

Press Release

Zurich, 5 October 2017, 10:00 a.m.

KOF Economic Forecast Autumn 2017: International Impulses Stimulate the Swiss Economy

This year, the Swiss gross domestic product will rise by 0.8% because of the weak first six months. Over the next two years, the economy will gain momentum with GDP growth of 2.2% (2018) and 1.9% (2019). The Swiss economy benefits from the positive development of the international economic environment that supports the Swiss export sector. Recovery of the labour market and price increases are slow.

Economic indicators (KOF Economic Barometer and KOF Business Situation Indicator) currently show a positive economic picture for Switzerland. Because of the weak development during winter 2016/17*, prospects for GDP growth are much gloomier than it had appeared in June, at the time of the last KOF forecast. Economic development will clearly improve during the second half of 2017. However, because of the weak figures for the winter 2016/17, the annual growth rate for 2017 will only be 0.8% (June: 1.3%).

Swiss exports supported by a sound global economy

Economic development during the forecast period will be buoyed up considerably by the development of the global economy. On the basis of these positive stimuli and special circumstances created by international sporting events (see box), KOF is expecting economic growth of 2.2% for 2018, above the general growth in economic activity. The global economy has been experiencing a relatively strong upturn for several quarters. This will continue, in slightly diminished form, until the end of the year. KOF is expecting a continuously strong expansion in the global economy for 2018 and 2019. The central banks' monetary policy might continue to have a supportive effect. Fiscal policy, on the other hand, will remain neutral from a global perspective. Robust economic development in Europe and the USA will benefit Swiss exporters. In particular, there might be stronger stimuli in trade with the European neighbours during the forecast period. Downward pressure on prices should lessen slightly, hence the margins of export-orientated companies will gradually recover. KOF is expecting robust 3% growth in Swiss goods and services exports this year. The increases will amount to 4.8% and 3.5% in 2018 and 2019.

Import of goods and services from abroad increased strongly in the 2nd quarter 2017 and led to a negative trade balance. Imports continue to develop dynamically with the robust and widely supported recovery of exports. The depreciation of the franc against the euro in the 3rd quarter 2017 might only be reflected in tourism imports (expenditure of Swiss people abroad). However, imports might recover slightly in the following years. All in all, imports into Switzerland in 2018 will grow by 5.1% and by 3.4% in 2019.

Investments in construction recover slightly

After a weak 2016, the construction sector might recover this year and pick up a little in the following year. The construction industry is being driven on by investments in infrastructure and in industrial and commercial buildings. However, rising interest rates and weakening demand are dampening development of residential construction. KOF is assuming that investments in construction will increase by 1.9% in 2018 and 1.6% in 2019.

As in previous years, investments in machinery and equipment will continue to be characterised by high investments in research and development, as well as highly fluctuating investments in rail vehicles and aircrafts. Investments in machinery and equipment will become more dynamic during the forecast period, because of rising demand and falling insecurity (2018: 2.8%, 2019: 2.9%).

Slightly increasing consumer prices in years to come

A consequence of the rejected “2020 pension reform” is the reduction of the rate of VAT by 0.3 percentage points from 1 January 2018. However, the reduction only affects part of the consumption and price increases are to be expected for imported products, because of the weaker franc. All in all, inflation will therefore not change considerably. KOF expects consumer prices to increase slightly in the next years, by 0.4% for 2017 and 2018 and by 0.5% for 2019.

Growth of wages was weak in recent years because of the reduced margins in many sectors of the economy. The improved economic prospects will lead to stronger wage dynamics, but not in the short term. Real wages might therefore practically stagnate in both 2017 and 2018. Higher wage settlements might only happen when the firms have managed to extend their margins again.

Leisurely increase in private consumer spending

Consumer spending has so far not been very dynamic this year. Disposable income will increase as wealth and business income, as well as employment, rise in the coming quarters. Growth in consumer spending might accelerate slightly as a result. KOF expects an increase of 1.3% in the 2017 annual results. All in all, the rising dynamism will lead to growth in consumer spending of 1.5% in each of the coming years.

The Swiss labour market remained virtually untouched by the recent fluctuation in value added. Following a weak 0.3% this year, full time equivalent employment will rise by 0.8% in 2018 and 2019. This approximately corresponds to the longer term average growth in employment. The number of registered unemployed might be at 3.1% in 2018 and the corresponding number according to the international comparable ILO-standard at 4.7%.

The franc no longer being quite as strong also contributes to the positive development on the labour market. KOF bases its forecast on the technical assumption of an unchanged exchange rate of 1.15 against the euro. Adjusted for inflation, the exchange rate against the euro is therefore only a little stronger than before the minimum rate was lifted.

Monetary policy stays expansive – positive financial development of the federal government

The monetary policy of the Swiss National Bank remains expansive, despite relaxation on the foreign exchange market. The long-term interest rates will indeed slowly rise from next year, but the short-term interest rate might only increase if the corresponding euro interest rate is raised by the European Central Bank.

The situation of public finances might improve on all three state levels during the forecast period. Firstly, the expected positive development of the labour market should stimulate income on federation, canton and municipality level. Secondly, a repeat of the reform of company taxation will lead to a more restrictive spending policy. For that reason, KOF expects that the dynamism of public spending will remain weak until the end of 2019.

* The latest quarterly estimates of GDP by the State Secretariat for Economic Affairs (SECO) turned out to be more negative than expected. Thus, economic performance according to SECO decreased at the end of 2016 (-0.7%), for the first time since the 1st quarter 2015. The 3rd quarter 2016 (1.1%) and the 1st quarter 2017 (0.3%) were also disappointing.

National accounts: Taking account of international sporting events

The sale of trademark and broadcasting rights for major international sporting events is now also taken into consideration in Switzerland's national accounts (SNA). Some international sporting associations, such as the International Olympic Committee (IOC), the Union of European Football Associations (UEFA) and the Fédération Internationale de Football Association (FIFA) have their headquarters in Switzerland. The international sporting events take place regularly but not annually. The venues also change and the economic activity is recorded at the location of the events. However, the income from licensing goes to the respective sports associations. This influences economic performance in Switzerland during the years when these international sporting events take place. In the coming year, the Winter Olympics will be held in South Korea and the football World Cup in Russia, which will have a special effect on Swiss economic performance.

Find more information about the KOF Forecast on our website:

<https://www.kof.ethz.ch/en/forecasts-and-indicators/forecasts/kof-economic-forecast.html> →

Contacts

Yngve Abrahamsen | Phone +41 44 632 53 23 | abrahamsen@kof.ethz.ch
Corporate Communications | Phone +41 44 632 40 61 | kofcc@kof.ethz.ch

