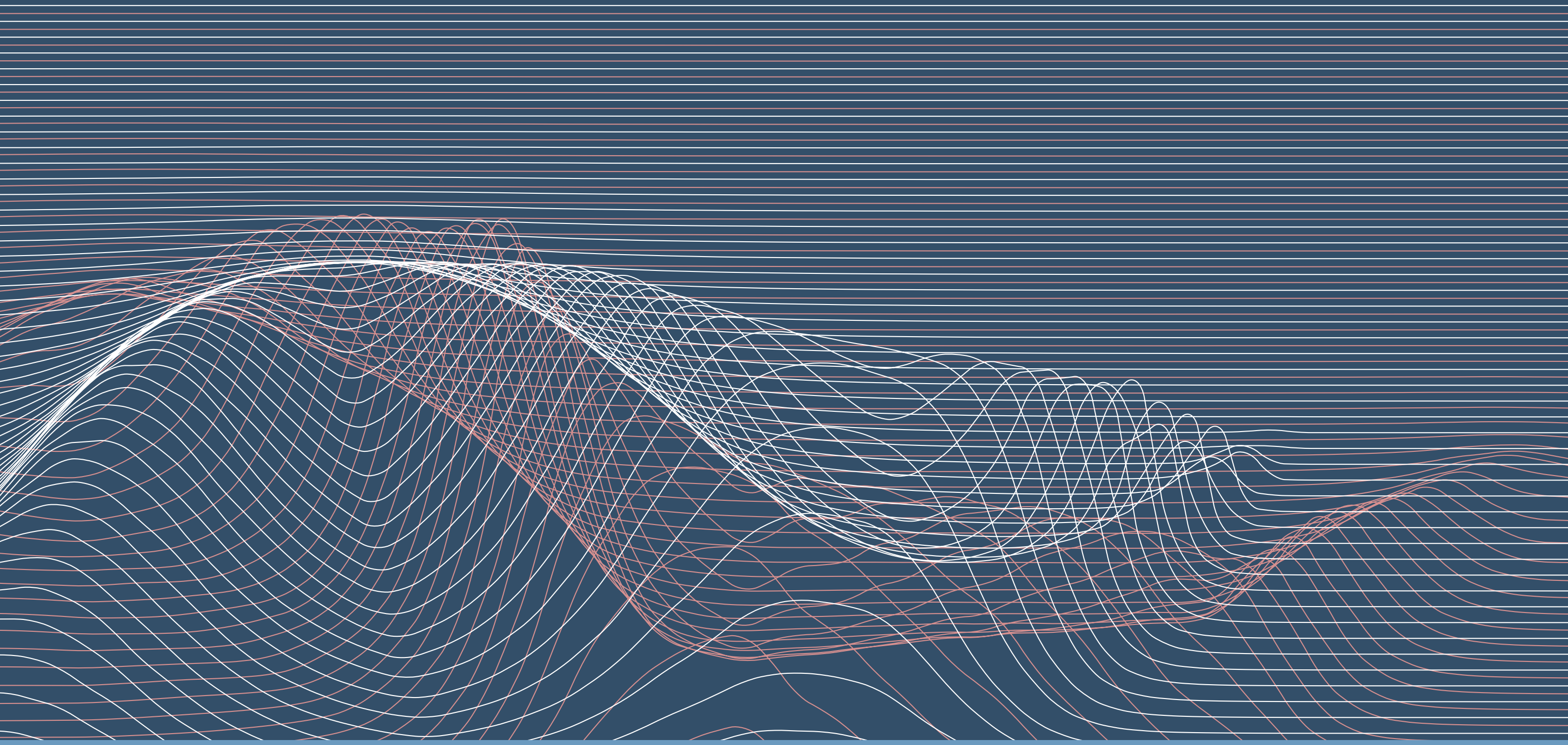


Quarterly Bulletin
3/2014 September

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

Quarterly Bulletin
3/2014 September

Volume 32

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 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 18 September 2014') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 18 September 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 18 September 2014

SNB reaffirms minimum exchange rate

The Swiss National Bank (SNB) is maintaining its minimum exchange rate of CHF 1.20 per euro and is leaving the target range for the three-month Libor unchanged at 0.0–0.25%.

The economic outlook has deteriorated considerably. The Swiss franc is still high. With the three-month Libor close to zero, the minimum exchange rate remains the key instrument to avoid an undesirable tightening of monetary conditions. The SNB will therefore continue to enforce the minimum exchange rate with the utmost determination. For this purpose, it is prepared to purchase foreign currency in unlimited quantities. If necessary, it will take further measures immediately.

The SNB's conditional inflation forecast of September points to significantly lower inflationary pressure in the medium term (cf. chart 1.1). In the first quarter of 2015, the inflation forecast actually shows a slight increase in inflation, reflecting a base effect due to the rise in prices in the previous quarter. However, from mid-2015 onwards, inflation is set to be lower. This is mainly due to the deterioration in the global economic outlook and slower growth in Switzerland. For the current year, the inflation forecast of 0.1% remains unchanged. The new forecast for 2015 of 0.2% is 0.1 percentage points lower than at the last monetary policy assessment, while the forecast for 2016 of 0.5% is even lower, namely by 0.4 percentage points (cf. table 1.1). For Switzerland, the risk of deflation has thus increased again. As in the previous quarter, the forecast is based on a three-month Libor of 0.0% over the next three years, and expects that the Swiss franc will weaken over the forecast horizon.

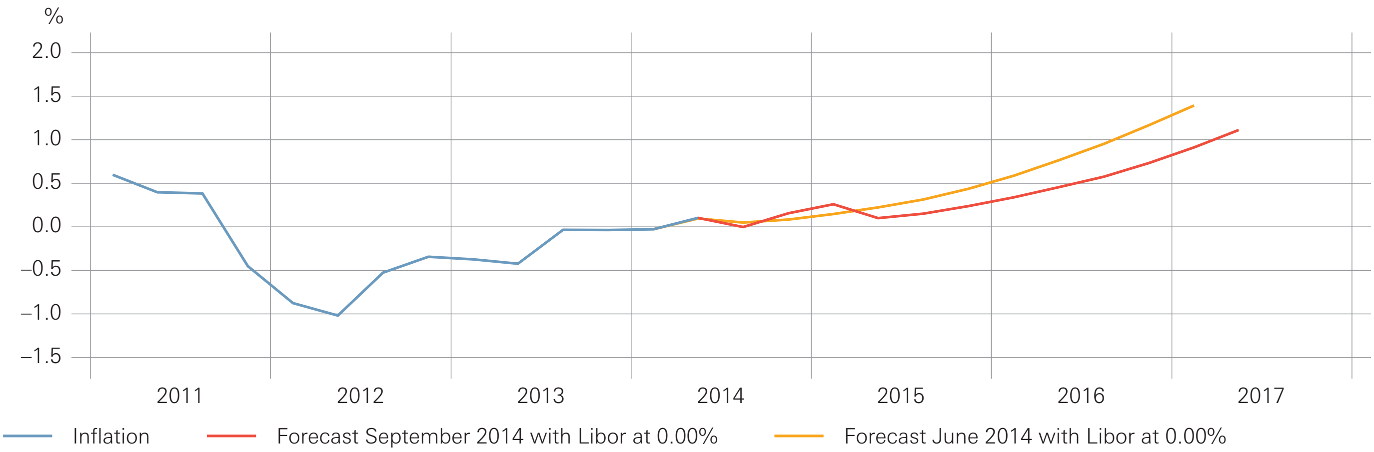
Since the monetary policy assessment in June, there has been a deterioration in the international environment. Although the US economy rebounded in the second quarter following a weather-related winter slump, the major euro area economies experienced considerably weaker growth than expected, and inflation was again very low. In many of the emerging economies, too, growth was lacklustre.

The SNB expects that the global economic recovery will be weaker in the approaching quarters than previously forecast. Economic developments in the US are still likely to drive growth, while in the euro area, growth looks set to remain modest. Furthermore, the global economic recovery remains vulnerable to setbacks. Geopolitical tensions could further weigh on corporate and consumer confidence. The consolidation of public finances, the implementation of reforms aimed at promoting growth and the completion of the assessment of banks' balance sheets still pose significant challenges for the euro area.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2014

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



Source: SNB

At an annualised rate of –0.2%, second-quarter GDP growth in Switzerland was distinctly lower than forecast in June. Despite having expected a rate of around 2% in June, given the current data, the SNB now puts this year's growth rate at only just below 1.5%. Production capacity will therefore remain underutilised for longer than previously assumed, and the recovery on the labour market is also likely to be delayed.

In the second quarter, mortgage lending again recorded slightly weaker growth. However, there is no evidence of a decline in the imbalances that have accumulated in recent years on the Swiss mortgage and real estate markets. The SNB is monitoring the situation on these markets closely, and regularly reassesses the need for an adjustment of the countercyclical capital buffer.

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 SEPTEMBER 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	0.1			0.2	–0.7	–0.2

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 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 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
Forecast September 2014, with Libor at 0.00%			0.0	0.2	0.3	0.1	0.2	0.2	0.3	0.5	0.6	0.7	0.9	1.1			0.1	0.2	0.5

Source: SNB

2
Global economic environment

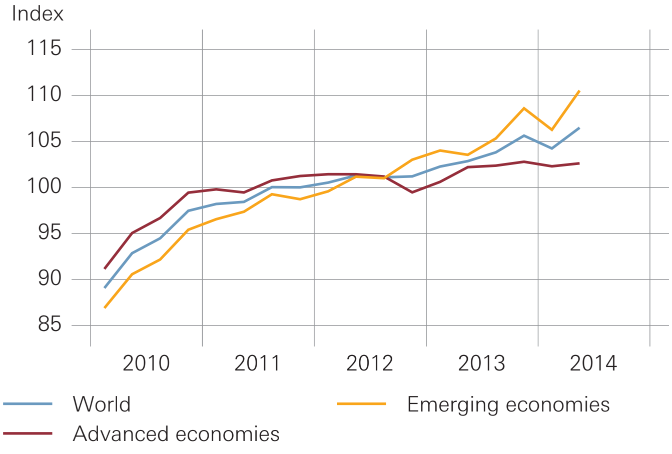
Global economic conditions have worsened since the June assessment. Whereas the second quarter saw the US economy rebound from the very weak winter quarter, economic performance in the larger euro area economies fell well short of expectations. Against this backdrop, inflation was very low in the euro area. Economic activity remained mixed in the major emerging markets: Economic growth in China increased, thanks in part to stimulus packages, while the Brazilian and Russian economies continued at a lacklustre pace. World trade recovered in the second quarter, although this was entirely attributable to the dynamic export growth witnessed by the emerging economies, above all in Asia (cf. chart 2.1).

