

Press Release

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KOF Economic Forecast Winter 2017/2018: Economy Rebounds

The global economy's substantial upturn also stimulates the Swiss economy. Foreign trade is picking up and investments in machinery and equipment are on the rise again. In 2018, GDP is expected to expand by 2.3%, in 2019 by 1.7%. The labour market situation is improving as employment figures are going up and the unemployment rate is declining.

KOF's assessment of Swiss economic development in the coming two years has not changed much since its last forecast in autumn. At present, the global economy is experiencing a significant upswing. However, in the course of the forecast period, the upturn is expected to slow down slightly due to rising over-utilisation of production factors in the developed economies and the phase-out of fiscal stimulation in China.

Benefiting from dynamic international demand and a stable exchange rate situation, the Swiss export sector is thriving. The most dynamic demand for Swiss products currently comes from the euro area. Lively demand from the USA, which has been on the dynamic side for quite some time, also persisted in the 3rd quarter 2017. Thanks to the consistent global upturn, exports of goods will continue to do well in the coming quarters. With the outlook for service exports also on the bright side, total exports are expected to rise by 6.2% in 2018 and 4.3% in 2019.

Given the solid positive economic trend, rising numbers of companies increase their investments. This is reflected by machinery and equipment investments, which are set to increase by 4.4% in 2018 and 1.9% in 2019. Construction investments benefit from the infrastructure funds, which are providing momentum in the civil engineering sector. In contrast, residential construction is likely to follow a relatively moderate trend. The positive development of goods exports and equipment investments is pushing up demand for imports.

Labour market situation improves

The current upswing is also affecting the labour market. KOF expects a further rise in employment figures (2018: 1.2%, 2019: 1%). Until the beginning of 2019, the unemployment rate is likely to gradually decline to 2.9% (registered unemployment) and to 4.5% according to the international unemployment definition (International Labour Organization, ILO). In the meantime, the income situation has also improved in the export sector and wage agreements will gradually rise again. KOF expects nominal wages to grow by 0.7% in 2018 and by 1% in 2019.

The improved employment situation and the slight rise in wages lead to a more positive income development. However, rising inflation of 0.5% in both 2018 and 2019 will put a slight strain on the real income trend. Private household spending is thus expected to increase by 1.6% in the coming year and 1.5% in 2019. Public spending growth will slow down slightly in the forecast period, from 1.2% in 2018 to 0.6% in 2019. This is owing to the central government's stabilisation programme, which has now taken effect, as well as restrained spending policies due to the possible implementation of Tax Proposal 17.

According to the KOF forecast, the CHF/EUR exchange rate will remain at just under 1.17 until the end of 2019. This rate is particularly advantageous to the export industry, which includes numerous sectors whose margins and sales suffered significantly in the years 2015 and 2016. Domestic retailers are also benefiting from the exchange rate development as cross-border shopping is becoming less attractive.

End of negative interest rates during the forecast period

KOF believes that the negative interest phase will be slowly coming to an end. In 2018, we expect a first rise in long-term interest rates and in 2019 a slow increase in the still negative short-term interest rates. During the forecast period, we do not anticipate an active reduction of the Swiss National Bank's (SNB) exceptionally high balance sheet total, which arose from past currency purchases. Even at the present exchange rate, the rise in prices will be minor; only a strong devaluation or a significant rise in crude oil prices could result in inflation rates beyond the SNB's "comfort zone" and hence in restrictive monetary measures.

During the forecast period, the public budget situation is likely to recover at all three government levels. On the one hand, the labour market improvement and companies' rising profits will boost income at the federal, cantonal and municipal levels. On the other hand, spending policies will become increasingly restrictive as a new corporate tax reform approaches, especially at the federal level. Since the revenue losses under the planned reform would not take effect before 2020, federal accounts will remain well in the black until the end of the forecast period.

Find more information about the KOF Forecast on our website:

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

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