Swiss Re

Global economic & insurance market outlook

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Key letter

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To remember!

1872

Key figures…

1 2 3

Looking ahead

Economic Outlook: Economies have shown remarkable resilience. Recession risks ar pushed out, but not gone altogether

1 **Growth outlook** : Strong cyclical slowdown in 2023. Mild recession expected in the US.

2 **Inflation** : Past the peak but underlying inflation is persistent

3 **Interest rates** : Central bank tightening to continue, though at slower pace. Negative nominal yield era is over.

4 **Risk outlook**: Some economic upside risks. Economies have so far remained resilient, labor markets are strong and China's reopening are all growth supportive for now.

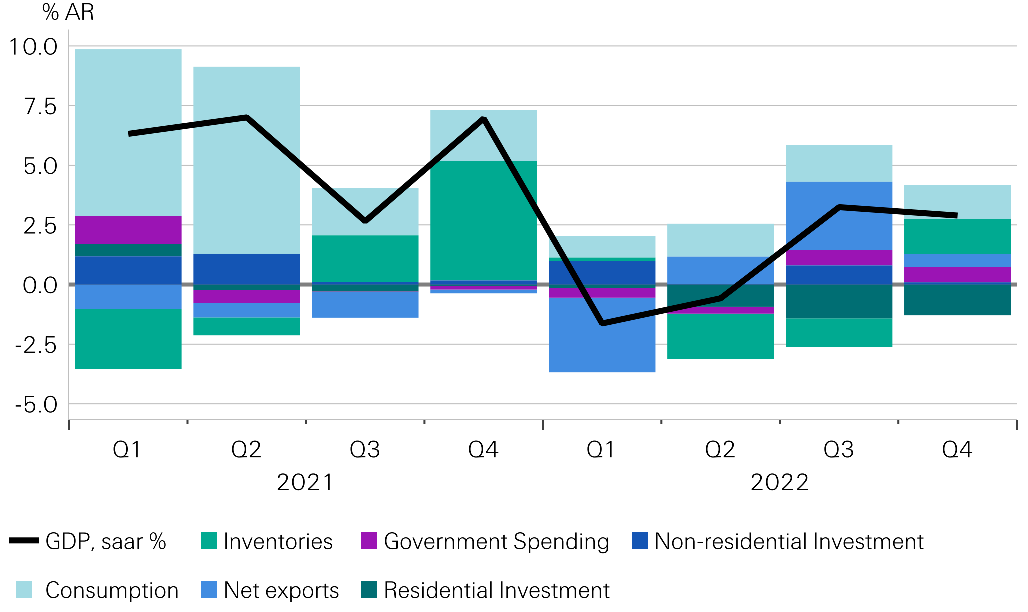
	Swiss Re Institute			Consensus	
	2022E	2023	2024	2023	2024
Real GDP (%change)					
US	*2.1*	0.3	1.3	0.6	1.2
Eurozone	*3.5*	0.4	0.8	0.4	1.2
China	*3.0*	5.5	5.1	5.2	5.0
Saudi Arabia	*8.7*	3.2	2.8	3.3	3.1
UAE	*7.0*	3.8	3.5	3.7	3.8
CPI (% change)					
US	*8.0*	3.7	2.8	3.8	2.5
Eurozone	*8.4*	5.8	2.6	5.6	2.4
China	*2.0*	2.4	2.4	2.4	2.2
Saudi Arabia	*2.5*	2.5	2.2	2.5	2.1
UAE	*5.6*	3.3	2.3	3.3	1.9
10y Gov. Bond Yield (%)					
US	*3.9*	3.4	3.2	3.4	3.2
Eurozone	*2.6*	2.5	2.3	2.0	2.0
China	*2.8*	3.0	3.0	3.0	3.1
Central bank rate (%)					
US	*4.38*	5.13	3.63	4.75	3.30
Eurozone	*2.50*	3.75	3.25	3.75	3.00
China	*2.00*	2.00	2.10	*N/A*	*N/A*

Source: Bloomberg, Swiss Re Institute
Note: SRI forecasts as of 20 February 2023, Bloomberg consensus forecasts as of 20 February 2023.

The US economy carried momentum into the new year, but resilience is waning as recession signals mount and further interest rate hikes are in the pipeline

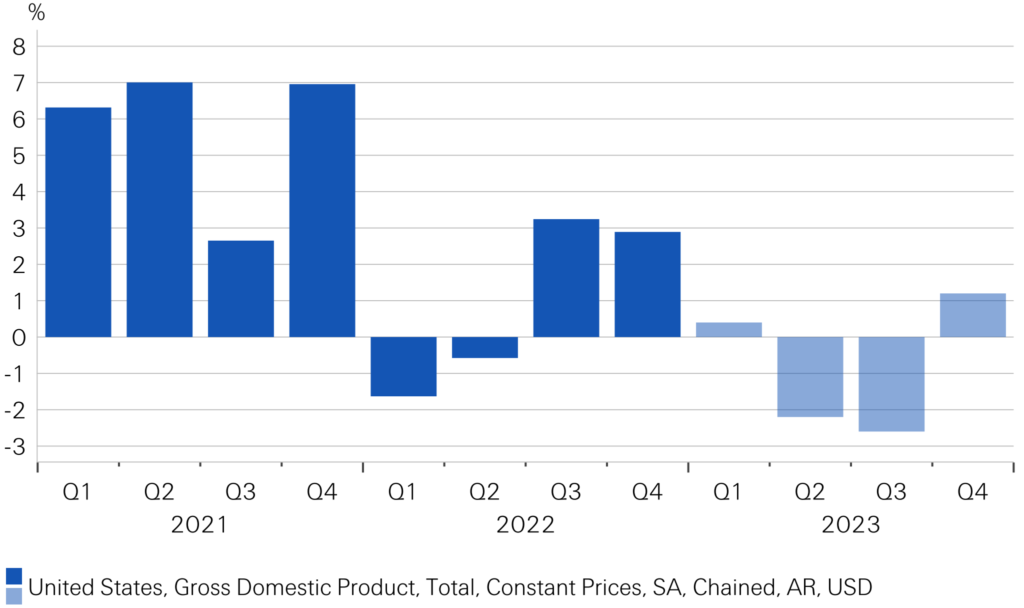
- **Strong labor markets** and consumer demand **underpinned hard data** at the end of 2022, even as **cyclical sentiment indicators** continue to point to **recession**
- Prospects for a **soft landing** are improving as **inflation moderates**, but we maintain our view that **additional policy tightening** will begin to **induce labor market slack** in Q2 and **restrain consumption**

