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Quarterly Bulletin  
3/2018 September

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





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Quarterly Bulletin  
3/2018 September

Volume 36



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# Contents

	Page
<b>Monetary policy report</b>	<b>4</b>
1 Monetary policy decision of 20 September 2018	5
Monetary policy strategy at the SNB	6
2 Global economic environment	7
3 Economic developments in Switzerland	13
4 Prices and inflation expectations	18
5 Monetary developments	21
<b>Business cycle signals</b>	<b>28</b>
<b>Chronicle of monetary events</b>	<b>34</b>

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# Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2018.

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 20 September 2018') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 20 September 2018. 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 20 September 2018

## Swiss National Bank leaves expansionary monetary policy unchanged

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy, thereby stabilising price developments and supporting economic activity. Interest on sight deposits at the SNB remains at  $-0.75\%$  and the target range for the three-month Libor is unchanged at between  $-1.25\%$  and  $-0.25\%$ . The SNB will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

Since the monetary policy assessment of June 2018, the Swiss franc has appreciated noticeably, against the major currencies as well as against emerging market currencies. The Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential in order to keep the attractiveness of Swiss franc investments low and thus ease pressure on the currency.

The new conditional inflation forecast suggests that inflation up to the beginning of 2019 will be higher than predicted in June (cf. chart 1.1) due to a slight rise in domestic inflation. From the second quarter of 2019, the new conditional forecast lies below the June forecast as a result of the appreciation in the Swiss franc. For 2018, the SNB continues to anticipate inflation of  $0.9\%$ , while the inflation forecast of  $0.8\%$  for 2019 is  $0.1$  percentage points lower than projected at the last assessment. For 2020, the SNB expects to see inflation of  $1.2\%$ , compared with the  $1.6\%$  forecast in the last quarter. The conditional inflation forecast is based on the assumption that the three-month Libor remains at  $-0.75\%$  over the entire forecast horizon.

Overall, global economic growth was solid in the second quarter. In the advanced economies, utilisation of production capacity continued to improve and employment figures once again rose. In the emerging economies, too, economic momentum remained generally robust. International goods trade nonetheless slowed somewhat.

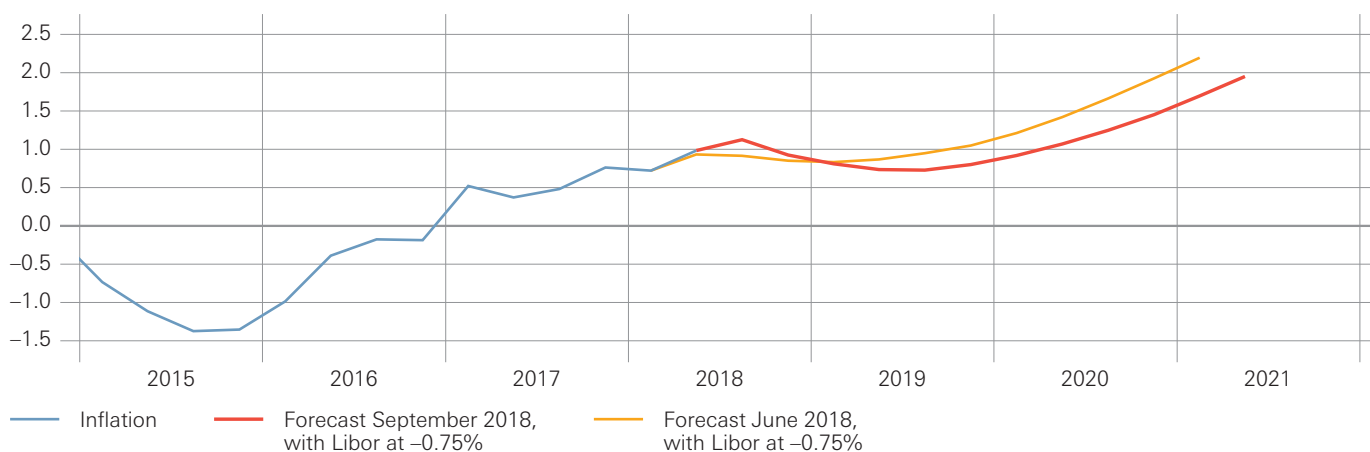
Economic signals for the coming months remain favourable. Supported by ongoing expansionary monetary policy in the advanced economies and improved labour markets, the global economy is likely to continue to grow. However, following strong growth in the previous quarters, the pace is expected to slow slightly. To date, the crises of confidence in Turkey and Argentina have not materially impacted the global economic outlook.

The risks to this positive baseline scenario are more to the downside. Chief among them are political uncertainties in some countries as well as potential international tensions and protectionist tendencies.

Chart 1.1

### CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2018

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



Sources: SFSO, SNB

Switzerland's economy has continued to recover. The revised GDP figures for recent years reveal stronger growth momentum than was originally reported. In the second quarter of 2018, GDP once again grew faster than estimated potential output, at an annualised rate of 2.9%. The positive development in the first half of the year was, however, partly due to special factors. Overall, utilisation of total production capacity has improved further, and unemployment has also continued to decline over recent months.

Leading indicators suggest that the economic outlook remains favourable. Some loss of momentum is expected, however, due to a slight slowdown in global growth and the dampening effect of recent Swiss franc appreciation. The SNB now anticipates GDP growth of between 2.5%

and 3% for the current year and a further slight fall in unemployment. The stronger growth forecast is attributable to the upward revision for the previous quarters.

Imbalances on the mortgage and real estate markets persist. Both mortgage lending and prices for single-family homes and privately owned apartments continued to rise at a moderate rate over recent quarters. Although prices in the residential investment property segment have stabilised, there is the risk of a correction due to strong price increases in recent years and growing vacancy rates. The SNB will continue to monitor developments on the mortgage and real estate markets closely, and will regularly reassess 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.

Table 1.1

#### OBSERVED INFLATION IN SEPTEMBER 2018

	2015				2016				2017				2018				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-0.7	-1.1	-1.4	-1.4	-1.0	-0.4	-0.2	-0.2	0.5	0.4	0.5	0.8	0.7	1.0			-1.1	-0.4	0.5

Source: SFSO

#### CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2018

	2018				2019				2020				2021				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2018, with Libor at -0.75%		0.9	0.9	0.9	0.8	0.9	0.9	1.0	1.2	1.4	1.7	1.9	2.2				0.9	0.9	1.6
Forecast September 2018, with Libor at -0.75%			1.1	0.9	0.8	0.7	0.7	0.8	0.9	1.1	1.2	1.5	1.7	2.0			0.9	0.8	1.2

Source: SNB



## 2 Global economic environment

Overall, global economic growth was solid in the second quarter. In the advanced economies, utilisation of production capacity continued to improve and employment figures once again rose. In the emerging economies, too, economic momentum remained generally robust. International goods trade nonetheless slowed somewhat (cf. chart 2.1).

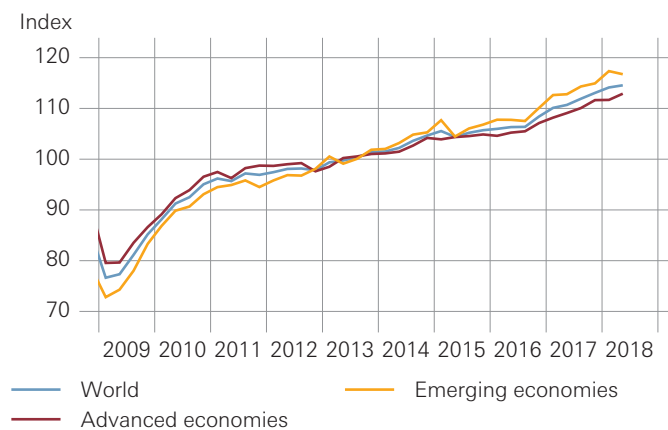
Economic signals for the coming months remain favourable. Supported by ongoing expansionary monetary policy in the advanced economies and improved labour markets, the pace of global economic growth is likely to remain above potential, albeit slowing slightly following strong growth in the previous quarters. To date, the crises of confidence in Turkey and Argentina have not materially impacted the global economic outlook.

The risks to this positive baseline scenario are more to the downside. Chief among them are political uncertainties in some countries as well as potential international tensions and protectionist tendencies. The normalisation of monetary policy in the advanced economies will also pose additional challenges.

Chart 2.1

### GLOBAL EXPORTS OF GOODS

Average of depicted period = 100



Sources: CPB Netherlands Bureau for Economic Policy Analysis, Thomson Reuters Datastream

Table 2.1

### BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

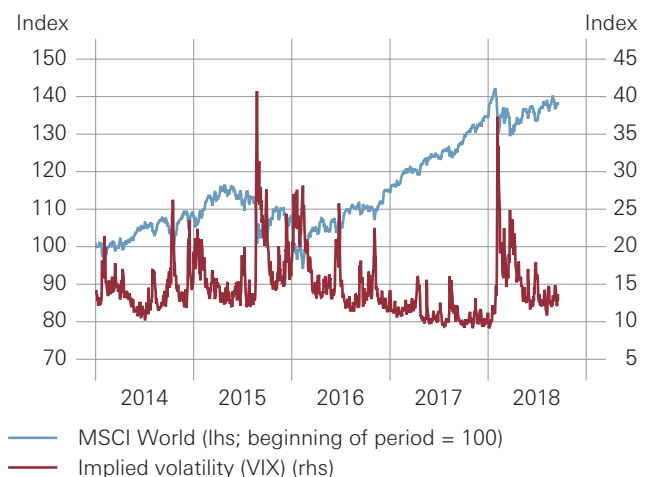
	2014	2015	2016	2017	Scenario	
					2018	2019
<b>GDP, year-on-year change in percent</b>						
Global <sup>1</sup>	3.6	3.5	3.3	3.9	4.0	3.9
US	2.5	2.9	1.6	2.2	2.9	2.6
Euro area	1.4	1.9	1.9	2.5	2.0	1.6
Japan	0.3	1.4	1.0	1.7	0.9	1.1
<b>Oil price in USD per barrel</b>						
	99.0	52.5	43.8	54.3	71.9	73.0

<sup>1</sup> PPP-weighted (US, euro area, UK, Japan, China, South Korea, India, Brazil and Russia).

Sources: SNB, Thomson Reuters Datastream

Chart 2.2

**STOCK MARKETS**



Source: Thomson Reuters Datastream

Chart 2.3

**INTERNATIONAL LONG-TERM INTEREST RATES**

10-year government instruments

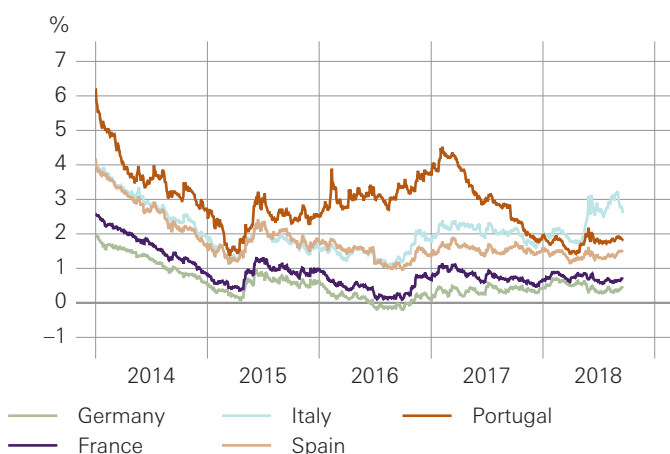


Source: Thomson Reuters Datastream

Chart 2.4

**EUROPEAN LONG-TERM INTEREST RATES**

10-year government instruments



Source: Thomson Reuters Datastream

In the US, inflation has reached the target level set by the Federal Reserve. The latter therefore plans to continue its normalisation of monetary policy. In the euro area, the European Central Bank (ECB) is anticipating a rise in core inflation, which has been stagnating for some time, and thus intends to stop its asset purchase programme at the end of the year. Euro area monetary policy is still expansionary nevertheless, and key rates are to remain at their present levels at least through the summer of 2019. Japan will also maintain its very loose monetary policy given the ongoing modest rate of inflation.

The SNB's forecasts for the global economy are based on assumptions about oil prices and the EUR/USD exchange rate. The SNB is assuming a price for Brent crude of USD 73 per barrel, which is USD 4 lower than in June's baseline scenario (cf. table 2.1), and an exchange rate of USD 1.16 to the euro, compared with USD 1.19 in June. Both correspond to the 20-day average when the current baseline scenario was drawn up.

