



sigma 6/2022:
Global economic and insurance outlook

Dr. Jérôme Jean Haegeli, Group Chief Economist
Media Roundtable, 17 November 2022

Key letter

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The key figures

5 | 6 | 7

Global macro outlook

"The global economy will cool down noticeably under the weight of the inflation and interest rate shocks. The repricing of risk in the real economy and financial markets is actually a long-term positive. The insurance industry can show its value as it provides financial resilience at all levels of the community."



Economic outlook: The Great Moderation has ended with inflationary recessions exposing existing structural vulnerabilities



Inflationary recessions are in the making for key advanced economies



More persistent, high inflation for longer even if 2022 is likely the peak



Continued monetary policy tightening in near-term, higher interest rates for longer



Heightened geopolitical and internal political risks

	Swiss Re Institute			Consensus		
	2022	2023	2024	2022	2023	2024
Real GDP (% change)						
US	1.8	0.1	1.6	1.7	0.4	1.4
Eurozone	3.1	-0.2	1.3	3.0	-0.1	1.5
UK	4.3	-1.0	0.9	4.2	-0.4	1.2
Switzerland	2.2	0.9	1.5	2.2	0.8	1.6
China	3.4	4.1	4.9	3.3	4.8	5.0
CPI (% change)						
US	8.1	3.7	2.8	8.0	4.1	2.5
Eurozone	8.6	6.2	3.0	8.3	5.6	2.1
UK	9.1	7.0	3.7	9.0	6.3	2.6
Switzerland	2.9	2.0	1.5	2.9	2.0	1.3
China	2.3	2.6	2.4	2.2	2.4	2.2
CB Policy Rate (%)						
US	4.63	5.13	3.63	4.38	4.24	2.89
Eurozone	2.75	3.50	3.25	2.45	2.75	2.50
UK	3.50	4.00	3.25	3.65	4.15	3.40
Switzerland	1.25	1.50	1.25	0.75	0.95	1.15
China	2.00	2.00	2.10	N/A	N/A	N/A
10y Gov. Bond Yield (%)						
US	3.9	3.6	3.4	3.9	3.4	3.2
Germany	2.6	2.6	2.3	2.2	1.9	2.1
UK	3.5	3.5	3.5	4.1	3.7	3.7
Switzerland	1.5	1.5	1.5	1.5	1.4	1.5
China	2.7	2.6	2.6	2.8	2.9	2.8

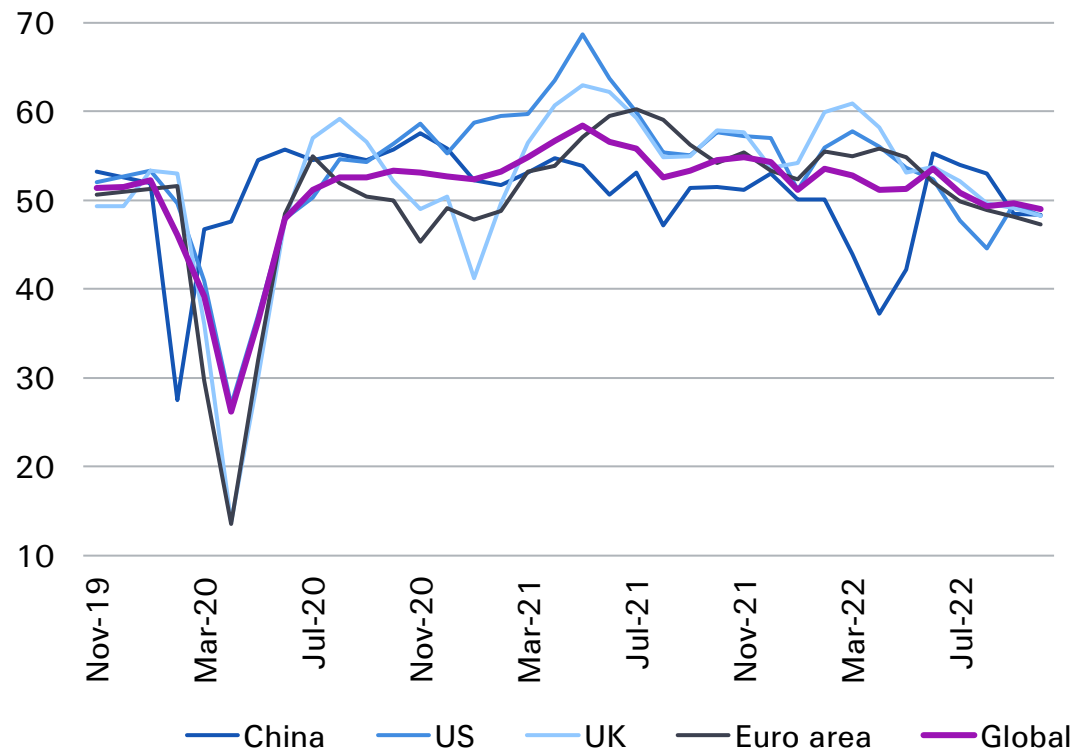
Source: Swiss Re Institute

* Bloomberg for Consensus figures (as of 10 November 2022) Swiss Re Institute | November 2022

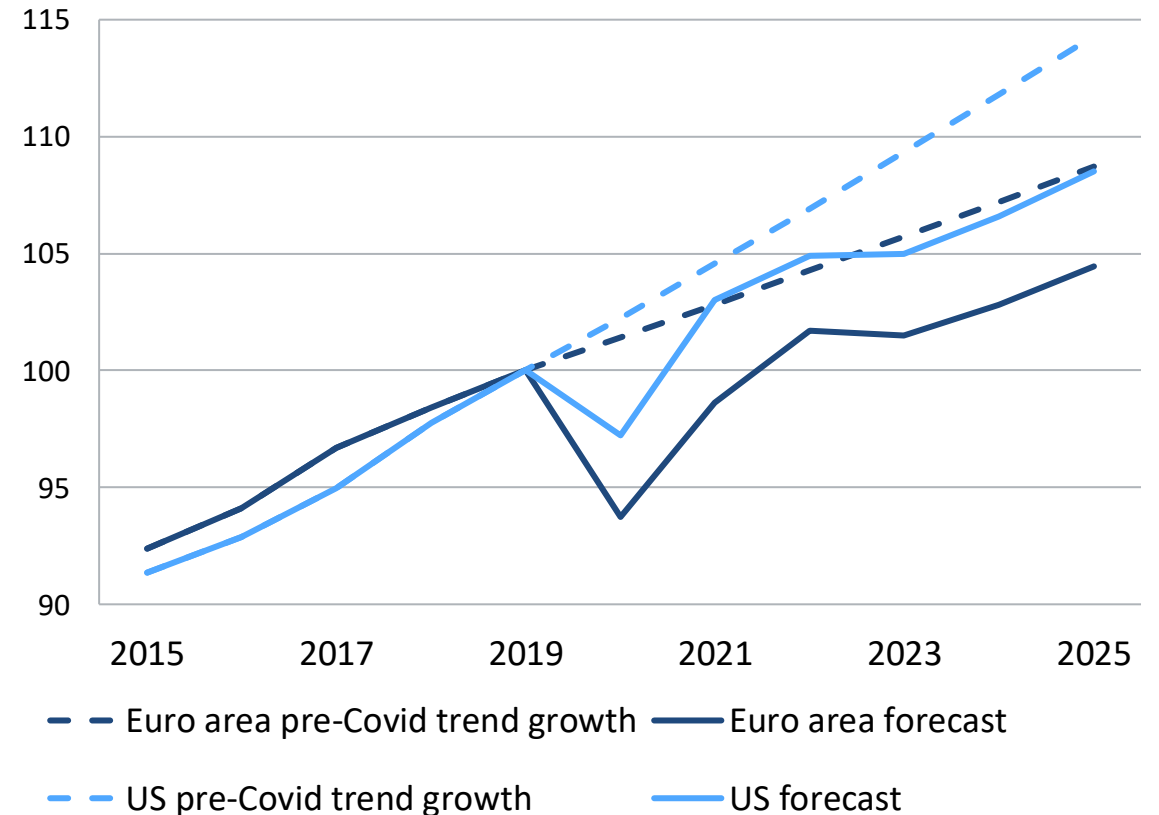
** Refers to the policy rate for money markets/ market liquidity conditions

Cyclical and sentiment indicators in recessionary territory with diverging future paths of major economies