The SNB is assuming that for the next few quarters, the global economic revival will be weaker than previously expected. The US economy is expected to provide further positive impetus. By contrast, growth is likely to remain modest in the euro area, largely because of the less favourable outlook for the larger member economies. China's economy is projected to grow in line with potential. Growth stimuli from the remaining emerging economies are expected to remain limited. The global economic recovery continues to face considerable downside risks. As before, the main challenges confronting the euro area are the consolidation of public finances, implementation of growth-promoting reforms and completion of the assessment of banks' balance sheets. The situation is

Chart 2.1

GLOBAL EXPORTS

Period average = 100

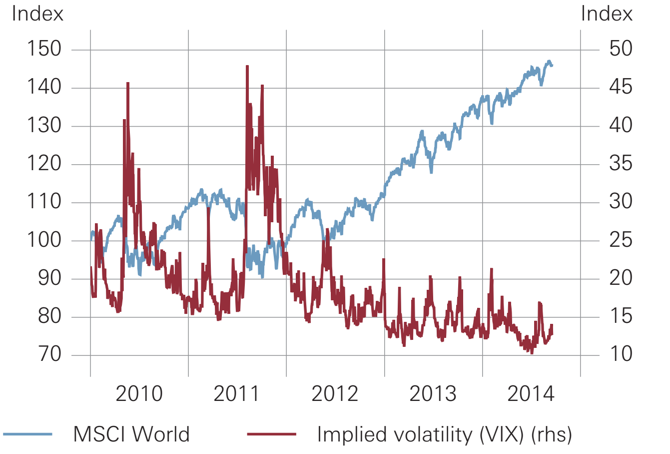


Sources: CPB, Thomson Reuters Datastream

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	2.9	3.0	3.1	3.8
US	2.5	1.6	2.3	2.2	2.1	3.4
Euro area	1.9	1.6	–0.7	–0.4	0.8	1.5
Japan	4.7	–0.4	1.5	1.5	1.0	0.9
Oil price in USD per barrel [2]	79.6	111.4	111.7	108.7	106.0	103.0

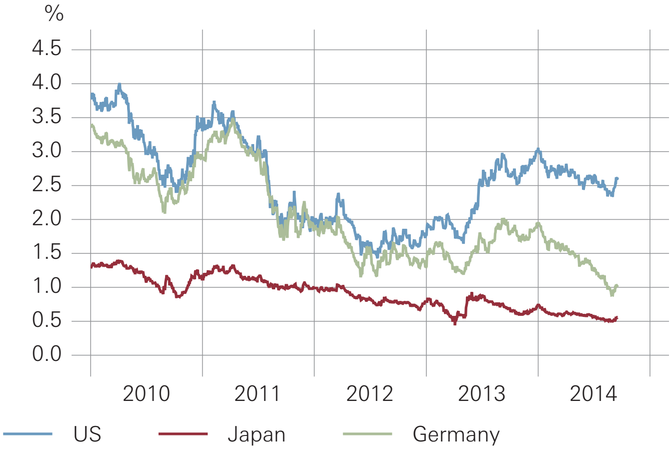
1 PPP-weighted (US, euro area, UK, Japan, China, South Korea, Taiwan, Hong Kong, Singapore, India, Brazil and Russia).
2 Level.

Sources: SNB, Thomson Reuters Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

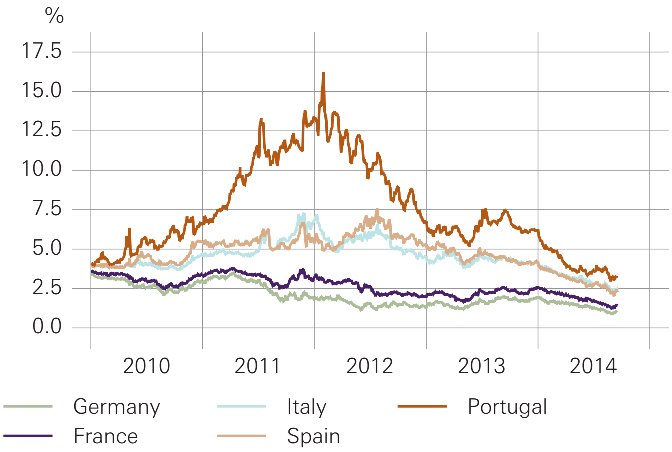


Source: Thomson Reuters Datastream

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

compounded by uncertainties in the wake of geopolitical tensions.

The SNB's forecasts are based on assumptions about the oil price and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 103 per barrel and an exchange rate of USD 1.34 to the euro.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Since the mid-June assessment, equity markets have intermittently felt the effects of the uncertainty stemming from the Ukraine crisis, and the sanctions imposed by the EU and US on Russia (cf. chart 2.2). The VIX volatility index for US shares – which serves as an indicator of uncertainty – showed a sharp, short-lived rise. However, equity prices rallied on a broad front in August, with the US S&P 500 stock market index even reaching a new high.

In this environment of heightened uncertainty, yields on long-term government bonds worldwide continued to move lower, in particular in the euro area member states (cf. charts 2.3 and 2.4). Monetary easing measures taken by the European Central Bank (ECB) in June and September contributed to the decline. In the wake of monetary developments, the euro lost further ground on a trade-weighted basis (cf. chart 2.5). The yen also depreciated. Conversely, the US dollar appreciated.

Commodity prices fell overall (cf. chart 2.6). Oil traded lower despite the numerous trouble spots, because stockpiles are high and demand muted. Food prices dropped in response to good crop forecasts. On the other hand, industrial metal prices were driven up by stronger demand from the US and China.

UNITED STATES

The US saw robust GDP growth of 4.2% in the second quarter (cf. chart 2.7), thereby rebounding from the weather-related winter slump. Unemployment continued to decline (cf. chart 2.10).

Thanks to a steady improvement in the financial situation of private households, a continued expansionary monetary policy and a less restrictive fiscal policy, the growth outlook remains favourable. The upbeat mood in manufacturing and the services sector similarly points to solid growth momentum. The SNB's GDP growth forecasts for the US are unchanged at 2.1% for 2014 and 3.4% for 2015 (cf. table 2.1).

Consumer price inflation rose in the first half, reaching 1.7% in August (cf. chart 2.11). Core inflation was also 1.7% in August (cf. chart 2.12). The SNB expects inflation of nearly 2% in the US in the coming quarters. Wage inflation remained very modest.

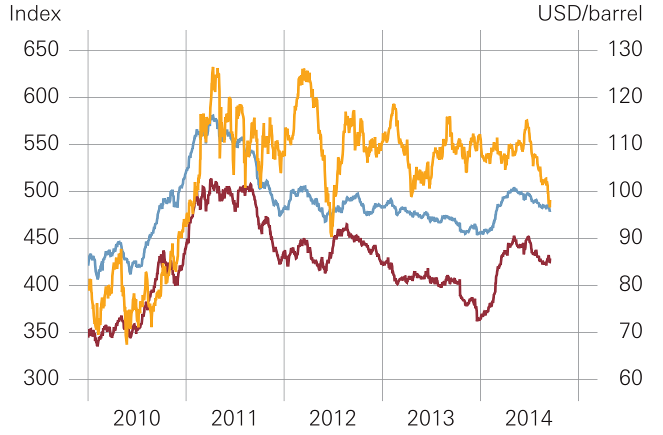
The US Federal Reserve (Fed) further reduced its monthly securities purchases, and the programme is to be discontinued at the end of October. The target range for the federal funds rate has been left unchanged at 0%–0.25% since December 2008 (cf. chart 2.13). The Fed reaffirmed its assessment that the first interest rate move will probably come well after the securities purchase programme has ended. Furthermore, it still anticipates that 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

Economic developments in the euro area were disappointing in the second quarter. At 0.1%, GDP practically stagnated (cf. chart 2.7). For one thing, the construction industry experienced a contraction in value added after being buoyed by favourable weather in the preceding quarter. And for another, industrial activity surprisingly lost momentum, possibly affected by the conflict in Ukraine. Germany – hitherto a driving force – witnessed an unexpected drop in economic output. GDP also fell in France and Italy. By contrast, a number of smaller member economies experienced a slight upturn. The euro area unemployment rate remained very high (cf. chart 2.10).

Chart 2.6

COMMODITY PRICES

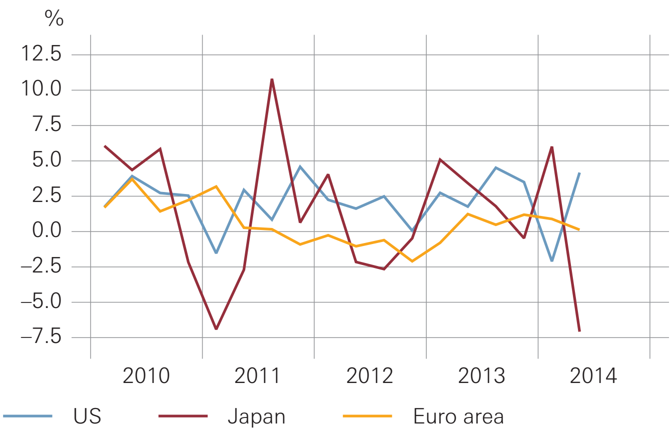


Source: Thomson Reuters Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

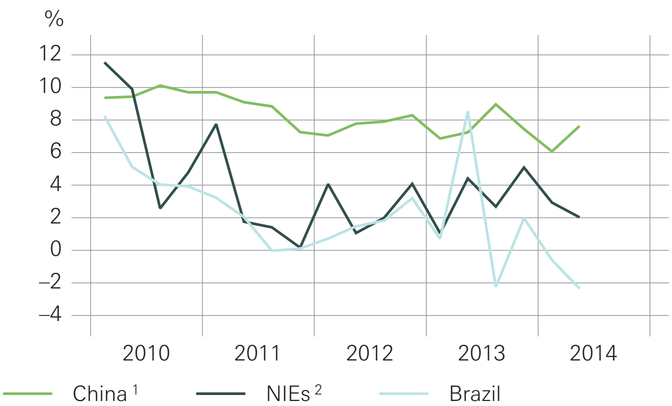


Source: Thomson Reuters Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

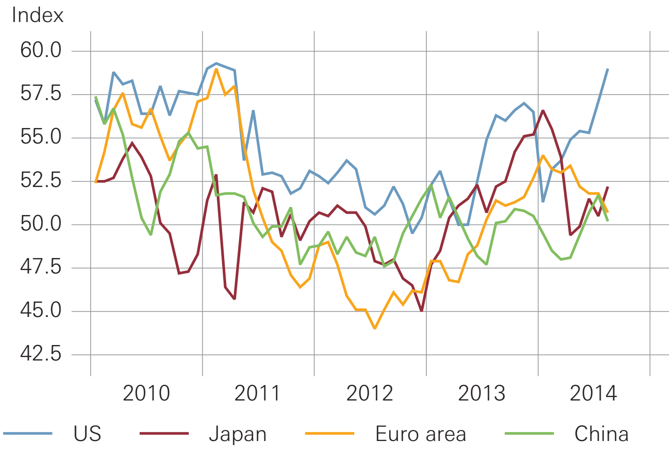
Change from previous period



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

Chart 2.9

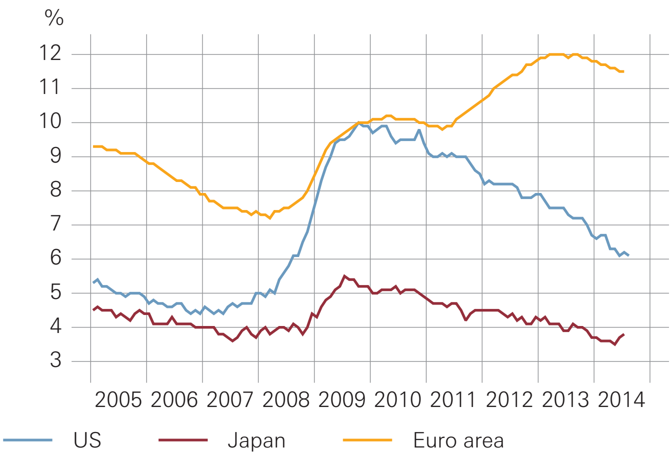
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source: Markit Economics Ltd 2009; all rights reserved

Chart 2.10

UNEMPLOYMENT RATES

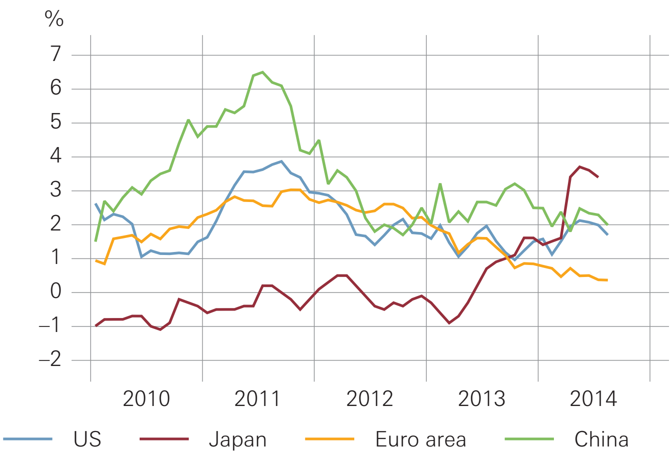


Source: Thomson Reuters Datastream

Chart 2.11

CONSUMER PRICES

Year-on-year change



Source: Thomson Reuters Datastream

A great deal of uncertainty surrounds the outlook for the euro area. While the SNB still expects the economy to firm up gradually, fallout from the Ukraine conflict could delay recovery. As shown by surveys in the manufacturing industry, the business climate has deteriorated. Uncertainty persists about the restructuring of public sector finances – particularly in France and Italy. However, after the ECB completes its assessment of banks at the end of October, any doubts as to the soundness of the banking system should tend to diminish. What is more, the ECB's latest monetary policy measures and a weaker euro can be expected to provide moderate growth stimuli. The SNB has revised its growth forecasts for the euro area downwards. It expects GDP to grow by 0.8% in 2014 and 1.5% in 2015.

