

# Press Release

Zurich, 17 December 2015, 9.00 a.m.

## KOF Winter Forecast 2015: Moderate Growth, Rising Unemployment

**For the Swiss economy, the year 2015 was dominated by the suspension of the minimum exchange rate, which resulted in low GDP growth (0.7%). In 2016, production is expected to pick up slightly and expand by 1.1 per cent. This moderate growth will be driven primarily by exports. The outlook for the Swiss labour market has, however, deteriorated to some degree: Employment growth is weak and the unemployment rate is expected to rise to an average level of 3.6 per cent.**

### International economic development

Recently, global economic development has slowed down, predominantly in the emerging markets. Both the Brazilian and the Russian economy are cooling down due, among other reasons, to the low oil price and, in the case of Russia, international sanctions. Growth in China has been declining continuously for a number of years. The stock exchange crash is likely to have placed an additional strain on the situation. Although the US economy is not immune against weak development of the emerging market economies, the country depends primarily on domestic demand. Private consumption, by far the most important demand component, has recently recorded a significant slowdown compared to the first half of the year. Nevertheless, according to KOF estimates, the upswing in the USA will continue at growth rates that will initially exceed the potential rate of approximately 2.2 per cent and subsequently swing into the potential range in 2017 at the latest. Thus, the time had come for the FED to initiate a change in lead interest rates, a step that was finally taken. Positive impulses for the Swiss economy are also coming from the euro area which economy is slowly starting to grow again.

### Economic development in Switzerland

The impact of the suspension of the minimum exchange rate at the beginning of the year was, and remains, significant for the Swiss economy although, all in all, it was less substantial than initially expected. Nevertheless, nominal goods exports stagnated in the third quarter following a considerable drop in the first half of the year. Exporters repeatedly cut prices throughout the year. For 2016, KOF anticipates a robust but moderate expansion of exports (2.9%) which will make a positive contribution to the GDP growth of 1.1 per cent. The damper that has been put on the economy by the suspension of the minimum exchange rate will be absorbed more or less after mid-2016, and the 2017 growth rate is expected to reach 2 per cent. Even though some oil-producing countries will record setbacks due to the low price, the latter will give a boost to the global economy and Switzerland is expected to benefit indirectly. The slight recovery in the export industry and the consistently strong franc will lead to a slight increase in imports next year.

The strong initial appreciation of the franc against the euro came as a shock for companies selling goods in the euro area or competing with euro area manufacturers, either domestically or abroad. Despite the franc's current decline in value, the associated adjustment problems have not gone away. In expectation of further production relocations and a decline in job numbers, companies are likely to hold back on investments in Switzerland. Next year, investments in machinery and equipment are therefore expected to grow rather moderately (2.3%). Nevertheless, growth rates in these investments will remain positive due to non-recurrent effects, i.e. the delivery of rail vehicles and aircrafts. Unemployment went up slightly this year. The average rate in 2016 will rise to 3.6 per cent according to the State Secretariat of Economic Affairs (SECO) and to 4.7 per cent according to the International Labour Organization (ILO).

At -0.7 per cent, this year's decline will have brought the long-standing expansion in the construction industry to a halt. The high base level, new restrictions under the second home initiative and the expected implementation of the anti-mass immigration initiative have all left their mark on the sector. KOF therefore expects a slight decline in residential construction investments which increased activities in other segments will only partially compensate. At 0.9%, overall growth in the construction investment will be modest in 2016.

Thanks to a rise in population and employment figures as well as rising wage compensation, private consumption is expected to record a further increase (2016: 1.6%). Although retailers were also affected by the franc's appreciation, the majority managed to maintain their margins thanks to lower procurement costs. In contrast to the industrial sector and the hotel and catering sector, price cuts in the retail trade were of minor significance.

KOF expects the remaining domestically-oriented sectors to follow a path of steady expansion, even though an anticipated stagnation in tax income will affect government activities. The demographic development, and also an increase in the number of refugees, will act as a counter force and will result in further growth, especially in the fields of healthcare and social welfare.

Consumer prices have been declining for a number of years now. This can, to some degree, be explained by the drop in prices of imported goods due to the Franc appreciation and the oil price development, but also by the negative domestic inflation rate. At around 1 per cent, the decline in prices in domestic value added is substantial and was predominantly caused by the export industry which has recorded a steep margin decline or even negative margins. A return to rising prices is a long way off (2016: -0.5%). The first subtle increase of 0.2 per cent is not expected before 2017.

Tables and graphs of the economic forecast also via this link:

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

More detailed information regarding the KOF Economic Forecasts:

[www.kof.ethz.ch/en/forecasts/economic-forecasts/](http://www.kof.ethz.ch/en/forecasts/economic-forecasts/) →

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# Forecast Tables

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

Table 1:  
World Economy

	2014		2015		2016		2017	
	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015
Real gross domestic product (GDP)								
OECD Total	1.8	1.8	2.0	2.0	1.9	2.0	1.9	1.9
European Union (EU-28)	1.4	1.4	1.8	1.8	1.7	1.8	1.9	1.9
USA	2.4	2.4	2.5	2.4	2.5	2.7	2.4	2.4
Japan	0.0	-0.1	0.7	0.7	0.7	0.7	0.2	0.2
Oil price (\$ per barrel)	98.9	98.9	53.1	54.2	45.3	50.6	46.2	51.6

