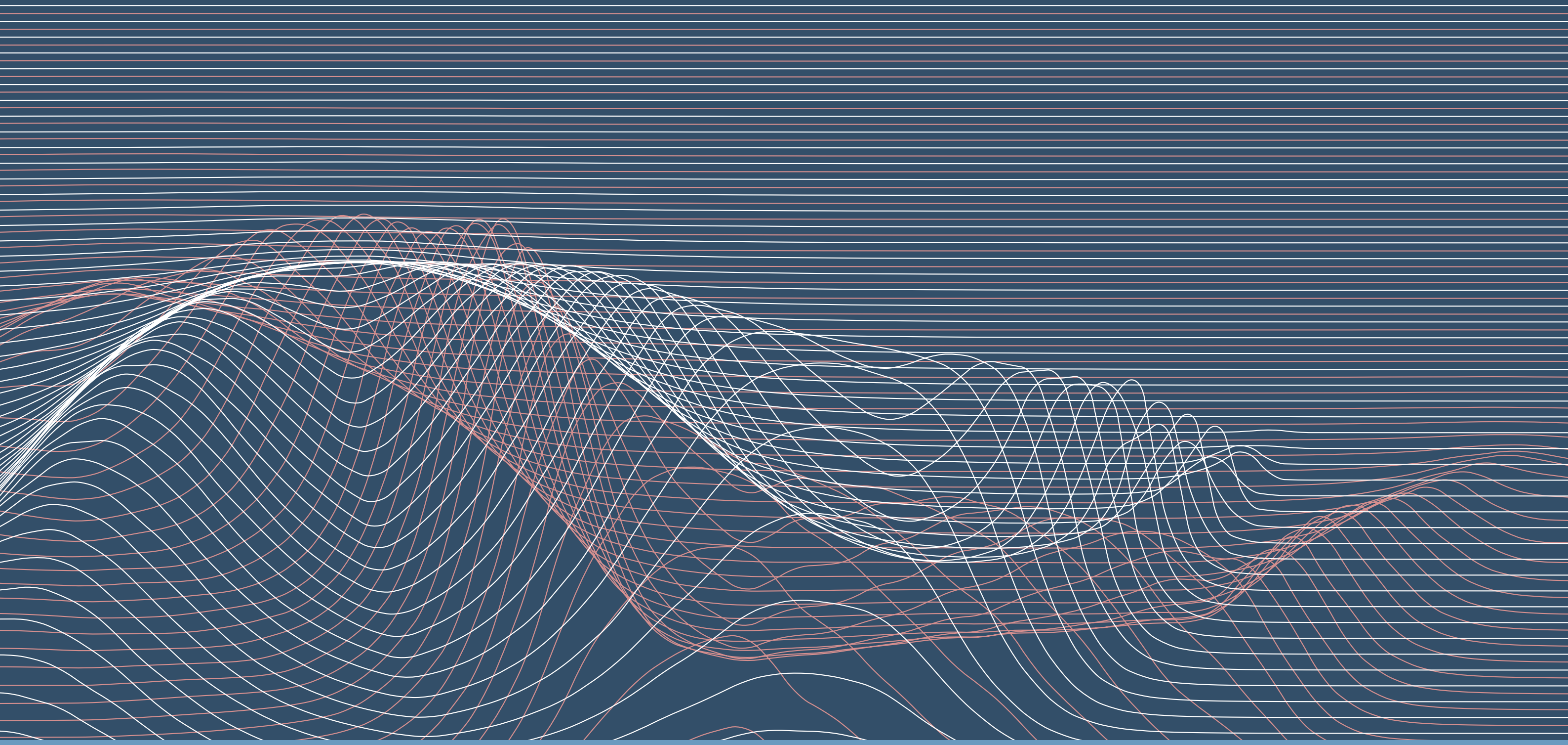


Quarterly Bulletin
2/2014 June

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

Quarterly Bulletin
2/2014 June

Volume 32

SNB BNS

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2014.

The report 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. The first section ('Monetary policy decision of 19 June 2014') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 19 June 2014. 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 19 June 2014

SNB reaffirms minimum exchange rate

The Swiss National Bank (SNB) is maintaining its minimum exchange rate of CHF 1.20 per euro. The Swiss franc is still high. With a three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc. The SNB will continue to enforce the minimum exchange rate with the utmost determination. If necessary, it is prepared to purchase foreign currency in unlimited quantities for this purpose, and to take further measures as required. In addition, it is leaving the target range for the three-month Libor unchanged at 0.0–0.25%.

The path of the SNB's conditional inflation forecast of June points to lower inflationary pressure in the medium term. The inflation forecast for the coming quarters is actually slightly higher than in March, given the fact that inflation was somewhat higher in May than expected and the departure point for the forecast has moved upwards as a result. Nevertheless from mid-2015 onwards, inflation will be lower than forecast in the previous quarter. This is due to the modest global economic outlook and unexpectedly low inflation in the euro area. At 0.1%, the inflation forecast for the current year is 0.1 percentage points higher than in March. For 2015 and 2016, the new forecast – of 0.3% for 2015 and 0.9% for 2016 – is 0.1 percentage points lower, in each case, than at the previous monetary policy assessment. As in the previous quarter, the forecast is based on a three-month Libor of 0.0% for the next three years and expects that the Swiss franc will weaken over the forecast horizon. Consequently, there are no signs of any inflation risks in Switzerland in the foreseeable future.

Global economic recovery remains hesitant, and growth was weaker than expected in the first quarter of 2014. The global economy should firm over the coming quarters, but economic developments will remain subdued by historical standards.

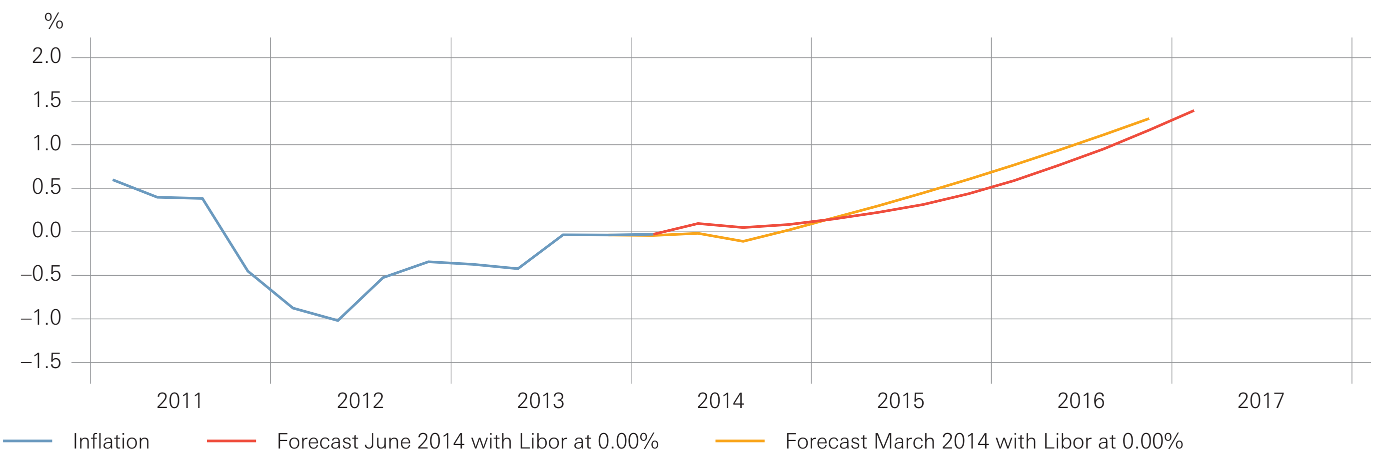
As expected, growth in Switzerland picked up somewhat in the first quarter, after having been relatively weak in the previous quarter. Nevertheless, production capacities are still not fully utilised overall. The SNB expects the moderate recovery to continue in the coming quarters. For 2014, it again expects a growth rate of around 2.0%.

Downside risks remain substantial, however. Weaker global economic activity would also be detrimental to economic growth in Switzerland. The current geopolitical conflicts, pressure to consolidate public sector finances in the euro area, and structural problems in different countries might dampen the global recovery more seriously than expected. Since the major currency areas are in different phases of the monetary policy cycle, there is a danger of greater volatility in the financial and foreign exchange markets. Surveys of companies have shown that uncertainty about economic conditions has recently increased at home as well.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF JUNE 2014

Year-on-year change in Swiss consumer price index in percent



Source: SNB

Starting 30 June 2014, higher capital requirements for mortgage loans financing residential property in Switzerland will apply as a result of the increased sectoral countercyclical capital buffer (CCB). Despite the slightly weaker momentum on the mortgage and real estate markets, there is no evidence of any sustainable easing. The SNB is monitoring the situation on the mortgag and real estate markets closely, and regularly reassesses the need for an adjustment of the CCB.

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 Swiss 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.

Table 1.1

OBSERVED INFLATION IN JUNE 2014

	2011				2012				2013				2014				2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.6	0.4	0.4	–0.5	–0.9	–1.0	–0.5	–0.3	–0.4	–0.4	0.0	0.0	0.0				0.2	–0.7	–0.2

CONDITIONAL INFLATION FORECAST OF JUNE 2014

	2014				2015				2016				2017				2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2014, with Libor at 0.00%	0.0	0.0	–0.1	0.0	0.2	0.3	0.4	0.6	0.8	0.9	1.1	1.3					0.0	0.4	1.0
Forecast June 2014, with Libor at 0.00%		0.1	0.0	0.1	0.1	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.4				0.1	0.3	0.9

Source: SNB

2 Global economic environment

Global economic recovery remains hesitant. Global growth was weaker in the first quarter of 2014 than originally expected in March. World trade declined, after having exhibited strong growth in the last few months of 2013, which had raised hopes of sustained economic recovery (cf. chart 2.1).

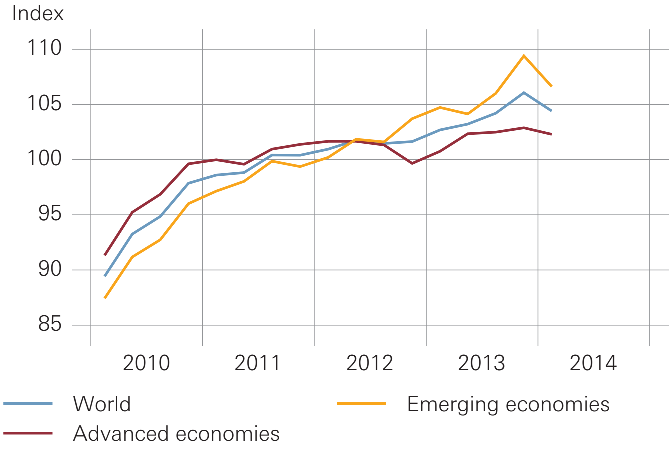
In the US, GDP declined in the first quarter. However, this is a transitory phenomenon, which can be largely put down to an exceptional cold snap experienced in winter. In the euro area, GDP growth was weak and varied greatly from one country to another. While economic activity continued to pick up in Germany, renewed stagnation in France and Italy gave rise to disappointment. Growth dynamic in the emerging economies was also below expectations. Japan, in contrast, recorded an extremely strong rate of growth in the period leading up to the VAT increase.

In its baseline scenario for the global economy, the SNB continues to assume that the international economy will firm in the coming quarters. However, the global economic recovery will remain very subdued by historical standards. Growth and inflation are likely to remain low, particularly in the euro area. Compared to the baseline scenario for March, the SNB revised its growth expectations slightly downward for both the advanced economies and the emerging economies.

