

Press Release

Zurich, 12 June 2015, 9.00am

KOF Summer Forecast: EU Recovers – Switzerland Takes a Dip

As in its forecast of March, KOF expects a brief recession in Switzerland that will be over in the second half of the year. Due to the strong Swiss franc and the relative weakness of the global economic development, GDP growth will remain low at 0.4 per cent. In contrast, the economic situation in Europe is now looking better than it has for a long time. In the medium term, this will also give the Swiss economy a boost. GDP is expected to grow by 1.3 per cent in 2016. Unemployment, which traditionally lags behind the economic trend, is likely to increase for the foreseeable future. The decline in prices will continue.

Global economic development

Following a rather sluggish first half of 2015, the global economy will slowly pick up speed during the forecast period until the end of 2016. In the USA, GDP declined slightly in the first quarter. Since then, investments in plant and machinery and in residential buildings have become more dynamic and the strain on commercial construction caused by the oil price slump is a thing of the past. With GDP rates in excess of 2.5 per cent until the end of 2016, actual growth is likely to remain above the potential growth rate. Japan is apparently already recording an actual growth rate, of around 1.2 per cent, in the forecast period that is roughly consistent with the potential growth rate.

Boosted by the European Central Bank's (ECB) further quantitative easing, less restrictive fiscal policies, the on-going devaluation of the euro against the US dollar and the consistently low oil price, the recovery in the Eurozone is likely to continue. Growth also seems to be picking up in most emerging markets. India's economy is expected to grow substantially, both in 2015 and in the following year, while Russia and Brazil are likely to leave their respective recession and stagnation behind. Economic growth in China will continue its gradual slowdown.

Swiss economic development

From a Swiss perspective, compared to the March 2015 forecast, the international environment has improved to some degree due to the trend in the EU countries, but deteriorated to some degree in respect of the non-EU countries. At the same time, the negative impact that the Swiss National Bank's (SNB) scrapping of the minimum exchange rate on 15 January is having on the domestic economy is becoming more pronounced. KOF therefore adheres to its spring forecast assessment and anticipates a further quarter-on-quarter decline in value-added in the second quarter. All in all, KOF expects an annual growth rate of 0.4 per cent this year.

After the scrapping of the minimum exchange rate, the Swiss franc has gained significantly against the euro, but very little against the US and Asian currencies. Hence, this year's exchange rate turbulence has a minor effect on companies with high turnover in these currency regions and little competition from European enterprises. The situation is far less rosy for companies that predominantly sell to other European countries or are under pressure from European competitors on the Swiss market. They experience rising pressure on margins that can only be alleviated through higher efficiency or a transfer of production, or parts thereof, abroad.

During the forecast period, the macroeconomic slowdown will also affect employment. Declining demand for labour due to the competitive situation in the export sector, combined with high insecurity regarding the implementation of the Anti-Mass Immigration Initiative, is putting a break on employment. The negative labour market trend is expected to take effect in the second quarter 2015. KOF expects a slight decline in fulltime-equivalent employment. Due to a decline in employment prospects, unemployment is likely to rise in the second half of 2015 at an expected average annual unemployment rate of 3.3 per cent according to the definition used by the State Secretariat for Economic Affairs (SECO) and 4.4 per cent according to the International Labour Organization (ILO).

At 1.5 per cent, growth in exports will remain weak in 2015. Goods and tourism exports will actually decline while the other service exports will remain positive. In 2016, exports are expected to pick up again (2.8 per cent). Import growth is more dynamic at 3.0 per cent this year and 3.8 per cent in the following year. The strong Swiss franc will continue to exert pressure on import prices. KOF therefore anticipates a decline in price levels during the forecast period. However, so far, the Swiss economy has given no indication that it is entering a deflationary downward spiral. Nevertheless, at -1.1 per cent, consumer prices will go down substantially this year while the following year will see a more moderate decline at -0.3 per cent.

The trend in construction investments and investments in plant and machinery is also on the weak side this year. Construction investments, in particular, will decline (-1.1 per cent), albeit from a high level. At 1.2 per cent, growth of investments in plant and machinery is relatively slow. In contrast, private consumption continues to prop up the economy. At 1.9 per cent (2015) and 1.8 per cent (2016), the growth rates are at their usual level both in the current and in the coming year.

