



KOF Bulletin

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EDITORIAL

Dear readers,

The Eurozone economy weakened during the second quarter of 2016, with France and Italy in particular stagnating. Alongside the uncertainty following the Brexit vote, the outlook is not rosy at all in Europe at present. The referendum in the United Kingdom appears not to have had much of an effect yet in Switzerland, at least according to a KOF survey of Swiss businesses concerning the Brexit issue. However, it is expected that Switzerland's negotiating position with the EU will not have improved as a result of the Brexit vote. A further contribution concerns the payment practices of Swiss residents both at home and abroad: are payments increasingly being made with (credit) cards or do people still prefer cash? The final contribution presents a new KOF Working Paper which shows that the performance of the American share market can only be used for forecasting trends on other share markets during periods of economic weakness, but not during normal periods.

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Anne Stücker and David Iselin

ECONOMY AND RESEARCH

Eurozone Economy has Slowed Down



The pace of the Eurozone economy has slackened. Given a rather moderate 0.3 per cent increase in production over the previous quarter, gross domestic product (GDP) expanded more slowly in the second quarter 2016 than in the preceding quarter. In France and Italy, aggregate production even stagnated.

Following a 0.6 per cent increase in the first quarter 2016, production growth slowed down to a mere 0.3 per cent in the second quarter. However, with non-recurring effects distorting dynamics upwards in the first quarter, this downturn did not come as a surprise. The mild winter, for instance, boosted construction activities in Germany, while ticket sales for the European Football Cup drove private consumption in France. These non-recurring effects resulted in a counter-movement in the second quarter. Private consumer spending in France, for instance, merely stagnated. While the smaller import volume made a positive contribution to the growth of external trade, the low inventory build-up had a dampening effect on production. Following significant gains in the past few quarters, investment in construction and in plant and machinery once again declined.

In Italy, the persistent banking crisis and insecurity regarding the outcome of November's referendum on extensive constitutional reforms are likely to have had a negative

impact on consumption and investment demand. In Germany, growth dynamics slowed down from 0.7 per cent in the first quarter to 0.4 per cent in the second quarter. However, this second-quarter percentage is still higher than the overall Eurozone figure. The expansion was predominantly due to external trade and consumption, while construction regressed due to weather-related pre-emptive effects in the first quarter.

Further growth impetus was provided by the Netherlands and Spain. Greece also reported an increase in production. Both Spain and Greece are buoyed up by booming tourism industries, benefiting to some degree from political insecurity in other holiday destinations, such as Egypt or Turkey.

To everyone's surprise, Ireland reported a 26 per cent increase in GDP after a revision of its 2015 national accounts. This result is most likely due to so-called "tax inversions", i. e. the relocation of registered head offices by large multinationals. In consequence, productive capital rose by 40

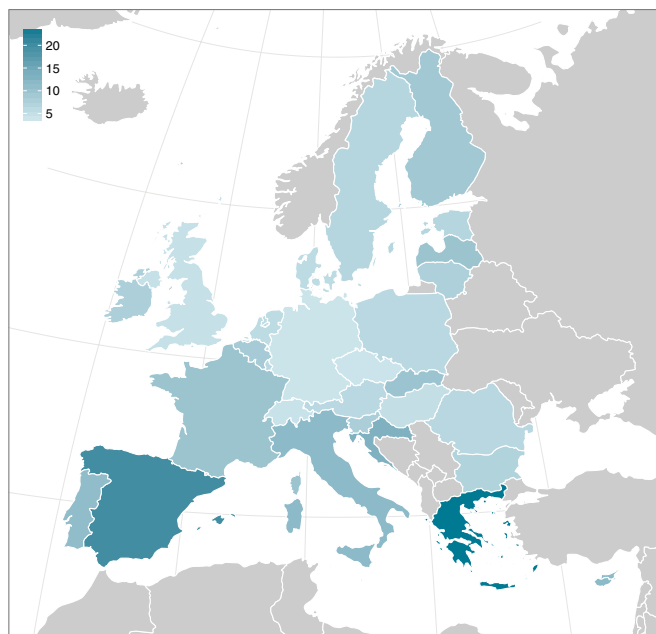
per cent, especially thanks to intellectual property rights, and net exports doubled due to licensing income and merchandising. Although Ireland's share in the Eurozone's total economic output is of minor importance, the effect of this revision on total Eurozone GDP and its annual growth rate will be quite noticeable at around 0.4 percentage points.

Price and labour market recovery varies

Consumer price trends also present a heterogeneous picture. While the year-on-year change in the Belgian consumer price index amounted to two per cent (due to a rise in VAT on electricity from six per cent to 21 per cent in September 2015, the rise is distorted upwards), inflation in Germany and France stood at 0.4 per cent. Italy and Spain continued to display deflationary tendencies at –0.2 per cent and –0.9 per cent respectively. Overall inflation in the Eurozone in July 2016 was 0.2 per cent, while core inflation, excluding energy and unprocessed foodstuffs, amounted to 0.8 per cent. Once the base effects of earlier drops in commodity prices expire in the coming months, inflation is set to rise again on a more substantial basis.

The last few quarters' upswing in the Eurozone has resulted in a decline in unemployment, albeit at very different levels (see G 1, in comparison with other EU countries and Switzerland). The total unemployment rate in the Eurozone stood at 10.1 per cent in June, following 11 per cent in the preceding year. In Spain, unemployment dropped below the 20 per cent mark for the first time in six years while, at 4.2 per cent, the German rate was back to pre-reunification levels. The Italian labour market reforms adopted at the beginning of 2015 seem to be bearing fruit: Compared to the previous year, unemployment declined by 0.6 percentage points to 11.6 per cent (most recent figure), while youth unemployment even decreased by 4.5 percentage points to 36.5 per cent. In France, where unemployment recently dropped below 10 per cent, hasty labour market reforms were pushed through in July despite vehement protests by trade unions and employees. The easing of dismissal protection laws and flexible working hour regulations are to provide the labour market with greater dynamics.