Consumer price inflation fell further in the past few months to 0.4% in August, due mainly to movements in volatile energy and food prices. Food price inflation could fall further as a result of Russian import restrictions if the food products affected are offered for sale in the euro area. By contrast, core inflation increased slightly to 0.9%.

In September, the ECB once again lowered its key interest rates, moving the main refinancing rate down to almost zero (0.05%) and the deposit facility rate further into negative territory (–0.2%). In addition, the ECB announced that it would be purchasing asset-backed securities (ABS) and covered bonds in October, adding to the comprehensive easing measures taken in June, which included lowering key interest rates and granting special loans to banks.

JAPAN

The VAT increase introduced with effect from 1 April caused strong fluctuations in economic output in the first half of the year. Having risen by 6.0% in the first quarter on the back of a surge in private demand ahead of the VAT hike, GDP fell by 7.1% in the second quarter (cf. chart 2.7). Consumer spending was down significantly in the second quarter. Corporate investment and exports also fell. Overall, GDP was therefore slightly lower year-on-year.

The economy should recover swiftly from the effects of the VAT increase. Production plans drawn up by the manufacturing industry for the third quarter point to positive economic growth. Business confidence is good thanks to the favourable profit trends. In the second half of the year, economic growth is likely to be supported by rising demand from the US and Asia as well as by the stimulus package approved in December 2013. Although only partly implemented to date, the planned structural reforms might deliver additional stimulus in the medium term. The SNB expects that the Japanese economy will grow moderately in the coming years.

Consumer price inflation tended sideways over the past few months. Annual inflation has remained around 3.5% since the VAT rate was raised (cf. chart 2.11). Excluding the estimated effect of the VAT increase and volatile commodity prices, annual inflation still remains below 1%. It is likely to see a slight temporary decrease as a result of negative base effects. Longer-term inflation expectations have not risen further over the past few months and are still below the Bank of Japan's inflation target of 2%.

The Bank of Japan adhered to the monetary guidelines agreed in April 2013 to increase the monetary base by JPY 60–70 trillion annually through purchases of long-term Japanese government bonds. The target for the end of 2014 is JPY 270 trillion, equivalent to around half of nominal GDP (cf. chart 2.14). The measure is aimed at pushing up inflation to around 2% in the foreseeable future.

EMERGING ECONOMIES

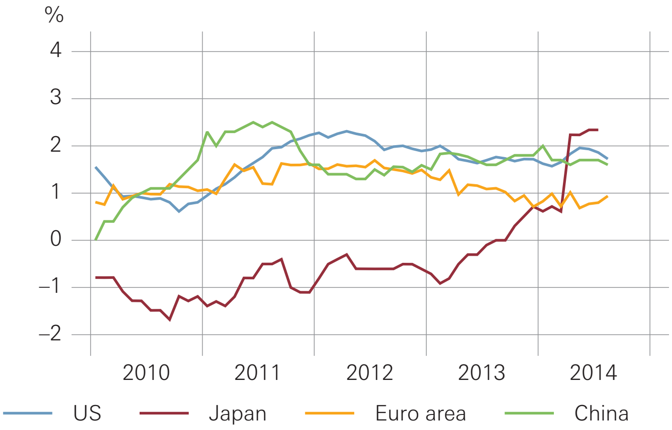
Developments differed among the emerging economies in the second quarter as well. While growth picked up in India and China in particular, thanks in part to economic support measures, other countries recorded weak growth momentum.

The growth outlook for the coming quarters is subdued. Despite the downside risks stemming from the credit and real estate markets, China is still expected to make the largest contribution to growth. The outlook for Brazil has worsened. Structural problems and a fall in real wages in the wake of high inflation are likely to further hamper productivity and domestic demand. In Russia, the conflict with Ukraine is weighing heavily on the growth outlook. Stiffer economic sanctions and the prospect of continuing uncertainty among domestic and foreign investors are likely to have serious economic consequences.

Chart 2.12

CORE INFLATION RATES [1]

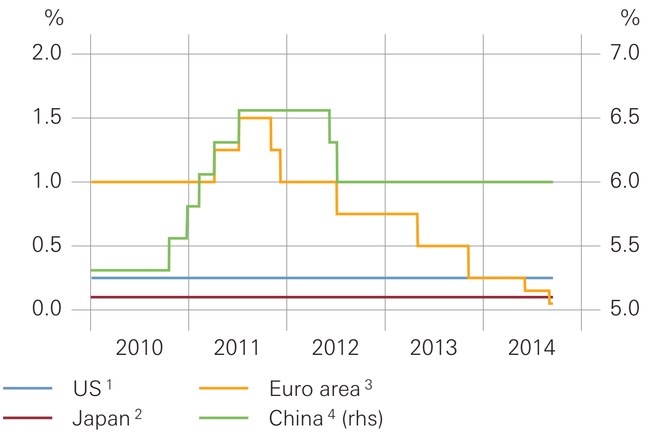
Year-on-year change



1 Excluding food and energy.
Source: Thomson Reuters Datastream

Chart 2.13

OFFICIAL INTEREST RATES

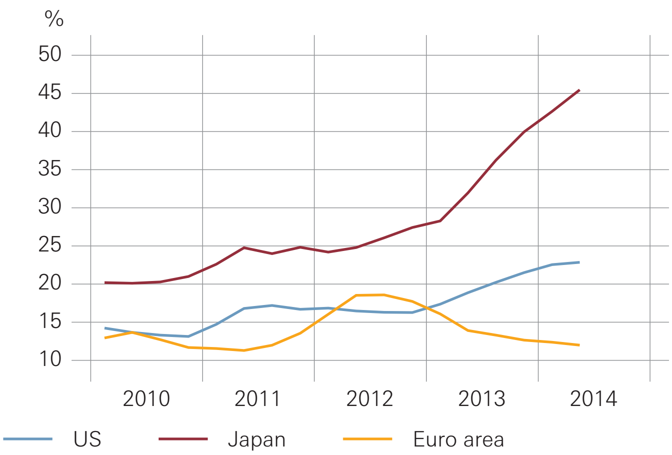


1 Federal funds rate. 2 Call money target rate. 3 Main refinancing rate.
4 One-year lending rate.
Source: Thomson Reuters Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Thomson Reuters Datastream

Inflation in the emerging economies also continued to develop unevenly. In China and South Korea, it remained considerably below the targets set by the respective central banks. In the case of South Korea, currency appreciation played a contributing role. By contrast, inflation in Brazil, India and Russia remained high.

As a consequence, monetary policy in these countries also moved in diverging directions. In an effort to stem the rapid outflow of capital and the depreciation of the currency, Russia has already raised its key interest rate three times since the outbreak of tensions in Ukraine. Monetary policy in Brazil and India remained restrictive in the face of persistent inflation, while in China it helped to underpin economic activity.

3 Economic developments in Switzerland

In Switzerland, economic growth in the second quarter fell short of expectations. According to an initial estimate by the State Secretariat for Economic Affairs (SECO), real GDP stagnated (–0.2%) after still having registered growth in the previous quarter. Export momentum slowed and domestic demand remained very weak. Practically all branches of industry recorded a lull in growth.

As a result, the negative output gap widened somewhat in the second quarter. Utilisation of technical production capacity in manufacturing was again below average. Weak output in the second quarter also had a dampening effect on the demand for labour.

In the further course of the year, GDP is likely to pick up again. Based on surprisingly poor second-quarter results and the muted global economic outlook, the SNB now only anticipates growth of close to 1.5% for 2014 as a whole. The forecast is, however, fraught with greater uncertainty than usual, since Switzerland's system of national accounts is currently undergoing a major revision.[1] The national accounts statistics, which are now compiled in accordance with the 2010 European System of Accounts (ESA2010), are to be published by the Swiss Federal Statistical Office (SFSO) and SECO on 30 September 2014.

AGGREGATE DEMAND AND OUTPUT

Widespread weak growth

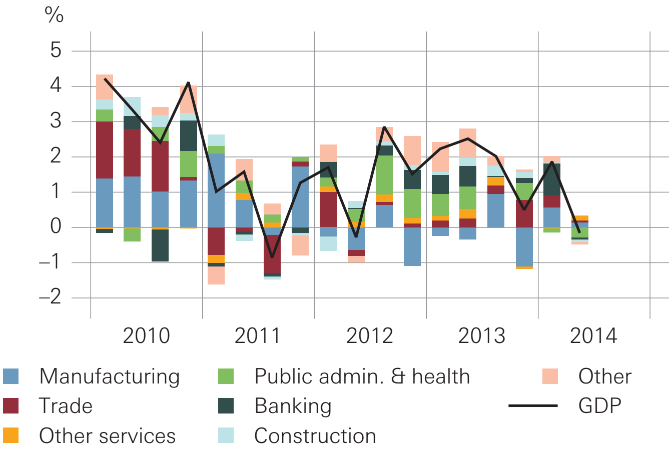
In the second quarter, GDP growth was sluggish in nearly all branches of industry (cf. chart 3.1). Value added in manufacturing and in trade rose slightly, but stagnated or receded in many other industries. The public sector, in particular, recorded negative growth.

1 Cf. *BFS Aktuell* (March 2014), 'VGR-Revision 2014: Wichtigste Änderungen und Auswirkungen' (Swiss national accounts revision 2014: key changes and impact).

