

## Media Release

Zurich, 26 March 2015, 10.30 am

### KOF Spring Forecast 2015

## Removal of the Exchange Rate Floor: An Endurance Test for the Swiss Economy

**The increase in the value of the Swiss franc following the removal of the exchange rate floor will weigh down heavily on the Swiss business cycle. The KOF is forecasting GDP growth of 0.2% in 2015. Exporters in particular are feeling the effects of the strong franc. Due to falling prices and consumer tourism, private consumption is initially holding up well. However, businesses are delaying investments in capital equipment. The negative effects on the labour market will still be relatively limited this year, although the unemployment rate will increase more strongly in 2016. GDP growth will remain weak next year at 1%.**

The performance of the economy over the next few months will be significantly influenced by the removal of the euro-franc exchange rate floor. Given the exchange rate of 1.07 Swiss francs to the euro assumed by the KOF for the forecasting period, many businesses are being confronted with significant reductions in competitiveness, which means that a fall in overall economic output measured as a proportion of gross domestic product (GDP) is likely. The end of the first quarter of 2015 has already seen a real term fall in seasonally adjusted GDP compared to the previous quarter. The KOF is only forecasting a return to GDP in the fourth quarter. Overall, the average annual GDP growth for 2015 will thus be very low (0.2%). GDP growth will remain comparatively weak next year at 1%.

Given more than two consecutive quarters of negative growth rates, the Swiss economy is accordingly at the start of a technical recession, although this will initially have hardly any implications for the labour market. However, production falls are expected in many sectors over the course of the year, including above all for businesses that sell most of their products in the Eurozone. Export growth will be low this year (2016: 2.4%).

The unemployment rate according to the definition used by the State Secretariat for Economic Affairs (SECO) is expected to increase slightly to 3.4%. A higher rate of 3.8% is forecast for next year. According to the International Labour Organisation (ILO) definition to be used for international comparisons, the unemployment rate will be 4.5% (2015) and 4.9% (2016) respectively.

The deteriorating labour market situation will dampen down private consumption. Due to still buoyant incomes and lower prices however, the slowdown will not be very pronounced. Once

again, the Swiss economy is being propped up by private consumption (2015: 2.0%). The Swiss consumer price index LIK is slated to fall again this year by -0.8%. Prices will stagnate next year.

Both investments in capital equipment and construction are also expected to decline. Due to the uncertain economic outlook and uncertainty regarding the implementation of the initiative against mass immigration, a large number of investment plans have been put on ice. The KOF is forecasting economic growth this year of 0.3% in capital investment and a 0.6% fall for investment in construction.

### **The international economy**

Although the economy slowed in the USA in the 2014/2015 winter half-year, it is expected to bounce back. This will be driven by healthy employment rates, the monetary environment and the low oil price. Due to the streamlining of monetary policy by the Federal Reserve, it is expected that growth will fall slightly next year. The economy has returned to a positive course in many Eurozone countries. Boosted by the further relaxation of monetary policy by the European Central Bank, less restrictive fiscal policy, the continuing depreciation of the euro against the dollar and the persisting low oil price, the Eurozone economy will develop positively. On the other hand, with the exception of India, the rate of expansion in the major developing countries will slow down. China will be unable to maintain the high growth rates from the past years, Brazil's economy is stagnating and tottering on the brink of recession whilst, due to the collapse in the value of the rouble and economic sanctions, prospects for the Russian economy are dim.

### **Increased forecasting uncertainty**

As mentioned above, the KOF is proceeding on the assumption that the exchange rate will remain stable at 1.07 francs to the euro until the end of 2016. However, its value may turn out to be either lower or higher. The KOF has already considered in its forecast of 28 January 2015 what a most pessimistic economic scenario involving parity between the franc and the euro would look like. Swiss GDP was forecast to fall by 0.5% during the current year.