**INTERNATIONAL FINANCIAL AND COMMODITY MARKETS**

Since the last monetary policy assessment in June, developments on the international financial markets have continued against the mixed backdrop of the solid global economy and political risks. The US stock market, for example, has profited from the robust domestic environment, in terms of the economy and earnings alike. The volatility of US stocks as measured by option prices – which serves as a gauge of market uncertainty – remained relatively low. Worldwide, however, a range of factors have continued to fuel uncertainty, including imponderables regarding Italy's fiscal policy, the Brexit negotiations, the United States' ongoing trade conflicts (in particular with China), and the crises of confidence in Turkey and Argentina. Against this backdrop, the MSCI World Index has followed its strong gains in 2017 with a sideways trend in the year to date (cf. chart 2.2).

Yields on ten-year government bonds in the advanced economies have remained largely unchanged (cf. chart 2.3). In Italy, they at one point rose to their highest level since mid-2014 owing to the political uncertainty (cf. chart 2.4).

Concerns over a possible slowdown in growth in China, signals of a slightly more resolute tightening in US monetary policy, and the developments in Turkey and Argentina led to currency depreciation in certain emerging economies. In the advanced economies, currencies mostly showed slight gains on a trade-weighted basis, with only the pound sterling continuing to weaken as a result of the uncertainty over Brexit (cf. chart 2.5).

The price of oil trended sideways despite OPEC's decision to increase supply. There was a marked drop in industrial metal prices as trade conflicts unsettled the market (cf. chart 2.6).

## UNITED STATES

Driven by a strong recovery in private consumption, US GDP grew by 4.2% in Q2 2018, a much more pronounced rise than in the quarter before (cf. chart 2.7). Employment has also continued to increase in recent months, with the unemployment rate essentially unchanged at 3.9% in August (cf. chart 2.10).

The latest indicators suggest ongoing sound economic momentum. Given the robust development in disposable income, and with the saving rate still high by long-term comparison, the growth outlook for private consumption remains good. The expansionary fiscal policy is likely to support growth in the coming years. The GDP forecast for the US is slightly higher compared with the last monetary policy assessment, with the SNB now anticipating growth of 2.9% for 2018 and 2.6% for 2019 (cf. table 2.1).

Annual consumer price inflation has fluctuated in recent months, primarily driven by energy prices. In August it stood at 2.7% (cf. chart 2.11), while the core figure remained steady at 2.2% (cf. chart 2.12). The Federal Reserve's preferred price inflation measure, the personal consumption expenditure (PCE) deflator, is in line with its target value of 2%. The Fed thus left its policy rate target range at 1.75–2.0% (cf. chart 2.13), and plans to continue tightening its monetary policy in light of the inflation momentum at present and the strengthening of the labour market.

Chart 2.5

## EXCHANGE RATES

Trade-weighted, beginning of period = 100



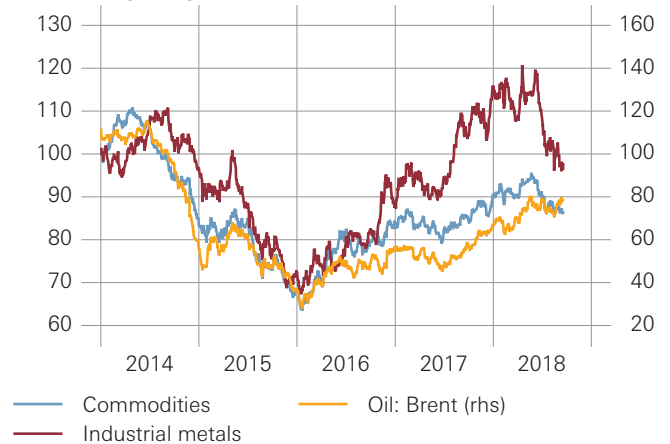
Source: Thomson Reuters Datastream

Chart 2.6

## COMMODITY PRICES

Index, beginning of period = 100

USD/barrel

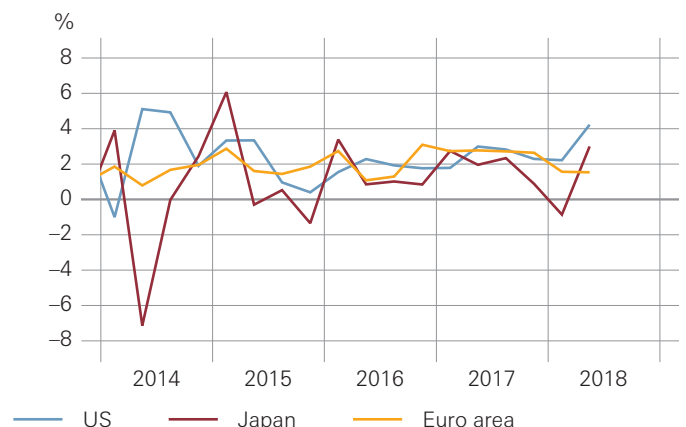


Source: Thomson Reuters Datastream

Chart 2.7

## REAL GDP: ADVANCED ECONOMIES

Change from previous period

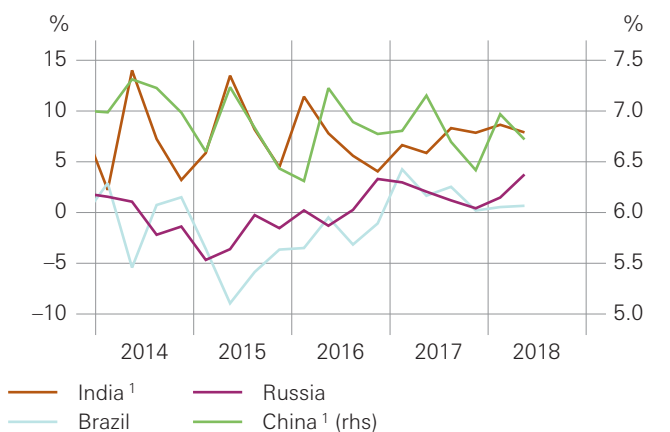


Source: Thomson Reuters Datastream

Chart 2.8

**REAL GDP: EMERGING ECONOMIES**

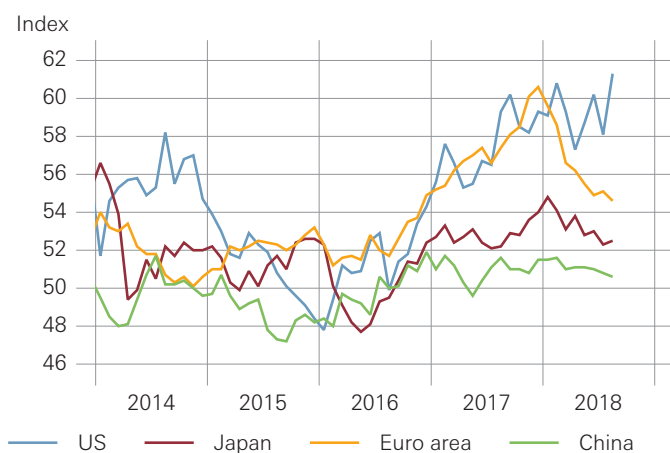
Change from previous period



1 Seasonal adjustment: SNB  
Sources: CEIC, Thomson Reuters Datastream

Chart 2.9

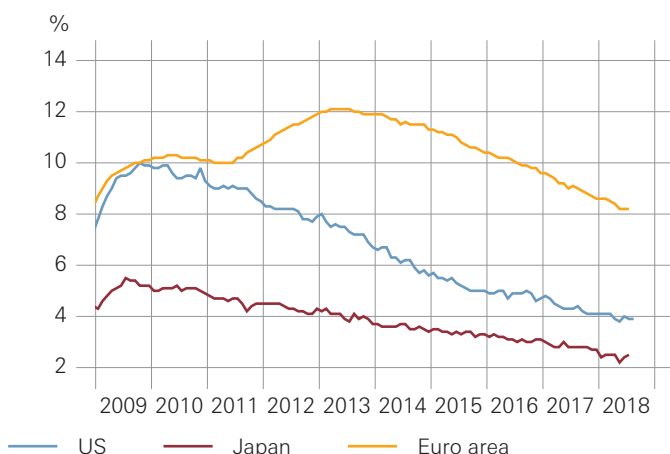
**PURCHASING MANAGERS' INDICES (MANUFACTURING)**



Source: Markit Economics Limited

Chart 2.10

**UNEMPLOYMENT RATES**



Source: Thomson Reuters Datastream

**EURO AREA**

Economic activity in the euro area lost momentum in the first half of 2018, as the previously strong export demand weakened. Domestic demand remained solid. GDP expanded by 1.5% in the second quarter (cf. chart 2.7). Employment figures continued to rise, and the unemployment rate fell to a ten-year low of 8.2% in July (cf. chart 2.10).

Household and business survey results point to economic activity remaining solid, and it is likely to continue to be underpinned by favourable financing conditions and robust growth in household income. Overall, the SNB has left its growth forecasts for the euro area essentially unchanged at 2.0% for 2018 and 1.6% for 2019 (cf. table 2.1). The positive outlook nevertheless remains subject to various risks, including fiscal policy imponderables in Italy as well as uncertainty surrounding international trade conflicts and the shape of future relations between the EU and the UK.

As energy prices rose, consumer price inflation increased to 2.0% in the euro area in August (cf. chart 2.11). Core inflation remained modest, however, fluctuating around 1.0% (cf. chart 2.12), as it has for some years now. Medium-term inflation expectations derived from financial market indicators stagnated below the target level of just under 2% set by the ECB. Meanwhile, wage growth in the euro area picked up slightly in the first half of the year.

The ECB left its key rates unchanged in September. As announced in June, it plans to continue its net asset purchases of EUR 30 billion a month until the end of September 2018, thereafter reducing this to EUR 15 billion and stopping the programme at the end of the year. Maturing bonds will continue to be reinvested. The ECB also expects its key rates to remain at their present levels at least through the summer of 2019.

## JAPAN

Japan began the year with a massive snow storm that weighed on domestic activity, but growth picked up again in the second quarter. GDP increased by 3.0% in Q2 2018, having registered a decline of 0.9% in the quarter before (cf. chart 2.7). Overall capacity utilisation therefore remained good. The unemployment rate stood at 2.5% in July, the lowest level since the early 1990s and well below the estimated natural rate (cf. chart 2.10).

Solid global manufacturing and investment in infrastructure and tourism in the run-up to the 2020 Olympic Games in Tokyo will sustain the Japanese economy in the coming quarters. Furthermore, new tax incentives should encourage companies to increase wages, which is likely to lend support to private consumption. However, following the series of natural disasters over the summer, a volatile growth trend can be expected for the second half of 2018. The SNB's GDP growth forecasts remain essentially unchanged at 0.9% for 2018 and 1.1% for 2019 (cf. table 2.1).

Amid rising energy and food prices, consumer price inflation has increased again somewhat in recent months, and stood at 0.9% in July (cf. chart 2.11). Meanwhile, core inflation has continued to fluctuate around 0% (cf. chart 2.12). The longer-term inflation expectations derived from company surveys also trended sideways and remained significantly below the Japanese central bank's inflation target of 2%.

In light of the surprisingly weak inflation momentum, the Bank of Japan plans to maintain the low level of interest rates for an extended period of time. However, it also intends to allow more flexible movement for the long-term rate around the 0% mark.

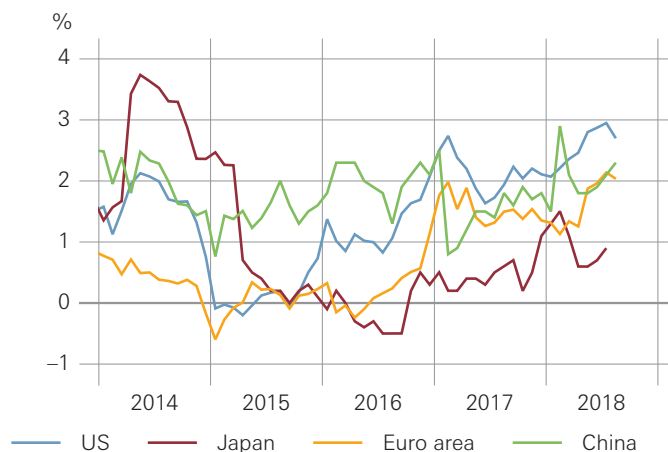
## CHINA

China recorded GDP growth of 6.7% in the second quarter, a slight decrease compared with Q1 (cf. chart 2.8). After starting the year strongly, the pace of growth in manufacturing has slowed, whereas the services sector has started to pick up again.

