



Press release

Date

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Swiss economy booming, global economic risks increasing

Economic forecasts by the Federal Government's Expert Group – autumn 2018¹

The Expert Group is significantly raising its forecast for GDP growth in 2018 from 2.4% to 2.9%. The favourable international economic development is stimulating foreign trade, and companies are investing heavily. The forecast for GDP growth in 2019 remains unchanged at robust 2.0%. However, the negative risks significantly outweigh the positives and threaten the global outlook.

The Swiss economy is booming. GDP has risen rapidly over several quarters, employment is on the up and unemployment is falling. Industry has enjoyed particularly strong growth, with capacity utilisation now at a level not seen since 2011 and order books continuing to look well filled. Reports from the service sector also indicate that business is doing very well overall. The Expert Group therefore expects **very strong GDP growth of 2.9% for 2018 overall** (June forecast: 2.4%), although some indicators currently point to a loss of momentum.

Exports should continue to provide a substantial boost to growth. Although there was a noticeable upturn in the Swiss franc in the wake of increasing international uncertainty over the summer months, the exchange rate nevertheless remains favourable in comparison to the past three years. The Expert Group also expects global economic growth to continue robustly. For instance, the outlook for the US remains bright despite what has already been a prolonged recovery and growth in China is expected to continue steadily – a positive development that will support demand for Swiss products. A premise for this, however, is that the international trade dispute fails to escalate globally.

In light of high international demand, Swiss companies are increasingly expanding their production capacities. On the one hand, investment in equipment should therefore continue to grow strongly. On the other hand, construction activity should also gain some momentum. Although rising vacancy rates in certain segments indicate a saturation of the housing market, commercial construction is expected to grow dynamically over the next few quarters. In the second half of 2018, the domestic economy will therefore be particularly underpinned by **investment activity**.

At the same time, Swiss companies are planning to recruit more staff. In light of this, the Expert Group predicts that the **labour market** will continue its positive development. Employment is

¹ More detailed information on risks and the Expert Group's forecasts can be found in the quarterly publication "Konjunkturtendenzen" ("Economic Trends"), which is available online (www.seco.admin.ch/konjunkturtendenzen) and in printed form as a supplement to the political economics magazine "Die Volkswirtschaft" (www.die-volkswirtschaft.ch).

likely to grow appreciably once again (+1.8% in 2018) and unemployment dropping further (to an annual average of 2.6% in 2018) in the coming quarters. However, the benefits to private household consumption will be limited at first, since growth in individual income will be dampened by weak nominal wage increases while inflation will rise to 1.0% on average in 2018 due to higher import and energy prices.

Growth in the domestic economy is set to become more important compared to foreign trade **over the course of 2019**, with private consumption in particular looking likely to make gains. While the situation on the job market is due to brighten further (employment: +1.1%, unemployment rate: 2.4%), real incomes are also expected to grow moderately. The fact that inflation will drop to an annual average of 0.8% in 2019 will also help here. By contrast, the global economy is likely to lose further momentum as the economic situation normalizes. Accordingly, the impulses for Swiss foreign trade will also be lower. Overall, the Expert Group is keeping to its previous assessment for 2019 and anticipates robust **GDP growth of 2.0%**.

Economic risks

Key negative risks for the global economy have intensified over the past few months and new ones have arisen. In particular, the international economy could slow down faster than assumed in this forecast. This would be most likely if the **trade disputes** between the US and other major economic areas were to escalate further. Global trade overall and Swiss foreign trade would be severely affected and companies in Switzerland could end up cutting back on their investments.

Political uncertainty in Europe remains high. In particular, the lack of clarity on the Italian government's plans is causing great uncertainty. It also remains unclear what the relationship between the EU and UK will look like once Brexit comes into force in late March 2019. What is more, some emerging economies experienced major **exchange rate turbulence** and capital outflows in the summer months, triggered primarily by rising interest rates and the excellent state of the US economy, which make the country more attractive to investors. Should the fluctuations, which are currently still limited to a handful of countries, spread to other economies or the political risks mentioned come to fruition, the Swiss franc could come under stronger **upward pressure** as a safe haven. This would have a considerable curbing effect on Swiss foreign trade and on economic growth.

As was the case in the last forecast, the risk within Switzerland is ultimately that simmering imbalances in real estate could lead to a major correction in this sector.

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Overview

Selected forecasts, Swiss economy				
Comparison of forecasts of September 18 and June 18				
Year-to-year variation in %, quotas				
forecasts for:	2018		2019	
date of forecasts:	Sept. 18	June 18	Sept. 18	June 18
GDP	2.9%	2.4%	2.0%	2.0%
Consumption expenditure:				
Personal Consumption	1.3%	1.4%	1.5%	1.5%
Government Consumption	1.2%	0.7%	0.6%	0.6%
Construction Investment	1.9%	1.1%	1.4%	0.3%
Investment in Equipment and software	4.4%	4.4%	3.5%	3.5%
Exports	4.2%	4.6%	3.9%	4.1%
Imports	3.4%	3.9%	3.7%	3.8%
Employment (full time equivalents)	1.8%	1.5%	1.1%	1.0%
Rate of unemployment	2.6%	2.6%	2.4%	2.5%
Consumer price index	1.0%	1.0%	0.8%	0.8%

Source: Federal Expert Group on Business Cycles

Exogenous assumptions

	2017	2018	2019
GDP			
USA	2.2%	2.8%	2.3%
Euro area	2.4%	2.1%	2.0%
Germany	2.2%	2.0%	1.8%
Japan	1.7%	1.1%	0.8%
BRIC-Countries ¹	5.7%	5.9%	5.7%
China	6.9%	6.5%	6.2%
Price of crude oil (\$/barrel Brent)	54.2	72.5	75.6