Chart 2.1

GLOBAL EXPORTS

Period average = 100

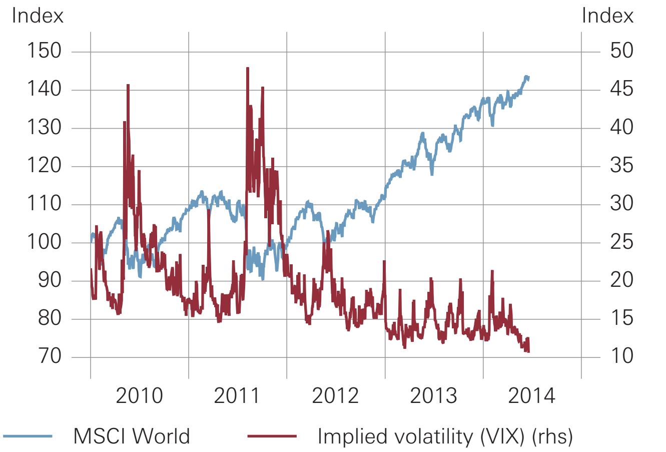


Sources: CPB, Thomson Reuters Datastream

Chart 2.2

STOCK MARKETS

Beginning of period = 100 (lhs)



Source: Thomson Reuters Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2010	2011	2012	2013	Scenario 2014	2015
GDP, year-on-year change in percent						
Global [1]	5.1	3.7	3.0	2.9	3.4	3.9
US	2.5	1.8	2.8	1.9	2.1	3.4
Euro area	1.9	1.6	–0.7	–0.4	1.0	1.8
Japan	4.7	–0.4	1.4	1.5	1.3	0.8
Oil price in USD per barrel [2]	79.6	111.4	111.7	108.7	108.8	109.0

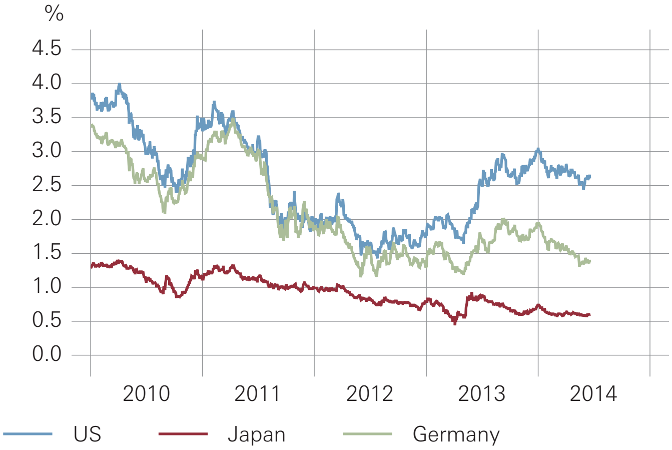
1 PPP-weighted (US, euro area, UK, Japan, China, South Korea, Taiwan, Hong Kong, Singapore, India, Brazil and Russia).
2 Level.

Sources: SNB, Thomson Reuters Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

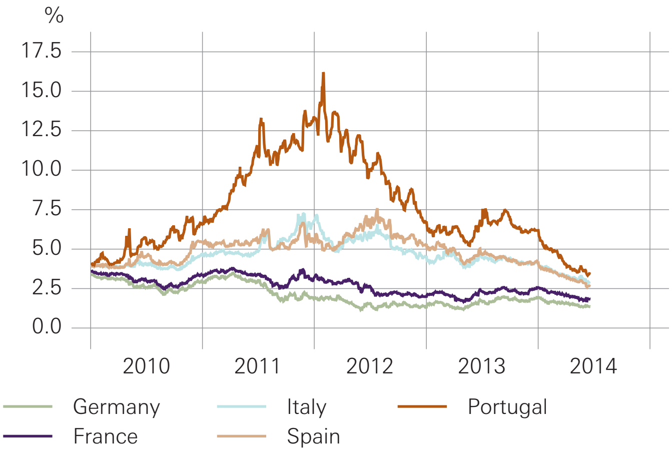


Source: Thomson Reuters Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments



Source: Thomson Reuters Datastream

Chart 2.5

EXCHANGE RATES

Trade-weighted, beginning of period = 100

Source: Thomson Reuters Datastream

The downside risks continue to prevail. The euro area faces significant challenges. These continue to include the consolidation of public sector finances, institutional reforms, and reforms which promote growth. Various emerging economies are suffering from structural problems. Should the current geopolitical conflicts worsen, this would also hold back activity in the international economy. Since the major currency areas are in different phases of the monetary policy cycle, there is a danger of undesirable volatility in the financial and foreign exchange markets. Overall, uncertainty about the future outlook for the global economy is therefore high.

The SNB's forecasts are based on assumptions about the oil price and the EUR/USD exchange rate and have remained practically unchanged compared with the baseline scenario of March. The SNB is assuming an oil price for Brent crude of USD 109 per barrel and an exchange rate of USD 1.38 to the euro.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Despite subdued economic developments, confidence on the international financial markets has remained positive overall since the last quarterly assessment in mid-March. The rally in equity prices continued worldwide (cf. chart 2.2). The US S&P 500 stock market index and the German DAX both reached a new all-time high in June. At the same time, the VIX volatility index for US shares – which serves as an indicator of uncertainty – declined significantly. Yields on long-term government bonds in the euro area member states continued to decrease (cf. chart 2.4), with the risk premia for southern European countries against German government bonds continuing to decline. On the foreign exchange markets, the major currencies initially experienced only minor fluctuations, until early May when the European Central Bank (ECB) announced that it might introduce further easing measures in June. The euro then lost value on a trade-weighted basis. After the policy easing announcement at the beginning of June, the euro continued to depreciate. The US dollar and the yen trended sideways (cf. chart 2.5).

Commodity prices rose slightly overall (cf. chart 2.6). Food prices, in particular, were up as a result of harvest losses. The fear of supply shortages also drove up the price of industrial metals. In contrast, energy prices moved sideways.

UNITED STATES

The US economy recorded a dip in growth in the first quarter of 2014. Signigicant inventory movements as a result of the cold snap made a considerable contribution to this development. Consumer spending, in contrast, continued to see robust growth. Overall, GDP declined by 1.0% (cf. chart 2.7). Unemployment continued to decline, to 6.3% in May (cf. chart 2.10). However, this was partially due to a drop in the participation rate. In a long-term comparison, the rate of unemployment remains relatively high.

A significant revival in economic activity is expected in the second quarter. Further growth prospects remain relatively favourable. The gradual improvement in the financial situation of private households, less-dampening fiscal policies and continued expansionary monetary policy is likely to support growth in the coming quarters. Given the surprisingly weak first quarter, GDP may however expand by a mere 2.1% in 2014. For 2015, the growth forecast is unchanged at 3.4% (cf. table 2.1).

Annual consumer price inflation in the US has risen slightly over the last few months and amounted to 2.1% in May (cf. chart 2.11). Higher prices for electricity as a result of the exceptionally cold winter contributed to this. Core inflation was also up, to 2.0% (cf. chart 2.12). As utilisation of overall economic capacity was again below average, inflation is likely to remain subdued in the coming quarters.

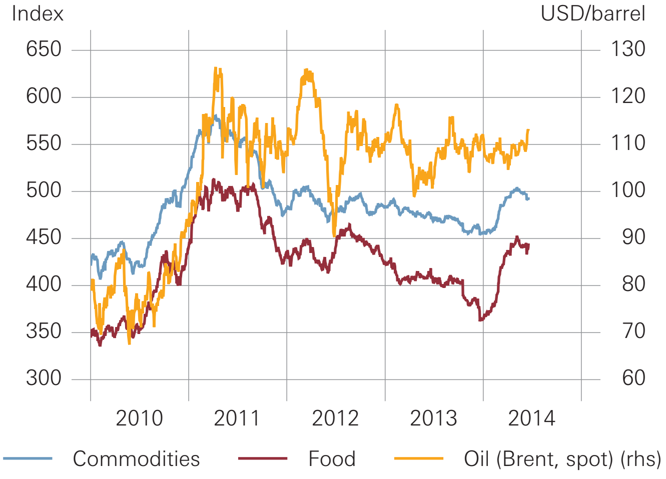
Since December 2013, the US Federal Reserve has tapered its monthly bond purchases gradually, from USD 85 billion to, at present, USD 35 billion. The target range for the federal funds rate has been left unchanged, at 0.0–0.25% (cf. chart 2.13). In June, the Federal Reserve reaffirmed its assessment that the interest rates are likely to remain at the current low level for a considerable period of time after the securities purchase programme expires. Furthermore, the Federal Reserve still anticipates interest rates will be lower than usual, even if its monetary policy goals of price stability and full employment have almost been achieved.

EURO AREA

The euro area saw mixed developments in the first quarter. Overall, GDP rose by only 0.7% (cf. chart 2.7). While Germany continued to be the driving force, France and Italy stagnated. The situation in the labour market has not improved significantly in the past few months. The unemployment rate remained high (cf. chart 2.10).

Chart 2.6

COMMODITY PRICES

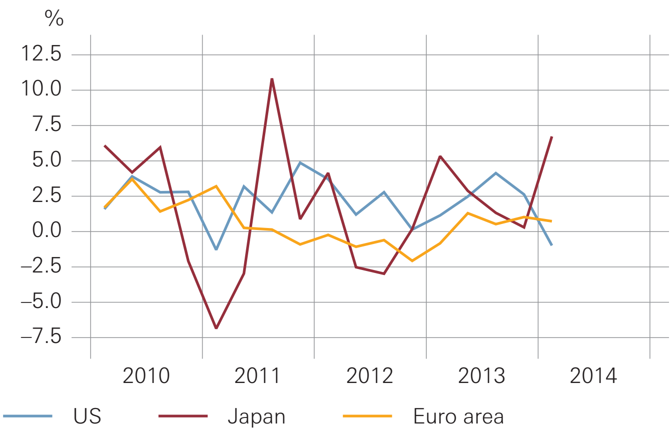


Source: Thomson Reuters Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

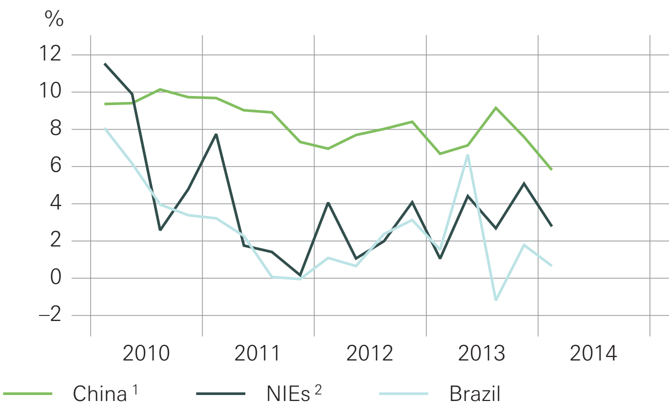


Source: Thomson Reuters Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

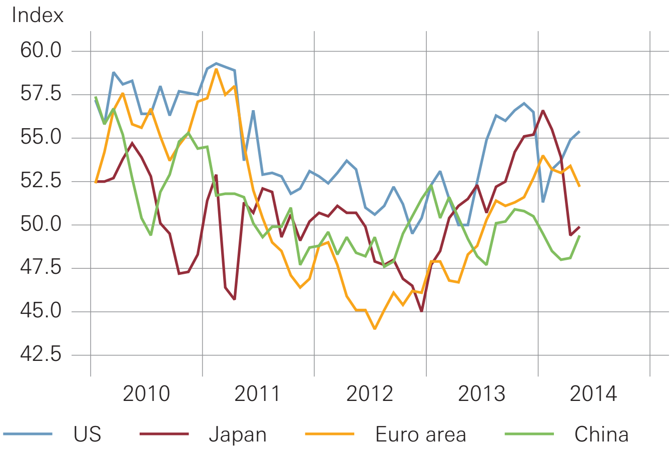
Change from previous period



1 Estimate: SNB.
2 PPP-weighted (South Korea, Taiwan, Hong Kong, Singapore).
Source: Thomson Reuters Datastream

Chart 2.9

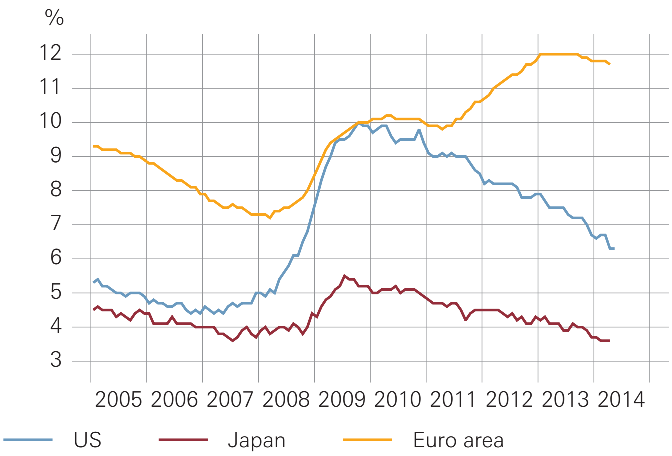
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source: Markit Economics Ltd 2009; all rights reserved

Chart 2.10

UNEMPLOYMENT RATES

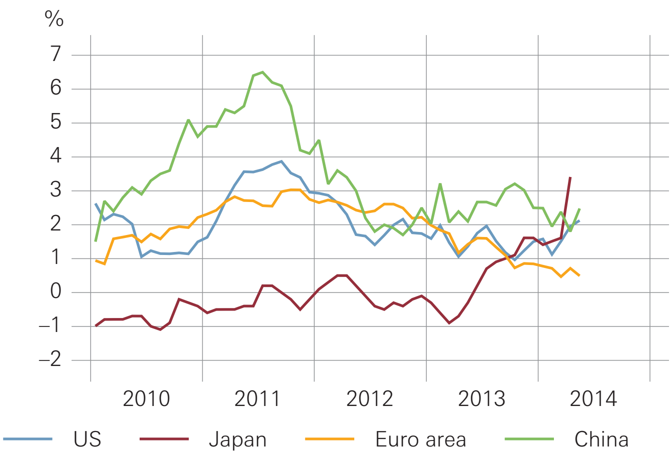


Source: Thomson Reuters Datastream

Chart 2.11

CONSUMER PRICES

Year-on-year change



Source: Thomson Reuters Datastream

The SNB expects that recovery in the euro area will firm up gradually. Important stimuli are likely to come from foreign demand. In particular, the strongly export-oriented member states, such as Germany, will initially profit from this. Domestic demand is likely to see only a gradual upturn. As shown by the surveys in manufacturing, expectations regarding economic developments have become more cautious (cf. chart 2.9). This is especially true of France. What is more, lending conditions in many member states remain restrictive and are holding back investment activity. Uncertainty about the soundness of the banking system continues to make the refinancing conditions for banks difficult. However, this problem is likely to ease gradually from autumn onwards, after the ECB finishes its comprehensive assessment of banks. Uncertainty persists and is putting strain on recovery, also in view of the restructuring of public sector finances. The SNB has revised its forecasts for the euro area slightly downwards. It expects GDP to grow by 1.0% in 2014 and 1.8% in 2015.