**Cyclical growth perspective:
Composite Purchasing Managers' Index**

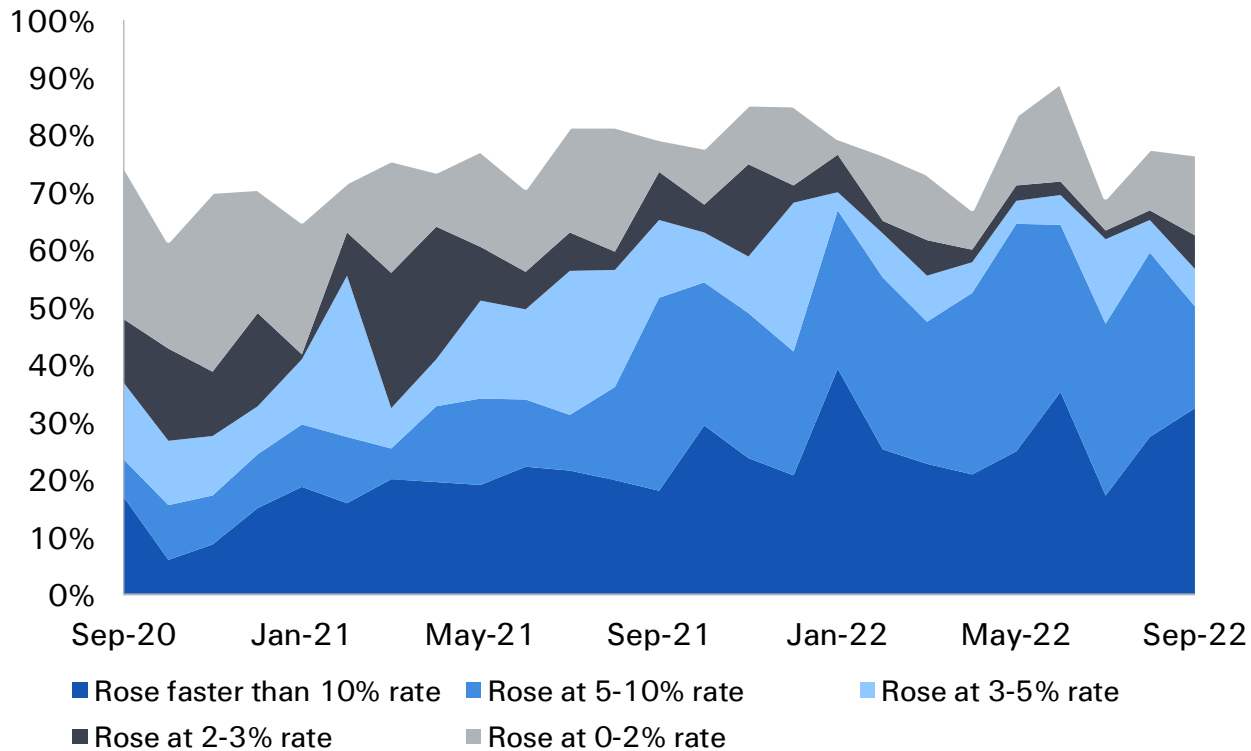


**Structural growth perspective:
US vs. Europe deviation from trend growth, indexed to 2019 levels**

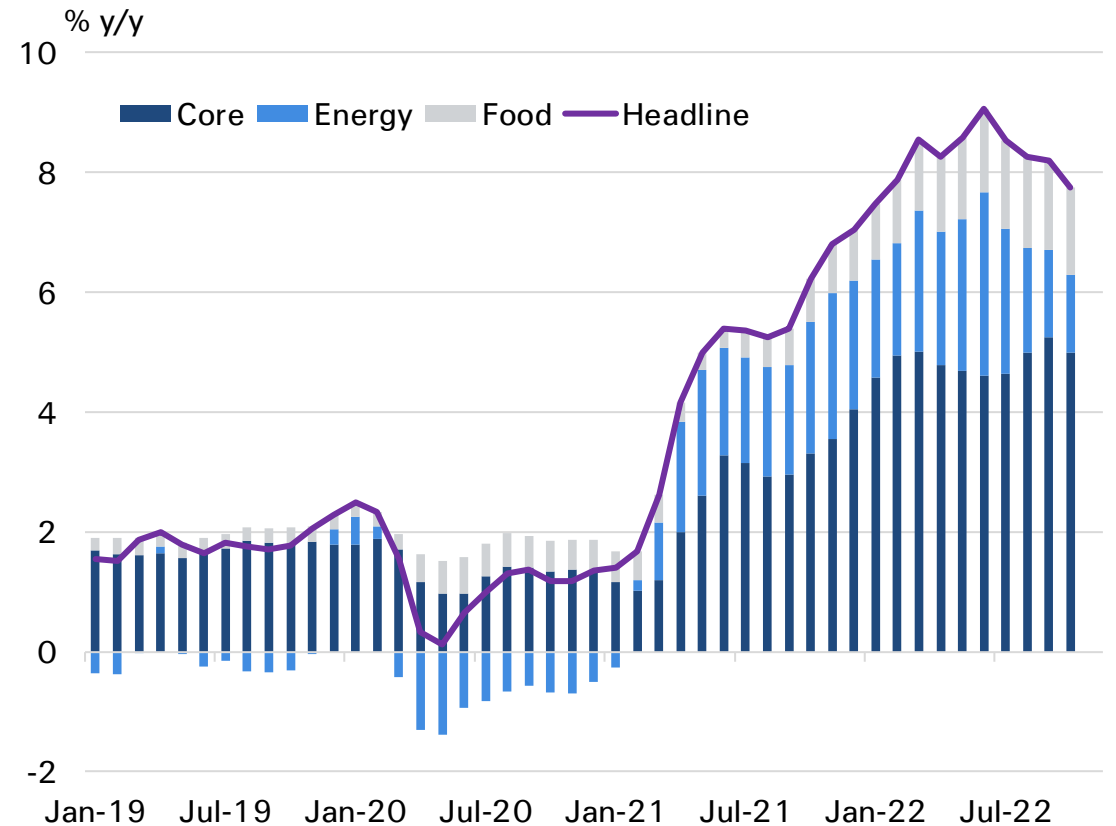


Inflation pressure has probably peaked, but will prove sticky even if headline CPI declines rapidly next year

US Headline Personal Consumption Expenditures (PCE) Price Index distribution of sub-component annual price growth

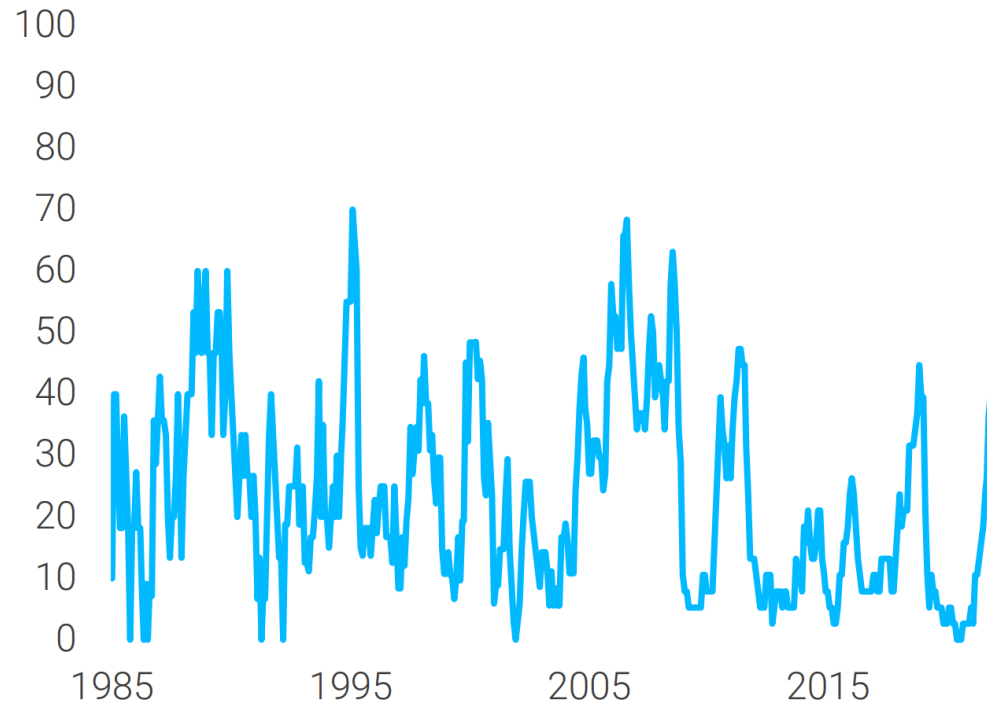


US Headline Consumer Price Index (CPI) inflation contributions (in percentage points)

