

Press Release

Zurich, 23 June 2017, 9:00 a.m.

KOF Economic Forecast, Summer 2017: Economic Situation Picks Up Further

Thanks to the upturn in global economic development, the Swiss economy is gaining momentum. Prices are slowly rising again, although unemployment will remain at its current level. These are the main results of the latest KOF Economic Forecast.

International environment

Following solid global economic growth in the second half of last year, momentum slowed down at the beginning of this year. This was mainly due to a slowdown in the USA and the UK. Economic development in the other big economies remained solid. The upswing in the euro area continued, with macroeconomic production expanding substantially in Germany, France, Spain, the Netherlands and Portugal; the recovery even regained a foothold in Italy. Although the Chinese economy reported relatively low GDP growth in the 1st quarter 2017, however various monthly data indicate lively dynamics in the 1st quarter.

The global economic upswing should become more broadly based in the coming quarters. The developed economies, first among them the EU countries, will continue to provide significant impetus to global economic growth. Following a restrained 1st quarter, the US economy is likely to pick up speed. In contrast, the emerging markets are presenting a heterogeneous picture: While the recovery is continuing in Russia and expectations are slowly rising in Latin America, the situation in Brazil remains precarious. Dynamics have probably peaked out in China and KOF expects a gradual levelling in the coming quarters. At the same time, the Chinese economy has significant downward potential given the extent of its indebtedness.

Economic development in Switzerland

The Swiss economy will benefit from the global upswing. Economic activity is picking up and the companies most affected by the Swiss franc appreciation have largely adjusted to the new framework conditions. Repeated intervention by the Swiss National Bank (SNB) has prevented a further revaluation of the franc. KOF forecasts an exchange rate of CHF 1.09/EUR in the forecasting period.

Benefiting from the recent easing of the Swiss franc and the solid global economy, the export sector will see a slight improvement in margins. KOF expects exports to grow by 2.9% this year and 3.3% next year. Hand in hand with exports, imports are also starting to expand slowly (2017: 2.2%, 2018: 4.1%). Although investments in machinery and equipment are dominated by significant non-recurring effects, such as aeroplane imports, they will generally remain on the weak side (2017: -0.2%, 2018: 0.2%). Construction investments are slowly recovering and will grow by 1.2% this year (2018: 2.2%).

All in all, KOF anticipates a 1.3% rise in GDP this year – a downward revision from the preceding forecast in March (1.5%). However, KOF's assessment of the current and future development is slightly more on the positive side; the revision of the annual growth rate is due to the weak 1st quarter development reported by the State Secretariat for Economic Affairs (SECO). For the coming year, KOF expects a growth rate of 2.1% in largely unchanged economic conditions.

Prices on the rise again

Following five years of decline, consumer prices are slowly starting to rise again (2017 and 2018: 0.3%). However, this rise will be so low that is unlikely to lead to a tightening of monetary policy. Any such tightening would prevent a reduction of SNB foreign exchange reserves and might instead result in additional foreign exchange purchases. Short-term interest rates are therefore unlikely to change at all, while long-term interest rates may change slightly. The SNB will not consider tightening its monetary policy before the European Central Bank (ECB) embarks on a more restrictive policy.

Developments on the labour market, which has suffered the biggest impact of the revaluation of the Swiss franc after the SNB's January 2015 decision, are still ongoing. Although KOF does not anticipate an overall increase in unemployment thanks to increasingly positive labour market reports, a decline does not seem to be on the horizon either. Hence, the unemployment rate according to the International Labour Organization (ILO) definition is likely to stand at 4.9% this year and 4.8% next year. With continuous pressure for further rationalisation dominating large parts of the economy, any rise in employment will be on the weak side.

Low inflation and reduced margins in most sectors are affecting wages, which have risen very little or not at all in the last few years. However, due to the decline in prices, real wages did generally increase. Given the anticipated return to weak price rises, any increase in real wages during the forecast period is likely to be on the small side. Average employee salaries, which also include structural change and performance-related wage components, will rise slightly faster than the Swiss Wage Index. Nevertheless, the current KOF forecast puts them at below 1%.

Substantial differences between sectors

The ongoing contraction process in numerous industries is now petering out. Sectors that have fared relatively well will be able to expand their production volumes. This is primarily true for the pharmaceutical and medical technology industries. The chemical industry is also set to benefit from livelier economic activity in the EU. The watch industry, in contrast, is more dependent on distant markets where growth has been slowing down. Nevertheless, KOF considers it unlikely that value added in the sector will decline any further. On the contrary, the latest export figures give rise to cautious optimism.

