



# Press release

Date

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## Swiss economy weakens

### **Economic forecasts by the Federal Government's Expert Group – winter 2018/2019<sup>1</sup>**

**The Expert Group is significantly lowering its forecast for GDP growth in 2018 and 2019. This is mainly due to weak domestic demand, which is likely to pick up again only in 2020. GDP is set to grow by 1.5% in 2019 and by 1.7% in 2020.**

After five quarters of strong growth, the Swiss economy slowed abruptly in the 3rd quarter and economic output contracted by 0.2%. In the wake of the decline in international growth, Swiss foreign trade decreased. The appreciation of the Swiss franc in the meantime additionally slowed exports, while domestic demand also failed to stimulate growth.

The Expert Group forecasts that both the export and domestic economies will return to moderate growth after the weak 3rd quarter. However, the strong GDP growth rates of the first half of 2018 will no longer be achieved. Leading indicators at home and abroad also point in this direction. Nevertheless, due to the strong first half of the year, GDP growth for 2018 overall is likely to come in well above average at 2.6% (September forecast: 2.9%).

From 2019, the global economy will continue to normalise after the strongly expansionary phase of 2017 and 2018. The eurozone is expected to slow down slightly faster than assumed for the September forecast. Foreign demand for Swiss products will flatten out and the export economy will lose momentum. In view of declining capacity utilisation, investments of Swiss companies will increase less strongly than in 2018 and employment growth will ease.

Despite the situation on the labour market, which is due to remain very good overall (2019 unemployment rate: 2.4%), the outlook for private consumption in the first half of the forecast period is subdued. Recent muted wage developments and positive inflation are reducing households' real purchasing power; consequently, the propensity to consume will remain low. Accordingly, the Expert Group has revised its expectations for domestic demand significantly downwards from the September forecast and is forecasting only moderate GDP growth of 1.5% for 2019 (September forecast: 2.0%). This comes along with lower inflation of 0.5%, curbed by the recent drop in oil prices, among other factors.

While the stimulus of foreign trade is likely to continue to weaken in the second half of the forecast horizon, domestic growth forces will gain in importance and bolster GDP growth in 2020. In particular, private consumption is set to gather pace again as real wages rise, and

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

investment continues to grow robustly. The Expert Group is therefore forecasting slightly higher GDP growth of 1.7% for 2020. The economic slowdown will make itself increasingly felt on the labour market in 2020, with the unemployment rate due to rise slightly to an annual average of 2.5%. Meanwhile, inflation is expected to come in at 0.8%.

### **Economic risks**

Negative risks clearly predominate for the global economy at present. If the **trade disputes** between the US and other major economic areas were to escalate further, the global economy and world trade would slow down faster than assumed in this forecast. This would affect Swiss foreign trade and the investment activity of companies could be adversely affected.

**Political uncertainty** remains high in Europe. In particular, it remains unclear what the relationship between the EU and UK will look like once Brexit comes into force in late March 2019. Internationally the high level of **debt** also harbours considerable risks. If monetary policy normalisation continues faster than expected, emerging economies in particular could again be affected by capital outflows and currency fluctuations due to rising interest rates. The Swiss franc could then come under stronger upward pressure with corresponding slowing effects on foreign trade.

The **relationship between Switzerland and the EU** is also clouded by a certain degree of uncertainty, for example in connection with the negotiations on the framework agreement. Should relations with the EU deteriorate significantly, this could also have a negative impact on companies' investment activity. In view of simmering imbalances, the risk of a major correction in the Swiss real estate sector also remains.

Finally, there is a positive risk that the international and Swiss economies will pick up again, supported, for example, by the recent fall in oil prices.

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### Overview

<b>Selected forecasts, Swiss economy</b>					
Comparison of forecasts of December 18 and September 18					
Year-to-year variation in %, quotas					
forecasts for:	2018		2019		2020
date of forecasts:	Dec. 18	Sept. 18	Dec. 18	Sept. 18	Dec. 18
GDP	<b>2.6%</b>	2.9%	<b>1.5%</b>	2.0%	<b>1.7%</b>
Consumption expenditure:					
Personal Consumption	<b>0.9%</b>	1.3%	<b>1.1%</b>	1.5%	<b>1.5%</b>
Government Consumption	<b>1.1%</b>	1.2%	<b>0.7%</b>	0.6%	<b>0.7%</b>
Construction Investment	<b>1.4%</b>	1.9%	<b>1.3%</b>	1.4%	<b>0.9%</b>
Investment in Equipment and software	<b>3.2%</b>	4.4%	<b>3.0%</b>	3.5%	<b>3.0%</b>
Exports	<b>2.9%</b>	4.2%	<b>3.1%</b>	3.9%	<b>3.5%</b>
Imports	<b>2.4%</b>	3.4%	<b>3.2%</b>	3.7%	<b>3.7%</b>
Employment (full time equivalents)	<b>1.8%</b>	1.8%	<b>0.8%</b>	1.1%	<b>0.9%</b>
Rate of unemployment	<b>2.6%</b>	2.6%	<b>2.4%</b>	2.4%	<b>2.5%</b>
Consumer price index	<b>1.0%</b>	1.0%	<b>0.5%</b>	0.8%	<b>0.7%</b>

Source: Federal Expert Group on Business Cycles

### Exogenous assumptions

	2018	2019	2020
GDP			
USA	2.9%	2.4%	1.9%
Euro area	1.9%	1.7%	1.6%
Germany	1.6%	1.6%	1.5%
Japan	0.9%	0.8%	0.4%
BRIC-Countries <sup>1</sup>	5.9%	5.7%	5.6%
China	6.5%	6.2%	6.0%
Price of crude oil (\$/barrel Brent)	71.6	63.1	64.4

