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Weaker global economy slows exports

Economic forecasts by the Federal Government's Expert Group – spring 2019[1]

The Expert Group is lowering its forecast for GDP growth in 2019 from 1.5% to 1.1%. The global economy is losing more momentum than previously assumed, which is slowing down Swiss foreign trade and investment activity. Economic growth is set to rise to 1.7% in 2020.

In the second half of 2018, Switzerland's economy cooled off significantly. The global economy and world trade lost momentum, which also curbed Swiss foreign trade, while domestic demand failed to stimulate growth. Investment activity in particular weakened considerably.

The Expert Group expects both the domestic and the international economy to regain momentum only gradually in 2019. In particular, the outlook in other European countries has recently become much gloomier, and growth forecasts for major trade partner Germany have been revised significantly downwards. As a result, international demand for Swiss products is weaker and the export economy is losing momentum.

In the wake of a subdued development of orders coupled with considerable uncertainty, companies in Switzerland will hesitate to invest in production capacity in the next few quarters too. Low growth is also to be expected with regard to investment in construction, as vacancy rates are increasing and real estate prices are tending to decline.

The economic slowdown is also having an impact on the labour market. Average unemployment for 2019 is still low at 2.4%, but employment growth is easing and wage growth remains weak. Private consumption is therefore seeing below-average development, although the declining inflation (annual inflation for 2019: 0.4%) is bolstering households' real purchasing power. Overall, the Expert Group is lowering its forecast for GDP growth in 2019 significantly from 1.5% (December 2018 forecast) to 1.1%.

The global economy is expected to gain moderate momentum in 2020. Provided that the international trade dispute does not intensify further, global trade will also pick up again. This will support Switzerland's export economy. At the same time, domestic growth forces will gain in importance. In particular, the willingness to invest is anticipated to increase considerably again and private consumption is set to grow somewhat faster in the wake of stronger employment growth and rising real income. The Expert Group is therefore forecasting higher GDP growth of 1.7% for 2020 (December 2018 forecast: 1.7%) with annual inflation of 0.6%. The current

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[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).

economic slowdown is likely to have a delayed impact on the unemployment rate, with the Expert Group expecting an increase to an annual average of 2.6% in the next year.

Economic risks

Downside risks continue to predominate for the global economy. If the **trade dispute** between the US and other major economic areas were to intensify further, the global economy and world trade would cool off more strongly than assumed in this forecast. This would slow down both Swiss foreign trade and the investment activity of companies. Switzerland would be particularly affected if the conflict between the US and the EU were to escalate and, for example, substantial tariffs on German cars were to be introduced. Conversely, the domestic and the foreign economy could pick up again more strongly in case of an agreement on major aspects of the trade dispute.

Political uncertainty remains high in Europe. In particular, it is unclear whether Brexit will come into force in late March 2019 and what the relationship between the EU and the UK will look like then. Moreover, Italy's economic and financial situation harbours more substantial risks again, following the country's slide into recession.

The **relationship between Switzerland and the EU** is still clouded by a certain degree of uncertainty, for example in connection with the framework agreement and the corporate tax reform. Should relations with the EU deteriorate significantly, companies' investment activity could suffer. In view of simmering imbalances, the risk of a major correction in the Swiss real estate sector also remains. Conversely, there is the possibility that Switzerland's domestic economy will pick up again more strongly, also in view of the good situation on the labour market, and will at least partially offset the weak development in the second half of 2018.

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