ETH zürich KOF

Press release

Zurich, 27 September 2023, 10am

KOF Economic Forecast, autumn 2023: Domestic economy providing support; foreign trade weakening

The Swiss economy is currently characterised by two opposing trends. On the one hand, private consumption and the robust labour market are supporting the domestic economy. On the other, the weakness of the global economy is weighing on the export-driven Swiss economy. All in all, KOF expects real gross domestic product (GDP), adjusted for major sporting events, to increase by 1.2 per cent this year and by 1.5 per cent next year. KOF has lowered its projections for 2024 compared with its June forecast owing to the slower pace of goods exports.

KOF lowers its expectations for 2024

According to KOF's forecast, Swiss gross domestic product (GDP) will increase by 0.8 per cent in real terms this year (1.2 per cent adjusted for major sporting events). KOF has thus left its forecast growth rate for GDP in 2023 virtually unchanged compared with its June forecast. However, KOF has lowered its projections for 2024: GDP is expected to grow by an annual average of 1.9 per cent next year and by 1.5 per cent when adjusted for major sporting events. In its June forecast KOF was still expecting GDP to rise by 2.1 per cent overall and by 1.7 per cent when adjusted for major sporting events. The main reason for this revision is the weaker performance of Switzerland's trade balance compared with the previous forecast, which is primarily caused by lower growth in goods exports. In its latest analysis KOF has extended its forecast horizon to 2025. The growth rate for GDP overall should be 1.6 per cent in 2025 (1.9 per cent adjusted for major sporting events).

Swiss labour market remains buoyant

A key pillar of the Swiss economy continues to be the robust labour market, which is expected to cool only slightly next year and the year after despite the slightly less encouraging economic outlook. After achieving strong growth of 2 per cent this year, employment should increase by barely 1 per cent next year and the year after. The unemployment rate calculated by the Swiss Federal Statistical Office (FSO) according to the definition used by the International Labour Organization (ILO) will rise slightly more than previously assumed from 4.1 per cent this year to 4.3 per cent on average in 2024 (June forecast: 4.2 per cent), but will remain relatively low – including on a historical comparison – and will increase to only 4.5 per cent in 2025. The rate of registered unemployment as defined by the State Secretariat for Economic Affairs (SECO) is also likely to rise slightly from 2 per cent this year to 2.2 per cent next year (June forecast: 2 per cent) and 2.4 per cent in 2025, which suggests that the labour market environment will remain buoyant.

Rent increases and electricity prices driving inflation

KOF has revised its assessment of inflation more substantially. The national consumer price index (CPI) is expected to rise by 2.2 per cent this year, 2.1 per cent next year and about 1.1 per cent in 2025. KOF's previous forecast also estimated an increase of 2.2 per cent for the CPI this year but a smaller increase of 1.5 per cent next year. The main reasons for revising its forecast for 2024 are that rent hikes will have a stronger impact on inflation than previously assumed and electricity prices will climb more sharply at the beginning of the year than previously expected.

Press release

KOF expects to see stable interest rates and a nominal appreciation of the Swiss franc
The Swiss National Bank (SNB) decided at its September meeting to leave its key interest rate unchanged at 1.75 per cent. KOF expects the SNB to keep rates on hold for the near future, having raised them by 250 basis points within about a year. By taking its decision not to raise the key rate, the SNB has further widened the interest-rate differential with the euro area, which now stands at 2.25 percentage points. It is expected that the SNB will intervene by selling currency in the foreign-exchange market to ensure a strong Swiss franc and further reduce imported inflation. KOF continues to expect the nominal effective exchange rate to appreciate.

Private consumption will remain a key driver over the next two years
Private consumption will remain the driving force behind Swiss economic activity during the forecasting period. After consumers have primarily demanded more services in recent months and the retail trade has tended to return to normal from its pandemic-related high, it should achieve growth again in the near future. Households continue to finance consumption through a slightly declining savings ratio. Overall, private consumption will increase by 2.3 per cent in real terms this year and by 1.5 per cent in each of the next two years.

Real wages are not expected to increase significantly again until 2025
KOF predicts that nominal wages will increase by 2 per cent this year according to the Swiss wage index (SLI). Since the inflation rate will be more than 2 per cent during the same period according to this forecast, real wages will stagnate this year. Next year, according to this index, nominal wage growth should be slightly higher and amount to 2.2 per cent. This implies another lean year for real wage growth. Only in 2025, when inflationary pressures ease significantly, are real wages likely to increase markedly again by just under 1 per cent.

Subdued outlook for the global economy; China and Germany in particular weakening
International demand will be subdued in the second half of this year. Swiss-export-weighted world GDP will increase only moderately. China’s economic recovery following the end of its zero-COVID policy in the second quarter of 2023 did not continue as expected; contrary to many forecasts, growth there actually slowed. China is currently exhibiting economic weakness, which is characterised by a real-estate crisis and hesitant consumer demand. The German economy is undergoing a marked downturn, which is also affecting Switzerland. A small ray of hope is provided by North America, where the economy has fared better than KOF had expected in the summer.

Inflationary trends and geopolitical conflicts pose economic risks
As far as the risks to this forecast and the economy are concerned, inflation and the monetary policy derived from it play a significant role. This applies to both downside and upside risks. Stronger second-round effects could lead to inflation becoming more entrenched than assumed. Central banks could then be forced to pursue even tighter monetary policy and put a strong brake on the economy. On the other hand, inflation could fall faster than forecast, allowing monetary policy to be eased sooner. Other downside risks include growing or additional geopolitical conflicts that would weaken global trade and/or trigger commodity or energy-price shocks. A bursting of the real-estate bubble in China could have a protracted and more severe impact on the country’s economic growth and a negative impact on global trade.
One risk specific to Switzerland is the potential for retrenchment in the pharmaceutical industry. Following the pandemic, the Swiss chemical and pharmaceutical industries greatly expanded the value added by vaccine production and supply in 2021 and 2022. KOF assumes that the production capacity built up for this purpose in the biotechnology sector will now be retained to a large extent for new products. Should there be a sharp reduction in production capacity in the pharmaceutical industry, however, this would have a substantial impact on Swiss GDP.

Press release

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

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

Contacts:
Swiss economy: Alexander Rathke | rathke@kof.ethz.ch and Samad Sarferaz | sarferaz@kof.ethz.ch

International economy: Heiner Mikosch | mikosch@kof.ethz.ch

KOF Corporate Communications | tel. +41 44 633 99 48 | kofcc@kof.ethz.ch