



# KOF Bulletin

No. 101, November 2016

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# EDITORIAL

Dear readers,

The Swiss economy appears to have survived the shock resulting from uncertainty due to the removal of the exchange rate floor. Both the KOF Business Tendency Surveys for October as well as the KOF Economic Barometer suggest this finding. The Business Situation Indicator for the Swiss private sector, calculated on the basis of KOF surveys, rose in October for the fourth time in a row. Confidence amongst businesses in future growth has also risen. The increased confidence is apparent in the fact that economic uncertainty in Switzerland has fallen, according to various KOF indicators. The same also applies for the USA. In spite of a messy presidential election campaign, uncertainty in the USA has fallen and the economic outlook is positive. On the other hand, the situation remains uncertain for many young persons on European labour markets, as is shown by the latest Youth Labour Market Index (KOF YLMI). Once again, Switzerland scores well on the survey, coming in second behind Denmark in terms of the integration of young persons into the labour market. On the other hand, the situation for Swiss tourism is rather less comfortable, as is shown by the half-year forecast.

We hope you find the articles informative!

David Iselin, Anne Stücker and Solenn Le Goff

# ECONOMY AND RESEARCH

## KOF Business Tendency Surveys of October 2016: Situation Is Picking Up



**In October, the KOF Business Situation Indicator for the Swiss private economy rose for the fourth consecutive time (see G 1). It looks as if the recovery of the recent summer months will continue. Companies are also more confident with respect to their future development. Business expectations for the coming six months are more positive than they were in the middle of the year. The Swiss economy is carried along by a modest but steady tailwind.**

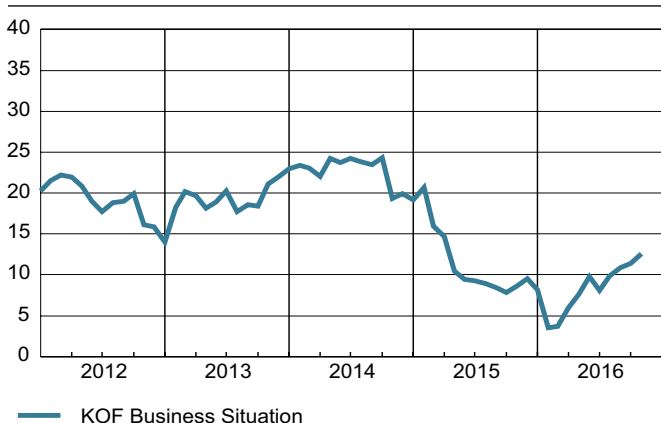
### **Development by economic sector**

In October, the business situation improved in the majority of the industries under review. The Business Situation Indicator rose in the manufacturing, construction, retail and wholesale industries as well as the banking and insurance sector and the hotel and catering industry. All in all, the increase of the Business Situation Indicator has a relatively broad basis. While project engineering offices experienced little change in their business situation compared to the previous month, and other services are slowing down their upward tendency, their situation remains nevertheless predominantly positive.

### **Business situation by region**

From a regional perspective, October presents a heterogeneous picture (see G 2). In North-West Switzerland, the situation improved considerably. On top of this, the business situation has also picked up in the Lake Geneva region, Central Switzerland, the Zurich region and Ticino, which still remains at the bottom of the league. In contrast, the situation in Eastern Switzerland did not quite reach the previous month's level and Espace Mittelland reported a slight downturn. In the year-on-year comparison, Espace Mittelland is also the only region that reported a noticeable deterioration of its business situation in the last 12 months.

**G 1: KOF Business Situation Indicator**  
(balance, seasonally adjusted)



**Recovery in the manufacturing industry and the construction sector**

The business situation in the manufacturing industry continued to improve. All in all, the companies now consider the situation just about satisfactory, which is substantially better than last October. The latest progress in the business situation is predominantly due to the reports of the export-oriented companies. Complaints about the situation have declined considerably. Although the assessment has improved, order books and production are still seen as weaker than a year ago. Nevertheless, pressure to discount prices has diminished compared to the previous year and the erosion of margins is slowing down. Even so, the companies are not yet in a position to regain pricing power and raise prices. This is also reflected by the degree of capacity utilisation: At 81%, utilised capacity is still below average. On top of this, many companies still report insufficient demand. Other potential impediments, such as financial restrictions or labour shortages, are not playing a major role at the moment. In regard to further development, the companies are still moderately optimistic. They expect a slight increase in incoming orders and plan for a cautious increase of production.

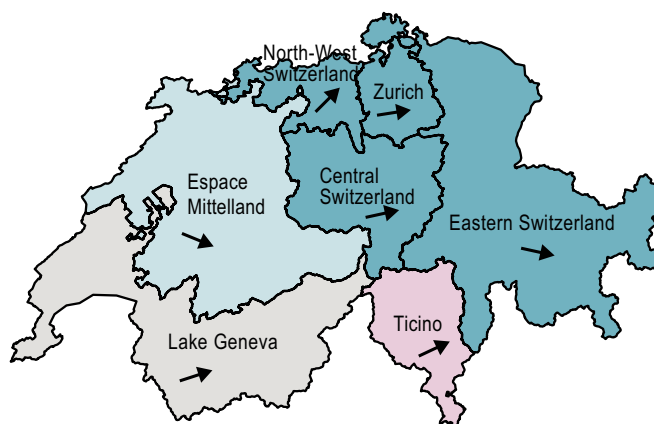
The construction-related building trades and project engineering sector reported no change in their business situation, which they still consider predominantly favourable. In the building trades, the situation even improved to some extent in October. Both construction-related sectors are confident in regard to the business trend in the coming six months. Reports of insufficient order books

have diminished among building companies. Machine utilisation has increased and companies plan to generally maintain their present staff numbers in the coming three months. Construction prices, however, are still in a downward spiral. Accordingly, the profit situation has suffered considerably. Although this trend should level off to some degree, construction companies are somewhat sceptical when it comes to their future earnings trend. Project engineering offices recorded a further rise in demand in the past three months and are hoping that this trend will continue in the coming quarter. Their fees are, however, still under pressure. Even so, the profit situation among project engineering offices in general is almost stable.

**Retail more hopeful, situation in hotel and catering sector picking up**

The business situation in the retail trade improved for the third consecutive time. Nonetheless, the situation is still predominantly unsatisfactory. Sales volumes have declined further and retailers once again report fewer customers than in the previous year. Accordingly, the profit situation is under pressure. Nevertheless, there is new hope among retail businesses who expect a significant increase in turnover and a deceleration of the price decline. In the wholesale trade, the business situation improved further and the profit situation remained stable. Although wholesale

**G 1: 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	

**T 1: KOF Business Situation for Switzerland (seasonally adjusted balances)**

	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16
<b>Private sector (overall)</b>	8.6	9.6	8.1	3.6	3.7	6.0	7.6	9.8	8.1	9.9	10.9	11.4	12.6
<b>Manufacturing</b>	-16.5	-13.6	-12.4	-13.3	-13.6	-10.0	-7.4	-5.8	-3.4	-8.5	-7.8	-7.5	-3.9
<b>Construction</b>	24.8	31.7	26.1	24.3	27.7	26.0	24.8	22.1	22.7	24.0	27.2	23.2	25.5
<b>Project engineering</b>	48.4	47.3	45.5	46.9	46.4	45.6	45.4	46.7	44.0	45.5	46.2	45.8	45.3
<b>Retail trade</b>	-8.6	-9.2	-12.2	-11.5	-11.4	-5.9	-9.0	-11.4	-9.8	-12.8	-11.8	-9.4	-8.5
<b>Wholesale trade</b>	-11.3	-	-	-17.0	-	-	-7.4	-	-	3.5	-	-	5.2
<b>Financial services</b>	27.1	29.0	18.8	10.1	17.0	21.5	18.3	26.1	14.4	18.2	23.1	23.7	25.5
<b>Hotel and catering</b>	-16.2	-	-	-20.9	-	-	-16.4	-	-	-21.7	-	-	-19.9
<b>Other services</b>	26.9	-	-	20.8	-	-	20.4	-	-	24.0	-	-	22.6

Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of "good" answers minus the percentage of "bad" answers.

