

# Press release

Zurich, 15 December 2022, 9 am

## **KOF's economic forecast for winter 2022: energy crisis continues to weigh on the economy**

**KOF's latest economic forecast predicts that Switzerland's gross domestic product (GDP), adjusted for sporting events, will increase by 2.1 per cent in real terms this year. It will only grow by 1 per cent in the coming year owing to the global economic slowdown. KOF has made very few changes to its economic outlook and has hardly revised its latest forecast at all compared with the autumn forecast. However, the risk of energy shortages and an associated economic crash has decreased since the autumn.**

### **International economic indicators falling sharply; Switzerland should avert recession**

The energy crisis, the broad-based rise in inflation and the expiry of catch-up effects in the wake of the COVID-19 pandemic caused international economic indicators to plummet some time ago. A decline in overall economic output is expected in some countries for this winter or the first half of 2023. The Swiss economy will not be able to escape this trend entirely. However, it should manage to avert a recession owing to its comparatively high resilience, although its level of output is likely to stagnate. According to KOF's forecast, real Swiss GDP will rise by 2.1 per cent on average this year (adjusted for major sporting events), by only 1 per cent in 2023 owing to the aforementioned stagnation in the first half of the year, and by 1.7 per cent in 2024.

### **Inflation will continue to fall**

Inflation in Switzerland has recently fallen slightly owing to a decline in oil prices. At around 3 per cent it is far below inflation in other European countries but well above the inflation target for the Swiss National Bank (SNB). As regulated energy prices will be raised in the first quarter of 2023, there will be further inflationary pressures. The expiry of base effects will then cause inflation to fall over the course of 2023. KOF expects consumer prices to rise by 2.9 per cent for 2022 as a whole, by 2.3 per cent in 2023 and by 1.1 per cent in 2024.

### **No noticeable rise in unemployment; real wages set to fall this year**

As the economy slows, the booming labour market will weaken towards the end of this year and the increase in employment will flatline. This weaker employment growth means that joblessness will not fall any further. However, KOF does not expect to see any noticeable rise in unemployment either. The unemployment rate as defined by the International Labour Organization (ILO) should be 4.2 per cent this year. KOF is forecasting 4.1 per cent and 4.3 per cent for 2023 and 2024 respectively.

Real wages are expected to fall by 1.3 per cent in 2022 as employers, workers and trade unions were unable to factor the unexpectedly high inflation increases into their pay negotiations. Given that inflation remains elevated, wage settlements in the coming year are likely to be higher than before. Despite the economic downturn, moreover, the buoyant labour market situation means that wage increases will compensate for the inflation-related loss of purchasing power, with real wages forecast to rise by 0.1 per cent in 2023 and by a further 0.6 per cent in 2024.

### **Weak consumer sentiment, but COVID-related catch-up effects providing support**

The consumer sentiment survey conducted by Switzerland's State Secretariat for Economic Affairs (SECO) hit a new historic low in October. Nevertheless, private consumption is forecast to grow by an

impressive 4.1 per cent in 2022 mainly owing to statistical overhang effects from last year and catch-up effects following the COVID-19 pandemic in the first half of 2022. Growth in consumption is likely to be below average throughout 2023 as a result of the decline in real disposable incomes. However, the encouraging labour market situation and ongoing COVID-related catch-up effects are preventing any stagnation. KOF is forecasting an increase of 2 per cent in private consumption for 2023 as a whole.

### **Exports should pick up again in the second half of 2023**

Exports are expected to flatline in the first half of 2023 owing to the weak international economy. The same applies to imports. As an economic recovery is forecast for Europe in the second half of 2023, exports should also pick up then. KOF expects exports to increase by 2.1 per cent for 2023 as a whole after rising by 4.7 per cent this year. Exports are forecast to grow by 5.3 per cent in 2024.

### **Risk of energy shortages has decreased**

The risk of an energy crisis in Switzerland and elsewhere in Europe has recently declined. The reasons for this – besides lower energy consumption due to the economic slowdown – are the mild temperatures in autumn, abundant rainfall and, presumably, increasingly successful efforts to save energy and switch to less scarce energy resources. In addition to the energy crisis risk there are the usual downside risks. For example, central banks may be forced to take drastic action if inflation proves to be more stubborn than expected. Also, the coronavirus pandemic could return if a new, dangerous variant proves to be immune to existing vaccines. The geopolitical conflicts over Ukraine and Taiwan could escalate further, even though China and the United States seem to have recently rediscovered a somewhat better understanding. And on the horizon there are already signs of a new potential debt crisis looming in Europe as a result of the rapid increase in government spending.

But there are also upside risks. China, for example, could experience an economic recovery after it recently abandoned its zero-COVID policy, which will also have a positive impact on the global economy. Moreover, this policy reversal will mitigate international supply problems. In addition, energy prices and overall inflation could fall faster than expected, which would lower production costs and allow interest-rate cuts.

**The full report on KOF's economic forecast (in German) is available here:**

[https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2022/2022\\_4\\_Winter\\_gesamtbericht.pdf](https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2022/2022_4_Winter_gesamtbericht.pdf)

**Figures and further information on KOF's economic forecast are available here:**

<https://kof.ethz.ch/prognosen-indikatoren/prognosen/kof-konjunkturprognosen.html>

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