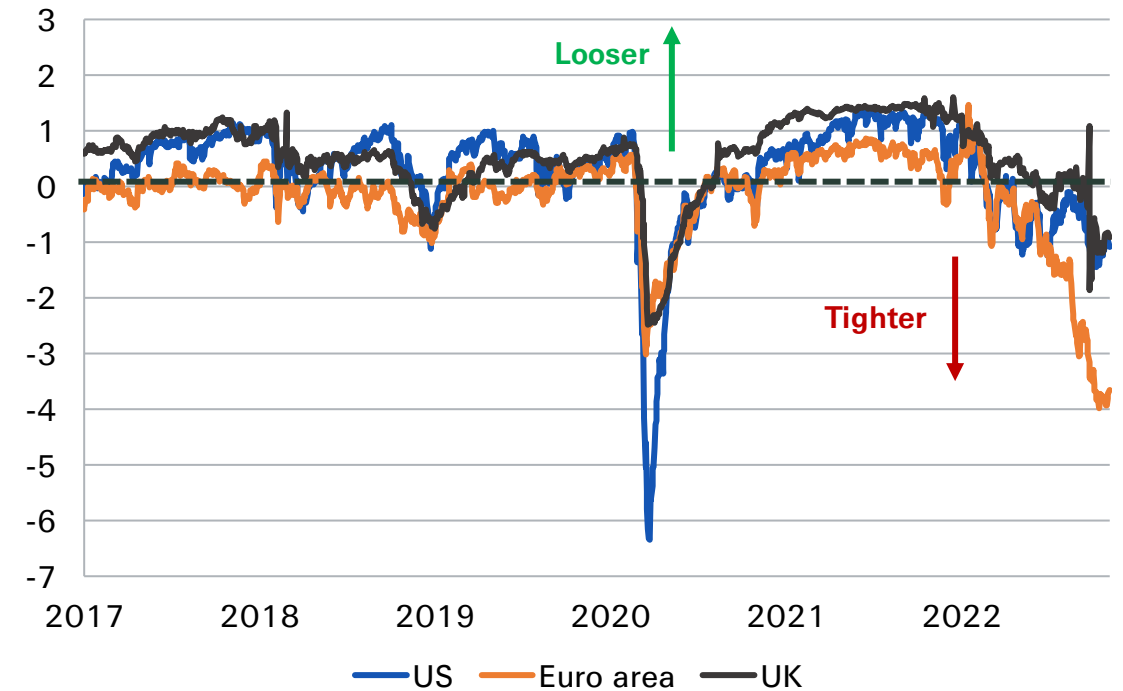


We have seen the broadest tightening cycle for decades, yet financial conditions are not tight enough to combat inflationary pressures

% of world's central banks hiking interest rates

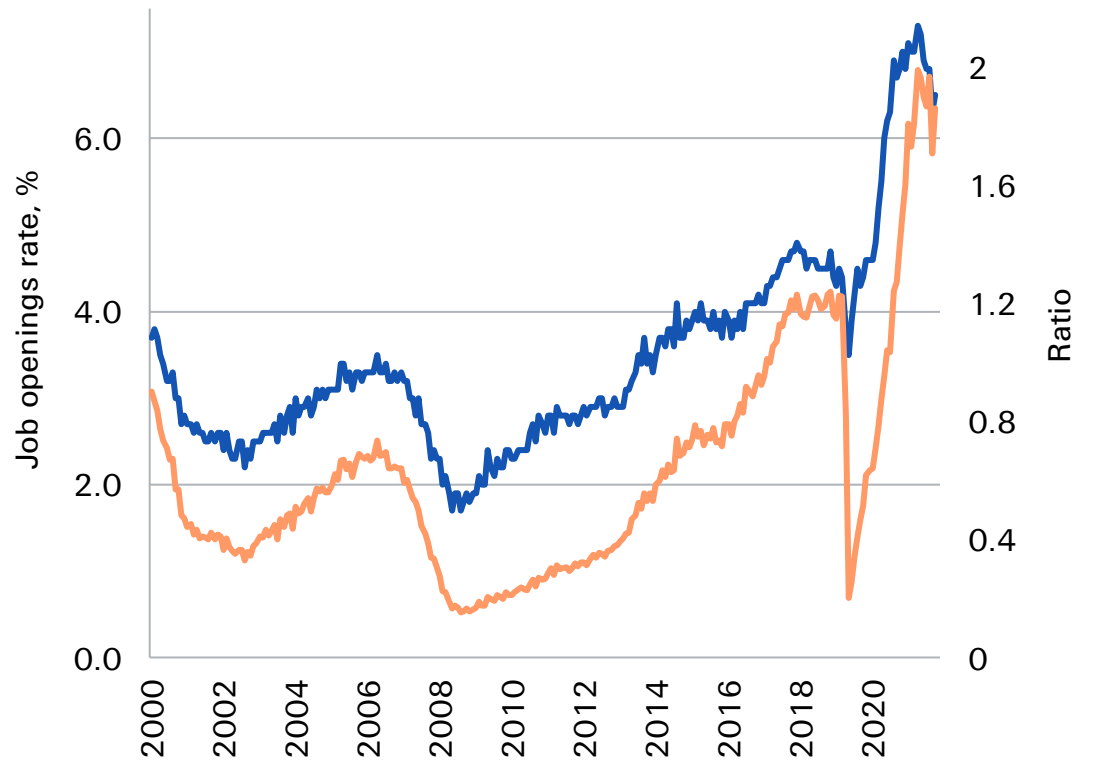


Bloomberg financial conditions index

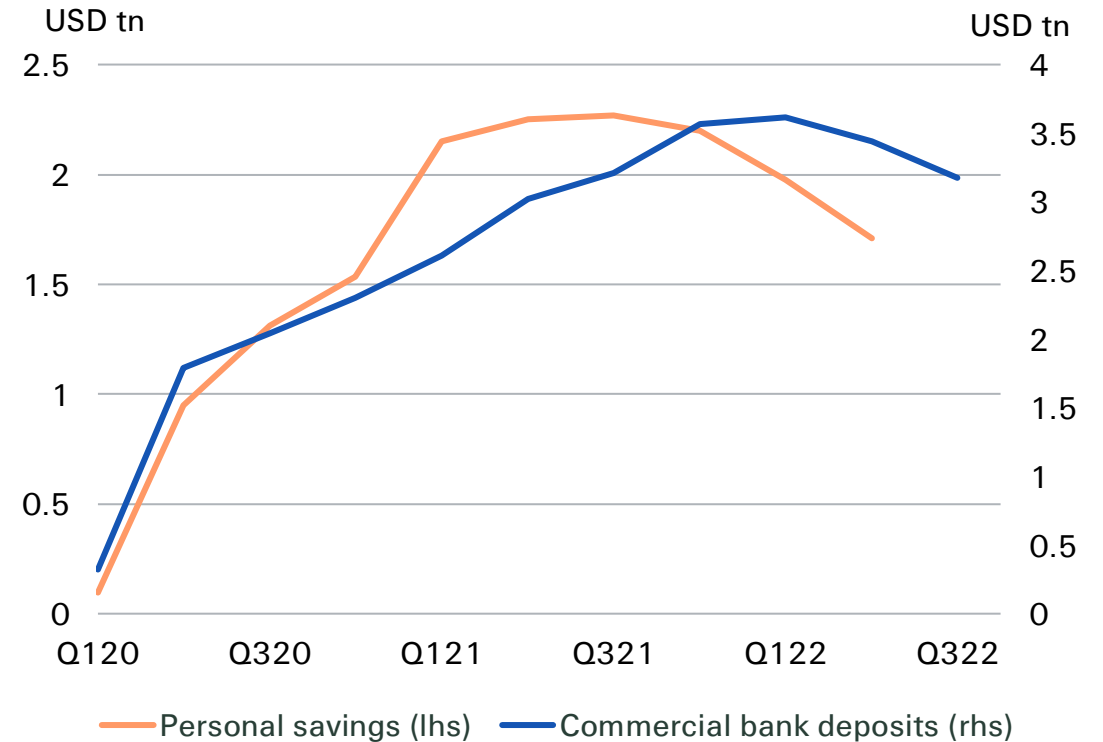


The US economy is (still) overheating with the job market very strong despite the recent Fed rate hikes, with excess savings providing buffers

