

Press Release

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KOF Economic Forecast, Spring 2017: Swiss Economy Continues to Recover

The Swiss economy is in good shape and growth prospects are encouraging – not least due to the recent recovery of the euro area. Nevertheless, sluggish employment growth is likely to hold back any major improvement of the unemployment rate. While inflation is back in the positive zone, a significant increase in prices is not expected.

International economic development

Following a slow start in the past year, the global economy has picked up speed. In the second half of 2016, supported by robust private consumer spending and more expansive fiscal policies in many countries, the developed economies grew more solidly. Investment activities, however, remained weak and export dynamics were muted. The US economy has overcome its weak phase and is on a solid upswing. A moderate recovery continued in the EU economies, mainly thanks to the positive development in Germany, Spain and the Netherlands. Despite the Brexit vote, the UK economy also delivered a significant contribution to growth. In contrast, the development in France and Italy remained weak. The Japanese economy followed a positive development. In China, economic activity was boosted by fiscal measures. Given the country's structural transition to consumption-driven and service-based growth, the trend towards successively lower growth rates is likely to continue.

Available indicators are pointing towards rising confidence in the developed economies, while expectations in developing countries and emerging markets remain muted. However, the rise in commodity prices should have an invigorating effect on the latter regions. Insecurity will continue to dominate the political environment. The rise of right-wing populism and eurosceptic forces in the run-up to the French elections, combined with political insecurity in Italy, could unsettle the financial markets and result in a rise in risk premiums on government bonds in the euro area.

Swiss economic development

Given the improved economic performance of the European countries and the stabilisation of the economic situation in the emerging markets, demand for Swiss products and services is set to follow a slightly positive development (2017: 2%). As in the past year, Swiss foreign trade is likely to be dominated by the development in pharmaceutical exports. Pulled along by the stronger export development, imports are expected to grow as well.

Non-recurrent factors, such as imports of airplanes and rolling stock, are dominating the import development and, to a larger extent, investments in equipment and machinery. The economic recovery should lead to a slow rise in investments. Following a period of stagnation in the past year, construction investment is also expected to regain its footing (2017: 1.1%).

All in all, following a difficult period for many Swiss companies, KOF's available economic indicators, among them the Economic Barometer and the Business Tendency Surveys, give rise to a more optimistic assessment of the economic development. In terms of the macroeconomic development, KOF expects Swiss GDP to grow by 1.5% this year and 1.9% next year.

The upward pressure on the Swiss franc is persisting. Recently, the CHF/EUR exchange has been fluctuating between 1.06 and 1.08. In its current forecast, KOF expects the rate to level out at 1.07 CHF/EUR.

The strong Swiss franc continues to put pressure on margins. As a consequence, further rationalisation is expected in sectors that are exposed to international competition. Employment is therefore likely to rise exclusively in staff-intensive, protected industries, such as the education or healthcare and social work activities. All in all, growth in employment will be comparably low and registered unemployment is likely to remain at the current high level (2017 and 2018: 3.3%). As regards the unemployment rate based on the internationally comparable ILO definition, which also includes unregistered unemployment, KOF expects a slight increase from 4.6% this year to 4.7% in 2018.

The wage development remains weak due to the slow labour market and negative price developments of the past year. Combined with the persistent strength of the Swiss franc, this means that inflation will rise only marginally. This year, KOF expects an increase in consumer prices (2017: 0.3%) owing to a slight rise in petroleum product prices compared to the previous year and a temporary hike in fresh product prices. For the foreseeable future, extensive inflationary pressure is not on the horizon in Switzerland.

Low interest rates in the euro area are still preventing a reduction of negative short-term interest rates in Switzerland. Hence, the latter are not expected to go up before the end of the forecast period in 2018. Long-term interest rates are likely to rise earlier and a return to positive figures is anticipated at the beginning of 2018.

Sector development

Quarterly estimates of the economic development in the past year show a heterogeneous picture. At 1.3%, production growth was rather restrained in the past year. The growth contribution of the retail and wholesale sector was slightly below average. The retail trade was still affected by the strong Swiss franc and suffered substantial losses in revenue. Although purchases abroad have recently stopped growing, a decline is not in sight. At over 10%, the increase in real added value in the merchandising segment (sub-segment of the wholesale trade) was lower than in the previous two years (20% and 16% respectively).

The healthcare and social work sector recorded the most significant expansion last year. Given its 4.8% growth rate, the industry's share in Swiss value added rose to 7.9%. The sector was even more important for the labour market, accounting for 14.1% of total employment, or 12.4% of fulltime-equivalent employment, in 2016.

Throughout the forecast period, the healthcare and social sector is expected to grow solidly. Following a very weak half year in 2016, added value in the trade sector is set to rise this year, and particularly in the coming year. The situation in the hotel and catering industry will recover slowly from the difficult past few years. Business activities in the financial services and insurance sectors will follow a dynamic trend in both this and the coming year.

Find more information about the KOF Forecast on our website:

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

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