G 1: Unemployment in the EU and in Switzerland
(in %)



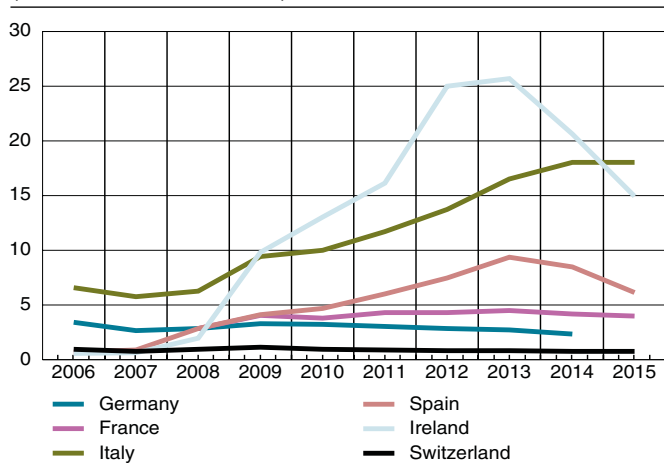
(Source: Eurostat, internal presentation)

Insecurity regarding the state of the Italian banking sector

Italy's banks weathered the 2009 financial crisis relatively well. They had neither invested excessively in speculative foreign ventures, nor were they subject to unwanted developments in the real estate sector due to insufficient lending diversification. Nevertheless, due to the weakness of the subsequent economic trend in Italy and the delay of structural reforms, around 18 per cent of loans are now rated "non-performing". According to the definition of the International Monetary Fund (IMF), loans are placed in this category when principal or interest payments have been outstanding for more than 90 days. Italian banks thus have the largest share of non-performing loans in the entire Eurozone after Greece and Cyprus, whose banks have been drip-fed by international money sources for some time now (see G 2 for comparison with other Eurozone countries and Switzerland).

G 2: Trend in Share of Non-Performing Loans in Selected Countries

(in % of total credit volume)



(Source: IMF Financial Soundness Indicators)

Public recapitalisation of non-performing banks is, however, in contravention of new EU guidelines which favour burden-sharing by shareholders and subordinated creditors. Nevertheless, the securitisation of non-performing loans, which has been initiated by the Italian government, and the injection of private funds to bolster the equity of failing institutions should defuse the situation for the foreseeable future.

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No Consequences of Brexit for Switzerland – yet

Brexit will be keeping Europe busy for a long time, and its long-term consequences are not yet foreseeable. According to a KOF survey, this means that the direct consequences are still negligible for Swiss exporters. However, Switzerland's negotiating position with the EU is not expected to be improved by Brexit.

Brexit – or at least the stated intention of British voters to leave the EU – is a fact. However, since both the precise manner of departure and the drafting of the subsequent treaties between the United Kingdom and the EU are still entirely uncertain, it is still practically impossible to quantify the economic consequences with precision.

Nevertheless, Brexit is already influencing the real economy. First, the outcome of the vote had immediate implications for real economic indicators, such as the exchange rate. In addition, Brexit had a dampening effect on the expectations of British consumers and producers. At the same time, the depreciation of the pound sterling should increase demand for British products, and cushion any adverse economic consequences for the United Kingdom. However, the more subdued expectations and the related increased uncertainty are expected to lead overall to

restraint on the part of consumers and investors and offset any exchange rate gains.

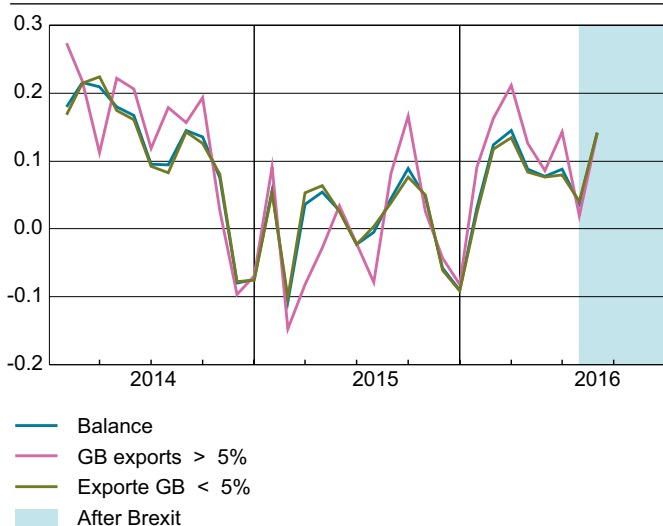
The direct consequences of Brexit for economic growth in the other EU Member States are unclear. On the one hand, the depreciation of the pound sterling is expected to result in depressed revenue for businesses which make a high proportion of their sales to the United Kingdom. On the other hand, various EU cities and regions are seeking to capitalise on Brexit. London is likely to become less attractive as a financial centre, and competitors are thus already actively vying for the attention of footloose financial services businesses. In addition, interest by other EU members states has already been noted in the EU institutions located in the United Kingdom, such as for example the European Medicines Agency (EMA).