Chart 3.1

CONTRIBUTIONS TO GROWTH, BY SECTOR

Change from previous period

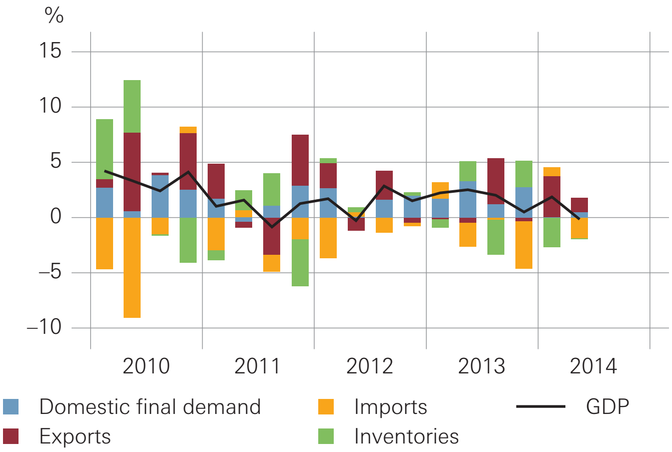


Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

CONTRIBUTIONS TO GROWTH IN DEMAND

Change from previous period

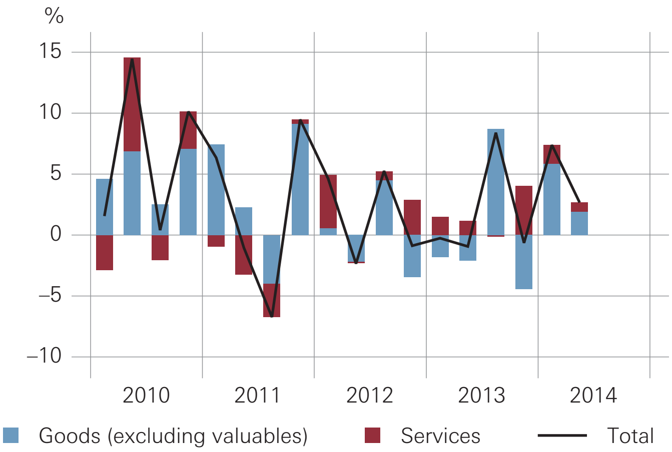


Source: SECO

Chart 3.3

CONTRIBUTIONS TO EXPORT GROWTH

Change from previous period



Source: SECO

Negative foreign trade contribution

Exports in goods and services expanded little in the second quarter (cf. chart 3.3). Machine exports remained subdued. Following a decline in the previous quarter, imports increased somewhat more strongly than exports (cf. chart 3.4). As a result, the foreign trade contribution to GDP growth was slightly negative (cf. chart 3.2 and table 3.1).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2010	2011	2012	2013	2012		2013				2014	
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	1.7	1.1	2.4	2.3	2.7	3.3	2.7	2.1	0.6	2.5	0.3	1.0
Government consumption	0.2	1.2	3.2	2.4	3.5	2.5	2.3	0.6	3.5	1.7	–2.8	–1.0
Investment in fixed assets	4.8	4.5	–0.4	1.8	–1.8	–1.0	–0.4	10.4	2.2	5.7	0.7	0.0
Construction	3.5	2.5	–2.9	3.8	–0.5	1.9	3.3	6.5	6.8	7.7	7.7	–3.0
Equipment	5.8	6.1	1.7	0.2	–2.8	–3.3	–3.5	13.9	–1.5	4.1	–5.1	2.8
Domestic final demand	2.2	1.8	1.8	2.2	1.8	2.2	1.9	3.7	1.3	3.1	0.0	0.5
Change in inventories [1]	0.8	–0.2	–0.1	0.0	0.0	0.3	–0.8	1.8	–3.2	2.4	–2.7	–0.1
Total exports [2]	7.4	3.8	2.0	1.1	5.3	–0.9	–0.3	–0.9	8.4	–0.6	7.4	2.7
Goods [2]	9.3	6.3	1.9	–0.5	6.7	–5.1	–2.7	–3.1	13.1	–6.6	8.9	2.9
Services	3.5	–1.6	2.4	4.4	2.2	8.9	4.5	3.5	–0.4	12.3	4.6	2.3
Total imports [2]	9.1	3.8	3.9	1.3	3.4	0.8	–3.7	5.3	0.5	10.7	–2.0	4.6
Goods [2]	10.6	3.1	2.5	0.1	3.5	–2.9	–4.6	6.2	1.0	4.8	–0.9	3.0
Services	3.0	6.8	9.4	5.7	2.9	16.3	–0.8	2.3	–1.3	33.8	–5.6	10.0
Net exports [3]	0.2	0.4	–0.5	0.0	1.3	–0.8	1.3	–2.6	4.0	–4.6	4.5	–0.5
GDP	**3.0**	**1.8**	**1.0**	**1.9**	**2.9**	**1.5**	**2.2**	**2.5**	**2.0**	**0.5**	**1.9**	**–0.2**

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 remained lacklustre in the second quarter (cf. chart 3.5 and table 3.1). Private consumer spending again recorded below-average growth, despite favourable income developments and robust immigration. Whereas retail sales rose at a satisfactory rate, growth in consumption was hampered especially by a decline in healthcare expenditure.

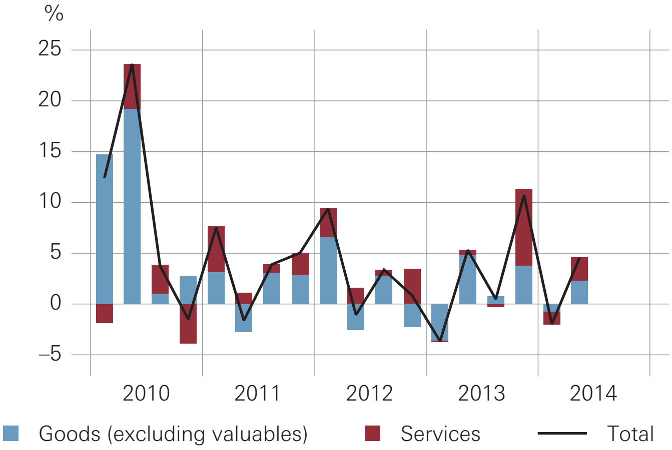
Equipment investment advanced slightly in the second quarter, but taking a longer-term view, it remains weak. In particular, companies are still investing a lot less than before the financial and economic crisis. Due to the below-average capacity utilisation in manufacturing and the uncertain global economic outlook, willingness to invest will probably continue to be subdued.

Construction investment declined in the second quarter. However, this is likely to be a temporary correction, after it registered periods of strong growth, due to the weather, in the previous quarter. Overall, developments in the construction industry remain very dynamic, with no reversal of trend currently in sight. The persistently high level of outstanding orders ensures that the capacity utilisation of construction-related companies remains very good.

Chart 3.4

CONTRIBUTIONS TO IMPORT GROWTH

Change from previous period

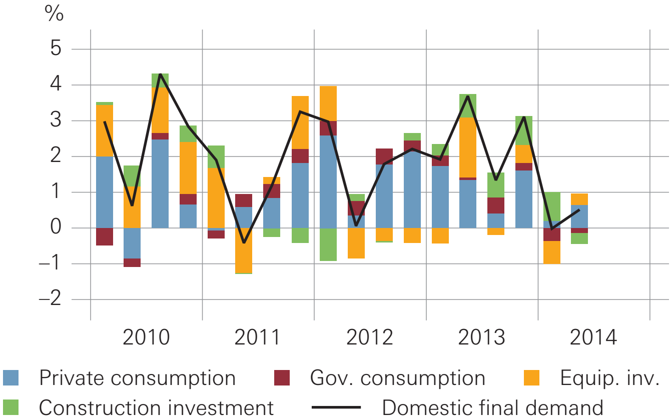


Source: SECO

Chart 3.5

DOMESTIC FINAL DEMAND, GROWTH CONTRIBUTIONS

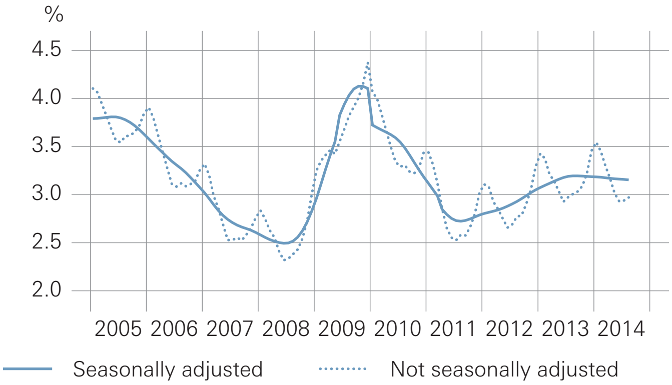
Change from previous period



Source: SECO

Chart 3.6

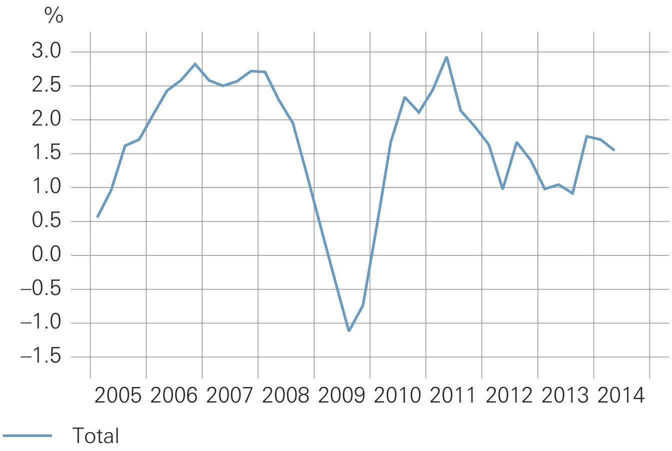
UNEMPLOYMENT RATE



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

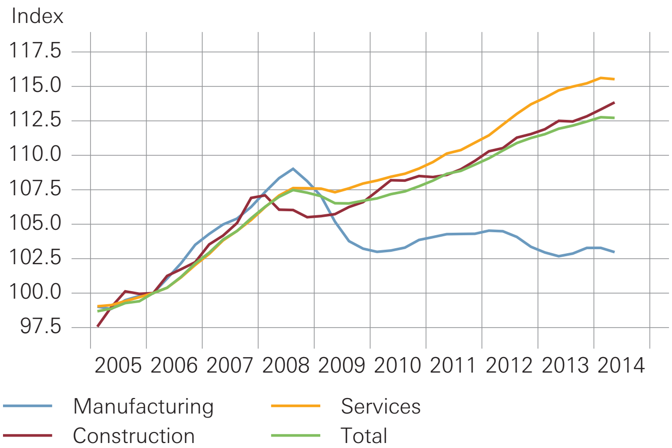
EMPLOYED PERSONS
Change from previous period



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 on the labour market remains subdued. The increase in the number of employed persons has so far not been sufficient to noticeably reduce unemployment. In an international comparison, the situation on the Swiss labour market is still favourable, yet it has hardly improved since summer 2013.

Stagnating unemployment rate

The seasonally adjusted rate of unemployment has remained 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.

Slight rise in employment

According to the SFSO's employment statistics (ES), the number of employed persons rose moderately in the second quarter, increasing 1.5% quarter-on-quarter (cf. chart 3.7). The same period, however, saw a decline in the number of full-time positions. Overall, therefore, the number of hours worked is likely to have risen only slightly in the second quarter.

According to the national job statistics (JOBSTAT), the number of full-time equivalent jobs in manufacturing and services dropped slightly, whereas new jobs were created in the construction industry (cf. chart 3.8).

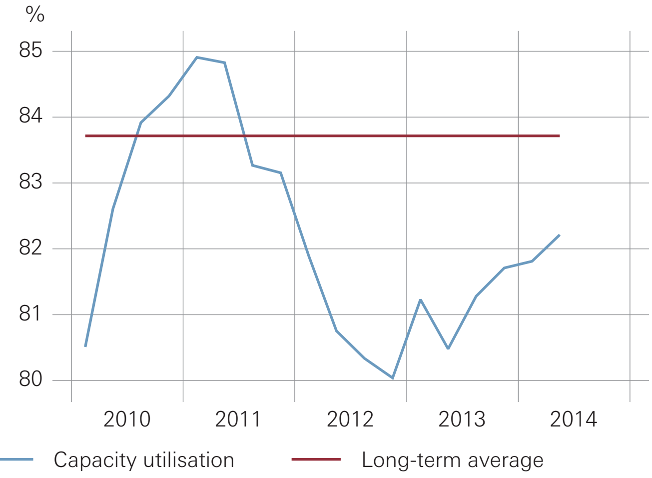
CAPACITY UTILISATION

Slightly higher capacity utilisation in manufacturing
According to the survey conducted by KOF Swiss Economic Institute, utilisation of technical capacity in manufacturing increased in the second quarter by 0.4 percentage points to 82.2%. While this still leaves capacity utilisation in manufacturing below the long-term average, the slow upward trend of the past few quarters has nevertheless continued (cf. chart 3.9). Machine utilisation in the construction industry also increased somewhat. Unlike the situation in manufacturing, capacity utilisation in construction is clearly above its long-term average (cf. chart 3.10). As to the services sector, surveys continued to suggest average utilisation.