Source: KOF Business Tendency Surveys

businesses are once again expecting price cuts, they also hope that demand for their services will pick up. Nonetheless, they plan to reduce staff numbers.

Following a slight downturn in the previous quarter, the situation in the hotel and catering industry has once again improved (see T 1). In some way, the hotel and catering sector is treading water. At present, the business situation is nearly as unfavourable as at the beginning of the year. The current deterioration is predominantly due to the assessments of businesses in the big cities. In the mountain regions, the situation is improving and in the lake regions, it is at least stable. Although both the downward trend in demand and the erosion of the profit situation have slowed down recently, pressure to cut prices has increased once more. The companies hope that this will put a halt to the decline in demand. A breakdown into catering and hotel businesses shows that the situation in the hotel sector is no longer as unfavourable as it was a few months ago. The occupancy rate has risen substantially and declining turnover is now a rare occurrence. The situation in the catering sector is unsatisfactory. To some degree, this dissatisfaction reflects the unfavourable weather in early summer. Restaurateurs hope that demand will recover to some degree in the near future and that sales of food and drinks will not decline any further.

### **Banks and insurance companies report improved situation, other service providers less satisfied**

In October, banks and insurance companies reported a slightly better business situation than in the previous month. Three months ago, the situation in this sector was not as favourable as it is now. The profit situation remained almost stable with institutes expecting a negative earnings trend in the near future due to rising operating expenses. Banks assess their business with domestic customers as good and their business with foreign customers as just about satisfactory. This indicates a noticeable improvement of their foreign customer business. In regard to domestic customers, the respondents reported more lively private customer demand while demand among institutional clients increased only marginally. Banks are still sceptical when it comes to the interest margin trend, while commission rates are unlikely to change much. Insurance companies hope for a rise in operating income in the next few months, not least because they expect a slowdown in the decline of net income from capital investments.

The other service providers reported a slight downturn of their business situation. However, all in all the situation remains predominantly favourable and slightly better than in the first half of 2016. Demand has picked up further and skills shortages are on the rise. The transport, information and communication segments, in particular, are slowly working their way out of the slump. The situation in the business support service sector is almost stable. Even so, rising demand could not prevent a rather negative profit situation trend in these two service segments.

The results of the current KOF Business Tendency Surveys of October 2016 are based on the answers of over 4,500 companies in industry, construction and the main service sectors. The response rate was approximately 56%.

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

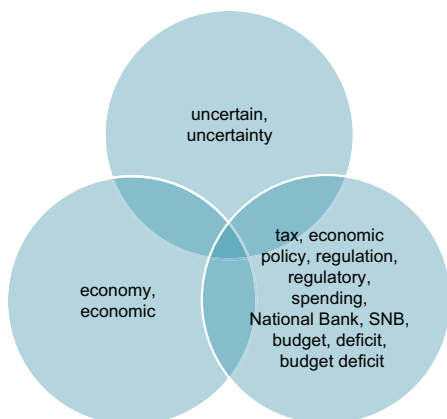
## Measuring Uncertainty

**There are a number of indications that uncertainty has a negative effect on economic development. How can this be measured? As part of a project promoted by the Swiss National Science Foundation (SNSF), the KOF calculates various uncertainty indicators for Switzerland.**

If one were to sum up the current emotional state of the Western world in one word, then “uncertainty” would be a strong candidate for the most suitable description. Uncertainty, or general insecurity, comes in the form of referendums such as the Brexit vote, the chaos of war in the Near East, so-called IS or elections such as the upcoming US presidential contest. Subjectivity and expectations play a

major role. Feelings of uncertainty also have negative economic impacts: consumers wait before deciding whether to spend, firms defer investments and the hiring of new staff. However, the precise definition of uncertainty is extremely vague, as is the way in which it can be quantified. For this reason, in a research project financed by the Swiss National Science Foundation (SNSF), the KOF is investigating how economic uncertainty can be defined and measured.

**G 3: Keywords Economic Policy Uncertainty Indicators**



The Economic Policy Uncertainty Indicator covers uncertainty in the media. The number of articles containing at least one word from the groups of words listed (searches carried out for lower-case words) is divided by the total number of articles published. The indicator for Switzerland is based on newspaper articles from the “Neue Zürcher Zeitung” and “Le Temps” and has been compiled since the year 1900.

In English (as in German), uncertainty clearly has negative connotations. We associate an increase in uncertainty with a rise in the likelihood that the outcome of an event may turn out to be less favourable than expected. In the economic sphere, uncertainty also relates to our expectations. However, economists define it as the variance in our expectations, in the sense that from an economic perspective, an increase in uncertainty raises not only the likelihood of an outcome that is worse than expected, but also of one that is better than expected. This means that an increase in uncertainty also offers opportunities.

Economic actors such as consumers and businesses constantly make decisions and continuously adjust their practices and activities to changing circumstances. On the one hand, businesses and consumers react to actual events: the receipt of an order is normally followed by production



and a pay cut normally by reduced consumption. However, as well as reacting to events that have actually occurred, we also react to events that have not yet taken place. A business whose main competitor withdraws from the market will presumably increase its own production in order to be able to deal with any increase in demand. Although the higher demand has not yet arisen for the business, it will start to prepare for the expected increase in demand. This means that we react to changing expectations. In addition, we also react to changes in the variance of our expectations, in the sense that our actions are influenced by changing uncertainty.

Scientific studies show that rising uncertainty can make businesses and consumers more cautious. Businesses decide not to invest and hire staff, whilst consumers spend less. On the level of the economy as a whole, this means that increased uncertainty leads to lower employment and reduced investment. In addition, aggregate private consumption also falls. Uncertainty thus has tangible effects on the real economy.

The causes of uncertainty may often be found in political decisions. Although factors such as natural disasters or terrorist attacks also increase general uncertainty, a major element of uncertainty is rooted in politics. The Brexit referendum in the UK, the initiative against mass immigration in Switzerland or the decision by the Swiss National Bank to remove the exchange rate floor are all examples of how political decisions lead to increased uncertainty.