Twin-track implications

The implications of Brexit for Switzerland are expected to be felt in two areas. First, the United Kingdom’s departure from the EU is expected to complicate trade with the island nation, at least until trade relations between Switzerland and the United Kingdom have been regulated in new treaties. This would affect predominantly businesses with direct trade relations. On the other hand, Brexit is expected to have indirect knock-on effects on Switzerland. It may be assumed that it will worsen Switzerland’s negotiating position with the EU with regard to the implementation of the initiative against mass immigration. It is difficult to imagine that, in view of the expected tough negotiations with the outgoing United Kingdom, the EU would grant concessions to a third country in relation to one of its core basic values, free movement of persons. The requirements of the initiative against mass immigration are not compatible with the agreement on the free movement of persons between Switzerland and the EU, and the implementation of the initiative would constitute a violation of the treaty by Switzerland. Brexit has probably made it more likely that the EU would respond to a violation of the agreement on the free movement of persons by terminating the agreement. Since the agreement on the free movement of persons is associated by a guillotine clause with the further Bilateral II Agreements, this means that if one treaty is terminated then all Bilateral II treaties will lapse.

G 3: Projected Demand 1

(Balance)

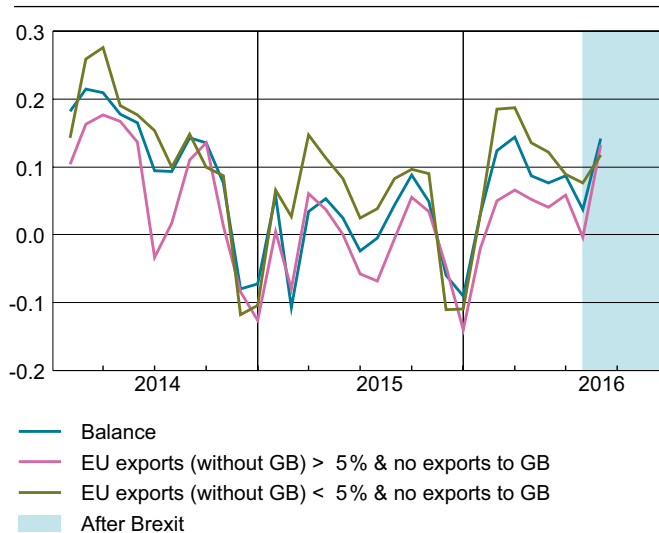


Survey of Swiss businesses

In order to throw greater light on the potential implications of Brexit for Switzerland, in July the KOF recorded the share of exports to the EU and to the United Kingdom of the Swiss companies that participate in the KOF business tendency survey. Export shares were thus determined for manufacturers, financial service providers and other service providers. The businesses from these sectors are expected to be those most heavily affected by Brexit. By recording export shares, it is possible to identify the businesses with particularly strong trade relations with the United Kingdom. The firms were subsequently divided into two groups, namely exposed (high share of exports) and not exposed (low share of exports).

G 4: Projected Demand 2

(Balance)



The blue line in graph G 3 shows businesses’ demand projections over time. The red line shows expectations for businesses that earn more than five per cent of their revenue from the United Kingdom. The expectations of businesses with lower levels of sales to the United Kingdom fell more sharply in July, the first post-Brexit survey, than for other businesses. However, the number of businesses with exports to the United Kingdom is small compared to other businesses, which makes the red line slightly more volatile. The strong fall in July is not extraordinary compared to

past figures, and does not necessarily imply a strong reaction by exposed firms. In addition, diverging trends may be identified within both groups.

Graph G 4 attempts to identify potential implications of the deterioration in the negotiating position with the EU. The graph divides survey participants into businesses that earn more than five per cent of their revenue in the EU (without the United Kingdom) and business that serve exclusively the Swiss national market. Like figure one, figure two does also not suggest any negative effects on the short-term expectations of Swiss businesses.

The descriptive analysis of the results of the survey shows that the Brexit shockwaves have not (yet) been felt by Swiss businesses. This means that no far-reaching consequences are expected in the short term for Switzerland. The long-term consequences of Brexit at present depend upon too many variables for a definitive conclusion to be drawn.

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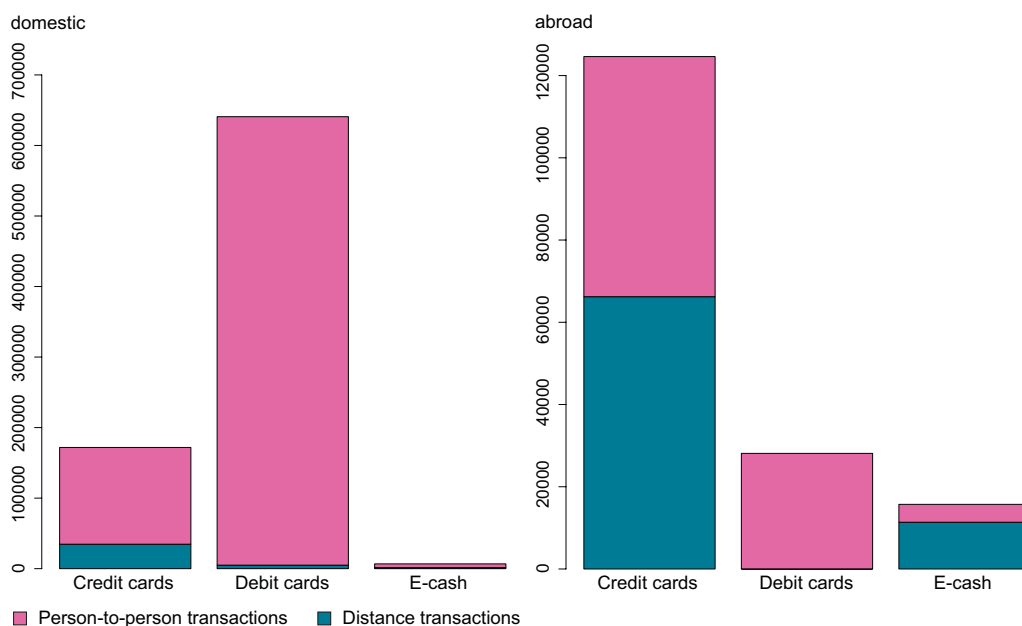
A Glance at the Payment Practices of Swiss Residents – Payments Abroad Continue to Increase

At least since the removal of the exchange rate floor, there has been much speculation regarding retail tourism by Swiss residents abroad. The survey concerning payments and cash withdrawals carried out by the Swiss National Bank (SNB) enables both structural and contingent conclusions to be drawn concerning the payment practices of Swiss residents both at home and abroad. Half of transactions paid for with Swiss credit cards abroad are concluded online. In addition, the effects of the increase in the value of the Swiss franc also stand out within foreign transactions.