US job openings



US excess savings: cumulative change versus pre-pandemic trend

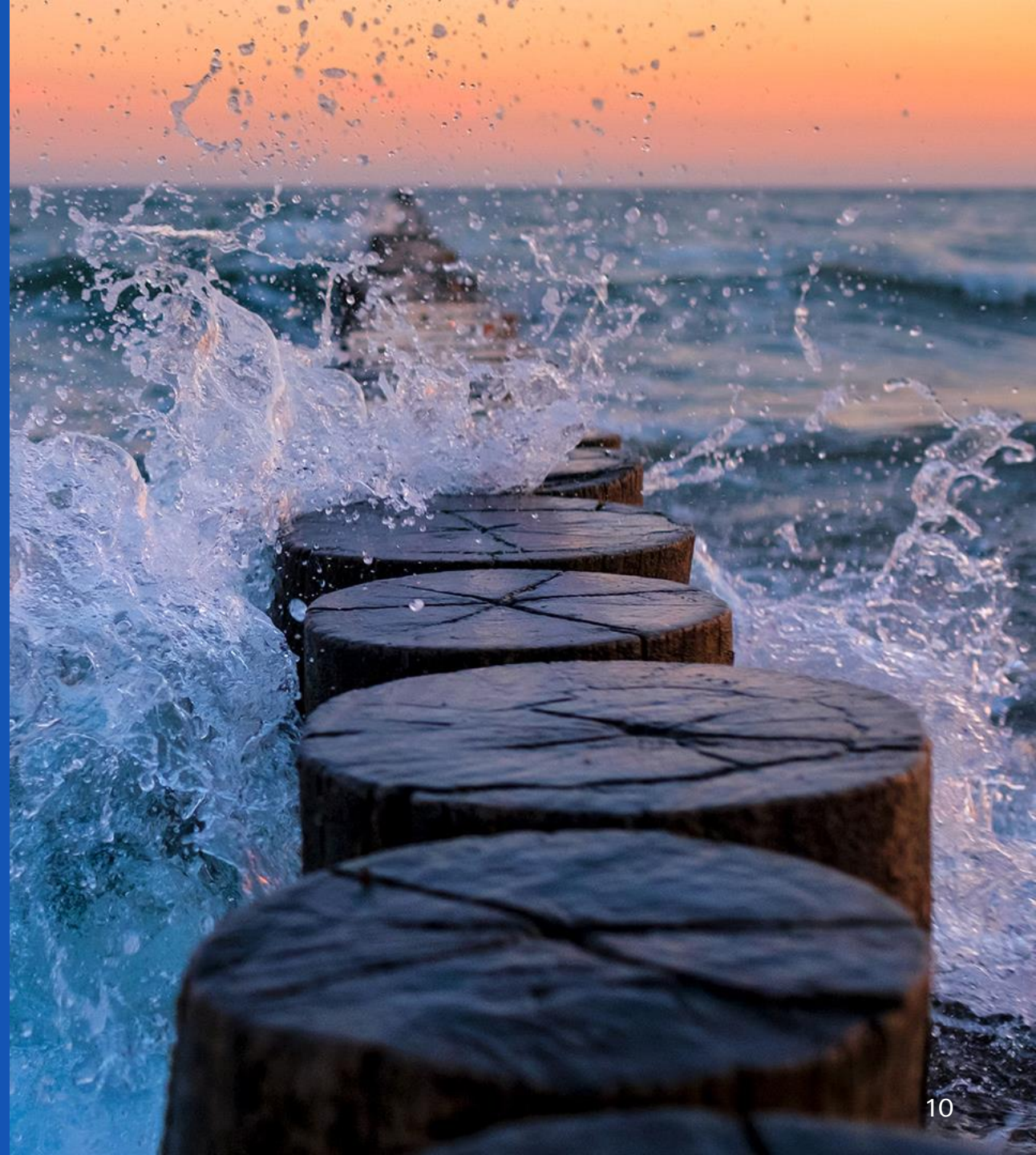


Note: Bank deposits reflect excess over pre-pandemic baseline using 2018-2019 trend. Personal savings reflects excess assuming 4% disposable income growth and 8.3% savings rate.

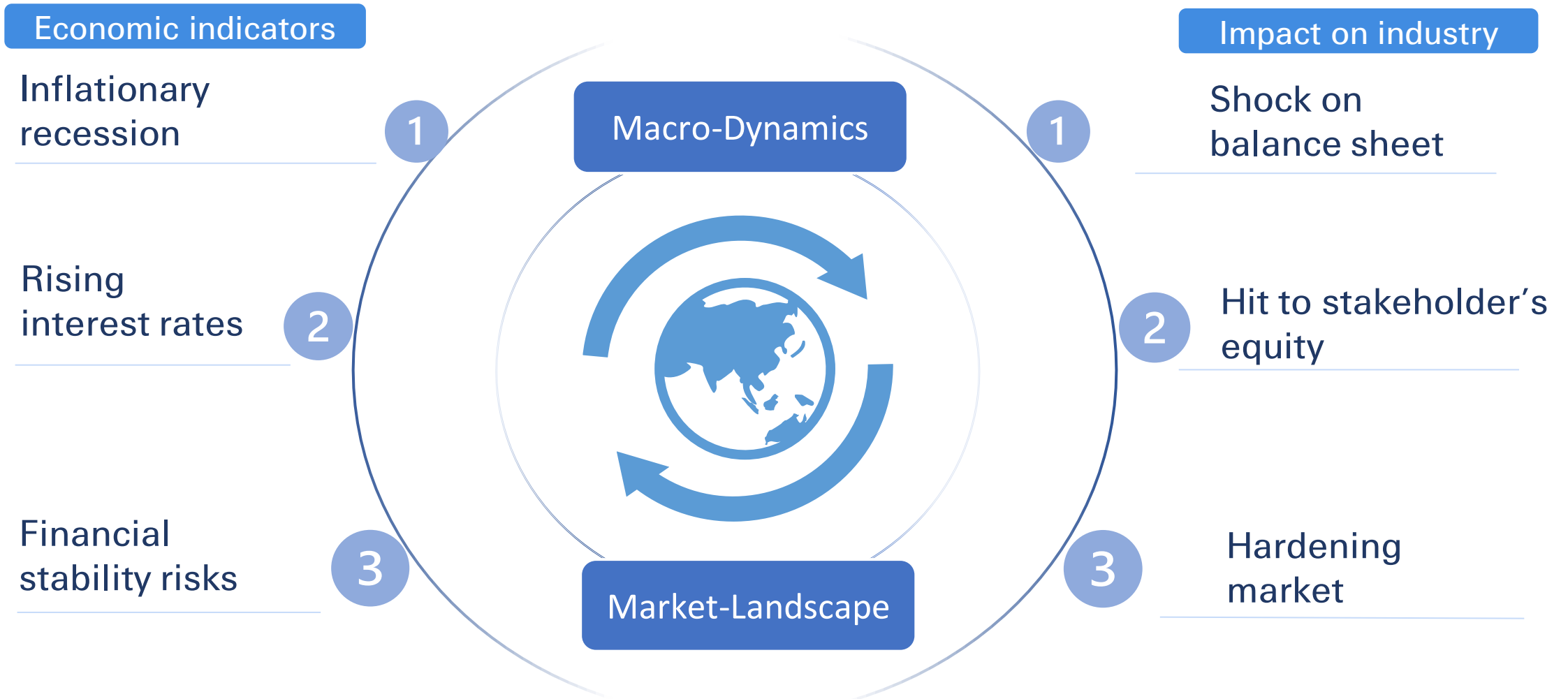
— Job openings rate (lhs) — Job openings per unemployed person (rhs)

Global insurance outlook

“The global insurance industry faces a challenging macro environment and volatile financial market environment, but we expect rate hardening, scarce capital and higher interest rate to be very positive catalysts for the industry over 2023/24.”



