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Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of December 2012

This report is based primarily on the data and information available as at 13 December 2012.

Monetary policy report

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About this report

The Swiss National Bank (SNB) has a statutory mandate to pursue a monetary policy serving the interests of the country as a whole. It ensures price stability while taking due account of economic developments.

It is a particular concern of the SNB that its monetary policy be understood by a wider public. Moreover, it is obliged by law to inform regularly of its policy and to make its intentions known. This monetary policy report performs both of these tasks. It describes economic and monetary developments in Switzerland and explains the inflation forecast. It shows how the SNB views the economic situation and the implications for monetary policy it draws from this assessment.

Sections 2–5 of the present report were drawn up for the Governing Board's monetary policy assessment of December 2012. Section 1 ('Monetary policy decision of 13 December 2012') is an excerpt from the press release published following the assessment.

Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

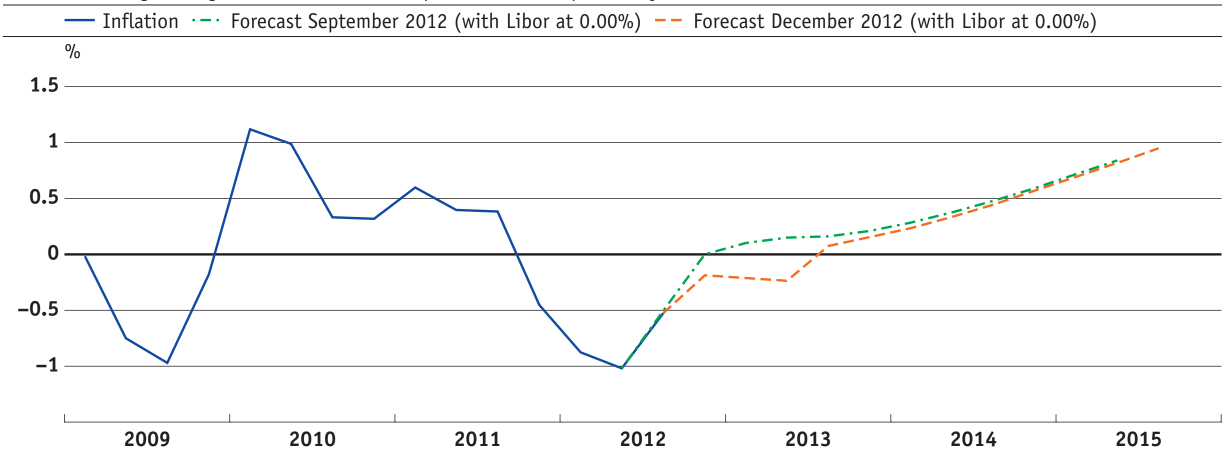
1 Monetary policy decision of 13 December 2012

The Swiss National Bank (SNB) is leaving the minimum exchange rate of CHF 1.20 per euro unchanged. The Swiss franc is still high. An appreciation of the Swiss franc would compromise price stability and would have serious consequences for the Swiss economy. Consequently, the SNB will continue to enforce the minimum exchange rate with the utmost determination. It is prepared to buy foreign currency in unlimited quantities for this purpose. In addition, the SNB is leaving the target range for the three-month Libor at 0.0–0.25%. If necessary, it stands ready to take further measures at any time.

Essentially, the SNB's conditional inflation forecast is unchanged from its September forecast. In the short term, price movements will again be subdued by a somewhat weaker economy in the euro area. In addition, the impact which past appreciation of the Swiss franc is having on the price level is rather stronger than had originally been expected. From mid-2013 onwards, the path of the new conditional inflation forecast is almost identical to that of September. The forecast is based on an unchanged three-month Libor of 0.0% over the next three years. Given this assumption, the Swiss franc weakens over the forecast period. Nevertheless, forecast inflation remains low for the next few years. For 2012, the inflation rate will amount to –0.7%. For 2013, the SNB expects inflation of –0.1% and for 2014, 0.4%. In the foreseeable future, therefore, there is no risk of inflation in Switzerland.

Chart 1.1
Conditional inflation forecast of September 2012 and of December 2012

Percentage change in national consumer price index from previous year



Source: SNB

Observed inflation in December 2012 Table 1.1

	2009 Q1	Q2	Q3	Q4	2010 Q1	Q2	Q3	Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3	Q4	2009	2010	2011
Inflation	0.0	−0.7	−1.0	−0.2	1.1	1.0	0.3	0.3	0.6	0.4	0.4	−0.5	−0.9	−1.0	−0.5		−0.5	0.7	0.2

Conditional inflation forecast of September 2012 with Libor at 0.00% and of December 2012 with Libor at 0.00%

	2012 Q1	Q2	Q3	Q4	2013 Q1	Q2	Q3	Q4	2014 Q1	Q2	Q3	Q4	2015 Q1	Q2	Q3	Q4	2012	2013	2014
Forecast September 2012, Libor at 0.00%			−0.5	0.0	0.1	0.2	0.2	0.2	0.3	0.4	0.5	0.6	0.7	0.8			−0.6	0.2	0.4
Forecast December 2012, Libor at 0.00%				−0.2	−0.2	−0.2	0.1	0.2	0.2	0.3	0.4	0.6	0.7	0.8	0.9		−0.7	−0.1	0.4

Source: SNB

Monetary policy strategy at the SNB

The SNB has a statutory mandate to ensure price stability while taking due account of economic developments.

The SNB has specified the way in which it exercises this mandate in a three-part monetary policy strategy. First, it regards prices as stable when the national consumer price index (CPI) rises by less than 2% per annum. This allows it to take account of the fact that the CPI slightly overstates actual inflation. At the same time, it allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of the situation and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant short-term interest rate, shows how the SNB expects the CPI to move over the next three years. Third, the SNB sets its operational goal in the form of a target range for the three-month Swiss franc Libor. In addition, a minimum exchange rate against the euro is currently in place.

2 Global economic environment

Global economic growth remained weak in the third quarter of 2012. World trade volume even declined on a quarterly average basis (cf. chart 2.2). The euro area continued to face a mild recession, and Japan's economic output fell substantially. Owing to domestic demand, the US, by contrast, experienced a moderate upturn. Developments in the emerging economies were mixed. In some countries, the pace of growth barely accelerated at all, while in others – especially China and Brazil – growth improved somewhat thanks to supportive economic policy.

The SNB continues to assume a gradual recovery for the global economy as a whole, however it has revised its 2013 expectations downwards slightly since the last assessment. This revision primarily relates to the short-term outlook for the euro area. The SNB is now working on the assumption that the euro area will only emerge from recession in the course of 2013. In the US, the moderate recovery is likely to strengthen due, in part at least, to the ongoing consolidation of the construction sector. Growth in the emerging economies is expected to pick up gradually.

The global economy continues to face considerable downside risks, not least the euro area crisis, which remains a major impediment to growth. Although the new securities purchase programme (Outright Monetary Transactions, OMT) introduced by the European Central Bank (ECB) in September has reduced the probability of extreme events and calmed the financial and credit markets, there is still substantial uncertainty in connection with the management of the debt crisis in the euro area. Impending fiscal policy decisions in the US are also preoccupying markets (fiscal cliff).

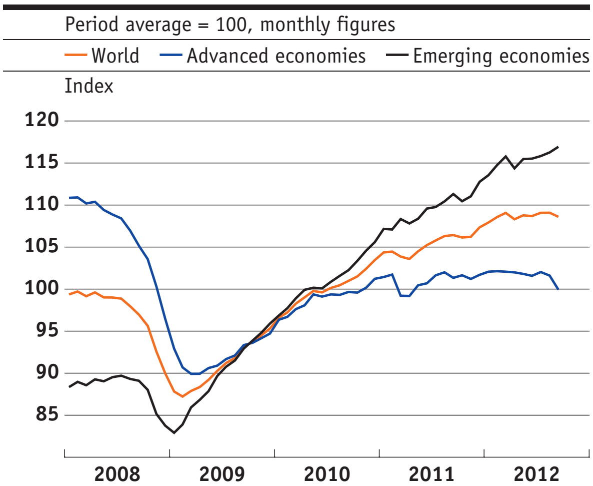
2.1 International financial and commodity markets

The situation on the financial markets has not changed significantly since mid-September and continues to be dominated by risks linked to the European financial and sovereign debt crisis and to US fiscal policy.

The ECB's new securities purchase programme has helped improve financing conditions for businesses in the southern member states of the euro area. Global equity markets trended sideways (cf. chart 2.3). On the currency markets, the euro and US dollar likewise trended sideways on a trade-weighted basis, however the reticence of euro area finance ministers and IMF officials in negotiating further financial assistance for Greece weighed on the single currency at times (cf. chart 2.4).

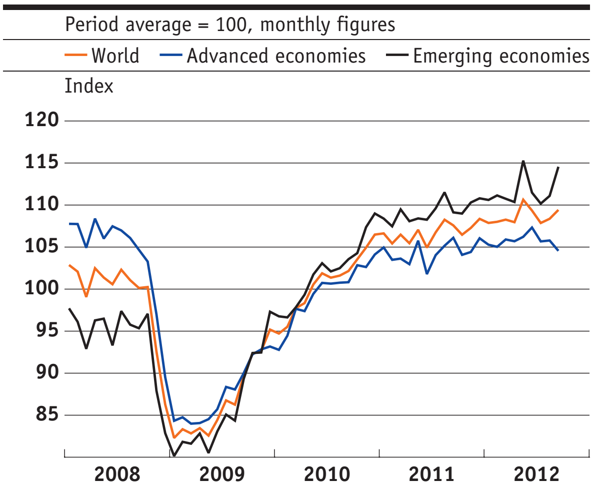
Against this backdrop, commodity prices overall dipped slightly below their summer highs (cf. chart 2.5); prices of industrial metals, which are particularly sensitive to economic fluctuations, continued to fall. Oil prices remained virtually unchanged, as the combined effect of geopolitical risks and weak global demand ultimately cancelled each other out. Prices of agricultural commodities, which had soared in prior months due to droughts, stabilised.

Chart 2.1
Global industrial production



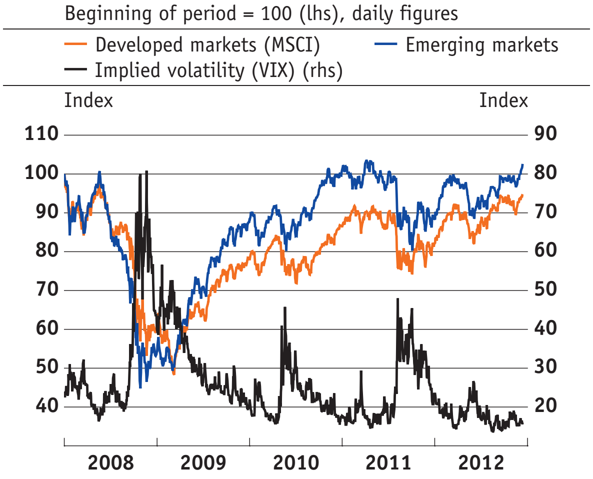
Sources: Netherlands Bureau for Economic Policy Analysis (CPB), Thomson Financial Datastream

Chart 2.2
Global exports



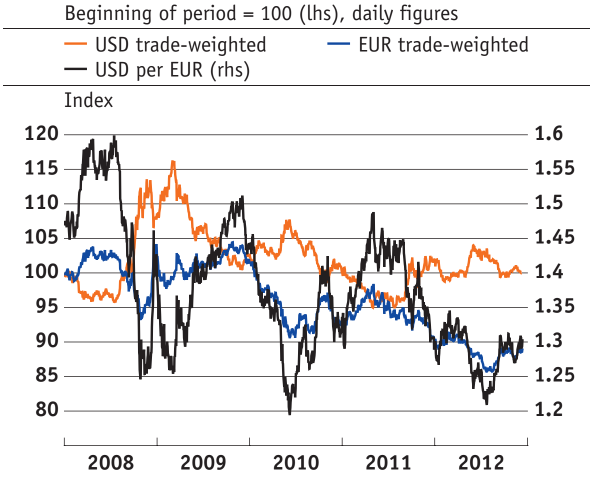
Sources: CPB, Thomson Financial Datastream

Chart 2.3
Stock markets



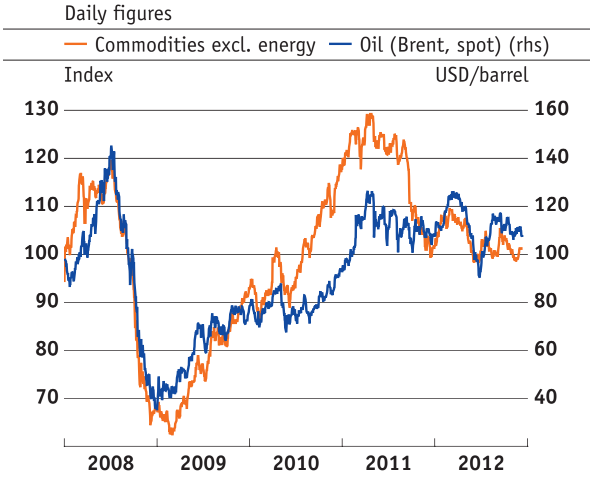
Sources: Reuters, Thomson Financial Datastream

Chart 2.4
Exchange rates



Sources: Reuters, Thomson Financial Datastream

Chart 2.5
Commodity prices



Sources: Reuters, Thomson Financial Datastream

The SNB's forecasts are based on assumptions about the oil price and the EUR/USD exchange rate; over the forecast period it is assuming an oil price for Brent crude of USD 112 per barrel and an exchange rate of USD 1.30 to the euro.

2.2 United States

Third-quarter GDP expanded by 2.7% in the US, outperforming the previous quarter. This growth was underpinned by demand in the area of private consumption as well as robust residential construction investment, but also by expansion in inventory investment and public spending on defence. Business investment, meanwhile, declined marginally. Despite the pick-up in growth, aggregate economic capacity remained underutilised and unemployment rose considerably to 7.7% in November (cf. chart 2.9).