Over the past years, the use of credit cards by Swiss residents for payments within the country has not been widespread. The proportion of payments made with a national

payment card (issued by a national bank, thus including both private and company cards) has been relatively constant over the years at around 20 per cent. Although the

G 5: Payment Transactions According to Card Type in 2015
(thousands)



(Source: SNB, own calculations)

use of debit cards is declining, most national payments continue to be settled by debit cards (around 78 per cent in 2015). Just under one per cent of national payments were made in 2015 using (national) e-cash.

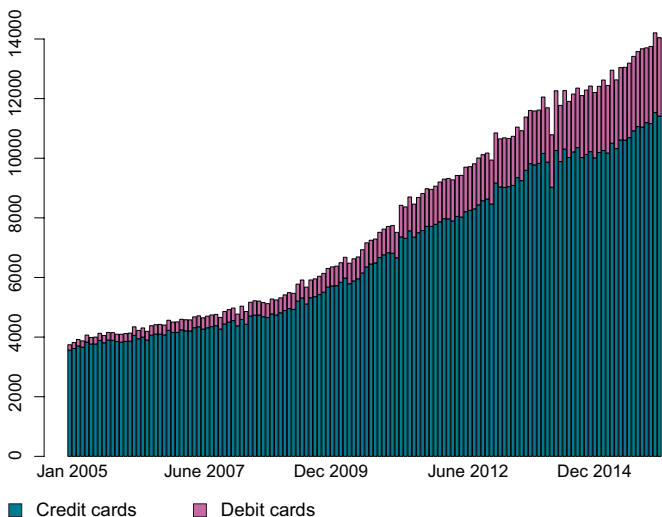
However, credit cards are being less widely used for foreign payments. Whilst around 94 per cent of payments (number of transactions) in 2005 were made with a national credit card, the figure in 2015 was just under 74 per cent. By contrast, debit cards (with a share of 17 per cent in 2015) are being used with increasing frequency along with e-cash, which accounted for more than nine per cent of payment transactions in 2015.

Most cash withdrawals abroad are still made using debit cards (74 per cent in 2015), whilst credit cards were used for just under 16 per cent. E-cash is also fairly important at 10 per cent.

Distance selling playing a significant role

The popularity of online shopping is also reflected by these figures. Since December 2014, payments have been subdivided depending upon whether they involve person-to-person or distance (online) selling. For distance transactions, credit cards account for around 53 per cent (2015) of the

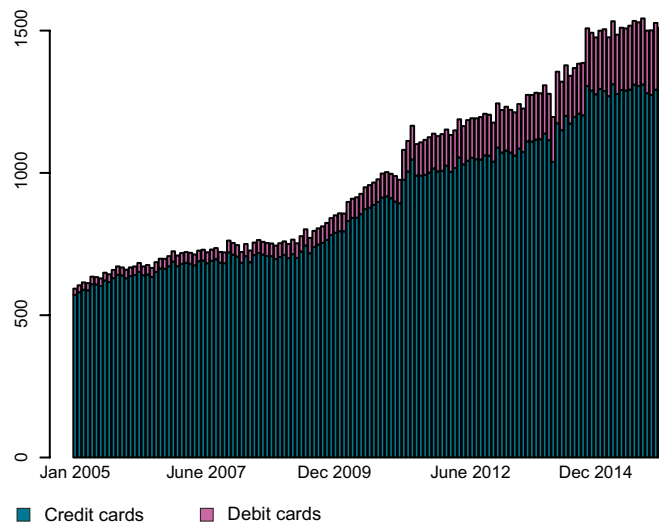
G 6: Payments Abroad with Credit and Debit Cards – Number of Transactions
(thousands)



(Source: SNB; KOF: seasonal adjustment)

(NB: E-cash cannot be represented as the time-scale for seasonal adjustment is too short.)

G 7: Payments Abroad with Credit and Debit Cards
(millions of euros)



(Source: SNB; KOF: converted into euros, seasonally adjusted, adjusted for Eurozone inflation)

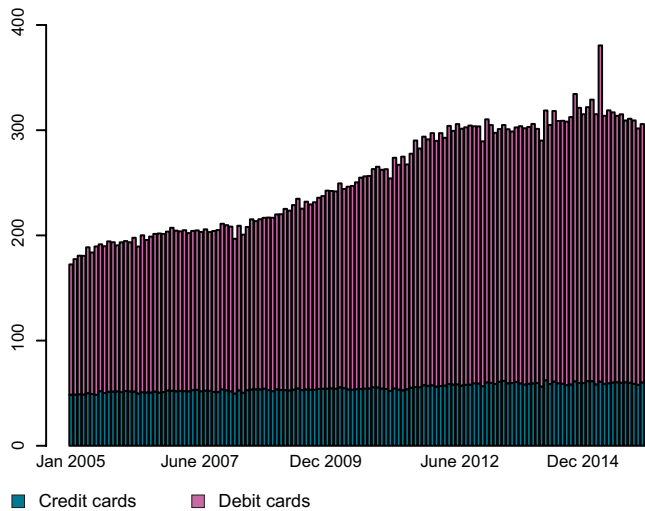
(NB: original figures in Swiss francs, converted into euros based on the assumption that most spending occurs in the Eurozone. E-cash cannot be represented as the time-scale for seasonal adjustment is too short.)

total number of payment transactions concluded abroad (see G 5). Within Switzerland the figure is a good 20 per cent. Since debit cards can only be used on a limited scale for online payments, their usage is only marginal, both nationally and abroad. E-cash is in turn mainly used abroad for distance transactions (72 per cent), although much less frequently in Switzerland (23 per cent).