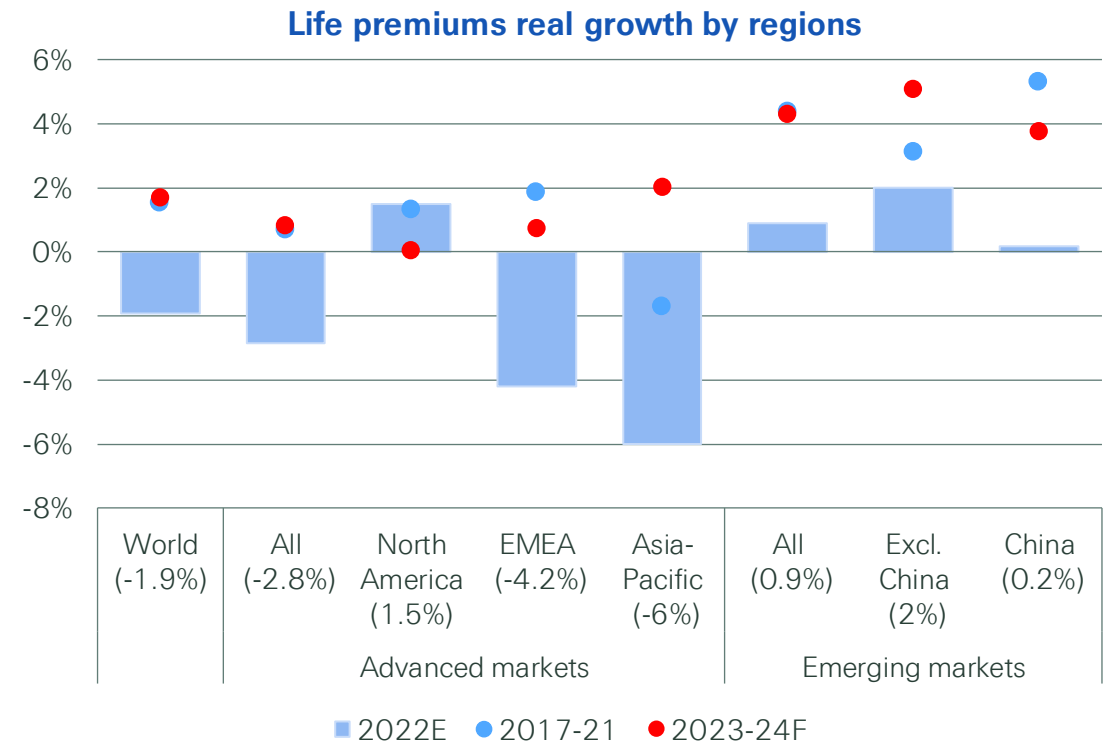
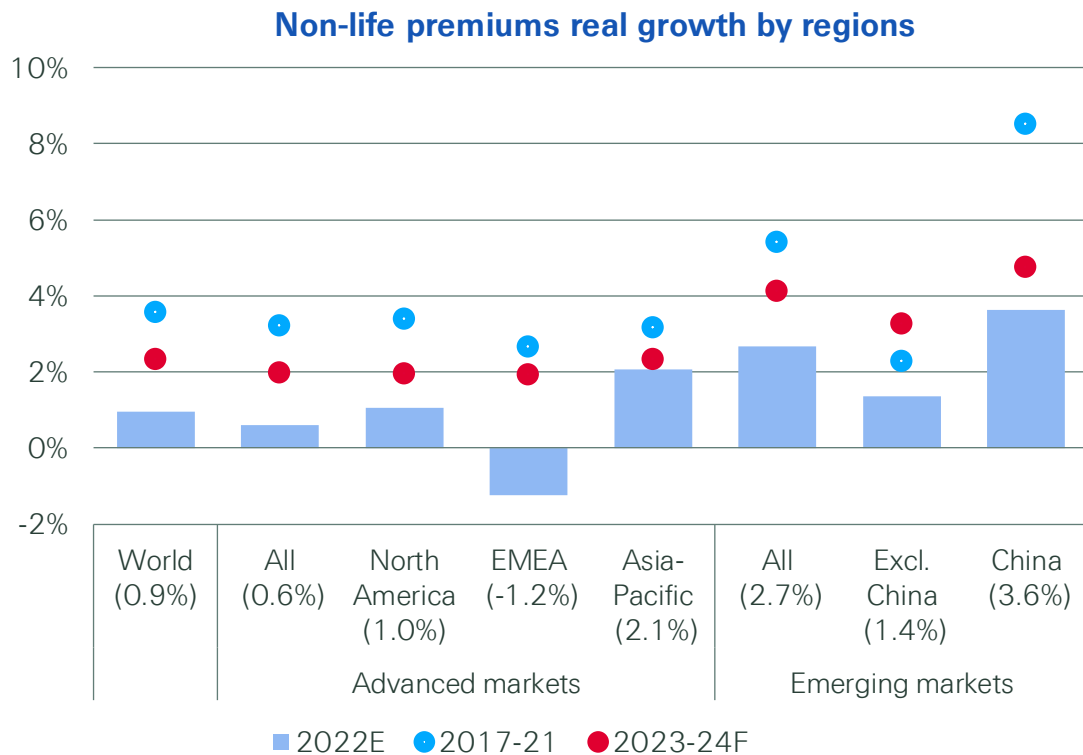
The difficult environment creates economic headwinds and challenges for the insurance industry, but also opportunities



Primary insurance premium outlook

Slight contraction in total global premiums in 2022, recovering but still below-trend in 2023 and slightly above trend in 2024

- We forecast a 0.2% **fall in total premiums in 2022** and **below-trend growth** of 2.1% on average over **2023/24** in real terms
- For non-life, advanced markets will slow while **emerging markets improve**; **commercial lines** continue to grow as rates keep rising
- For life, advanced markets feel inflation pain, but a **return to trend growth** in 2023/24, carried by emerging markets

