

Press Release

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KOF Economic Forecast for winter 2021/22: pandemic slowing economic recovery

The deteriorating epidemiological situation in Switzerland and throughout Europe has forced KOF to revise its economic forecast downwards. Under its baseline scenario, KOF expects gross domestic product (GDP) to grow by 3.4 per cent this year and 2.9 per cent in 2022. KOF is forecasting that an economic recovery will begin in the spring.

Epidemiological situation clouding outlook for winter half-year

KOF expects GDP adjusted for sporting events to grow by 3.4 per cent this year, 2.9 per cent next year and 2.4 per cent in 2023 (3.6 per cent, 3.0 per cent and 2.1 per cent including sporting events). KOF has thus revised its GDP forecast for the winter half-year 2021/22 downwards in view of the deteriorating epidemiological situation at home and abroad. However, the medium-term outlook remains positive as infection rates are forecast to be significantly lower in the spring than they are at present. Stronger growth can therefore be expected again from spring 2022.

Evolution of pandemic causing uncertainty: KOF adds negative scenario

Given the currently high level of uncertainty regarding the evolution of the pandemic going forward and the restrictions required, KOF is supplementing its latest forecast with a scenario under which even stronger measures need to be taken to contain the pandemic. Under this negative scenario there is a decline in output in the first and second quarters of 2022 compared with the baseline scenario. The enhanced measures taken to combat the pandemic mean that the Swiss economy is expected to grow by 2.8 per cent in 2022 under the negative scenario including sporting events. The continuing recovery in 2023, on the other hand, will be somewhat stronger than assumed under the baseline scenario, resulting in a growth rate of 2.2 per cent. This means that the decline in value added in the spring of 2022 will be purely temporary.

Supply problems and high inflation rates dampening international economic activity

The forecast for the international economy is similar. Increasing supply shortages, high inflation rates and a further rise in new infections are likely to dampen economic activity in Switzerland's key trading partners during the winter half-year. From spring 2022 onwards, however, strong recoveries can be expected there as well.

Food-service sector continues to suffer from weak demand

Voluntary changes in behaviour and tighter restrictions caused by the renewed wave of the pandemic will reduce demand for high-contact services such as bars and restaurants. The transport sector will also suffer further losses as a result of tighter travel restrictions and the recommendation for people to work from home. However, KOF expects these losses to be significantly lower than they were last winter because the measures required will be less stringent owing to the increasing immunisation of the population. The pharmaceutical industry, which is independent of the economic cycle, will hardly be affected thanks, in part, to the further expansion of its vaccine production capacity.

Unemployment rate remains stable

The economic recovery of recent quarters has had a clear and positive impact on the labour market. Employment increased strongly in the second half of the year and had already exceeded its pre-crisis level by the third quarter. However, the relevant trends varied from one sector to another. The worst-performing sector was hospitality. The unemployment rate as defined by the International Labour Organization (ILO) is expected to have fallen to 4.5 per cent in the fourth quarter and to average an annual 5.1 per cent in 2021. The situation in the labour market will not deteriorate significantly over the winter despite another wave of the pandemic. Short-term fluctuations in demand can continue to be cushioned by short-time working. KOF expects the unemployment rate to stabilise at its current level over the coming years.

Consumer spending declines

The current epidemiological situation is reducing demand for various consumer goods. Although most of the current measures are less stringent than those in 2020, restaurants and events still have to expect less customer footfall and lower spending by their guests. As the pandemic wave subsides and the associated restrictions come to an end, consumer spending as a proportion of disposable income is likely to return to its pre-crisis levels. However, it is unlikely that the savings accumulated during the pandemic will be significantly depleted, as retrospective consumption of services is only possible to a limited extent.

Moderate inflation in Switzerland

Inflation rates have risen sharply in many countries over recent months. This is the first time since the outbreak of the financial crisis that inflation rates in the major currency areas have exceeded their central banks' inflation targets. In contrast to other countries, Swiss inflation in November remained within a range that the Swiss National Bank (SNB) defines as price stability. If we ignore the effect of oil prices and pandemic-related one-off factors, inflation was at more or less the same level as in 2019. KOF reckons that inflation is likely to have peaked as early as November 2021 and that inflation rates will decline continuously over the forecasting period (2022: 0.8 per cent; 2023: 0.4 per cent).

The full report on the KOF Economic Forecast can be found here:

https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2021/KOF_Analysen_Winter_2021_def.pdf

Data and further information on the KOF Economic Forecast are available here:

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

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