

Press release

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KOF Economic Forecast, Autumn 2018: Swiss Economy Motoring Ahead

The Swiss economy is booming. Gross domestic product (GDP) for this year is set to rise by an impressive 2.9 per cent. International economic activity is providing a positive stimulus, and the domestic economy is boosting business activity as well. Unemployment is also set to fall as a result of the strong economy. KOF expects the rate of growth to slow slightly to 1.7 per cent next year before GDP growth will likely rebound to 2.1 per cent in 2020.

The Swiss economy is surging ahead. The strength of the global economy and the level of domestic business activity are providing a positive stimulus to the Swiss economy. Capacity utilisation in industry is now at its highest level since 2011. This impressive economic performance is broad based, with both manufacturing industry and the service sectors managing to raise their output. KOF has revised upwards its forecast for GDP in 2018 from 2.3 per cent to 2.9 per cent.

The expansion of the global economy is set to accelerate slightly in the second half of this year. The pace of growth will then slow somewhat from 2019 onwards. The US economy in particular will expand significantly in the near future on the back of its fiscal stimulus, although even this market is unlikely to achieve the high growth rates attained last year. Economic growth in China remains robust, while the performance of the euro area has been slightly weaker. Liquidity outflows and currency depreciations will dampen economic activity in many emerging markets in this and subsequent quarters. Overall, however, the outlook for the international economy is only gradually likely to deteriorate slightly. Foreign trade will therefore initially continue to boost the Swiss economy.

Private consumption remains stable

As the largest individual demand component, domestic private consumption has a huge influence on the ultimate level of demand in the national economy as a whole. Consumer spending will remain stable throughout the forecasting horizon. A combination of solid income growth and modest wage increases is supporting private consumption. Because inflation will grow less than nominal wages next year, we will see a slight rise in real wages.

Capital spending on machinery and equipment in recent years has been significantly influenced by the replacement and expansion of transport facilities. Because such fleet replacements are now slowly coming to an end, growth in spending on machinery and equipment will gradually decline after 2019. However, this decrease will be partially offset by investment in other areas of the economy, with expansion investment making a growing contribution here.

KOF expects Swiss GDP growth to weaken over the course of its forecasting horizon up to the end of 2020. Although GDP growth is predicted to be 1.7 per cent for 2019 and 2.1 per cent for 2020, the lower figure for 2019 stems not from the country's economic performance but from the lower levels of revenue received by the international sporting associations based in Switzerland.

Unemployment remains low

The economic upturn has fed through into the labour market. The number of people in employment is rising (2018: up 1.9 per cent in terms of full-time equivalents) while the unemployment is falling. The rate of those officially registered as unemployed this year will be 2.7 per cent, and over the next two years it will remain stable at 2.5 per cent. The unemployment rate according to definition by the International Labour Organization (ILO) will decline over the course of our forecasting horizon from 4.7 per cent this year to 4.4 per cent in the next two years.

Broad-based economic activity

The encouraging levels of business activity across all sectors should continue throughout the forecasting horizon. The sectors hardest hit by the appreciation of the Swiss franc in 2015 – the metal, machinery and tourism industries – have recently bounced back and, assuming that exchange rates remain stable going forward, they can expect to raise their output further. The retail sector has won back market share and, according to KOF's forecast, will continue to expand in future. KOF is more sceptical about the outlook for financial services, while the construction industry, which has managed to increase its production every year since 2007, has now reached a turning point. KOF expects the amount of value added in the construction sector to stagnate over the next few years.

SNB unlikely to raise interest rates before ECB

The Swiss franc's weaker exchange rate against the euro over the past year or so has helped boost the profitability of domestic companies that compete with firms abroad. KOF reckons from a technical perspective that this exchange rate will remain fairly stable at 1.13 francs to the euro throughout the forecasting horizon. The current strength of the Swiss economy means that an interest-rate hike would be a distinct possibility. In the euro area, however, short-term rates are likely to remain well below zero for at least another year. Any earlier hike in Swiss interest rates would therefore pose the risk of the franc appreciating. Consequently, KOF does not expect the Swiss National Bank (SNB) to raise its interest rates before the European Central Bank (ECB) does so. Long-term rates, which have recently been falling slightly, are likely to be trending higher again by the end of this year. Because this rise will happen only slowly, however, the yield on ten-year government bonds will remain below 1 per cent up to the end of the forecasting horizon.

Forecasting risks

Downside risks to KOF's forecast are likely to come primarily from the international arena. Above all, a slump in world trade as a result of trade wars could hit Switzerland badly. With the possibility of a no-deal Brexit looming and the potential revival of concerns about the stability of the euro, the Swiss franc – a traditional safe-haven currency – could appreciate sharply, thereby choking Swiss exporters' recovery from the 2015 appreciation shock.

Here you can find further information about the KOF Economic Forecast, Autumn 2018:

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

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