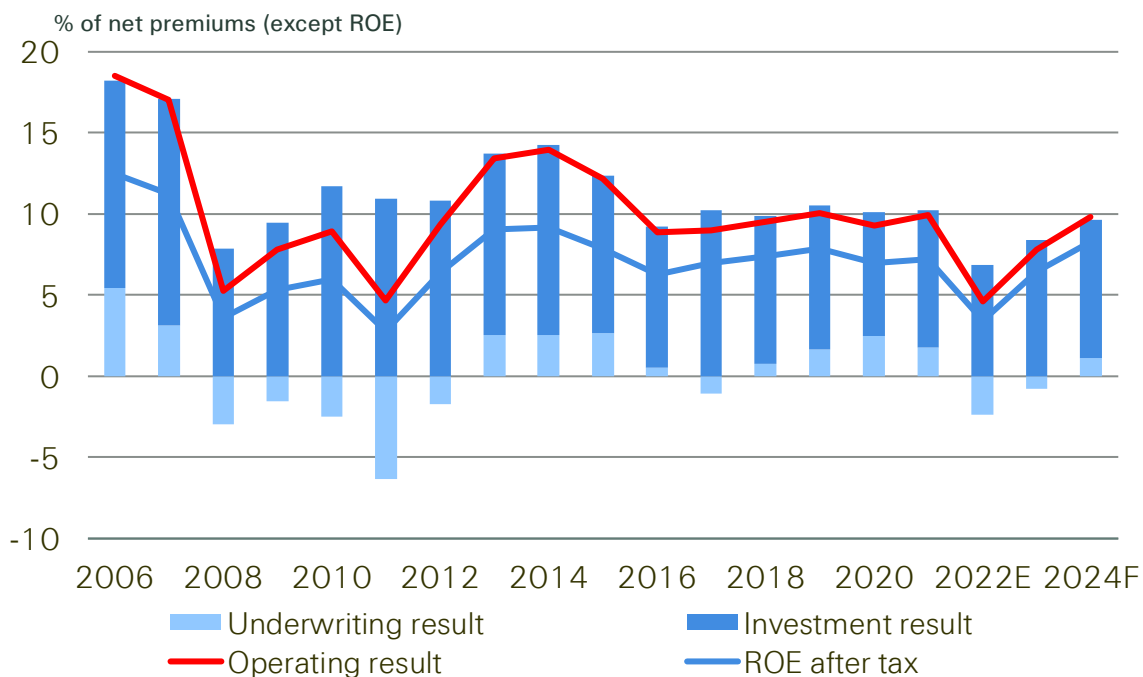


Primary insurance profitability

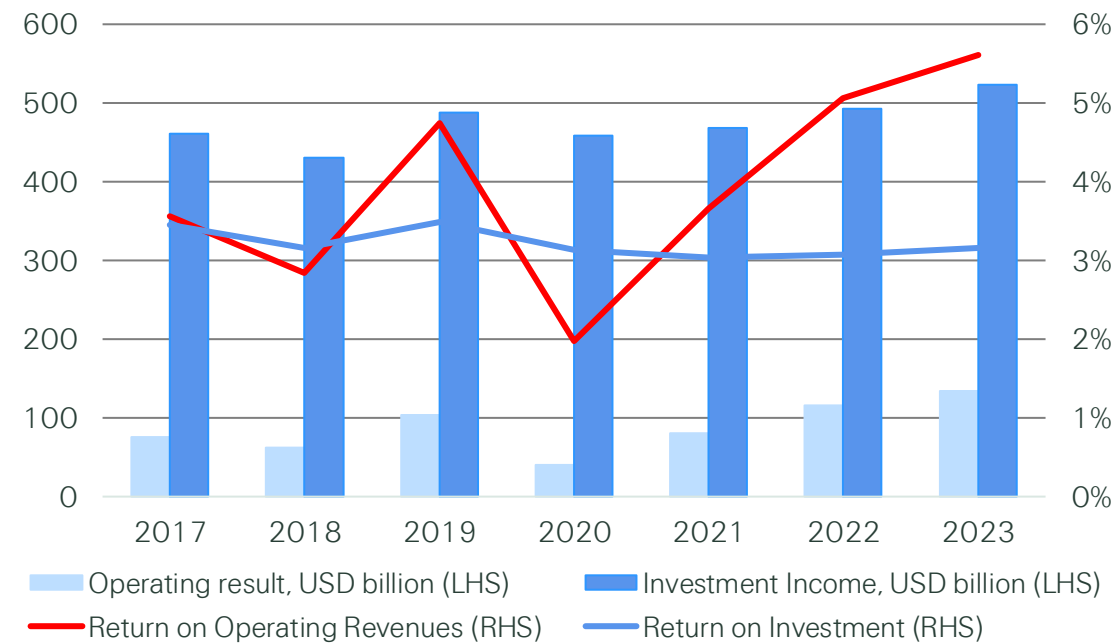
Rising yields will support profitability but this will take time

- For non-life, return on equity (ROE) is expected to halve in 2022, but rebound to a 10-year high in 2024 as the interest rate tailwind takes effect
- For life, profitability is improving due to rising interest rates and normalising COVID-19 mortality claims
- Insurers are also exposed to portfolio revaluations and mark-to market losses during periods of financial markets stress

P&C insurance industry ROE (G8 advanced markets*)



Life industry operating and investment results (G8 advanced markets*)

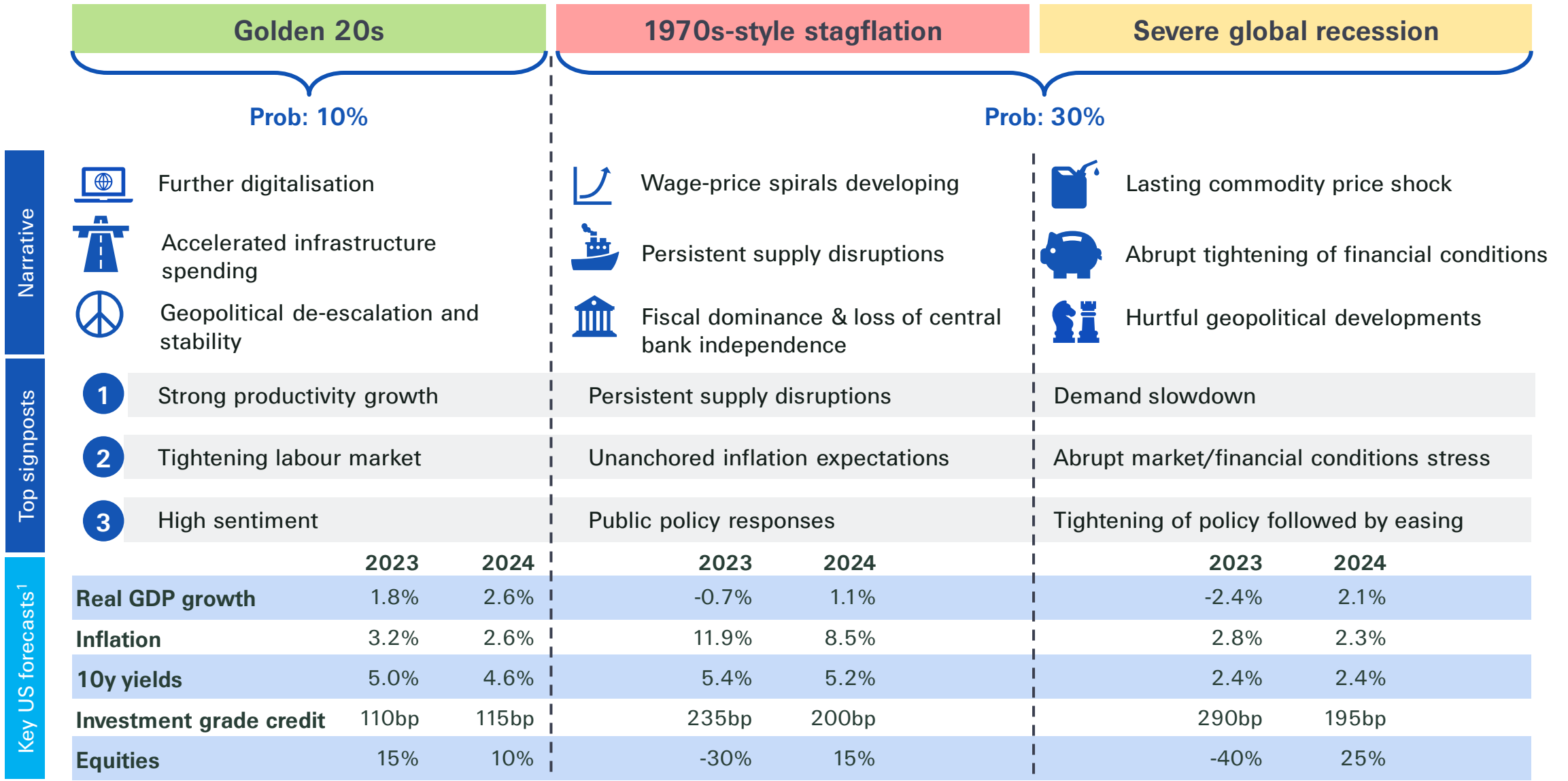


Scenarios and key takeaways

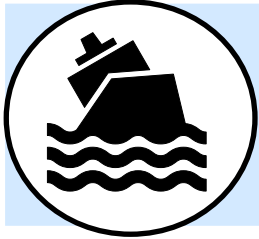
“Alternative scenarios are key to monitor in today’s age of uncertainty. Risks are skewed to the downside, but a 1970s style structural stagflation scenario is still remote.”



Alternative scenarios: risks remain to the downside with uncertainty elevated



Key takeaways



The near-term outlook remains highly uncertain and fluid with **inflationary recessions approaching. Inflation and interest rates will be structurally higher even as they are peaking**



The **great moderation period has ended**, and the next crisis cannot be managed again with past stimulus measures, meaning **more macro volatility ahead**



The repricing and accumulation of risks will lead to more structural demand on insurance market protection business. We expect annual insurance market premium to increase in real terms to **above trend growth in 2024** after surpassing **USD 7 trillion for first time ever this year**

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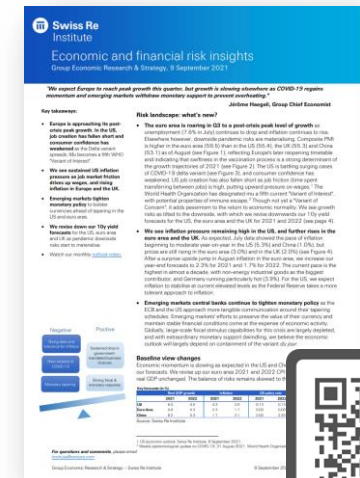
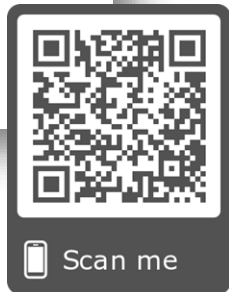
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Q&A

Thank you!

