quarter, data signal strengthening dynamics in the medium term. The region's trade surplus widened substantially in December. The Euro's decline over recent weeks and months is helping to bolster exports from the region just as the global economy recovers from recession.

#### Inflation

Swiss Life Asset Management	Consensus
2010: 0.9%	2010: 1.2%
2011: 0.9%	2011: 1.5%

Eurostat's flash CPI estimate for January was lower than was commonly expected and also below what we had foreseen as monthly change. As a consequence, we have slightly revised this year's inflation forecast to the downside without making any amendments to our base case of very benign inflationary pressures. For the first time in its history, the labour union of the metals industries in Germany entered wage negotiations without concrete wage demands.

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### Japan – Strong report for last quarter 2009

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#### GDP Growth

Swiss Life Asset Management	Consensus
2010: 2.1%	2010: 1.5%
2011: 1.3%	2011: 1.5%

Japan's economy grew for the third quarter in a row according to preliminary data on the national accounts. Most of the impressive 1.1% quarterly real GDP growth rate is attributable to the deflator. In nominal terms, growth reached a less impressive 0.2%, at least the first positive quarterly change after seven quarters with nominal GDP contraction. Overall, the report encourages us to stick to our above consensus forecast for 2010. Export activity was the gold medallist and is set to remain the major driver of the recovery. Following the strong demand from neighbouring Asia, trade with Europe is now gaining traction too. Domestic demand was surprisingly strong last quarter as incentives supporting consumers to buy cars and energy saving household goods resulted in additional demand. Such incentives will expire by the end of March. The first payments for child-rearing allowances scheduled for June 2010 should support disposable incomes, but intensifying talks of looming tax increases are likely to weigh on consumer demand. On the back of the continued increase in the most prominent leading indicators and rising orders, firms are likely to invest more in machinery and software the coming months.

#### Inflation

Swiss Life Asset Management	Consensus
2010: -0.7%	2010: -1.0%
2011: 0.1%	2011: -0.3%

Besides our base case for the world economy, we maintain two alternative scenarios to which we attribute a lower probability. One alternative scenario describes policy failures in the attempt to stabilise economies and financial markets and includes a prolonged deflation as a result. As regional particularities are now coming to the surface, Japan seems the most exposed to such a risk. In our view, consumer prices are likely to continue falling in annual comparison until the fourth quarter 2010.

### UK – GDP figures mask surprisingly strong sentiment

#### GDP Growth

Swiss Life Asset Management	Consensus
2010: 1.0%	2010: 1.4%
2011: 1.8%	2011: 2.2%

Sometimes, focussing on GDP data does not tell the whole story of economic conditions. According to the first official estimate, GDP growth in the UK reached a modest 0.1% in the last quarter 2009 after 6 consecutive quarters of contraction. That's worse than in most other developed economies. Meanwhile, the manufacturing purchasing managers index recovered faster than elsewhere in Europe and has reached levels not seen since October 1994. One also finds an upbeat message from consumer confidence indicators: Surprisingly, present readings of consumer sentiment are above the average value which was recorded since Labour won the majority in 1997. House prices, which were at the centre of the financial crisis and the following global recession are recovering more rapidly in Britain than in the US. Annual gains of 10% in the most important house price indices by mid-year 2010 are increasingly likely.

#### Inflation

Swiss Life Asset Management	Consensus
2010: 2.1%	2010: 2.6%
2011: 0.6%	2011: 1.7%

A major risk to our base case scenario and the resulting assumptions for financial markets is a marked change in inflation expectations. In our view, the Bank of England is particularly at risk for this development to unfold once the public starts to believe that the central bank is too negligent of inflationary pressures. Statements by representatives of the Bank made investors believe that monetary policy will not be tightened until 2011. It seems that the central bank is willing to tolerate rising inflation expectations. If we find more evidence of abstinence from monetary policy tightening, we will have to lift our inflation forecast for 2011.

#### Released and approved by the Economics Department, Swiss Life Asset Management AG, Zurich

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### Switzerland – First signs of labour market stabilisation

#### GDP Growth

Swiss Life Asset Management	Consensus
2010: 1.6%	2010: 1.3%
2011: 1.6%	2011: 1.8%

The January labour market report confirmed our comparably optimistic assumption that the cyclical peak in the unemployment rate will be reached in the second quarter 2010. For the first time since September 2008, the seasonally adjusted unemployment rate declined slightly compared to the previous month. Such encouraging news allows us to maintain our optimistic forecast. By March 2, we will learn how far the recovery has progressed through the last quarter 2009. We forecast 0.4% real GDP growth from the previous period. Economic activity has gained further traction since and we stick to our forecast of 0.6% quarterly growth in the current quarter. In our base case scenario until the end of 2011, growth is set to slow to an average quarterly pace of around 0.4%. In our view, a more restrictive fiscal policy environment and slightly tighter financial conditions will curb the pace of the economic expansion in the coming quarters.

#### Inflation

Swiss Life Asset Management	Consensus
2010: 0.7%	2010: 0.7%
2011: 0.7%	2011: 1.0%

The strongest winter in Europe since more than 50 years leaves its marks in economic statistics. Responding to higher food prices since the start of the year, we revise our forecast for average inflation through 2010 to the upside. With the publication of the February inflation data it should become clear, to which extent rental costs -a heavy weight in the consumer price index- were lowered after last year's reduction of the new reference mortgage rate.