In the services sector, financial services are likely to pick up again. Nevertheless, margins will remain under pressure both in the banking and the insurance sector. Healthcare will continue to expand substantially due to population growth, continuous demographic ageing and further progress in the medical field. In contrast, retail is still struggling with structural change and cross-border shopping. At least, cross-border shopping is not expected to increase any further. The wholesale trade regularly outperforms the retail trade, largely due to merchanting. Thanks to the sector's sheer size, any significant fluctuation in merchanting activities has a substantial impact on macroeconomic growth rates. The construction industry has weathered the crisis years and is in good condition, although we do not anticipate any material expansion of construction activities. The forecast also presents a more positive outlook for the tourism industry, which suffered substantially from the unfavourable exchange rate. Nevertheless, the emerging structural shift away from classic alpine destinations to city destinations is most likely irreversible.

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 42 39 | kofcc@kof.ethz.ch

Forecast Tables

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

Table 1:

World Economy

	2015		2016		2017		2018	
	June 2017	March 2017	June 2017	March 2017	June 2017	March 2017	June 2017	March 2017
Real gross domestic product (GDP)								
OECD Total	2.4	2.4	1.8	1.7	2.1	1.9	2.1	2.0
European Union (EU-28)	2.1	2.2	1.9	1.8	2.0	1.8	1.8	1.6
USA	2.6	2.6	1.6	1.6	2.2	2.2	2.4	2.4
Japan	1.1	1.2	1.0	1.0	1.1	1.1	0.7	0.7
Oil price (\$ per barrel)	52.1	53.0	43.3	45.1	49.1	53.2	47.5	53.2

Table 2:

Switzerland: Real Gross Domestic Product by Type of Expenditure

at previous year's prices	2015		2016		2017		2018	
	June 2017	March 2017	June 2017	March 2017	June 2017	March 2017	June 2017	March 2017
Private consumption	1.1	1.1	1.2	1.2	1.2	1.0	1.0	1.0
Public consumption	2.2	2.2	1.9	1.9	1.3	1.5	1.2	1.2
Gross fixed capital formation	1.6	1.6	2.4	2.4	0.3	-0.1	1.0	1.6
Construction	2.2	2.2	-0.1	0.0	1.2	1.1	2.2	2.3
Machinery and equipment	1.3	1.3	4.0	4.1	-0.2	-0.9	0.2	1.0
Exports of goods (1) and services	2.2	2.2	4.8	4.9	2.9	2.0	3.3	3.7
Goods (1), (2)	0.7	0.7	5.6	5.8	3.3	2.0	4.0	4.0
Services	1.6	1.6	2.2	2.3	3.2	2.2	2.1	3.5
Imports of goods (1) and services	3.0	3.0	2.2	2.1	2.2	2.4	4.1	4.0
Goods (1)	0.0	0.0	4.0	3.9	2.4	3.1	4.2	3.0
Services	9.0	9.0	-1.2	-1.3	1.9	1.1	3.9	6.1
Change in stocks (3)	-0.4	-0.4	-2.4	-2.5	0.5	1.4	1.3	0.5
Gross Domestic Product (GDP)	0.8	0.8	1.3	1.3	1.3	1.5	2.1	1.9

(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

© KOF, ETH Zürich

Table 3:

Switzerland: Other Macroeconomic Indicators

	2015		2016		2017		2018	
	June 2017	March 2017	June 2017	March 2017	June 2017	March 2017	June 2017	March 2017
Real effective exchange rate (CHF)	7.0	7.0	-2.4	-2.3	-0.3	0.2	-1.4	-1.2
3-month Libor CHF (1)	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Yield of 10 years federal bonds (1)	-0.1	-0.1	-0.4	-0.4	-0.1	0.0	0.0	0.2
Consumer prices	-1.1	-1.1	-0.4	-0.4	0.3	0.3	0.3	0.3
Full-time equivalent employment	0.7	0.8	-0.1	-0.1	0.4	0.5	0.8	0.6
Unemployment rate ILO (2)	4.8	4.5	4.9	4.6	4.9	4.6	4.8	4.7
Unemployment rate SECO (3)	3.2	3.2	3.3	3.3	3.2	3.3	3.2	3.3

(1) Level

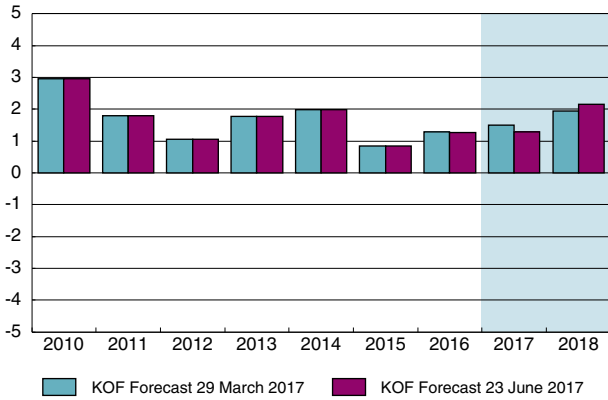
(2) Unemployed as percentage of labour force according to the International Labour Organization, ILO

