

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	3.5%	(3.2%)	3.2%	(3.1%)	2.5%	3.1%	(3.0%)	2.1%	(2.3%)	2.1%	(2.2%)	2.0%	(2.1%)	1.9%	
Euro Area	1.1%	(1.2%)	1.2%	(1.1%)	1.6%	1.5%		1.2%	(0.8%)	1.2%	(1.1%)	0.9%	(0.8%)	1.4%	
Japan	2.4%	(2.1%)	2.2%	(1.9%)	1.3%	1.6%		-0.4%		-1.1%		0.1%		-0.2%	(-0.3%)
UK	1.3%	(1.1%)	1.3%	(1.4%)	1.8%	2.3%		2.3%	(2.1%)	2.7%	(2.6%)	0.6%		1.7%	
Switzerland	2.1%	(2.0%)	1.8%	(1.5%)	1.6%	1.9%	(1.8%)	1.1%	(1.2%)	1.0%	(0.8%)	0.8%		1.1%	

USA – Shopping spree revisited

GDP Growth

Swiss Life Asset Management	Consensus
2010: 3.5%	2010: 3.2%
2011: 2.5%	2011: 3.1%

Our below-average recovery in consumption has been belied thus far by strong retail sales figures at the start of the year. The latest figures for March support the impression that the consumer will once again play a bigger role in the broadening economic recovery than was initially anticipated. Indeed, the behaviour of consumer spending looks more consistent with previous strong V-shaped recoveries. Some of this consumer spending has been fed by decreasing savings, causing the savings rate to drop back to 3.1% in February after it closed off the year 2009 at 4%. Flow of funds data compiled by the Federal Reserve reveal that the deleveraging process in the private household sector of the economy is ongoing despite strong consumption growth. The balance has tilted towards a pronounced pick-up of asset values, particularly so of financial assets since the first quarter of 2009 and a sharp reduction of liabilities, predominantly so in home mortgages but also in the consumer credit sphere. The gains in stock market wealth have put household balance sheets on a firmer footing and consumer sentiment should climb further now that the labour market is in recovery mode as well. Wage and compensation increases which had remained on elevated levels well into the recession have started to decline notably. Total compensation growth is now running two percentage points below levels posted in 2002 and 2003. This is naturally a big relief for the corporate labour cost base and more in line with the massive erosion of jobs during the downturn. Receding wage growth is a late cycle

development. A big support for consumer psychology is the fact that job security has increased over the past months and the latest labour market readings have been encouraging. Nonfarm payrolls increased by 162,000 in March, and most of that increase came from the private sector. This is the third gain in payrolls in five months. Yet, there is still a long way to go to make up the more than 8 million jobs lost since the start of the recession. While strong personal consumption constitutes an upside risk to our first quarter GDP forecast, the mirror image is rising imports and thus a widening trade deficit. Consequently external trade may contribute less than what we had pencilled in. While ISM business surveys continue to climb higher and are close to the highs reached in the last cycle, the NFIB small business optimism stands out in its broad-based weakness. Although the NFIB survey is disproportionately weighted towards construction firms, making up 20% of the sample, even excluding these, the index would still hover at depressed levels.

Inflation

Swiss Life Asset Management	Consensus
2010: 2.1%	2010: 2.1%
2011: 2.0%	2011: 1.9%

Core measures of inflation have shown a steep downtrend over the past two years below levels reached in 2003, when deflation fears were widespread. Even though we forecast fairly sturdy economic growth going forward, the level of economic activity is so depressed that it will take years to eliminate slack in production capacities and to return to full employment. Although the Fed enlarged its balance sheet, banks are hesitant to lend out reserves. We see no genuine inflationary pressure in the medium term.

Source for Consensus Estimates: Consensus Economics Inc. London, 12 April 2010

Euro Area – Safety net for Greece

GDP Growth

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

The amount of the rescue package for Greece turned out to be bigger than expected. The aid program aims to closely monitor the fiscal situation in Greece until at least 2012. Fiscal austerity measures will dominate the economic dynamics in a large part of the Euro Area dampening growth perspectives accordingly, namely so also in Spain and Portugal. Yet, cyclical forces remain very much intact. Exporting nations continue to benefit from strong growth in emerging markets, some of which are trying to rebalance growth more towards domestic demand. As a matter of fact, the Euro area PMI export index reached a 10-year high. Yet, competitiveness differentials among member states is a structural problem to tackle and are apparent in ongoing current account imbalances. German business confidence as compiled by the Ifo Institute continues to print higher readings on the back of current business conditions improving substantially – this particular diffusion index is actually close to the territory where the German Bundesbank and the ECB nowadays would seriously start to think about hiking interest rates. The disappointment in the Euro Area once again stems from the consumer as retail sales growth in February was lacklustre at best.

Inflation

Swiss Life Asset Management	Consensus
2010: 1.2%	2010: 1.2%
2011: 0.9%	2011: 1.4%

Eurostat's flash estimate for the March inflation rate surprised market participants as the monthly increase may have reached 0.9%, well above our own forecast of 0.6%. Energy prices are once again pushing up inflation across Europe, yet weak demand will make it harder for companies to pass on higher costs to the consumer. We thus stick to our case that the core measure may temporarily fall below the zero line in the second half of this year.

