ETH zürich KOF

Press release

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KOF Economic Forecast, winter 2023: Swiss economy in the wake of the international economic downturn

In its latest forecast, KOF expects gross domestic product (GDP) adjusted for major sporting events to grow by 1.2 per cent in 2023. The Swiss economy will be supported primarily by domestic activity until 2025, while foreign trade will be curbed by the weak global economy. KOF is forecasting that GDP adjusted for sporting events will increase by 1.3 per cent in 2024 and will continue to rise until the end of the forecast period in 2025.

While KOF has left its predictions for Swiss GDP this year virtually unchanged, it has revised its forecast for next year slightly downwards (from 1.5 per cent to 1.3 per cent after adjusting for sporting events). This is due in particular to the challenging global economic environment, which is clouding the outlook for the Swiss economy.

Since 2022, the global economy has been growing much less than in previous years. KOF expects the global economy to pick up only slightly over the forecast period. Many of Switzerland's key trading partners are currently in a weak or challenging economic situation. One example is Germany. Many other eurozone countries reported disappointing GDP figures in the third quarter of 2023. These economies were hit in particular by geopolitical uncertainty, high inflation and restrictive monetary policies. Economic bright spots remain the performance of the US economy, which has held up well in the last two quarters, as well as developments in the international labour markets, which are in excellent shape in many countries despite low growth in value added. Unemployment rates in key OECD countries remained at very low levels in the third quarter of 2023.

Cautious export outlook

KOF expects to see only a slight recovery in the global economy next year owing to the ongoing uncertainty facing households and companies. This will dampen the export prospects for Swiss firms until the second half of 2024. Consequently, exports of goods and services will start to grow steadily but slowly from the beginning of next year.

Private consumption weakens

The Swiss economy is likely to pick up speed in the coming year and grow by a solid 1.3 per cent adjusted for international sporting events. The domestic economy will act as the mainstay here. Private consumption will be an important driving force, increasing by 1.2 per cent in the coming year and 1.5 per cent in 2025. Inflation, which is eroding the purchasing power of nominal wages, is curbing household spending as well as the less buoyant performance of the labour market.

Press release

Job creation is losing momentum, but unemployment remains at a moderate level

There are increasing signs that the Swiss labour market is slowing. Full-time equivalent employment has stagnated and the number of people in employment has fallen recently. At the same time, the unemployment rate as defined by the International Labour Organization (ILO) and the rate of registered unemployed recently rose slightly from a low level. However, immigration into the Swiss labour market has remained high in the past few months. KOF expects job creation to continue at a much slower pace over the coming quarters compared with the last two years. Overall employment in full-time equivalents will grow by 0.7 per cent in 2024 and 0.8 per cent in 2025. Unemployment will rise slightly as a result of the comparatively low growth in employment but will remain at moderate levels throughout the forecast period. The ILO reckons that the unemployment rate will be 4.1 per cent this year, 4.4 per cent next year and 4.6 per cent in 2025. According to SECO, the rate of registered unemployed will also rise slightly at a low level during the forecast period (2023: 2 per cent, 2024: 2.3 per cent; 2025: 2.4 per cent).

Downturn in the housing market is halted

Inflationary pressures on construction prices are increasingly normalising and mortgage interest rates are already heading back downwards. KOF expects construction investment to recover its momentum in the coming year (up 1.9 per cent) and to gather pace during the forecast period (up 2.7 per cent). Investment in new infrastructure for education and healthcare, among other things, next year will ensure further momentum. In addition, newly launched transport infrastructure projects will boost investment in the civil engineering sector over the entire forecast period. Higher population growth, coupled with the solid performance of the labour market over the coming years, will intensify the current shortage of available housing and thus increase the pressure to build new residential property. The downturn in residential building should therefore end and residential construction investment should recover towards the end of the forecast period (2025).

Weak growth in equipment investment

Real equipment investment fell relatively sharply for the second time in a row in the third quarter of 2023. As many indicators, such as capacity utilisation and corporate earnings, do not point to any improvement, KOF is revising its forecast for equipment investment downwards. According to its latest forecast, investment in equipment will shrink by 0.7 per cent during the current year (autumn: 1.5 per cent). KOF also anticipates a much slower increase in equipment investment over the coming year and has cut its forecast from 3.1 per cent to just 1 per cent.

Rent increases lower than expected

Inflation since this summer has been below 2 per cent compared with the same period of last year. The expected sharp rise in residential rents, which accounts for a significant proportion of inflation, was more modest than KOF had anticipated. However, the mortgage reference interest rate rose further at the beginning of December, which is likely to fuel inflation. Nevertheless, KOF expects the two increases in the reference interest rate to have less of an impact on prices overall than in its previous forecast. It is therefore revising its forecast for inflation next year to 1.7 per cent (autumn: 2.2 per cent) and 1 per cent for the following year (autumn: 1.5 per cent).

SNB to cut interest rates at the beginning of 2025

As core inflation is forecast to move only slowly towards central banks' target ranges, KOF still does not expect key interest rates in the major currency areas to be cut by next year. Meanwhile, the Swiss National

Bank (SNB) decided at its September meeting to leave its key interest rate unchanged at 1.75 per cent. KOF does not expect the SNB to tighten monetary policy over the coming quarters. It could, however, lower its key interest rate at the beginning of 2025. KOF also expects to see a reversal in interest-rate policy in other currency areas sooner than was assumed in the autumn as a result of the slightly weaker economic outlook.

The full report on KOF's economic forecast is available here:

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

https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2023/2023_4_Winter_gesamtbericht.pdf

Figures 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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