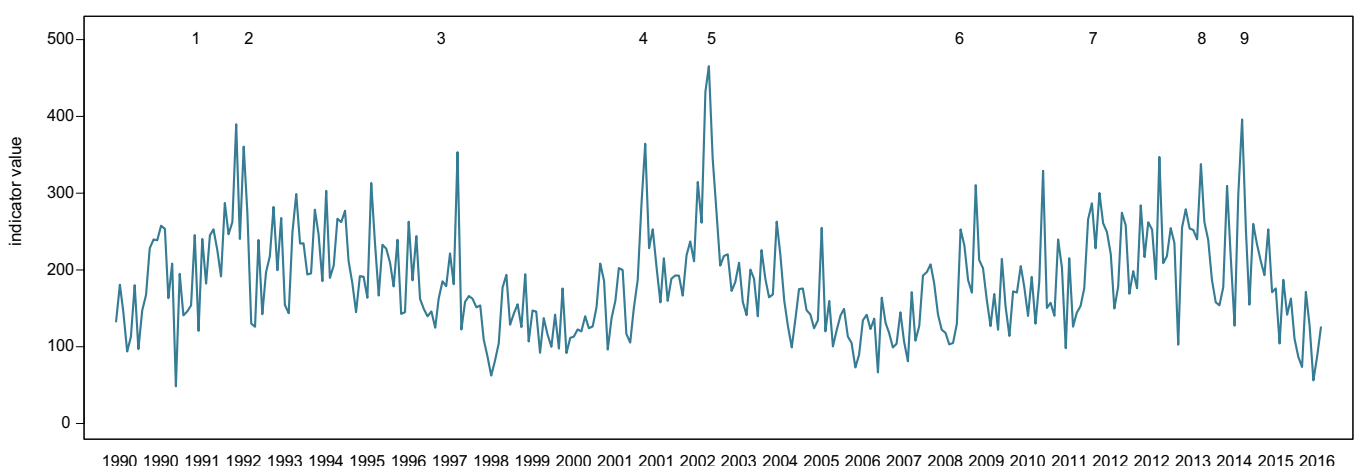
### So how can uncertainty be measured?

Many indications suggest that uncertainty is generally harmful. How can this be measured? In order to minimise uncertainty and to be able to react appropriately to a sudden uncertainty shock, suitable indications are required that can measure the fleeting notion of uncertainty. Various yardsticks have been discussed in the scientific literature: a common indicator of uncertainty tracks the discrepancy between the expectations of businesses over time when questioned in surveys. Further examples include financial market volatility measurements (e.g. the so-called VIX or VSMI), the distribution of forecasting errors by businesses or the discrepancy between the forecasts of professional analysts. At present, the proposal of gauging uncertainty with reference to the number of newspaper articles that use a particular combination of words is given greater credit.

### Uncertainty in the media

The KOF has recently started calculating all of these uncertainty indicators for Switzerland, as part of an SNSF project. One of the most significant uncertainty indicators is the Economic Policy Uncertainty Index, which is based on newspaper articles. This indicator is premised on the idea of counting newspaper articles that contain the words uncertainty and economy along with economic policy terms such as taxes, regulation or budget (see G 3). The indicator attempts to portray the perceived uncertainty of an economy and is based on the assumption that newspapers reflect the general mood (sentiment) of the population.

**G 4: Economic Policy Uncertainty Index for Switzerland over the Last 25 Years**



1 Collapse of Spar- und Leihkasse Thun (SLT)  
 2 Referendum European Economic Area (EEA)  
 3 Asian Financial Crisis 1997  
 4 September 11, 2001  
 5 Iraq War

6 Lehman Brothers  
 7 Introduction lower ceiling Swiss franc  
 8 Anti mass immigration initiative  
 9 Abandoning lower ceiling Swiss franc



The intuitive approach, the immediate availability of data and the long series of historical data make this indicator particularly attractive from an economic perspective. The KOF calculates the Economic Policy Uncertainty Index for Switzerland on a daily basis and publishes indicator figures dating back to 1900. The indicator is based on newspaper articles from the “Neue Zürcher Zeitung” and “Le Temps”, whilst also drawing on articles from “La Gazette de Lausanne”, “Le Journal de Geneve” and “Le Nouveau Quotidien” for the pre-1998 period.

Initial results indicate that a wide array of events over the last 25 years has led to an increase in uncertainty in Switzerland (see G 4). It is apparent that above all the real estate crisis at the start of the 1990s, the 2003 Iraq war and the removal of the Swiss franc exchange rate floor at the start of 2015 led to an increase in uncertainty. However, the Economic Policy Uncertainty Indicator, which is measured against reports of uncertainty in the “Neue Zürcher Zeitung” and in “Le Temps”, suggests that uncertainty has levelled out again to some extent over the last few months. Other indicators likewise do not point to an alarming level of uncertainty. This can therefore reassure us somewhat from an economic perspective, which should hopefully also result in a cooling of social, political and civic hysteria surrounding uncertainty.

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## Robust Upswing in the USA

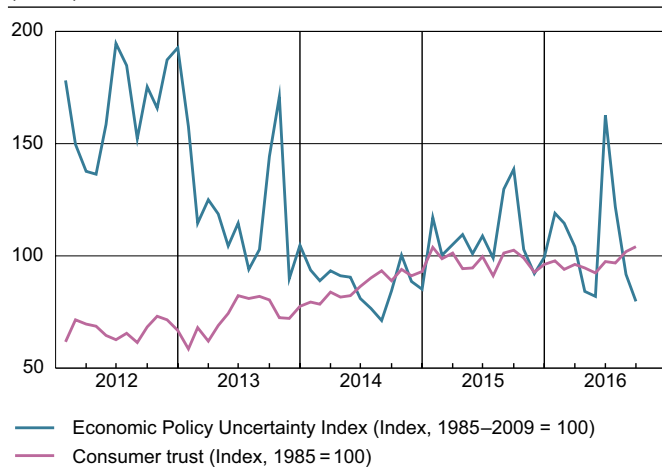
**On 8 November 2016 a new President will be elected in the USA. Throughout the protracted and often controversial election campaign, questions of economic policy have only occasionally been at the forefront – in spite of the strongly divergent standpoints of the candidates. At present, opinion polls suggest that Hillary Clinton will be elected, which would result in a continuation of current economic policy. Although the election result is to some extent uncertain, the economic implications are expected to be minor.**

Uncertainty regarding future economic development has a negative effect on investment and consumer spending. Continuity within economic policy thus provides a major contribution to a robust economic growth dynamic. Uncertainty regarding the election results is significant, in particular given the strong political differences between the candidates. For example, the current election campaign has been marked by strong differences of opinion regarding the future direction of fiscal policy as well as social and labour market policy. On the other hand, there is greater overlap between their views on foreign policy, at least regarding the somewhat critical stance towards new free trade agreements.

Most opinion polls and market expectations currently suggest that Hillary Clinton will be elected and that current economic policy will generally continue. Indeed, the implementation of questionable home affairs election promises would in most cases meet with resistance in Congress. This starting point focused on continuity is also apparent within uncertainty and confidence indicators. The Economic Policy Uncertainty Index (see also the contribution on “Measuring uncertainty”), which measures the frequency of the recurrence within newspapers of terms associated with economic uncertainty, is currently at a comparably low level (see G 5). The purchasing managers’ index of the Institute for Supply Management, a reliable early indicator for the US



**G 5: Economic Policy Uncertainty Index and Consumer Trust**  
(Index)



economy, is also expanding, unconcerned by the political uncertainty. Consumer confidence as surveyed by the Conference Board currently suggests good consumer sentiment, whilst on the other hand the sub-indicator focusing on the future points to somewhat more muted expectations.