¹ Weighted average of Brazil, Russia, India and China (GDP at PPP, according to IMF)

Sources: Federal Expert Group on Business Cycles

Monetary assumptions

	2017	2018	2019
Three month LIBOR interest rate	-0.7%	-0.7%	-0.7%
Return on swiss federal bonds (10 years)	-0.1%	0.1%	0.3%
Real exchange rate index, trade weighted	-1.8%	-2.8%	0.9%
Consumer price index	0.5%	1.0%	0.8%

Sources: Federal Expert Group on Business Cycles

Labor market forecasts

	2017	2018	2019
Employment (without sector 1) ²	0.6%	1.8%	1.1%
Rate of unemployment	3.2%	2.6%	2.4%

² In full time equivalents

Source: Federal Expert Group on Business Cycles

Evolution of Gross Domestic Product, expenditure approach (ESA 2010)

	Real values, in Mio CHF (at prices of preceding year) ¹								Nominal values, in Mio CHF (at current prices) ¹								Evolution of prices ¹			
	Growth rates				Levels				Growth rates				Levels				Growth rates			
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Total consumption	1.5%	1.1%	1.3%	1.3%	433'083	437'430	445'232	454'128	1.4%	1.6%	1.9%	2.0%	432'724	439'606	448'146	457'100	-0.1%	0.5%	0.7%	0.7%
Personal consumption ²	1.5%	1.1%	1.3%	1.5%	354'081	357'575	364'171	371'852	1.4%	1.7%	1.9%	2.1%	353'562	359'498	366'356	374'083	-0.1%	0.5%	0.6%	0.6%
Government consumption ²	1.2%	0.9%	1.2%	0.6%	79'003	79'855	81'061	82'276	1.4%	1.2%	2.1%	1.5%	79'162	80'108	81'790	83'017	0.2%	0.3%	0.9%	0.9%
Fixed investment	3.4%	3.3%	3.5%	2.7%	160'950	164'867	170'175	176'692	2.6%	3.0%	4.6%	3.0%	159'612	164'475	171'994	177'110	-0.8%	-0.2%	1.1%	0.2%
Construction	0.5%	1.4%	1.9%	1.4%	61'316	61'814	62'621	63'815	-0.1%	0.8%	2.4%	1.7%	60'980	61'453	62'934	64'006	-0.5%	-0.6%	0.5%	0.3%
Equipment and Software	5.4%	4.5%	4.4%	3.5%	99'634	103'053	107'555	112'878	4.3%	4.5%	5.9%	3.7%	98'631	103'022	109'060	113'103	-1.0%	0.0%	1.4%	0.2%
Final domestic demand	2.0%	1.7%	1.9%	1.7%	594'034	602'297	615'407	630'821	1.7%	2.0%	2.7%	2.3%	592'335	604'081	620'141	634'209	-0.3%	0.3%	0.8%	0.5%
inter alia: changes in inventories ³	-1.9%	-0.1%	0.4%	0.0%	-15'344	-10'413	-6'300	-3'550					-9'779	-8'975	-3'550	-2'234				
Domestic demand ⁴	-0.1%	1.6%	2.4%	1.7%	578'689	591'884	609'107	627'271	0.6%	2.2%	3.6%	2.5%	582'556	595'106	616'591	631'976	0.7%	0.5%	1.2%	0.7%
Exports ⁴	7.0%	3.6%	4.2%	3.9%	356'343	361'434	376'206	400'331	4.8%	3.5%	6.7%	4.6%	348'945	361'206	385'429	403'027	-2.1%	-0.1%	2.5%	0.7%
Exports of goods ⁴	6.7%	5.1%	5.1%	4.4%	232'586	238'011	250'371	267'092	3.8%	5.2%	7.4%	5.2%	226'373	238'200	255'820	269'122	-2.7%	0.1%	2.2%	0.8%
Exports of services	7.6%	0.7%	2.3%	2.8%	123'757	123'423	125'835	133'239	6.6%	0.4%	5.4%	3.3%	122'572	123'006	129'610	133'905	-1.0%	-0.3%	3.0%	0.5%
Imports ⁴	4.7%	4.1%	3.4%	3.7%	270'298	282'250	297'636	320'978	5.0%	6.1%	7.6%	4.5%	271'108	287'740	309'531	323'433	0.3%	1.9%	4.0%	0.8%
Imports of goods ⁴	4.4%	5.5%	6.2%	3.8%	175'302	184'469	198'789	212'533	4.1%	7.1%	9.4%	4.7%	174'839	187'184	204'753	214'446	-0.3%	1.5%	3.0%	0.9%
Imports of services	5.3%	1.6%	-1.7%	3.5%	94'996	97'781	98'847	108'445	6.8%	4.5%	4.2%	4.0%	96'269	100'557	104'778	108'987	1.3%	2.8%	6.0%	0.5%
GDP	1.6%	1.6%	2.9%	2.0%	664'734	671'069	687'676	706'623	0.9%	1.2%	3.6%	2.8%	660'393	668'572	692'490	711'570	-0.7%	-0.4%	0.7%	0.7%

¹ 2016-2017: SFSO; 2018-2019: Forecasts (Federal Expert Group on Business Cycles)

² National concept

³ Changes in inventories and statistical discrepancies; contributions to GDP-growth

⁴ Without non-monetary gold and valuables