Economic growth is set to remain moderate in the coming quarters. Retail and manufacturing activity declined in October in the wake of Hurricane Sandy, however catch-up effects are expected in the succeeding months. Improved consumer confidence and incrementally rising house prices are likely to translate into a gradual strengthening of consumer demand. Foreign trade is not expected to provide any meaningful stimulus in the short term, however. The SNB is projecting annual GDP growth of 2.3% for both 2012 and 2013. This is based on the assumption that the US Congress successfully reaches a deal by year-end to extend the majority of expiring tax breaks and postpone imminent spending cuts. The SNB estimates that fiscal policy will curb growth in 2013 by approximately 1 percentage point.

Consumer price inflation rose again slightly in October to 2.2% as a result of higher energy prices (cf. chart 2.10), but core inflation remained practically unchanged at 2.0% (cf. chart 2.11). High unemployment and weak wage growth are likely to keep inflationary pressure low in the medium term.

Monetary policy continued to be highly expansionary. In September, the Federal Reserve extended its purchases of longer-term securities to USD 85 billion a month. It intends to continue making these purchases until there is a substantial improvement in the labour market situation. At the same time, it plans to sell short-term government bonds until the end of the year amounting to USD 45 billion. The target range for the federal funds rate has been left at 0.0–0.25% (cf. chart 2.12). Furthermore, in December, it altered its communications strategy, announcing that it would keep the interest rate at its current level of 0.0–0.25% at the very least for as long as the unemployment rate remains over 6.5% and its medium-term inflation forecast does not exceed 2.5%. The Fed reiterated that the reference rate will not be raised before mid-2015.

2.3 Euro area

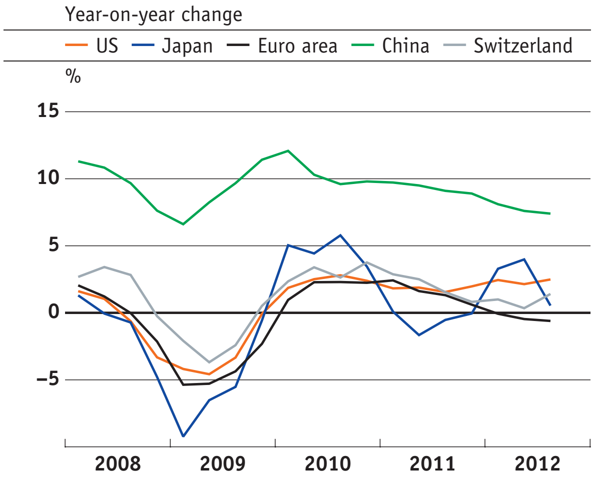
The euro area has been in a recession for a year. In the third quarter, GDP declined by a further 0.2%. Although it rose slightly in Germany and France, it fell in many other member states, with the southern euro area countries also mired in deep recession due to fiscal consolidation. Investment in the euro area decreased further due to low capacity utilisation and ongoing uncertainty. Consumer demand stagnated. Only foreign trade had a stabilising effect. Unemployment rose again in October to 11.7%, the highest level in the currency union's history (cf. chart 2.9). For the first time in over three years, the unemployment rate also increased in Germany.

The growth outlook in the euro area continues to be shaped by restrictive fiscal policy and unfavourable sentiment. Low confidence among companies and households and weak demand from the southern euro area states are also inhibiting economic growth in the core countries. New orders in manufacturing and exporters' sales expectations have declined in recent months. Indicators are currently suggesting that euro area GDP will continue to fall in the fourth quarter, and surveys show that manufacturing companies are intending to scale back investments next year. Companies are also becoming increasingly circumspect with regard to employment plans. The SNB has revised its euro area growth forecast slightly downwards; it now expects the currency union will only emerge from recession in 2013. It continues to project a GDP decline for 2012 as a whole, but it is now also anticipating a stagnation for 2013.

Consumer price inflation edged down in the euro area in recent months, due principally to waning base effects from energy prices and the VAT increase in Italy in October of last year. In November, annual inflation stood at 2.2%, its lowest level in two years (cf. chart 2.10). Core inflation remained stable at approximately 1.5% (cf. chart 2.11).

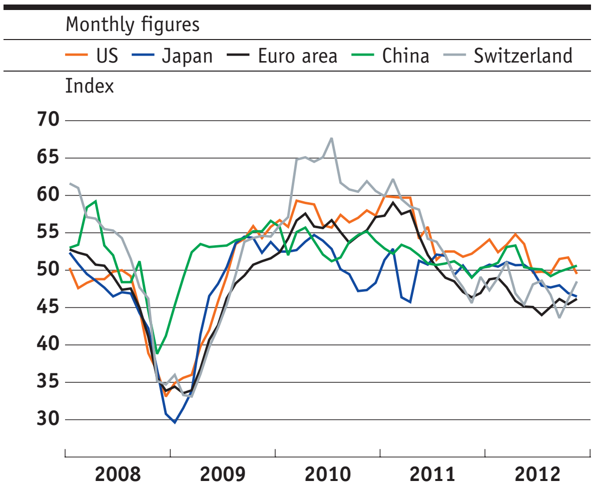
The ECB is continuing to pursue its expansionary monetary policy, leaving its main refinancing rate at 0.75% (cf. chart 2.12). Moreover, since September it has been poised to implement its new

Chart 2.6
Real GDP



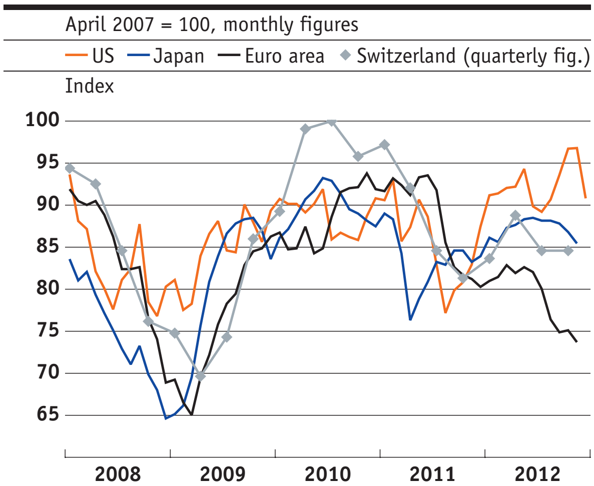
Sources: State Secretariat for Economic Affairs (SECO), Thomson Financial Datastream

Chart 2.7
Purchasing managers' indices (manufacturing)



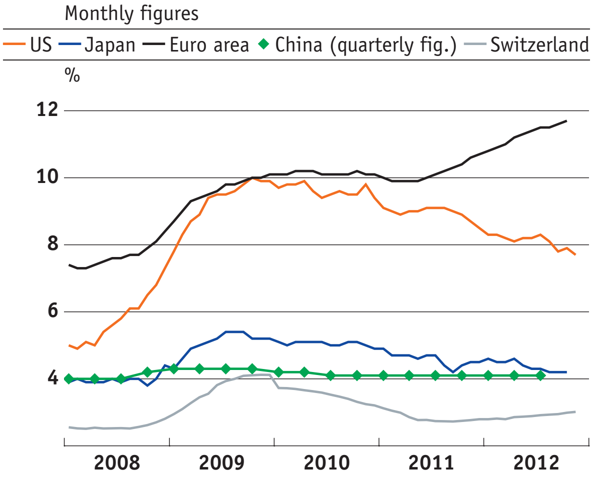
Source: Thomson Financial Datastream; copyright and database rights: Markit Economics Ltd 2009; all rights reserved

Chart 2.8
Consumer confidence index



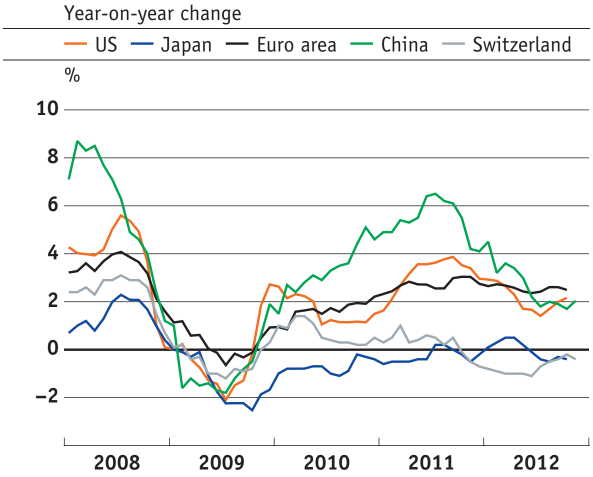
Sources: SECO, Thomson Financial Datastream

Chart 2.9
Unemployment rates



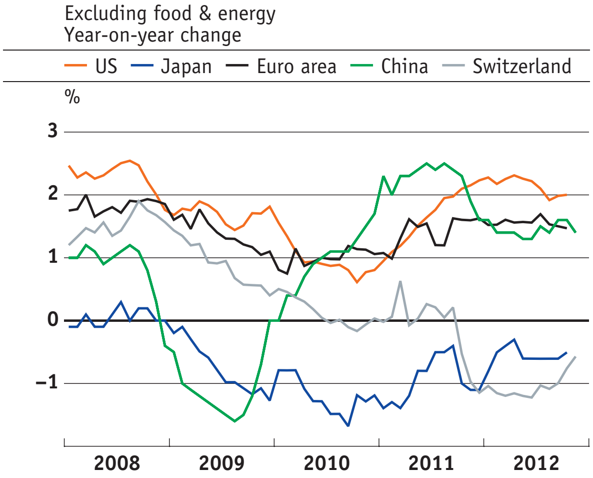
Sources: SECO, Thomson Financial Datastream

Chart 2.10
Consumer prices



Sources: Swiss Federal Statistical Office (SFSO), Thomson Financial Datastream

Chart 2.11
Core inflation rates



Sources: SFSO, Thomson Financial Datastream

securities purchase programme (Outright Monetary Transactions, OMT) in the event that a member state requests financial assistance from the European Financial Stability Facility (EFSF) or European Stability Mechanism (ESM). As of mid-December, the ECB had not purchased any government bonds under the OMT programme as no formal request for financial assistance had been made.

2.4 Japan

After starting the year on a strong growth trajectory, Japan's economic activity deteriorated significantly in the second half of the year. In the third quarter, GDP fell by 3.5%, having stagnated in the previous period. Consumer demand slackened once state subsidies for energy-efficient vehicles expired, and goods exports slowed due to weak global demand, the strength of the yen and the territorial dispute with China. These factors also dampened private investment. Public investments for reconstruction following the earthquake in March 2011 were the only remaining source of meaningful stimulus. A recovery is not anticipated before the new year. The SNB expects GDP growth of 2.1% for 2012 and approximately 1% for 2013.

In October, Japanese consumer prices were 0.4% lower than a year earlier (cf. chart 2.10). Even if prices for energy and food are factored out of the equation, inflation remained in negative territory (cf. chart 2.11). Price momentum is expected to remain very weak due to below-average capacity utilisation. However, a temporary inflation surge is expected in 2014, following a planned VAT rise.

The Bank of Japan maintained its expansionary monetary policy, increasing the target volume of its securities programme by JPY 21,000 billion to JPY 91,000 billion (approximately CHF 1,000 billion) and extending the purchase window until the end of 2013. It also introduced a new credit facility under which commercial banks are offered long-term credit lines to match loans they provide to households and companies. It left the target call money rate unchanged at 0.0–0.1% (cf. chart 2.12). The Bank of Japan and the government also issued a joint declaration highlighting their determination to tackle persistent deflation.

2.5 Emerging economies

Developments in the emerging economies continued to be overshadowed by sluggish demand from the advanced economies and uncertainty surrounding the outcome of the European financial and sovereign debt crisis. Nonetheless, monetary – and in some cases fiscal – policy easing introduced in China, India and Brazil this year contributed to a slight economic recovery in the third quarter of 2012. All in all, GDP growth remained moderate.

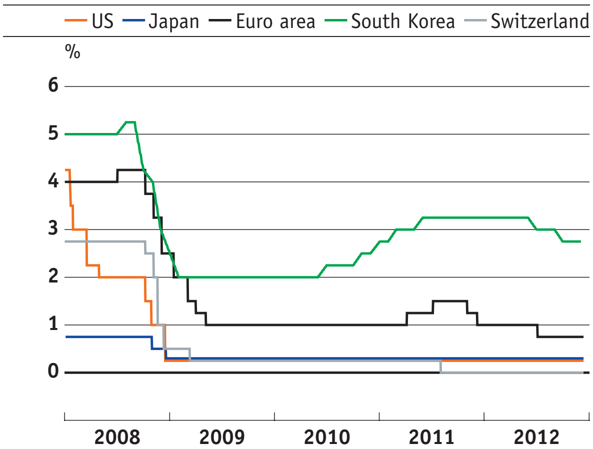
In China, GDP growth strengthened in the third quarter, but, at 7.4%, it was still down slightly on the previous year (cf. chart 2.6). Economic activity was buttressed by monetary policy easing and targeted state investments in infrastructure and residential construction. In India, by contrast, the business climate continued to be encumbered by restrictive lending conditions and the slow pace of state reforms. In the Asian newly industrialised economies (NIEs) – South Korea, Taiwan, Hong Kong and Singapore – economic activity continued to cool and a strike in South Korea significantly impaired production in the automotive industry. In Brazil, comprehensive stimulus measures – targeted in particular at the consumer goods industry – began to bear fruit after more than a year of GDP stagnation.

Business activity is expected to continue picking up in the emerging economies in the months ahead. Due to planned infrastructure projects and foreign direct investment incentives, investment demand is expected to join private consumption as a key growth driver in the major emerging markets (China, India and Brazil).

Consumer price inflation in the emerging economies fell substantially in the first half of the year, but has remained relatively stable overall since mid-year. China's inflation stood at 2.0% in November (cf. chart 2.10). In India, inflation dipped slightly to 7.2%. In Brazil, on the other hand, it rose marginally to 5.5%. Given the moderate growth outlook, domestic price pressure in the emerging economies is set to remain low overall.