#### Steady economic development

Uncertainty regarding the election result rose somewhat over the summer months, as Donald Trump was consistently able to chip away at his opponent's lead in opinion polls. However, the economic certainty this created had barely any effect on the economy. The robust recovery in the US economy is continuing. According to initial estimates by the Bureau of Economic Analysis, overall economic production in quarter 3 of 2016 grew by an annualised rate of 2.9 per cent compared to the previous quarter. The unemployment rate is at present 5 per cent, thus close to full employment. In addition, the share of people in work or looking for work has stabilised at around 63 per cent of the working-age population, which is regarded as a positive sign by the US central bank, the Federal Reserve (Fed), taking account of demographic changes.

The dynamic labour market is gradually slowing salary growth, which is soon expected to put prices under pressure. The diminishing base effects of earlier falls in commodity prices are already leading to increases in inflation. Thus, the year-on-year change in the consumer price index most recently lay at 1.5 per cent whilst the core inflation rate in September, without energy and unprocessed foods, amounted to 2.2 per cent. The creeping inflation and the good employment outlook are expected to confirm the Fed's view that the target range for the Federal Funds Rate should be increased to between 0.5 and 0.75 per cent by the end of the year.

#### Close trading links between Switzerland and the USA

Since the United States represents an important sales market for Swiss exporters, stable expansion is also of major significance for Switzerland. Thanks to the comparatively robust economic development in the USA, demand for Swiss goods since the financial crisis has doubled in nominal terms. According to the Direction of Trade Statistics of the International Monetary Fund for 2015, Swiss companies shipped goods across the Atlantic worth more than 30 billion US dollars, accounting for around 9 per cent of total exports. Thus, after Germany, the USA is the second most important sales market for exported goods. In addition, around 45 per cent of the Swiss balance of trade for goods is earned with the USA.

Over the last few years, chemical products, including in particular drugs and other pharmaceutical products, have accounted for almost one half of goods exported to the USA. The widely diversified machinery exports make up a proportionally shrinking share, which however with more than 10 per cent remains very important. Other important export goods include watches and clocks and medicinal instruments, with around 10 per cent each.

Conversely, in 2015 the United States exported goods worth more than 22 billion US dollars to Switzerland, which corresponds to a share of only 1 to 2 per cent of total US exports. Almost one half of imports from the USA are precious metals, including in particular non-monetary gold which is imported to Switzerland for refinement. Around 20 per cent is comprised of chemical products, including above all pharmaceuticals. On the other hand, machinery and transport make up only around 10 per cent of imports to Switzerland.

The services sector of the USA is in fact Switzerland's most important trade partner: 16 per cent of exported services and more than 20 per cent of imported services result from trade relations with the USA. One third of this amount is comprised of licence fees, although the total also includes business services and ICT services, which play an important role within the trade in services between Switzerland and the United States. In addition, Americans account for around 9 per cent of foreign overnight stays, which also makes the USA an important sales market for tourism services.

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## KOF Forecasts for Swiss Tourism: Outlook Is Brightening Up

The summer tourist season had its ups and downs. According to KOF estimates, the number of overnight stays declined by 0.3%. The negative trend among European visitors has come to a halt. The coming winter season is expected to bring more positive results than last year’s winter. Nevertheless, the foreign tourist situation remains tense. Overnight stays are estimated to rise by 0.6%. As of 2018, a broader recovery should set in. Prospects for lifts and mountain railways remain on the moderate side.

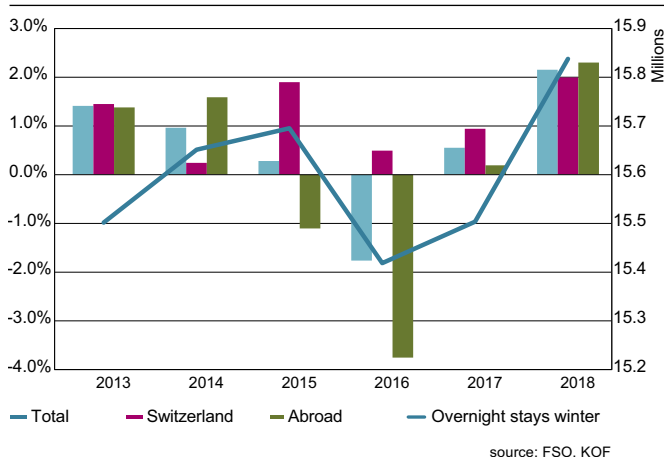
### Mixed 2016 summer season

The summer season had its ups and downs: While domestic demand followed a positive trend, foreign demand declined, with the number of visitors from long-distance markets dropping most significantly. Demand from Eurozone countries recovered to some degree from last year’s decline. The number of overnight stays by foreign visitors decreased by 1% according to the forecast. In terms of the number of domestic overnight stays, however, the forecast predicts a slight increase of 0.7% over the previous year’s season. All in all, the number of overnight stays thus dropped by 0.3%. The decline in visitor numbers hit the cities as well as the Alpine regions. Following a steady rise in overnight stays in the past years, city destinations stagnated this summer. Ticino, notably, recorded an increase in overnight stays.

### Forecast for the 2016/17 winter season: moderately positive outlook for this winter

The outlook for the coming winter season is slightly brighter than last year. The forecast anticipates a slight increase in overnight stays (see G 6). Nevertheless, the situation remains tense where foreign visitors are concerned. Although the total number of Eurozone visitors booking holidays in Switzerland should go up, the slight decline in overnight stays by German tourists is expected to continue. Demand from the UK is likely to drop due to the weaker British pound. Given this background, the number of foreign overnight stays is expected to increase by no more than 0.2%. The trend in domestic overnight stays is likely to be more dynamic. In view of Switzerland’s weak consumer sentiment and projections of moderate economic growth, the number of domestic overnight stays is expected to increase by a scant 1%. This is a slightly lower projection than in the May forecast. City destinations still record the most stable growth dynamics (see G 7). Due to the decline in tourists from Germany and the UK, the trend in the Alpine regions is expected to stagnate.

**G 6: Development of Overnight Stays in the Winter Season**  
(Growth rate compared to the winter seasons of previous years)



**G 7: Development of Overnight Stays in the Winter Season by Region**  
(Growth rate compared to previous years)



**Situation is improving**

Given strong domestic demand and a gradual recovery of foreign demand, the trend in total tourism demand is once again on an upward trajectory. Total tourism demand is comprised of domestic and foreign demand. Lifts and mountain railways had a difficult winter season last year. In view of the continued decline in overnight stays in the big winter sport regions, such as Grisons and Valais, the number of skier days is expected to drop further in the coming winter season. However, this decline should be less pronounced. KOF forecasts a stagnation in gross value added. A sustainable recovery of total demand, and hence profitability, in the tourism sector is not expected before next year. This is likely to go hand in hand with a slight increase in gross value added.