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

at previous year's prices	2014		2015		2016		2017	
	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015
Private consumption	1.3	1.3	1.2	1.2	1.6	1.7	1.7	1.5
Public consumption	1.3	1.3	2.4	1.8	0.2	1.0	0.8	0.7
Gross fixed capital formation	2.1	2.1	1.4	1.6	1.7	2.5	0.5	0.1
Construction	3.3	3.3	-0.7	0.0	0.9	0.7	0.9	-0.1
Machinery and equipment	1.3	1.3	2.7	2.7	2.3	3.6	0.3	0.3
Exports of goods (1) and services	4.2	4.2	0.9	1.1	2.9	4.4	4.6	4.8
Goods (1), (2)	4.0	4.0	-1.1	-0.8	3.8	5.2	5.8	6.1
Services	2.4	2.4	0.1	1.5	3.4	4.3	3.2	3.4
Imports of goods (1) and services	2.8	2.8	1.1	1.6	3.7	6.0	4.5	4.2
Goods (1)	1.7	1.7	-2.2	-2.0	4.9	6.9	5.1	4.4
Services	5.1	5.1	7.8	9.0	1.4	4.2	3.6	4.0
Change in stocks (3)	0.2	0.2	-0.6	-0.3	-1.1	-0.8	0.5	0.2
Gross Domestic Product (GDP)	1.9	1.9	0.7	0.9	1.1	1.4	2.0	1.8

(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

	2014		2015		2016		2017	
	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015	Dec. 2015	Oct. 2015
Real effective exchange rate (CHF)	0.6	0.6	7.0	6.9	-6.1	-4.9	-1.7	-2.3
3-month Libor CHF (1)	0.0	0.0	-0.8	-0.7	-0.8	-0.7	-0.8	-0.5
Yield of 10 years federal bonds (1)	0.7	0.7	-0.1	0.0	0.0	0.3	0.4	0.7
Consumer prices	0.0	0.0	-1.1	-1.1	-0.5	-0.2	0.2	0.3
Full-time equivalent employment	0.8	0.8	0.9	0.9	0.3	0.4	0.6	0.5
Unemployment rate ILO (2)	4.5	4.5	4.5	4.3	4.7	4.4	4.9	4.5
Unemployment rate SECO (3)	3.2	3.2	3.3	3.3	3.6	3.6	3.8	3.7

(1) Level

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

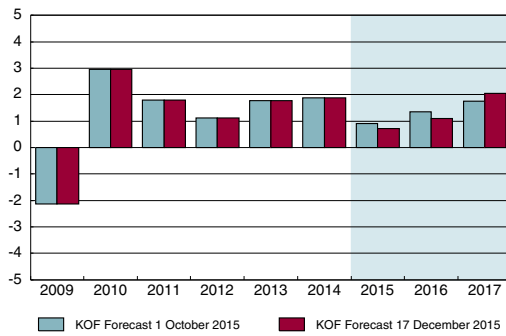
(3) Unemployed as percentage of labour force according to census of 2010

# Graphs

Graph 1

## Switzerland: Real GDP with Forecast

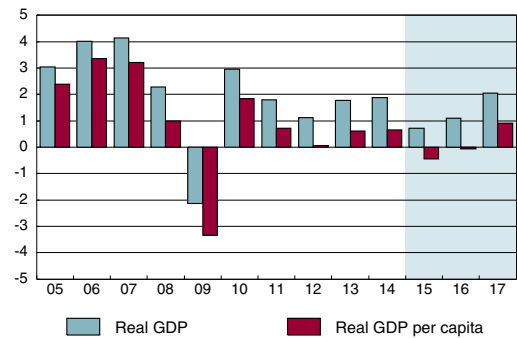
(change over previous year, in %)



Graph 2

## Real GDP and GDP per Capita

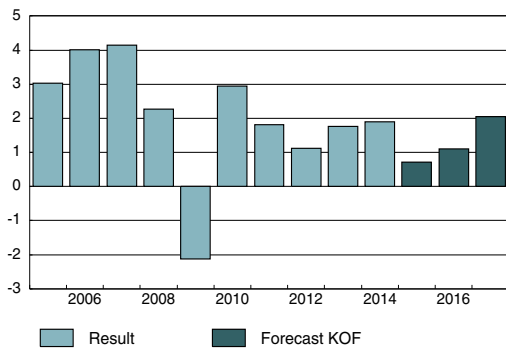
(change over previous year, in %)



Graph 3

## Switzerland: Real GDP

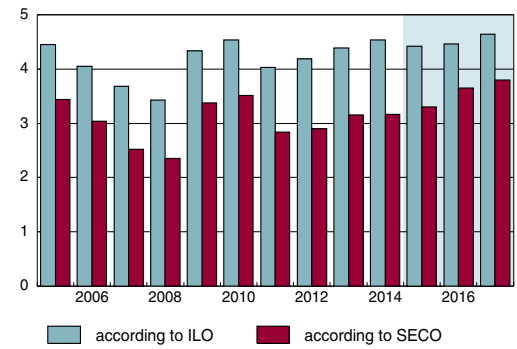
(change over previous year, in %)



Graph 4

## Switzerland: Unemployment Rate

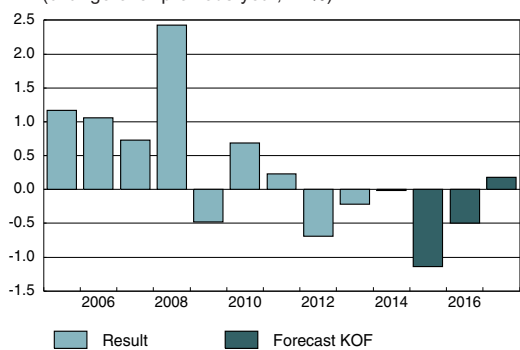
(per cent)



Graph 5

## Switzerland: Consumer Prices

(change over previous year, in %)



Graph 6

## EU/USA: Real GDP

(change over previous year, in %)