Consumer price inflation has remained considerably below the long-term average for several months now, sinking to 0.5% in May (cf. chart 2.11). Core inflation saw an all-time low of 0.7% (cf. chart 2.12). Producer and import prices are still exerting downward pressure on downstream consumer price inflation.

The weak economic and inflation developments prompted the ECB to take comprehensive easing measures in June. First, it lowered the key interest rates to a new record low, causing the deposit facility rate to dip into negative territory (cf. chart 2.13). Second, it suspended its sterilising operations, thus increasing liquidity on the money market. Third, it promised to provide banks with unlimited liquidity until the end of 2016 as part of its refinancing transactions. Fourth, it plans to make special loans amounting to, initially, CHF 400 billion, available to banks. These facilities will be granted under the condition that the banks pass them on to companies and households in the form of loans. This measure is particularly aimed at boosting lending to small and medium-sized companies.

JAPAN

The economic recovery in Japan continued. GDP expanded by 6.7% in the first quarter (cf. chart 2.7). Strong growth resulted partly from purchases being brought forward, prompted by the VAT increase announced for 1 April. This was particularly apparent in the large increase in private consumer demand. Corporate investment and exports also registered strong growth. By contrast, government demand receded, reflecting the end of the economic stimulus package at the end of the fiscal year in March 2014.

Supported by rising foreign demand and another economic stimulus package in the amount of around 1% of GDP (and approved in December 2013), recovery is set to continue in the second half of 2014. In view of the public-sector budget target, fiscal policies are likely to become more restrictive in 2015. The SNB expects that the economy will grow moderately in the medium term. The structural reforms planned by the government as part of its growth strategy could stimulate the economy. Sustained growth is a prerequisite to be able to tackle the fiscal policy challenges.

Under the influence of the weak yen, Japanese consumer price inflation has continued to rise in recent months. Furthermore, the VAT increase caused a one-off inflation surge, resulting in a rise in annual inflation to 3.4% (cf. chart 2.11). The basic inflation rate, i.e. inflation excluding the estimated effect of the VAT increase and volatile commodity prices, still remains below 1%. Inflation expectations are rising gradually.

The Bank of Japan reaffirmed its intention, announced in April 2013, to double the monetary base to JPY 270 trillion – around half of nominal GDP – by the end of 2014 through purchases of long-term Japanese government bonds (cf. chart 2.14). The measure is aimed at pushing up inflation to around 2% in the foreseeable future.

EMERGING ECONOMIES

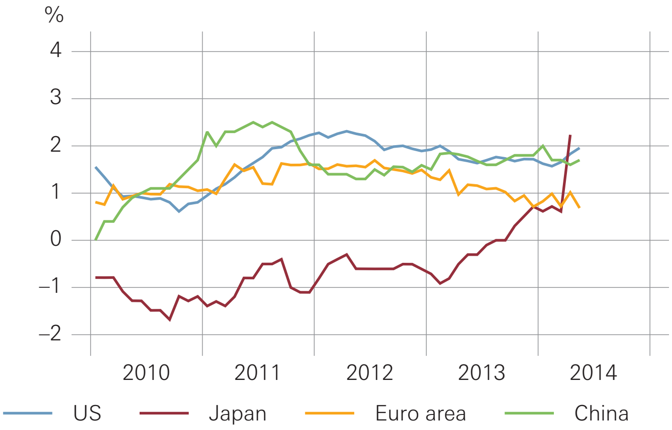
Momentum in the emerging economies slowed slightly in the first quarter. Restrictive lending conditions held back investment activity in many places, while exports suffered from restrained demand from the advanced economies.

The growth outlook for the next few quarters is subdued. The Chinese government appears determined to implement important reforms for sustainable growth swiftly. However the risks of a downturn remain – the cooling real estate market and excess capacities in heavy industry could increasingly lead to insolvencies and, against the background of the sharp increase in loan volume, trigger financial market turbulence. Brazil and India are suffering from a slow pace of reform, low productivity growth and high inflation. The outlook for these countries thus remains subdued. In Russia, the conflict with Ukraine is weighing on the growth outlook.

Chart 2.12

CORE INFLATION RATES[1]

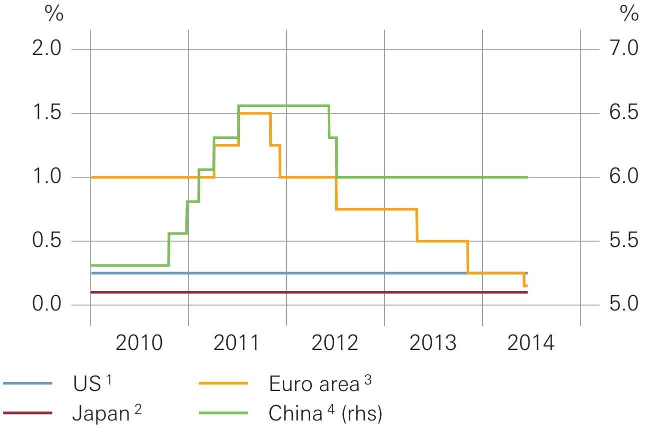
Year-on-year change



1 Excluding food and energy.
Source: Thomson Reuters Datastream

Chart 2.13

OFFICIAL INTEREST RATES

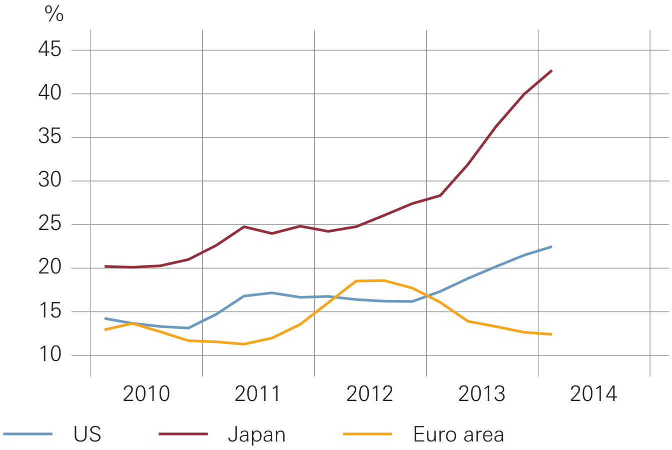


1 Federal funds rate. 2 Call money target rate. 3 Main refinancing rate.
4 One-year lending rate.
Source: Thomson Reuters Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Thomson Reuters Datastream

Inflation in the emerging economies developed unevenly, remaining considerably below the target values set by the central banks in China, South Korea and Taiwan. By contrast, inflation remained high in Brazil, India and Russia. This can be put down partially to increasing food prices and, in Russia's case, also to the depreciation of the currency.

Central banks in the emerging economies chartered differing courses in the past few months. The Russian central bank increased its key rate by 2 percentage points within two months to slow down rapid capital outflows as a result of political tensions. The Brazilian central bank reacted to persistent inflation by lifting its key interest rates. By contrast, China eased its monetary policy to avoid a rapid credit crunch. This has been reflected in a considerable decline in interbank interest rates since the beginning of the year. In addition, the Chinese central bank intervened on the foreign exchange market to counteract speculative capital inflows.

3 Economic developments in Switzerland

The Swiss economy regained momentum at the beginning of the year. According to preliminary estimates by the State Secretariat for Economic Affairs (SECO), real GDP grew by 1.9 % in the first quarter, after advancing by just 0.7% in the fourth quarter of 2013. Growth was driven particularly by exports, which contributed to the positive developments in manufacturing. The banking and insurance sectors also registered a substantial rise in value added.

Domestic demand presented a very mixed picture. Construction investment remained highly dynamic, whereas a decline was recorded in equipment investment. Little stimulus was provided by private consumption.

The output gap remained practically unchanged in the first quarter. Utilisation of technical production capacity in manufacturing was again below average. Employment was up, but the rate of unemployment stayed at its previous level.

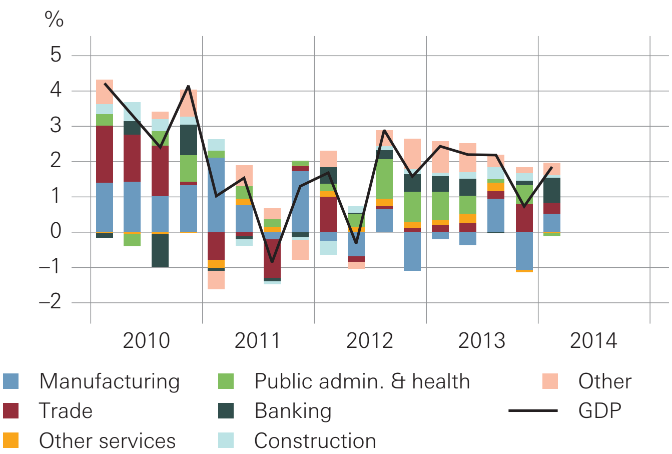
The moderate recovery is likely to continue in the further course of the year. The SNB's growth forecast for 2014 remains unchanged at roughly 2%.

AGGREGATE DEMAND AND OUTPUT

Catch-up effect in manufacturing
Prime features of the growth revival in the first quarter were the catch-up effect in manufacturing and a strong increase in value added in financial services (cf. chart 3.1). Other industries recorded less dynamic developments. In public administration and in the hospitality industry, value added even declined slightly.

Chart 3.1

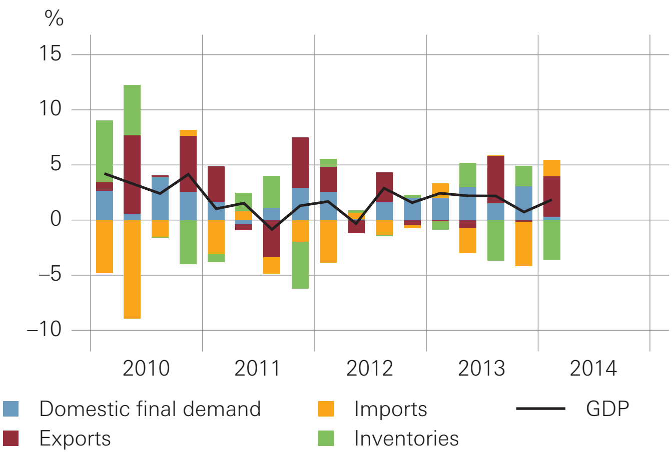
CONTRIBUTIONS TO GROWTH, BY SECTOR
Change from previous period



Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

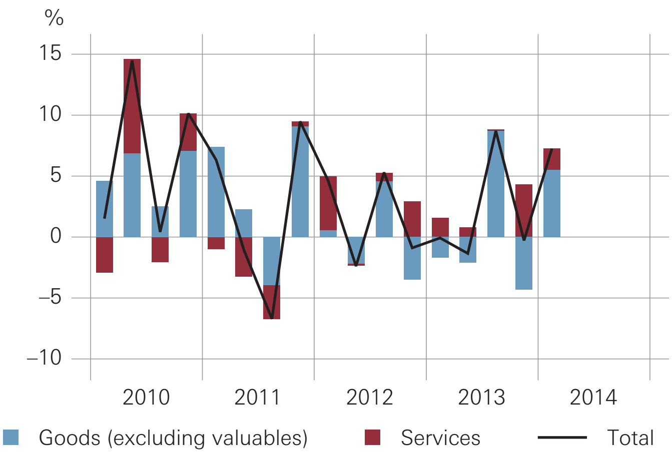
CONTRIBUTIONS TO GROWTH IN DEMAND
Change from previous period



Source: SECO

Chart 3.3

CONTRIBUTIONS TO EXPORT GROWTH
Change from previous period



Source: SECO

Significantly positive foreign trade contribution
Exports increased noticeably in the first quarter (cf. chart 3.3). While services exports continued to expand, a catch-up effect was registered particularly in supplies of chemical and pharmaceutical products. Imports, however, which had grown significantly in the previous quarter, recorded a decline (cf. chart 3.4). In contrast to the previous quarter (cf. chart 3.2 and table 3.1), foreign trade thus made a clearly positive contribution to GDP growth.