US: GDP growth composition



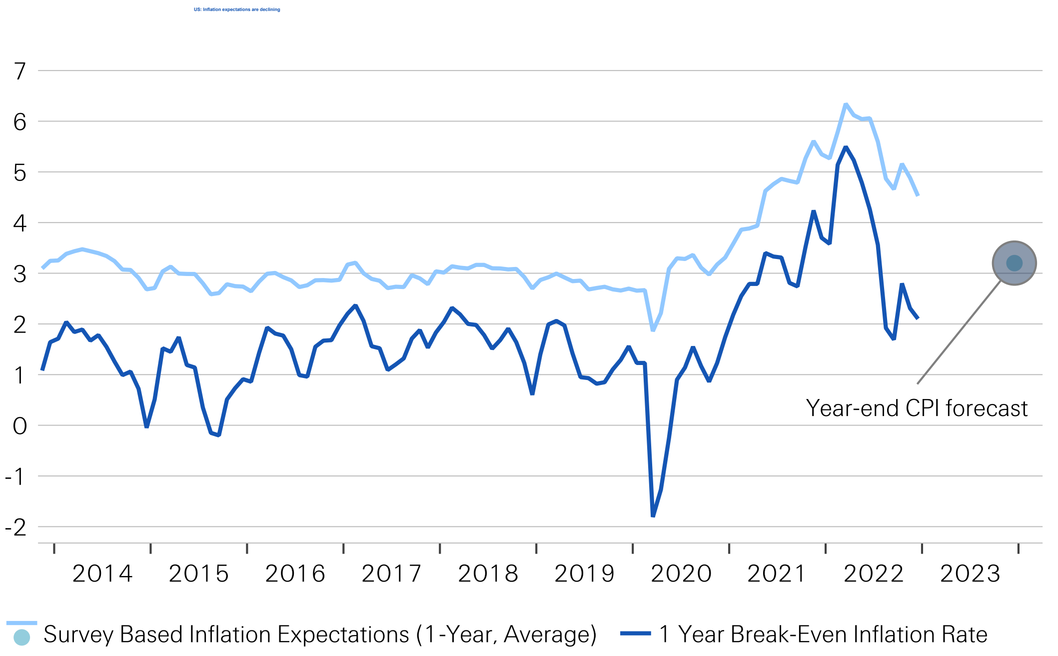
Source: BEA, Macrobond, Swiss Re Institute

US: GDP accelerated in H2 2022, but will cool in mid 2023

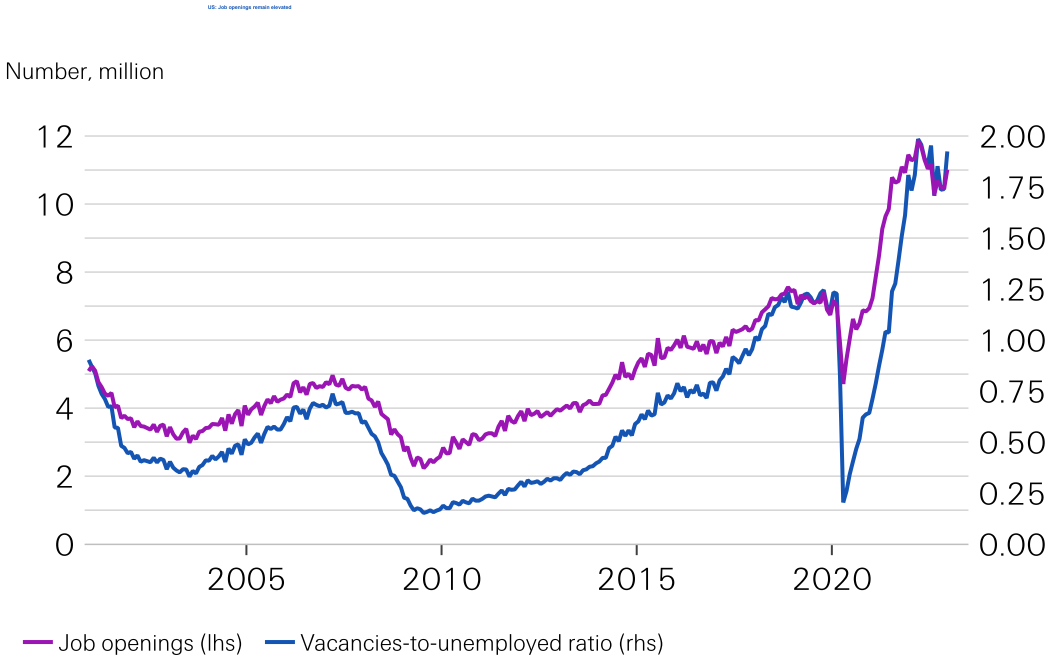


Source: BEA, Macrobond, Swiss Re Institute

Price pressures in the US are moderating amid disinflation in the goods sector, but underlying inflation will remain elevated as labour market tightness persists