Widening 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. Since GDP was stagnant in the second quarter, but potential output continued to rise, the output gap again became wider. Estimated potential output calculated by means of a production function leads to an output gap of –1.1% for the second 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 (–0.7% in both cases), but calculated by these methods, too, the output gap has widened considerably.

Chart 3.9

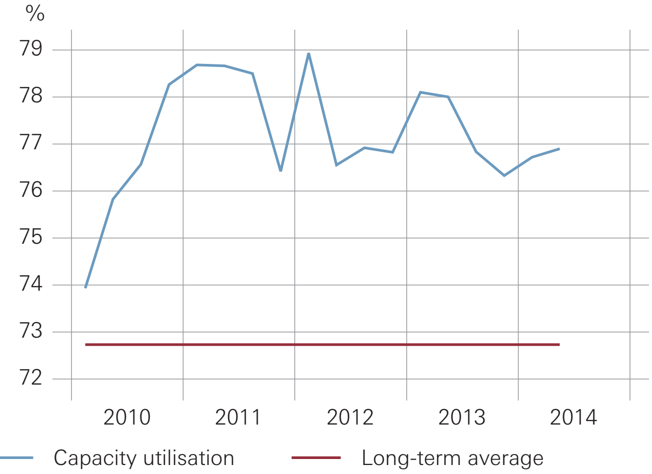
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.10

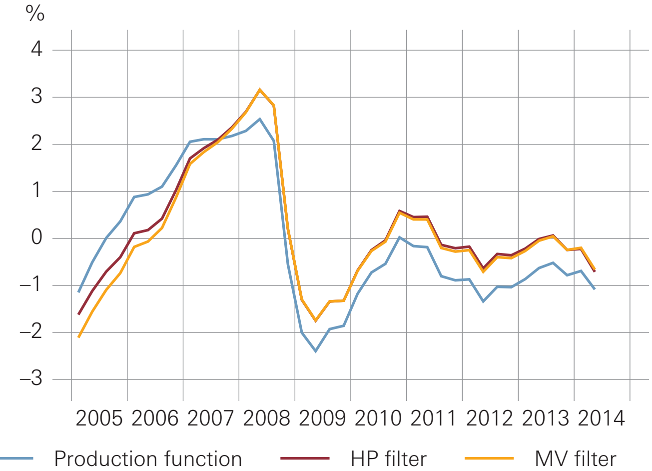
CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

Chart 3.11

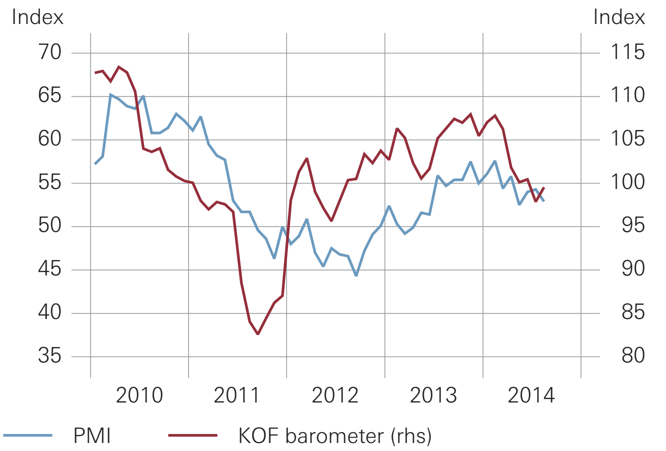
OUTPUT GAP



Source: SNB

Chart 3.12

PURCHASING MANAGERS' INDEX (MANUFACTURING)

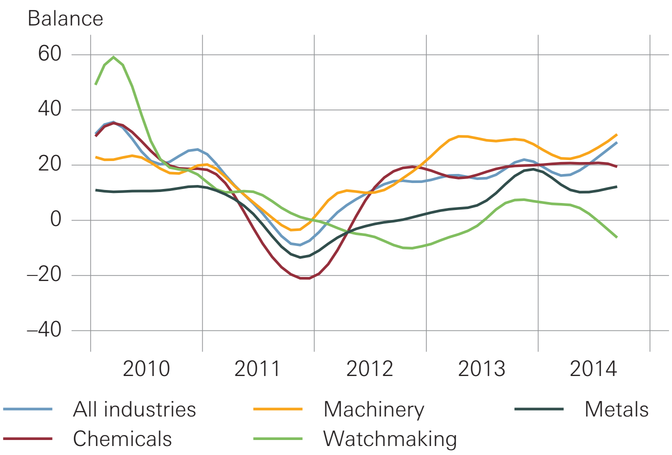


Source: Credit Suisse

Chart 3.13

EXPECTED NEW ORDERS

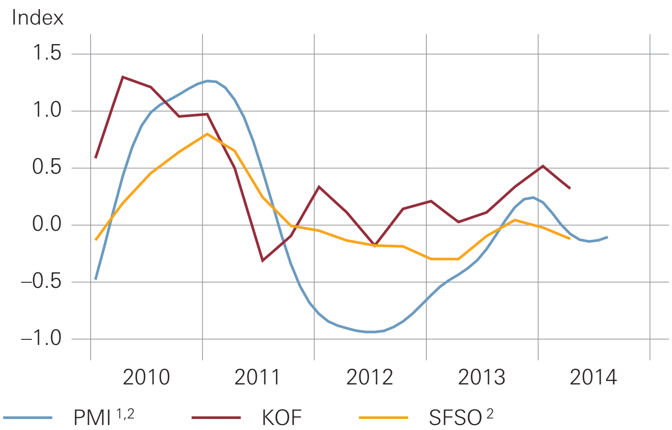
Trend component



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 a moderate revival of the economy as of the third quarter. Goods exports, for instance, picked up noticeably in the period June to August. This will have a positive impact on export-oriented industries. However, according to the last baseline scenario, growth stimuli from abroad are likely to prove more modest than previously expected (cf. table 2.1). Moreover, the higher degree of uncertainty regarding the global economy will continue to dampen corporate investment activity.

Given this context, the SNB now only anticipates growth of close to 1.5% for 2014 as a whole. Since medium-term recovery is likely to be somewhat less dynamic, too, the output gap will remain negative for longer than previously expected. As a result, recovery on the labour market is also likely to be delayed.

There are still considerable risks associated with this forecast, with developments abroad continuing to represent the largest risk. However, domestic factors, such as uncertainty among companies as to the country's future immigration policy, could also put a damper on economic growth.

4 Prices and inflation expectations

Recent months saw little change in consumer prices, so that the annual inflation rate remained at around 0%. Individual core inflation rates (trimmed mean) were in the low positive range.

The zero inflation in consumer prices was due to declining goods prices and rising service prices. The supply prices of goods (producer and import prices) were also lower than in the year-back period, and thus continued to exert a slight downward pressure on consumer prices.

According to surveys, inflation expectations moved within a range consistent with the SNB's definition of price stability. Short-term inflation expectations in the third quarter of 2014 were up slightly from the previous quarter, while medium-term inflation expectations remained practically unchanged.

CONSUMER PRICES

Annual inflation rate still zero
The consumer price index (CPI) has shown a flat trend since 2008, fluctuating for about six years at the level recorded in August 2014. The annual inflation rate in August, i.e. compared to the year-back figure, was 0.1% (cf. table 4.1).

Table 4.1

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

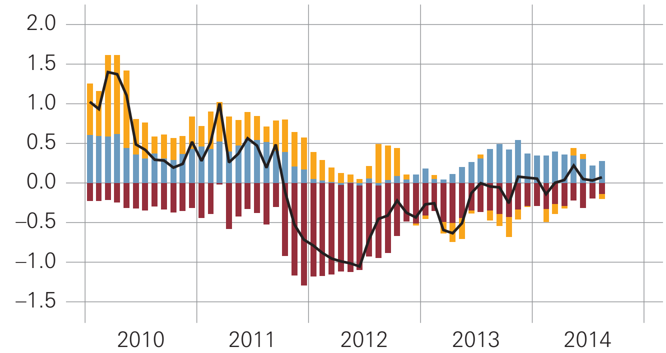
	2013	2013		2014		2014		
		Q3	Q4	Q1	Q2	June	July	August
Overall CPI	**–0.2**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**
Domestic goods and services	0.4	0.5	0.6	0.5	0.5	0.4	0.3	0.4
Goods	–0.3	0.2	0.1	0.4	0.5	0.6	0.0	0.4
Services	0.6	0.6	0.7	0.5	0.4	0.4	0.4	0.4
Private services excluding rents	0.5	0.5	0.5	0.3	0.3	0.2	0.3	0.3
Rents	0.4	0.7	1.2	1.4	1.2	1.0	1.0	1.2
Public services	1.0	1.1	0.5	–0.5	–0.5	–0.5	–0.5	–1.1
Imported goods and services	–1.9	–1.7	–1.8	–1.5	–0.9	–1.0	–0.7	–0.7
Excluding oil products	–1.8	–1.7	–1.6	–1.3	–1.3	–1.4	–0.8	–0.6
Oil products	–2.5	–1.6	–3.1	–2.4	1.1	1.6	0.1	–1.6

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.



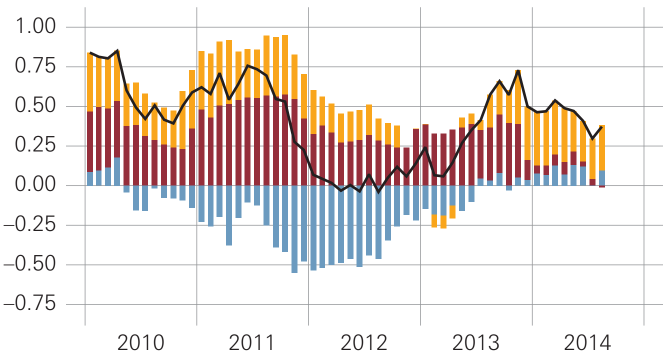
Total
Domestic
Imported, excluding oil products
Oil products

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.



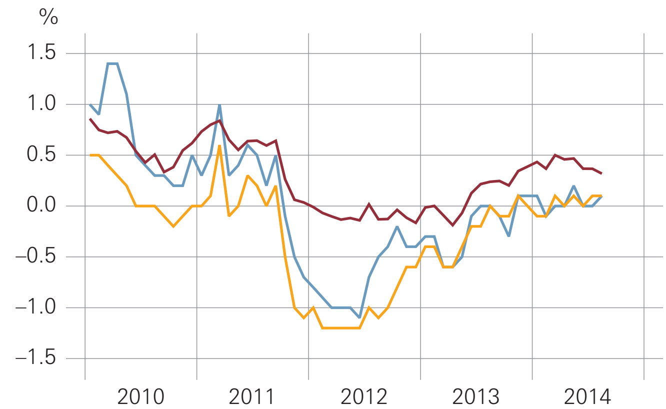
Total for domestic goods and services
Goods
Services, excluding rents
Rents

Sources: SFSO, SNB

Chart 4.3

CORE INFLATION RATES

Year-on-year change



CPI
TM15
SFSO1

Sources: SFSO, SNB

Lower prices of imported goods…
In August, as in previous months, the prices of CPI goods originating from abroad were below their year-back level. Both crude oil products and other imported goods made a negative contribution to annual inflation. Since the beginning of the year, however, their negative impact has diminished somewhat (cf. chart 4.1).