Chart 2.11

### CONSUMER PRICES

Year-on-year change

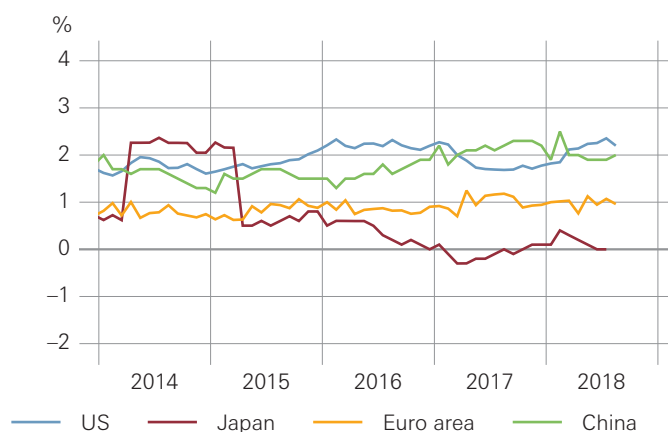


Source: Thomson Reuters Datastream

Chart 2.12

### CORE INFLATION RATES <sup>1</sup>

Year-on-year change

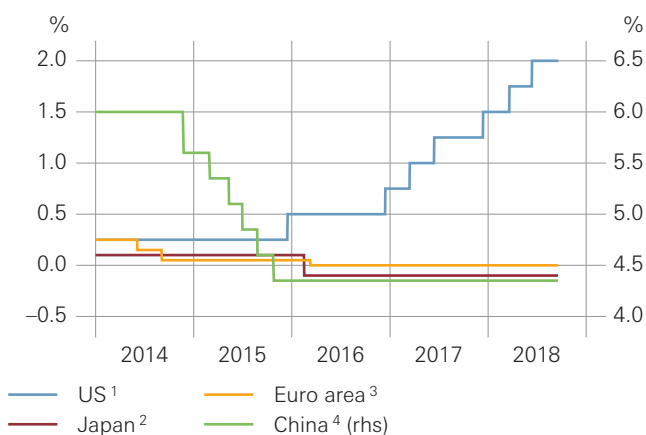


<sup>1</sup> Excluding food and energy.

Source: Thomson Reuters Datastream

Chart 2.13

**OFFICIAL INTEREST RATES**

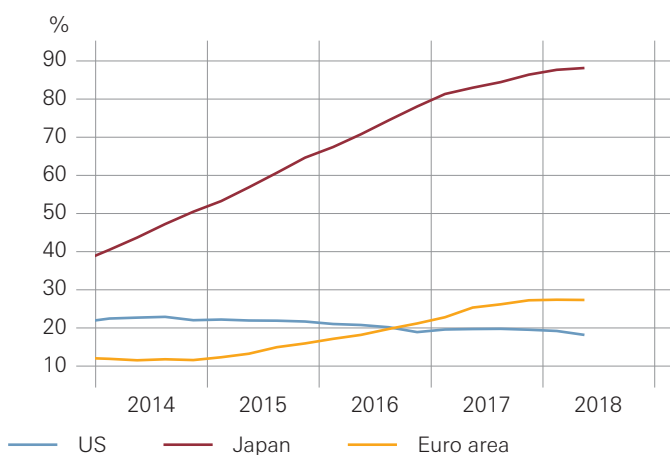


1 Federal funds rate (upper limit of target range). 2 Call money target rate. 3 Main refinancing rate. 4 One-year lending rate.  
Source: Thomson Reuters Datastream

Chart 2.14

**MONETARY BASE**

Relative to GDP



Source: Thomson Reuters Datastream

The outlook for China remains essentially unchanged. The latest indicators on industrial activity, retail trade and investment point to economic momentum waning further in the second half of the year. The gradual weakening in growth already seen over several years is thus continuing in step with the deceleration in growth potential. The phased tightening of financial market regulations since the end of 2016 and the rise in interest rates over the course of 2017 have led to a further slowdown in credit growth, which is likely to curb activity in real estate and construction in particular. Added to this are the possible negative effects of the trade conflict with the US. To ward off the threat of the economy losing momentum abruptly, the government now plans to push through certain infrastructure projects more quickly than previously intended, while lowering taxes. Furthermore, the People's Bank of China eased its monetary policy slightly in July. It lowered the reserve requirement ratio by 50 basis points and expanded its medium-term lending facility, which led to a decline in money market interest rates. Meanwhile the renminbi has depreciated against the US dollar in recent months. There has been little change as regards inflation momentum, and core inflation has been at around 2% for over a year.

The SNB anticipates GDP growth of 6.7% for 2018, and expects the government to achieve its medium-term target of an average of 6.3% per annum through to 2020.

**BRAZIL, INDIA AND RUSSIA**

The picture in the other major emerging economies was mixed. India and Russia recorded strong GDP growth in the second quarter. In Brazil, however, economic momentum remained weak owing to a transport sector strike (cf. chart 2.8).

The utilisation of production capacity in these countries is likely to improve over the medium term. The Indian economy is set to grow at a much stronger pace this year than in 2017, with positive impetus likely to come in particular from the recapitalisation of quasi-governmental credit institutions and public infrastructure spending. With inflation gathering momentum, the Reserve Bank of India tightened its monetary policy in June and August. Loose monetary policy, low inflation and solid growth worldwide are likely to drive the economic recovery in Brazil. That said, the high level of uncertainty on the political front remains a considerable risk factor. In Russia, private consumption is likely to benefit from low unemployment and rising real incomes.

# 3 Economic developments in Switzerland

The Swiss economy continued to recover. The revised GDP figures for recent years reveal stronger growth momentum than was originally reported. GDP once again grew faster than estimated potential in the second quarter. The development in the first half of the year was, however, partly due to special factors.

Utilisation of total production capacity improved further on the back of this development. The estimated output gap has closed since the beginning of the year after being below zero for an extended period of time. Unemployment has also declined further over recent months.

Leading indicators suggest that the economic outlook remains favourable overall. However, following the strong growth of the recent past, there are signs of a moderate slowdown. Based on the revised data for the previous quarters, the SNB now anticipates GDP growth of between 2.5% and 3% for the current year. Unemployment is likely to continue to decline slightly.

## OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. According to this information, the favourable economic momentum continued in the second quarter. Moreover, the revised quarterly estimates of GDP point to a more robust dynamic in the recent past.

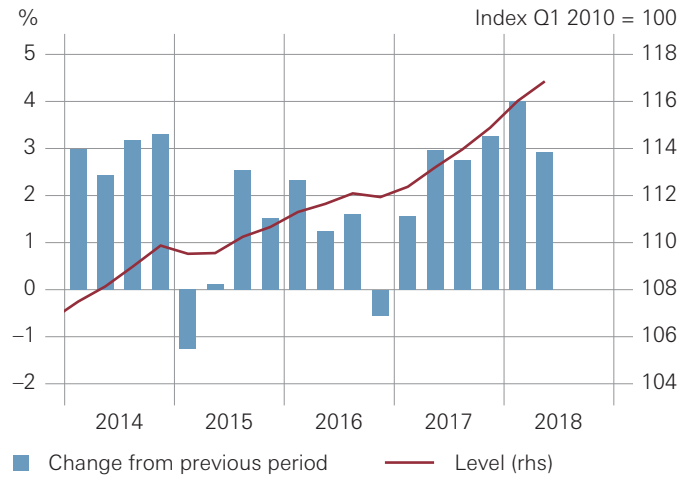
### Growth in the last three years higher than previously assumed

The annual figures of the System of National Accounts (SNA), revised by the Swiss Federal Statistical Office (SFSO), show higher GDP growth for the last three years than previously assumed. Growth was considerably stronger in 2017 in particular (1.6% instead of the previous 1.1%).

The increase in the annual figures also has an impact on the quarterly estimates of the State Secretariat for Economic Affairs (SECO). According to the new figures, the Swiss economy developed considerably more dynamically in recent quarters than previously assumed. For the first quarter of 2018, GDP growth now lies at 4.0% (instead of the previous 2.3%), which represents the strongest growth in eight years. GDP for the first quarter was thus 1.5% above the previously estimated level.

Chart 3.1

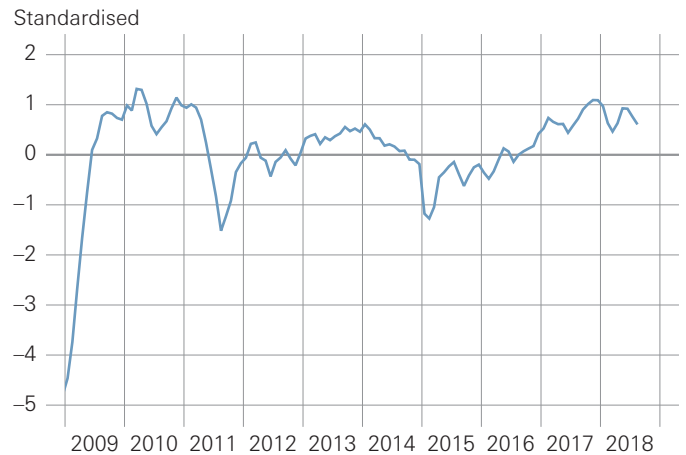
### REAL GDP



Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

### SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

### MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Sources: Credit Suisse, KOF Swiss Economic Institute

### Robust GDP growth in the second quarter of 2018

According to a provisional estimate by SECO, GDP growth remained robust in the second quarter at 2.9% (cf. chart 3.1). It thus remained considerably above the estimated growth potential. On the output side, growth was once again driven primarily by manufacturing. As in the previous quarter, value added rose significantly in the entertainment sector, which can be put down to revenue generated from international sports events. On the expenditure side, goods exports made the largest contribution to GDP growth (cf. table 3.1).

### Positive economic indicators

In addition to GDP, other economic indicators are also pointing towards positive momentum. At the turn of the year, all composite economic indicators were at a very high level. Although they receded slightly in the first half of the year, they nevertheless remained consistent with a robust pace of growth.

The Business Cycle Index, calculated by the SNB and offering a comprehensive overview of economic momentum, has remained at an above-average level for some time now (cf. chart 3.2). The purchasing managers' index (PMI) also stayed at a high level, while the KOF Economic Barometer was only slightly above its long-term average (cf. chart 3.3).

Table 3.1

### REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2014	2015	2016	2017	2016		2017				2018	
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	1.3	1.7	1.5	1.1	1.0	3.0	0.2	0.5	1.7	0.6	1.6	1.2
Government consumption	2.2	1.1	1.2	0.9	0.3	0.8	0.3	0.9	1.7	2.5	0.2	0.6
Investment in fixed assets	3.0	2.3	3.4	3.3	-1.0	0.8	8.6	1.1	3.8	3.6	5.0	0.5
Construction	3.2	1.6	0.5	1.4	1.5	-0.5	2.7	0.7	1.8	3.1	0.7	3.4
Equipment	2.9	2.7	5.4	4.5	-2.5	1.7	12.3	1.3	5.0	4.0	7.6	-1.2
Domestic final demand	1.9	1.8	2.0	1.7	0.4	2.1	2.4	0.7	2.3	1.6	2.3	0.9
Change in inventories <sup>1</sup>	-0.5	-0.4	-1.9	-0.1	8.3	-6.9	-2.5	8.1	-9.5	9.8	2.5	-3.2
Total exports <sup>2</sup>	5.2	2.6	7.0	3.6	-9.8	14.8	0.2	1.4	16.5	-4.8	0.7	7.4
Goods <sup>2</sup>	5.8	2.6	6.7	5.1	-12.5	-1.3	18.6	4.9	17.1	-4.9	2.4	11.0
Goods excluding merchanting <sup>2</sup>	4.0	0.7	6.6	6.0	6.2	-7.2	17.7	6.5	5.5	8.8	0.6	8.9
Services	4.0	2.4	7.6	0.7	-4.2	50.6	-26.1	-4.9	15.2	-4.7	-2.5	0.6
Total imports <sup>2</sup>	3.3	3.0	4.7	4.1	4.4	7.9	-4.0	15.8	-3.2	12.4	2.4	-2.7
Goods <sup>2</sup>	1.7	0.0	4.4	5.5	1.5	0.6	-1.4	25.7	-3.6	25.0	9.6	-4.3
Services	6.8	8.8	5.3	1.6	9.9	22.7	-8.7	-0.2	-2.4	-8.6	-10.8	0.8
Net exports <sup>3</sup>	1.3	0.1	1.7	0.2	-7.0	4.4	1.8	-5.8	10.2	-8.0	-0.7	5.3
<b>GDP</b>	<b>2.4</b>	<b>1.3</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>	<b>-0.6</b>	<b>1.6</b>	<b>3.0</b>	<b>2.8</b>	<b>3.3</b>	<b>4.0</b>	<b>2.9</b>

1 Contribution to growth in percentage points (including statistical discrepancy).

2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).