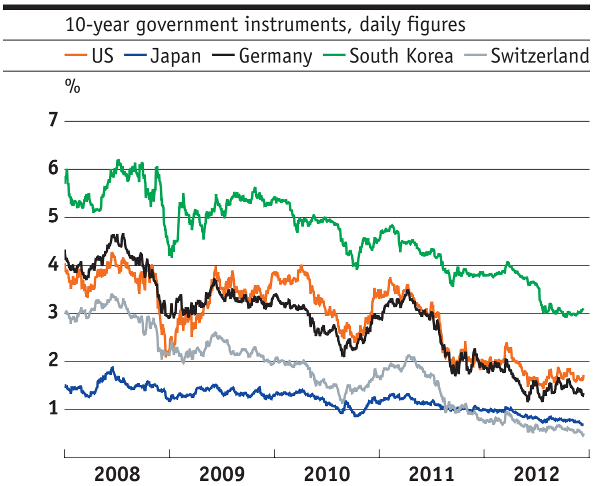
Some of the emerging economies have taken steps to ensure continued monetary policy easing in recent months. South Korea's central bank cut its key interest rate again in October, having initiated a change of direction in July. India's central bank further reduced its minimum reserve rate for banks, and Brazil's central bank likewise remained firmly committed to its strategy of monetary policy easing. In many of the emerging economies there is still scope for the use of monetary and fiscal policy measures.

Chart 2.12
Official interest rates



Sources: SNB, Thomson Financial Datastream

Chart 2.13
International long-term interest rates



Sources: SNB, Thomson Financial Datastream

3 Economic developments in Switzerland

In Switzerland, economic activity revived somewhat. According to preliminary estimates by the State Secretariat for Economic Affairs (SECO), real GDP grew by 2.3% in the third quarter, having fallen by 0.5% in the previous quarter. This positive development is attributable to a recovery in exports. However, given the weak global environment, this effect is likely to only be temporary. Domestic demand lost further momentum: Private consumer spending increased only slightly, while equipment investment continued to decline.

The output gap remains clearly negative. The situation on the labour market deteriorated further, with another slight rise in unemployment figures in autumn.

The SNB expects GDP growth in the fourth quarter to be considerably weaker. Consequently, economic growth for this year is likely to be around 1.0%, as forecast to date. For 2013, the SNB expects growth of 1.0–1.5%

3.1 Aggregate demand and output

Broad-based growth in value added

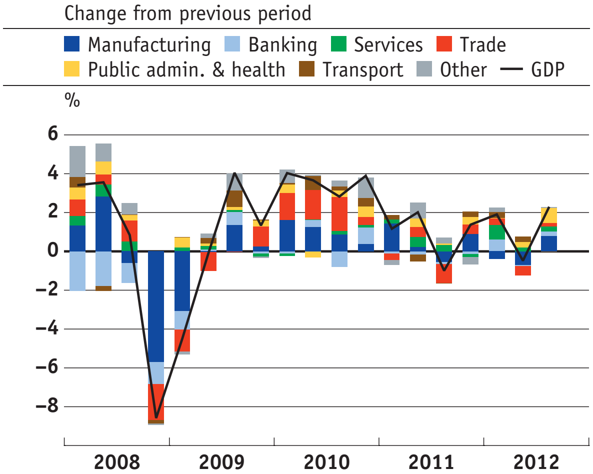
Following a slight decline in the second quarter, GDP rose by 2.3% in the third quarter, according to preliminary estimates made by SECO. The largest contribution was recorded in manufacturing, where vigorous growth in value added recouped almost all losses from the first half of the year (cf. chart 3.1). Value added also increased considerably in the financial sector, public administration, healthcare and business-related services, whereas transport and communication services developed less favourably, as did trade. The downward trend in the hospitality industry persisted, however.

Positive development in foreign trade contribution

Net exports (excluding valuables) were positive in the third quarter (cf. chart 3.2). While exports saw growth of 4.7% and thus a robust increase from the previous quarter (cf. chart 3.3), imports grew only slightly, by 1.1% (cf. chart 3.4). Overall, this resulted in a positive foreign trade contribution of 1.9 percentage points.

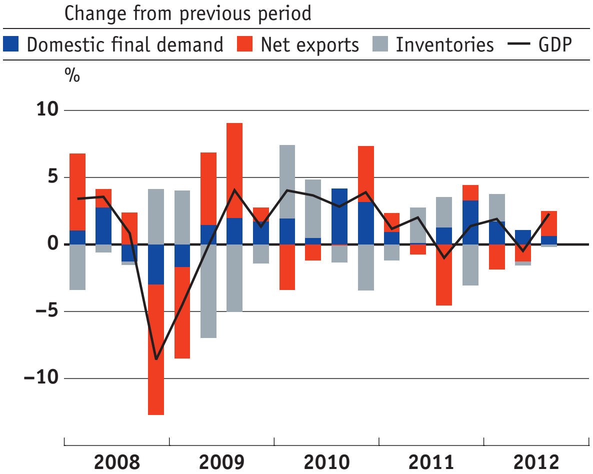
After a weak first half of the year, goods exports surged in the third quarter. Sales of goods to Europe and Japan went up in particular. When broken down by industry, exports of chemicals and pharmaceuticals rose significantly. Exports of vehicles and jewellery also expanded, whereas weak foreign demand meant that machinery exports experienced a sixth quarter of decline.

Chart 3.1
Contributions to growth, by sector



Source: SECO

Chart 3.2
Contributions to growth in demand



Source: SECO

Unlike goods exports, exports of services continued to decrease in the third quarter. This was mainly attributable to declining receipts from merchanting. Receipts from licence and patent fees as well as tourism also receded. By contrast, receipts from exports of insurance services played a supportive role.

Imports of goods and services also differed considerably. Goods imports were dominated by the strong demand for foreign commodities, semi-manufactured goods and energy. With regard to imports of services, declining expenditure in transport and also licence and patent fees abroad played a central role.

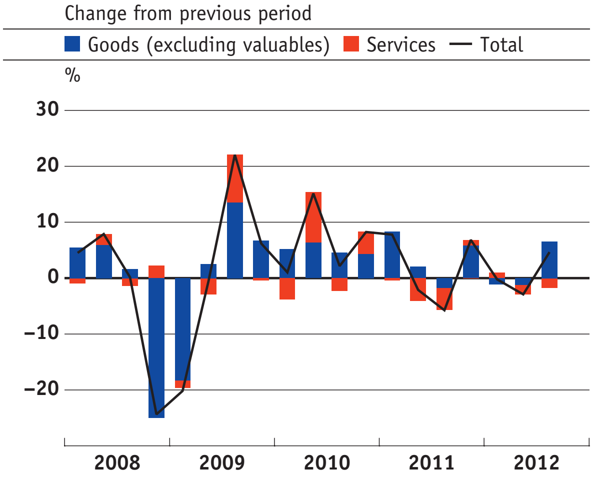
Slower momentum in domestic demand

Domestic final demand continued to lose momentum in the third quarter of the year (cf. chart 3.5 and table 3.1). The largest impulse came from public-sector spending. Private consumer spending and construction investment increased only moderately, while equipment investment declined once again.

Private consumer spending increased by a mere 0.6% in the third quarter. Consumer confidence deteriorated a little at the same time. Consumption patterns in the different consumer goods areas varied considerably. Retail consumption (e.g. food, furniture) was weak, while expenditure for health and financial services rose sharply. Subdued earnings prospects mean that private consumption is likely to experience restrained growth in the medium term, although immigration should continue to lend support.

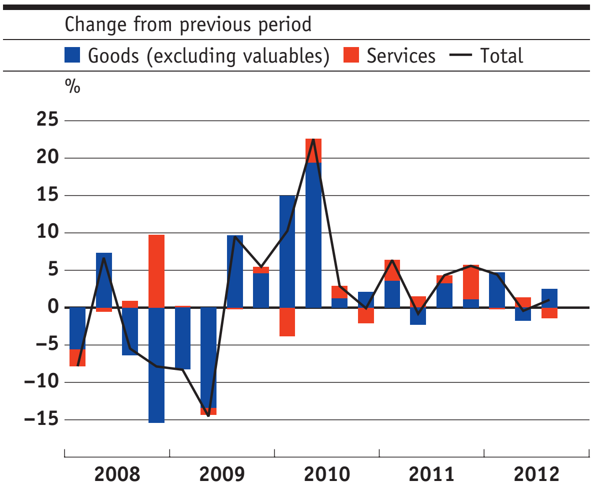
Construction investment rose only slightly in the third quarter and remained lower than the year-back level. According to surveys carried out by the Swiss Federation of Master Builders, each segment showed different levels of development. Residential construction stagnated at a high level. Civil engineering, which had lost some momentum in recent quarters, was up again in the third quarter. The opposite was seen in commercial construction, where the recovery of the previous quarters proved to be temporary.

Chart 3.3
Contributions to export growth



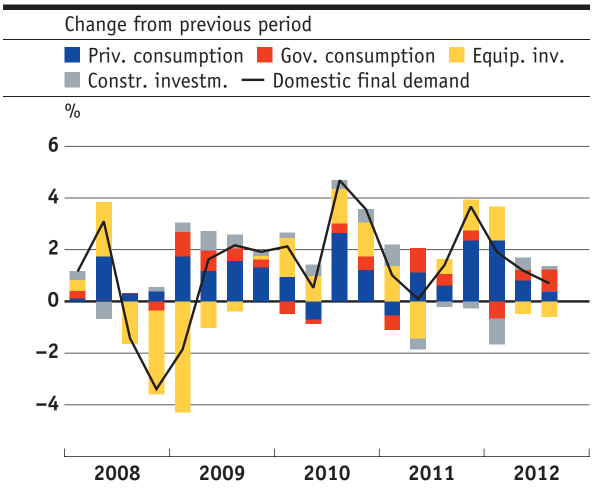
Source: SECO

Chart 3.4
Contributions to import growth



Source: SECO

Chart 3.5
Domestic final demand, growth contributions



Source: SECO

Real GDP and components Table 3.1

Growth rates on previous period, annualised

	2008	2009	2010	2011	2010	2011				2012		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private consumption	1.2	1.8	1.6	1.2	1.9	−0.8	1.7	0.9	3.6	3.7	1.2	0.6
Government consumption	−2.5	3.3	0.7	2.0	4.2	−4.5	7.8	3.6	3.2	−5.1	3.4	6.9
Investment in fixed assets	0.7	−8.0	4.8	4.0	8.1	9.6	−8.0	1.5	4.1	0.9	−0.1	−2.2
Construction	0.0	3.0	3.5	2.4	5.1	8.2	−3.9	−2.1	−2.5	−9.8	4.8	1.4
Equipment	1.1	−15.5	5.8	5.2	10.6	10.8	−11.2	4.6	9.6	10.6	−3.7	−4.9
Domestic final demand	**0.6**	**−0.4**	**2.2**	**1.9**	**3.6**	**1.0**	**0.1**	**1.4**	**3.7**	**1.9**	**1.2**	**0.7**
Domestic demand	**0.5**	**0.0**	**2.3**	**1.9**	**−0.2**	**−2.9**	**5.0**	**3.9**	**0.9**	**3.1**	**−1.1**	**2.9**
Total exports	2.9	−7.7	7.8	3.8	7.7	10.3	−1.3	−3.3	−0.3	−0.7	1.6	1.8
Goods[1]	2.1	−11.1	9.4	6.3	6.3	12.3	3.0	−2.5	8.4	−1.6	−1.7	9.5
Services	3.4	1.2	3.7	−1.4	12.4	−1.3	−12.5	−12.7	3.3	3.2	−5.5	−5.5
Aggregate demand	**1.4**	**−2.9**	**4.3**	**2.6**	**2.7**	**1.8**	**2.6**	**1.2**	**0.5**	**1.8**	**−0.2**	**2.5**
Total imports	−0.3	−5.2	7.4	4.2	−0.3	3.3	4.0	6.6	−1.7	1.5	0.6	3.1
Goods[1]	−1.0	−8.3	10.6	3.1	2.6	4.4	−2.8	4.0	1.4	5.9	−2.2	3.2
Services	0.6	9.0	−1.5	7.3	−10.9	15.5	8.2	5.7	24.6	−1.1	7.0	−7.2
GDP	**2.2**	**−1.9**	**3.0**	**1.9**	**3.9**	**1.2**	**2.0**	**−1.0**	**1.4**	**1.9**	**−0.5**	**2.3**

1 Goods: excluding valuables (precious metals, precious stones and gems as well as works of art and antiques)
Source: SECO

Influenced by another decrease in technical capacity utilisation levels and uncertainty surrounding the global economy, equipment investment continued to decline in the third quarter. Not all segments were affected in the same way, however. While investment in vehicles and electrical appliances declined, investment in electronic data processing saw a sharp increase. Investment in machinery also recovered slightly in the third quarter.

3.2 Labour market

Rising unemployment

The situation on the labour market deteriorated further. Unemployment has been rising slowly but continuously for over a year now. The number of people registered as unemployed with regional employment offices rose by almost 3,600 between August and November. The unemployment rate climbed to 3.0% (cf. chart 3.6).

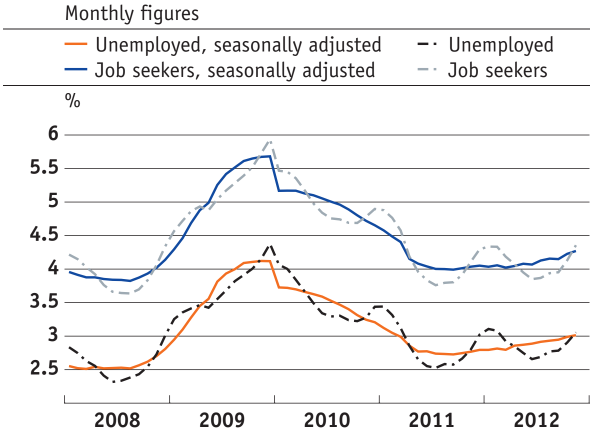
Short-time working remained low in the third quarter (cf. chart 3.7).