More detailed information regarding the KOF Economic Forecast:

<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

| | 2013 | | 2014 | | 2015 | | 2016 | |
|-----------------------------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| | June 2015 | March 2015 | June 2015 | March 2015 | June 2015 | March 2015 | June 2015 | March 2015 |
| Real gross domestic product (GDP) | | | | | | | | |
| OECD Total | 1.4 | 1.4 | 1.8 | 1.8 | 1.7 | 2.0 | 2.1 | 2.1 |
| European Union (EU-28) | 0.1 | 0.1 | 1.3 | 1.3 | 1.6 | 1.6 | 1.9 | 1.8 |
| USA | 2.2 | 2.2 | 2.4 | 2.4 | 1.9 | 3.0 | 2.6 | 2.6 |
| Japan | 1.6 | 1.6 | -0.1 | 0.0 | 0.9 | 0.3 | 1.2 | 1.2 |
| Oil price (\$ per barrel) | 108.8 | 108.8 | 98.9 | 98.9 | 62.0 | 60.7 | 66.3 | 63.3 |

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

| at previous year's prices | 2013 | | 2014 | | 2015 | | 2016 | |
|-----------------------------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| | June 2015 | March 2015 | June 2015 | March 2015 | June 2015 | March 2015 | June 2015 | March 2015 |
| Private consumption | 2.2 | 2.2 | 1.3 | 1.0 | 1.9 | 2.1 | 1.8 | 1.6 |
| Public consumption | 1.4 | 1.4 | 1.4 | 1.1 | 1.9 | 1.8 | 1.2 | 1.2 |
| Gross fixed capital formation | 1.7 | 1.7 | 1.5 | 1.5 | 0.3 | -0.1 | 1.6 | 0.8 |
| Construction | 1.2 | 1.2 | 0.9 | 0.9 | -1.1 | -0.6 | -0.6 | -0.2 |
| Machinery and equipment | 2.0 | 2.0 | 2.0 | 1.8 | 1.2 | 0.3 | 2.9 | 1.4 |
| Exports of goods (1) and services | 0.0 | 0.0 | 3.8 | 3.9 | 1.5 | 1.2 | 2.8 | 2.4 |
| Goods (1), (2) | -1.0 | -1.0 | 4.0 | 4.1 | -0.5 | 0.8 | 3.2 | 2.8 |
| Services | 4.7 | 4.7 | 1.9 | 2.3 | 2.8 | 0.7 | 2.9 | 2.2 |
| Imports of goods (1) and services | 1.4 | 1.4 | 1.5 | 1.6 | 3.0 | 2.4 | 3.8 | 2.9 |
| Goods (1) | 0.7 | 0.7 | 1.5 | 1.3 | 0.8 | 2.5 | 4.8 | 2.9 |
| Services | 3.1 | 3.1 | 1.7 | 2.1 | 7.6 | 2.1 | 2.1 | 2.8 |
| Change in stocks (3) | 1.2 | 1.2 | -0.1 | 0.1 | -0.3 | -0.6 | -0.4 | -0.3 |
| Gross Domestic Product (GDP) | 1.9 | 1.9 | 2.0 | 2.0 | 0.4 | 0.2 | 1.3 | 1.0 |

(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 | |
|-------------------------------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| | June 2015 | March 2015 | June 2015 | March 2015 | June 2015 | March 2015 | June 2015 | March 2015 |
| Real effective exchange rate (CHF) | -1.6 | -1.6 | 0.6 | 0.6 | 8.2 | 3.4 | -2.2 | -3.5 |
| 3-month Libor CHF (1) | 0.0 | 0.0 | 0.0 | 0.0 | -0.8 | -0.8 | -0.8 | -0.8 |
| Yield of 10 years federal bonds (1) | 0.9 | 0.9 | 0.7 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Consumer prices | -0.2 | -0.2 | 0.0 | 0.0 | -1.1 | -0.8 | -0.3 | 0.0 |
| Full-time equivalent employment | 1.3 | 1.3 | 0.8 | 0.9 | 0.5 | 0.1 | 0.0 | -0.2 |
| Unemployment rate ILO (2) | 4.4 | 4.4 | 4.5 | 4.5 | 4.4 | 4.5 | 4.8 | 4.9 |
| Unemployment rate SECO (3) | 3.2 | 3.2 | 3.2 | 3.2 | 3.3 | 3.4 | 3.6 | 3.8 |