3 Contribution to growth in percentage points.

Source: SECO



## LABOUR MARKET

The positive development in the labour market continued. Employment saw an increase while unemployment continued to decrease.

### Ongoing decline in unemployment

The number of people registered as unemployed at the regional employment offices continued to decrease in recent months. Excluding seasonal fluctuations, 114,000 people were recorded as unemployed at the end of August, while the seasonally adjusted unemployment rate published by SECO stood at 2.6% at the end of August (cf. chart 3.4). However, the decline in unemployment in recent months is slightly overstated due to technical adjustments in the way unemployment is recorded.

In addition, the SFSO calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. This survey also includes people looking for work but who are not registered or are no longer registered with the regional employment offices. The SFSO unemployment rate calculated in accordance with the ILO definition is therefore higher than the one published by SECO. In the second quarter of 2018, the seasonally adjusted unemployment rate remained at 4.9%.

These two statistics on unemployment do not always move in parallel and have again showed differing trends over the last few quarters. In general, the short-term dynamics of unemployment can be more reliably estimated using SECO's unemployment rate rather than the SFSO rate.

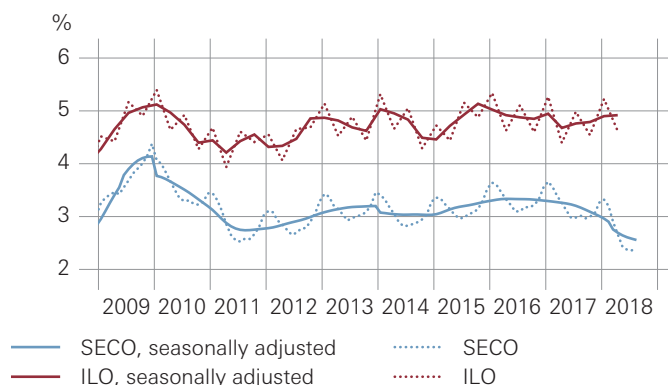
### Solid growth in employment

The employment statistics suggest that the number of gainfully employed persons continued to rise slightly in the second quarter (cf. chart 3.5). These statistics measure the number of employed persons on the household side and are also based primarily on SLFS data.

The national job statistics, by contrast, measure employment on the company side and are based on a survey of firms. According to these statistics, the number of full-time equivalent positions registered considerable growth in the second quarter (cf. chart 3.6). New jobs were created in both services and manufacturing, while construction saw a slight decline in employment.

Chart 3.4

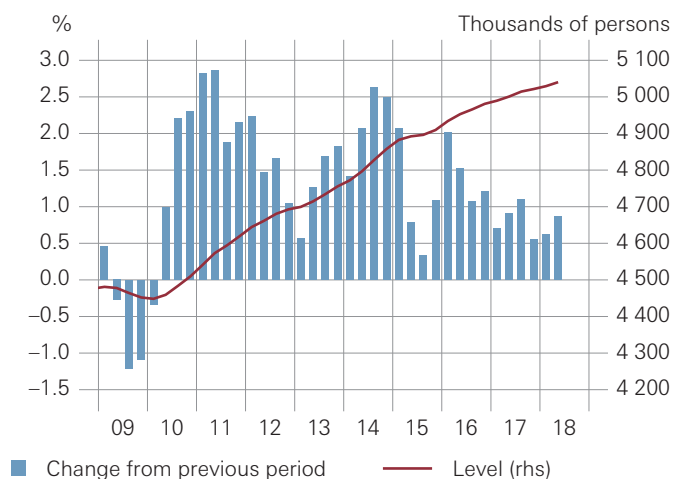
### UNEMPLOYMENT RATE



SECO: Unemployed registered with the regional employment offices, as a percentage of the labour force according to the 2000 and 2010 censuses and the 2012 to 2014 structural surveys.  
ILO: Unemployment rate based on International Labour Organization definition.  
Sources: SECO, SFSO

Chart 3.5

### EMPLOYED PERSONS

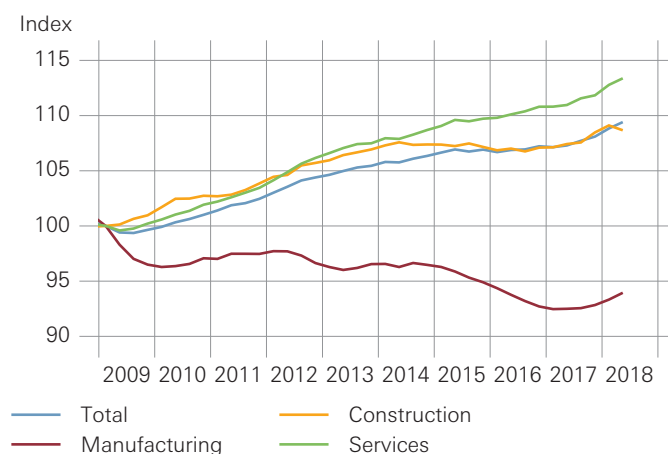


Source: SFSO; seasonal adjustment: SNB

Chart 3.6

### FULL-TIME EQUIVALENT JOBS

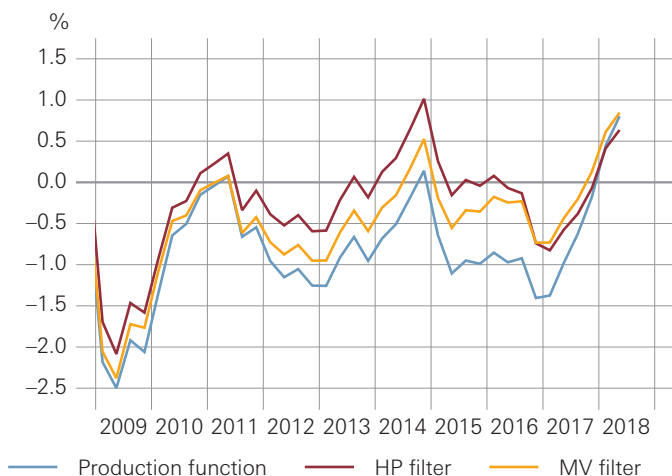
Beginning of period = 100



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

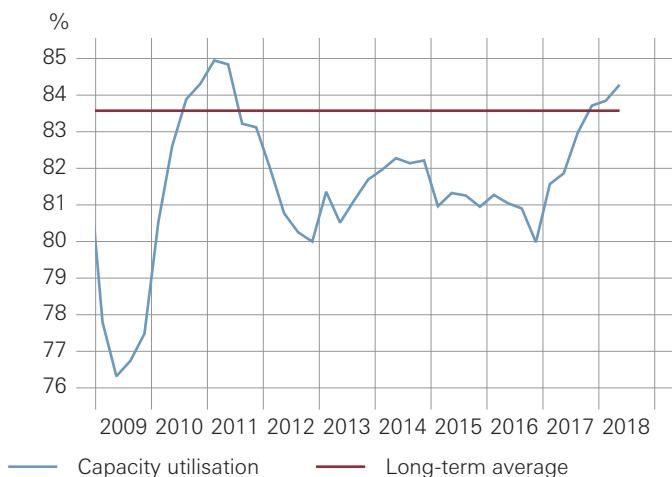
**OUTPUT GAP**



Source: SNB

Chart 3.8

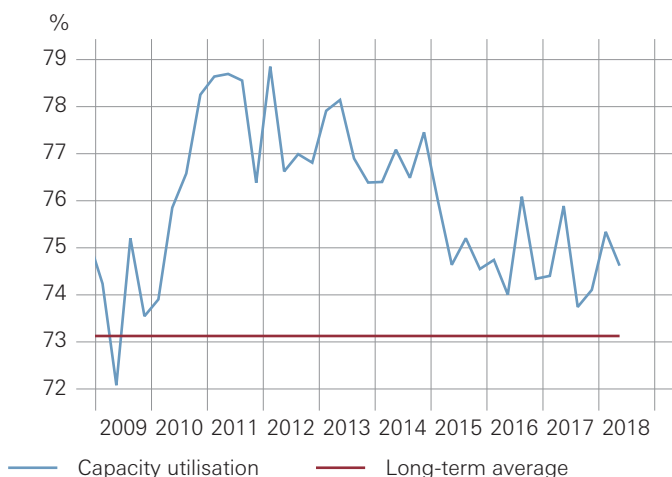
**CAPACITY UTILISATION IN MANUFACTURING**



Source: KOF Swiss Economic Institute

Chart 3.9

**CAPACITY UTILISATION IN CONSTRUCTION**



Source: KOF Swiss Economic Institute

**CAPACITY UTILISATION**

**Output gap closed**

The output gap, which is defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised. Based on the revised quarterly figures for GDP, the estimates now suggest a slightly positive output gap since the beginning of the year. Potential output as estimated by means of a production function shows an output gap of 0.8% for the second quarter, compared with 0.4% in the previous quarter. Estimates using other methods to establish potential output (Hodrick-Prescott filter and multivariate filter) confirm that the gap moved into positive territory in recent quarters (cf. chart 3.7).

**Surveys suggest utilisation is good**

According to the KOF survey, utilisation of technical capacity in manufacturing increased to 84.3% in the second quarter, which is slightly above the long-term average (cf. chart 3.8). While machine utilisation in the construction industry recorded a decline in the second quarter, it remained well above its long-term average (cf. chart 3.9). As for the services industries, the surveys point to an average level of technical capacity utilisation. The surveys on the labour situation carried out in the various industries indicate that it is becoming increasingly difficult for companies to fill vacant positions. Overall, the various surveys on the utilisation of production factors present a similar picture to the GDP-based measure of the output gap.

## OUTLOOK

The outlook for Switzerland remains positive overall. The SNB continues to expect broad-based economic growth in the medium term. This favourable outlook is based on a number of factors. First, according to the baseline scenario (cf. chapter 2), global economic developments are expected to continue to stimulate demand in the Swiss economy. Second, population growth is also likely to boost demand. Third, low interest rates are still supporting growth. However, there are signs of some loss of momentum – in addition to a slight slowdown in global growth, the recent Swiss franc appreciation will also have a dampening effect.

Many leading indicators, such as the export-weighted PMI abroad, weakened somewhat in the first half of the year (cf. chart 3.10). In July and August, exports also lost momentum. Economic sentiment as derived from company surveys is also less euphoric than at the beginning of the year (cf. chart 3.11). Overall, however, economic indicators continue to point to favourable developments. This also applies to the labour market (cf. chart 3.12).

According to the discussions conducted by the SNB delegates for regional economic relations between mid-July and the beginning of September, economic momentum has cooled slightly after peaking in Q4 2017 and Q1 2018. Business activity remains good, however. The companies surveyed are also quite upbeat about the next six months (cf. ‘Business cycle signals’, pp. 28 et seq.).

Based on the revised data for the previous quarters, the SNB now expects GDP growth of 2.5–3% for the current year. As usual, this forecast is subject to uncertainties, mostly in connection with developments abroad (cf. chapter 2).

Chart 3.10

### MANUFACTURING PMI ABROAD

Export-weighted, 27 countries



Sources: International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), SNB, Thomson Reuters Datastream

Chart 3.11

### ECONOMIC OUTLOOK

Change in expectations for next 6 months

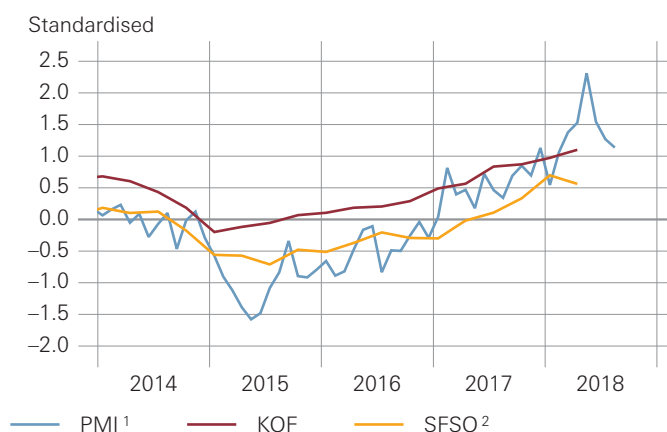


— Financial market survey, CS-CFA  
— KOF, business situation in industry (rhs)

Sources: CFA Society Switzerland, Credit Suisse, KOF Swiss Economic Institute

Chart 3.12

### EMPLOYMENT LEADING INDICATORS



1 Monthly figures.

2 Seasonal adjustment: SNB.

Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

Annual consumer price inflation has risen once again over the past few months, driven by prices of imported goods and services – especially oil products. By contrast, core inflation rates showed hardly any change, remaining below the inflation rate as measured by the Swiss consumer price index (CPI).

