

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%		2.5%	3.0%	2.3%	(2.6%)	2.1%	1.9%
Euro Area	1.2%	(1.3%)	1.6%	1.5%	0.8%	(0.9%)	0.8%	1.4%
Japan	2.1%	(1.5%)	1.3%	1.6%	-0.4%	(-0.7%)	0.1%	-0.3%
UK	1.1%	(1.0%)	1.8%	2.3%	2.1%	(2.2%)	0.6%	1.7%
Switzerland	2.0%	(1.6%)	1.6%	1.8%	1.2%	(0.7%)	0.8%	1.1%

USA – Amazing propensity to spend

GDP Growth

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

It is not the first time that the propensity to buy of the average American surprises to the upside. The reports on retail sales in January and February point yet again to a sturdy contribution from personal consumption to current quarter GDP growth. Every retail category posted gains with the exception of two: motor vehicles and health/personal care stores. The surge in electronics and appliance sales was particularly strong with a 3.7% monthly increase in February and provides further evidence that the credit crunch may be over, because consumers typically finance these purchases with credit cards. The actual consumer spending figures are in stark contrast to consumer confidence readings which are trending downwards rather than expressing increased optimism. Some of consumer scepticism may go back to the fact that the labour market recovery came to a halt over the past two months. In the meantime, market expectations as regards job growth in the near term have climbed substantially. We would expect payroll growth of 250,000 on average per month in the second quarter, not least due to temporary hiring for the Census during those months. But even without government-induced job creation, leading indicators do signal that manufacturing as well as service industries are ready to increase working hours as well as the number of employees. At the same time, jobless claims have resumed their downward trend. The Federal Reserve's mandate to support the mortgage market will expire at the end of March and the impact on mortgage rates and on the dynamics in the real estate

sector remains to be seen. After an initial strong recovery of a whole range of housing market indicators last year, namely so also of inventories of existing and new homes, the latest figures show renewed weakness. The NAHB survey among homebuilders corrected again to the downside basically due to the fact that the traffic of potential home buyers has thinned out again. Yet, the housing affordability index is climbing back up to previous highs around 180 given that incomes climb faster than house prices. All in all, residential building should be a positive but modest contributor to this year's growth dynamics, while we forecast a flat contribution to current quarter GDP from this component. Looking further ahead, some combination of spending cuts and tax increases will likely be needed to stabilize or reduce debt levels which make us feel comfortable with a below-consensus GDP forecast for 2011. In combination with a tighter monetary policy framework, current growth dynamics of almost 6% annualised quarterly growth will be unsustainable.

Inflation

Swiss Life Asset Management	Consensus
2010: 2.3%	2010: 2.2%
2011: 2.1%	2011: 1.9%

Some researchers argue that high deficit and debt-to GDP ratios should be inflationary in the longer term. We do not share this point. Japan is a proof of the contrary. Aside from a temporary stimulus emanating from public debt accumulation, it is likely to restrain economic activity in the longer run and thus depress inflationary pressures. Core inflation will move clearly below 1% during the course of this year.

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

Euro Area – Trichet uses plain language

GDP Growth

Swiss Life Asset Management	Consensus
2010: 1.2%	2010: 1.1%
2011: 1.6%	2011: 1.5%

Member countries continue to show strongly diverging growth performances across the region. We expect core countries to outperform the periphery in terms of growth, largely because the latter countries are set for some serious fiscal tightening this year and some of them are still dealing with the aftermath of a housing boom-bust, such as Spain and Ireland. While domestic demand remains rather lacklustre, it is still too early to expect the weaker Euro to boost export performance in early 2010. This may become a growth driver towards the second half of the year. Since the payback from the French car-scrappling scheme expires in January, the near-term outlook for personal consumption contribution does not look too rosy. Naturally the traditional exporting countries profit from a stronger revival of demand from outside of Europe which causes growth performances to diverge. Furthermore, the inventory cycle seems to be at different stages in different countries, as destocking constituted a big drag on Q4 GDP in Germany while it helped French performance over the same period. For the region as a whole, we think that most of the adjustment in the labour market already lies behind us.

Inflation

Swiss Life Asset Management	Consensus
2010: 0.8%	2010: 1.1%
2011: 0.8%	2011: 1.4%

Inflationary forces are largely absent from the macroeconomic landscape even over a longer time horizon. Headline inflation readings will move towards the zero line during the course of this year while core inflation is bound to plunge even into negative territory. Similarly, in 2011 price pressures will remain very benign. Using unusually strong language, ECB President Trichet criticized the IMF proposal to raise inflation targets to 4%, calling the proposal "plain wrong", out of touch with key academic research, "extremely dangerous in the current environment" and "totally counterproductive" because of its likely negative impact on bond yields.