(3) Unemployed as percentage of labour force according to survey 2012-2014

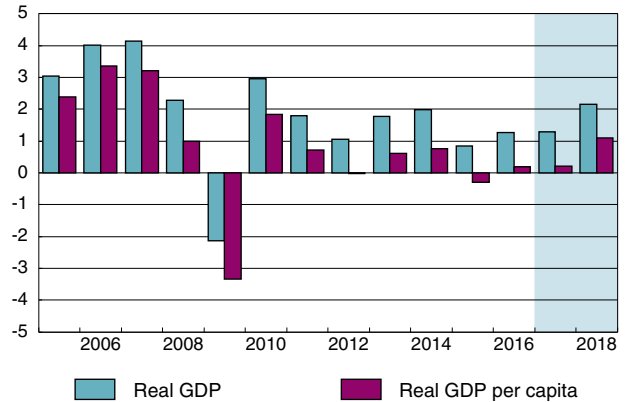
© KOF, ETH Zürich

Graphs

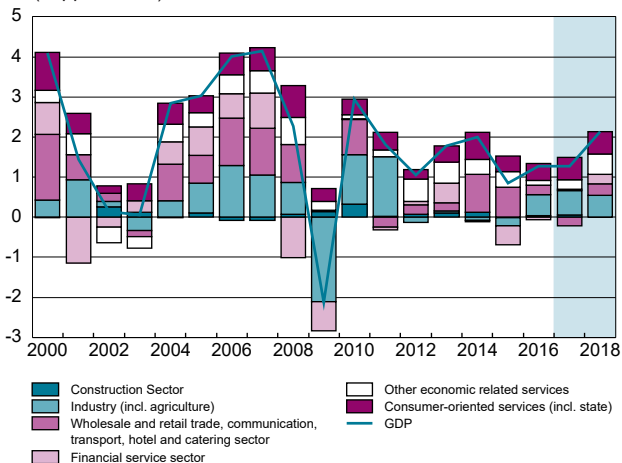
Graph 1
Switzerland: Real GDP with Forecast
 (change over previous year, in %)



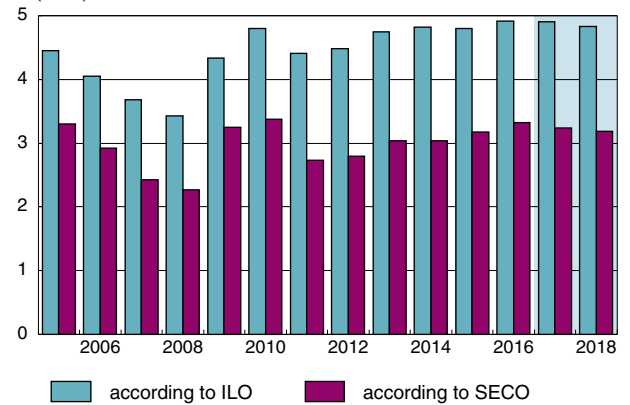
Graph 2
Real GDP and GDP per Capita
 (change over previous year, in %)



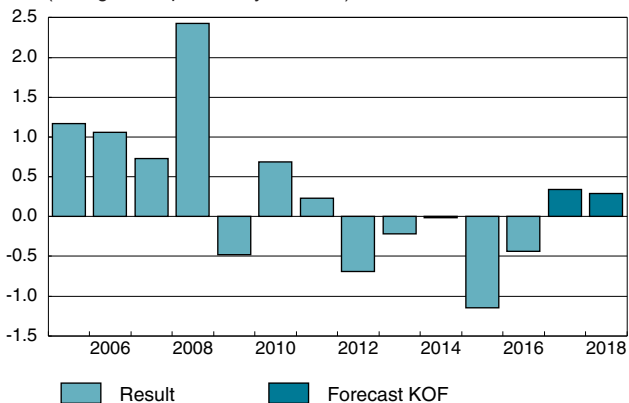
Graph 3
Growth Contributions GDP: Production Side
 (in pp of GDP)



Graph 4
Switzerland: Unemployment Rate
 (in %)



Graph 5
Switzerland: Consumer Prices
 (change over previous year, in %)



Graph 6
EU/USA: Real GDP
 (change over previous year, in %)