However, a KOF survey has shown that Swiss businesses are rather expecting the franc to fall in value slightly against the euro over the coming quarters. In addition, over the last few years the Swiss economy has proved to be remarkably versatile in response to external shocks. This means that the actual trend may be more positive than that projected by the KOF in this forecast.

For further information concerning the KOF Spring Forecast, see:  
<http://www.kof.ethz.ch>

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# Forecast Tables

(per cent changes from previous year, unless otherwise indicated)

Table 1:  
World Economy

	2013		2014		2015		2016	
	March 2015	Dec. 2014	March 2015	Dec. 2014	March 2015	Dec. 2014	March 2015	Dec. 2014
Real gross domestic product (GDP)								
OECD Total	1.4	1.4	1.8	1.8	2.0	2.0	2.1	2.1
European Union (EU-28)	0.1	0.0	1.3	1.3	1.6	1.3	1.8	1.8
USA	2.2	2.2	2.4	2.3	3.0	3.1	2.6	2.7
Japan	1.6	1.6	0.0	0.2	0.3	1.0	1.2	1.4
Oil price (\$ per barrel)	108.8	108.8	98.9	99.9	60.7	70.5	63.3	71.9

Table 2:  
Switzerland: Real Gross Domestic Product by Type of Expenditure

at previous year's prices	2013		2014		2015		2016	
	March 2015	Dec. 2014	March 2015	Dec. 2014	March 2015	Dec. 2014	March 2015	Dec. 2014
Private consumption	2.2	2.2	1.0	1.1	2.1	2.1	1.6	1.7
Public consumption	1.4	1.4	1.1	1.5	1.8	1.7	1.2	1.3
Gross fixed capital formation	1.7	1.7	1.5	0.9	-0.1	1.0	0.8	3.3
Construction	1.2	1.2	0.9	1.3	-0.6	-0.6	-0.2	1.6
Machinery and equipment	2.0	2.0	1.8	0.7	0.3	2.0	1.4	4.3
Exports of goods (1) and services	0.0	0.0	3.9	3.4	1.2	5.0	2.4	4.8
Goods (1), (2)	-1.0	-1.0	4.1	4.6	0.8	5.0	2.8	5.7
Services	4.7	4.7	2.3	2.6	0.7	4.2	2.2	4.0
Imports of goods (1) and services	1.4	1.4	1.6	1.7	2.4	3.3	2.9	4.8
Goods (1)	0.7	0.7	1.3	2.0	2.5	3.7	2.9	4.8
Services	3.1	3.1	2.1	0.9	2.1	2.4	2.8	4.8
Change in stocks (3)	1.2	1.2	0.1	0.5	-0.6	-0.8	-0.3	-0.4
Gross Domestic Product (GDP)	1.9	1.9	2.0	1.9	0.2	1.9	1.0	2.1

(1) without valuables (i.e. exports and imports of precious metals incl. non-monetary gold and stones, gems as well as objects of art and antiquities)

(2) without merchanting

(3) Percentage contribution to GDP-growth

Table 3:

Switzerland: Other Macroeconomic Indicators

	2013		2014		2015		2016	
	March 2015	Dec. 2014	March 2015	Dec. 2014	March 2015	Dec. 2014	March 2015	Dec. 2014
Real effective exchange rate (CHF)	-1.6	-1.6	0.6	0.4	3.4	-2.0	-3.5	-2.2
3-month Libor CHF (1)	0.0	0.0	0.0	0.0	-0.8	0.0	-0.8	0.0
Yield of 10 years federal bonds (1)	0.9	0.9	0.7	0.7	0.0	0.5	0.0	0.5
Consumer prices	-0.2	-0.2	0.0	0.0	-0.8	-0.1	0.0	0.5
Full-time equivalent employment	1.3	1.3	0.9	0.8	0.1	0.9	-0.2	1.1
Unemployment rate ILO (2)	4.4	4.4	4.5	4.6	4.5	4.1	4.9	4.2
Unemployment rate SECO (3)	3.2	3.2	3.2	3.2	3.4	3.1	3.8	3.1