Surprising levels of employment growth

According to the official employment statistics (JOBSTAT) released by the Swiss Federal Statistical Office (SFSO), however, the number of new jobs available rose again in the third quarter. The number of full-time and part-time jobs rose by 2.7%. Expressed in terms of full-time equivalents, the increase in employment was 2.0% and thus similar to the previous quarter's figure (cf. chart 3.8).

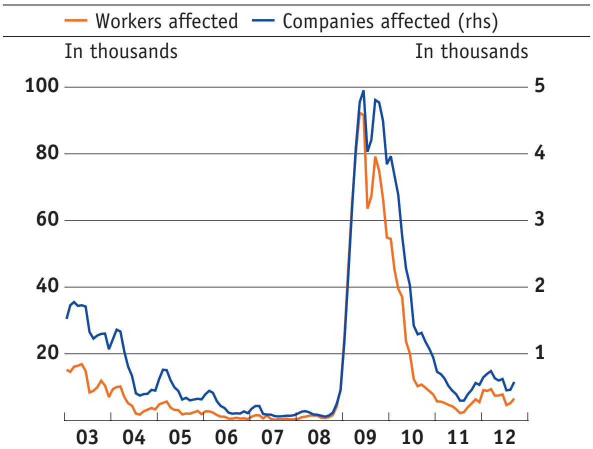
These figures are, however, fraught with considerable uncertainty. In the recent past, large discrepancies have been shown to exist between JOBSTAT and the Employment Statistics (ES) of the SFSO. In contrast to JOBSTAT, ES points to a clear slowdown in employment growth. ES figures, however, are as yet available only up to the second quarter. Other labour market indicators are primarily indicating a slowdown in the labour market and thus question the lively growth forecast by the official employment statistics.

Chart 3.6
Unemployment and job seeker rates



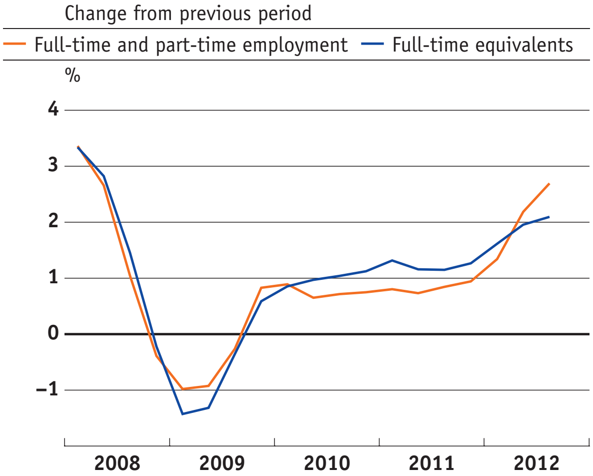
Unemployed and job seekers registered with the regional employment offices, as a percentage of the labour force according to the 2000 census (labour force: 3,946,988 persons) to 2009, and according to the 2010 census (labour force: 4,322,899 persons) from 2010.
Source: SECO

Chart 3.7
Short-time working



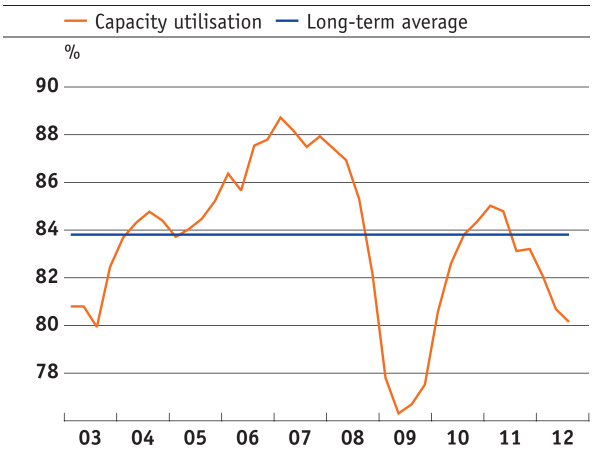
Source: SECO

Chart 3.8
Employment



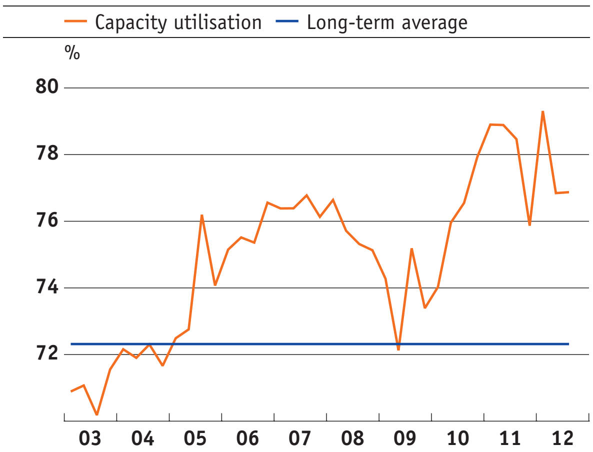
Source: SFSO, seasonal adjustment: SNB

Chart 3.9
Capacity utilisation in manufacturing



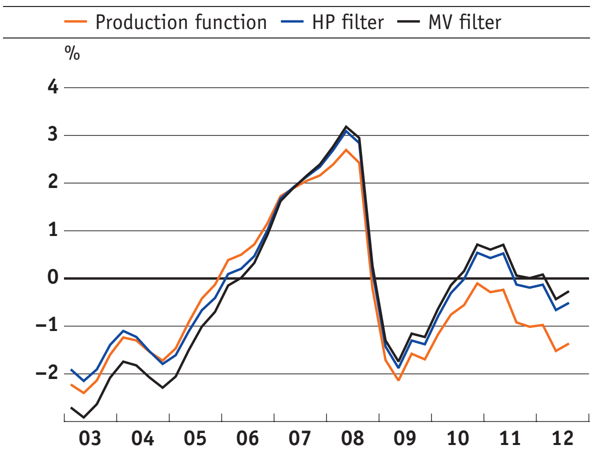
Source: KOF Swiss Economic Institute

Chart 3.10
Capacity utilisation in construction



Source: KOF Swiss Economic Institute

Chart 3.11
Output gap



Source: SNB

3.3 Capacity utilisation

Decline in industrial capacity utilisation

According to a survey carried out by the KOF Swiss Economic Institute, the utilisation of technical capacity in the manufacturing industry receded to 80.2% in the third quarter, below its long-term average (cf. chart 3.9). In contrast to the situation in manufacturing, capacity utilisation remains very high in construction. At 77.3%, machine utilisation in the third quarter was significantly above the long-term average (cf. chart 3.10). Accordingly, many of the companies surveyed were reporting bottlenecks in machine and equipment capacity as well as labour shortages. Capacity utilisation in the services sector as a whole remained average. However, it is persistently low in the hospitality industry, owing to the strength of the Swiss franc and weak economic activity in other countries.

Negative output gap

The output gap, which is defined as the percentage deviation of observed GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised. The sharp rise in GDP meant that the negative output gap temporarily narrowed somewhat in the third quarter. Estimated potential output based on the production function approach indicates that the output gap was –1.4% in the third quarter, compared with –1.5% in the second quarter (cf. chart 3.11). Estimates using other methods (Hodrick-Prescott filter and multivariate filter) suggest that the output gap is slightly less pronounced (–0.5% and –0.3%).

The different estimates reflect the various ways of calculating potential output. The production function approach takes the labour market situation and the stock of capital in the economy into account. Since potential labour levels, in particular, have increased steadily in recent years – primarily because of immigration – potential output and, hence, the output gap are larger when calculated with this method than with statistical filter methods.

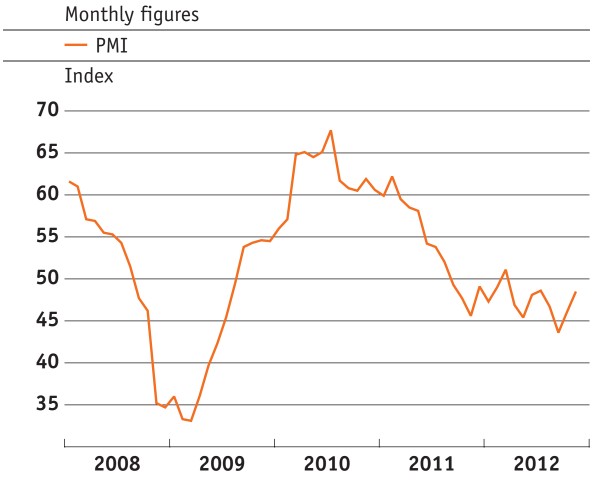
3.4 Outlook for the real economy

Growth prospects for Switzerland have changed little since the last monetary policy assessment. Recession persists in the euro area in the short term. The economies of Switzerland's main trading partners are likely to recover only slowly. Based on the indicators currently available, the SNB expects growth to slow distinctly again in the fourth quarter of 2012.

The situation remains tense in manufacturing in particular, despite the temporary revival. The low levels of capacity utilisation and subdued demand from abroad will continue to take their toll on investment activity. Also as a result of the higher levels of unemployment and only moderately rising incomes, domestic demand is likely to remain somewhat subdued in the coming quarters.

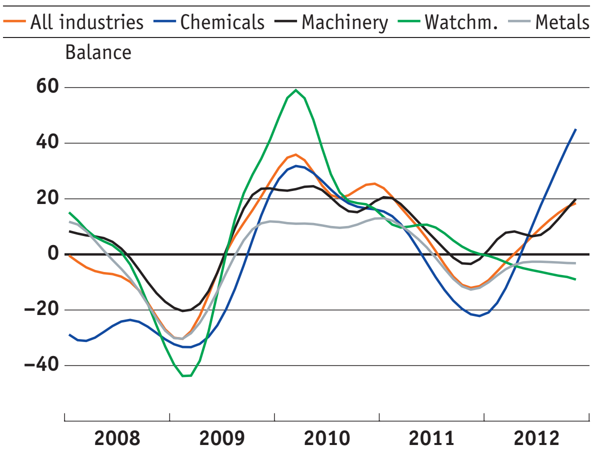
The SNB is continuing to forecast GDP growth of around 1% for 2012. As part of the course of a moderate global economic recovery, economic activity in Switzerland should regain some momentum in the coming year. At approximately 1.0–1.5%, economic growth is likely to remain below potential in 2013. There is likely to be a further slight rise in unemployment and the output gap is expected to remain negative. In view of the fragile international environment, the downside risks for the Swiss economy remain considerable.

Chart 3.12
Purchasing managers' index (manufacturing)



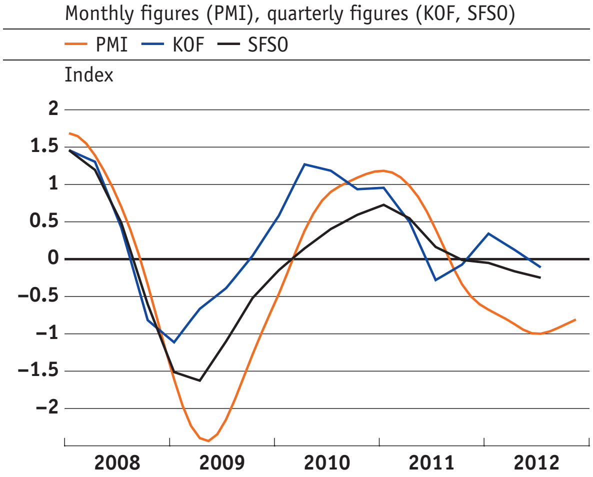
Source: Credit Suisse

Chart 3.13
Expected new orders



Source: KOF Swiss Economic Institute

Chart 3.14
Employment leading indicators



Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

4 Prices and inflation expectations

The M1, M2 and M3 monetary aggregates, which measure the amount of money held by households and companies, have increased substantially over the past few months. For this reason, some fear that inflation could begin to rise soon. There is currently no indication, however, that this is the case. The inflation forecast for Switzerland continues to be low. The inflation rate is still in negative territory. Inflationary pressure remains minimal because of the strong Swiss franc and the relatively unfavourable global growth outlook. Moreover, the underutilisation of production capacities in Switzerland is restraining the inflation outlook. Surveys on inflation expectations show that households and companies continue to assume that prices will remain stable, also in the medium term.

4.1 Consumer prices

CPI inflation still negative

Annual inflation, as measured by the national consumer price index (CPI), was –0.4% in November. Movements in the annual inflation rate are influenced by two factors. On the one hand, last year's abrupt price decline resulting from the appreciation of the Swiss franc is gradually disappearing from the twelve-month comparison, which means that the rise in the annual inflation rate, as observed up to October, is close to zero. On the other hand, prices are continuing to decline in some goods categories, with the result that, in November, the annual inflation rate again moved a little further into negative territory than in the previous month (cf. table 4.1).

National consumer price index and components Table 4.1
Year-on-year change in percent

	2011	2011	2012			2012		
		Q4	Q1	Q2	Q3	September	October	November
Overall CPI	**0.2**	**–0.5**	**–0.9**	**–1.0**	**–0.5**	**–0.4**	**–0.2**	**–0.4**
Domestic goods and services	0.6	0.3	0.0	0.0	0.0	0.0	0.1	0.1
Goods	–1.3	–2.1	–2.3	–2.1	–1.8	–1.5	–1.2	–0.8
Services	1.1	1.1	0.7	0.6	0.6	0.5	0.5	0.3
Private services excluding rents	0.8	0.9	0.7	0.6	0.6	0.6	0.5	0.5
Rents	1.3	1.2	0.8	0.7	0.6	0.5	0.5	0.0
Public services	1.8	1.4	0.6	0.3	0.3	0.3	0.3	0.3
Imported goods and services	–0.7	–2.6	–3.4	–3.8	–2.1	–1.7	–1.2	–1.6
Excluding oil products	–2.5	–5.0	–5.2	–4.9	–4.1	–4.0	–3.0	–2.2
Oil products	9.3	10.5	6.2	2.2	8.7	10.5	8.5	1.5

Sources: SFSO, SNB

Prices of imported goods below year-earlier level

The negative annual inflation rate for the foreign components in the CPI was –1.6% in November, the same as it had been in August. Prices for internationally traded goods retreated further over the past few months. Owing, however, to the minimum Swiss franc exchange rate against the euro, the strong decline in prices of imported goods observed in the past year has slowed considerably (cf. chart 4.1).