Japan – Further improvement in key data

GDP Growth

Swiss Life Asset Management	Consensus
2010: 2.1%	2010: 1.9%
2011: 1.3%	2011: 1.6%

During the past month, more convincing information on the sustainability of the recovery was published. On the back of strong demand from China, exports recovered by 50% since their cyclical trough in February last year. In the meantime, the backdrop of domestic activity seems to have narrowed since the beginning of this year. The 17% monthly gain in machine tool orders was strongly driven by domestic demand. Additionally, the surge in the domestically oriented tertiary sector activity index in January and improving leading and coincident indicators suggest decent GDP growth through the first half of 2010. We leave our forecast for 2010 unchanged and continue to assume 0.5% growth during the first quarter and an average pace of 0.4% until the end of the year. Retailers reported buoyant activity at the start of the year, but we remain cautious on the persistency of this development once the incentives to purchase environmentally friendly cars and goods will run out.

Inflation

Swiss Life Asset Management	Consensus
2010: -0.4%	2010: -1.1%
2011: 0.1%	2011: -0.3%

Recent developments pointing at recovering domestic demand suggest that deflationary fears for Japan may be overdone. Surprisingly firm consumer spending and rising consumer confidence mean that pricing conditions for retailers are improving. Capacity utilisation rates have increased each month since February 2009 which means that the output gap may close more rapidly than many forecasters or the staff of the Bank of Japan believe. First evidence to our assumption that the deflationary trend is bottoming out came with the separate consumer price index for the Tokyo area for February. As this regional index is published one month ahead to the nationwide data, we expect a similar outcome for the February release of the latter index. As a consequence, we are opening a marked gap to the consensus view on average annual inflation for 2010.

UK – Election campaign starts in earnest

GDP Growth

Swiss Life Asset Management	Consensus
2010: 1.1%	2010: 1.4%
2011: 1.8%	2011: 2.3%

The latest set of labour market data confirmed our view that the numbers reported for January were negatively affected by harsh weather conditions. January data for the changes in jobless claims were revised down and February data showed the fastest decline in the number of applicants filing for assistance since November 1997. We conclude that unemployment in the UK has seen its peak. Apart from the positive implications on the short-term fiscal situation, trends on the labour market are also encouraging news for the Labour government. Assuming that the trend in employment persists alongside with further improvements on property and equity markets, the government by now has a huge incentive to delay the election until the latest possible date on 3 June. The recent surge in consumer confidence and the erosion of the margin in opinion polls certainly fuels Labour's hopes that they could still keep a thin majority.

Inflation

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

As a side effect of the incentives to buy environmentally friendly cars, more used cars of better quality came to the market. The unwelcome consequence was that prices for used cars surged in the consumer price index at the end of last year. Combined with the impact of the weak Sterling and rising energy prices, annual inflation currently exceeds the Bank of England's upper inflation target of 3%. We think that this is a temporary issue and expect inflation to drop towards 1% by the last quarter 2010. One major risk to this forecast is the required fiscal consolidation which may result in increases in fees or taxes on certain services or goods.

Switzerland – Sustainable recovery now the official view

GDP Growth

Swiss Life Asset Management	Consensus
2010: 2.0%	2010: 1.5%
2011: 1.6%	2011: 1.8%

The government's State Secretariat for Economic Affairs (seco) and the Swiss National Bank both raised their respective forecasts for 2010 growth to around 1.5%. We share the implicit message from these revisions that the economic recovery is sustainable, but that the pace of 0.7% quarterly growth reached through the last quarter 2009 is unlikely to be repeated in the coming quarters. On average, we expect GDP to expand 0.4% each quarter until end 2011. In response to the actual figures for the first two months of the year, seco has now changed to a much more constructive view on Switzerland's labour market. Instead of 4.9%, they now expect the unemployment rate to average 4.3% this year. This is much more in line with our own observation that the unemployment rate is set to peak in the second quarter which should provide a clearly positive fundamental environment for personal consumption expenditures.

Inflation

Swiss Life Asset Management	Consensus
2010: 1.2%	2010: 0.8%
2011: 0.8%	2011: 1.1%

Price stability is not at risk in Switzerland in the medium term. Nevertheless, we had to raise our forecast for average annual inflation due to unfavourable price moves for heating oil and gasoline. These products have a total weight of just 3.6% in the consumer price index, and yet they pushed the consumer price index up by 0.2% last month. Given the growing consensus about a continued global economic recovery, we see little reason to expect commodity prices retreating soon. We therefore accept higher energy prices as a fact for the time being and expect the consensus forecast to move closer to our own estimate next month.

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

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