Table 3.1

REAL GDP AND COMPONENTS
Growth rates on previous period in percent, annualised

	2010	2011	2012	2013	2012			2013				2014
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	1.7	1.1	2.4	2.3	0.5	2.8	3.3	2.8	1.8	0.8	2.6	0.5
Government consumption	0.2	1.2	3.2	3.0	3.4	3.9	2.8	4.5	0.9	3.6	1.0	–3.2
Investment in fixed assets	4.8	4.5	–0.4	1.8	–2.9	–1.7	–1.0	–0.5	9.3	3.1	7.3	1.9
Construction	3.5	2.5	–2.9	3.8	1.9	–0.1	2.0	3.3	3.7	9.1	10.4	11.4
Equipment	5.8	6.1	1.7	0.3	–6.4	–2.9	–3.3	–3.6	14.3	–1.6	4.7	–5.8
Domestic final demand	2.2	1.8	1.8	2.3	0.1	1.9	2.3	2.2	3.4	1.7	3.5	0.3
Change in inventories [1]	0.8	–0.2	–0.1	–0.1	0.2	–0.1	0.3	–0.8	2.2	–3.7	1.8	–3.7
Total exports [2]	7.4	3.8	2.0	1.1	–2.4	5.3	–0.9	–0.1	–1.3	8.7	–0.3	7.3
Goods [2]	9.3	6.3	1.9	–0.5	–3.2	6.8	–5.2	–2.5	–3.2	13.1	–6.5	8.4
Services	3.5	–1.6	2.4	4.4	–0.5	2.2	9.0	4.8	2.3	0.4	13.1	5.2
Total imports [2]	9.1	3.8	3.9	1.3	–1.4	3.3	0.7	–3.3	5.8	–0.1	10.0	–3.6
Goods [2]	10.6	3.1	2.5	0.1	–3.8	3.4	–2.9	–4.0	6.3	0.3	4.4	–3.2
Services	3.0	6.8	9.4	5.7	8.5	2.8	15.3	–1.0	3.8	–1.4	31.9	–5.2
Net exports [3]	0.2	0.4	–0.5	0.0	–0.6	1.3	–0.7	1.3	–3.0	4.4	–4.2	5.1
GDP	**3.0**	**1.8**	**1.0**	**2.0**	**–0.3**	**2.9**	**1.6**	**2.4**	**2.2**	**2.2**	**0.7**	**1.9**

1 Contribution to growth in percentage points (including statistical discrepancy).
2 Excluding valuables (precious metals, precious stones and gems as well as works of art and antiques).
3 Contribution to growth in percentage points.

Source: SECO

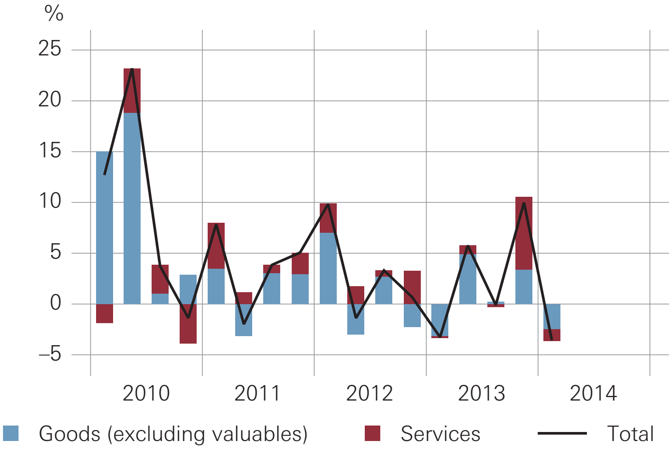
Weak domestic demand
Domestic final demand, which had been the driving force in the past year, lost considerable momentum in the first quarter (cf. chart 3.5 and table 3.1). Private consumer spending registered lower-than-average growth (0.5%). Among the reasons for this were reduced expenditure on energy in the first quarter due to weather conditions and weaker developments in income. However, the tendency is for the continued high level of immigration to strengthen private consumption.

Equipment investment declined in the first quarter, thus continuing the weak development in equipment investment of the past two years. Due to the uncertain global economic outlook, companies' willingness to invest remained limited.

Construction investment, by contrast, again registered strong growth in the first quarter, not least as a consequence of extraordinarily mild weather. Even after the dynamic developments of the past quarters, order books in the construction sector remain completely full. This applies in particular to residential construction. Business construction, too, shows no indication of abating despite the signs of a looming oversupply in office space. Only in civil engineering are incoming orders no longer keeping pace with ongoing activities, which means that the level of outstanding orders has declined somewhat.

Chart 3.4

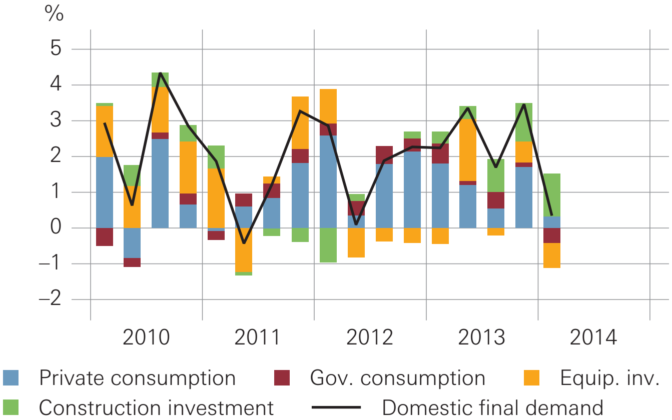
CONTRIBUTIONS TO IMPORT GROWTH
Change from previous period



Source: SECO

Chart 3.5

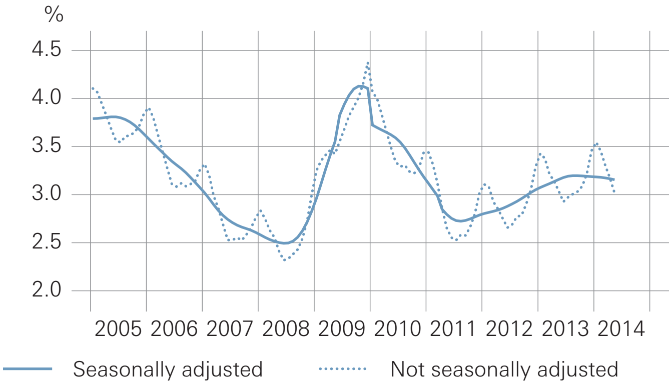
DOMESTIC FINAL DEMAND, GROWTH CONTRIBUTIONS
Change from previous period



Source: SECO

Chart 3.6

UNEMPLOYMENT RATE

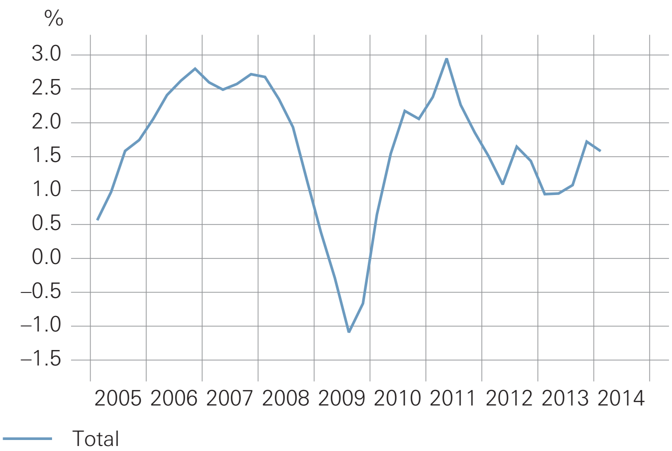


Unemployed registered with the regional employment offices, as a percentage of the labour force according to the 2000 census (labour force: 3,946,988 persons) to 2009, and according to the 2010 census (labour force: 4,322,899 persons) from 2010.
Source: SECO

Chart 3.7

EMPLOYED PERSONS

Change from previous period

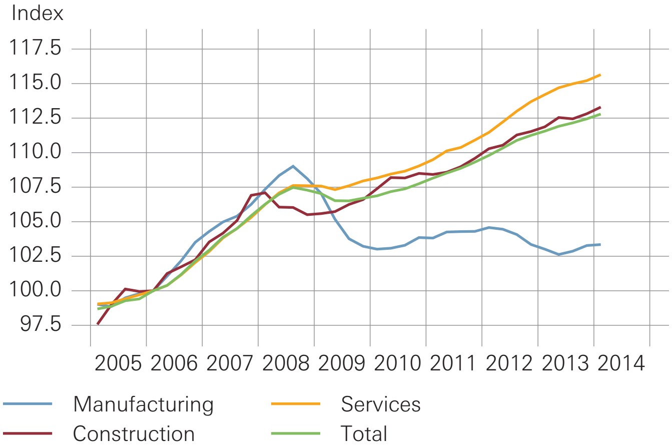


Source: Swiss Federal Statistical Office (SFSO); seasonal adjustment: SNB

Chart 3.8

FULL-TIME EQUIVALENT JOBS

Q1 2006 = 100



Source: SFSO; seasonal adjustment: SNB

LABOUR MARKET

Momentum in the labour market remains subdued. The increase in employment has not been sufficient to noticeably reduce the rate of unemployment. Nevertheless, the situation on the Swiss labour market is still favourable by international standards.

Stagnating unemployment

The seasonally adjusted rate of unemployment has stayed unchanged at 3.2% since May 2013 (cf. chart 3.6). However, the number of people registered as unemployed with regional employment offices has decreased slightly on a seasonally adjusted basis since September 2013, indicating a gradual improvement in the labour market.

Moderate rise in employment

According to the Employment Statistics of the Federal Statistical Office, the number of gainfully employed persons rose moderately in the first quarter, the quarter-on-quarter increase amounting to 1.6% (cf. chart 3.7).

The national job statistics (JOBSTAT) show that the rise in jobs in the manufacturing sector lost momentum in the first quarter, whereas it accelerated slightly in the services sector (cf. chart 3.8). Despite the positive developments overall, the total number of jobs declined in certain service industries, such as in public administration and other business services.

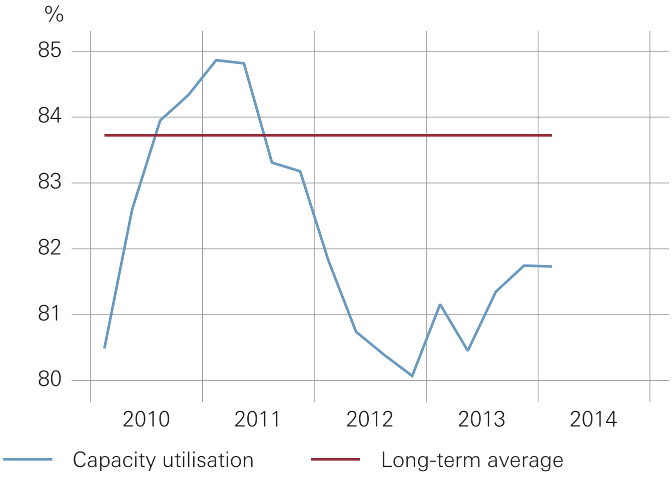
CAPACITY UTILISATION

Stagnating utilisation in manufacturing
According to the survey conducted by KOF Swiss Economic Institute, utilisation of technical capacity in manufacturing remained virtually unchanged at 81.7% in the first quarter. At this level, manufacturing capacity utilisation was still well below its long-term average (cf. chart 3.9). By contrast, machine utilisation in the construction sector increased somewhat. Unlike manufacturing, capacity utilisation in construction is significantly above its long-term average (cf. chart 3.10). In the services sector, surveys continued to suggest average utilisation.

Output gap remains negative
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 output gap in manufacturing remained practically unchanged, in line with stagnating capacity utilisation. Estimated potential output calculated by means of a production function showed an output gap of –0.9% for the first quarter (cf. chart 3.11). Estimates using other methods to establish potential output (Hodrick-Prescott filter and multivariate filter) suggest a somewhat narrower output gap (–0.5% in both cases). The production function approach takes the supply of labour and the stock of capital in the economy into account. Since the supply of labour has risen significantly in recent years – primarily as a result of immigration – potential output and, hence, the output gap are larger when calculated with this method than with purely statistical filtering methods.