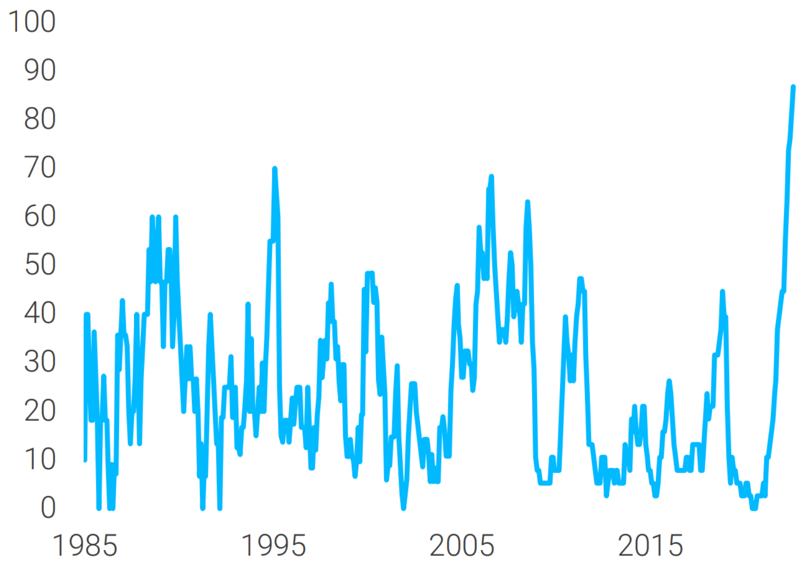
Source: Federal Reserve Bank of New York, University of Michigan, TCB, U.S. Department of Treasury, Macrobond, Swiss Re Institute



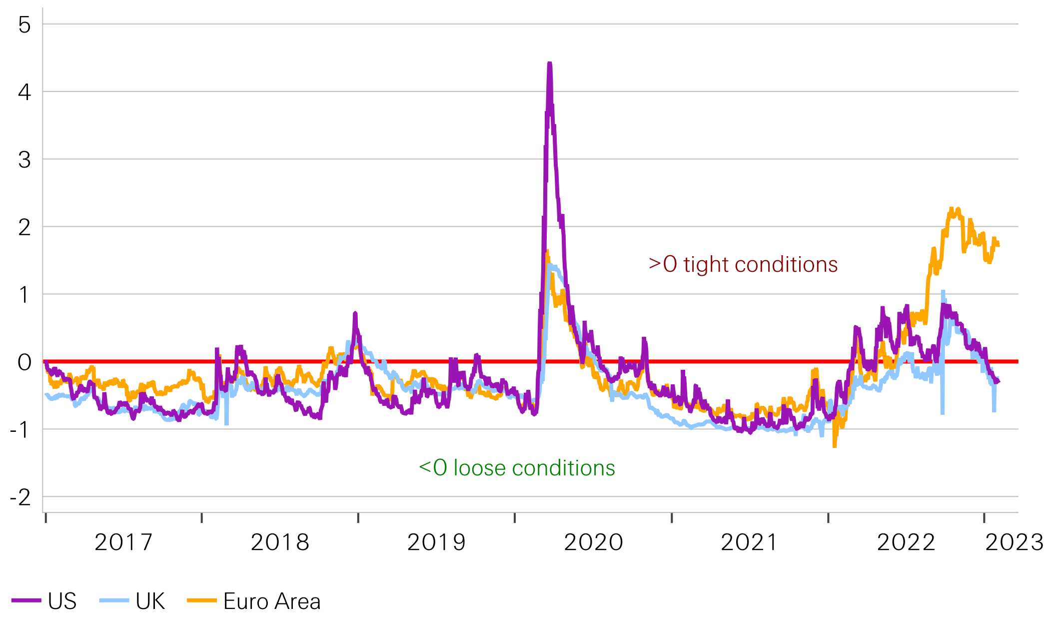
Sources: BLS, NFIB, Macrobond, Swiss Re Institute

We have seen the broadest tightening cycle for decades, yet financial conditions are tight enough across economies to combat inflationary pressures

Per cent (%) of world's central banks hiking interest rates



Sources: BIS, TS Lombard, Swiss Re Institute



Sources: Bloomberg, Macrobond, Swiss Re Institute

Alternative scenarios: The risk landscape remains to the downside with uncertainty elevated, but the likelihood of an optimistic scenario playing out has increased

SRI's alternative scenarios
(12-18 months horizon)

Upside
(Likelihood: 10-20%)

Golden 20s (Likelihood 10-20%)

- Soft landings
- Moderate inflation
- Benign financial conditions

Downside
(Likelihood: 20-30%)

Severe global recession (Likelihood 15-20%)

- Severe economic contractions
- Cooled inflation
- Abrupt tightening in financial conditions

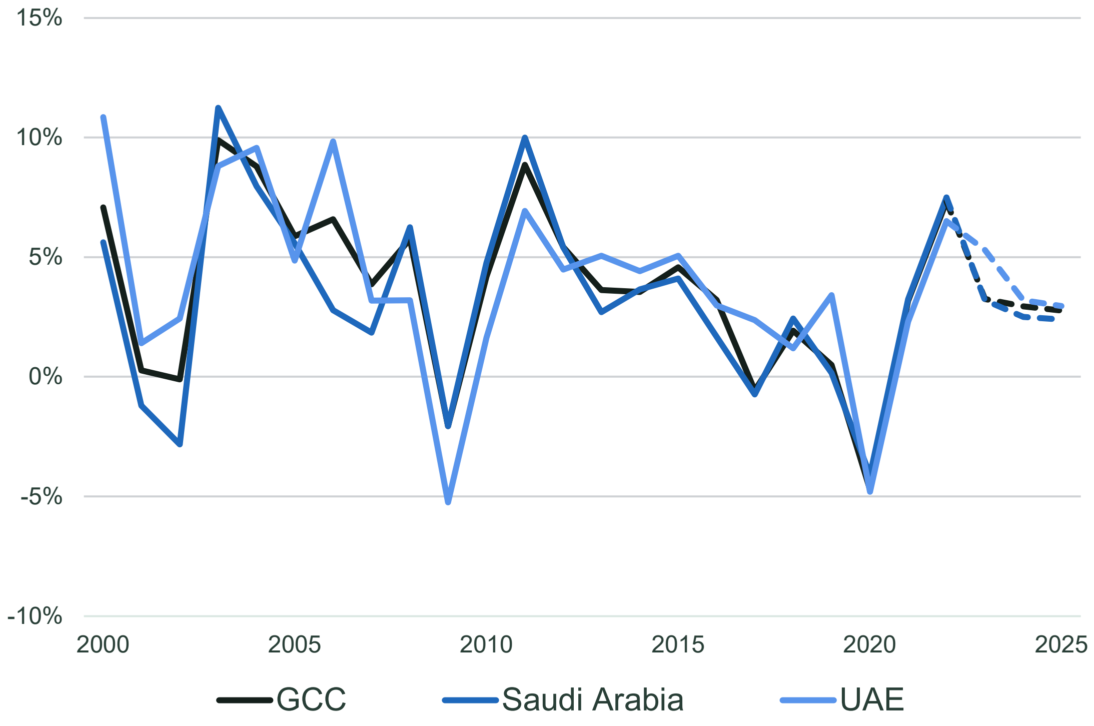
1970s-style stagflation (Likelihood 5-10%)