Annual inflation for domestic goods rose slightly, reflecting a less negative inflation rate for domestic goods. For services, meanwhile, price inflation decreased to 0.3% (cf. chart 4.2). This decline is mainly attributable to rents, which dropped slightly in the last three quarters, reaching the same level in November as a year previously.

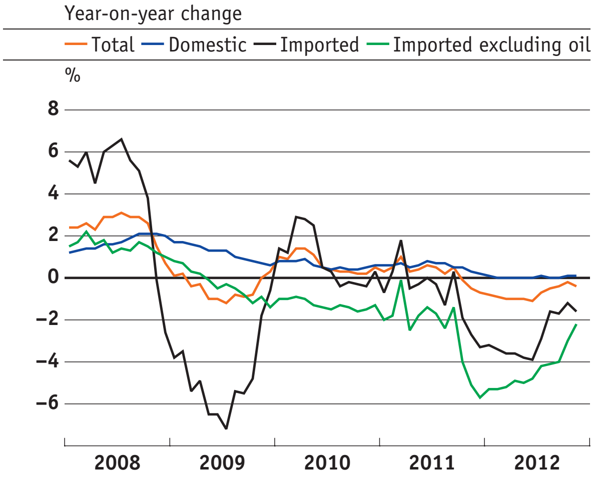
Low and stable core inflation

Core inflation indicators suggest that the annual inflation trend has stabilised at a low level (cf. chart 4.3).

The trimmed mean (TM15) – which is calculated by the SNB and excludes the goods and services with the highest and lowest inflation rates over the past twelve months (15% at either end of the distribution) – remained close to zero. The SFSO core inflation rate was slightly below the TM15. Unlike the TM15, the SFSO rate always eliminates the same CPI goods (fresh and seasonal products, energy and fuel). In the last few quarters, it has been strongly influenced by the appreciation of the Swiss franc experienced in the past year, and indeed fell even further than CPI inflation. The narrowing of the gap between SFSO1 and TM15 is due to the fact that the base effect connected with the appreciation is gradually disappearing.

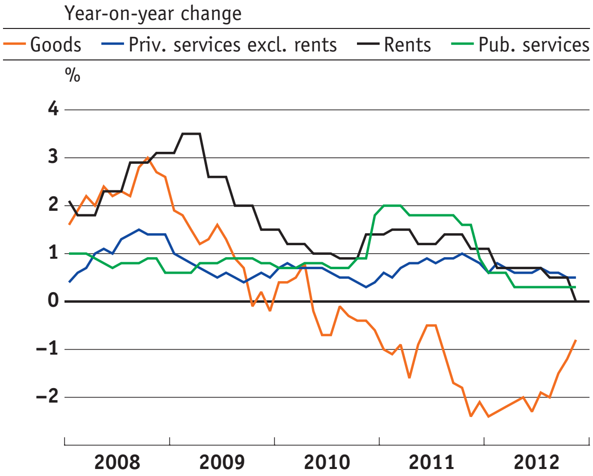
Similar to the TM15, dynamic factor inflation (DFI), which is calculated by the SNB, also suggests that inflationary pressure remains unchanged. In the case of DFI, the inflation trend is derived as a common component from a large number of real and monetary indicators.

Chart 4.1
CPI: domestic and imported goods and services



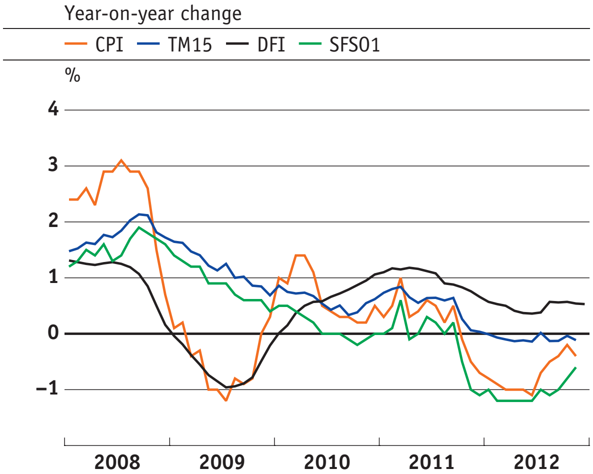
Sources: SFSO, SNB

Chart 4.2
CPI: domestic goods and services



Sources: SFSO, SNB

Chart 4.3
Core inflation rates



Sources: SFSO, SNB

4.2 Producer and import prices

Producer and import prices above year-back level for first time since April 2011

In September 2012, annual inflation for producer and import prices recorded positive figures for the first time since April 2011. In November, they were 1.5% and 0.7% above their respective year-earlier levels. The rise in the annual inflation rates is primarily due to a waning base effect. Taking the inflation trend, the price indices of most goods categories remained stable. Only in commodities were considerable movements observed.

Overall, the price trend for supply prices suggests that the minimum exchange rate against the euro has had a stabilising impact rather than an inflationary one. At present, supply prices are exerting no inflationary pressure on downstream consumer prices.

4.3 Real estate prices

Strong upward price trend for residential properties unabated

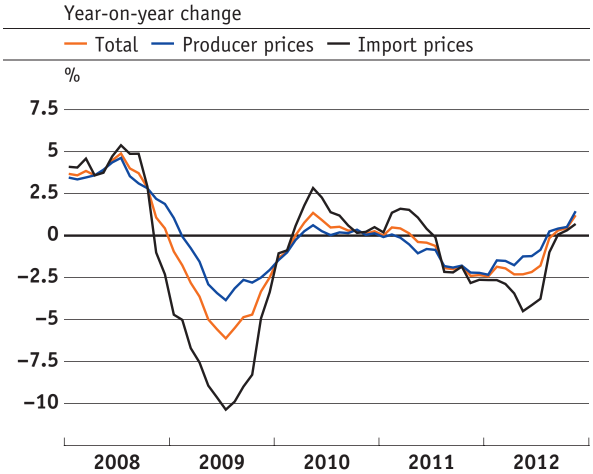
Prices in the residential property market continued to rise strongly in the third quarter. The price indices of the different providers (Wüest & Partner, Fahrländer Partner and IAZI) suggest a sharp increase in transaction prices, particularly for owner-occupied apartments (cf. chart 4.5). Furthermore, according to Wüest & Partner, asking prices also rose significantly. The slight decline in asking prices recorded in the previous quarter thus proved to have been temporary.

Owing to the continued sharp rise in prices over the past few years, the risk of the residential property market overheating is increasing.

Continuing discrepancy between rise in rents for new and existing contracts

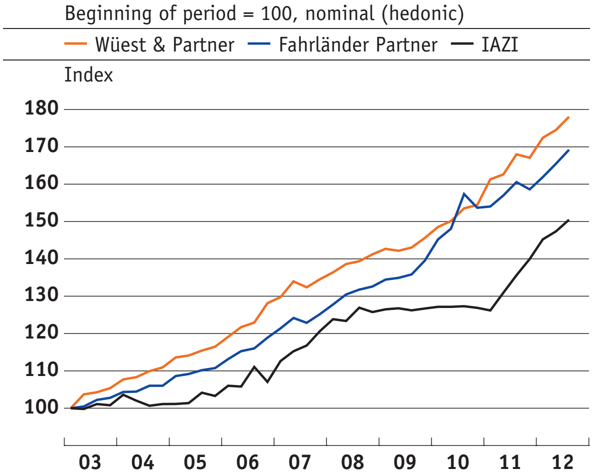
In the third quarter, rents for apartments offered on the market (offer rents) were again significantly higher than a year earlier (cf. chart 4.6). By contrast, rents under existing contracts changed only little over the year. Rents under existing contracts are legally tied to the reference interest rate, which was reduced to 2.25% as of 2 June 2012, putting further downward pressure on these rents.

Chart 4.4
Producer and import prices



Source: SFSO

Chart 4.5
Transaction prices, owner-occupied apartments



Sources: Fahrländer Partner, IAZI, Wüest & Partner

4.4 Inflation expectations

Short-term inflationary expectations still low

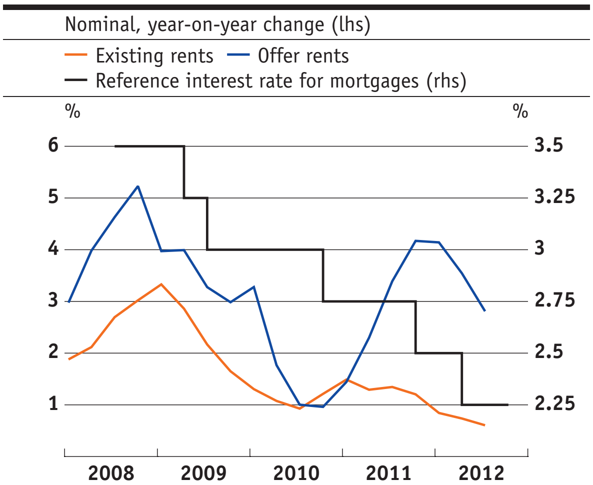
The results of surveys of households and experts are still indicating low inflation expectations in the short and medium term.

According to SECO's survey of households from October, expectations with regard to price trends have hardly changed in the past few months. As in the previous quarter, 41% of households surveyed expected prices to remain stable over the coming twelve months. The proportion of households assuming a rise in prices inched up to 47%, while those expecting sinking prices dropped slightly to 12% (cf. chart 4.7).

The Credit Suisse ZEW Financial Market Report reveals that, in November, the large majority of analysts surveyed (61%) expect annual inflation rates to remain unchanged over the next six months. Only 5% of respondents reported that they anticipate declining inflation rates, while roughly one-third expect them to rise. In comparison to August, the proportion of those expecting inflation rates to rise has increased slightly.

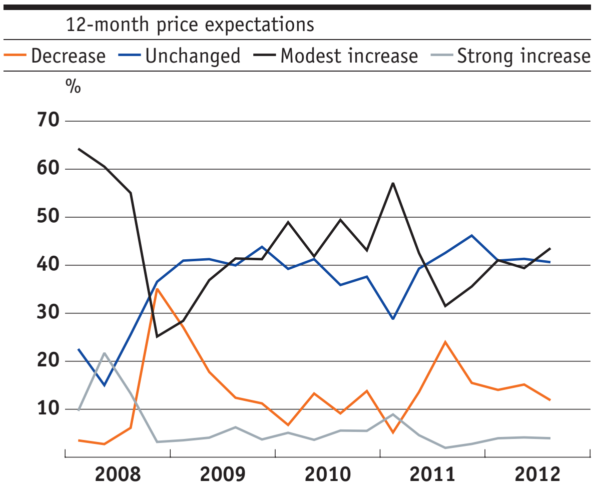
Talks held by the SNB delegates for regional economic relations with companies from all regions of Switzerland, and the survey conducted regularly by Deloitte among CFOs and heads of finance at companies based in Switzerland, provide information on quantitative inflation expectations. The talks held in the fourth quarter indicate that inflation expectations in six to twelve months remain very muted, at 0.1%. Results from the survey by Deloitte in the third quarter reveal that the inflation rate was expected to be 1.2% in two years. Inflation expectations therefore remain within a range that is consistent with the SNB's definition of price stability.

Chart 4.6
Apartment rents and reference interest rate



Sources: Federal Office for Housing (FOH), SFSO, Wüest & Partner

Chart 4.7
Survey on expected movements in prices



Sources: SECO, SNB

5 Monetary developments

Monetary and financial conditions are almost unchanged as compared to the situation in summer 2012. Interest rates in the Swiss franc money market continued to fluctuate around zero. Since mid-June, the three-month Libor has fallen from some 9 basis points to only 1 basis point. Interest rates in the repo market remained predominantly negative. The yield on ten-year Confederation bonds attained a new historical low. This shows that the demand for safe investments remains high.

Over the past few months, as before, movements in the Swiss franc mainly reflected the changing risk assessment of market participants. Following the ECB's announcement in early September that it would purchase unlimited quantities of bonds of crisis-hit euro area countries under certain conditions, the upward pressure on the Swiss franc lessened.

Given the current low interest environment worldwide, the minimum exchange rate is necessary to ensure suitable monetary conditions in Switzerland. Global uncertainty will persist for the foreseeable future and drive demand for secure investments. As a result the exchange rate situation will remain fragile, despite the calmer environment that has come about as a result of the measures taken by the ECB.

Momentum in the domestic residential mortgage and real estate markets remains exceptionally strong. Mortgage lending continues to grow briskly compared to the economy as a whole. In addition, real estate prices, already at a high level, continued to rise. As a result, risks for financial stability increased further.

5.1 Summary of monetary policy since the last assessment

Continuation of the monetary policy announced in September 2011

In the past few months, the SNB has continued to pursue the monetary policy which it announced in September 2011 and has reiterated at subsequent assessments. On 6 September 2011, the SNB had set a minimum exchange rate of CHF 1.20 to the euro, after narrowing the target range for the three-month Libor to 0.0–0.25% and greatly increasing liquidity in August of that year.

Stabilisation of sight deposits at the SNB

Since the September 2012 monetary policy assessment, total sight deposits held at the SNB have increased slightly. In the week ending 7 December 2012 (last calendar week before the mid-December assessment), sight deposits totalled CHF 372.6 billion, compared to CHF 370.7 billion in the last calendar week before the mid-September assessment. Between these two assessments, they averaged CHF 373.1 billion. Of this amount, CHF 292.5 billion was accounted for by the sight deposits of domestic banks and the remaining CHF 80.6 billion by other sight deposits.