Medium-term inflation expectations were largely unchanged, thereby remaining within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

## CONSUMER PRICES

### Rise in annual inflation rate

In July and August 2018, the annual inflation rate as measured by Swiss CPI was 1.2%, the highest level since the beginning of 2010. Although inflation rates for most CPI components have risen over the last few months, the main impetus for inflation growth continues to come from prices of imported goods and services, and in particular oil products (cf. table 4.1).

### Higher inflation for imported products ...

Inflation in imported goods and services increased further in mid-2018, and stood at 3.2% in August. Whereas the inflation contribution from oil products has risen markedly since the beginning of the year, that from other imported products has remained largely unchanged (cf. chart 4.1).

### ... and for domestic products

Domestic goods and services inflation rose in July and August 2018 to 0.5% (cf. chart 4.2). Inflation rates for domestic goods as well as services excluding rents have recorded growth over the past few months. However, inflation in public services continues to be negative and is thus the exception among the main CPI components (cf. table 4.1).

Table 4.1

### SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2017		2018		2018			
		Q3	Q4	Q1	Q2	June	July	August
<b>Overall CPI</b>	<b>0.5</b>	<b>0.5</b>	<b>0.8</b>	<b>0.7</b>	<b>1.0</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>
Domestic goods and services	0.3	0.4	0.4	0.3	0.4	0.4	0.5	0.5
Goods	-0.2	-0.3	-0.1	0.3	0.8	1.0	0.9	0.9
Services	0.5	0.6	0.5	0.3	0.3	0.3	0.4	0.4
Private services excluding housing rents	0.3	0.3	0.4	0.6	0.6	0.6	1.0	0.9
Housing rents	1.1	1.3	0.9	0.6	0.4	0.3	0.3	0.2
Public services	-0.1	0.1	0.1	-0.9	-0.9	-0.9	-0.9	-0.7
Imported goods and services	1.2	0.8	2.0	1.9	2.7	3.3	3.4	3.2
Excluding oil products	0.2	0.2	1.3	1.5	1.2	1.3	1.3	1.4
Oil products	8.8	5.5	6.8	4.9	13.9	18.2	18.7	16.2

Sources: SFSO, SNB

### Slight decline in rent inflation

The rent index has remained largely unchanged since the beginning of the year. However, as a result of base effects, rent inflation fell from 0.7% in January to 0.2% in August 2018 (cf. chart 4.3). The reference interest rate used for rent adjustments based on mortgage rate fluctuations has been unchanged at 1.5% since June 2017.

### Stable core inflation

Core inflation rates have hardly moved since the beginning of the year (cf. chart 4.4). In August 2018, the trimmed mean calculated by the SNB (TM15) stood at 0.6%, while the SFSO's core inflation rate 1 (SFSO1) amounted to 0.5%.

Core inflation rates are thus clearly below the annual CPI inflation rate. The growing difference can be attributed to the fact that the sharp rise in oil product prices had little or no impact on core inflation rates.

Both of these core inflation rates are based on the prices of a reduced basket of goods. When calculating SFSO1, energy and fuel as well as fresh and seasonal products are excluded. TM15 excludes the products with the most extreme price changes every month (15% at either end of the distribution curve of annual rates of change in product prices).

### PRODUCER AND IMPORT PRICES

#### Further rise in producer and import price inflation

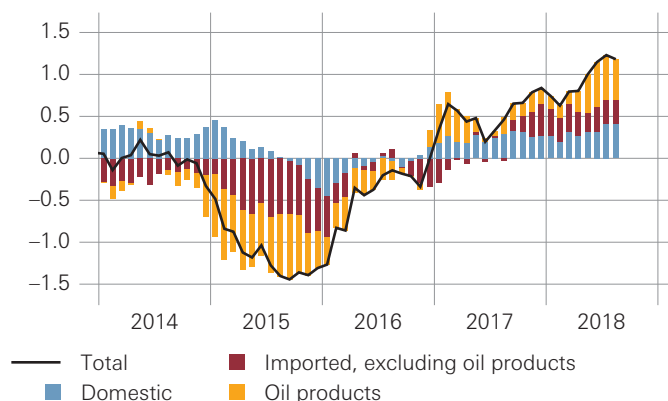
The annual inflation rate for import and producer prices rose further through to July 2018 (cf. chart 4.5). In August 2018, it was 3.4%. Year-on-year, producer and import prices have risen by 2.2% and 5.7% respectively.

For both categories, the largest year-on-year increase was recorded in energy prices, followed by prices for intermediate and capital goods. Consumer goods continue to show the lowest rate of inflation of all the main components in the producer and import price index.

Chart 4.1

### CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

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

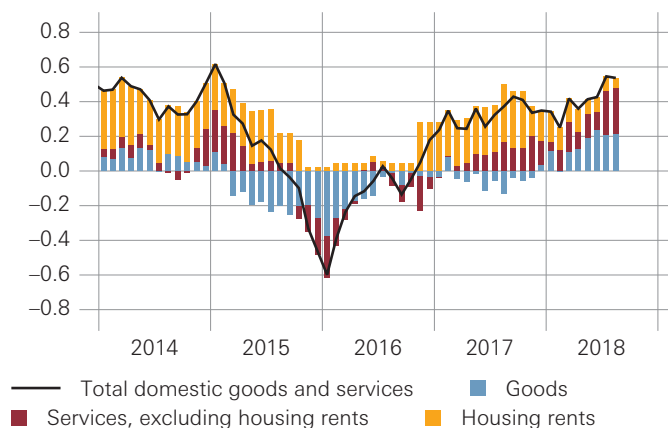


Sources: SFSO, SNB

Chart 4.2

### CPI: DOMESTIC GOODS AND SERVICES

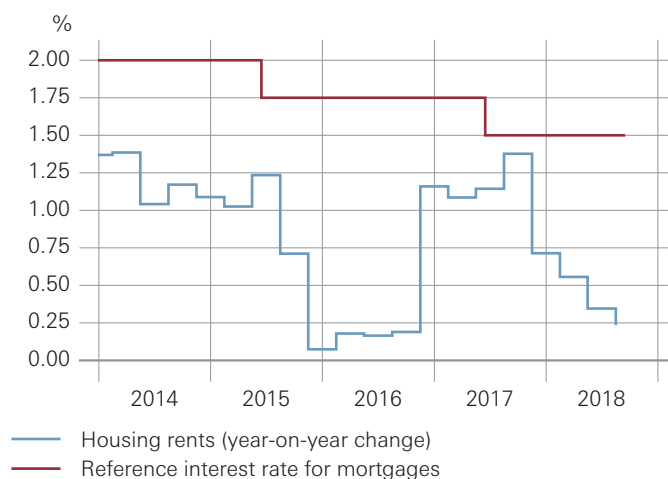
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

### HOUSING RENTS

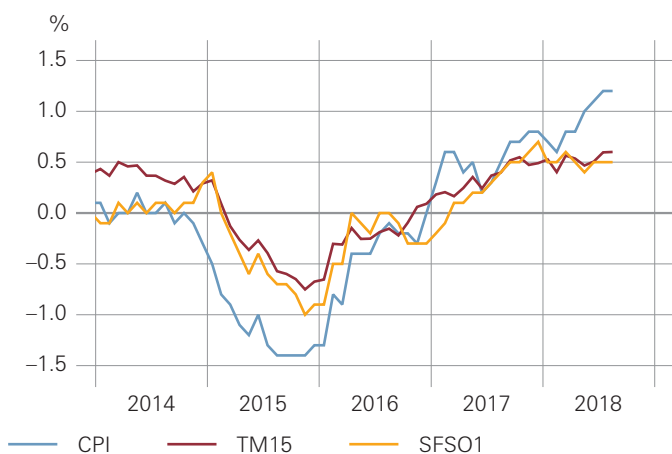


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

**CORE INFLATION RATES**

Year-on-year change

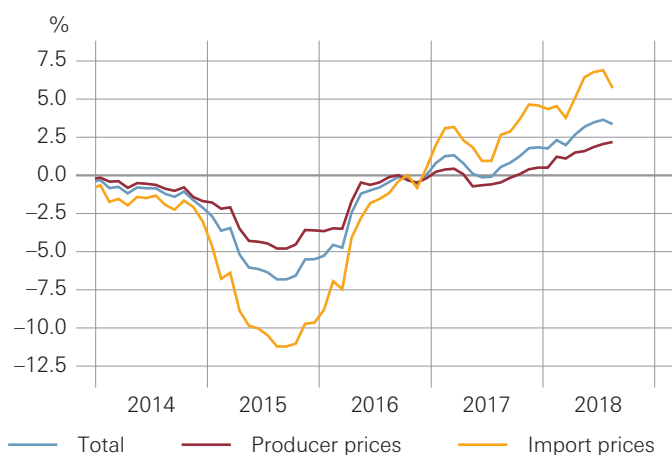


Sources: SFSO, SNB

Chart 4.5

**PRODUCER AND IMPORT PRICES**

Year-on-year change

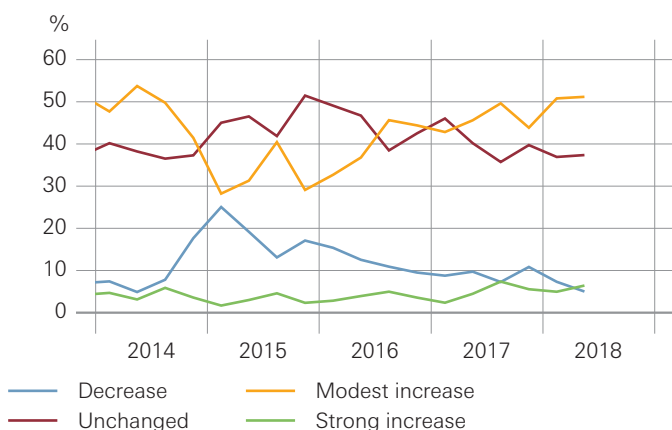


Source: SFSO

Chart 4.6

**PRICE EXPECTATIONS**

Survey of households on expected movements in prices for coming 12 months



Sources: SECO, SNB

**INFLATION EXPECTATIONS**

**Inflation expectations consistent with price stability**

Surveys show that inflation expectations remain consistent with the objective of price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

**Survey figures largely unchanged**

The quarterly survey of households' price expectations for the next 12 months, conducted by SECO, yielded much the same results in July 2018 as in the previous quarter. Of the respondents, 58% anticipated a rise in prices, and 37% that they would stay the same. The remaining 5% expected that prices would go down.

Somewhat more than half of the analysts questioned in August 2018 for the joint monthly financial market survey by the CFA Society Switzerland and Credit Suisse expected inflation rates to rise in the next six months. The remainder anticipated unchanged inflation rates, i.e. none of the respondents expected inflation rates to go down. Analysts' expectations have remained largely unchanged since the beginning of the year.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors provide an indication of the expected level of inflation. In the third quarter of 2018 – as in the previous quarter – company representatives anticipated an annual inflation rate of 0.7% on average in the next six to twelve months.

**Longer-term expectations slightly above short-term expectations**

Longer-term inflation expectations were again slightly higher than short-term expectations. In the third quarter, company representatives interviewed by the SNB's delegates put the rate of inflation in three to five years at 1.0% (Q2: 1.1%).

# 5

## Monetary developments

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At its monetary policy assessment of 21 June 2018, the SNB left its expansionary monetary policy unchanged. This means that, over the last three months, monetary policy has continued to be based on the negative interest rate on sight deposits held at the SNB and on the SNB's willingness to intervene in the foreign exchange market as necessary.

Over the last three months, money and capital market interest rates have barely changed. The yield curve for Confederation bonds has thus likewise changed only minimally. Yields on Confederation bonds with maturities of less than nine years remain negative.

On the foreign exchange market the Swiss franc appreciated noticeably against most currencies, causing the trade-weighted real external value of the franc to increase as well. The Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile.

As in the previous quarter, the M3 monetary aggregate and bank loans grew at a moderate pace.

### SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

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#### **Expansionary monetary policy remains unchanged**

The SNB confirmed its expansionary monetary policy stance at its assessment on 21 June 2018. It decided to leave the target range for the three-month Libor unchanged at between  $-1.25\%$  and  $-0.25\%$ . It also left unchanged, at  $-0.75\%$ , the interest rate on sight deposits held by banks and other financial market participants at the SNB which exceed a given threshold. Furthermore, the SNB reaffirmed that it will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease upward pressure on the Swiss franc. The SNB's monetary policy thus helps to stabilise price developments and support economic activity.

#### **Sight deposits at the SNB virtually unchanged**

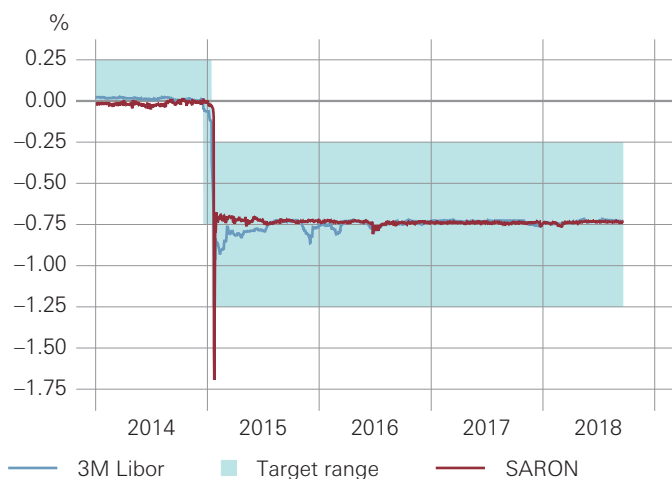
Since the monetary policy assessment of June 2018, total sight deposits held at the SNB have remained virtually unchanged. In the week ending 14 September 2018 (last calendar week before the September assessment), they amounted to CHF 577.1 billion – only marginally higher than the figure recorded in the last calendar week preceding the June 2018 assessment (CHF 576.5 billion). Between the assessments in June and September 2018, sight deposits at the SNB averaged CHF 576.4 billion. Of this amount, CHF 473.9 billion were sight deposits of domestic banks and the remaining CHF 102.5 billion were other sight deposits.

#### **Banks' surplus reserves high**

Statutory minimum reserves averaged CHF 16.4 billion between 20 May and 19 August 2018. Overall, banks exceeded the minimum reserve requirement by CHF 457.0 billion (previous period: CHF 453.9 billion). Banks' surplus reserves have thus increased slightly.

Chart 5.1

**MONEY MARKET RATES**



Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

**MONEY AND CAPITAL MARKET INTEREST RATES**

**Money market rates practically unchanged**

During the three months since the June 2018 assessment, money market rates have consistently tracked close to the interest rate on sight deposits held at the SNB, which has been set at -0.75% since January 2015. This applies to both secured (SARON) and unsecured (three-month Libor) money market transactions (cf. chart 5.1).

**Capital market interest rates stable**

Long-term interest rates have moved only minimally since the last monetary policy assessment. International risks, such as the simmering US-China trade dispute and the crisis of confidence in Turkey, had no material impact. Throughout the period, yields on ten-year Confederation bonds fluctuated within a narrow range of a few basis points around zero (cf. chart 5.2).

**Little change in yield curve**

The yield curve for Confederation bonds has shifted up slightly since the June 2018 assessment (cf. chart 5.3). In mid-September, yields on Confederation bonds with maturities of less than nine years were still in negative territory.

Chart 5.2

**10-YEAR SWISS CONFEDERATION BOND YIELD**

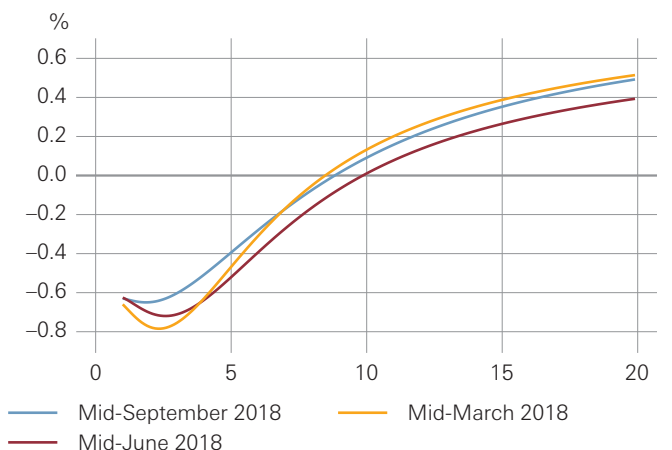


Source: SNB

Chart 5.3

**TERM STRUCTURE OF CONFEDERATION BONDS**

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



Source: SNB



## EXCHANGE RATES

### Swiss franc stronger against euro and US dollar

Since the June 2018 monetary policy assessment, the Swiss franc has appreciated against the euro and the US dollar.

The Swiss franc initially depreciated slightly against the euro until mid-July. In light of growing uncertainty on the financial markets, it then strengthened again against most currencies, including the euro. Towards the end of August, the US dollar also began to lose ground against the Swiss franc, having been largely stable up to that point.

### Marked increase in trade-weighted external value of Swiss franc

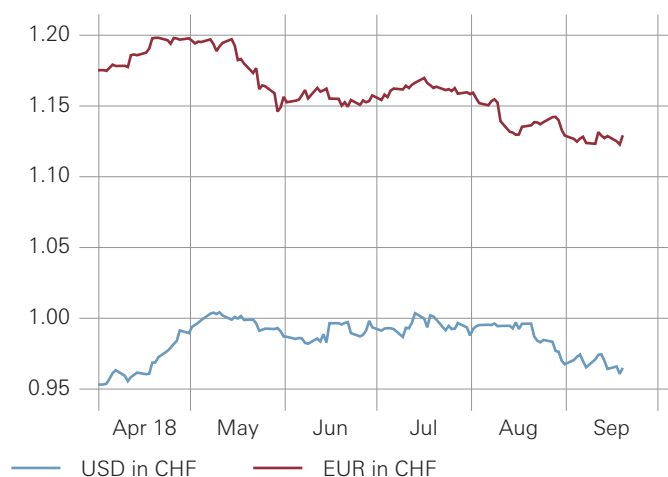
The Swiss franc appreciated by almost 4% on a nominal trade-weighted basis in the three months between the June and September 2018 monetary policy assessments (cf. chart 5.5). On the one hand, this appreciation reflects the gains against the euro and the US dollar, which together have an index weight of approximately 55%. On the other, the Swiss franc had been trading significantly higher against emerging market currencies.

### Real external value of Swiss franc still high

Due to the nominal appreciation of the Swiss franc, the real external value of the franc calculated by the SNB also rose. In August, it was back at roughly the level recorded in February 2018 (cf. chart 5.6). The equivalent indices calculated by the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) show a similar development. Overall, the franc remains highly valued.

Chart 5.4

### EXCHANGE RATES



Source: SNB

Chart 5.5

### NOMINAL EXTERNAL VALUE OF SWISS FRANC

December 2000 = 100

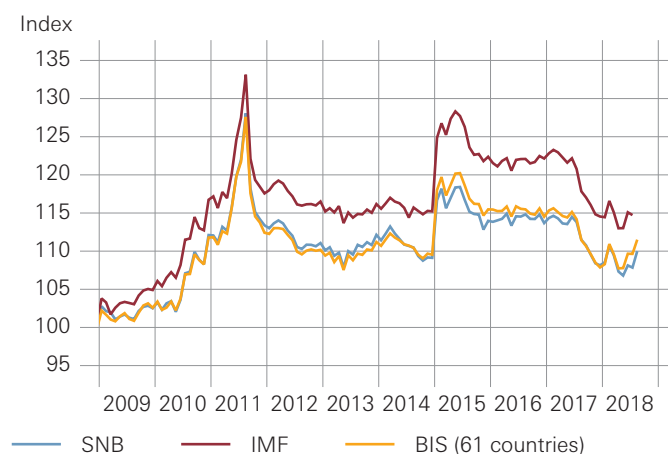


Source: SNB

Chart 5.6

### REAL EXTERNAL VALUE OF SWISS FRANC

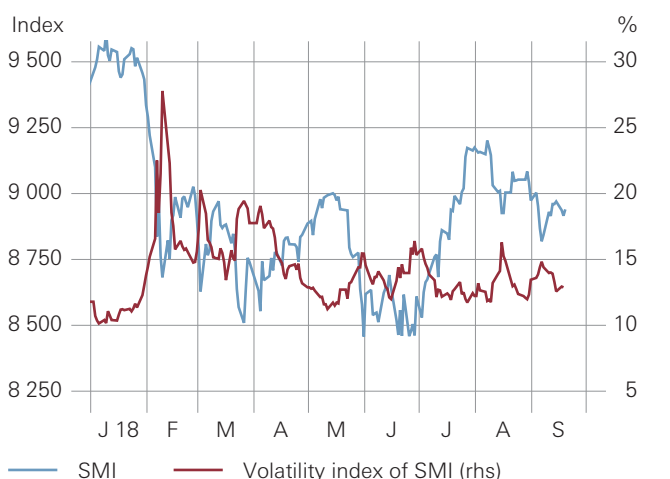
December 2000 = 100



Sources: Bank for International Settlements (BIS), IMF, SNB

Chart 5.7

### SHARE PRICES AND VOLATILITY

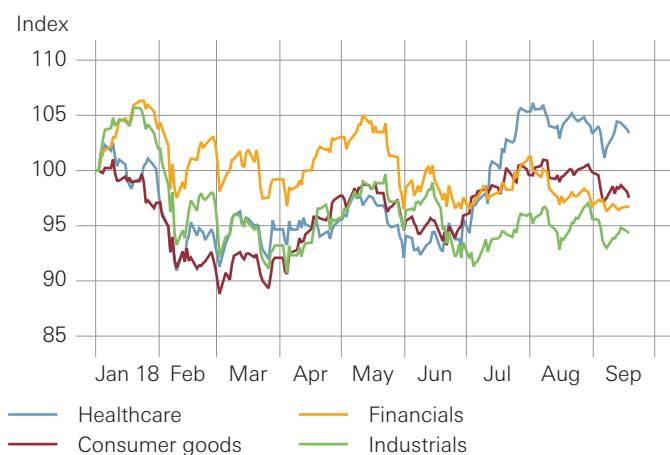


Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

### SELECTED SPI SECTORS

1 January 2018 = 100

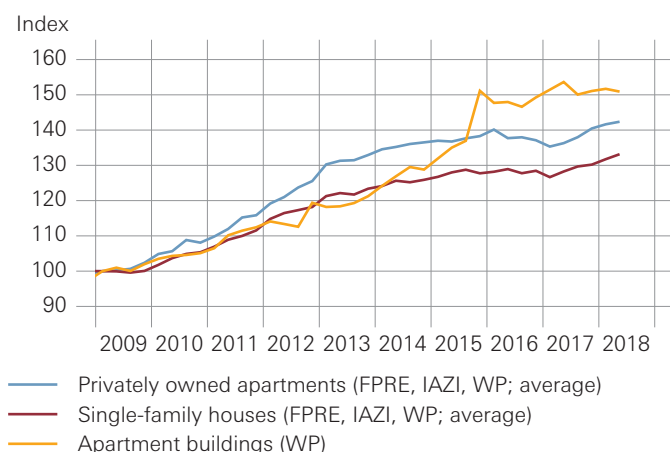


Source: Thomson Reuters Datastream

Chart 5.9

### HOUSING TRANSACTION PRICES

Nominal (hedonic), beginning of period = 100



Sources: Fahländer Partner Raumentwicklung (FPRE), IAZI, Wüest Partner (WP)

### SHARE AND REAL ESTATE PRICES

#### Stock prices trend sideways

The Swiss Market Index (SMI) has been trending sideways since spring 2018, albeit with some sharp fluctuations (cf. chart 5.7). Having suffered losses in the second half of May in parallel with the appreciation of the Swiss franc, it made gains in July on the back of positive economic data and some easing of trade-related tensions. In August the SMI receded again slightly in response to the crises of confidence in Turkey and Argentina, and by mid-September it was a good 5% down on the beginning of the year.

#### Minor fluctuations in market uncertainty

The volatility index derived from options on SMI futures contracts gauges stock market investors' assessment of uncertainty (cf. chart 5.7). The volatility index rose temporarily in the second half of May as well as in mid-August, but in mid-September it was close to this year's lows again.

#### Movements in sectoral indices

Chart 5.8, which shows the movements of important sub-indices in the Swiss Performance Index (SPI), indicates that the rise in share prices in July and their subsequent decline in mid-August were very broad-based. The chart also shows that, overall, the healthcare sub-index has performed somewhat better than the consumer goods, financials and industrials sub-indices since the beginning of the year – principally due to developments in July.