Chart 3.9

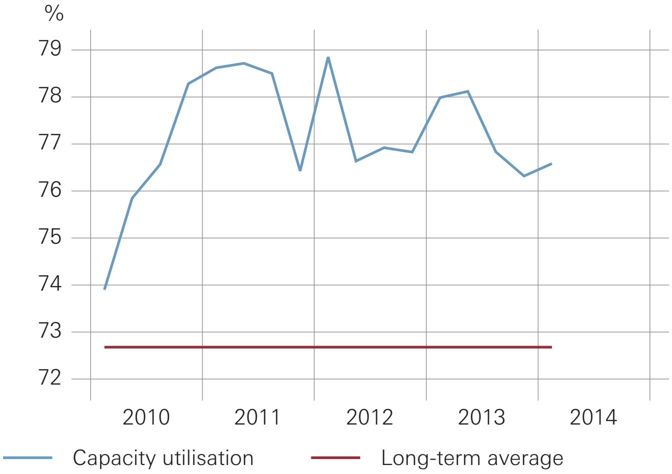
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.10

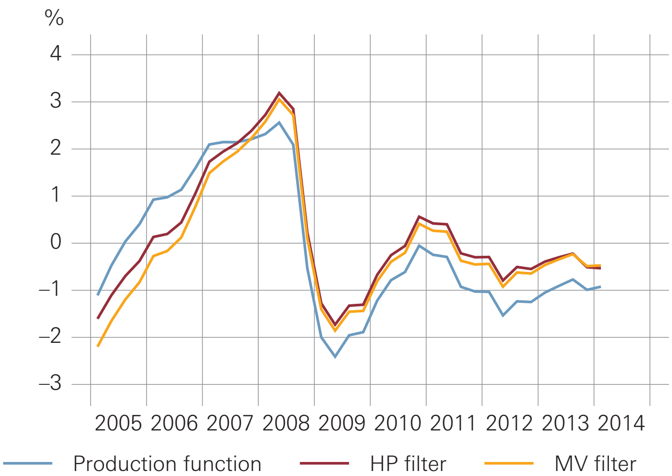
CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

Chart 3.11

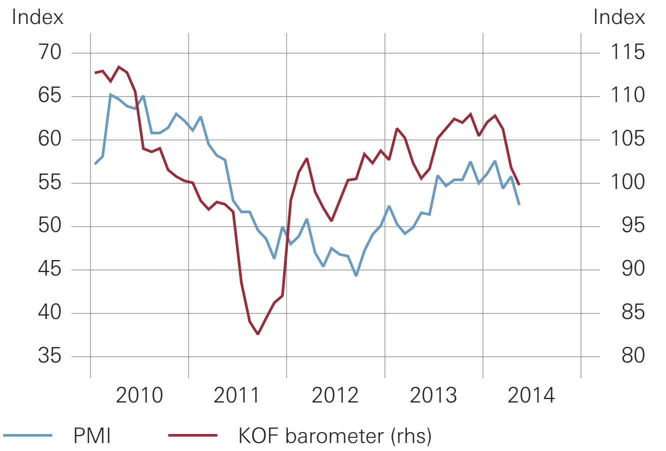
OUTPUT GAP



Source: SNB

Chart 3.12

PURCHASING MANAGERS' INDEX (MANUFACTURING)

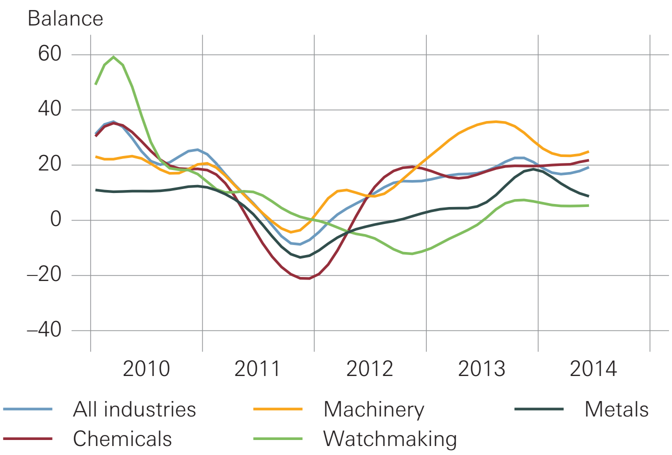


Source: Credit Suisse

Chart 3.13

EXPECTED NEW ORDERS

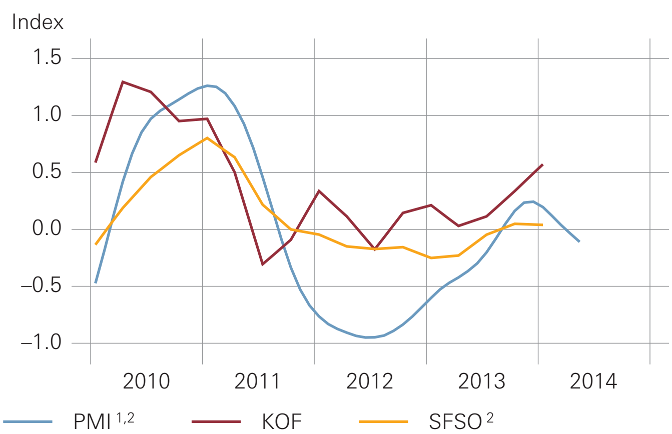
Trend component



Source: KOF Swiss Economic Institute

Chart 3.14

EMPLOYMENT LEADING INDICATORS



1 Monthly figures
2 Trend component: SNB
Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

OUTLOOK FOR THE REAL ECONOMY

The SNB expects the moderate recovery in Switzerland to continue. Thanks to increasing growth stimuli from abroad, the situation in the export-oriented sectors is likely to improve over the coming quarters. With exports on the rise, manufacturing capacity utilisation is expected to be higher and companies should see further improvement in their financial situation. Against this background, equipment investment looks set to regain momentum. Companies will, however, remain cautious. Industries with a domestic focus will continue to benefit from the favourable domestic environment in the coming quarters.

The SNB has left its GDP growth forecast for 2014 unchanged at around 2%. The unemployment rate is likely to recede slightly in the course of the year.

There are still considerable risks associated with this forecast, with developments abroad continuing to represent the largest risk (cf. chapter 2). Domestic factors, however, could also put a damper on economic growth. Discussions conducted with companies by SNB delegates for regional economic development show that the Swiss electorate's vote in favour of curbing mass immigration resulted in a tangible increase in uncertainty among companies (cf. chapter 'Business cycle trends', p. 33).

4 Prices and inflation expectations

For some months, consumer price inflation has been practically zero, after about two years of negative inflation. This very subdued development is also reflected in inflation expectations. In the short term, most market participants expect an unchanged rate of inflation. Over a longer horizon of more than two years, the relevant surveys show that expected inflation is around 1%. These figures are in line with the SNB's assessment of the inflation outlook.

On the real estate market, the rise in prices for residential property has continued. However, in the first quarter of 2014, the rates of increase with respect to the year-back quarter were not as high as one or two years previously.

CONSUMER PRICES

Annual inflation rate still zero
The path of the Swiss consumer price index (CPI) has been flat over the past few quarters. Accordingly, the annual inflation rate since mid-2013 has been close to zero. In May, it was 0.2% (cf. table 4.1).

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS
Year-on-year change in percent

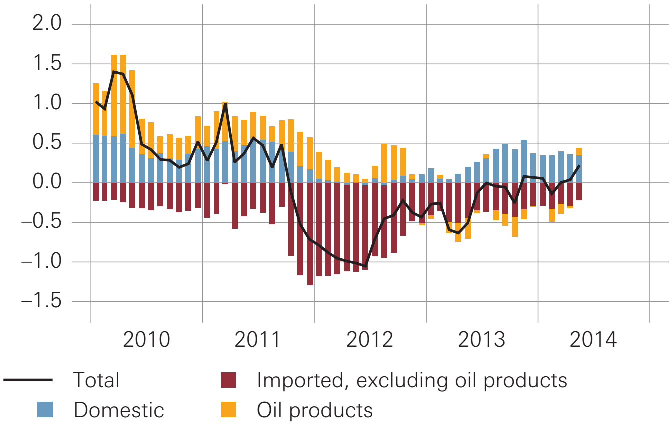
	2013	2013 Q2	Q3	Q4	2014 Q1	2014 March	April	May
Overall CPI	**–0.2**	**–0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**
Domestic goods and services	0.4	0.3	0.5	0.6	0.5	0.5	0.5	0.5
Goods	–0.3	–0.6	0.2	0.1	0.4	0.6	0.3	0.6
Services	0.6	0.5	0.6	0.7	0.5	0.5	0.5	0.4
Private services excluding rents	0.5	0.6	0.5	0.5	0.3	0.3	0.3	0.4
Rents	0.4	0.1	0.7	1.2	1.4	1.4	1.4	1.0
Public services	1.0	1.1	1.1	0.5	–0.5	–0.5	–0.5	–0.5
Imported goods and services	–1.9	–2.3	–1.7	–1.8	–1.5	–1.5	–1.2	–0.5
Excluding oil products	–1.8	–1.9	–1.7	–1.6	–1.3	–1.2	–1.3	–1.1
Oil products	–2.5	–4.3	–1.6	–3.1	–2.4	–3.1	–0.8	2.5

Sources: SFSO, SNB

Chart 4.1

CPI: DOMESTIC AND IMPORTED GOODS

Year-on-year change in CPI in percent. Contribution of individual components, in percentage points.

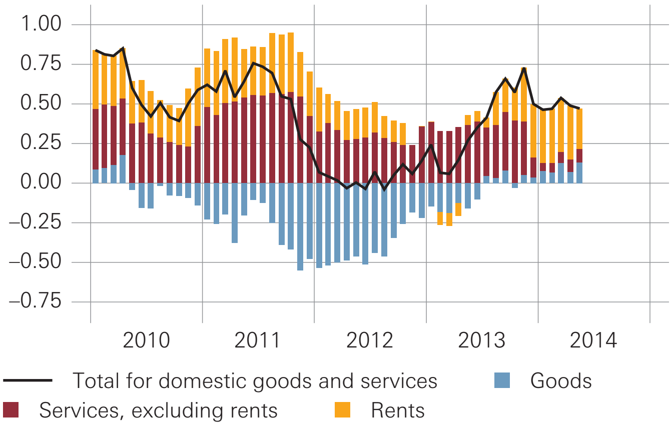


Source: SFSO

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.

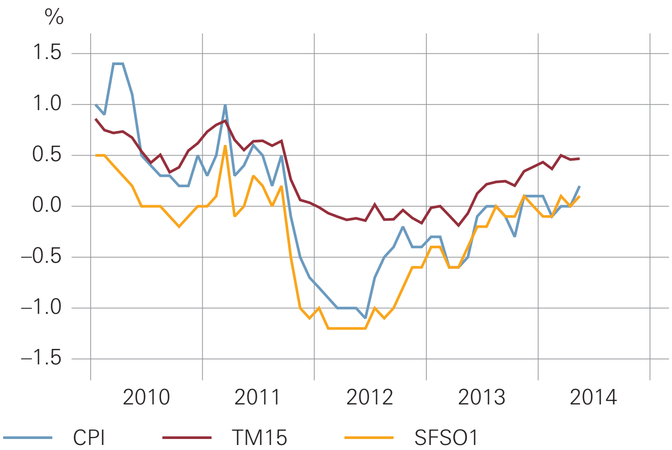


Sources: SFSO, SNB

Chart 4.3

CORE INFLATION RATES

Year-on-year change



Sources: SFSO, SNB

Decline in prices of imported goods

Prices of CPI goods originating from abroad were still below their year-back level. The exceptions included prices of oil products. In May, they exceeded the year-back level for the first time in ten months, thereby helping to ensure that CPI inflation in May was slightly positive (cf. chart 4.1).

Slight rise in prices for domestic goods

In May, annual inflation for domestic CPI goods came to about half a percent, thereby remaining more or less unchanged. The last significant change took place in December 2013 under the impact of lower prices for hospital services (cf. chart 4.2).

Low core inflation

By historical standards, core inflation rates remain low. In May 2014, the Swiss Federal Statistical Office (SFSO) core inflation rate 1 (SFSO1) was almost indistinguishable from the CPI annual inflation rate, while the trimmed mean calculated by the SNB (TM15) was slightly above this rate (cf. chart 4.3). The SFSO core inflation rate 2 (SFSO2) has also been slightly higher than the CPI annual inflation rate for some months. This can be explained by the fact that, on average, products with administered prices, which are excluded in the calculation of SFSO2, were less expensive than a year ago.

PRODUCER AND IMPORT PRICES

Decline in producer and import prices

In the past few months, the annual inflation rate for import and producer prices moved deeper into negative territory (cf. chart 4.4). In May 2014, as in previous months, import prices were further below their year-back levels than producer prices.

REAL ESTATE PRICES

Further increase in residential property prices
Prices for residential real estate continued to increase in the first quarter of 2014 (cf. chart 4.5). According to most available indices, they were some 2–3% above their year-back level for both owner-occupied apartments and single-family homes.

