

# Press release

Zurich, 5 October 2022, 10am

## **KOF's economic forecast for autumn 2022: energy crisis acting as a drag on the economy**

**KOF is forecasting that Switzerland's gross domestic product (GDP) will grow by 2.3 per cent this year. Under its baseline scenario KOF expects real gross domestic product adjusted for sporting events to rise by 1 per cent next year. Uncertainty about gas supplies during the winter has increased sharply throughout Europe. KOF's baseline scenario assumes, however, that there will be no formal rationing on a major scale here.**

### **No recession in Switzerland despite sharp rise in energy prices**

Energy prices worldwide have shot up as a result of the war in Ukraine, which in turn has fuelled inflation in many countries. Persistent supply problems and the impact of the pandemic in China are stoking these price rises further. Although inflation in Switzerland is lower than in other countries, even here it is curbing purchasing power. Given these circumstances, KOF is forecasting that real GDP (adjusted for major sporting events) will grow by 2.3 per cent this year, by 1 per cent next year and by 1.7 per cent in 2024. This means that, under KOF's baseline scenario, the Swiss economy should be able to avert a technical recession, which is defined as two consecutive quarters of negative growth. Economic activity will gradually gain a foothold over the course of 2023 before returning to normal in 2024.

### **Uncertainty about gas supplies is constraining the global economy**

Uncertainty about gas supplies during the coming winter has risen across Europe and, in particular, for Germany. KOF's baseline scenario assumes, however, that there will be no formal rationing on a major scale. The best-case scenario – which is assumed here in the baseline scenario – predicts that politicians should manage to avoid the need for any such formal rationing by obtaining supplies from other countries, saving energy and using their gas reserves. Nonetheless, these shortages are reflected in higher prices and are already making some business models unprofitable. In addition to its baseline scenario KOF has produced two more negative scenarios involving more severe energy crises (please refer to the box on the next page).

### **Domestic consumption providing a significant boost to the Swiss economy**

The one-off effects of consumer spending – triggered by the calming of the pandemic – are dissipating in the autumn. Consumers are now becoming slightly more cautious again. Private consumption will continue to grow over the next two quarters – primarily owing to the demand for services. Although real incomes are under pressure, this situation will be mitigated from a consumption perspective by a further reduction in the persistently high savings ratio. Stronger population growth is a further relevant factor here. Domestic private consumption will therefore provide a significant boost to the Swiss economy – in contrast to Germany, for example – over the next few quarters.

### **Labour market tightness is gradually easing**

The labour market remained very strong until well into the late summer, with unemployment falling to much lower levels than in the pre-crisis year of 2019. The late autumn should, however, see a reversal of the situation in the labour market. Given the gloomy economic outlook, the increase in employment will temporarily grind to a halt for two quarters. Although unemployment will rise slightly over the course of 2023, from a historical perspective it will remain low and close to the modest levels seen in 2019. The average annual unemployment rate – as defined by the International Labour Organization (ILO) – is expected to be 4.2 per cent this year and 4.1 per cent next year.

### **Price pressures are likely to abate from the middle of next year**

Swiss inflation rose to 3.5 per cent in the summer, which is its highest level for almost 30 years. As international economic activity is slowing significantly, KOF is not expecting to see any further steep rises in the prices of oil-related products and industrial metals. Although inflation rates of above 3 per cent will therefore continue to be witnessed over the coming months, they should not exceed 3.5 per cent. Price pressures are then likely to abate substantially from the middle of next year onwards, so inflation should return to below 2 per cent by the end of 2023. The Swiss National Bank (SNB) will raise its key interest rate further over the next few months, targeting a level of 1 per cent at the forthcoming year-end. At the end of 2023, however, it will start to cut interest rates again gradually.

### **Loss of purchasing power can be offset by higher nominal wages**

One consequence of the high level of inflation is that Switzerland is facing an autumn of tough pay negotiations. Wage earners did not price this year's inflation into their pay demands last year. Consequently, rising consumer prices have eroded the purchasing power of their wages this year. KOF's latest forecast shows that the loss of purchasing power suffered this year is likely to be offset by nominal wage rises next year. Despite the unexpectedly high level of inflation, real wages will not decline over the aggregate period of 2022 and 2023. KOF is forecasting that wages – as measured by the Swiss Wage Index (SLI) – will rise sharply in nominal terms both this year and next year. KOF expects them to increase by 2.1 per cent this year and 2.7 per cent next year. Once the anticipated level of annual inflation is deducted, however, real wages will have actually risen by very little.

## Negative scenarios

KOF has presented two negative scenarios to take account of the heightened uncertainty around energy supplies.

### Negative scenario 1:

The first negative scenario is based on the assumption that all of Russia's supplies of oil and gas to the European Union will be cut off from October 2022. Under this scenario only 25 per cent of the Russian gas supplies lost can be compensated for by gas supplies from other countries and by substitution and other savings resulting from alternative energy sources. This means that the European Union will lose roughly 4 per cent of its available energy supplies.

This negative scenario assumes that value added will fall sharply during the winter half-year. The gas reserves accumulated in the past will ensure that the shortage of gas supplies does not really become a serious issue until the beginning of next year. Consequently, the Swiss economy – adjusted for sporting events – is set to grow by 2.1 per cent in 2022 but to contract by 0.4 per cent in 2023. This means that growth in 2023 will fall by 1.4 percentage points compared with the baseline scenario.

### Negative scenario 2:

The second negative scenario contains all of the assumptions included in negative scenario 1 as well as the assumption that the amount of electricity generated by France's nuclear power stations up to the beginning of 2023 will remain at the level generated in the summer of 2022. Switzerland will respond to this shortage of electricity in France by making savings and limiting consumption to ensure that this situation does not have a seriously negative impact on industrial output. Nonetheless, energy prices will continue to rise sharply, which will further depress output in energy-intensive sectors and fuel inflation even more. In addition, the economic situation in neighbouring countries will deteriorate and heightened uncertainty will reduce the level of investment. Gross domestic product in Europe will fall by a further 0.8 percentage points. Swiss GDP will therefore contract by 1 per cent in 2023, which represents a decline of 2 percentage points compared with the baseline scenario.

Even KOF's negative scenario does not cover all potential downside risks and focuses mainly on energy shortages. Another risk is the evolution of COVID-19 in China particularly, which could cause further serious disruption to global supply chains.

**The Executive Summary is available here:**

[https://kof.ethz.ch/en/content/dam/ethz/special-interest/dual/kof-dam/documents/Prognose/ExecutiveSummary\\_EconomicForecast\\_autumn\\_2022.pdf](https://kof.ethz.ch/en/content/dam/ethz/special-interest/dual/kof-dam/documents/Prognose/ExecutiveSummary_EconomicForecast_autumn_2022.pdf) →

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

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

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