#### Residential real estate prices still high

The available transaction price indices for residential real estate (privately owned apartments and single-family houses) rose slightly in Q2 2018, while prices for apartment buildings (residential investment property) stagnated; this price trend continues a trajectory that has been under way for several quarters (cf. chart 5.9).

Building permit figures show that more and more rental apartments are being planned compared with privately owned apartments. At the same time, the increase in vacancy rates has been greater for rental apartments than for privately owned apartments. Both of these trends are likely contributing to the fact that prices for apartment buildings are currently developing less strongly than prices for residential real estate.

## MONETARY AND CREDIT AGGREGATES

### Monetary base largely unchanged

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has remained largely stable since mid-2017, averaging CHF 554.3 billion in August 2018 (cf. chart 5.10).

As with other sight deposits held at the SNB, the sight deposits of domestic banks fluctuated slightly over this period. Total sight deposits at the SNB nevertheless remained practically unchanged.

### Slower growth in broad monetary aggregates

Growth in the M1, M2 and M3 monetary aggregates has stabilised in recent months, having slowed slightly at the beginning of 2018. In August 2018, M1 (currency in circulation, sight deposits and transaction accounts) was 5.0% up year-on-year, while M2 (M1 plus savings deposits) and M3 (M2 plus time deposits) were up by 2.7% and 2.5% respectively in the same period (cf. table 5.1).

The total for sight deposits and deposits in transaction accounts continues to make up the vast majority of the M3 monetary aggregate, followed by savings deposits, currency in circulation and time deposits. The modest share of time deposits is due to low interest rates and hence the low interest rate differential with sight deposits.

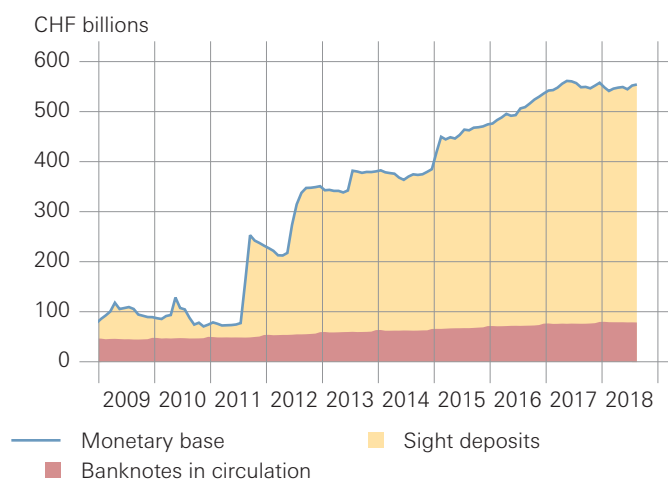
**Slight acceleration of lending growth in second quarter**  
Bank lending increased by 3.4% year-on-year in the second quarter of this year compared to 2.9% in Q1 2018 (cf. table 5.1). While growth in mortgage lending remained unchanged quarter-on-quarter, the volume of other loans grew significantly.

### Growth in mortgage lending unchanged

Growth in banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, was up 2.8% year-on-year in Q2 2018, as it had been in Q1 2018. Having decreased by half between 2012 and 2015, the growth rate for mortgage claims has since remained more or less stable (cf. chart 5.12). Demand for mortgages continues to be supported by low mortgage interest rates. Although these rates moved up slightly at the beginning of the year, they remain close to their all-time low. The ten-year mortgage rate stood at 1.7% in July 2018.

Chart 5.10

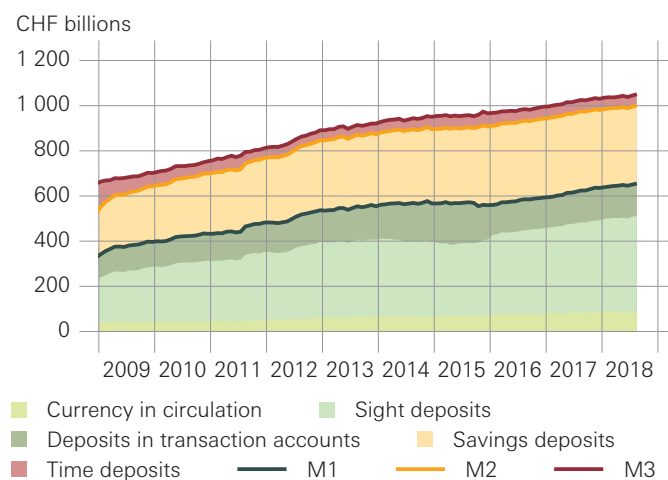
### MONETARY BASE



Source: SNB

Chart 5.11

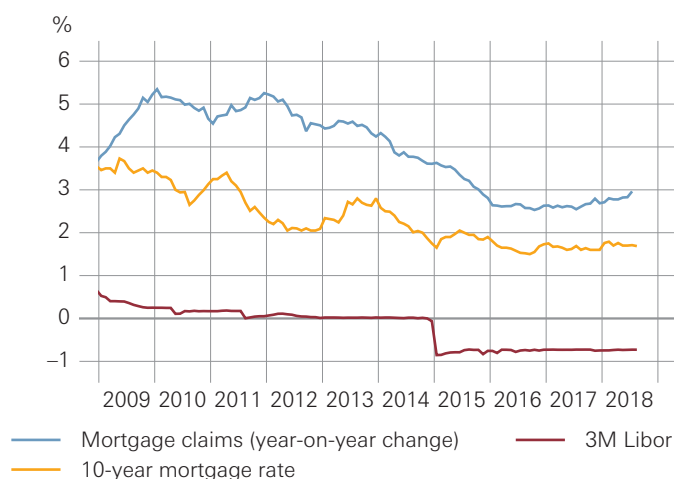
### MONETARY AGGREGATES



Source: SNB

Chart 5.12

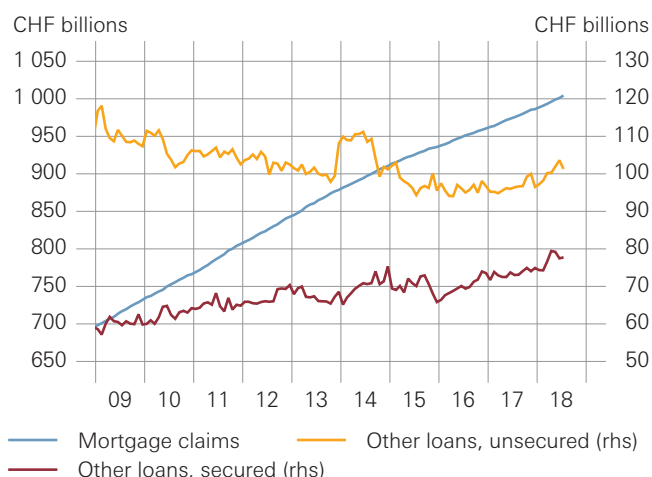
### MORTGAGE CLAIMS AND INTEREST RATES



Sources: Bloomberg, SNB

Chart 5.13

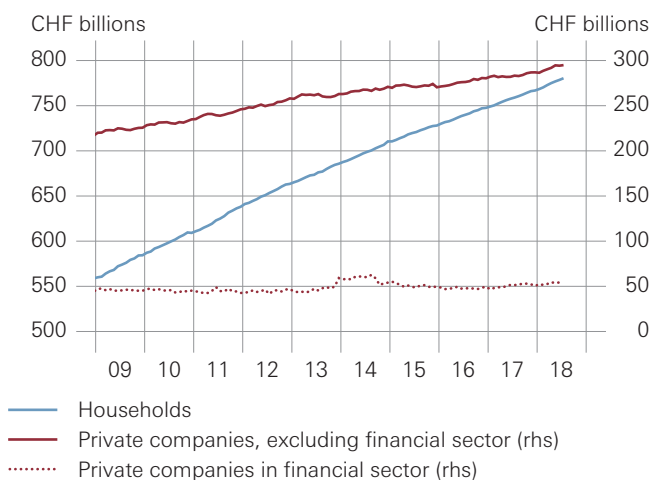
**MORTGAGE CLAIMS AND OTHER LOANS**



Source: SNB

Chart 5.14

**LOANS TO HOUSEHOLDS AND COMPANIES**



Source: SNB

**Stronger growth in other loans**

Other loans increased by 7.0% year-on-year in Q2 2018, compared to 3.4% in the first quarter of this year (cf. table 5.1). For ten years, the volume of other loans has trended flat – any rise in secured loans has largely been offset by a fall in unsecured loans. Over the last few quarters, however, the volume of both secured and unsecured loans has risen markedly (cf. chart 5.13). This development in other loans – which are typically distinctly cyclical – is consistent with the economic upswing.

**Lending growth by sector**

Both households and non-financial companies have benefited from favourable financing conditions since the beginning of the financial and economic crisis, as reflected by a steady rise in bank loans extended to these two important customer groups (cf. chart 5.14).

At the end of June 2018, loans to households recorded a year-on-year increase of CHF 21.4 billion (2.8%) and loans to non-financial companies a rise of CHF 11.7 billion (4.1%). Loans to financial companies, which exhibit greater volatility at a significantly lower volume, advanced by CHF 2.6 billion (5.1%) compared to the previous year.

Table 5.1

**MONETARY AGGREGATES AND BANK LOANS**

Year-on-year change in percent

	2017	2017	2018	2018	2018	2018	2018	2018
		Q3	Q4	Q1	Q2	June	July	August
<b>M1</b>	<b>6.5</b>	<b>6.5</b>	<b>7.4</b>	<b>7.3</b>	<b>5.9</b>	<b>5.0</b>	<b>5.1</b>	<b>5.0</b>
<b>M2</b>	<b>4.1</b>	<b>4.4</b>	<b>4.3</b>	<b>4.1</b>	<b>3.1</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>
<b>M3</b>	<b>3.7</b>	<b>4.1</b>	<b>4.0</b>	<b>3.6</b>	<b>2.8</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>
<b>Bank loans, total</b> <sup>1,3</sup>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.9</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	
Mortgage claims <sup>1,3</sup>	2.6	2.6	2.7	2.8	2.8	2.8	3.0	
Households <sup>2,3</sup>	2.6	2.5	2.6	2.5	2.6	2.6	2.6	
Private companies <sup>2,3</sup>	3.4	3.5	3.7	3.4	3.4	3.4	3.9	
Other loans <sup>1,3</sup>	2.4	2.3	2.1	3.4	7.0	6.7	5.7	
Secured <sup>1,3</sup>	4.9	4.6	2.1	3.1	8.0	5.1	6.5	
Unsecured <sup>1,3</sup>	0.6	0.7	2.1	3.6	6.3	7.9	5.1	

1 Monthly balance sheets (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).

2 Credit volume statistics (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).

3 Growth rates for the bank loans item and its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published on the SNB's data portal, data.snb.ch.

Source: SNB

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# Business cycle signals

Results of the SNB company talks

## **Third quarter of 2018**

Report submitted to the Governing Board of the Swiss National Bank for its quarterly assessment.

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and company managers. A total of 208 company talks were conducted between mid-July and the beginning of September.

### **Regions**

Central Switzerland  
Eastern Switzerland  
Fribourg/Vaud/Valais  
Geneva/Jura/Neuchâtel  
Italian-speaking Switzerland  
Mittelland  
Northwestern Switzerland  
Zurich

### **Delegates**

Walter Näf  
Urs Schönholzer  
Aline Chabloz  
Jean-Marc Falter  
Fabio Bossi  
Roland Scheurer  
Daniel Hanimann  
Rita Kobel

## Key points

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- The Swiss economy continued to perform robustly in the third quarter. Growth was broad-based across industries and markets.
- All in all, utilisation of technical capacity and infrastructure is at a normal level. Bottlenecks are becoming increasingly evident in parts of manufacturing. The shortage of specialists has also become more acute.
- As in the past two years, profit margins have gradually continued to improve. They nonetheless remain under pressure in some segments of the economy.
- Company representatives are confident about the next two quarters, albeit not quite as optimistic as they were in the previous quarter. Key factors are the favourable economic environment internationally and the positioning of their companies.
- Companies are planning to increase staff numbers considerably and are prepared to step up investment.

## CURRENT SITUATION

### Ongoing robust economic momentum

In the third quarter, economic momentum was robust, although slightly less so than in the preceding quarters. Company representatives report considerably stronger quarter-on-quarter growth in real turnover, i.e. turnover adjusted for changes in sales prices (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). A comparison with the same period in 2017 also indicates vigorous growth.