Contact us



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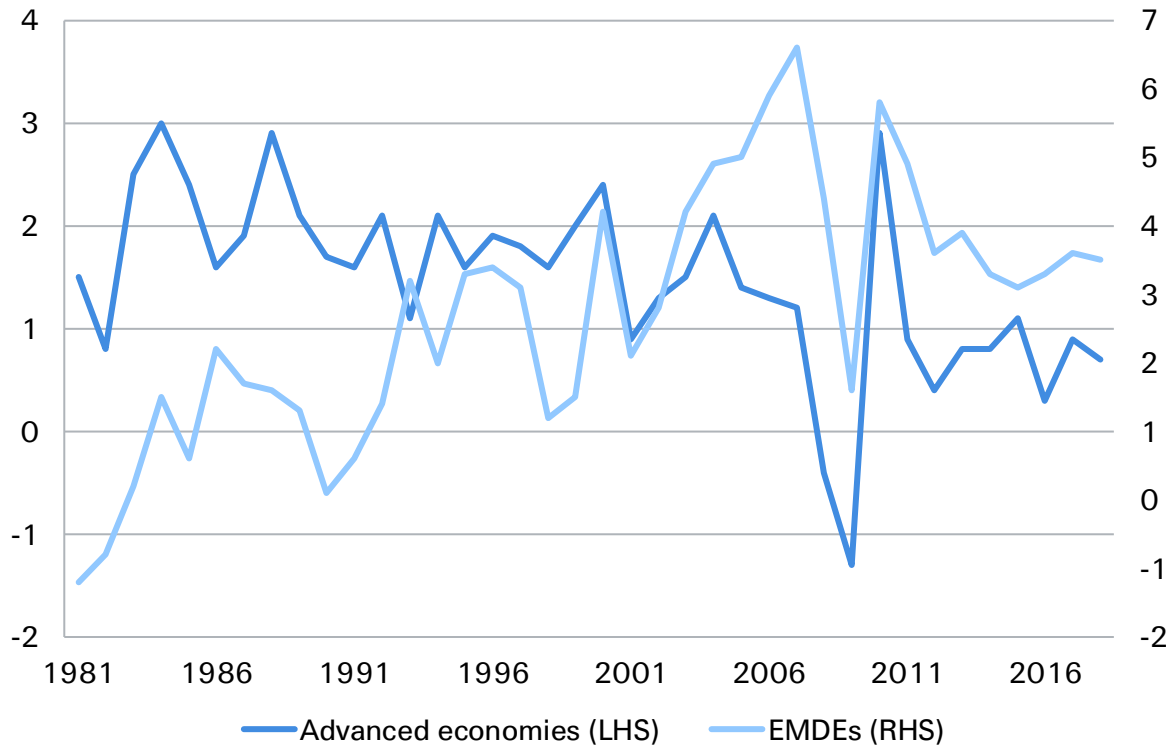
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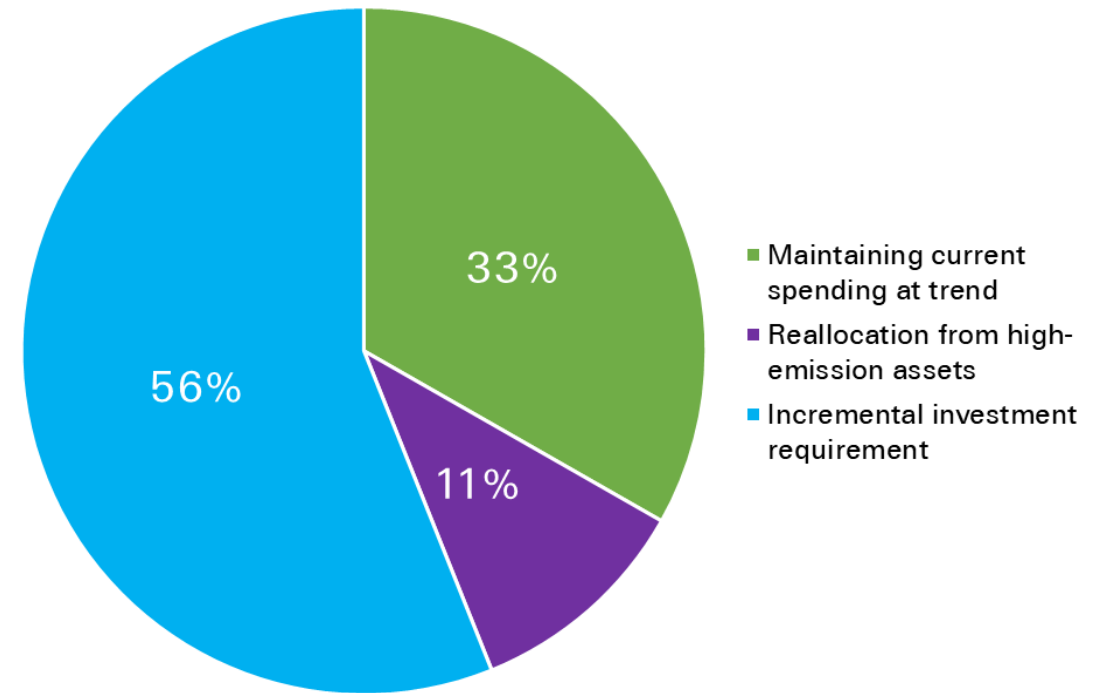
Appendix

Call for action: Alleviating the tension between addressing inflation and supporting fiscal sustainability will require long run investment in productive supply capacity

Evolution of productivity growth
Output per worker, %

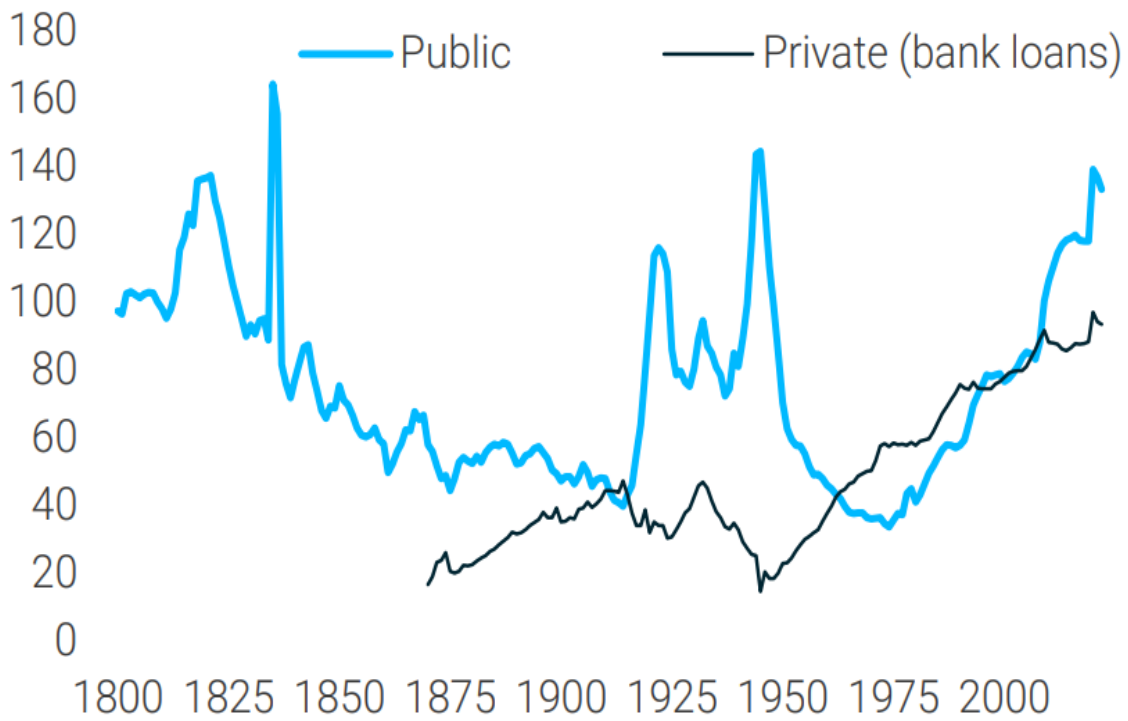


Contributions to closing the USD 271 trillion “net zero” climate investment gap (in %)