(1) Level

(2) Unemployed as percentage of labour force according to the International Labour Organization, ILO

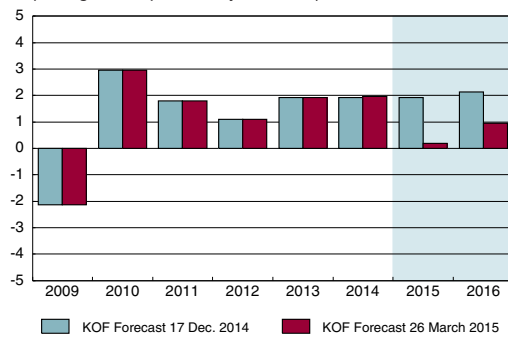
(3) Unemployed as percentage of labour force according to census of 2010

# Graphs

Graph 1

## Switzerland: Real GDP with Forecast

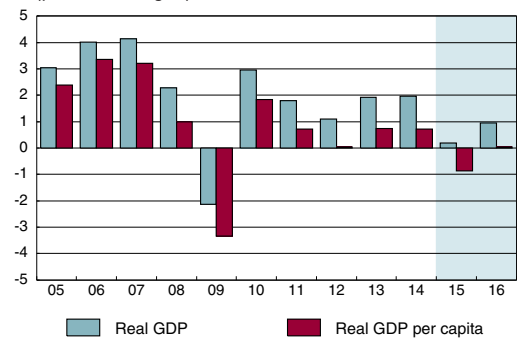
(change over previous year, in %)



Graph 2

## Real GDP and GDP per Capita

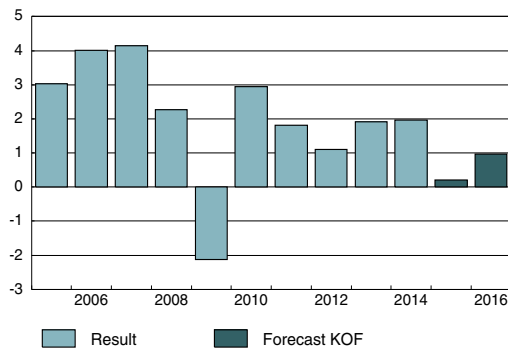
(percent changes)



Graph 3

## Switzerland: Real GDP

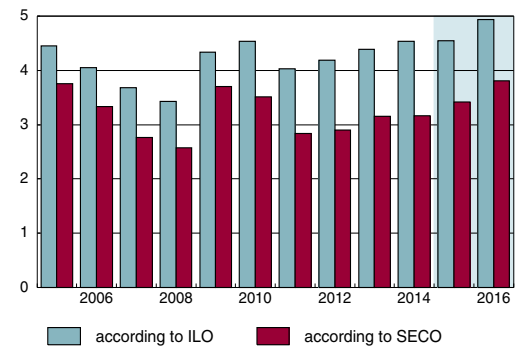
(percentage changes)



Graph 4

## Switzerland: Unemployment Rate

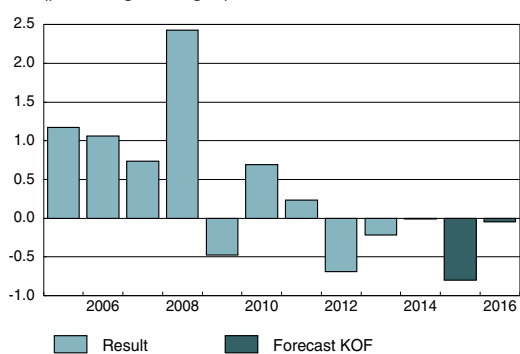
(per cent)



Graph 5

## Switzerland: Consumer Prices

(percentage changes)



Graph 6

## EU/USA: Real GDP

(percentage changes)