Both domestically focused and export-oriented companies are benefiting from the generally favourable economic situation. Export demand remains geographically broad-based. Company representatives mention, in particular, very good business with Europe (especially Germany, the Benelux countries, Scandinavia and the UK), the US and several countries in Asia. Signals are mixed with regard to Italy and Russia. Sales of capital goods as well as goods for the automotive and medical technology industries were especially brisk.

### Utilisation of production capacity normal

Utilisation of technical production capacity remains at a normal level (cf. chart 2). Capacity utilisation at some companies, especially in manufacturing, is very high.

Technical capacity utilisation is normal at 42% of companies, while a further 33% report slight or substantial overutilisation. Some representatives noted the absence of the usual summer lull in demand this year. Problems with supply shortages and in some cases considerably longer delivery times, particularly for raw materials as well as technical and electronic components, were mentioned by various company representatives. Companies'

responses to this challenge include increasing their inventory levels, adding more shifts, reducing holidays and employing temporary staff. In addition, more investment is going into expanding production capacity.

### Staff numbers remain low

According to company representatives in all three sectors, staff numbers are slightly too low. They report that staff shortages have become rather more pronounced compared with the previous quarter. Headcounts are described by 37% of companies as slightly too low or much too low, while just 7% of companies consider their staffing levels too high.

In manufacturing, recruitment has become even more difficult. Half of the companies report that it has become harder to source staff. The recruitment of professionals, engineers and IT specialists continues to be challenging. The shortage of IT specialists is evident in various industries. Companies also say that they are still struggling to find enough apprentices.

### Margins just below normal

Profit margins have improved somewhat since the previous quarter. Overall, they remain just below levels company representatives regard as normal. One reason for margins still being squeezed in some areas is the higher purchase prices for raw materials and intermediate inputs, which cannot (yet) be fully passed on to customers. A second factor contributing to narrowing margins is that some companies have reached their capacity limit and are having to respond with costly measures such as adding more shifts, working weekends and recruiting more temporary staff. Thirdly, underutilised infrastructure and pricing pressure from customers is adversely affecting margins in parts of the economy.

Chart 1

### TURNOVER COMPARED TO PREVIOUS QUARTER



Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease). Source: SNB

Chart 2

### CAPACITY UTILISATION



Current utilisation of technical capacity or infrastructure compared to a normal level. A positive (negative) index value signals a higher (lower) utilisation than normal. Source: SNB



## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

In trade, real turnover is significantly up quarter-on-quarter and substantially higher year-on-year. This is primarily attributable to wholesale trade rather than retail trade where infrastructure is still underutilised. Company representatives rate consumer confidence as generally favourable. Some report a continuing decline in cross-border shopping, and there are signs that cross-border commuters are increasingly shopping in Switzerland again. In the vehicle trade, by contrast, business is flat or slightly down. Overall, profit margins in trade remain well below normal levels.

Business in the finance sector has gathered pace compared to the previous quarter. Margins at banks are slightly below levels considered to be normal, while at insurance companies they are well below target levels due to their claims experience and high IT investment. Capacity utilisation rates in the finance sector are approaching normal levels. Some banks still regard their branch networks as too dense.

Over the summer months, many tourism businesses benefited from the excellent weather and the generally favourable economic conditions. In the hotel and catering industries, real turnover was significantly higher both quarter-on-quarter and year-on-year. Margins, too, are higher than usual. Overall, capacity utilisation is at a normal level. However, peaks are causing some businesses to investigate how tourism flows can be staggered better. New applications of pricing models are also being tested. As regards foreign source markets, the mainstays are China, the US and the UK, with Germany, the Netherlands and Italy picking up again. Greater demand from companies has also been noted (seminars, events). Hoteliers are very upbeat about the coming winter season.

Companies in the ICT industry report extremely strong business activity with a sharp rise in turnover. Business performance also remains positive for transportation and logistics companies, auditors, as well as engineering and consultancy firms.

In manufacturing, most industries recorded higher turnover and higher capacity utilisation than in the previous quarter. Companies in the mechanical engineering, electrical engineering and metals industries are reporting particularly strong performance, although the margin situation still varies considerably from company to company. The continued positive performance of the watchmaking industry is also being observed in other industries. The pharmaceutical industry rates its production facilities as tending more towards underutilised.

Momentum in construction remains robust. Turnover growth is high in the finishing trade and civil engineering in particular. The slight overutilisation of production capacity reported in this sector over recent quarters continues. In some cases, new orders are being turned down due to capacity bottlenecks and staff shortages. Margin pressure persists in structural engineering. The order situation remains good. Several representatives are concerned about the growing number of vacant housing units and high real estate prices, especially in peripheral locations.

Chart 3

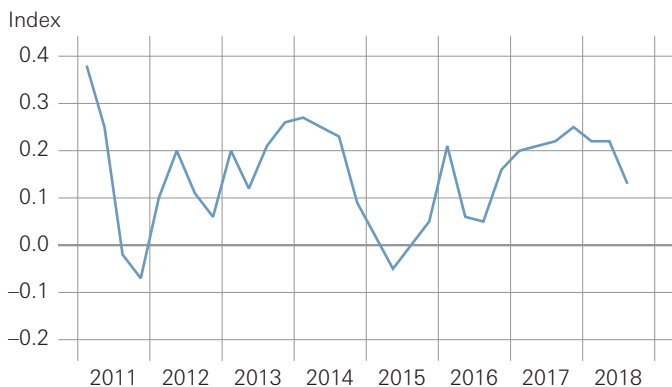
**EXPECTED TURNOVER**



Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate higher (lower) turnover expectations. Source: SNB

Chart 4

**EXPECTED CAPACITY UTILISATION**



Expected developments in utilisation of technical capacity or infrastructure over the coming two quarters. Positive (negative) index values indicate higher (lower) utilisation expectations. Source: SNB

Chart 5

**EXPECTED EMPLOYMENT**



Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate higher (lower) expectations. Source: SNB

**OUTLOOK**

**Confidence looking forward to next year**

Company representatives remain optimistic about their business prospects for the next two quarters. Overall, they expect real turnover to rise, albeit not quite so strongly as predicted in the previous quarter (cf. chart 3). The reason given for this optimism is the positive economic situation, both internationally and domestically. The frequently discussed expectation that it will become easier to push through price rises is also having a positive impact. In this quarter too, many representatives continue to see a major opportunity in the favourable positioning of their companies in terms of size, product range, innovation, flexibility, sales markets and social trends. The order situation of many companies is extremely positive; in some cases, order books are full well into next year.

Company representatives expect utilisation of technical production capacity or infrastructure in the next two quarters to be marginally higher than current levels (cf. chart 4). However, there too, the anticipated rise is not as high as was expected in previous quarters. This is partly due to the fact that numerous companies now have plans to expand their production facilities and infrastructure.

In all three sectors, companies are intending to increase their investments in both equipment and buildings over the next twelve months. About one-third of companies investing in equipment are also expanding their production capacity. The persistently low interest rate environment supports investment. The retail trade, however, is anticipating lower total investment.

**Ongoing slight rise in prices**

Expectations regarding the development of purchase and sale prices have hardly changed from the previous quarter; company representatives expect both to continue to rise slightly in the next two quarters. A number of companies are planning price increases from the beginning of 2019. In the retail trade, on the other hand, it is anticipated that prices will continue to fall.

In the discussions, higher purchase prices were linked to increases in raw material prices as well as good capacity utilisation among suppliers. Several company representatives expect that these price rises can readily be passed on to customers, albeit only with a certain delay in some cases, which can in turn temporarily affect profit margins.

**Staff increases planned**

The personnel shortages and prospects of higher capacity utilisation mentioned by many representatives are affecting companies' recruitment plans. Managers from all three sectors are planning notable increases to staff numbers in the next two quarters (cf. chart 5), provided suitable candidates can be found. In the quarter under review, numbers reached their highest level since this time series began. Many firms are continuing to focus

on in-house training and apprenticeships in an effort to attract and retain personnel. No industry has plans to reduce staff numbers.

## ENVIRONMENT AND RISKS

In the current generally supportive economic environment, company representatives are talking more about opportunities than risks. They rate uncertainty in their operating environment as relatively low. Owing to the fact that the economy is performing so well across a broad front, some managers feel that it is realistic to anticipate a slowdown.

Internationally, potential hazards mentioned include the US trade disputes with China and the EU and their potential direct or indirect impact on companies. Other risks cited were a slump in the global economy, Brexit and unresolved structural problems in Europe.

Domestically, the main challenges referred to were the distinct shortage of specialised staff and delivery bottlenecks for raw materials. Renewed appreciation of the Swiss franc was also identified as a risk.

Digitalisation is still being actively debated and explored in many industries. Expressions of unease regarding developments on the real estate markets surfaced even more frequently than in previous quarters. Company representatives mentioned, in particular, growing vacancy rates in apartments, very low returns on investment properties, and risks being taken by investors. Many company representatives continue to find the complex domestic regulatory environment burdensome, although this issue is preoccupying them less than in the past.

## About this report

### Approach

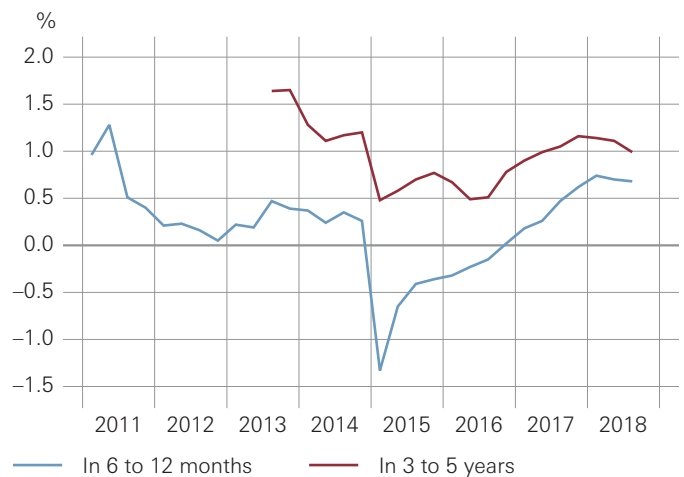
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

Approximately 240 companies are visited every quarter. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while the public sector and agriculture are not taken into consideration. Different companies are visited from one quarter to the next.

In the talks, the SNB's delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade part of the qualitative information received according to a numeric scale. This enables the results to be aggregated and represented graphically.

Chart 6

## EXPECTED INFLATION



Source: SNB

## INFLATION EXPECTATIONS

As part of the exchange of views, the delegates also regularly ask company representatives about their short and long-term inflation expectations as consumers, as measured by the consumer price index.

Inflation expectations remain stable in the short term. Expectations for the next six to twelve months average 0.7% (blue line in chart 6). Medium-term inflation expectations – with a time horizon of three to five years – are somewhat lower than in the previous quarter, averaging 1% (1.1% in the previous quarter; red line in chart). The slight downward trend observed since the end of 2017 is thus continuing.

The five-tier scale ranges from 'substantially higher' or 'much too high' (+2), 'slightly higher' or 'somewhat high' (+1), 'the same' or 'normal' (0), 'slightly lower' or 'somewhat low' (-1), to 'substantially lower' or 'much too low' (-2).

### Interpreting the charts

The charts are to be regarded as a numeric summary of the qualitative information received. The index value shown represents the average of the findings from all companies visited. When interpreting the curves, particular relevance should be attached to their overall development, rather than to their numeric level or individual changes.

### Additional information

Further information on the 'Business cycle signals' report is available at [www.snb.ch](http://www.snb.ch), The SNB, SNB regional network.

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# 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](http://www.snb.ch).

<p>At its quarterly assessment of 20 September, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>September 2018</p>
<p>At its quarterly assessment of 21 June, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued, and the situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>June 2018</p>
<p>At its quarterly assessment of 15 March, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued, and the situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>March 2018</p>
<p>At its quarterly assessment of 14 December, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. The depreciation of the Swiss franc reflects the fact that safe havens are currently less sought after. The situation on the foreign exchange market continues to be fragile. In the SNB's view, the Swiss franc remains highly valued. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>December 2017</p>
<p>At its quarterly assessment of 14 September, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued, and the situation on the foreign exchange market is still fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market are intended to make Swiss franc investments less attractive, thereby easing upward pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>September 2017</p>
<p>At its quarterly assessment of 15 June, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still significantly overvalued. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market are intended to make Swiss franc investments less attractive, thereby easing upward pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>June 2017</p>

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