… and prices of domestic goods slightly higher than a year ago
In August, as in the preceding months, the prices of domestic goods in the CPI were slightly above their year-back level. However, as the year went on, the positive contribution to inflation made by domestic goods weakened a little.

Inflation for domestic goods is still mainly being driven by rising rents (cf. chart 4.2), with rents in August up by 1.2% year-on-year.

Core inflation remains low
The trend for core inflation rates in August 2014 was stable and low (cf. chart 4.3). The trimmed mean calculated by the SNB (TM15) was again just above the Swiss Federal Statistical Office's core inflation 1 (SFSO1). The SFSO1, on the other hand, hovered at the level of the (unadjusted) CPI inflation rate.

In calculating core inflation, goods with volatile prices are excluded from the CPI basket. While the SFSO1 eliminates the same goods in every period (fresh and seasonal products, energy and fuel), the TM15 excludes 15% at either end of the distribution of annual price changes.

PRODUCER AND IMPORT PRICES

Declining prices on the supply side
The annual inflation rate for supply prices remained negative in August 2014, with import prices continuing to be significantly lower year-on-year than producer prices (cf. chart 4.4). Since April, the import price index has remained largely unchanged, while the producer price index has declined further.

REAL ESTATE PRICES

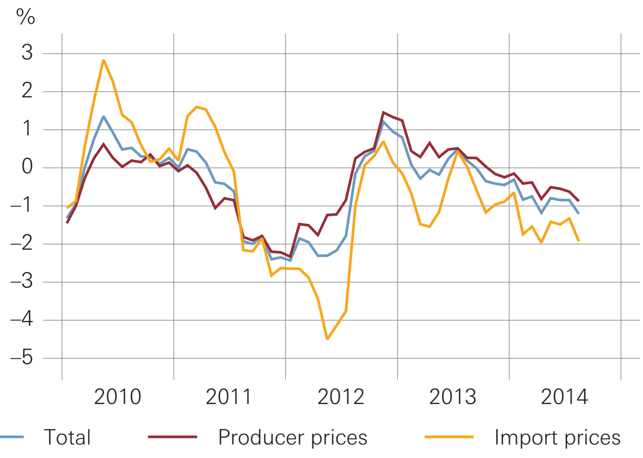
Further increase in residential property prices
Prices for residential real estate continued to increase in the second quarter of 2014. According to most available indices, the price increase was again somewhat more pronounced than in previous quarters. While the Fahrländer Partner price index for owner-occupied apartments was slightly lower than the previous period, it had previously increased more strongly than the other indices, so that a similar price rise of around 3% resulted for the year overall. Thus given the price data for the second quarter, expectations of a further cooling on the real estate market were unfulfilled.

At regional level, trends evident in the previous quarters continued. Price increases in the Lake Geneva region slowed considerably, while substantially higher prices were paid in areas such as Central and Eastern Switzerland than a year previously.

Existing rents slightly higher
Asking rents as recorded by Wüest & Partner (rents for apartments offered on the market) weakened in the second quarter, although with a year-on-year plus of 2.6%, they still grew more strongly than rents in the CPI, which are a benchmark for existing rents. The divergent trend between asking and existing rents is mainly due to the fact that the latter are legally bound to the reference interest rate. Recent years have seen a step-by-step decline in the reference interest rate, with it standing at 2% since September 2013 (cf. chart 4.6).

Chart 4.4

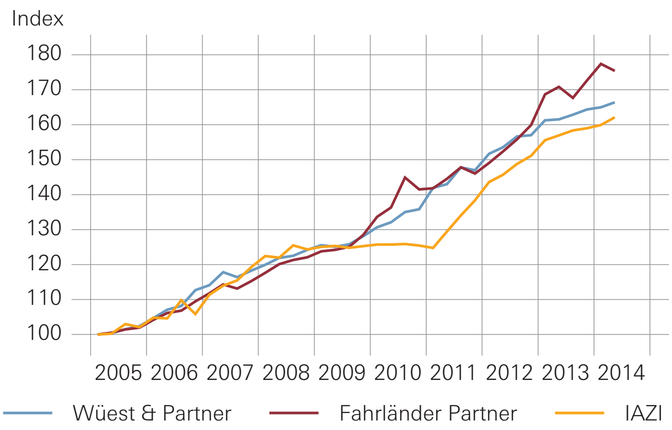
PRODUCER AND IMPORT PRICES
Year-on-year change



Source: SFSO

Chart 4.5

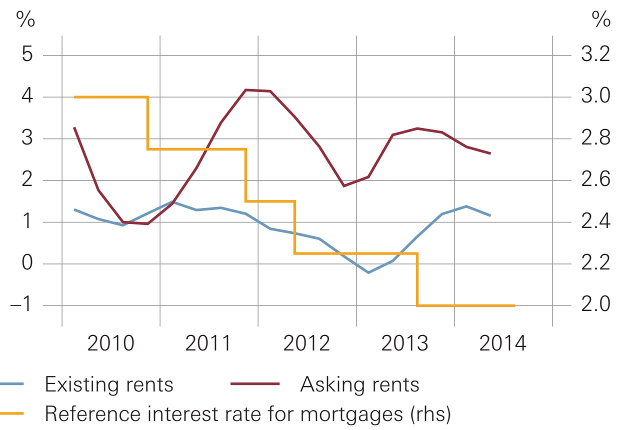
TRANSACTION PRICES, OWNER-OCCUPIED APARTMENTS
Nominal (hedonic), beginning of period = 100



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

Medium-term inflation expectations still low and stable
While a number of surveys suggest a slight increase in short-term inflation expectations, medium-term expectations have remained low.

Most of the financial analysts surveyed in August 2014 for Credit Suisse's ZEW Financial Market Report expected no change in the inflation rate over six months, while just over a quarter predicted higher inflation rates. Compared to the survey conducted in May, the share of respondents expecting higher rates climbed slightly, at the expense of respondents expecting no change.

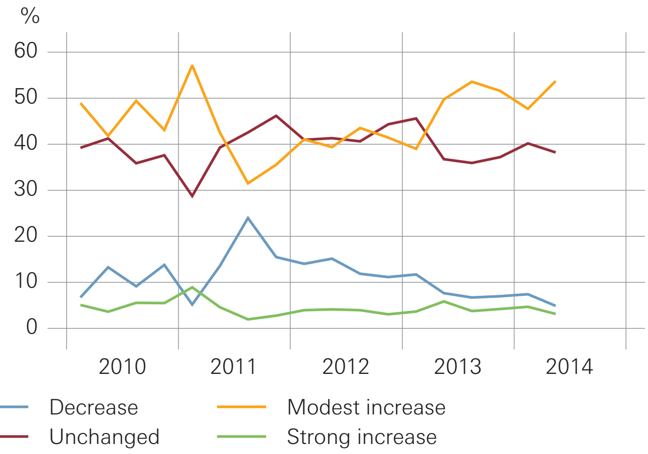
According to the survey of households carried out by SECO in July 2014, 54% of respondents expected moderate price rises and 3% expected sharp price rises over the next twelve months. A further 38% predicted that prices would stay the same over this time period, and the remainder, approximately 5%, expected prices to fall. Compared to the survey in the previous quarter, slightly more respondents thought that prices would climb, and fewer respondents expected no change or a decline (cf. chart 4.7).

Discussions by the SNB's delegates for regional economic development with representatives of companies from all Swiss industries show that in the third quarter of 2014, respondents expected an inflation rate in six to twelve months of 0.4% (second quarter expectation: 0.2%). The inflation rate expected in three to five years was 1.1% (second quarter expectation: 1.2%). Furthermore, participants in Deloitte's CFO survey in the second quarter of 2014 put inflation in two years' time at just under 1.2% (second quarter expectation: 1.3%).

Chart 4.7

PRICE EXPECTATIONS

Survey on expected movements in prices for coming 12 months



Sources: SECO, SNB

5 Monetary developments

In the period since the June 2014 assessment, money market rates have remained at their low level. Long-term yields on Confederation bonds receded again, and were only just above the historic low reached in 2012. This decrease reflects the slight deterioration in the outlook for the world economy and the political uncertainty kindled by the crises in Ukraine and the Middle East, which has driven up demand for secure investments.

In addition, mortgage rates declined further, which is bolstering demand for mortgage loans. Nevertheless, the slowdown of momentum in mortgage lending, observable for some time now, continued. Annual rates of growth in the broad monetary aggregates, which include money stocks held by households and companies, have also fallen.

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.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Continuation of monetary policy with minimum exchange rate

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 June 2014 monetary policy assessment, total sight deposits held at the SNB have remained almost unchanged. In the week ending 12 September 2014 (last calendar week before the mid-September assessment), sight deposits totalled CHF 368.2 billion, compared to CHF 367.0 billion in the same period before the mid-June 2014 assessment. Between the two assessments, sight deposits at the SNB averaged CHF 367.8 billion. Of this amount, CHF 309.3 billion was accounted for by the sight deposits of domestic banks and the remaining CHF 58.5 billion by other sight deposits.

High level of banks' surplus reserves

Statutory minimum reserves averaged CHF 14.7 billion between 20 May 2014 and 19 August 2014. They were thus virtually unchanged from the preceding period (20 February 2014 to 19 May 2014). Overall, banks exceeded the minimum reserve requirement by around CHF 297.8 billion on average (previous period: CHF 304.6 billion). Thus, banks' surplus reserves have remained exceptionally high.

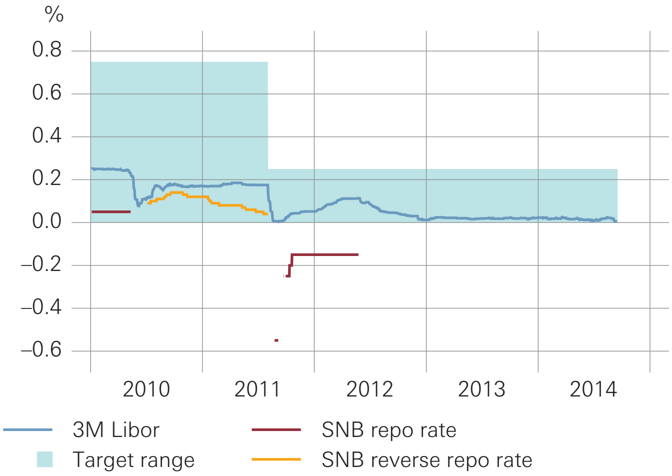
Countercyclical capital buffer increased

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

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

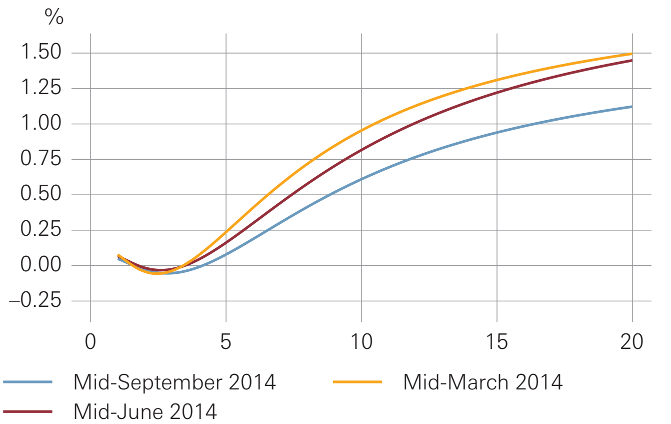


Sources: Bloomberg, SNB

Chart 5.2

TERM STRUCTURE OF SWISS CONFEDERATION BONDS

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

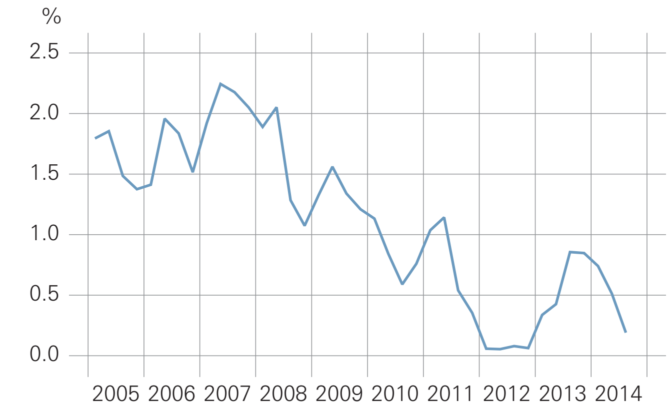


Source: SNB

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 interest rates remain low
High liquidity holdings meant that trading volumes on the money market were low in recent months. Interest rates remained very low (cf. chart 5.1).