- Lackluster growth
- Runaway inflation
- Increased social tension

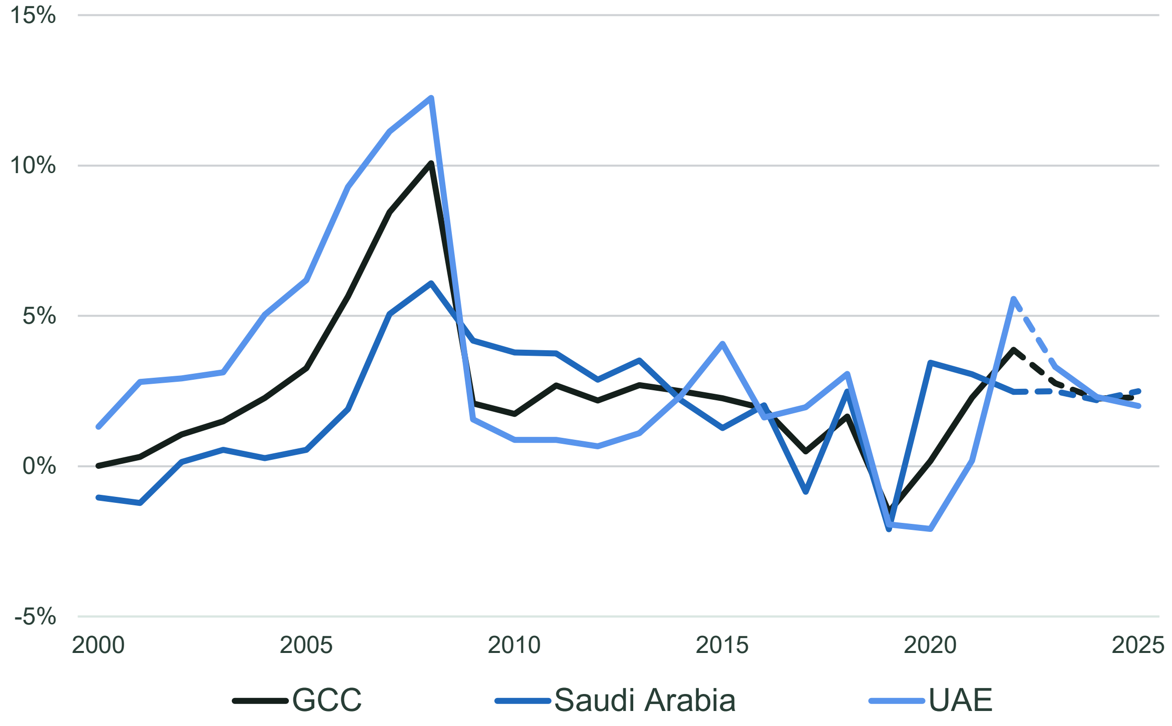
Source: Swiss Re Institute

Amid weaker global economic environment, growth in the Middle East region will remain resilient supported by government spending in infrastructure projects

GCC and Pakistan annual real GDP growth rate (%)



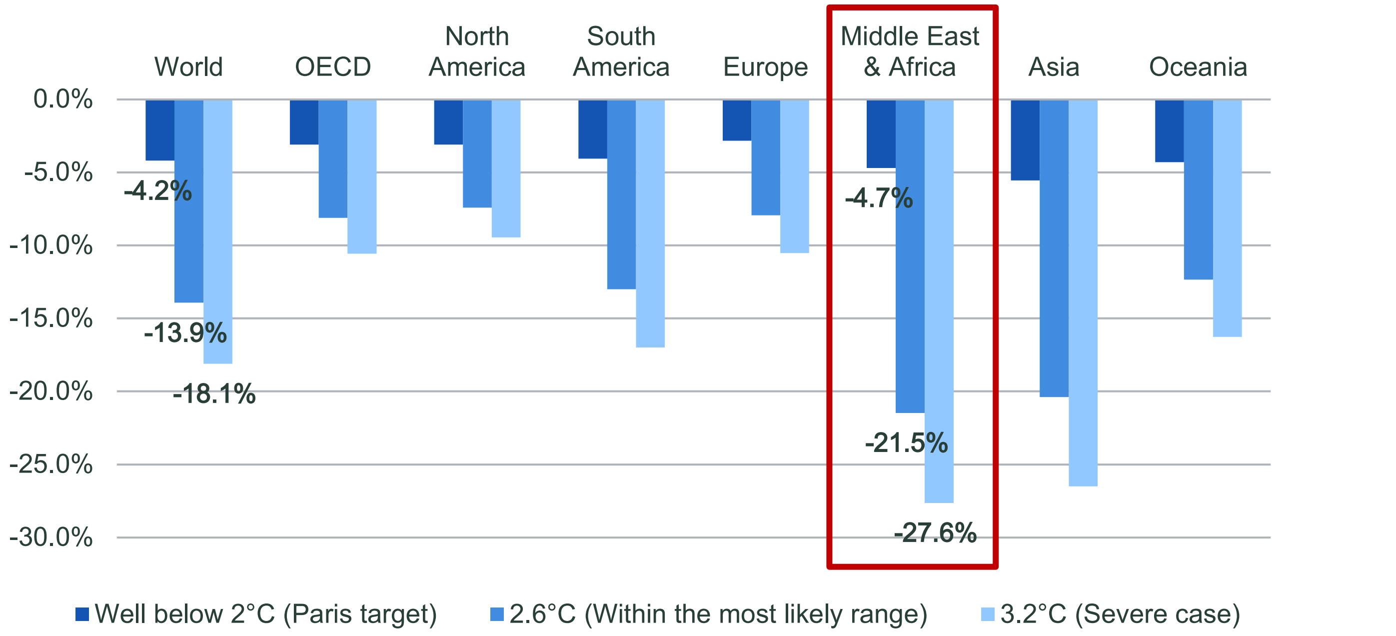
GCC and Pakistan annual average headline CPI (%)