The influence of the exchange rate on the number of transactions abroad

If the (seasonally adjusted) number of monthly payments abroad made using Swiss cards is considered (see G 6), in addition to the strong increase since 2009, a moderate upward shift is also apparent in June 2011, although not at the start of 2015. 2011 was characterised by a sharp increase in the value of the Swiss franc compared to the euro – comparable with the removal of the exchange rate floor at the start of 2015. However, the total amount of payments in millions of euros (converted into euros and adjusted for Eurozone inflation) also shows a significant increase in January 2015. Since then, the figure has stabilised at this level (see G 7). Since the removal of the exchange rate floor, Swiss residents have thus not been shopping significantly more abroad, although have been spending larger amounts abroad. In May 2014 payments

G 8: Cash Withdrawals Abroad with Credit and Debit Cards
(millions of euros)



(Source: SNB; KOF: converted into euros, seasonally adjusted, adjusted for Eurozone inflation)

(NB: original figures in Swiss francs, converted into euros based on the assumption that most spending occurs in the Eurozone. E-cash cannot be represented as the time-scale for seasonal adjustment is too short.)

made abroad appear to have been particularly low. This is probably due to the low bonus payments made in the spring of this year and the later holidays. For example, Ascension Day fell at the end of May, and the Pentecost public holiday in June.

Cash withdrawals made using Swiss cards abroad (in millions of euros, seasonally adjusted and adjusted for Eurozone inflation, see G 8) do not show any clear jumps,

although an upward trend since 2009 can be noted. However, a small peak was reached in January 2015, followed by a higher peak in July 2015. Thus, during the month in which the exchange rate floor was removed, particularly large withdrawals of cash were made abroad. Transactions abroad are generally particularly high in July as it is one of the most important holiday months in Switzerland. In July 2015 however, spending was significantly higher than in previous years. Nevertheless, the increasing trend of the past few years appears to have slowed overall. This could suggest that Swiss residents are using cards more frequently when abroad, rather than withdrawing cash. This means that the increase in foreign payments can probably be accounted for in part by structural changes in payment practices.

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International Stock Return Predictability: On the Role of the United States in Bad and Good Times

Are stock market excess returns in ten industrialised countries only predictable by means of lagged US stock returns? “It depends” would be the right answer. The claim stands the test in recession but not in normal times, as shown in a new KOF Working Paper.

There is a strong debate in empirical finance literature on whether stock market excess returns are predictable. For example, Welch and Goyal (2008, p. 1504), upon conducting a very comprehensive exercise testing of the most popular variables, which were considered to be good predictors of the excess stock returns in previous literature, conclude that “... most models seem unstable or even spurious”. Nevertheless, in a recent contribution to the discussion, Rapach et al. (2013) argue that lagged US stock market returns demonstrate a superior out-of-sample predictive ability of excess returns in stock markets of 10 industrialised countries (Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom) relative to a popular benchmark represented by the historical average.



The KOF working paper scrutinises the results of Rapach et al. (2013) in order to verify whether the documented superior forecasting performance of lagged US stock market returns is indeed stable during recession and expansion phases of the business cycle in the US. To this end, it first replicates the results reported in Rapach et al. (2013) for the whole forecast evaluation sample that spans the period January from 1985 to December 2010 and then evaluates the forecasting performance of lagged US returns separately for business cycle expansions and recessions,

using the business cycle chronology of the National Bureau of Economic Research (NBER). During the period in question, there were three recession periods characterized by the business cycle peaks in July 1990, March 2001 and December 2007 and the corresponding troughs in March 1991, November 2001 and June 2009.

The empirical results are summarised in Table T 1. It reports the values of out-of-sample measure of the goodness of fit R^2_{os} suggested in Campbell and Thompson (2008), as well as t-statistic and the corresponding p-values of the Clark and West (2007) test of equal predictive ability. Values for the whole forecast evaluation sample (January 1985 – December 2010) are reported for the sake of comparison with the results reported in Rapach et al. (2013, Table VII, columns (2) and (5)), as well as sub-periods defined by the recessionary and expansionary phases of the US business cycle according to the NBER chronology.

On the basis of Table T 1 several observations can be made. First, the findings of Rapach et al. (2013) were reproduced exactly. At a 10 per cent significance level, in nine out of 10 countries the predictive model augmented with the lagged US stock returns yields a statistically significant reduction in MSFE relative to the historical average model, according to the test of Clark and West (2007). Only for the United Kingdom the null hypothesis of equal predictive ability cannot be rejected. The estimated country-specific R^2_{os} is between -0.685 for Australia and 3.805 for the Netherlands. As mentioned in Rapach et al. (2013, p. 1656), six of the R^2_{os} values are above one per cent and thus can be interpreted as “economically sizeable”.