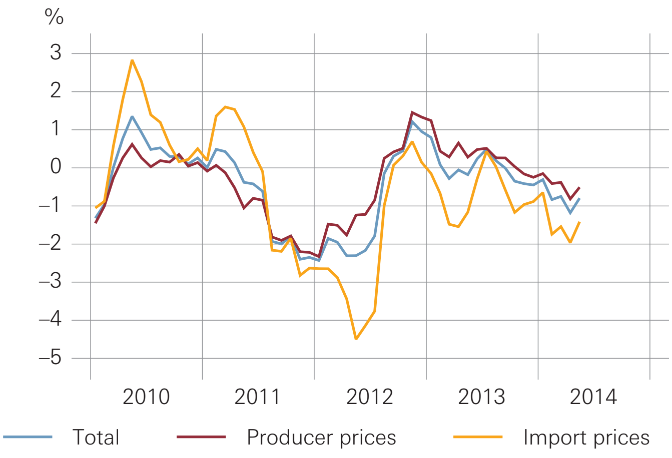
In recent quarters, price momentum has weakened. However, there are differences from one region to another, with a significant flattening observed in the Lake Geneva region, while prices paid in areas such as Central and Eastern Switzerland were still substantially higher than a year previously.

Existing rents rise slightly
In the last few years, asking rents recorded by Wüest & Partner (rents for apartments offered on the market) have increased significantly faster than rents for apartments already under contract. The main reason for this is that rents for existing contracts are legally tied to the reference interest rate. Over the last few years, this rate has gradually declined and has stood at 2% since September 2013 (cf. chart 4.6).

In the first quarter of 2014, annual inflation for asking rents was once again significantly above that for existing rents. However, the substantial increase in asking rents is gradually having an impact on existing rents, so that the rental component of the CPI, which is drawn to a very large extent from existing rents, was 1.4% higher in the first quarter of 2014 than a year previously.

Chart 4.4

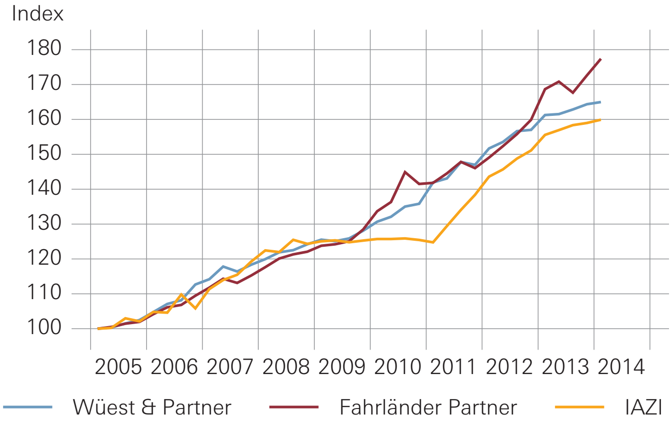
PRODUCER AND IMPORT PRICES
Year-on-year change



Source: SFSO

Chart 4.5

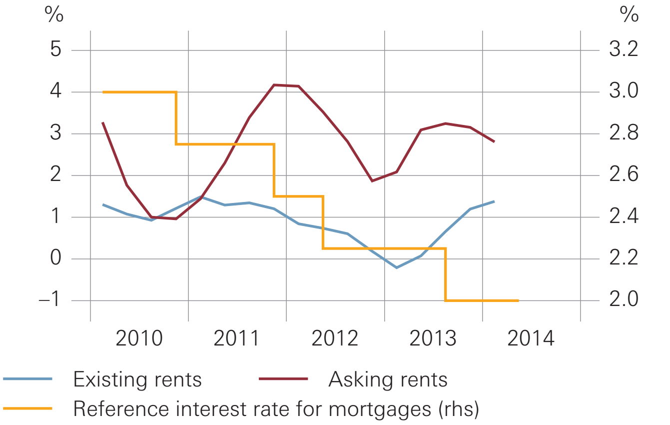
TRANSACTION PRICES, OWNER-OCCUPIED APARTMENTS
Nominal (hedonic), beginning of period = 100



Sources: Fahrländer Partner, IAZI, Wüest & Partner

Chart 4.6

APARTMENT RENTS AND REFERENCE INTEREST RATE
Nominal, year-on-year change (lhs)



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

INFLATION EXPECTATIONS

Inflation expectations remain low

A number of surveys suggest a slight decline in short-term inflation expectations, with virtually no change in medium-term expectations.

According to the quarterly survey carried out by SECO in April 2014, 48% of households were expecting moderate price rises, and 5% were expecting sharp price rises. Another 40% were expecting prices to stay the same, while the remaining 7% were expecting prices to fall. Compared to the survey in the previous quarter, the percentage of respondents expecting prices to remain unchanged increased slightly, resulting in a decline in the number of respondents expecting prices to rise (cf. chart 4.7).

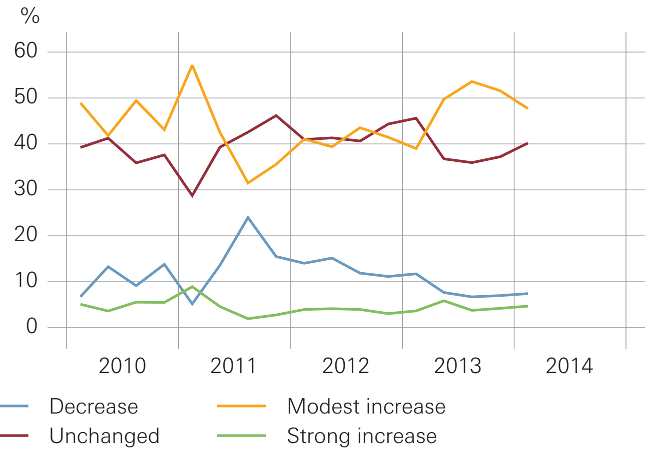
The majority of the financial analysts surveyed in May 2014 for the *Credit Suisse ZEW Financial Market Report* were not expecting any change in inflation. Over a six-month horizon, more than four-fifths were expecting unchanged annual inflation rates, almost one-fifth expected higher rates, and almost nobody lower rates. Compared to the February survey, more people expected unchanged annual inflation rates and fewer expected higher rates.

The discussions with representatives of companies from all Swiss industries conducted by the SNB's delegates for regional economic development show that, in the second quarter of 2014, respondents were expecting an inflation rate of 0.2% in 6–12 months (first quarter expectation: 0.4%). They expected an inflation rate of 1.2% in 3–5 years (first quarter expectation: 1.3%). In addition, the CFO survey by Deloitte showed that, in the first quarter of 2014, participants were expecting the inflation rate to be just under 1.3% in two years' time (fourth quarter of 2013: 1.2%).

Chart 4.7

PRICE EXPECTATIONS

Survey on expected movements in prices for coming 12 months



Sources: SECO, SNB

5 Monetary developments

Given the high level of liquidity, recent months saw money market interest rates remain low. Yields on Confederation bonds fell due to stronger demand for secure investments, which was triggered by geopolitical risks and mixed economic data in the major economies. In addition, mortgage rates declined further, which bolstered demand for mortgage loans.

Nevertheless, the slowdown of momentum in mortgage lending growth, observable for some time now, continued. This is a step in the right direction. However, imbalances remain, and it is therefore too early for an all-clear.

The export-weighted real external value of the Swiss franc continues to lie considerably above its long-term average, and has changed only slightly since the introduction of the minimum exchange rate. Thus, the Swiss franc remains high. The slight inflation differential during the past quarters meant that the real adjustment of the Swiss franc against the euro has come to a virtual standstill. This will not change as long as the euro area battles unusually low inflation. In this environment, the minimum exchange rate remains essential for guaranteeing appropriate monetary conditions.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Continuation of monetary policy announced in September 2011

In the past quarter, the SNB maintained unchanged the monetary policy which it announced in September 2011 and has reiterated at subsequent assessments. On 6 September 2011, the SNB set a minimum exchange rate of CHF 1.20 to the euro. One month before, in August, it had already narrowed the target range for the three-month Libor to 0.0–0.25%.

Sight deposits at SNB virtually unchanged

Since the March 2014 monetary policy assessment, total sight deposits held at the SNB have remained almost unchanged. In the week ending 13 June 2014 (last calendar week before the mid-June assessment), sight deposits totalled CHF 367.0 billion, compared to CHF 367.1 billion in the same period before the mid-March 2014 assessment. Between the two assessments, sight deposits at the SNB averaged CHF 367.4 billion. Of this amount, CHF 309.0 billion was accounted for by the sight deposits of domestic banks and the remaining CHF 58.4 billion by other sight deposits.

High level of banks' surplus reserves

Statutory minimum reserves averaged CHF 14.8 billion between 20 February 2014 and 19 May 2014. They therefore increased slightly from the preceding period (20 November 2013 to 19 February 2014). On average, banks exceeded the requirement by around CHF 304.6 billion (previous period: CHF 310.5 billion). Thus, banks' surplus reserves have remained exceptionally high.

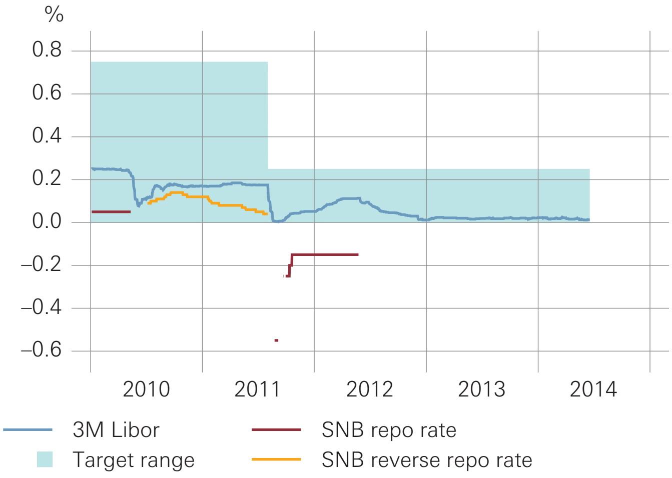
Countercyclical capital buffer increased

At the proposal of the SNB, the Federal Council increased the sectoral countercyclical capital buffer (CCB) from 1% to 2% on 22 January 2014. As a result, risk-weighted positions secured by residential property in Switzerland must be backed with additional capital from 30 June 2014.

The increase in the CCB serves primarily to improve banking sector resilience. Furthermore, it should also help to counter a further build-up of imbalances on the mortgage and real estate markets.

Chart 5.1

MONEY MARKET RATES

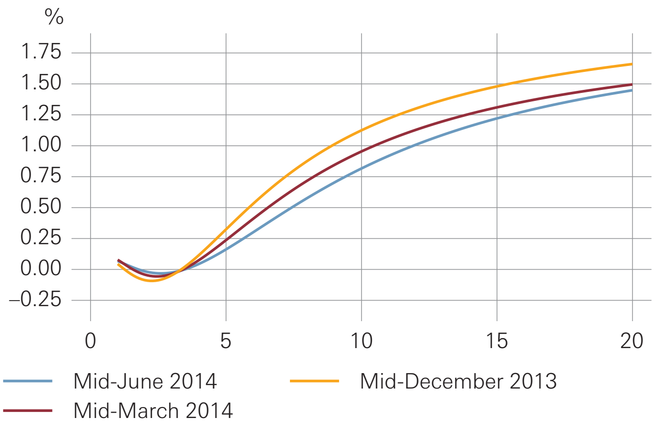


Sources: Bloomberg, SNB

Chart 5.2

TERM STRUCTURE OF SWISS CONFEDERATION BONDS

After Nelson-Siegel-Svensson. Years to maturity (hor. axis)

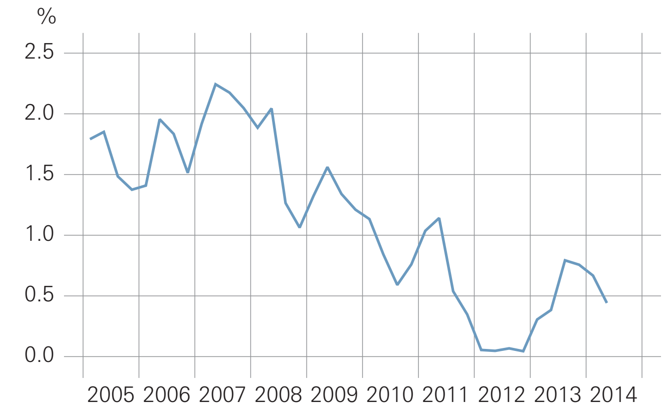


Source: SNB

Chart 5.3

ESTIMATED REAL INTEREST RATE

10-year Confederation bonds
Inflation expectations estimated with VAR model



Source: SNB

MONEY AND CAPITAL MARKET INTEREST RATES

Money market rates remain low

Due to persistently high levels of liquidity, trading volumes on the money market remained low. Money market interest rates persisted at a low level (cf. chart 5.1).

In mid-June 2014, the three-month Libor stood at 1 basis point. Both interest rates in the secured money market (Swiss Average Rates) and issuing yields for money market debt register claims of the Swiss Confederation remained in negative territory.