Source: Swiss Re Institute, Oxford Economics

Long-term structural themes: Climate change is affecting the Middle East more severely, no action is not an option

Simulated economic loss by mid-century from rising temperature relative to a world without warming (% of GDP)



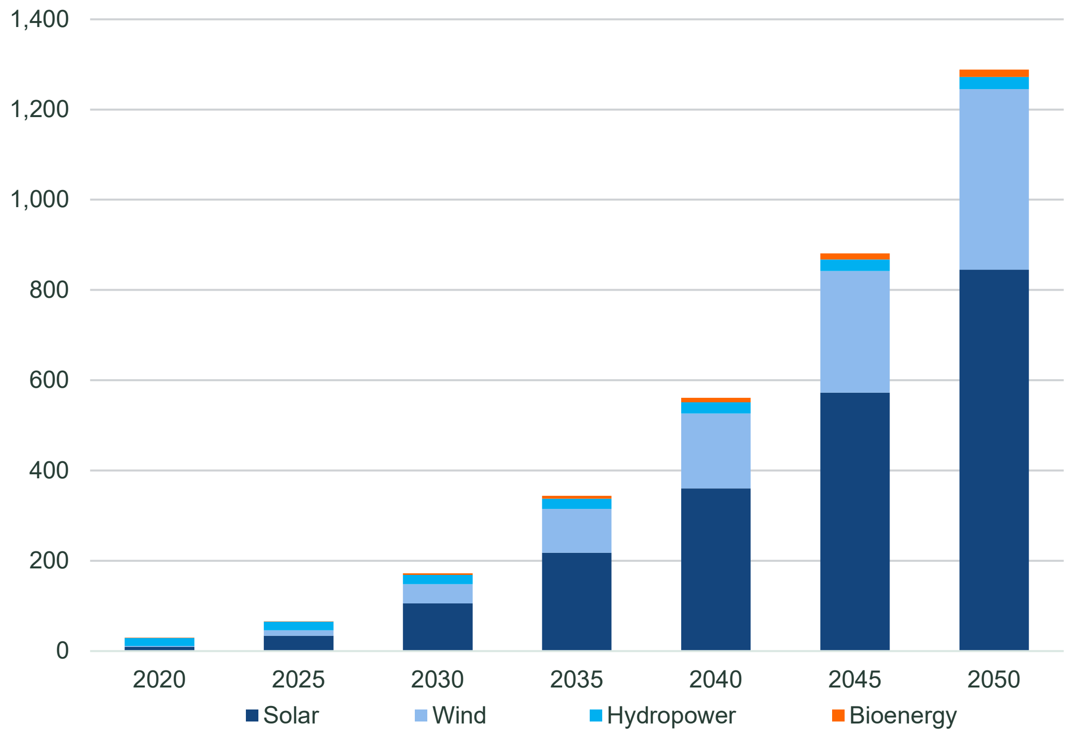
Note: Temperature increases are from pre-industrial times to mid-century, and relate to increasing emissions and/or increasing climate sensitivity (reaction of temperatures to emissions).
Source: Swiss Re Institute

- **Impact on global economy:** Activity could be up to 10%pts lower by mid-century if warming stays on the current trajectory rather than adhering to the Paris Agreement target

- **Impact on Middle East and Africa:** Stand to lose up to 17%! There are no “winners”, but even so regional disparities are at full play

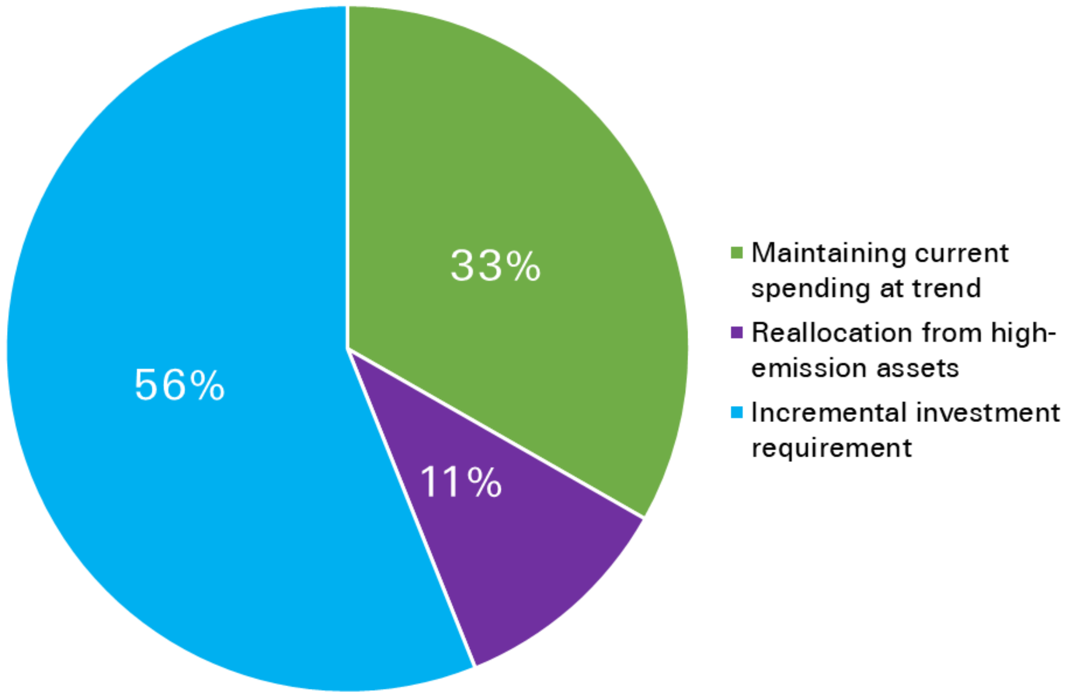
The region has begun to act on mitigating climate risks. However, there is substantial global investment gap to reach net-zero by 2050 which provides opportunity