Second, the comparison of the R^2_{os} values reported for recessions and expansions reveals a striking difference both in terms of their magnitude and range. For recessions, the R^2_{os} takes values in the range between 4.275 for Japan and 13.152 for the Netherlands, and for expansions the range is between -3.058 for Australia and 0.698 for Sweden. None of the reported R^2_{os} values for the expansionary period is above one per cent, implying that also those that are positive cannot be interpreted as “economically

T 1: Assessing Predictive Ability of Lagged US Returns

	Whole sample ^a			Recessions			Expansions		
	R_{OS}^2 ^b	Clark and West (2007) (t-stat)	(p-value)	R_{OS}^2	Clark and West (2007) (t-stat)	(p-value)	R_{OS}^2	Clark and West (2007) (t-stat)	(p-value)
AUS	0.685	1.489	0.068	11.005	1.887	0.030	-3.058	0.559	0.288
CAN	1.304	2.357	0.009	12.866	2.534	0.006	-1.719	1.019	0.154
FRA	1.520	1.902	0.029	6.242	1.794	0.036	0.254	0.978	0.164
DEU	1.572	1.778	0.038	6.836	1.636	0.051	-0.053	0.920	0.179
ITA	0.918	1.540	0.062	6.708	2.383	0.009	-0.463	0.108	0.457
JPN	0.821	1.332	0.091	4.275	1.221	0.111	-0.455	0.605	0.273
NLD	3.805	2.617	0.004	13.152	2.692	0.004	0.578	1.227	0.110
SWE	2.900	2.249	0.012	10.231	1.770	0.038	0.698	1.493	0.068
CHE	2.639	2.453	0.007	11.891	2.510	0.006	0.458	1.309	0.095
GBR	0.286	0.973	0.165	5.652	1.828	0.034	-1.013	0.248	0.598

^a The forecast evaluation sample is 1985M1-2010M12. The reported results exactly replicate those in Rapach et al. (2013, Table VII, columns (2) and (5)). The whole sample is split into the periods defined as a recession by NBER and the expansion periods.

^b R_{OS}^2 is the out-of-sample R^2 statistic (Campbell and Thompson, 2008) which measures proportional reduction in MSFE of the benchmark model (Equation (2)) relative to the model augmented with lagged U.S. stock returns (Equation (1)). The test of Clark and West (2007) is used for testing the null hypothesis of equal forecast accuracy between nested models.

sizeable". The Clark and West (2007) test statistic is significant at the five per cent level in nine out of 10 countries for recessions, rejecting the null hypothesis of equal forecast accuracy in favour of the model with the lagged US stock returns for these nine countries. On the contrary, the null hypothesis of equal forecast accuracy can only be rejected at the 10 per cent level during expansions for Sweden and Switzerland.

These results lead to the following conclusions: There is a strong asymmetry in the predictive ability of the lagged US returns during recessions and expansions, with most evidence supporting predictability of international stock markets found during recessions. During the periods of US expansions, there is very little, if any, statistical evidence on the superior forecasting performance of the model augmented with lagged US stock returns over that provided by

a historical mean model. We conclude that the evidence reported in Rapach et al. (2013) is fragile with respect to the forecast evaluation period. The results are more in line with those of Welch and Goyal (2008).

You can find the references of the quoted papers on:
www.kof.ethz.ch/en →

The KOF Working Paper No. 408 "International Stock Return Predictability: On the Role of the United States in Bad and Good Times" Boriss Siliverstovs can be found under:
www.kof.ethz.ch/en/publications/kof-working-papers.ch →

KOF INDICATORS

KOF Business Situation: Once Again Improved

In August, the KOF Business Situation Indicator for the Swiss private economy rose for the second consecutive time (see G 9). Since the “Brexit” vote, the Business Situation Indicator has had an upward tendency. This means that Swiss companies currently see little effect from the British vote. In fact, the gradual recovery of the Swiss economy is continuing.

In August, the business situation improved particularly in the construction sector and the banking and insurance sector (see G 10). Project engineering companies, the manufacturing industry and the retail sector also recorded a slight plus, providing the general improvement with a broad basis. Wholesalers, hotel and catering enterprises and the other service providers were last surveyed in July. At the time, the sectors were following very different trends. While the business situation improved greatly in the wholesale sector and significantly in the service sector, the hotel and catering industry reported a substantial setback.

From a regional perspective, August presents a rather heterogeneous picture: The business situation improved in North-West Switzerland, the Zurich region, Central Switzerland and Ticino (see G 11). In contrast, Eastern Switzerland and the Lake Geneva region reported a slight

G 9: KOF Business Situation Indicator
(balance, seasonally adjusted)



G 10: KOF Business Situation: Change in Different Sectors



slow-down and Espace Mittelland a somewhat more noticeable setback. However, the slight decline in Eastern Switzerland and the Lake Geneva region should be seen against the background of the significant improvement in the preceding months.

G 11: KOF Business Situation in the Private Sector



The angle of the arrows reflects the change in the business situation compared to the previous month

Source: KOF

Net balances

55 to 100	30 to under 55	16.5 to under 30
9 to under 16.5	5 to under 9	-5 to under 5
-9 to under -5	-16.5 to under -9	-30 to under -16.5
-55 to under -30	-100 to under -55	

Explanation of Graphs

Graph G 9 presents the KOF business situation across all sectors covered by the survey. The business situation in sectors which are surveyed on a quarterly basis is kept constant during the intervening months.

Graph G 10 presents the business situation and the current changes. In the case of the monthly surveys, the changes over the previous month are highlighted. In the case of the quarterly surveys, the changes between the latest quarterly

value and the previous quarter are marked. The quarterly values are updated in the first month of every quarter and are not adjusted during the intervening months.

Graph G 11 presents the business situation in the main regions according to the Federal Statistics Office. The regions are coloured according to business situation. The arrows in the regions indicate the change in the business situation compared to the previous month. An upward-pointing arrow, for instance, indicates that the situation has improved over the previous month.

The KOF business situation is based on more than 4,500 reports from businesses in Switzerland. Each month businesses are surveyed in the economic sectors of industry, retail trade, construction, project engineering and financial and insurance services. Businesses in the hotel and catering sector, wholesalers and other service providers are surveyed quarterly in the first month of each quarter. Businesses are requested, amongst other things, to assess their current business situation. They may class their situation as “good”, “satisfactory” or “bad”. The balance of the current business situation is the percentage difference between the answers “good” and “bad”.