Long-term interest rates down slightly

Mixed economic data in the major economies and geopolitical risks relating to the Ukraine crisis led to strengthened demand for secure investments. This was reflected in falling yields on long-term government bonds. Yields on Swiss Confederation bonds were also affected. In mid-June, the yield on ten-year Confederation bonds stood at 0.8%, compared to approximately 1.0% at the time of the quarterly assessment in March.

Slight flattening of yield curve

With short-term interest rates virtually unchanged at a low level, the lower long-term rates led to a slight flattening of the yield curve compared to the previous quarter (cf. chart 5.2). The term structure of Swiss Confederation bonds continued to be flatter than comparable yield curves abroad (excluding Japan).

Decline in real interest rates

With hardly any quarter-on-quarter change in long-term inflation expectations, the slight decrease in long-term nominal yields led to somewhat lower real interest rates. The estimated ten-year real interest rate was just under 0.5% in June, which in a long-term comparison is very low (cf. chart 5.3). Calculation of this real interest rate is based on the ten-year yield on Confederation bonds and the estimated inflation expectations for the same time horizon, determined using a vector autoregressive (VAR) model.

EXCHANGE RATES

Swiss franc virtually unchanged against euro

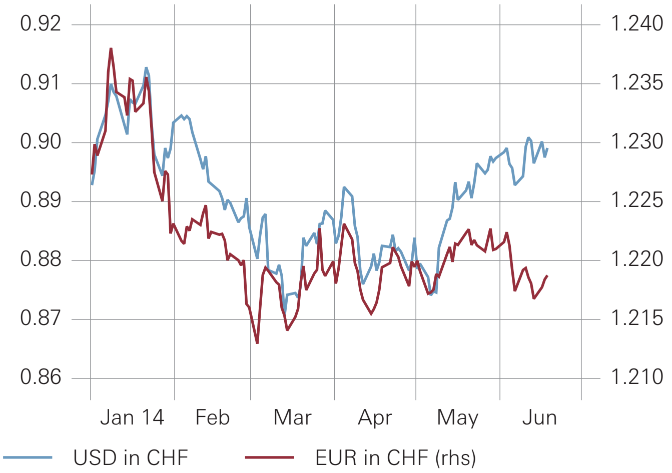
Since the monetary policy assessment of March 2014, the Swiss franc has remained very stable against the euro (cf. chart 5.4). By contrast, in May the Swiss franc, along with the euro, depreciated against the US dollar, Japanese yen and other major currencies. The weakening of the euro was due to ECB statements on monetary policy in the euro area, which led market participants to anticipate the ECB's easing of monetary policy in June. The Swiss franc rate against the euro remained largely unaffected.

High real external value of the Swiss franc

The export-weighted real external value of the Swiss franc continues to lie considerably above its long-term average. Following an almost continuous rise since May 2013, it declined slightly in April and May 2014 (cf. chart 5.5). The real appreciation of the Swiss franc registered over the last 12 months was driven by nominal appreciation. The inflation differential between Switzerland and other countries ensured that real appreciation remained lower than nominal inflation.

Chart 5.4

EXCHANGE RATES



Source: SNB

Chart 5.5

REAL EXTERNAL VALUE OF SWISS FRANC

Export-weighted, January 1999 = 100

Source: SNB

STOCK MARKETS

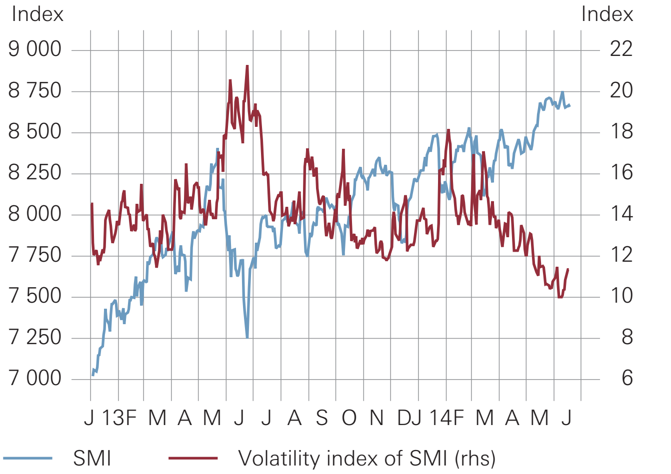
Equity prices up due to lower market uncertainty
Recent months saw the Swiss Market Index (SMI) approach new highs. Only in 2006 and 2007 did the SMI at times record higher levels. As in the rest of Europe and North America, equity prices in Switzerland were underpinned by the decline in medium and long-term interest rates, as well as the reduction in market uncertainty.

Market uncertainty, as derived from option prices on the SMI, rose at the beginning of this year, reflecting increasing concerns by investors about geopolitical risks and signs of an economic slowdown in some major emerging economies (cf. chart 5.6). However, since the end of March, market uncertainty has fallen to levels not seen since 2012.

All major sectors affected
The movements in the equity indices recorded since the beginning of 2014 affected all major sectors (cf. chart 5.7), an indication that the fluctuations were a result of factors not specific to companies or sectors. These included geopolitical tensions relating to conflicts in Ukraine and Iraq, as well as the diplomatic dispute between China and Japan over an archipelago in the East China Sea. Other factors playing a role were expectations about the pace and extent of the future tightening of monetary policy in the US and other countries, as well as economic data from some major economies.

Chart 5.6

SHARE PRICES AND VOLATILITY

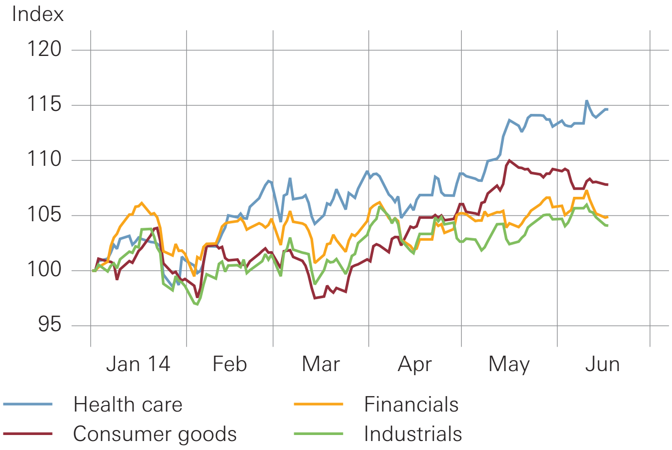


Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.7

SELECTED SPI SECTORS

Beginning of period = 100



Source: Thomson Reuters Datastream

MONETARY AND CREDIT AGGREGATES

Monetary base virtually unchanged

The monetary base, which is made up of banknotes in circulation plus domestic banks' sight deposits with the SNB, has hardly changed in the last few months. It thus remains at a very high level (cf. chart 5.8).

The last significant increase, which was recorded in June and July 2013, was attributable to PostFinance Ltd being granted a banking licence. Were it not for this special case, the monetary base would have remained largely unchanged since September 2012.

Growth of money supply stabilises

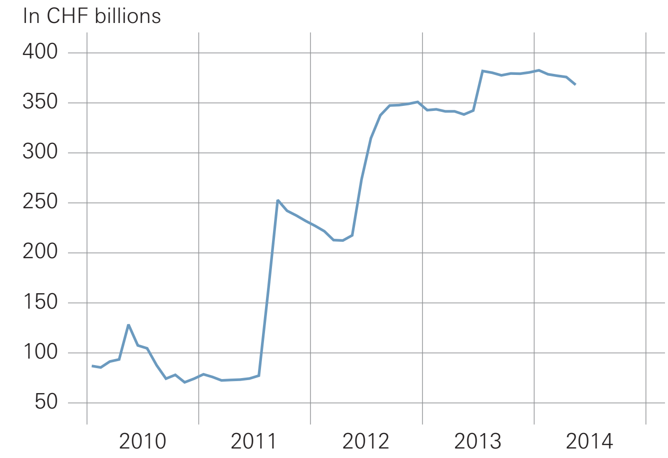
The broad monetary aggregates, which include money stocks held by households and companies, have continued to grow over the past few months (cf. chart 5.9). Annual growth has stabilised since autumn 2013, following a marked decrease over the second and third quarters of 2013.

In May 2014, M1 (currency in circulation, sight deposits and transaction accounts) was 3.3% higher year-on-year. In the same period, M2 (M1 plus savings deposits) rose by 3.1% and M3 (M2 plus time deposits) by 3.3%. These rates of growth are based on the time series for M1, M2 and M3, which were adjusted to include PostFinance in the period before it was granted a banking licence (cf. table 5.1).

In both a long-term comparison and compared to other countries, the M1, M2 and M3 monetary aggregates have risen very sharply since the financial and economic crisis. Contributing factors were increased lending by banks, which was boosted by low interest rates, as well as portfolio restructuring by households and companies, which saw a shift away from securities in favour of sight deposits.

Chart 5.8

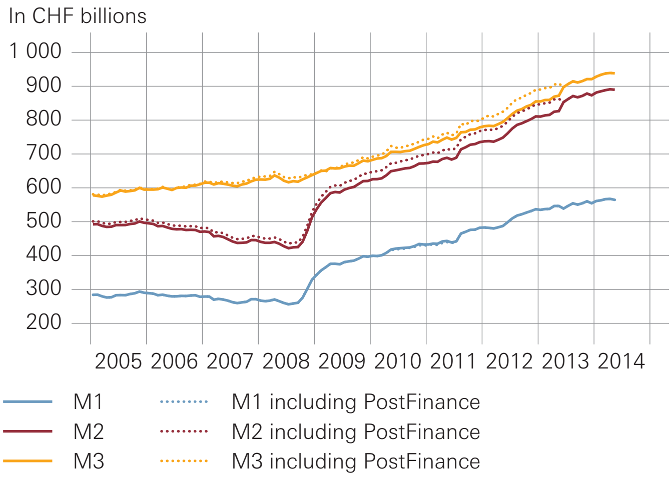
MONETARY BASE



Source: SNB

Chart 5.9

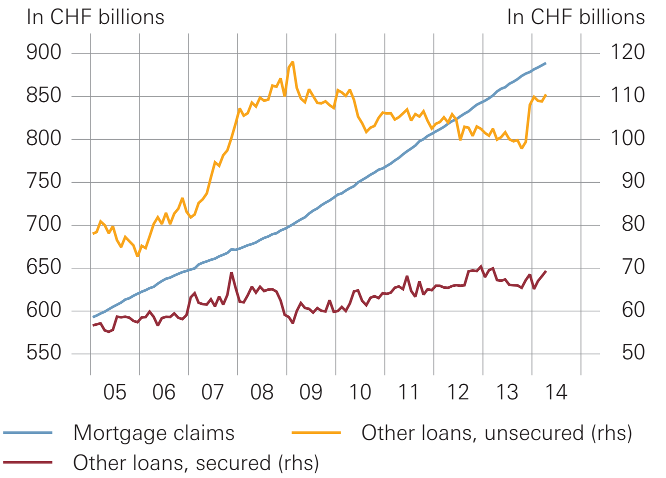
MONETARY AGGREGATES



Source: SNB

Chart 5.10

MORTGAGE CLAIMS AND OTHER LOANS



Source: SNB

Slowdown of growth in mortgage lending

In the first quarter of 2014, banks' mortgage claims, which make up four-fifths of all bank lending, were up 4.2% year-on-year. The slowdown of momentum in mortgage lending growth, observable for some time now, continued, with loans to both households and private companies slackening (cf. table 5.1). However, the demand for loans continues to be underpinned by historically low mortgage rates. These rates have decreased slightly, following declining yields on Swiss Confederation bonds since the beginning of the year.

The volume of other loans (loans not secured by mortgages) has shown a flat path since the beginning of the financial and economic crisis (cf. chart 5.10). The substantial increase in unsecured other loans in December 2013 was primarily attributable to an individual loan recorded in the financial companies category.

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2013	2013			2014	2014		
		Q2	Q3	Q4	Q1	March	April	May
M1 (including PostFinance) [1]	**8.3**	**11.0**	**6.6**	**4.6**	**5.0**	**5.4**	**3.9**	**3.3**
M2 (including PostFinance) [1]	**7.3**	**9.4**	**5.9**	**4.2**	**4.2**	**4.3**	**3.5**	**3.1**
M3 (including PostFinance) [1]	**7.3**	**9.3**	**5.9**	**4.3**	**4.5**	**4.8**	**3.8**	**3.3**
Bank loans, total [2, 4]	**3.5**	**3.5**	**3.5**	**3.3**	**4.0**	**3.9**	**4.5**	
Mortgage claims [2, 4]	4.5	4.6	4.5	4.3	4.2	4.1	3.9	
Households [3, 4]	4.0	4.1	3.9	3.8	3.7	3.6	3.5	
Private companies [3, 4]	6.2	6.4	6.5	6.2	5.8	5.6	4.8	
Other loans [2, 4]	–1.2	–1.5	–1.8	–1.7	3.1	2.7	7.6	
Secured [2, 4]	0.4	2.2	–1.5	–3.8	–3.4	–2.6	3.2	
Unsecured [2, 4]	–2.2	–3.9	–2.0	–0.3	7.5	6.2	10.5	

1 On 26 June 2013, PostFinance was granted a banking licence. The growth rates are based on monetary aggregate figures adjusted retroactively for the period January 2005 to May 2013 (cf. *Monthly Statistical Bulletin*, table B2a online, and 'Information on SNB statistics', August 2013, p. III).
2 Monthly balance sheets.
3 Credit volume statistics.
4 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*.