In mid-September 2014, the three-month Libor stood at 1 basis point. Interest rates on the secured money market (Swiss Average Rates) were mainly negative. Issuing yields on money market debt register claims of the Swiss Confederation also remained in negative territory.

Further decline in long-term interest rates
Increased geopolitical risks and the subdued outlook for the world economy bolstered demand for long-term government bonds of the leading economies and caused yields to fall in Switzerland, too. In mid-September, the yield on ten-year Confederation bonds was 0.6%, compared with about 0.8% at the time of the June assessment. Yields were thus once again close to the historic low to which they fell in 2012.

Flatter yield curve
With short-term interest rates unchanged, the lower long-term rates resulted in a flatter yield curve (cf. chart 5.2). The yield curve for Confederation bonds remains flatter than the corresponding yield curves of major industrial countries, with the exception of Japan.

Decline in real interest rates
With long-term inflation expectations remaining virtually unchanged, the decline in long-term nominal interest rates resulted in lower long-term real interest rates. The estimated ten-year real interest rate in September was approximately 0.2%, i.e. only just above the lows recorded in 2012 (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

Euro weaker

In recent months, exchange rate movements in the Swiss franc have been shaped by the ECB's measures to ease monetary policy, by the conflicts in Ukraine and the Middle East, and by the minimum exchange rate for the Swiss franc against the euro. The euro weakened against most currencies, although owing to the minimum exchange rate, its decrease against the Swiss franc was relatively slight. Thus the Swiss franc appreciated a little against the euro while depreciating significantly against the dollar (cf. chart 5.4). At the end of August and the beginning of September, one euro was at times fetching just under 1.21 Swiss francs, the lowest figure since the end of 2012. It did, however, remain slightly above the minimum exchange rate of CHF 1.20 per euro, thus reflecting the credibility of this minimum rate.

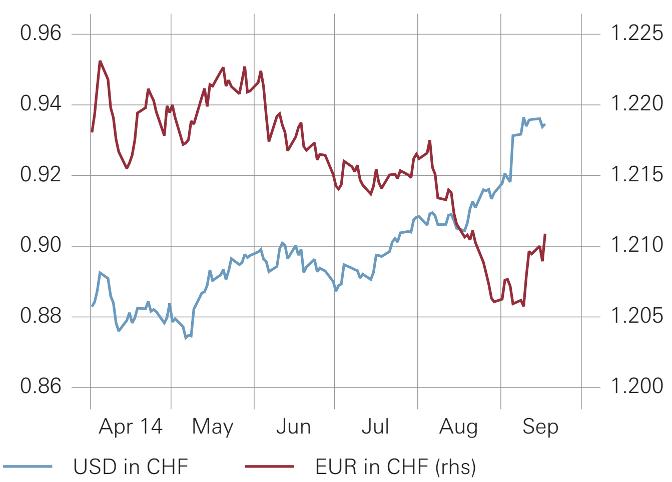
High real external value of the Swiss franc

The real trade-weighted external value of the Swiss franc has fallen somewhat since March 2014 (cf.chart 5.5). Whereas the currency appreciated slightly against the euro in this period, it fell against most other currencies. However, the Swiss franc's real trade-weighted external value is still well above its long-term average.

About four-fifths of the decline in the currency's real external value between March and August 2014 is due to the lower nominal external value, while about one-fifth is accounted for by the inflation differential versus other countries. Since inflation was somewhat lower in Switzerland than abroad, the depreciation was greater in real than in nominal terms.

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

Rise to annual high in September

Between mid-June and mid-August, share prices fell significantly in some cases owing to a renewed flare-up of geopolitical tension and to a deterioration in the economic indicators for Europe. The markets subsequently recovered , and by the beginning of September the Swiss Market Index (SMI) had even reached a new high for the year (cf. chart 5.6).

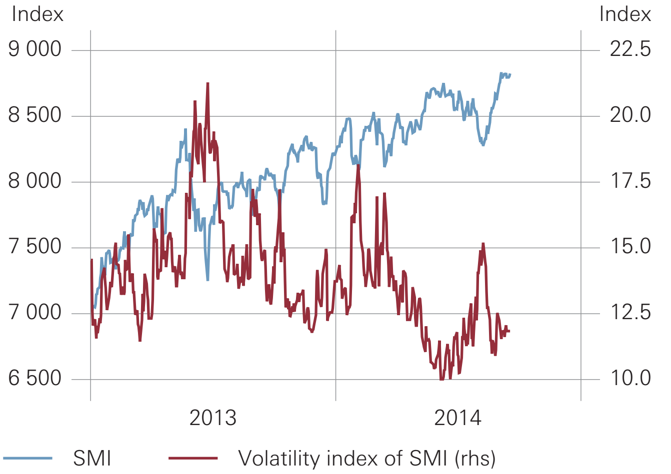
The expected volatility of the SMI was largely a mirror image of the SMI's movements. It is calculated on the basis of options on the SMI and is measured in percent per annum. The SMI volatility index indicates that market uncertainty rose at the end of July and the beginning of August, but then fell back to a level that was low by historical standards.

All major sectors exhibiting index rises

At the beginning of September, all the main subindices of the more comprehensive Swiss Performance Index (SPI) exceeded their level at the beginning of the year. The health care subindex, which is dominated by the major pharmaceutical companies, showed the biggest rise in value (cf. chart 5.7). Having already risen substantially in the spring, it extended its lead further in the third quarter.

Chart 5.6

SHARE PRICES AND VOLATILITY

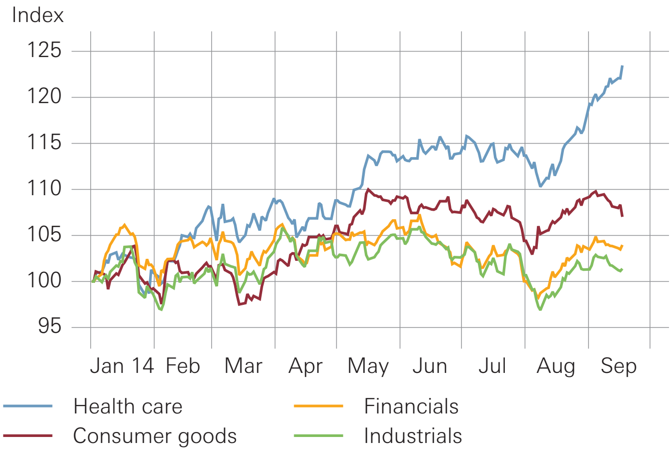


Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.7

SELECTED SPI SECTORS

Beginning of period = 100



Source: Thomson Reuters Datastream

MONETARY AND CREDIT AGGREGATES

Monetary base remains high

The monetary base has remained largely unchanged over the last few months, and was thus still very high (cf. chart 5.8).

Since the financial and economic crisis the monetary base has increased in small bursts. This has primarily been a reflection of movements in the banks' sight deposits with the SNB. However, 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.

Slowdown in growth of money supply

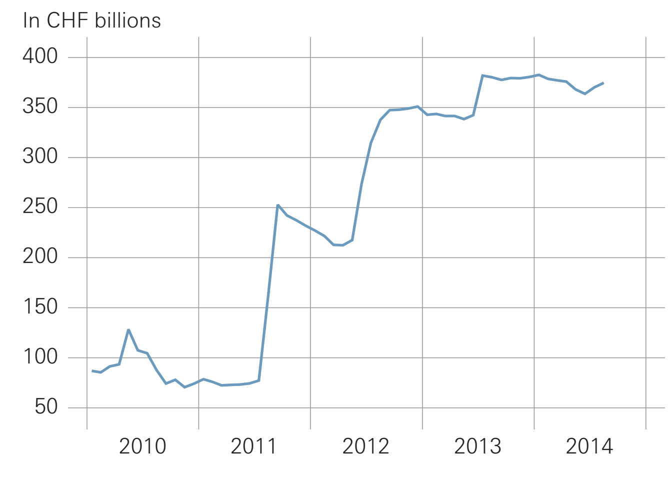
The broader monetary aggregates, which include money stocks held by households and companies, showed only little change over the last few months (cf. chart 5.9). Rates of change from the corresponding prior-year periods declined (cf. table 5.1).

In August 2014, M1 (currency in circulation, sight deposits and transaction accounts) was 2.7% higher year-on-year. In the same period, M2 (M1 plus savings deposits) rose by 2.8% and M3 (M2 plus time deposits) by 3.4%.

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. This was due not only to bank lending, which has been boosted by low interest rates, but also to private households and companies switching portfolio holdings from securities into sight deposits.

Chart 5.8

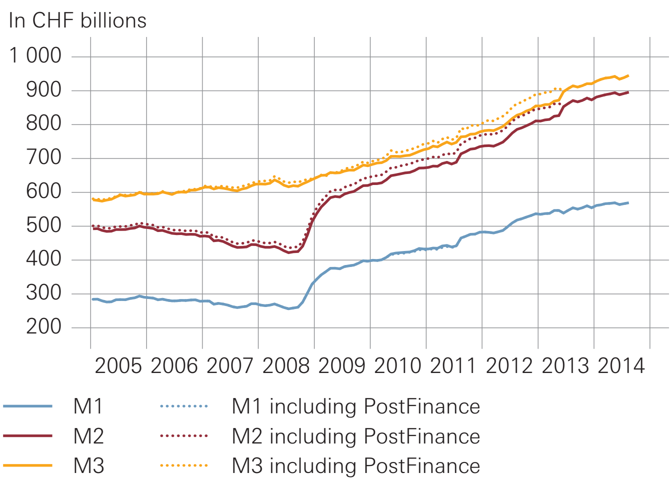
MONETARY BASE



Source: SNB

Chart 5.9

MONETARY AGGREGATES



Source: SNB

Slower growth in mortgage lending

The banks' mortgage claims, which make up about four-fifths of total bank lending, rose by 3.8% in the second quarter of 2014 compared to the same period of 2013. Thus the slowdown in growth, which has been observed for some time now, continued. Broken down by borrower type, the growth was slower both for mortgage loans to households and for those to companies (cf. table 5.1).

The slower growth in mortgage lending may be attributed to various measures taken since 2012 to restrain the banks' appetite for risk and strengthen their resilience. These include the banks' own self-regulation measures, which subject mortgage lending to stricter minimum requirements. Moreover, at the request of the SNB, the Federal Council activated the countercyclical capital buffer in 2013 and increased it this year. This compels the banks to back their mortgage loans on residential property with additional capital.