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You can find more information about the KOF Business Tendency Surveys on our website:
www.kof.ethz.ch/en →

KOF Economic Barometer: A Dip Below the 100 Points Level

The KOF Economic Barometer, with a current reading of 99.8, showed a drop of 3.7 points in August 2016 (from revised 103.5 in July) (see G 12). The Barometer fell just below its long-term average for the first time since December 2015. The outlook for the Swiss economy is less upbeat than one month ago, returning to its long-term average path.

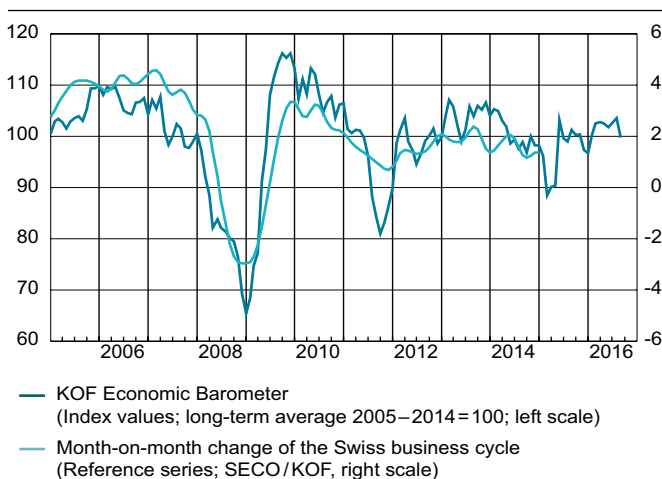
In August 2016, the KOF Economic Barometer, with a new reading of 99.8 points, dipped just below its long-term mean value. Compared to the previous month, the deteriorating outlook in the Swiss manufacturing, banking and tourism sectors as well as international business situation account for the recorded overall drop of 3.7 points in the value of the Barometer. These negative tendencies are slightly mitigated by the indicators capturing positive tendencies in domestic consumption and construction sectors.

Within the manufacturing sector, the worsening outlook is visible in all (electrical, wood- and metal-processing, textile, machine-building and special) but three industries (chemical, food-processing and paper). For the chemical and food-processing industries the outlook remained largely unchanged whereas for the paper industry the outlook actually improved. The deterioration of sentiment in manufacturing as a whole is primarily reflected in the assessment of incoming orders and in the assessment of the overall business climate.

KOF Economic Barometer and reference time series: annual update

This annual update concerns the following stages: redefinition of the pool of indicators that enter the selection procedure, update of the reference time series, a new execution of the variable selection procedure and a technical adjustment of how to cope with missing monthly values of quarterly variables. Compared to 479 indicators that entered the variable selection procedure in October 2014, the current pool comprises 420 indicators due to elimination of KOF surveys related to prices and monthly changes in inventories. The updated reference series is the smoothed continuous growth rate of Swiss GDP according to the new System of National Accounts ESVG 2010, released at the end of August 2015, which takes into account the release of the previous year's annual Gross Domestic Product (GDP) data by the Swiss Federal

G 12: Economic Barometer and Reference Series



Statistical Office. As a result of the indicator variable selection procedure, the updated KOF Economic Barometer is now based on 238 indicators (instead of 217 as in the previous vintage) that are combined using statistically determined weights. Last but not least, with this annual update we introduce a slight modification of how the variables observed at only the quarterly frequency are treated when computing the Barometer. Instead of freezing those values until the next quarterly release is available, we now implement a statistical procedure to interpolate data values for these variables using the information contained in all other variables that are available at monthly frequency.

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www.kof.ethz.ch/en →

AGENDA

KOF Events

KOF Wirtschaftsforum

mit Vorträgen von Josef Widmer, Stellv. Direktor, Staatssekretariat für Bildung, Forschung und Innovation, SBFI und Dr. Thomas Bolli, Forschungsbereich Bildungssysteme, KOF
ETH Zürich, Donnerstag, 8. September 2016, 16.15 Uhr
www.kof.ethz.ch/en/news-and-events/event-calendar-page/kof-wirtschaftsforum.ch →

KOF Prognosetagung Herbst 2016

Die schweizerische Wirtschaftsentwicklung bis 2018
Gastreferent: Prof. Clemens Fuest, Präsident ifo Institut, München
ETH Zürich, Donnerstag, 6. Oktober 2016, 17.15 Uhr
www.kof.ethz.ch/en/news-and-events/event-calendar-page/kof-prognosetagung.ch →

KOF Research Seminar:

Can Regional Trade Integration Lead to Spatial Deconcentration?

Alexander Himbert – Université de Lausanne
ETH Zurich, 21 September 2016

Identification and Estimation of Dynamic Factor Models

Matei Demetrescu – Kiel University
ETH Zurich, 28 September 2016

Did the Swiss Exchange Rate Shock Shock the Market?

Gregor von Schweinitz – Halle Institute for Economic Research (IWH)
ETH Zurich, 5 October 2016

tba

Sandra Eickmeier – Bundesbank
ETH Zurich, 10 October 2016

Eric Verhoogen – Columbia University
ETH Zurich, 19 December 2016

Jean-Robert Tyran – University of Vienna
ETH Zurich, 18 January 2017

Alfonso Flores-Lagunes – Syracuse University
ETH Zurich, 15 March 2017

David Weinstein – Columbia University
ETH Zurich, 12 April 2017

www.kof.ethz.ch/en/news-and-events/event-calendar-page/kof-research-seminar.ch →

KOF-ETH-UZH International Economic Policy Seminar:

tba

Samuel Kortum – Yale University
ETH Zurich, 22 September 2016

Regional Banking Instability and FOMC Voting

Stefan Eichler – University of Hannover
ETH Zurich, 24 November 2016

tba

Alex Whalley – University of California
ETH Zurich, 15 December 2016

Mary Amiti – Federal Reserve Bank of New York
ETH Zurich, 13 April 2017

www.kof.ethz.ch/en/news-and-events/event-calendar-page/kof-eth-uzh-seminar.ch →

Conferences/Workshops

You find current events and workshops under the following link:

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KOF Publications

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www.kof.ethz.ch/en/publications.ch →

TABLE KOF SUMMER FORECAST 2016

SWITZERLAND

Real Gross Domestic Product by Type of Expenditure																
Percentage change against																
	2006-2014	previous quarter (annualized, trend cycle component)												previous year		
		2015				2016				2017				2015	2016	2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Private consumption	1.7	0.8	1.0	1.2	1.5	1.9	1.8	1.5	1.4	1.4	1.5	1.4	1.4	1.1	1.6	1.4
Public consumption	1.0	3.4	1.7	1.5	1.5	2.2	2.2	1.0	0.1	0.6	0.7	0.2	0.5	2.4	1.5	0.8
Gross fixed capital formation	1.9	2.1	2.3	0.0	-0.2	2.6	3.5	0.7	-1.5	-0.9	0.3	0.7	4.0	1.5	1.4	0.3
– Construction	1.6	-1.3	-2.8	-3.7	-0.3	4.2	3.9	1.8	0.3	-0.3	0.2	1.4	1.9	-1.2	1.4	0.7
– Machinery and equipment	2.0	3.8	4.8	2.1	-0.5	1.7	2.7	-1.9	-2.7	0.5	1.6	0.5	5.3	3.4	1.4	0.0
Exports of goods (1) and services	3.6	1.3	4.8	5.8	5.1	3.5	1.4	0.7	2.4	3.3	3.7	2.9	3.1	2.0	3.5	2.7
– Goods	3.3	-4.3	-0.4	6.6	11.4	7.9	0.3	0.3	3.2	4.2	4.4	4.0	3.8	0.6	5.4	3.2
– Services	3.0	-1.0	0.6	-0.6	-3.6	1.2	3.8	0.9	1.8	2.3	1.8	1.7	1.9	0.2	0.9	1.8
Imports of goods (1) and services	3.3	-1.1	-2.0	2.9	8.6	7.6	4.7	2.5	2.0	4.1	3.8	2.0	2.8	1.6	4.9	3.2
– Goods (1)	2.6	-5.1	-6.3	1.6	11.7	8.3	4.2	3.6	2.7	5.2	4.7	2.2	3.3	-1.3	4.9	4.0
– Services	5.1	6.7	5.1	5.2	3.5	6.6	5.4	1.0	0.9	1.6	1.8	1.9	1.9	7.4	4.8	1.6
Change in stocks (2)	0.2	-1.6	-4.5	-2.5	-0.2	-0.8	-0.5	1.3	1.1	1.4	0.7	0.1	-0.3	-0.8	-0.9	0.9
Gross Domestic Product (GDP)	2.0	0.6	-0.1	0.3	0.8	1.2	1.3	1.6	1.9	2.0	2.1	1.9	2.0	0.9	1.0	1.9

(1) Without valuables (i.e. precious metals including non-monetary gold, precious stones and gems as well as objects of art and antiquities)

(2) Percentage contribution to GDP-growth

Other Macroeconomic Indicators																
Percentage change against																
	2006-2014	previous quarter												previous year		
		2015				2016				2017				2015	2016	2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real effective exchange rate of CHF (1)	1.5	38.3	7.4	-11.4	-6.3	-2.3	-2.0	-5.7	0.0	0.1	-2.1	-3.5	0.4	7.0	-3.9	-1.7
Short term interest rate (3-month Libor CHF) (2)	0.8	-0.7	-0.8	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.7	-0.7
Yield of 10 years federal bonds (2)	1.8	0.0	0.0	-0.1	-0.2	-0.4	-0.3	-0.2	-0.1	-0.1	0.0	0.1	0.2	-0.1	-0.3	0.1
Consumer prices (3)	0.4	-0.7	-1.1	-1.4	-1.4	-1.0	-0.4	-0.2	0.0	0.2	0.1	0.2	0.3	-1.1	-0.4	0.2
Full-time equivalent employment (4)	1.5	1.4	0.5	-0.2	-0.6	-0.2	0.4	0.7	0.5	0.5	0.5	0.7	0.9	0.8	0.0	0.6
Unemployment rate (2,5)	3.0	3.2	3.3	3.3	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.3	3.5	3.6

(1) Annualized

(2) Level

(3) Same quarter of previous year

(4) Smooth components annualized

(5) Unemployed as percentage of labour force according to census of 2010

GLOBAL ECONOMY

Percentage change against																
	2006-2014	previous quarter (annualized, seasonal adjusted)												previous year		
		2015				2016				2017				2015	2016	2017
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real Gross Domestic Product (GDP)																
– OECD total	1.3	2.0	2.4	2.0	0.9	1.7	1.8	1.7	1.8	1.8	1.8	1.7	1.8	2.0	1.7	1.8
– European Union (EU-28)	0.8	2.4	1.8	1.5	1.6	2.5	1.2	1.4	1.7	1.6	1.7	1.6	1.6	1.9	1.7	1.6
– USA	1.3	0.6	3.9	2.0	1.4	0.8	2.8	2.4	2.2	2.4	2.3	2.2	2.2	2.4	1.9	2.3
– Japan	0.5	5.2	-1.7	1.7	-1.8	1.9	1.0	0.9	1.0	0.9	1.0	1.1	1.2	0.5	0.6	1.0
Oil price (\$ per barrel) (1)	89.8	54.0	62.1	50.0	43.4	34.5	47.0	50.1	50.3	50.5	50.8	51.1	51.3	52.4	45.5	50.9

(1) Level

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