Japan – Momentum reaches labour market

GDP Growth

Swiss Life Asset Management	Consensus
2010: 2.4%	2010: 2.2%
2011: 1.3%	2011: 1.6%

Part of the debate on how to rebalance the world economy in order to ensure a sustainable recovery is the claim that countries like Germany and China, but also Japan, should install policies to ensure more domestic spending by private households. Figures for Japan show that through 2009 and even more importantly during the first quarter 2010, fiscal incentives to boost purchases of environmentally friendly goods were efficient to ensure a robust contribution from personal consumption to overall GDP. It is still uncertain whether this favourable trend remains intact in the second quarter now that certain incentive programs expired. We think that Japan's new government is fully aware of the importance of rising disposable incomes of households. The introduction of child-rearing allowances scheduled for June 2010 forms part of their redistribution policies. Details of the latest quarterly Tankan survey on businesses conditions reveal that sentiment improved broadly. Firms' capital expenditure plans for fiscal year 2010 look solid compared to the answers for the previous two years. Even the labour market seems to benefit from the momentum in economic activity: Reported overtime work in the manufacturing sector rises at a dramatic speed from previous lows. Consequently, the ratio of available jobs per applicant rose markedly since the beginning of the year and business survey results consistently hint at rising hiring activity going forward.

Inflation

Swiss Life Asset Management	Consensus
2010: -0.4%	2010: -1.1%
2011: 0.1%	2011: -0.2%

As we explained last month, we think that the constantly broadening signs of a revival in domestic activity are limiting the risk for a prolonged period of renewed deflation. It seems likely that labour cash earnings are set to see gains in the coming months. Even the Bank of Japan now seems willing to upgrade its predictions for inflation as its Governor admitted that "the risk of a return to recession is pretty much gone".

UK – Politics are the top priority

GDP Growth

Swiss Life Asset Management	Consensus
2010: 1.3%	2010: 1.3%
2011: 1.8%	2011: 2.3%

Until May 6, politics will be the top priority for UK watchers. Even the Bank of England had to delay its next interest rate decision to May 10. It is highly unlikely that the Monetary Policy Committee will announce a change in their policy stance so shortly after the general election. That means that the ultra-loose monetary policy will remain in place although certain key indicators suggest that interest rate hikes are the order of the day. Apart from inflation which recently exceeded the central bank's target rate, current levels of the purchasing managers index for the manufacturing sector are consistent with monetary tightening action. Last month, this index jumped to its highest level since October 1994. We still expect quarterly economic growth to have reached 0.5% during the first three months of the year. As growth during the last quarter 2009 was revised to 0.4% instead of earlier official estimates of just 0.1%, we lift our projection for this year's average annual growth rate slightly to 1.3%. Improving data for employment and industrial production provide further evidence that the recovery is broadening. Whether these trends and house price gains which are approaching the 10% line are sufficient to save Labour a majority in the election depends on its party leader's performance in Britain's first televised election debates.

Inflation

Swiss Life Asset Management	Consensus
2010: 2.3%	2010: 2.7%
2011: 0.6%	2011: 1.7%

In general, we stick to our view that annual inflation is trending down despite broadening evidence of economic recovery. However, higher energy prices as of late and the risk of increases on indirect taxes as part of the necessary fiscal consolidation after the election are important upside risks to our forecast.

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

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Switzerland – Astonishing resilience of the labour market

GDP Growth

Swiss Life Asset Management	Consensus
2010: 2.1%	2010: 1.8%
2011: 1.6%	2011: 1.9%

Switzerland's labour market continues to show an astonishing resilience. Following an immediate reaction to the global recession which led to an increase in the unemployment rate from 2.5% to 4.2% in just 16 months until December 2009, conditions have stabilised at 4.1% since the start of 2010. Given the fact that Switzerland's purchasing managers index jumped last month to its highest level since August 2006, we expect demand for skilled workers to pick up decisively in the months to come. The employment component in this business survey crossed the expansion line of 50 points for the first time since September 2008. This means that more firms are planning to hire staff than cutting jobs. Most likely, the unemployment rate will continue to decline slightly until the end of the year. We are confronted with the risk that we so far underestimated the contribution from personal consumption to growth in 2010. Domestic conditions thus suggest that Switzerland is no longer in need of an extraordinary loose monetary policy. Although the authorities at the Swiss National Bank may have a similar view on internal activity, they will probably remain reluctant to start normalising their monetary policy ahead of other Western central banks as they fear a further currency appreciation as a result.

Inflation

Swiss Life Asset Management	Consensus
2010: 1.1%	2010: 1.0%
2011: 0.8%	2011: 1.1%

Costs for heating oil and gasoline continued to edge higher through April. As a consequence of this latest development, we stick to our assumption that annual headline consumer price inflation will exceed the current consensus forecast. We currently expect an average inflation rate of 1.1% this year.