(1) Level

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

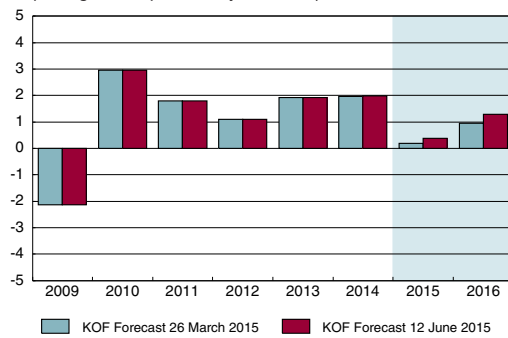
(3) Unemployed as percentage of labour force according to census of 2010

Graphs

Graph 1

Switzerland: Real GDP with Forecast

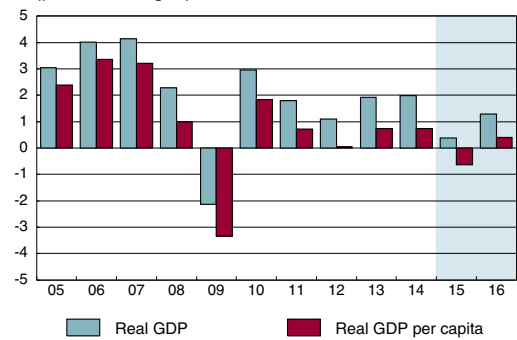
(change over previous year, in %)



Graph 2

Real GDP and GDP per Capita

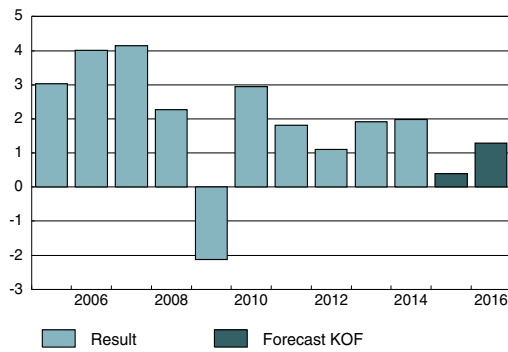
(percent changes)



Graph 3

Switzerland: Real GDP

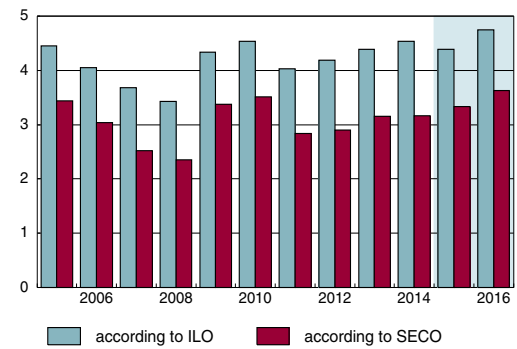
(percentage changes)



Graph 4

Switzerland: Unemployment Rate

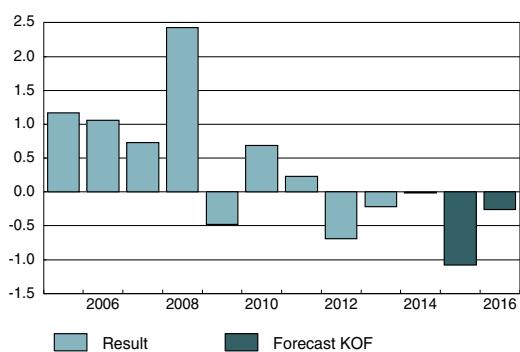
(per cent)



Graph 5

Switzerland: Consumer Prices

(percentage changes)



Graph 6

EU/USA: Real GDP

(percentage changes)