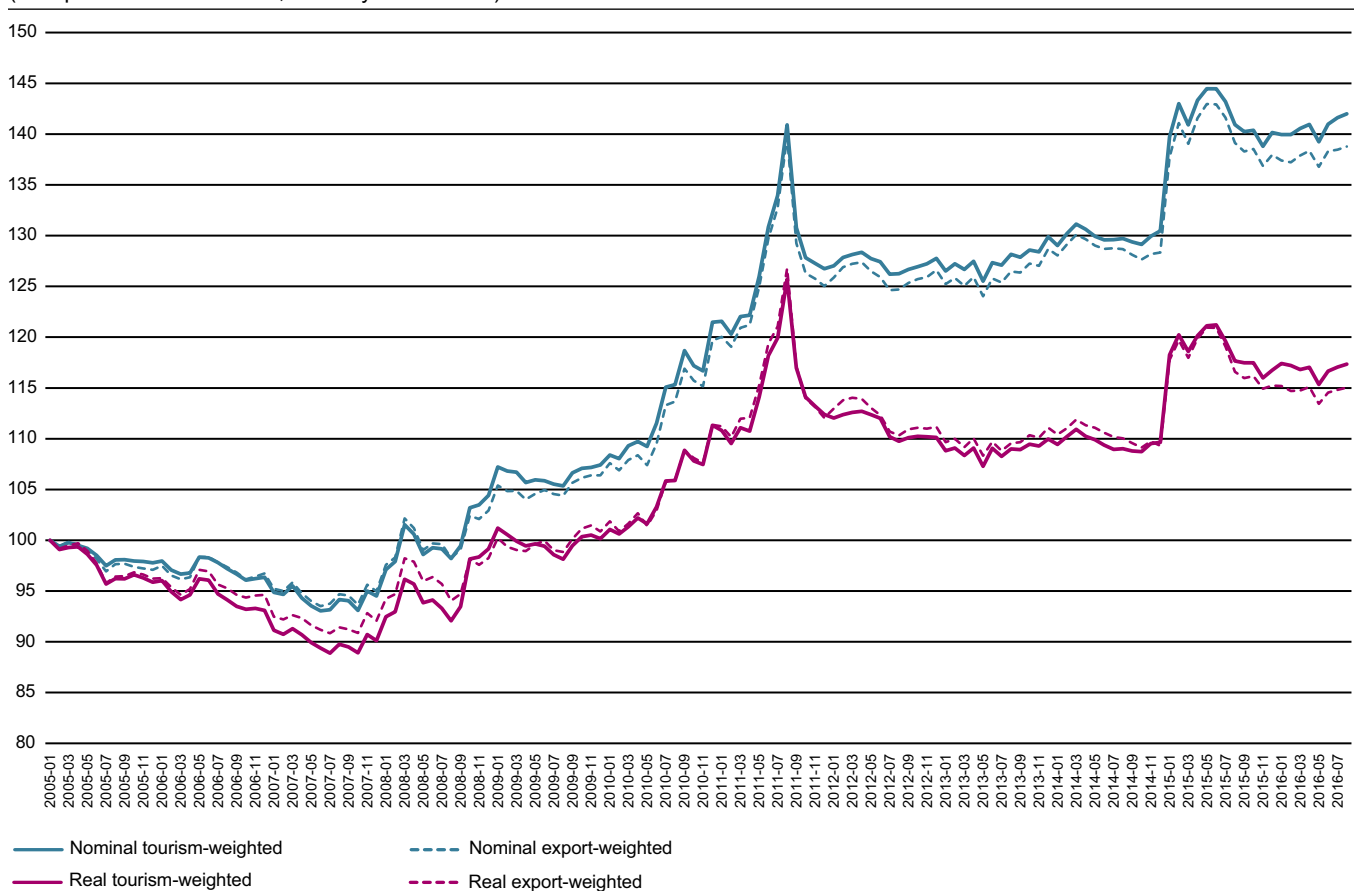
**Special analysis:  
tourism-weighted exchange rate index**

The price competitiveness of an economy is assessed on the basis of the so-called real exchange rate index. The latter is composed of the currencies of Switzerland’s 40 most important trade partners, adjusted by price development. KOF has

calculated a tourism-weighted exchange rate to assess whether the latter is more suitable for evaluating the price competitiveness of Swiss tourism. Comparison of the two indices shows that the price competitiveness of the tourism

**G 8: Tourism-Weighted Exchange Rate of the Franc**

(Compared to 40 countries, January 2005 = 100)



source: KOF, SNB, FSO

sector is not fundamentally different from that of the export industry (see G 8). Differences can be seen during the period of the minimum exchange rate, when the Euro played a bigger role in the tourism sector than in the export industry. This year, the devaluation of the British pound dominated the tourism-weighted exchange rate. Since British visitors make up a significant portion of holiday makers in Switzerland, the devaluation of the British currency may have a larger impact on tourism than on the export sector.

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The KOF Study No. 78 “Prognosen für den Schweizer Tourismus” by Florian Hälg and Banu Simmons-Süer (in German) can be found on our website:

[www.kof.ethz.ch](http://www.kof.ethz.ch) →

## KOF YLMI: Except for Switzerland, Great Recession Affected Working Conditions for Young People

**Unlike most member countries of the European Union (EU28), Switzerland has coped very well with the Great Recession. Switzerland is better off not only in terms of overall economic development, but also in regard to the labour market situation for young people. While the KOF Youth Labour Market Index (KOF YLMI) for the EU28 decreased slightly between 2008 and 2014, the Swiss score remained nearly unchanged.**

Regardless of the fact that the youth labour market situation is complex and has multiple dimensions, most analyses of the youth labour market situation focus on a single indicator, the youth unemployment rate. The KOF YLMI is an instrument that aims to address the complexity of the situation of young persons on the labour market<sup>1</sup>. In addition to widely used indicators such as the youth unemployment rate, the KOF YLMI aggregates a total of twelve indicators subdivided into the categories “Activity State”, “Working Conditions”, “Education”, and “Transition Smoothness” (see T 1).

#### Denmark with the highest score for the overall index

In the third release of the KOF YLMI, Denmark has taken over the top position in 2014 (latest available year) with an index of 5.74 points. Switzerland, which ranked second, reached an overall index score of 5.70 points. This value is substantially higher than the EU28 countries’ average index (4.78 points). Following the two top contenders, Austria, Germany, and the Netherlands score values of around 5.5 points. On the other end of the ranking are Greece,

Macedonia, Spain, and Italy, reaching values below 4 points. This ranking compares countries with at least 10 out of the 12 indicators available in the KOF YLMI.

#### Switzerland clearly above the EU28 average

The spider web graph G 9 visualises the developments of each indicator for Switzerland and the EU28 in 2008, i.e. before the crisis, and the most recent available data of 2014. The indicators referring to the category “Activity State” depict a strong and stable situation for Switzerland. However, this is not the case for the EU28, which shows a strong deterioration. Particularly noteworthy is the strong amelioration of the indicator “In Work at Risk of Poverty” in Switzerland. In the dimension “Education”, the indicators for Switzerland are higher than the ones for the EU28 average. However, it is worth mentioning that this category is the only one in which the score of the EU28 group increased over the period 2008–2014. Both indicators of this dimension, “Formal Education and Training Rate” and “Skills Mismatch Rate”, improved between 2008 and 2014.

