Press Release

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KOF Economic Forecast Summer 2016: Prices Slowly Recovering, Moderate Economic Outlook

This year, the Swiss economy is expected to grow rather moderately at 1%. The reasons for this trend are the persistent repercussions of the strong Swiss franc and the continuing weakness of the global economy. In 2017, the global economy is likely to be responsible for a Swiss GDP growth rate of 1.9%. Unemployment, which usually lags behind the economic development, is expected to rise to 3.6% next year. Inflation has bottomed out and is slowly moving back into the positive zone.

The international economy

In the first quarter 2016, global economic dynamics remained slow and heterogeneous. Supported by solid domestic demand, EU production expanded more significantly than in the preceding quarters. Dynamics also picked up in the Indian economy. In contrast, the US economy remained weak due to meagre foreign trade and cutbacks of high inventory volumes. Structural transformation towards a mainly consumption-driven and service-based growth continued to slow down growth in China. Both Brazil and Russia are still mired in persistent recessions. In both cases, this situation is predominantly caused by domestic factors, such as political insecurity and a low degree of economic diversification.

More broad-based growth in the developed economies and a gradual recovery in the emerging markets are likely to speed up global dynamics in the course of the coming year. Initial signs of this recovery are the rise in oil prices to USD 50 and the increase in prices of agricultural goods and industrial metals.

The Swiss economy

The Swiss economic development of the last few weeks was largely consistent with the KOF's March forecast. Although the European economy performed slightly better than anticipated, this trend was barely reflected by the Swiss production figures published so far. Expectations regarding the economic trend in the EU have deteriorated slightly with regard to the further forecast period. As a consequence, the trend in Switzerland next year is likely to be somewhat weaker than anticipated in March (GDP growth of 1.9% instead of 2%). Concerning this year, KOF is maintaining its forecast of 1% growth of the Swiss economy.

Export-oriented sectors are still under pressure to bring production costs in line with prices on the global market. A number of industries, such as pharmaceuticals and medical engineering, are less affected due to greater pricing leeway. Total exports are expected to grow by 3.5% this year and by 2.7% in 2017. However, since imports are expanding more significantly at the same time (2016: 4.9%, 2017: 3.2%), a slight drop in the share of net exports in GDP is expected.

Private consumption is still supporting the economy: This year, it is expected to rise by 1.6%, next year by 1.4%. Current slow demand and sustained insecurity concerning domestic and foreign economic policies are curbing the propensity to invest. Individual major construction projects and investments in passenger transport capacities are shoring up the overall investment trend. KOF expects capital investments (construction plus machinery and equipment) to expand by 1.4% this year and by a mere 0.3% next year.

Prices on the rise

The CHF-EUR exchange rate has settled down at around 1.10. KOF expects the exchange rate to remain close to this figure in the coming months. Since its rock bottom value in January, the oil price has almost doubled step by step. With energy-intensive production accounting for a negligible share of economic activity in Switzerland, this trend has had no significant effect on production costs. The Swiss sector that depends most on mineral oil are the oil merchants, who are part of the merchanting/wholesaling sector and are more likely to profit rather than lose out when prices rise. On top of this, a higher price of fossil fuel-based energy should, to some extent, cushion the downward trend in consumer prices. The domestic price trend is expected to remain negative for some time to come (2016: -0.4%), but should rise again in the coming year (0.2%). Given the persistence of the euro area's very expansive monetary policy, interest rates are likely to stay low in Switzerland. If the exchange rate remains stable, negative short-term interest will persist at the current level. Longer- and medium-term interest on government bonds will also take some time to recover resp. return to positive values.

Labour market not yet back to normal

Pressure to reduce costs through higher productivity is and remains significant and is placing a strain on the labour market trend. Although unemployment has gone up since last year's Swiss franc appreciation, the rise was smaller than anticipated. In recent months, the increase in the number of unemployed registering with regional job centres (RAV) almost ground to a halt. According to the definition of the State Secretariat for Economic Affairs (SECO), the unemployment rate will amount to 3.5% this year and 3.6% next year. Based on the internationally comparable unemployment rate according to the International Labour Organization (ILO), KOF anticipates a level of 4.8% both in the current and in the coming year.

Incalculable risk of potential 'Brexit'

In the context of KOF's forecast, the imminent 'Brexit' plebiscite is a risk that is difficult to assess. The UK's departure from the EU would be associated with substantial economic and political insecurity and may lead to short-term distortions on the financial markets (for possible 'Brexit' effects, see KOF Bulletin June 2016). This outcome represents a downward risk.

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

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