

## Press release

Zurich, 17 June 2024, 9am

### **KOF Economic Forecast, summer 2024: Recovery in Europe supports Swiss economy**

**KOF is forecasting an increase of 1.2 per cent in real sport-adjusted gross domestic product (GDP) for the current year (1.6 per cent including sporting events). Sport-adjusted growth of 1.8 per cent is expected for 2025 (1.4 per cent including sporting events). KOF's economic outlook is therefore virtually unchanged compared with its spring forecast.**

#### **Improved situation in European sales markets; Swiss economy gets a boost**

The KOF Economic Forecast predicts that the Swiss economy will start to recover in the second half of 2024. The recent below-average economic performance of major European sales markets such as Germany, France and Italy has lately slowed the export-driven part of the Swiss economy. According to KOF's forecast, however, this situation will improve thanks to rising consumer spending and greater investment activity in these economies, which will provide a boost to Swiss exports. Export momentum is expected to increase in 2024, with growth in exports of goods and services (excluding valuables) of 2.9 per cent and 2.7 per cent in 2025.

#### **Value added in the manufacturing sector rises**

The recovery expected in other European countries should mean that the division of the Swiss economy between export-driven industries and domestically focused service sectors will be less pronounced over the coming six months than it has been recently. Overall, value added in the manufacturing sector, for example, is likely to increase again after recent weak quarters.

#### **Job creation in the labour market continues but is losing momentum**

The Swiss job market continued to record solid growth in the first quarter of 2024. This was mainly driven by the service sector. Key leading indicators are now pointing to a slowdown in the labour market. Consequently, the very strong employment growth that has characterised the Swiss labour market over the past three years is unlikely to continue at the same pace. Nevertheless, KOF expects employment and labour market growth to remain robust during the forecast period on the back of solid GDP growth. Following growth of 2 per cent (employment) and 2.3 per cent (labour force) in 2023, rates of 1.5 per cent and 1.2 per cent respectively are expected this year. In 2025, growth in employment is likely to be 1.2 per cent and that of the labour force 1.4 per cent.

#### **Lower inflation relieves some pressure on Swiss economy**

Inflation in Switzerland in 2024 will be lower than previously forecast. The April and May figures for the national consumer price index (CPI) were lower than expected, indicating lower second-round effects of inflation. The impact of the increase in the reference interest rate on existing rents remains moderate. KOF has therefore revised its inflation forecast for 2024 downwards by 0.3 percentage points to 1.3 per cent. Its inflation forecast for 2025 has also been lowered slightly to 1.0 per cent. This trend suggests higher wage growth in real terms, which should offset the real wage losses of the last two years. Average



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AHV wages are expected to grow by 0.7 per cent in real terms this year. KOF is forecasting slightly higher real wage growth of 0.9 per cent next year.

**KOF expects further interest-rate cuts in Switzerland but no rate cuts in the US for the time being**  
KOF reckons that the Swiss National Bank (SNB) will make its next interest-rate cut by the end of June and lower its key interest rate to 1.25 per cent in response to the benign inflation environment. During the forecast period KOF also expects a further interest-rate cut of 25 basis points in March of next year. In the United States the Federal Reserve (Fed) is grappling with inflation rates of over 3 per cent, which rules out any interest-rate cuts in the near future if the labour market remains robust. KOF does not expect the Fed to cut interest rates until November. It is forecasting three more interest-rate cuts in Europe and two in the US this year.

**Further escalation of geopolitical conflicts remains a major uncertainty factor**

This forecast is subject to both positive and negative risks. One major downside risk is the unexpectedly strong second-round effects of persistently high inflation in the eurozone and the US, which could make it more difficult to reduce core inflation. This could force the European Central Bank (ECB) and the Fed to refrain from cutting interest rates for longer, which would slow economic growth in these key sales regions. Geopolitical conflicts, such as an escalation of the wars in Ukraine and the Middle East, could drive up energy prices and strengthen the Swiss franc, which would make companies less keen to invest. In addition, higher government spending on the military and defence without any corresponding increase in revenue has put further pressure on the public finances of many developed countries, which raises the risk of a sovereign debt crisis.

On the positive side, an unexpectedly sharp fall in inflation in the US and the eurozone could boost purchasing power and private consumption. Robust figures on capital investment in key European economies could be the harbinger of a stronger economic recovery in Europe than currently forecast.

**The full report on the KOF Economic Forecast is available here:**

[https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2024/KOF\\_Vierteljahresanalyse\\_2024\\_2.pdf](https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2024/KOF_Vierteljahresanalyse_2024_2.pdf) →

**Interactive graphical data from the KOF Economic Forecast can be accessed via this link:**

<https://konjunkturprognose.kof.ethz.ch/> →

**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> →



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