High level of banks' surplus reserves

Statutory minimum reserves averaged CHF 12.9 billion between 20 August 2012 and 19 November 2012, an increase of CHF 1.2 billion compared to the preceding period (20 May 2012 to 19 August 2012). On average, banks exceeded the requirement by around CHF 284.1 billion (previous period: CHF 233.7 billion). Thus, banks' surplus reserves have remained extremely high.

5.2 Money and capital market interest rates

Money market rates remain low

As a result of the continuing low level of trading activity, there was very little change in money market interest rates compared to the previous quarter (cf. chart 5.1). The three-month Libor declined from 0.05% at the time of the last assessment in September 2012 to 0.01% in December. Repo rates were predominantly negative.

Long-term interest rates driven by demand for safe investments

The demand for safe investments rose again briefly in the fourth quarter, as uncertainty over the euro area crisis once more became an increasing focus of attention. As a result, yields on medium and long-term Confederation bonds fell to new historical lows in December. At times, yields on ten-year Confederation bonds were just over 0.4%.

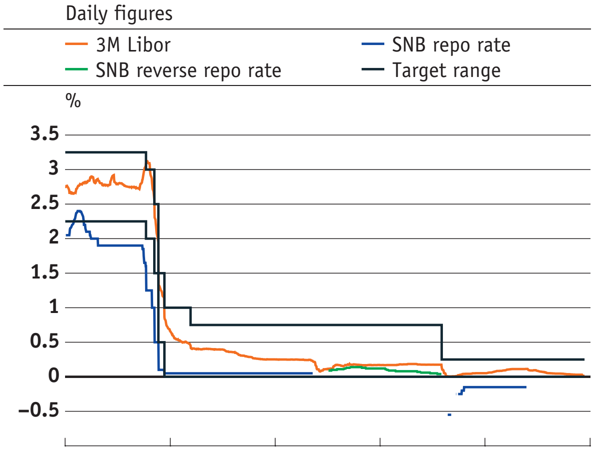
Slight flattening of yield curve

The yield curve for Confederation bonds has flattened slightly compared to the September assessment (cf. chart 5.2), as a result of the decline in yields on long-term Confederation bonds. The spread between the yield on ten-year Confederation bonds and the three-month Libor was almost 0.5 percentage points in mid-December, compared with 0.6 percentage points in mid-September. By historical standards, these spreads are narrow.

Real interest rates remain low

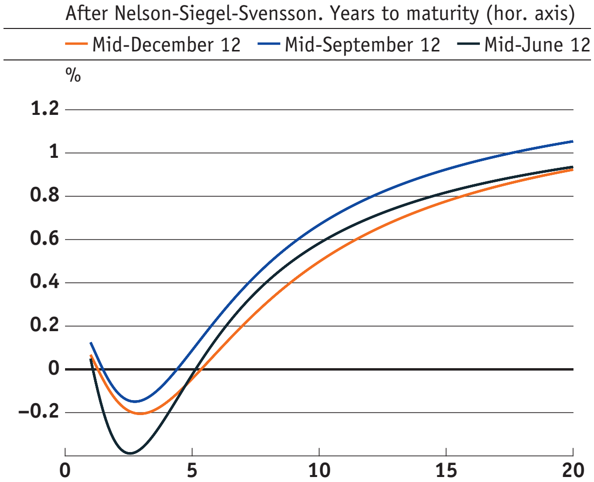
Since the last monetary policy assessment, estimated ten-year real rates have remained at around 0.1%. The real interest rates shown in chart 5.3 are calculated using the ten-year yield on Confederation bonds and the estimated inflation expectations for the same time horizon, determined using a VAR model.

Chart 5.1
Money market rates



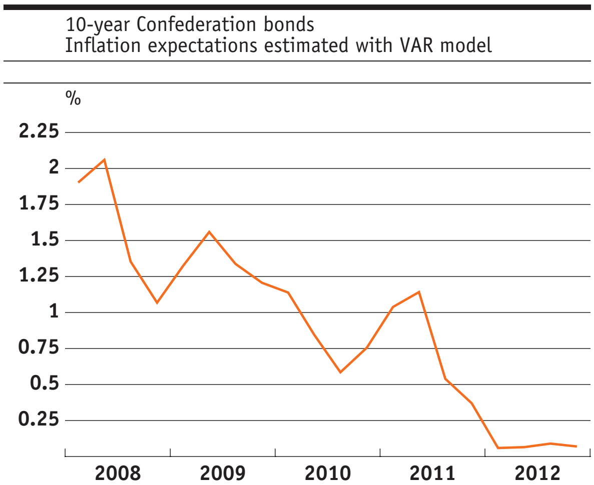
Sources: Bloomberg, Reuters, SNB

Chart 5.2
Term structure of Swiss Confederation bonds



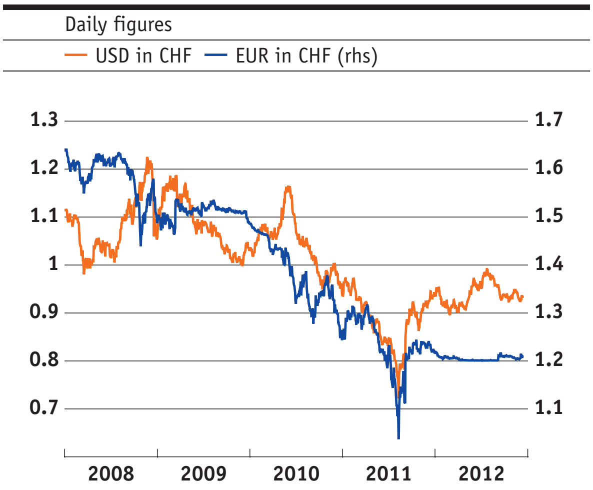
Source: SNB

Chart 5.3
Estimated real interest rate



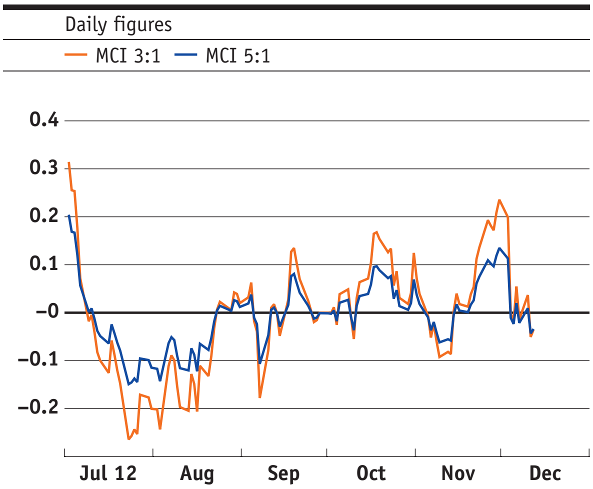
Source: SNB

Chart 5.4
Exchange rates



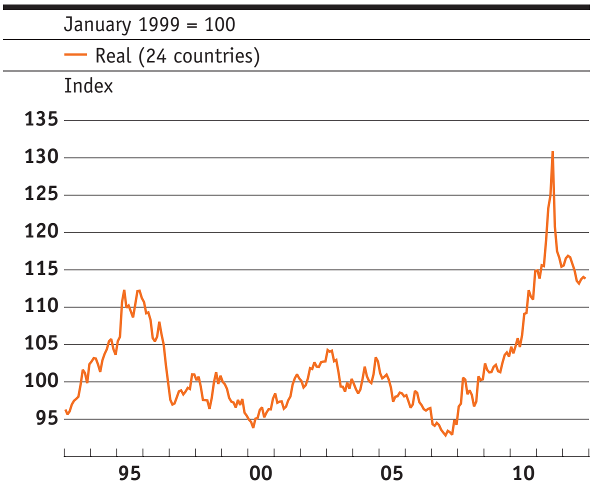
Source: SNB

Chart 5.5
MCI nominal



Source: SNB

Chart 5.6
Export-weighted external value of Swiss franc



Source: SNB

5.3 Exchange rates

Swiss franc exchange rates affected by shifting risk assessments

Over the past few months, exchange rate movements in the Swiss franc have mainly reflected changes in market participants' risk assessments. Following the ECB's decision in early September to use its OMT programme to purchase, under certain conditions, unlimited quantities of bonds issued by crisis-hit euro area countries, the euro rose against the Swiss franc from CHF 1.20 to CHF 1.21. As concerns about a deterioration of the financial situation in the euro area grew in November, the EUR/CHF exchange rate fell back close to the minimum rate imposed by the SNB in September 2011. In December, the Swiss franc weakened again slightly, after the Swiss big banks announced measures to combat the inflow of funds from foreign banks.

The Swiss franc fluctuated by more against the US dollar than against the euro. In the wake of monetary policy decisions by the Fed and the ECB in September, the euro and the Swiss franc initially appreciated against the US currency. After weakening briefly in November against the dollar, the Swiss franc is now slightly higher than at the time of the last monetary policy assessment. In export-weighted terms, the Swiss franc has also appreciated slightly since the last monetary policy assessment.

Monetary conditions virtually unchanged

The slight appreciation in the Swiss franc has not had any significant impact on monetary conditions. The Monetary Conditions Index (MCI) shown in chart 5.5 has hardly changed since the previous assessment. The MCI combines changes in the three-month Libor and in the nominal export-weighted external value of the Swiss franc. To take account of uncertainty regarding the relative impact of changes in interest rates and exchange rates, two different weightings are used for the MCI (3:1 and 5:1). The index is reset to zero at the time of the last monetary policy assessment. A positive value thus signifies a tightening of monetary conditions.

High real external value of the Swiss franc

Since August, the real export-weighted external value of the Swiss franc has risen by around 1% (cf. chart 5.6). This mainly reflects the currency's nominal appreciation against the US dollar and the yen. The real external value of the Swiss currency is still well above the long-term average, and even exceeds the peak of 1995. Thus, the Swiss franc is still high.

5.4 Stock markets

SMI shows positive performance for the year

In the period since the September assessment, there has been no clearly discernible trend on the stock markets. Share indices in the US and the euro area either fell slightly or remained unchanged, whereas in Japan and Switzerland they posted gains. In December, the Swiss Market Index (SMI) rose to a new annual peak (cf. chart 5.7).

Low expected volatility

Uncertainty, as measured by volatility indices, has decreased over the course of the year. The SMI index of expected 30-day volatility dropped to new annual lows in November. These values were also the lowest recorded since 2005. Nevertheless, this low volatility should not be interpreted as indicating a lasting return to calm on financial markets.

Price rises for financial stocks

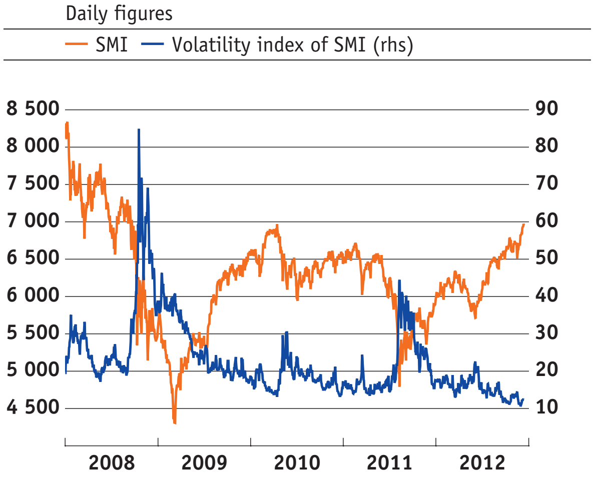
Chart 5.8 shows that movements in share prices over the last three months have been similar across the various sectors of the Swiss Performance Index (SPI). The largest increase was recorded by the financial services subindex, which is driven by the UBS share price. This reflected the market's positive reaction to UBS's announcement, at the end of October, that it would be scaling back its investment bank.

5.5 Monetary and credit aggregates

Monetary base stabilises

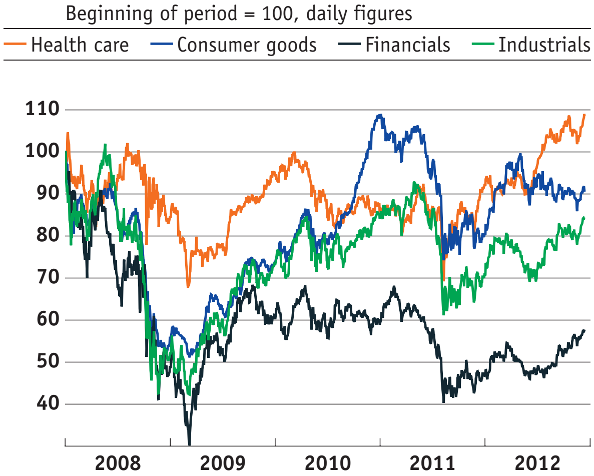
The monetary base, which is composed of banknotes in circulation plus sight deposits of domestic banks with the SNB, has stabilised at over CHF 350 billion since September (cf. chart 5.9). The stabilisation was prompted by the ECB's decision in early September to purchase, under certain conditions, bonds issued by euro area countries in crisis. Over the preceding few months, foreign exchange purchases by the SNB, required for the enforcement of the minimum exchange rate against the euro, had resulted in a strong expansion in sight deposits, and hence the monetary base.