<sup>1</sup> The user can access the KOF YLMI at <http://viz.kof.ethz.ch/public/yunemp>

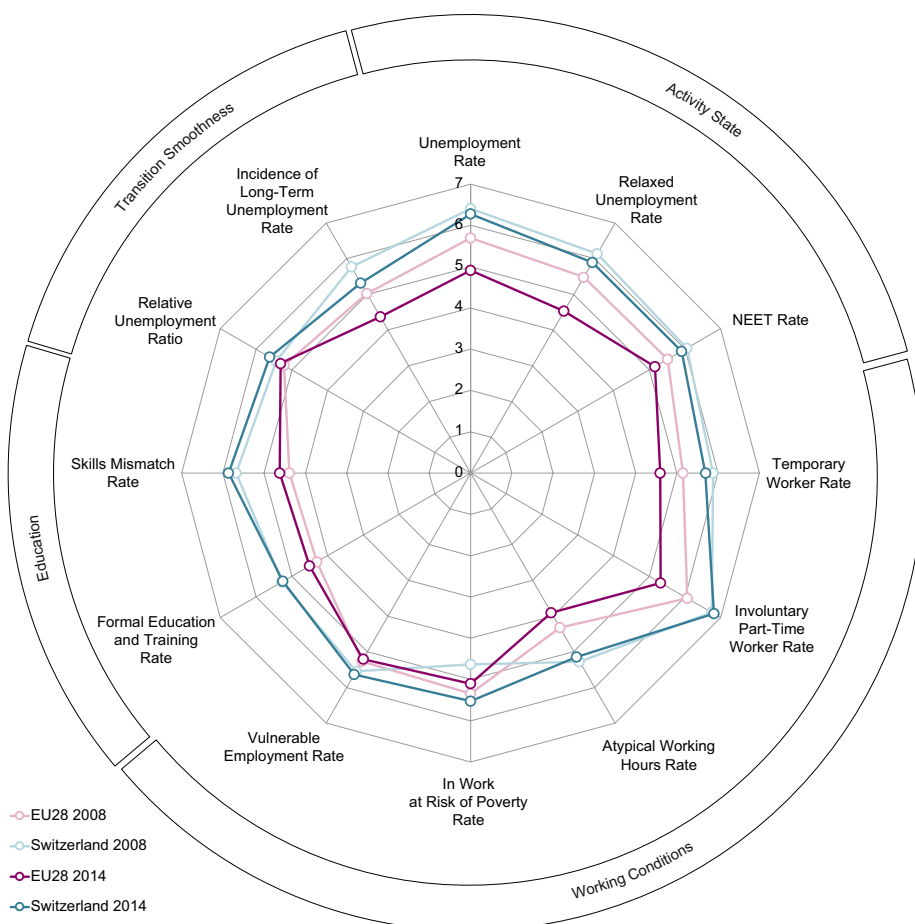
**T 2: Dimensions and their Indicators of the KOF YLMI**

Activity State	Working Conditions	Education	Transition Smoothness
• Unemployment Rate	• Temporary Worker Rate	• Formal Education and Training Rate	• Relative Unemployment Ratio
• Relaxed Unemployment Rate	• Involuntary Part-Time Worker Rate	• Skills Mismatch Rate	• Incidence of Long-Term Unemployment Rate
• NEET Rate	• Atypical Working Hours Rate		
	• In Work at Risk of Poverty Rate		
	• Vulnerable Employment Rate		

Lastly, in the dimension “Transition Smoothness” the Swiss performance is similar to the EU28 average in terms of the underlying indicator “Relative Unemployment Ratio”. This indicator suggests that differences in the youth labour market situation largely reflect the overall state of the economy rather than a problem specific to the youth.

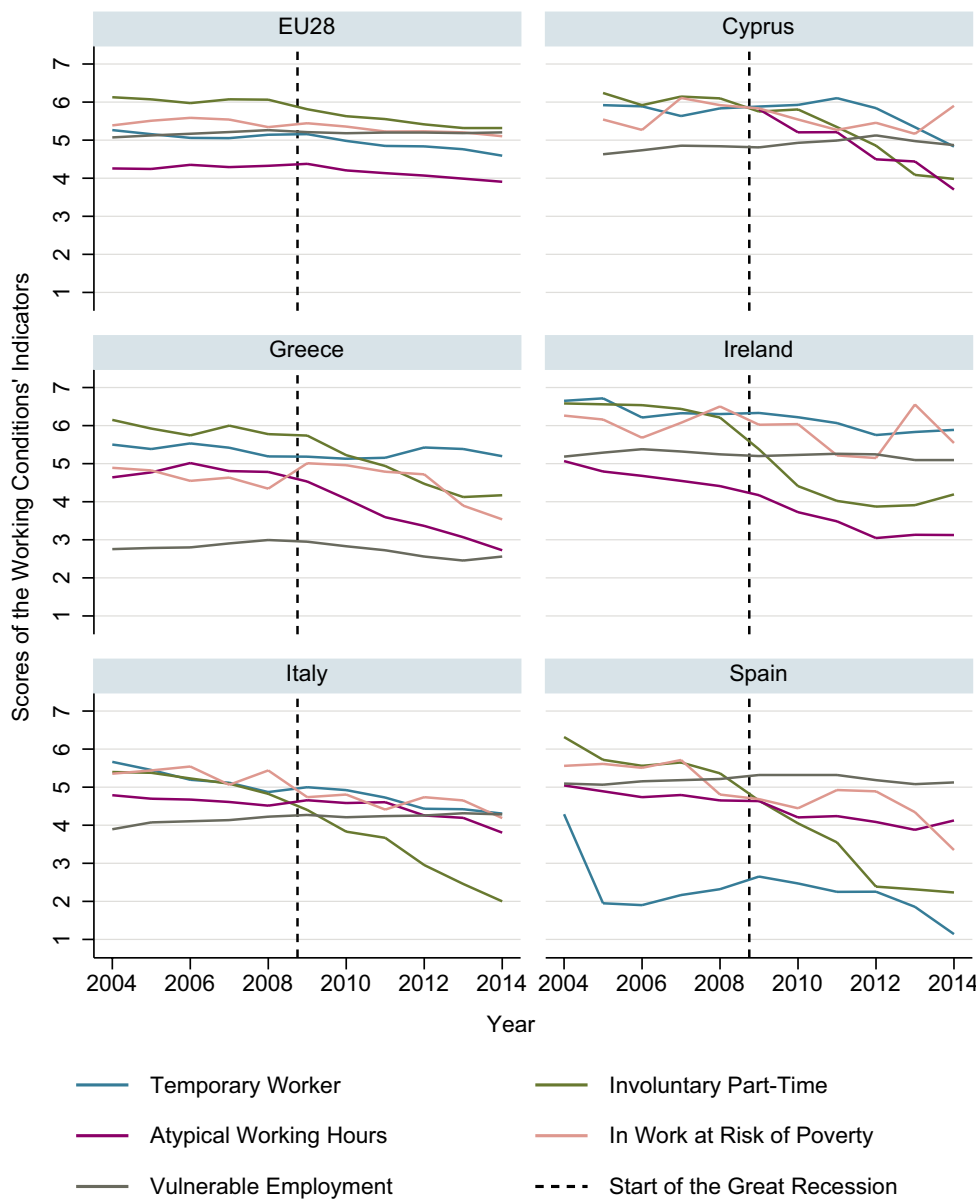
Regarding the share of unemployed youth that has been unemployed for more than one year, Switzerland scores higher than the EU28. In general, the Swiss score for the “Long-Term Unemployment Rate” has decreased between 2008 and 2014. This is a concerning aspect as an increasing long-term youth unemployment rate might indicate that

**G 9: Spiderweb of Switzerland and the EU28 in 2008 and 2014**



Note: The external circle recalls which indicators compose the four dimensions of the KOF YLMI. The indicators' scores are standardized in a scale ranging from 1 to 7. The further a value is from the centre, the more positive the situation of the corresponding indicator is.