Renewable energy installed capacity in the Middle East (GW)



Source: Swiss Re Institute

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



Source: Swiss Re Institute

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

Market landscape

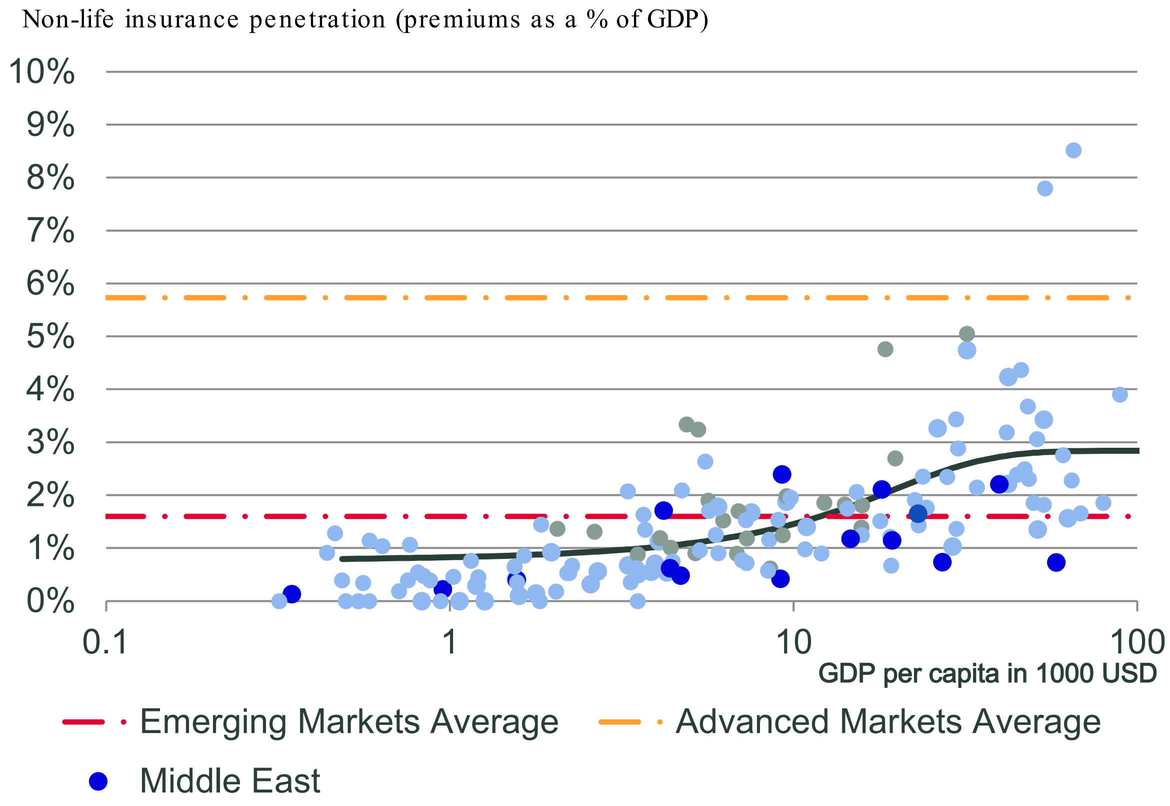
- Hardening market
- New risk pools
- Consumer & government risk awareness
- Natural catastrophe loss events
- Declining capital
- Reduction in shareholder equity

Macroeconomic dynamics

- Economic slowdown
- Prolonged volatile inflation
- High interest rates
- Financial stability risks

Insurance market in the Middle East and Pakistan remains resilient with increased growth rate in recent years. However, penetration is lower than the global average

Non-life S-Cure: insurance penetration vs Per capita GDP



3-4 times higher premium growth in the post-COVID period

Source: Swiss Re Institute,

Key takeaways

Global economic growth trends remain weak with better than expected economic data as of late pushing recession risks out but not away. In GCC, growth will be supported by government spending in infrastructure projects

Inflation shows signs of easing, though expect inflation to remain persistent and above policy target levels in 2023 and 2024. As a result, the negative yield environment is over. Monetary tightening to continue, albeit at a slower pace and lower increments.

Insurance penetration in the Middle East is lower than the global and emerging market average, but holds significant growth potential driven by economic development and increased risk awareness.

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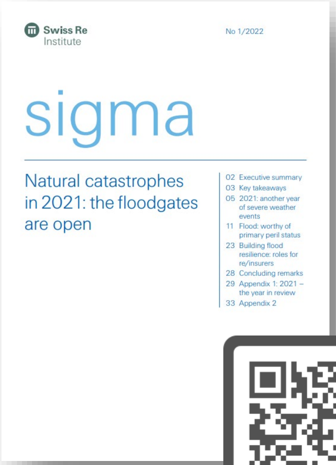
Sigma

- Market information for managers and specialist in the (re)insurance industry



Expertise Publications

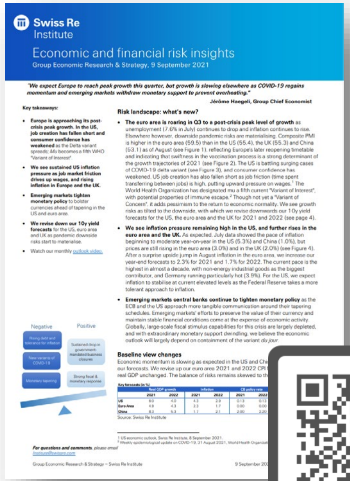
- Expert analysis of specific risk topics in regional markets and the global (re)insurance industry

Economic Insights

- Key findings on macro developments and market events, and their implications for the (re)insurance industry

Economic Outlook

- Monthly newsletters on global economic and financial market risk landscape.