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2013	2013		2014		2014		
		Q3	Q4	Q1	Q2	June	July	August
M1 (including PostFinance) [1]	**8.3**	**6.6**	**4.6**	**5.0**	**4.2**	**4.7**	**3.6**	**2.7**
M2 (including PostFinance) [1]	**7.3**	**5.9**	**4.2**	**4.2**	**3.7**	**4.1**	**3.4**	**2.8**
M3 (including PostFinance) [1]	**7.3**	**5.9**	**4.2**	**4.5**	**3.9**	**4.1**	**3.6**	**3.4**
Bank loans, total [2, 4]	**3.5**	**3.5**	**3.3**	**4.0**	**4.5**	**4.5**	**4.4**	
Mortgage claims [2, 4]	4.5	4.5	4.3	4.2	3.8	3.9	3.8	
Households [3, 4]	4.0	3.9	3.8	3.7	3.6	3.6	3.4	
Private companies [3, 4]	6.2	6.5	6.2	5.8	4.5	4.3	4.5	
Other loans [2, 4]	–1.2	–1.8	–1.7	3.1	7.7	7.7	7.8	
Secured [2, 4]	0.4	–1.5	–3.8	–3.4	4.3	5.2	6.8	
Unsecured [2, 4]	–2.2	–2.0	–0.3	7.5	10.0	9.4	8.5	

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

Flat trend in other loans category

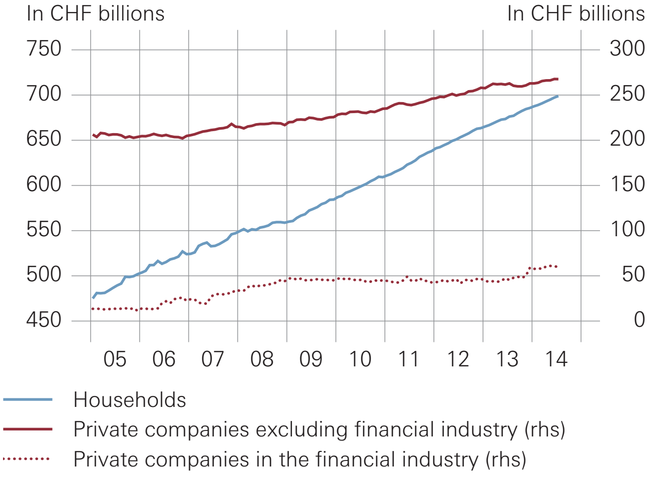
The volume of other loans (i.e. loans not secured by mortgages) has followed a flat trend since the beginning of the financial and economic crisis, though with volatility at a high level. Other loans rose sharply in December 2013, but this was mainly attributable to a large individual loan to a financial-sector company.

Broad-based growth in lending across all industries

In recent years, all borrower categories have benefited from the low financing costs and have seen a rise in bank lending (cf. chart 5.10). At the end of June 2014, loans to households totalled CHF 23.7 billion, which was 3.5% more than a year previously. Loans to non-financial companies were up by CHF 6.2 billion (2.4%) while lending to financial companies, which follows a more volatile course, increased by CHF 13.1 billion (27.6%).

Chart 5.10

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 September 2014

Third 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 July and August 2014 with 175 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 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, growth in the Swiss economy was slacker in the third quarter of 2014. Domestic demand in particular had a dampening effect. Exports continued to see moderate growth. Pressure on margins increased slightly, generally remaining somewhat lower than the levels considered by respondents to be normal, above all in the manufacturing sector.

Despite increased uncertainty over geopolitical risks and a number of imponderable political developments in Switzerland, the outlook for real turnover growth in the coming months is still guardedly optimistic. However, this confidence seems to have waned somewhat since the beginning of the year. By and large, companies remain very cautious with regard to their recruitment and investment plans.

BUSINESS ACTIVITY

Manufacturing: Momentum flattening out
The manufacturing industry experienced a decrease in business momentum compared with the previous quarter. About 40% of the companies surveyed reported a quarter-on-quarter rise in real turnover, as against almost 50% in the previous quarter.

Business activity was flat in the machinery and plastics industries. Among the sectors that reported continuing healthy business activity were food producers, the chemical and pharmaceutical industries, as well as manufacturers of electrical equipment and precision instruments.

Domestic demand weakened slightly. Different regions were cited as export drivers, depending on the industry: the US, the BRIC countries, as well as Asia and Oceania are among the markets with encouraging levels of growth. Demand from Europe, notably Germany and the UK, remains sound, but is still down slightly quarter-on-quarter. Spain is increasingly providing impetus, too. Broken down by industry, there is sustained strong demand from automakers and the medtech sector.

Construction: Slowdown
The construction sector witnessed a slowdown in momentum. Structural engineering work, in particular residential construction, continued to enjoy fairly robust turnover growth; civil engineering and the finishing trade trended flat.

Services: Stability
Services sector turnover was roughly at the level of the previous quarter. While a third of the companies surveyed achieved a quarter-on-quarter increase in turnover, 45% reported that turnover had stagnated.

Banks, IT companies, the travel industry and some sectors of the hotel trade registered comparatively dynamic business activity. The favourable development reported by hoteliers was attributable largely to city hotels. Business tourism provided considerable impetus. While traveller numbers from the US and the Arab countries were high, this favourable development also reflects the fact that business activity was especially weak in the preceding quarter.

Among the sectors reporting quarter-on-quarter decreases in turnover were, most notably, transport companies, retailers and restaurants. Weather conditions had a very negative impact on mountain tourism. Numerous retailers continued to address the far-reaching impact of the structural change resulting from the growing proportion of online purchases, which is making consumers noticeably more price-sensitive. Individual respondents referred to a renewed increase in cross-border shopping as a consequence of relaxed import rules.

CAPACITY UTILISATION

Overall, production capacity was reported as being slightly underutilised, although there are still differences from one industry to another.

Companies in almost all areas of the manufacturing industry rated overall capacity utilisation as somewhat lower than normal on the whole. Existing production capacity thus contains considerable reserves to respond to any hikes in demand. Respondents from the chemical and precision instrument industries described production capacity as slightly overutilised.

In the construction industry, utilisation of technical capacity was generally above-average, due mainly to rather high capacity utilisation in the structural and civil engineering sectors. Order books are still well filled.

In the services sector, infrastructure (i.e. primarily office and retail space as well as transport capacity) was reported to be slightly underutilised overall. Low capacity utilisation levels were reported above all by transport companies, restaurants, advertising agencies and retailers. Bad weather had an adverse impact on the numbers of day trippers using mountain railways. By contrast, wholesalers, architectural offices and engineering firms stated that utilisation was on the high side. Utilisation levels were normal in the financial sector.

DEMAND FOR LABOUR

Demand for staff remains steady
Overall, the companies surveyed reported that staff numbers were in line with requirements. This indicates that demand for labour is stable, but at the same time signals a more cautious attitude – given that demand had been slightly higher in the previous quarter. There are still quite considerable differences between the various industries in their assessment of how appropriate staffing levels are. No indications were given of changes to personnel policy.

The manufacturing companies surveyed rated their staff numbers as being in line with requirements. Only the precision instrument, pharmaceutical and metal processing industries stated that their headcounts were somewhat too low.

Within the construction sector, only individual businesses in the finishing trade indicated that they were understaffed. Headcounts in both structural and civil engineering are considered appropriate, with peaks covered by temporary staff. Within the services sector, IT companies reported that staff levels were too low. The retail sector is marginally overstaffed.

The process of recruiting staff was generally rated as somewhat more challenging and time-consuming than usual, although this was mainly due to a slightly more acute lack of specialists, the most sought-after of which include engineers, chemists, construction site managers and well-qualified craftspeople. Many companies continued to report that the level of spontaneous job applications was still high to very high, above all in the regions close to the border. What is more, the proportion of suitable applicants is very low and the time and effort taken up by the selection process is increasing. Individual respondents stated that the catchment area for cross-border commuters had become even larger. Nevertheless, viable candidates for certain categories of jobs can no longer be found in the areas bordering Switzerland either.

PRICES, MARGINS AND EARNINGS SITUATION

Margins slightly weaker
Margins overall were reported as being somewhat lower than usual, with approximately 45% of companies surveyed arriving at this assessment. 35% of companies reported that margins were within the normal range.

Profit margins were rated as lower than usual in almost all areas of manufacturing. This is particularly true for the metalworking, machinery and plastics industries as well as for manufacturers of electrical equipment and precision instruments. Businesses surveyed in the chemical and pharmaceutical industries reported margins to be normal. In the coming months, manufacturing companies expect purchase prices to remain stable, while sales prices will slightly decline.

In the construction industry, the companies surveyed reported margins to be generally normal. While margins in the finishing trade improved somewhat, those in civil engineering were slightly below-average. Stable building raw material prices and a decrease in construction prices are expected in the coming months.

Companies in the services sector still rated margins as lower than usual overall. The following sectors in particular saw themselves facing low margins: the transport and car trades, the IT sector, banks and architectural offices. In addition to the persistently low interest rates, bank representatives frequently cited the cost of implementing regulatory requirements as the main cause. The interest rate margin rose slightly nonetheless. Margins in the retail sector were reported as being normal.

The topic of exchange rates was generally addressed somewhat more frequently by respondents. Companies from all three sectors of the economy continue to be appreciative of the current stable exchange rate against the euro. However, respondents exposed to the Japanese yen and other currencies are concerned about the depreciation of these currencies.

OUTLOOK

Cautious optimism persists
Although a slight increase in uncertainty is currently evident, companies remain confident about the business outlook for the coming months. Levels of optimism have, however, become visibly weaker since the beginning of the year. In all sectors – with the exception of the hotel trade – respondents expect a moderate rise in turnover in the next six months. By contrast, the construction industry is gradually readying itself for a slowdown in building activity.

Survey participants envisage a marginal increase in headcounts over this time horizon, in particular in the manufacturing sector, i.e. the chemical, pharmaceutical, metalworking and precision instrument industries. Investment plans remain muted too, with capital spending and construction investment expected to increase only slightly in the coming twelve months.

Prime concerns among respondents continue to include potential changes to operating conditions in Switzerland – as a consequence of numerous political initiatives and developments – and the increasingly complex regulatory and bureaucratic environment. Increasing geopolitical risks are likewise a cause of somewhat greater uncertainty.

MASS IMMIGRATION INITIATIVE: IMPACT AND COMPANY REACTIONS

As in the preceding quarter, as part of the company survey for the third quarter of 2014, the SNB delegates for regional economic relations addressed in detail the acceptance of the mass immigration initiative (MII). 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 among companies, with 43% of the companies surveyed reporting slightly (27%) or significantly (16%) higher uncertainty. Compared to the second quarter, uncertainty is assessed as having risen somewhat. By contrast, 57% of respondents reported that the acceptance of the MII made no difference to the level of uncertainty.

Since the manner in which the initiative will be implemented is still not clear, the vast majority of companies had not yet decided to take either staffing or investment measures.

Respondents expecting a negative impact on their companies were most concerned about greater difficulties in recruitment, followed by a decrease in immigration numbers lowering their customer base. Other significant factors were concerns about higher wage costs, more difficult market access, and the EU imposing wider export restrictions.

Looking to the medium and long term, a little more than half of respondents expected acceptance of the MII to have negative economic consequences for their companies, and approximately 70% thought it would have negative implications for the Swiss economy as a whole.

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.

September 2014

At its quarterly assessment of 18 September 2014, 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 key instrument 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 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.

March 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.

January 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.

December 2013

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.

October 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.

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