Chart 5.7
Share prices and volatility



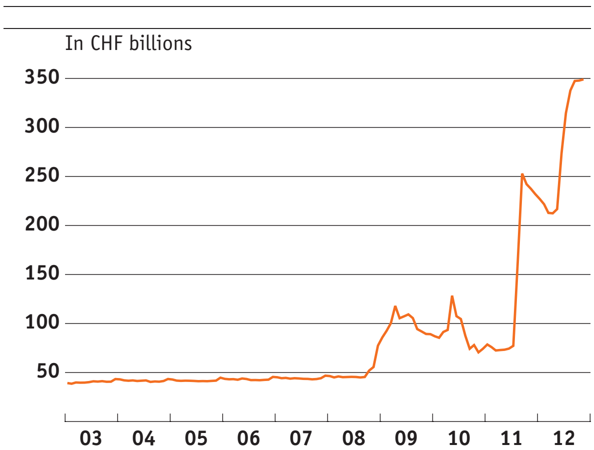
Source: Thomson Financial Datastream

Chart 5.8
Selected SPI sectors



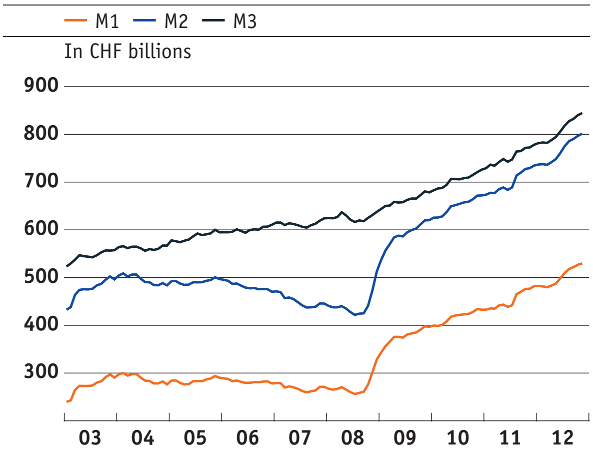
Source: Thomson Financial Datastream

Chart 5.9
Monetary base



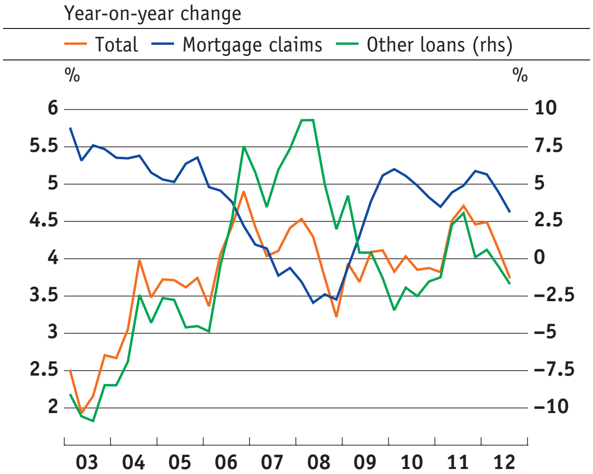
Source: SNB

Chart 5.10
Monetary aggregates



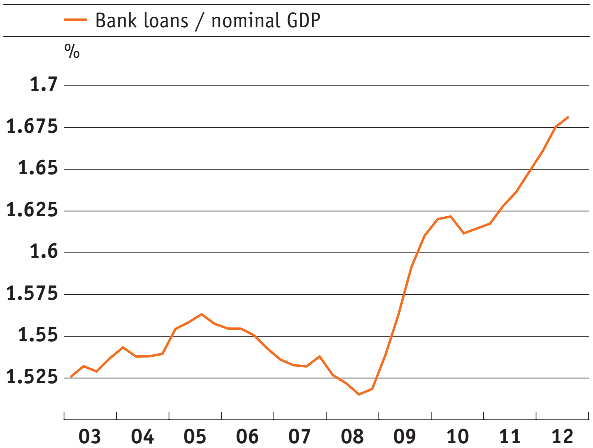
Source: SNB

Chart 5.11
Growth in bank loans, in Swiss francs



Source: SNB

Chart 5.12
Bank loans as a percentage of GDP



Source: SNB

Further increase in broad monetary aggregates

Despite the stabilisation of banks' sight deposits at the SNB, the broad monetary aggregates, which measure the amount of money held by households and companies (excluding banks), have shown robust growth over recent months (cf. chart 5.10). In November, M1 (money in circulation, sight deposits and transaction accounts) was 11.1% higher than one year earlier. In the same time period, M2 (M1 plus savings deposits) rose by 9.9% and M3 (M2 plus time deposits) was up by 9.3% (cf. table 5.1). As hitherto, the strong growth in the monetary aggregates mainly reflects credit and deposit generation, which has been boosted by the low interest rates.

Growth in mortgage lending slows a little

Bank lending was up by 3.7% year-on-year in the third quarter; lending growth has thus slowed slightly (cf. table 5.1).

This slowdown in lending growth is the result of developments in mortgage lending. As in the first and second quarters, the year-on-year rate of change in mortgage claims – which make up four-fifths of total bank lending – receded slightly compared to the previous quarter (cf. chart 5.11). The breakdown by borrower shows that the slowdown in growth has mainly taken place in mortgage lending to private companies. This is in line with the results of the SNB's Bank Lending Survey,[1] which indicates a slight decline in companies' demand for credit. By comparison, growth in mortgage claims on households was largely unchanged.

Other lending decreased by 0.8% year-on-year in the third quarter. Since the onset of the financial and economic crisis, the trend for other lending has been flat.

1 The Bank Lending Survey is an SNB survey of banks' lending conditions. It has been conducted quarterly since 2008 and covers 20 banks, which account for 85% of the domestic lending market.

Monetary aggregates and bank loans Table 5.1

Year-on-year change in percent

	2011	2011	2012			2012		
		Q4	Q1	Q2	Q3	September	October	November
M1	**8.6**	**10.8**	**10.8**	**11.0**	**12.5**	**11.0**	**10.7**	**11.1**
M2	**7.7**	**9.1**	**9.0**	**9.4**	**10.8**	**9.8**	**9.5**	**9.9**
M3	**6.9**	**7.4**	**6.7**	**7.0**	**8.9**	**8.8**	**8.9**	**9.3**
Bank loans total[1, 3]	**4.2**	**4.3**	**4.2**	**3.9**	**3.7**	**3.6**	**3.8**	
Mortgage claims[1, 3]	4.9	5.2	5.2	4.9	4.6	4.4	4.6	
Households[2, 3]	4.5	4.8	5.1	5.0	4.7	4.5	4.6	
Private companies[2, 3]	5.6	6.1	5.3	4.9	4.3	4.0	4.6	
Other loans[1, 3]	0.7	0.4	−0.1	−1.1	−0.8	−0.2	−0.1	
Secured[1, 3]	4.3	1.6	1.8	−0.9	3.2	3.5	8.8	
Unsecured[1, 3]	−1.5	−0.4	−1.3	−1.2	−3.3	−2.6	−5.7	

1 Monthly balance sheets
2 Credit volume statistics
3 Growth rates for the bank loans item and for its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published in the *Monthly Bulletin of Banking Statistics*
Source: SNB

Rise in ratio of bank lending to GDP

Despite the slowdown in lending growth, lending continues to grow faster than nominal GDP. The ratio of lending to nominal GDP has thus risen once again. After a sharp rise in the 1980s, it had remained largely unchanged until mid-2008. Since the onset of the financial crisis, it has increased again substantially (cf. chart 5.12). This increase suggests that banks' lending activities have supported aggregate demand. However, the strong lending growth also entails risks for financial stability. Experience has shown that excessive growth in lending is often the cause of later instability in the banking sector.

Business cycle trends
SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of December 2012

Fourth quarter of 2012
The Swiss National Bank's delegates for regional economic relations are constantly in touch with companies from the different economic sectors and industries. Their reports, which contain evaluations by these companies, are a valuable source of information for assessing the economic situation. The following pages contain a summary of the most important results of the talks held in October and November 2012 with 244 representatives of various industries on the current and future situation of their companies and the economy in general. The selection of companies is made according to a model that reflects Switzerland's industrial structure. The reference parameter is GDP excluding agriculture and public services. The companies selected differ from one quarter to the next.

Region	Delegate
Central Switzerland	Walter Näf
Eastern Switzerland	Jean-Pierre Jetzer
Geneva	Marco Föllmi
	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Martin Wyss
Northwestern Switzerland	Daniel Hanimann
Vaud-Valais	Aline Chabloz
Zurich	Markus Zimmerli

Summary

In the fourth quarter of 2012, the survey indicated that economic activity was once again stable at the level of the previous quarter. There was evidence of a very slight improvement in business activity in the services sector, whereas business stagnated in manufacturing and construction. The variations between industries have become less pronounced. Sections of the export industry experienced a slowdown, but the dynamism of domestic demand remained unchanged. Many respondents stressed the continuing importance of the minimum rate that has been set for the Swiss franc against the euro.

The pressure on margins has persisted, forcing companies to continue to optimise processes, cut costs and increase efficiency. Overall, demand for labour remained unchanged from the previous quarter.

The outlook for real growth in turnover over the next few months remains cautiously optimistic in all industries. Demand for staff is likely to continue to stagnate. Respondents in manufacturing and services considered the average utilisation of technical production capacity and infrastructure to be normal, whereas in the construction sector, it was viewed once again as relatively high.

The principal concerns regarding future development continue to revolve around the European debt crisis, although these are not as pronounced as previously. The weak global economy is contributing to the uncertainty, while many companies are also keeping a close eye on exchange rate developments.

1 Business activity

Manufacturing

In manufacturing, business activity remained stable. Real turnover was largely unchanged from the previous quarter, as well as from the year-earlier quarter. However, substantial variation was evident between the different industries, as well as between individual companies. The exchange rate remains a dominant theme in most branches of industry, despite the clear success of measures taken so far to boost efficiency.

The chemicals, watchmaking, electrical equipment and food industries recorded rises in turnover compared to the previous quarter. Suppliers to the watchmaking industry experienced a slowdown in what had previously been very dynamic growth in turnover. This did not apply to the luxury segment, however. In the pharmaceutical industry, real turnover remained at the level of the previous quarter. By contrast, turnover declined in the metals and machinery industry, as well as in textiles and clothing.

Some respondents from the export sector reported hesitant demand from the emerging markets of Asia, most notably China. Demand from the US, South America, the Arab countries and Russia remains solid. European demand is predominantly coming from Germany, Scandinavia and Eastern Europe. The recession in southern Europe is making itself felt in many areas. By contrast, domestic demand is holding up relatively well.

Construction

In construction, real turnover stagnated at the level of the previous quarter; the momentum observed three months ago has therefore evaporated. However, quarterly sales remained significantly higher than a year earlier. Favourable weather conditions and a continued backlog from the first quarter of this year had a positive impact on business activity.

Turnover in structural engineering remained robust, particularly in residential construction, whereas turnover in civil engineering and the construction-related industries stagnated at the level of the previous quarter. Commercial and industrial construction remained subdued.

Real estate market risks were again mentioned by a number of respondents. In the area of credit lending policy, there was some evidence that the regulations for the banks, which entered into force in July, were starting to have a restrictive effect. A number of regions remain overheated, however, with high real estate prices leading to a partial migration of demand to neighbouring areas. In certain market segments – such as the luxury apartment segment in urban centres, for example – respondents have identified a degree of oversupply which is resulting in significant price falls.

Services

In the services sector, overall real turnover was slightly up on both the previous quarter and the year-earlier quarter. The situation has improved somewhat since the previous survey.

Business activity developed dynamically in architectural and engineering firms, as well as in services connected with facility management and maintenance. Travel agencies also enjoyed brisk demand. Business activity improved in both the financial industry and in retailing. In the banking segment, most areas contributed to growth; but fee and commission business remains stagnant. In retailing, the phenomenon of cross-border shopping remains an issue, although the situation has eased slightly in some border regions.

Transport operators and parts of the IT industry experienced a noticeable slowdown in what had previously been dynamic business activity. Many IT companies attribute this to cost-cutting measures in the banking industry. Providers of business-related services are also observing a more pronounced degree of cost awareness on the part of their clients.

In both the hotel and catering industries, turnover stagnated at the level of the previous quarter. Hotels in holiday regions again expressed their concern at the low numbers of European guests; nevertheless, business in these regions was supported by vibrant tourist demand from Asia, Russia and, to a lesser degree, Japan. The business of seminar hotels is holding up relatively well. A number of recruitment agencies reported a slight quarter-on-quarter decline in business activity.

2 Capacity utilisation

Overall, the utilisation of capacity and infrastructure was judged to be normal, and the differences between industries have become less pronounced.

Companies in manufacturing rated their overall capacity utilisation as normal. Utilisation was high in the chemical industry, as well as in parts of the machinery and vehicle construction industries. Watchmaking is another area in which capacity utilisation remains high. On the other hand, capacity in the metals industry was regarded as low to very low, and significantly down on the values recorded in the previous quarter. Low capacity utilisation was also reported by plastic processing companies and a number of individual companies in the textile industry.

In construction, technical capacity utilisation remained persistently high, although slightly lower than in the previous quarter.

In the services sector, infrastructure utilisation was rated as normal overall. A relatively high level of capacity utilisation was recorded by architectural and engineering firms, as well as by providers of facility management services. By contrast, hotels once again reported low occupancy rates. The reasons cited for this phenomenon were the continued low numbers of foreign tourists, greater cost awareness on the part of companies, and the ongoing restructuring of the banking industry. The tendency to book lower hotel categories for cost reasons remains clearly apparent. A number of hotels are adjusting their offers accordingly.

3 Demand for labour

As in the previous quarter, the overall demand for labour remained virtually unchanged. In the manufacturing industry, the surveyed companies once again assessed their staff numbers as being slightly too high. They continue to exercise restraint in their personnel policy; departing employees are often not replaced, while short-term working was a measure cited by a number of companies. A phenomenon mentioned by several respondents was an increase in unsolicited job applications from both Switzerland and elsewhere.

In construction, staff numbers were generally assessed as being slightly too low. Specialists remain in short supply, particularly foremen and site managers. However, recruitment problems have become more acute in all areas of construction.

In the services sector, staff levels were considered appropriate overall. A fairly high demand for staff was reported by architectural and engineering firms, as well as by a number of IT companies. The hotel industry remained overstaffed.

Overall, the surveyed companies rated the process of recruiting staff generally to be as challenging and time-consuming as ever. In areas where the labour market appears to have surplus supply, the profiles of job-seekers frequently fail to meet companies' requirements. In many industries, the required personnel can only be found abroad. By contrast, companies in the MEM (machinery, electronics and metals) industries, transport operators and banks were finding the process of recruitment rather easier than usual. Recruitment agencies reported a strong shift in demand from permanent to temporary positions. Tour operators and engineering firms were finding recruitment rather more difficult than usual.