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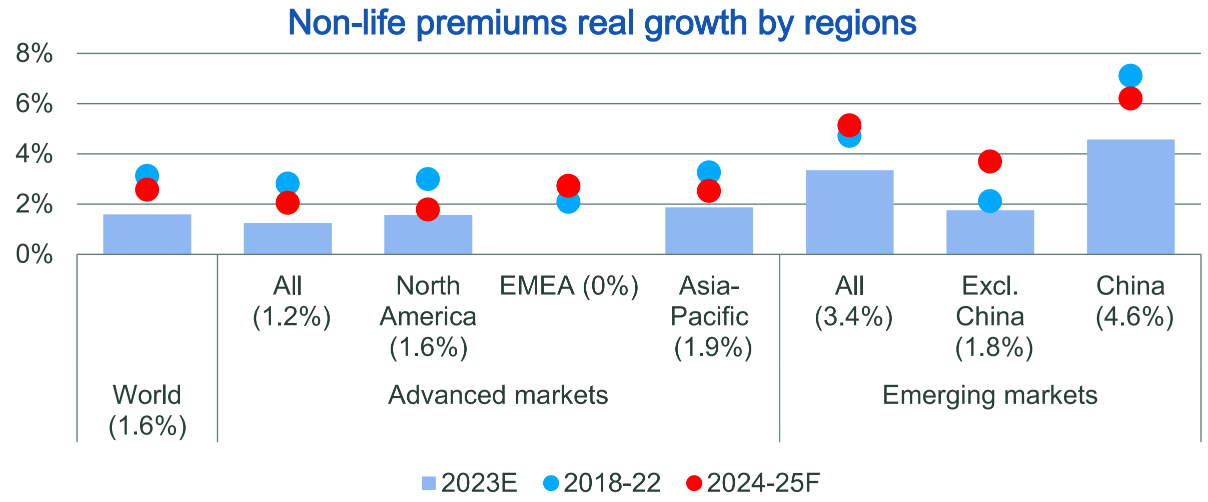
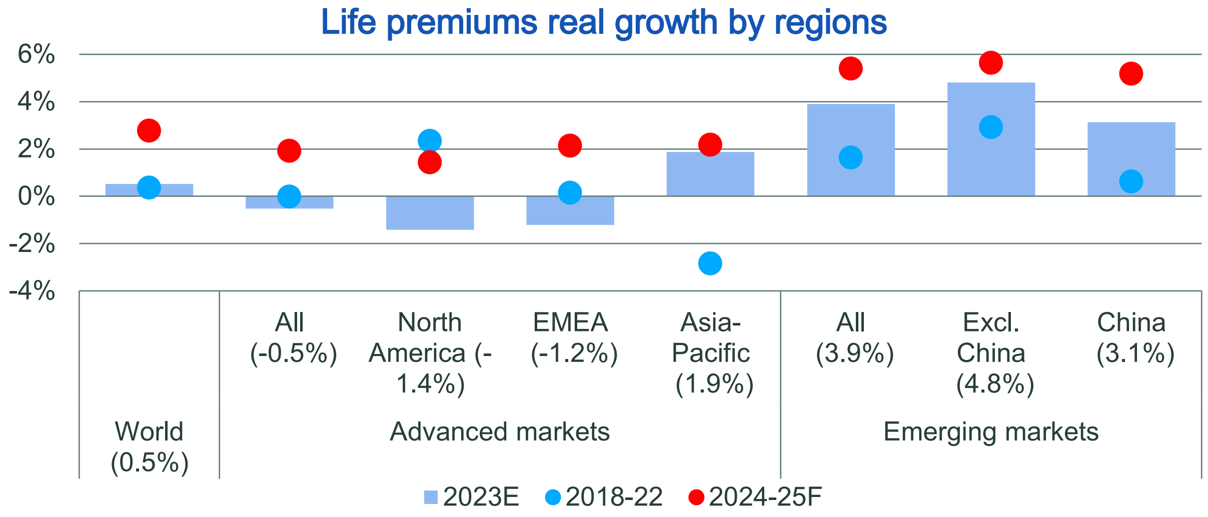
Appendix

Insurance primary market outlook: continuous hardening expected for P&C with economic disinflation likely to support profitability

- Premium outlook: We forecast **1.2% real growth in total premiums in 2023**, after a slight contraction last year, **with nonlife outgrowing life**. **Growth will rise above trend on average over 2024/25,** supported by emerging markets
- **Continuous hardening expected in P&C: Economic disinflation may provide a sweet spot for u/w profitability** as price increases are expected to continue. However, **inflation risks – economic and social - remain elevated and curb the inflow of new capital**
- **Higher interest rates are a positive for Life earnings. Product focus continues from traditional life towards capital-efficient unit-linked** and protection products but re-risking savings products likely necessary in the medium-term to keep products competitive
- Investment returns: the earnings contributions from **stronger investment income to recover through 2024/25** and insurers' assets position would be strengthened amid recovering valuations