**G 10: Evolution of the Working Conditions in the EU28, Cyprus, Greece, Ireland, Italy, and Spain**



structural unemployment increases because of a skill mismatch. This development needs to be assessed carefully to ensure that the endangered youth receive the necessary support for a smooth transition into the labour market.

The external circle recalls which indicators compose the four dimensions of the KOF YLMI. The indicators' scores are standardized on a scale ranging from 1 to 7. The further a value is from the centre, the more positive the situation is regarding that indicator.

**Worsening of working conditions for youth in Europe**

The decrease of the overall index score for the EU28 between 2008 and 2014 of on average 0.28 points appears relatively moderate as compared to the value for Switzerland. However, the EU28 average masks dramatic deteriorations in a number of countries, particularly Cyprus, Ireland, Italy, Greece, and Spain. The decrease for these countries was on average three times that of the EU average. The decline was most substantial in the "Activity State" dimension.





However, the average scores of the “Working Conditions” dimension also decreased strongly, highlighting the relevance of accounting for the complexity of the youth labour market situation. For instance, the indicator “Involuntary Part-time Worker Rate” deteriorated the most in Italy and Spain. Furthermore, the indicator “Temporary Worker Rate” reached an alarming level in Spain. Ireland exhibits a negative trend with respect to the indicator “Atypical Working Hours,” while major concerns in Greece are in regard to the indicator “Vulnerable Employment”. Findings in Cyprus

indicate mixed results across the indicators (see G 10). All this shows, that the crisis is affecting the working conditions in these countries in very different ways.

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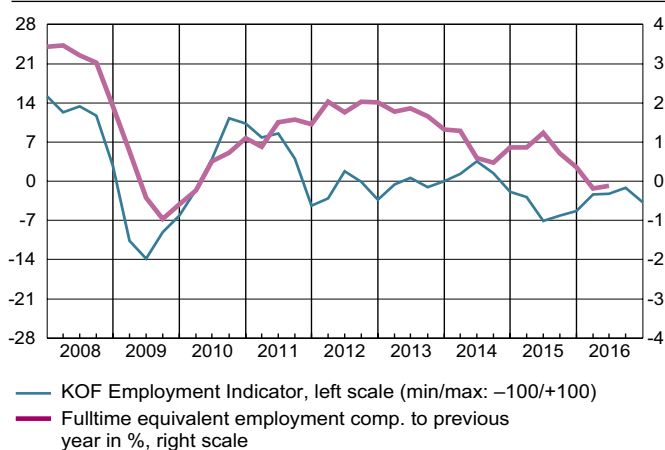
The KOF Study No. 83 “The Great Recession and the Working Conditions of Youth: A Descriptive Analysis of the European Labour Market. Third Release of the KOF Youth Labour Market Index” by Thomas Bolli and Filippo Pusterla can be found on our website: [www.kof.ethz.ch/en/publications/kof-studies](http://www.kof.ethz.ch/en/publications/kof-studies) →

# KOF INDICATORS

## KOF Employment Indicator: Labour Market Still Not in Full Swing

**Negative employment prospects in industry and deteriorating prospects for banks have halted the upward trend in the KOF Employment Indicator (see G 11). It has fallen further into negative territory to a total of –3.7 points, slightly below the figure for three months ago. Restructuring in industry and banks is set to continue.**

**G 11: KOF Employment Indicator and Employment**  
(Employment according to FSO)



The KOF Employment Indicator reached –3.7 points in the 4th quarter of 2016. Three months ago it was –1.2 (revised down from –1.1) points. The upward trend in the indicator, which had raised hopes of a turnaround on the labour market, has not continued.

The KOF Employment Indicator is calculated on the basis of the quarterly KOF Business Tendency Surveys. More than 4,500 firms participated in the survey. They provide their assessment of their current level of employment and state whether they intend to adjust the number of positions over the coming three months. The indicator has a negative value because a majority of firms tends to view the number of employees as too high. In addition, most are not planning to create jobs in the near future. Past experience has shown that businesses often act on their plans, and so the KOF Employment Indicator is a significant indicator for how the Swiss labour market will develop over the coming weeks and months. The negative value of the indicator suggests that the prospects for job seekers in Switzerland are not expected to improve in the near future.

### Worsened prospects in the banking sector

The macroeconomic indicator has fallen above all due to the significantly less favourable expectations of banks on the employment front. Thus the banking sector, which has registered constant reductions in jobs since 2012, is expected to be faced with further reports of restructuring and job cuts over the coming months. Employment prospects also remain muted in the manufacturing sector. The Employment Indicator for industry is firmly stuck in negative territory. The job cuts over the last two years are thus expected to continue, at least into the near future. The employment prospects for retailers, wholesalers and insurance providers, as well as in the hotel and catering sector, remain unchanged but still negative. On the other hand, expectations regarding employment by construction firms proved to be better than before. Improved construction activity is also reflected by more optimistic employment prospects for firms in the project engineering sector, who eagerly anticipate their future position in the construction sector. Other service providers continue to shore up the Swiss labour market. Further jobs are expected to be created in the near future, in particular in sectors such as corporate consultancy, information and communications technology, education and health and social care.

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More detailed information regarding the KOF Employment Indicator can be found on our website:  
[www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-employment-indicator](http://www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-employment-indicator) →

## KOF Economic Barometer Is Climbing

**In October 2016, the KOF Economic Barometer rose by 3.1 points (from revised 101.6 in September, see G 12) to 104.7. It thus recovered from its recent summer trough of below the 100 points and stands as high as for the last time in January 2014. Accordingly, the outlook for the Swiss economy suggests above potential short-term growth rates.**

In October 2016, the KOF Economic Barometer, with a new reading of 104.7, pointed visibly above its long-term average. The strongest impulses contributing positively to the dynamics of the Barometer came from hospitality services and manufacturing. The only negative impacts came from the financial sector.

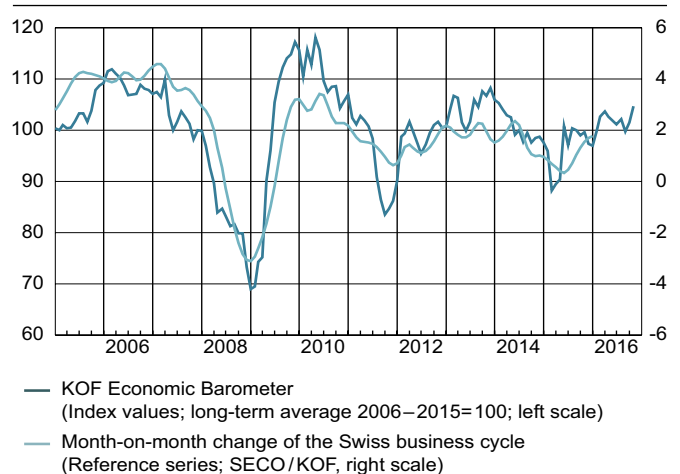
Within the manufacturing sector, the improved outlook is manifesting itself primarily in the electrical and machine building industries. Wood-processing and timber were the negative outliers.