4 Prices, margins and earnings situation

Overall, there has been virtually no change in the assessment of the margin situation compared to the previous quarter. Once again, margins were rated as weaker than normal in all sectors. Companies are experiencing continued pressure to optimise costs and boost efficiency. They are also making a concerted effort to tap into new markets. Supplementary services are being offered to achieve differentiation from the competition. Many companies from all three sectors of the economy stressed the continued importance of the minimum exchange rate against the euro for their company and industry. While some welcome the planning security that this affords, others view it as being crucial to their existence.

Representatives of the manufacturing industry once again mentioned the problem of squeezed profit margins. All sectors have been affected, but the phenomenon is particularly pronounced in the metals and machinery industry, as well as for timber and plastic processing firms. The situation also appeared rather problematic for various companies in the food industry. On average, companies are expecting purchase prices to remain unchanged or to fall slightly over the next few months. In contrast to the previous quarter, companies are actually anticipating slightly rising prices on the sales side. This would suggest an easing of the pressure on margins in the manufacturing industry.

In construction, respondents from the finishing trade, in particular, reported below-average margins; in the structural and civil engineering industries, they were considered to be slightly lower than usual. The expectation of slightly higher prices on the purchase side, together with more or less stable construction prices, suggests that the pressure on margins will persist here. According to respondents, the market presence of foreign companies or companies from outside the region was an increasingly prevalent phenomenon.

In the services sector, the majority of industry branches found themselves confronted with unusually low margins. The worst-affected industries were once again the hotel industry, transport and logistics companies, and wholesalers. As in the previous quarter, IT companies reported increased pressure on margins. By contrast, the margin situation in the financial sector was viewed as slightly less negative than in the previous quarter.

5 Outlook

Uncertainty about future developments has hardly changed since the third quarter. In terms of global risks, concern over the development of the European debt crisis remains predominant, albeit slightly less pronounced than previously. Another contributory factor to uncertainty is modest growth in China and other parts of the world.

Companies remain cautious with respect to their employment plans. Despite the potential risks, turnover expectations for the next six months are cautiously positive, just as they were one quarter earlier.

In manufacturing, the commercial outlook of companies generally has brightened slightly in comparison to the previous quarter. Representatives of almost all industries are anticipating slight rises in sales over the next six months. Companies from the metals industry, where a decline in new orders could manifest itself, are an exception in this respect. Representatives of the pharmaceutical and plastic processing industries are expecting sales to more or less stagnate. The outlook in the watchmaking industry and its suppliers is slightly subdued.

In construction, seasonally adjusted turnover should rise slightly over the next few months, while capacity utilisation can be expected to remain virtually unchanged. Many companies report that order books are well filled or even very full until the middle of next year. No substantial slowdown is anticipated in 2013 by the majority of companies, even though the implementation of the second homes initiative has caused some uncertainty regarding medium-term construction activity in holiday regions. On the other hand, no additional stimulus is to be anticipated as far as employment is concerned.

In general, companies in the services sector are cautiously upbeat about their business prospects in the next six months. Most industries in this sector expect to see sales remaining unchanged or rising slightly. The financial industry is looking to the future with much more confidence than in the previous quarter, and the outlook for retailers has improved further. Audit and consultancy firms, engineering firms and the travel industry have expressed relatively optimistic turnover expectations. By contrast, the outlook of the hotel industry and recruitment agencies is slightly negative in this respect. Capacity utilisation and headcounts are likely to remain unchanged from their current levels.

The slight improvement in overall prospects for future business development is reflected in slightly less cautious investment plans. Indeed, some companies are planning substantial investment with a view to achieving further productivity gains at their Swiss locations.

Acknowledgements

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A

Aaretal Reisen AG. Aargauische Kantonalbank. ABACUS Research AG. ABB Schweiz AG. Accenture AG. Acino. AdCubum AG. Adecco Ressources Humaines SA. AD-Hôtels SA. Adler Adelboden. Adobe Systems GmbH. Aduno Gruppe. Aeschlimann AG Décolletages. AF-Consult Switzerland AG. AFG Management Consulting SA. Agathon AG. Agie Charmilles SA. Agriturismo La Vigna. Airport Altenrhein AG. Albergo Losone. Aldo Lepori SA Impresa Costruzioni. Alex Gemperle AG. Alfred Müller. Aligro – Demaurex & Cie SA. Allianz Suisse. Alloboissons SA. Alltitude SA. Alpar Flug- und Flugplatzgesellschaft AG Bern. Alpha RHEINTAL Bank AG. Alpnach Norm AG. ALSO Schweiz AG. Altherr Nutzfahrzeuge AG. AMAG. Ameron Hotel Flora Luzern AG. Ameropa AG. Amiconi Consulting SA. Amsler Bombeli et Associés SA. Andrea Pitsch AG. Angela Bruderer AG. Anliker AG Bauunternehmung. Antalis AG. Anthamatten meubles SA. Anton Häfliger AG. Apco Technologies SA. Aregger AG Bauunternehmung. Art Furrer Stammhaus AG. Ascenseurs Menétrey SA. ASS AG. ASSOS of Switzerland SA. Astoria Betriebs AG. Audemars Piguet & Cie SA. Auto Marti AG. Auto Schwarz AG. Auto Zollikofer AG. Autolinee Bleniesi SA. Autoneum. Autorama Hergiswil AG. autoschweiz. AXA Winterthur. AZ Medien AG.

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F

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G

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L. Kellenberger & Co. AG. La goccia sa. La Pierrette SA. Laboratoires Biologiques ARVAL SA. Läckerli Huus AG. Lagerhäuser der Centralschweiz AG. Landgasthof Schönbühl AG. Landhotel Hirschen, Erlinsbach. Landi Frila. Lantal Textiles. Lanz + Marti AG. LARAG AG. Lardi & Partners SA. Laubscher Präzision AG. Laurastar SA. Laurent Membrez SA. Lausanne Palace & SPA. Lawil Gerüste AG. Le petit-fils de L.U. Chopard & Cie SA. Lerch AG Bauunternehmung. Les Bains de Lavey SA. Les Boutiques Angéloz SA. LGT Bank (Schweiz) AG. Libreria Casagrande Sagl. Liechtensteinische Landesbank (Schweiz) AG. lista office LO. Livit AG. LN Industries SA. Loeb AG. Logitech Europe SA. Lonstroff AG. Lonza AG. Loomis Schweiz SA. Losinger Marazzi AG. Lüchinger Metallbau AG. Lüchinger+Schmid AG. Luftseilbahn Engelberg-Brunni AG. Luisoni Consulenze Professionali SA. Luzerner Kantonalbank. LV-St. Gallen. LWP Ledermann, Wieting & Partners SA. Lyreco Switzerland AG. LZ Medien Holding AG.

M

Magazine zum Globus AG. Maison Dupin SA. Mammut Sports Group AG. MANOMETER AG. Manor Gruppe. Manotel SA. Manpower SA. Marina Gastro AG. Marinello AG. Marti AG Bauunternehmung. Marvinpac SA. Masaba Sagl. MAT SECURITAS EXPRESS AG. Mathys AG Bettlach. Max Havelaar-Stiftung (Schweiz). Max Pfister Baubüro AG. Mc PaperLand. McDonalds Suisse Management & Services Sàrl. MCL Medizinische Laboratorien AG. Medacta International SA. Media Markt Grancia SA. Media Saturn Schweiz. MEI Inc. Menzi Muck AG Maschinenfabrik. MES SA. Metaltex SA. Mettler2Invest AG. Meubles Pesse SA. Meyer-Mayor AG. Mibelle Group. Michele Arnaboldi-architetti. Microdiamant AG. Migros. Mikron Tool SA Agno. Möbel Lehmann AG. Möbel Märki, Filiale Ittigen-Bern. Möbelfabrik Fraubrunnen AG. Mobilière Suisse, Agence générale Genève. Molino SA. Monn SA. Monosuisse AG. Montech AG. Montres Louis Erard SA. Mopac modern packaging AG. Mordasini Maler Gipser AG. Morosoli SA. motomix SA. Mövenpick Holding AG. MPM facility services SA. MSC Crociere SA. MSC Mediterranean Shipping Agency AG. Muesmatt AG Fenster und Schreinerei. Multitime Quartz SA. Mundipharma Medical Company. Mundo AG. Muttoni SA. Mythencenter AG.

N

Naef & Cie SA. Naef Immobilier SA. Naville SA. Netstal-Maschinen AG. Neue Aargauer Bank. NEW ROCK SA. Newave Energy Holding SA. Nicol. Hartmann & Cie. AG. Nidwaldner Kantonalbank. Novae Restauration SA. Novartis International AG. NOVO Business Consultants AG. Nuova Benelli SA.

O

Obwaldner Kantonalbank. OERTLI Werkzeuge AG. Oettinger Davidoff Group. Ofisa SA. OLZ & Partners. OMIDA AG. Omya. Opacc Software AG. Optiprint AG. Otto Notter Holding AG. Otto Scerri SA.

P

Pac Team Group. PAMP SA. Panalpina Welttransport AG. Papyrus Schweiz AG. PARKING ZÜRICH AG. Parkresort Rheinfelden. Pathé Küchlin AG. Pavag Folien AG. PAX Versicherungen. Payot SA. Pedrazzini Costruzioni SA. PEMSA Human Resources SA. Permapack AG. Perrin Frères SA. Personal Sigma Sursee AG. Pestalozzi + Co AG. Pfister Case unifamiliari SA. Pharmacie populaire société coopérative. Philip Morris SA. Pilatus-Bahnen AG. Pini & Associati, Ingegneri Consulenti SA. Pistor Holding Genossenschaft. PKB Privatbank AG. PKZ Burger-Kehl & Co. AG. Plaston AG. Poretti SA. Poroli Special Boats. Pouly Tradition SA. PPCmetrics AG. Prantl Bauplaner AG. Precicast SA. Priora Generalunternehmung AG. PRIVERA AG. PRO Entreprise Sociale Privée. Probst Maveg SA. Pro-Data LGI SA. Prognos AG. Proto Chemicals AG. Provins. Px Group SA.

Q

Qoqa Services SA.

R

R. Bühler AG. R. Nussbaum AG. Raiffeisenbanken. RAMADA Hotels. ramatech systems AG. Ramseier Holding AG. RAMSEIER Suisse AG. Rapelli SA. Rapp Gruppe. RE/MAX Immobrokers. Régence Production SA. Regiobank Solothurn AG. Reichle & De-Massari AG. Reisebüro Mittelthurgau Fluss- und Kreuzfahrten AG. Reise-Meile AG. Reiss & Reber AG. Reitzel (Suisse) SA. Reka Schweizer Reisekasse. Richter-Dahl Rocha & Associés architectes SA. RICOH SCHWEIZ AG. Rieter Holding AG. Ring Garage AG Chur. Riseria Taverne SA. Ristorante Seven. Rivella AG. Roche Diagnostics AG. Rolf Gerber AG. Ronda AG. ROSENMUND Haustechnik AG. Rossignol GmbH. Roth Gerüste AG. ROTRONIC AG. Royal Tag SA. Ruckstuhl AG. Ruckstuhl Elektrotech AG. Rudolf Wirz-Gruppe. Rüeger SA. Rytz & Cie SA.

S

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T

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U

UBS AG. Ugo Bassi SA. Ultra Précision Holding SA. UNDERBERG AG. Union AG. Unitechnologies AG. Urner Kantonalbank. USM U. Schärer Söhne AG.

V

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W

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Z

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1a hunkeler AG.

Chronicle of monetary events

The chronicle summarises the most recent monetary events. For events dating further back, please refer to SNB press releases and the *Annual Report* at www.snb.ch

December 2012

At its quarterly assessment of 13 December 2012, the SNB reaffirms that it will continue to enforce the minimum exchange rate of CHF 1.20 per euro with the utmost determination and is prepared to buy foreign currency in unlimited quantities for this purpose. Even at the current rate, the SNB considers the Swiss franc to be still high. The SNB is leaving the target range for the three-month Libor unchanged at 0.0–0.25%. If necessary, it stands ready to take further measures at any time.

September 2012

At its quarterly assessment of 13 September 2012, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro and will enforce it with the utmost determination. It remains prepared to buy foreign currency in unlimited quantities for this purpose. In the view of the SNB, the Swiss franc is still high and is weighing on the Swiss economy. The target range for the three-month Libor remains unchanged at 0.0–0.25%. If necessary, the SNB stands ready to take further measures at any time.

June 2012

On 25 June 2012, the SNB concludes a Swiss franc/zloty swap agreement with the National Bank of Poland. In the event of tensions in the Swiss franc interbank market, the facility enables the NBP to provide Swiss franc liquidity to banks in Poland.

At its quarterly assessment of 14 June 2012, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro and will enforce it with the utmost determination. It remains prepared to buy foreign currency in unlimited quantities for this purpose. Even at the current rate, it considers the Swiss franc to be still high. If necessary, the SNB stands ready to take further measures at any time. The target range for the three-month Libor will remain unchanged at 0.0–0.25%.

March 2012

At its quarterly assessment of 15 March 2012, the SNB reaffirms that it will continue to enforce the minimum exchange rate of CHF 1.20 per euro with the utmost determination and is prepared to buy foreign currency in unlimited quantities for this purpose. The target range for the three-month Libor will remain unchanged at 0.0–0.25%. The SNB will continue to maintain liquidity on the money market at an exceptionally high level. Even at the current rate, it considers the Swiss franc to be still high. The SNB stands ready to take further measures at any time if the economic outlook and the risk of deflation so require.

December 2011

At its quarterly assessment of 15 December, the SNB reaffirms that it will continue to enforce the minimum exchange rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities. It is leaving the target range for the Libor at 0.0–0.25%, and continues to aim for a three-month Libor close to zero. Even at the current rate, the SNB considers that the Swiss franc is still high and should continue to weaken over time. The SNB goes on to say that it will continue to maintain liquidity at exceptionally high levels, but has decided not to set a specific target level for sight deposits at present. The SNB stands ready to take further measures at any time if the economic outlook and the risk of deflation so require.

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