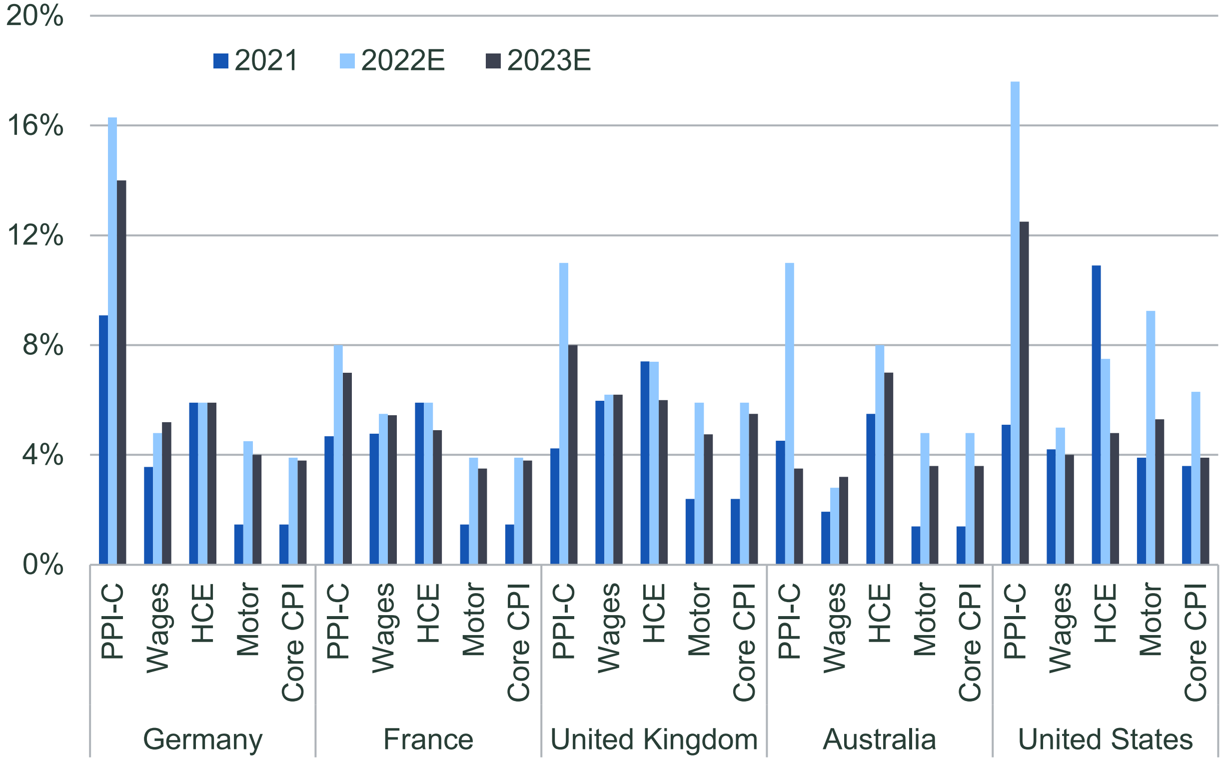


Source: Swiss Re Institute

P&C primary: repricing reflected inflation last year, but still insufficient for commercial property in some key markets

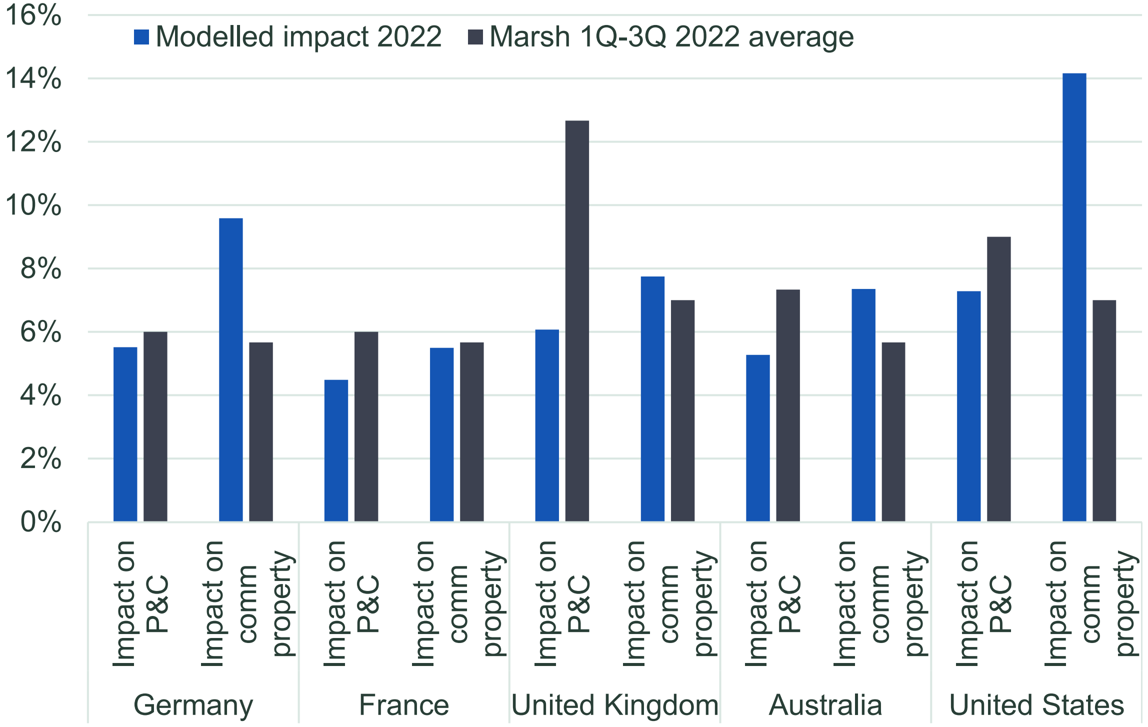
- **Impact of inflation on claims in 2022,** if all else is equal, **ranged from 5 to 7.5% for overall P&C, between 7-14% for commercial property,** depending on markets. Sticky wages and prices in some categories, like auto repair cost, mean impact remains elevated in 2023
- Marsh composite price index reflected in part the inflationary effect in 2022, but for property further hardening is needed

Changes in inflation components relevant for claims



Note: Motor is an average of core CPI, motor repairs and/or new/used vehicles, and its exact construction varies across market

Impact of inflation on claims vs reported rate changes



Note: Germany and France are compared with Marsh' Continental Europe aggregate. Australia is compared with the Pacific aggregate

Source: Swiss Re Institute, Marsh GIMI

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