ETH zürich KOF

Press Release

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KOF Economic Forecast, winter 2018/2019:

Swiss Economy Losing Momentum

Despite the fact that growth in gross domestic product (GDP) for the third quarter of 2018 was negative, the Swiss economy remains in fairly good shape on the whole. KOF expects GDP to rise by 2.6 per cent in 2018. Consumer spending will become a key driver of economic activity over the forecast period. Unemployment will continue to fall owing to the robust performance of the economy. KOF is forecasting that GDP growth will be slightly lower at 1.6 per cent in 2019 before rebounding to 2.1 per cent in 2020.

The Swiss economy has passed its peak in the growth cycle, slowing significantly in the third quarter. Nonetheless, it remains in good shape overall. The domestic part has provided strong stimulus for the Swiss economy. KOF has revised downwards its forecast for GDP in 2018 from 2.9 per cent to 2.6 per cent, however, in light of its weaker performance during the late summer.

Global economic growth this year has flattened out compared with 2017, and this development is set to continue next year. The recently strong economic growth in the United States is likely to return to normal levels in 2019, although consumer spending will continue to benefit from the buoyant labour market and real wage increases. Economic growth in China and the euro area is slowing. Increasingly fully utilised production capacities in the euro area leave little scope for further significant growth in some countries. On the other hand, political developments – such as the international trade conflict, the dispute about Italy's budget and the associated financial market risks – are increasingly acting as a drag on companies' propensity to invest. Economic activity in many emerging markets will be subdued by capital outflows and currency depreciations in this and subsequent quarters. Although the risk of a rapid global downturn has increased lately, KOF is predicting a soft landing for the global economy during the forecast period. Foreign trade will therefore provide less stimulus for the Swiss economy next year.

Consumer spending as a key driver of economic activity

Private consumption will become a key driver of the Swiss economy during the forecast period. In the third quarter of 2018, various one-off factors concealed the emerging underlying positive trend in consumer spending. The hot, dry summer as well as supply difficulties experienced by some foreign car manufacturers almost caused private consumption to stagnate. However, consumers' buying sentiment is likely to improve significantly towards the end of the year.

Employment is set to increase in the near future while unemployment should fall. After rising sharply by 1.8 per cent this year, full-time-equivalent employment will grow by a slightly more modest 1.1 per cent in 2019 before increasing by a similar amount of 1 per cent in 2020. The registered unemployment rate according to the figures supplied by the State Secretariat for Economic Affairs (SECO) will fall to a modest 2.4 per cent next year and amount to 2.5 per cent in 2020. The unemployment rate according to the International Labour Organization (ILO) is evolving similarly. It should continue to edge lower and then stabilise at just over 4 per cent during the forecast period.

The return of positive inflation rates caused real-terms wage increases in 2017 and 2018 to fade away. This situation will probably change next year. Wages are likely to rise slightly more sharply than prices in 2019 and 2020. Consequently, average wage compensation will increase slightly more strongly, and total wage compensation as a percentage of GDP will rise marginally. As nominal earnings and households' real disposable incomes rise more than previously, this increasingly benign development will pave the way for an expansion in consumer spending. Private consumption should therefore grow by a price-adjusted 1.2 per cent next year after rising by 1 per cent this year. Consumer spending could increase by 1.6 per cent in 2020.

Modestly rising investment
The current uncertainty prevailing in international trade is having an adverse impact on decisions as to where to locate and invest in production facilities. This trend is also affecting Switzerland. Capital spending on new production facilities will increase only modestly compared with previous periods. Only transport infrastructure is expected to generate strong growth. This relates to both civil-engineering investment in road and rail as well as capital spending on new aircraft and rolling stock. Residential construction investment, however, will be lower than in the past. This is mainly because the number of housing completions has for some time now far exceeded the increase in the number of households, causing higher vacancy rates.

As already mentioned in its autumn forecast, KOF expects economic growth in GDP to weaken over the forecast period up to the end of 2020. Although GDP is likely to grow by 1.6 per cent in 2019 and 2.1 per cent in 2020, the lower figure for 2019 cannot solely be attributed to the performance of the economy. It is mainly due to the lower level of revenue received by the international sporting associations headquartered in Switzerland.

Industry recovering from setbacks; value added in the finance sector stabilised
The pharmaceutical industry generated much lower revenue in the third quarter of 2018. Since then, exports of pharmaceutical products and the revenue generated by them have risen sharply. Delays in type approvals of new German cars have also had an adverse impact on the statistics. They have hit the suppliers of vehicle parts and metals as well as the sale of new motor vehicles. The decline in the proportion of value added by the financial sector has now ended, and it is likely to remain almost constant throughout the forecast period. Since 2007, the share in GDP of value added by insurance companies has remained virtually stable, whereas the share of banks has almost halved. If there are no setbacks (e.g. fines) in the financial sector, profitability might recover slightly in future.

SNB will keep interest rates on hold
The Swiss franc has appreciated against the euro since May of this year. The exchange rate at the beginning of May was close to the minimum rate abandoned at the beginning of 2015 and could therefore be seen as fairly beneficial to Swiss exporters. KOF is predicting a stable franc exchange rate of 1.13 to the euro over the forecast period. The price of oil has edged lower lately, and this means that KOF’s inflation forecast needs to be revised downwards marginally (0.9% instead of 1%). However, the anticipated inflation rate remains low, with rises of 0.6 per cent next year and 0.7 per cent in 2020. The Swiss National Bank will therefore not need to pursue a more restrictive monetary policy any time soon. Nonetheless, low interest rates have in the past led to higher levels of investment in real estate and housebuilding. Slightly higher vacancy rates and the additional macro-prudential measures taken in the banking sector seem, however, to be preventing the construction sector from overheating any further. KOF therefore expects any interest rate rises to come only gradually and to be synchronised with the policies of the European Central Bank. Consequently, negative interest rates are likely to continue until 2020.

Forecasting risks
The main downside risks to KOF’s forecast come from the international arena, especially as a result of uncertainties arising from international trade conflicts and further developments around Brexit. However, the situation with Italy’s budget and the ongoing protests in France also increase the risk of a downward correction in the euro area. The various risks to the global economy going forward have already fuelled uncertainty and, in some cases, caused upheavals in financial markets. This volatility now also poses a downside risk to the Swiss economy.

Further information on KOF’s Economic Forecast for winter 2018/19 can be found here:
https://www.kof.ethz.ch/en/forecasts-and-indicators/forecasts/kof-economic-forecast.html →

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