ETH zürich KOF

Press Release

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KOF Economic Forecast Autumn 2016: Return to Moderate Growth

After a dry spell, the Swiss economy is slowly picking up speed. The demand for Swiss goods and services is increasing slowly in the forecast period (2016–2018) on account of further recovery of the global economy. Switzerland's economy is returning to moderate growth, with GDP rising by 1.6% this year and 1.8% in 2017. This will in turn encourage a slow recovery of the labour market. In 2017, inflation will rise above the zero mark, albeit very slowly. Private consumption will record solid growth even in the absence of significant additional drivers.

International environment

Similar to the last few quarters, the global economy will continue to record moderate growth. Emerging markets will make the biggest contribution towards growth. However, in the course of China's structural change, the country's growth figures will become successively smaller. In contrast, the economic upturn in India should remain solid. Assuming stable political development and commodity prices, Russia and Brazil are expected to make positive contributions to the global economic development as of 2017.

KOF assumes that the U.K.'s exit from the EU will not lead to any short or long-term distortions and that a slightly more expansive fiscal and monetary policy will continue to support the British economy and limit the extent of the setback. Consequently, the impact on the euro area should be minor and the moderate recovery in the euro area will continue.

The Swiss economy

Following the year 2015, which was dominated by the suspension of the minimum exchange rate, the framework conditions for the Swiss economy are improving noticeably. However, official figures on industry developments in the past year, as published by the Federal Statistical Office (FSO), show that the industrial sector has suffered more from the Swiss franc appreciation than previously expected. Earlier assumptions that industry would manage to raise production volumes while accepting major drops in margins had to be revised. As the official figures now show, price cuts were substantially smaller than assumed in the initial estimates. According to the FSO, production declined by 0.9%, thus negatively impacting GDP growth by -0.2 percentage points. Banks recorded the most significant setback (-9%), delivering a negative contribution to growth of -0.5 percentage points. Pressure on companies to optimise or streamline operational processes thus remains high in Switzerland.

Sluggish labour market recovery

In 2016, Switzerland's labour market situation has so far been dominated by the repercussions of last year's economic slowdown. Employment growth in the last few quarters did not come close to the healthy growth recorded in recent years. Consequently, unemployment rose. Immigration was also relatively low in the first quarters of this year.

In the second half of 2016 and in 2017, the labour market will recover slowly. However, the sluggish development in external trade, subdued consumer sentiment and structural problems in certain sectors – for instance low profitability in some industrial sectors and the banking sector – are placing a strain on the employment development. Due to the slow pace of employment growth, no major drops in unemployment are expected during the forecast period. Seasonally adjusted, the unemployment rate according to SECO should average 3.3% this year and 3.4% in both 2017 and 2018. The unemployment rate according to the International Labour Organization (ILO) is expected to remain at 4.6% until the end of 2018.

Subdued consumer mood

With private households retaining their scepticism, growth in consumer spending is likely to remain moderate in the coming quarters. All in all, real disposable income will grow by 1.3% this year while full-time equivalent employment is likely to stagnate. Private consumption will rise by 1% in 2016.

The slight increase in employment will go hand in hand with a stronger income development in the following two years. However, private consumer spending will rise by a mere 1.2% in 2017, leading to a higher savings rate. In 2018, real disposable income should grow at a slightly slower rate due, among other reasons, to a marginally higher rate of net taxes and social contributions and a return to slightly higher prices. Private consumption is thus set to rise by 1.1% in 2018.

Price history since the beginning of 2015 has been dominated by adjustments to the new exchange rate reality. Based on the national consumer price index, year-on-year inflation edged up closer to zero in August 2015. This was also due to the last few months' stabilisation of the oil price at just under US-Dollar 50 per barrel. Hence, the inflation forecast for 2016 remains at -0.4%. However, due to the expected weak trend in nominal wages and the below-average development of rents, inflationary pressure will stay low. In 2017, KOF anticipates a slightly positive annual inflation rate of 0.2% and in 2018 a marginally higher rate of 0.3%.

Construction investments recover, non-recurrent factors dominate investments in machinery and equipment

At present, investment propensity in the private economy is restrained. KOF expects stagnation in the construction industry throughout the remainder of 2016. Nevertheless, financing terms remain attractive and the economic environment is steadily improving. Thanks to the positive fundamental data and substantial investment in hospital and infrastructure developments, construction investments will recover, rising by 1.2% in 2017 and 2.2% in 2018.

Investments in machinery and equipment are dominated by the delivery of railway vehicles and aircraft that were ordered some time ago. Due to the expected development of these non-recurrent factors, investments in machinery and equipment will decline by -0.4% in 2017 and pick up again in 2018 by a growth of 3%.

External trade: pharma industry drives export growth

Given the solid growth in exports in the first half of 2016, it would appear on first glance that the Swiss export sector has digested last year's Swiss franc shock. However, the export development has been rather heterogeneous in the past few quarters: Exports of pharmaceutical products recorded particularly strong growth. Trade with the EU countries, which remain Switzerland's main export markets, is perking up following last year's setbacks. KOF anticipates a diffident development in exports in the second half of 2016. A more expansive export recovery is not expected before 2017. In terms of imports, KOF projects a weak development this year, with imports of goods and services likely to increase more significantly in 2017. This development is buoyed up by the positive export development as well as the aforementioned transport equipment imports.

Pressure on the Swiss franc will persist and the Swiss National Bank will have to counter this pressure by extending its expansive monetary policy and negative interest rates into the foreseeable future. All in all, KOF expects a stable Euro exchange rate of 1.10 throughout the forecast period. Against this backdrop, KOF projects a rise in GDP of 1.6% in 2016, which is expected to edge up further to 1.8% and 1.9% in 2017 and 2018, respectively. KOF therefore largely retains its previous estimates for 2017.

Find more information about the KOF Forecast on our website:
http://kof.ethz.ch/en/forecasts/economic-forecasts/ →

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