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

Sources: Federal Expert Group on Business Cycles

### Monetary assumptions

	2018	2019	2020
Three month LIBOR interest rate	-0.7%	-0.7%	-0.5%
Return on swiss federal bonds (10 years)	0.1%	0.2%	0.5%
Real exchange rate index, trade weighted	-2.7%	0.0%	0.0%
Consumer price index	1.0%	0.5%	0.7%

Sources: Federal Expert Group on Business Cycles

### Labor market forecasts

	2018	2019	2020
Employment (without sector 1) <sup>2</sup>	1.8%	0.8%	0.9%
Rate of unemployment	2.6%	2.4%	2.5%

<sup>2</sup> 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) <sup>1</sup>								Nominal values, in Mio CHF (at current prices) <sup>1</sup>								Evolution of prices <sup>1</sup>			
	Growth rates				Levels				Growth rates				Levels				Growth rates			
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018	2019	2020
Total consumption	1.1%	0.9%	1.0%	1.4%	437,430	443,711	450,926	459,187	1.6%	1.5%	1.5%	1.9%	439,606	446,335	453,059	461,650	0.5%	0.6%	0.5%	0.5%
Personal consumption <sup>2</sup>	1.1%	0.9%	1.1%	1.5%	357,575	362,733	368,557	375,582	1.7%	1.4%	1.5%	2.0%	359,498	364,547	370,031	377,460	0.5%	0.5%	0.4%	0.5%
Government consumption <sup>2</sup>	0.9%	1.1%	0.7%	0.7%	79,855	80,978	82,369	83,605	1.2%	2.1%	1.5%	1.4%	80,108	81,788	83,028	84,191	0.3%	1.0%	0.8%	0.7%
Fixed investment	3.3%	2.5%	2.4%	2.2%	164,867	168,632	174,590	179,273	3.0%	3.7%	2.8%	2.4%	164,475	170,538	175,352	179,632	-0.2%	1.1%	0.4%	0.2%
Construction	1.4%	1.4%	1.3%	0.9%	61,814	62,313	63,439	64,330	0.8%	1.9%	1.8%	1.1%	61,453	62,625	63,756	64,459	-0.6%	0.5%	0.5%	0.2%
Equipment and Software	4.5%	3.2%	3.0%	3.0%	103,053	106,318	111,151	114,943	4.5%	4.7%	3.4%	3.2%	103,022	107,913	111,595	115,173	0.0%	1.5%	0.4%	0.2%
Final domestic demand	1.7%	1.4%	1.4%	1.6%	602,297	612,343	625,516	638,460	2.0%	2.1%	1.9%	2.0%	604,081	616,873	628,411	641,282	0.3%	0.7%	0.5%	0.4%
inter alia: changes in inventories <sup>3</sup>	-0.1%	0.8%	0.0%	0.0%	-10,413	-3,626	213	1,359					-8,975	213	1,359	2,232				
Domestic demand <sup>4</sup>	1.6%	2.3%	1.4%	1.6%	591,884	608,717	625,729	639,819	2.2%	3.7%	2.1%	2.2%	595,106	617,086	629,770	643,514	0.5%	1.4%	0.6%	0.6%
Exports <sup>4</sup>	3.6%	2.9%	3.1%	3.5%	361,434	371,798	392,669	409,068	3.5%	5.4%	3.8%	4.2%	361,206	380,865	395,263	412,052	-0.1%	2.4%	0.7%	0.7%
Exports of goods <sup>4</sup>	5.1%	4.0%	3.5%	3.4%	238,011	247,809	261,387	272,379	5.2%	6.1%	4.2%	4.2%	238,200	252,660	263,324	274,407	0.1%	2.0%	0.7%	0.7%
Exports of services	0.7%	0.8%	2.4%	3.6%	123,423	123,990	131,282	136,688	0.4%	4.2%	2.9%	4.3%	123,006	128,205	131,939	137,645	-0.3%	3.4%	0.5%	0.7%
Imports <sup>4</sup>	4.1%	2.4%	3.2%	3.7%	282,250	294,530	316,989	331,345	6.1%	6.8%	4.0%	4.3%	287,740	307,164	319,416	333,002	1.9%	4.3%	0.8%	0.5%
Imports of goods <sup>4</sup>	5.5%	5.4%	3.3%	3.5%	184,469	197,292	210,324	219,644	7.1%	8.8%	4.2%	4.0%	187,184	203,605	212,217	220,743	1.5%	3.2%	0.9%	0.5%
Imports of services	1.6%	-3.3%	3.0%	4.2%	97,781	97,238	106,665	111,701	4.5%	3.0%	3.5%	4.7%	100,557	103,559	107,199	112,260	2.8%	6.5%	0.5%	0.5%
<b>GDP</b>	<b>1.6%</b>	<b>2.6%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>671,069</b>	<b>685,986</b>	<b>701,409</b>	<b>717,541</b>	<b>1.2%</b>	<b>3.3%</b>	<b>2.1%</b>	<b>2.4%</b>	<b>668,572</b>	<b>690,788</b>	<b>705,617</b>	<b>722,564</b>	<b>-0.4%</b>	<b>0.7%</b>	<b>0.6%</b>	<b>0.7%</b>

<sup>1</sup> 2017: SFSO; 2018-2020: Forecasts (Federal Expert Group on Business Cycles)

<sup>2</sup> National concept

<sup>3</sup> Changes in inventories and statistical discrepancies; contributions to GDP-growth

<sup>4</sup> Without non-monetary gold and valuables