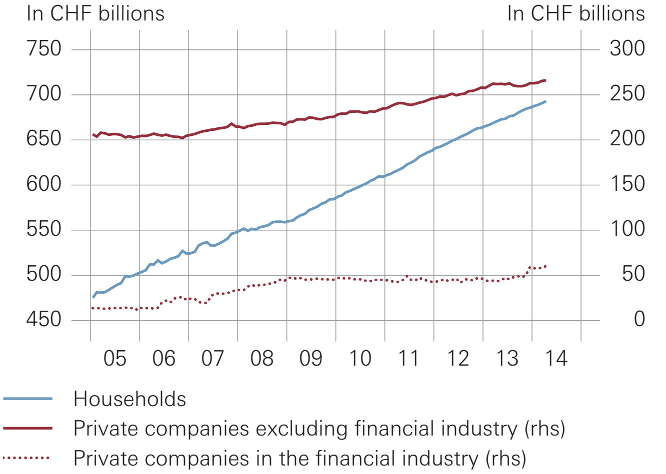
Source: SNB

Broad-based growth in lending

Growth in lending continues to be broad-based. All borrower categories recorded an increase in bank loans over the last 12 months (cf. chart 5.11). At the end of March 2014, loans to households were up year-on-year by CHF 22.1 billion (3.3%), and lending to non-financial companies by CHF 3.1 billion (1.2%), while the more volatile lending to financial companies rose by CHF 13.7 billion (31%).

Chart 5.11

LOANS TO HOUSEHOLDS AND COMPANIES



Source: SNB

Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2014

Second quarter of 2014
The Swiss National Bank's delegates for regional economic development are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted in April and May 2014 with 241 managers and entrepreneurs on the current and future situation of their companies and the economy in general. The selection of companies differs from one quarter to the next. It reflects the industrial structure of the Swiss economy, based on the breakdown of the GDP (excluding agriculture and public services).

Regions	Delegates
Central Switzerland	Walter Näf
Eastern Switzerland	Urs Schönholzer
Geneva	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Martin Wyss
Northwestern Switzerland	Daniel Hanimann
Vaud-Valais	Aline Chabloz
Zurich	Markus Zimmerli

SUMMARY

According to this survey, the Swiss economy continued growing soundly in the second quarter of 2014. Healthy domestic demand had a beneficial impact. Increased demand from the US, in particular, favourably affected exports. Margins were still generally somewhat lower than the levels considered by respondents to be normal.

The outlook for real turnover growth in the months ahead remains optimistic. The construction sector is expected to slow down at a high level. Companies are still largely cautious with their recruitment and investment plans.

Respondents believe that a number of political developments in Switzerland (including the acceptance of the mass immigration initiative) could potentially impair operating conditions. While companies continue to be aware of the structural risk factors still in evidence in Europe, they no longer see them as a key concern.

BUSINESS ACTIVITY

Manufacturing: Momentum marginally higher
The momentum of manufacturing activity was somewhat greater than in the previous quarter. About half of the companies surveyed reported a rise in turnover, while a further 45% recorded no quarter-on-quarter change.

The most noticeable changes in real turnover were registered by food producers and the machinery industry. Plastics and precision instruments manufacturers witnessed slight increases.

Domestic demand remained high. Various regions – depending on the industry – were cited as export drivers. Among the export markets experiencing high growth are the US, the BRIC countries, Asia and Oceania. Demand from Europe, especially Germany, is still sound. Broken down by industry, there is sustained strong demand from the automobile and medtech industries.

Construction: Stable turnover at a high level
In construction, following several very strong quarters, turnover was marginally below the high level reported for the preceding quarter. However, due to significantly more favourable weather conditions this year, turnover still increased markedly compared to the same quarter a year earlier. Structural engineering work saw particularly robust growth in turnover.

Services: Sustained moderate growth
The services sector continued to report moderate growth. While a good third of the companies surveyed achieved a quarter-on-quarter increase in turnover, 45% reported that turnover had stagnated.

Transport and IT companies registered comparatively dynamic business activity. Retailers recorded a similarly favourable trend. Business was rather flat in the financial, wholesale and staff recruitment industries. Various retailers expressed the view that cross-border shopping activity had remained stable. They stated that it was very difficult to get consumers to break with this practice. Another major challenge highlighted by quite a number of retailers was the structural change towards a growing proportion of online purchases.

The only sector to report a negative quarter-on-quarter trend in turnover was the hotel industry. In a year-on-year comparison, business activity was flat. While hoteliers noted reticence among guests from the euro area, they reported encouraging visitor numbers from Asia, the Arab region and the US.

CAPACITY UTILISATION

Overall, production capacity persists at a level assessed as ‘normal’ by respondents, although there are still considerable differences from one industry to another.

Companies in practically all areas of manufacturing rated capacity utilisation as somewhat lower than normal, on the whole. Existing production capacity thus contains considerable reserves to respond to unexpected hikes in demand.

In the construction industry, utilisation of technical capacity was generally much higher than usual for the time of year in structural and civil engineering as well as the finishing trade. This was mainly due to relatively favourable weather conditions. Although large numbers of orders were processed, order books are still well filled.

In the services sector, overall utilisation of infrastructure (i.e. primarily office and retail space as well as transport capacity) was again reported to be at a normal level. Architecture and engineering firms, wholesalers, transport companies and facility management service providers indicated that capacity utilisation was on the high side. Utilisation was normal in the financial sector and the retail trade, while hotel and restaurant operators reported underutilised capacity.

DEMAND FOR LABOUR

Demand for staff remains steady
Demand for labour again showed only a marginal quarter-on-quarter increase according to the survey. Changes in staffing policy were barely referred to. There are still quite considerable differences between the different industries in their assessment of how appropriate staffing levels are.

The manufacturing companies surveyed rated their staff numbers as being in line with requirements. Within construction, only individual businesses in the finishing trade indicated that they were understaffed. Headcounts in both civil and structural engineering are considered appropriate. Companies in the services sector stated that their staff levels were marginally too low. This group includes transport and logistics firms, IT companies, as well as architectural and consulting offices. The banking industry is still marginally overstaffed.

In all three economic sectors, the process of recruiting staff was generally assessed to be roughly as challenging and time-consuming as usual. Respondents complained in particular about a lack of specialists. Some companies indicated that they were still taking on temporary staff because suitable personnel could not be found for permanent positions. However, many companies reported that the level of spontaneous job applications was still high, above all in regions close to the border. Individual respondents stated that the catchment area for cross-border commuters had become even larger.

A number of companies increased salaries by slightly more than one percentage point in the first half of the year.

PRICES, MARGINS AND EARNINGS SITUATION

Little change in margins
A total of 45% of companies reported that margins were within the normal range. Nonetheless, margins overall were rated as somewhat lower than usual, with approximately 40% of companies surveyed reaching this assessment.

Profit margins were rated lower than usual in almost all areas of manufacturing, above all in plastics, metalworking and machinery. Businesses surveyed in the chemicals, pharmaceuticals and precision instruments industries reported margins to be ‘normal’. Manufacturing companies expect purchase prices to remain stable and sales prices to go down slightly in the coming months. However, machinery companies are projecting that purchase prices will tend up, while sales prices will fall.

In the construction industry, the companies surveyed reported margins to be generally normal, but better than in the previous quarter. While margins in the finishing trade were somewhat more favourable, those in civil engineering were slightly below average. A decrease in construction raw material prices and construction prices is expected in the coming months.

In the services sector, margins were still rated as lower than normal. The banking and hospitality industries again faced rather low margins. In addition to the persistently low interest rates, bank representatives frequently cited the cost of implementing regulatory requirements as the main cause. Numerous auditors also reported unusually low margins as a result of extreme pressure on prices. Traders in general rated margins as normal; this also applied to IT and insurance companies,

Where improvements in margins in recent months were achieved, they were attributed to cost savings, an optimised product mix and increased sales volumes. Companies from all three sectors of the economy continue to be appreciative of the current stable exchange rate against the euro. However, exporters exposed to the US dollar and the Japanese yen are concerned about the recent depreciation of these two currencies.

OUTLOOK

Business activity remains strong
Companies remain confident about the business outlook for the coming months. In all industries – with the exception of construction, which is predicting stagnation at a high level – respondents expect turnover to rise in the next six months.

A slight increase in headcounts is also envisaged over this time horizon, in particular in the services sector.

While the previous quarterly survey generally pointed to slightly more expansionary investment plans at companies in all three sectors, respondents in the present survey are somewhat more restrained. Expenditure on capital and construction investment is expected to remain unchanged in the coming 12 months. While this may reflect a continuing mood of caution, it may also be connected with the conclusion of larger investment cycles at the companies visited for the survey.

Potential changes to operating conditions in Switzerland – as a consequence of numerous political initiatives – and the increasingly complex regulatory and bureaucratic environment remain a prime concern among the SNB's respondents. They remain conscious of the structural problems which are still unresolved in Europe, but no longer see these as the main concern.

IMPACT OF MASS IMMIGRATION INITIATIVE AND COMPANY REACTIONS

As part of the company survey for the second quarter of 2014, the SNB delegates for regional economic relations examined the acceptance of the mass immigration initiative (MII) in greater detail with company representatives. They examined the respondents' assessments of the implications of the MII for their own companies, but also for the Swiss economy as a whole.

The responses suggested that acceptance of the MII has resulted in a tangible increase in uncertainty. Overall, 37% of the companies surveyed reported that uncertainty had risen for them slightly (25%) or significantly (12%) as a result of the acceptance of the MII. In contrast, the level of uncertainty was unchanged for 58% of respondents.

The vast majority of companies had not yet decided to take either staffing or investment measures, since the manner in which the initiative will be implemented is not yet clear. Respondents who expected a negative impact on their companies were most concerned about greater difficulties in recruitment, but they were also worried that a decrease in immigration numbers will mean a lower customer basis. Additional factors of some importance were fears of higher wage costs, more difficult market access or the EU imposing more export restrictions.

Somewhat more than half of respondents expeted negative economic consequences for their own company and approximately two-thirds expected negative economic consequences for Switzerland as a whole in the medium and long-term.

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.

At its quarterly assessment of 19 June 2013, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro. The SNB will continue to enforce the minimum exchange rate with the utmost determination. If necessary, it is prepared to purchase foreign currency in unlimited quantities, and to take further measures as required. The target range for the three-month Libor remains unchanged at 0.0–0.25%. In the view of the SNB, the Swiss franc is still high. With a three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc.

June 2014

At its quarterly assessment of 20 March, the SNB reaffirms that it will maintain its minimum exchange rate of CHF 1.20 per euro. The SNB continues to stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. The target range for the three-month Libor remains unchanged at 0.0–0.25%. In the view of the SNB, the Swiss franc is still high. With the three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc.

March 2014

On 22 January, at the proposal of the SNB, the Federal Council raises the countercyclical capital buffer (CCB) in reaction to the imbalances on the Swiss residential mortgage and real estate markets, which have increased further since the activation of the CCB in February 2013. The CCB now amounts to 2% (previously 1%) of risk-weighted mortgage loans for the financing of residential property in Switzerland. The banks concerned must comply with the higher buffer requirements from 30 June 2014.

January 2014

At its quarterly assessment of 12 December, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro. The SNB continues to stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. The target range for the three-month Libor will stay at 0.0–0.25%. In the view of the SNB, the Swiss franc is still high. With the three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc.

December 2013

On 31 October, the SNB, together with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Federal Reserve, convert their temporary swap arrangements to standing arrangements. The arrangements allow the SNB to provide Swiss francs to these central banks when required, as well as enabling the SNB to provide liquidity to Swiss banks, should it be needed, in any of the five foreign currencies. The SNB intends to continue offering US dollar liquidity-providing repo operations at terms of one week and three months until further notice.

October 2013

At its quarterly assessment of 19 September, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro. The SNB continues to stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. In the view of the SNB, the Swiss franc is still high. The minimum exchange rate prevents an undesired tightening of monetary conditions were the upward pressure on the Swiss franc to intensify once again. The target range for the three-month Libor will stay at 0.0–0.25%.

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