The improved sentiment in manufacturing as a whole is primarily driven by a favourable assessment of the overall business climate and the improved competitiveness of manufacturing. Hence, the January 2015 appreciation shock appears to have been digested by many firms by now.

### KOF Economic Barometer and reference time series: annual update

In September 2016, the scheduled annual update of the KOF Economic Barometer took place. The annual update of the Barometer s 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 procedure to estimate missing monthly values of quarterly variables. 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 Statistical Office. As a result of the indicator

**G 12: Economic Barometer and Reference Series**



variable selection procedure, the updated KOF Economic Barometer is now based on 272 indicators (instead of 238 as in the previous vintage) from a pool of more than 400 potential indicator series. They are combined using statistically determined weights.

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For detailed information on the KOF Economic Barometer, visit our website:  
[www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-economic-barometer](http://www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-economic-barometer) →

# AGENDA

## KOF Events

### **KOF Wirtschaftsforum**

#### **«Grüne Energie»**

Dr. Christian Rammer, ZEW Mannheim

Energiepolitik, Energieeffizienz und Wettbewerbsfähigkeit von Unternehmen: ein Drei-Länder-Vergleich

PD Dr. Martin Wörter, KOF, ETH Zürich

Wie wirken energiepolitische Massnahmen auf die Einführung und Generierung von neuen Technologien in Unternehmen?

ETH Zürich, Donnerstag, 24. November 2016

16.15 bis 18.00 Uhr

[www.kof.ethz.ch/en/news-and-events/event-calendar-page/kof-wirtschaftsforum](http://www.kof.ethz.ch/en/news-and-events/event-calendar-page/kof-wirtschaftsforum) →

### **KOF Research Seminar:**

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### **KOF-ETH-UZH International Economic Policy Seminar:**

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# TABLE KOF AUTUMN FORECAST 2016

## SWITZERLAND

Real Gross Domestic Product by Type of Expenditure																
	2007- 2015	Percentage change against												previous year		
		previous quarter (annualized, trend cycle component)												2016	2017	2018
		2016				2017				2018						
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Private consumption	1.6	0.8	0.8	1.0	1.4	1.4	1.3	1.2	1.1	1.1	1.0	1.0	1.1	1.0	1.2	1.1
Public consumption	1.3	2.5	1.6	-0.2	0.3	1.7	1.7	0.8	0.4	0.0	0.4	0.8	0.6	1.5	1.0	0.5
Gross fixed capital formation	1.6	2.9	2.7	-0.9	-2.3	-0.1	1.8	1.1	3.6	3.8	1.5	2.5	2.5	2.0	0.2	2.7
– Construction	2.0	-0.6	-0.6	0.6	1.1	1.2	1.7	2.0	2.2	2.5	2.3	1.8	1.6	0.0	1.2	2.2
– Machinery and equipment	1.4	5.3	4.9	-1.6	-4.5	-1.0	1.9	0.6	4.6	4.7	1.1	3.0	3.1	3.4	-0.4	3.0
Exports of goods (1) and services	2.9	5.9	2.5	0.5	1.8	2.1	3.0	4.6	3.7	2.8	3.5	4.3	3.6	4.6	2.3	3.6
– Goods	2.2	10.1	2.2	-1.1	0.7	2.7	3.1	3.8	4.2	4.1	4.2	4.4	4.3	6.0	2.1	4.1
– Services	2.7	0.6	-1.1	1.3	2.7	3.8	3.6	2.3	2.8	3.4	3.3	2.5	2.5	1.9	2.8	3.0
Imports of goods (1) and services	3.1	4.3	1.7	1.0	1.0	3.4	4.3	2.9	3.0	3.3	2.6	2.9	3.1	3.3	2.6	3.2
– Goods (1)	1.8	6.9	2.1	1.0	-0.2	3.4	5.2	3.1	3.7	4.3	3.6	3.8	3.9	4.2	2.8	4.0
– Services	6.0	0.1	-4.3	0.2	2.9	3.8	4.1	1.2	1.0	1.9	1.8	0.5	1.0	1.5	2.3	1.5
Change in stocks (2)	0.1	-0.6	0.0	0.9	1.1	1.8	1.5	-0.1	-0.5	0.1	0.0	-0.4	-0.1	-1.3	1.3	0.0
Gross Domestic Product (GDP)	1.6	2.1	2.0	1.6	1.6	1.9	2.0	1.9	1.9	1.9	1.9	1.8	1.9	1.6	1.8	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																
	2007- 2015	Percentage change against												previous year		
		previous quarter												2016	2017	2018
		2016				2017				2018						
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real effective exchange rate of CHF (1)	2.5	-2.2	-1.6	2.1	-2.8	-0.2	-3.7	-0.6	-0.4	-1.0	-4.1	-1.1	-0.4	-3.0	-1.2	-1.6
Short term interest rate (3-month Libor CHF) (2)	0.6	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Yield of 10 years federal bonds (2)	1.5	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3	-0.2	-0.1	0.0	0.1	-0.4	-0.4	0.0
Consumer prices (3)	0.2	-1.0	-0.4	-0.2	-0.1	0.3	0.1	0.1	0.2	0.2	0.2	0.3	0.3	-0.4	0.2	0.3
Full-time equivalent employment (4)	1.3	-0.1	0.3	0.6	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.0	0.6	0.7
Unemployment rate (2,5)	2.9	3.3	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.3	3.4	3.4

(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																
	2007- 2015	previous quarter (annualized, seasonal adjusted)												previous year		
		previous quarter												2016	2017	2018
		2016				2017				2018						
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real Gross Domestic Product (GDP)																
– OECD total	1.2	1.5	1.2	1.9	1.7	1.7	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.5	1.7	1.8
– European Union (EU-28)	0.7	2.0	1.6	1.7	1.7	1.5	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.8	1.6	1.6
– USA	1.3	0.8	1.1	2.5	2.1	2.3	2.3	2.3	2.3	2.1	2.1	2.0	2.0	1.4	2.2	2.1
– Japan	0.4	2.1	0.7	0.4	0.8	0.9	1.1	0.9	0.9	0.7	0.7	0.7	0.8	0.6	0.8	0.8
Oil price (\$ per barrel) (1)	88.3	34.5	47.0	46.6	46.8	47.1	47.3	47.5	47.8	48.0	48.2	48.5	48.7	43.7	47.4	48.4

(1) Level

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## Imprint

Publisher	KOF Swiss Economic Institute, ETH Zurich		
Director	Prof. Dr. Jan-Egbert Sturm		
Editors	David Iselin, Solenn Le Goff, Anne Stücker		
Layout	Vera Degonda, Nicole Koch		
Pictures	Shutterstock		
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Next publication date: 2 December 2016

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