

Press Release

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KOF Economic Forecast: Swiss economy recovering more strongly than expected

The recovery has arrived and is stronger than previously expected. According to KOF's economic forecast, gross domestic product will rise by 4 per cent this year. KOF expects to see growth of 2.8 per cent for 2022. Switzerland's economic output should already exceed its pre-crisis level in the current quarter thanks to strong growth in value added.

Economic slump almost compensated for

The Swiss economy this quarter is on the verge of compensating for the massive slump caused by the consequences of the COVID pandemic last year. Although economic output measured in terms of gross domestic product (GDP) declined as expected in the first quarter of 2021 owing to the restrictions in place in the winter half-year 2020/21, the decrease in GDP was smaller than forecast.

Highest GDP growth rate since 2007

According to KOF's forecast, GDP will grow by 4 per cent in 2021, which would be the highest GDP growth rate since 2007. Although the pace of growth will slow somewhat in 2022, the rate of 2.8 per cent will still be around twice as high as Switzerland's estimated potential growth. This means that, over the course of next year, GDP will almost return to the growth path that was expected before the onset of the coronavirus crisis. The long-term loss of value added to the Swiss economy resulting from the coronavirus pandemic would then be small and would be limited to just a few sectors particularly severely affected by the pandemic.

Private consumption picks up again

The reason for this positive economic trend is the significant improvement in the epidemiological situation in recent weeks. The sharp decline in case numbers has allowed governments in Switzerland and key foreign markets to lift restrictions slightly sooner than expected. The withdrawal of these measures has boosted private consumption in the current quarter, resulting in a sharp increase in value added – especially in the service sector.

Swiss goods in demand abroad

A key driver of the forecast strong recovery is demand for Swiss goods from abroad. Following a modest downturn in the first quarter of 2021 owing to the coronavirus restrictions in place in the winter half-year, the economies of importance to Switzerland are expected to grow substantially in the second and third quarters of 2021. In addition to catch-up effects, strong consumer sentiment and companies' greater willingness to invest, the fiscal support measures that Switzerland's major trading partners have decided on and, in some cases, already implemented will also play a key role here.

Firms are investing in expanding their capacity

The strong recovery of the global economy coupled with the confidence that an end to the pandemic is in sight should have a positive impact on Swiss companies' willingness to invest in the current year. Until the beginning of this year, many firms had been waiting to implement major investment projects because of the uncertainty caused by the pandemic. The KOF Investment Survey conducted in spring 2021 found that many companies are now planning to invest in expanding their capacity this year.

Inflation is likely to be largely transitory

KOF is forecasting price increases of 0.4 per cent this year and 0.5 per cent next year. Inflation in Switzerland is thus likely to be much lower than in the United States and the euro area, for example. Nevertheless, these forecasts are relatively high price increases by Swiss standards: these inflation rates are above the average for the last ten years. However, KOF does not expect these price rises to trigger a wage-price spiral.

Easing of conditions in the labour market

The upturn throughout the economy, which will also affect key employment sectors such as hospitality in the second half of the year, should cause the labour market situation to improve noticeably in the current year. It is therefore expected that by the autumn hardly any employees will still be on short-time working. Over the year as a whole, the unemployment rate in 2021 is likely to be 5.1 per cent according to the International Labour Organization (ILO) definition, which is more appropriate for international comparisons, and 3.1 per cent according to the definition of registered unemployed used by Switzerland's State Secretariat for Economic Affairs (SECO). We are forecasting that the rate will fall to 4.8 per cent (ILO) and 2.7 per cent (SECO) next year.

Virus variants pose a forecasting risk

KOF is forecasting that the Swiss economy will bounce back assuming that the vaccination campaigns conducted in this country and in economically relevant foreign countries make it possible to gradually ease the remaining coronavirus-related restrictions over the coming months. The recovery would be noticeably protracted if there were delays in the easing of restrictions over the coming months or if drastic containment measures were reintroduced, for example owing to new variants of the virus against which the existing vaccines demonstrated less efficacy. Conversely, a more positive evolution of the pandemic – such as a sharp decline in case numbers in areas that currently continue to show high infection rates – could help the global economy to stage an even more robust recovery and have a correspondingly positive impact on Switzerland.

Inflation poses a threat – especially in the United States

KOF also sees forecasting risks in the fact that the current price increases could take on a life of their own and inflation expectations could become anchored at higher levels. Such second-round effects could force central banks to adopt a more restrictive stance – by raising interest rates – which would slow down the current recovery more quickly than assumed. KOF considers this inflation risk to be particularly relevant to the United States.

The full report on the KOF Economic Forecast (in German) is available here:

https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/images/medienmitteilungen/Prognose/Buch_KOF_Analysen_Sommer_2021_210621_def.pdf →

Fact, figures and more information on the KOF Economic Forecasts is available here:

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

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