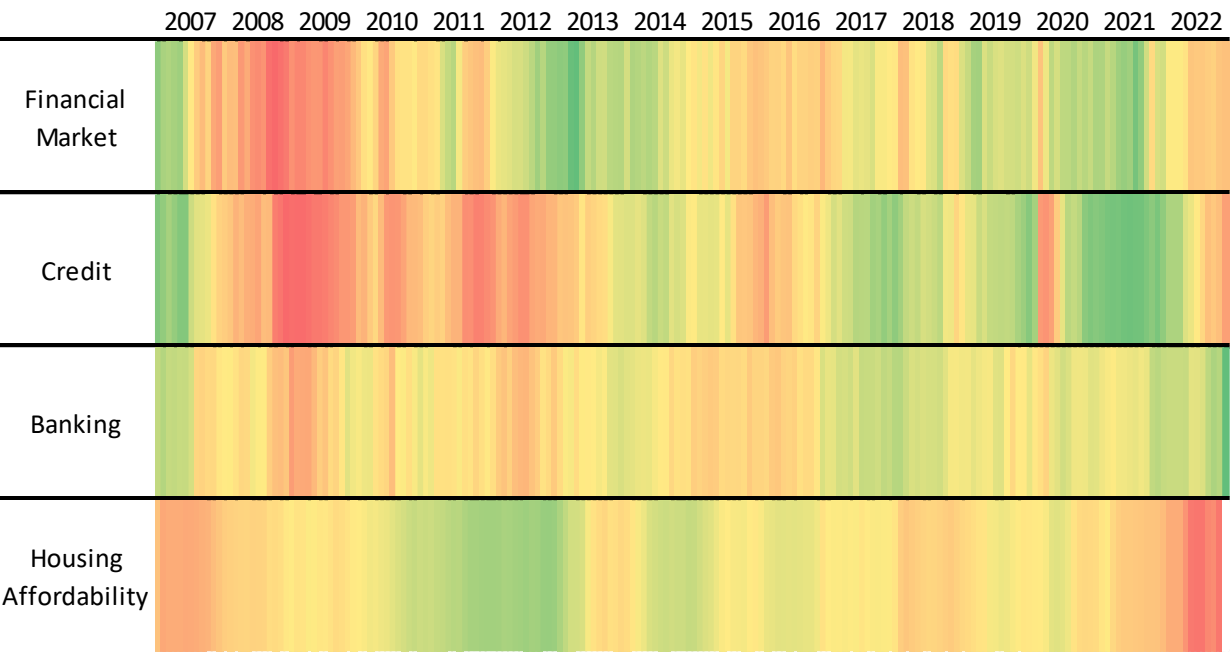


Interest rate shocks expose the accumulation of risk through both the macro and financial channels as the great moderation period has ended

Debt as a % of GDP is reaching all-time highs and creating a large “debt overhang”



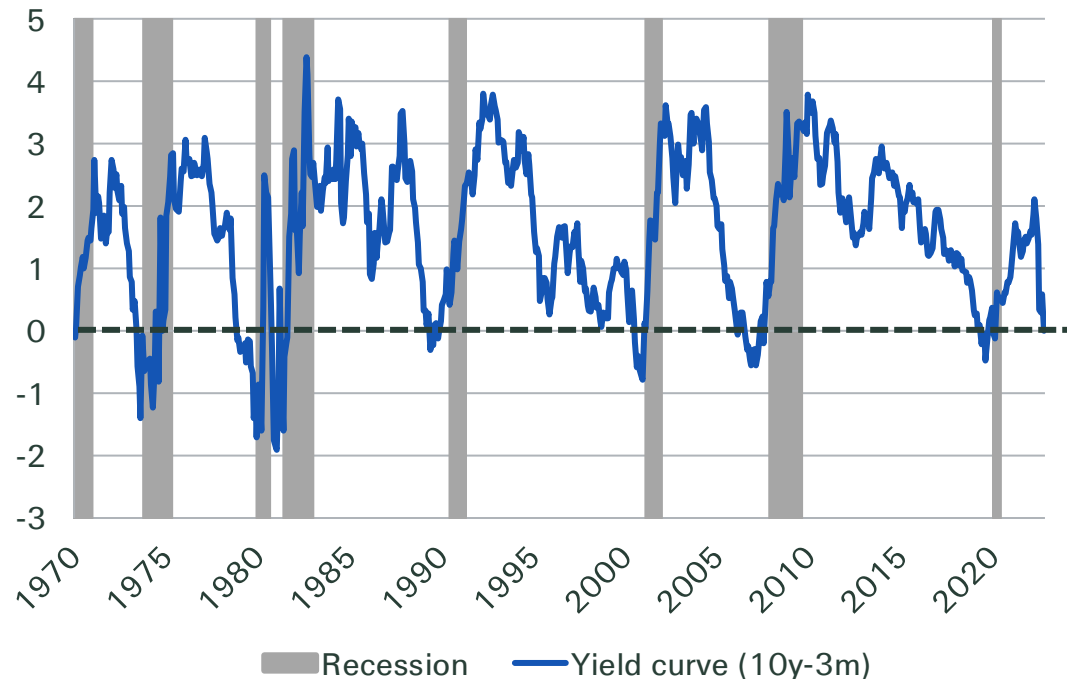
Financial stability risks are increasing in the US but not in systemic risk zone



Note: Series represent an average measure of relevant high-frequency variables. The data for each underlying variable are transformed into percentile ranks, based on the distribution of its values since 2007. The heatmap presents the distribution of the percentile ranks. Red indicates high percentile ranks (bad) and green indicates low percentile ranks (good)

US recession likelihood indicators

10-year – 3-month yield curve inversion vs. prior recessions



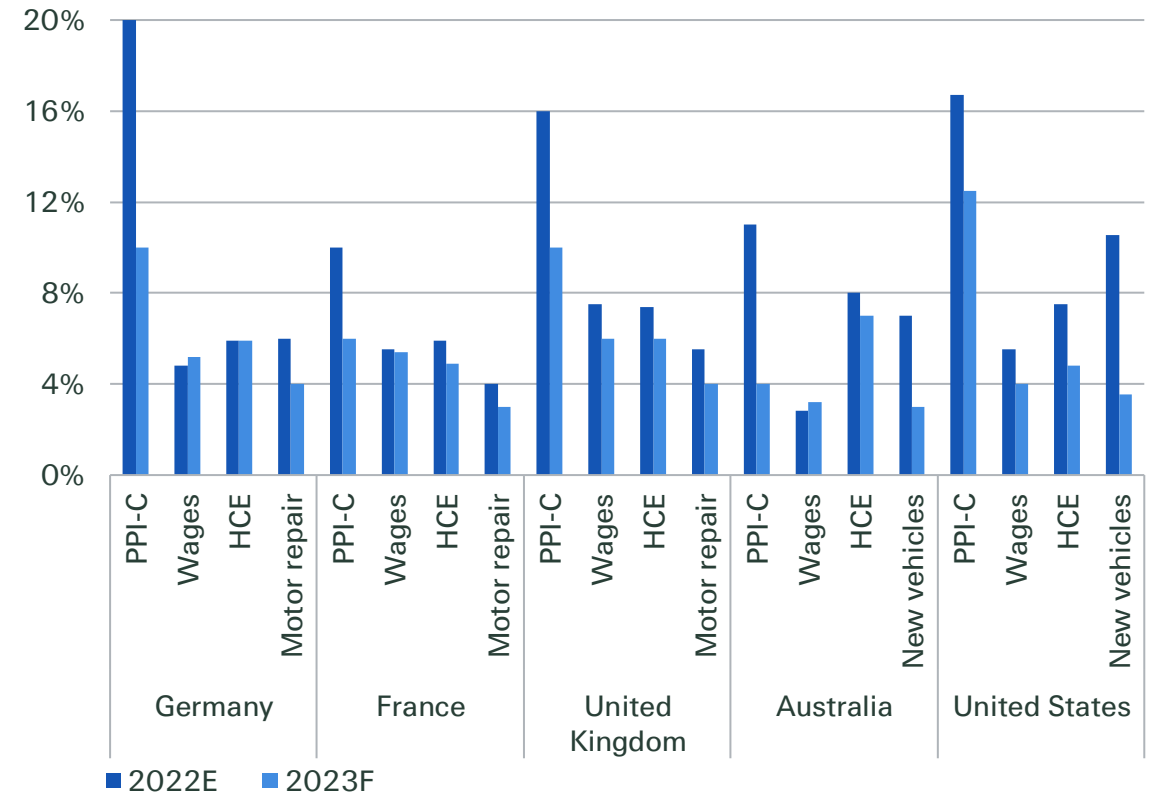
10y – 3m inversion has historically led to recession by 12 months

Date of inversion	Unemployment	CPI YoY	Date of recession start	No. months inversion to recession
Oct-22	3.5	8.2	?	?
Mar-19	3.8	1.5	Feb-22	11
Jan-06	4.9	3.4	Dec-07	22
Jul-00	4	3.7	Mar-01	8
May-89	5.2	5.1	Jul-90	14
Oct-80	7.5	12.6	Jul-81	9
Nov-78	5.8	8.9	Jan-80	14
Jun-73	4.9	5.5	Nov-73	5
Average	5.16	5.81		12

Impact of inflationary shock on insurance claims, major lines of business

Line of business	2022	2023	Reason
Property	High	Above average	Price of materials peaked in '22, but higher wages in '23
Motor, physical damage	High	Average	High car part prices related to supply chain imbalances, and wage growth
Motor, bodily injury	Below average	Above average	Wage growth and medical cost inflation to exceed general inflation
Liability	Average	Above average	Wage growth, medical, and social inflation
Health	Below average	Above average	Medical cost inflation
Life	None	None	Benefits are set at policy issue

Key drivers of insurance claims cost different sub-economic inflation, key markets



Note: PPI-C = Producer price index for construction, HCE = healthcare expenditure
Source: Swiss Re Institute



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