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Quarterly Bulletin  
3/2019 September

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





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# Quarterly Bulletin 3/2019 September

Volume 37



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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 2019

The report describes economic and monetary developments in Switzerland and explains the inflation forecast. It shows how the SNB views the economic situation and the implications for monetary policy it draws from this assessment. The first section ('Monetary policy decision of 19 September 2019') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 19 September 2019. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

# 1

## Monetary policy decision of 19 September 2019

### Swiss National Bank leaves expansionary monetary policy unchanged and adjusts basis for calculating negative interest on sight deposits at SNB

The Swiss National Bank is keeping the SNB policy rate and interest on sight deposits at the SNB at  $-0.75\%$ . It remains willing to intervene in the foreign exchange market as necessary, while taking the overall currency situation into consideration. Furthermore, the National Bank is adjusting the basis for calculating negative interest on sight deposits at the SNB.

The expansionary monetary policy continues to be necessary given the latest international developments and the inflation outlook in Switzerland. The situation on the foreign exchange market is still fragile, and the Swiss franc has appreciated in trade-weighted terms. It remains highly valued.

Negative interest and the willingness to intervene are important in order to counteract the attractiveness of Swiss franc investments and thus ease pressure on the currency. In this way, the SNB stabilises price developments and supports economic activity.

The SNB is adjusting the basis for calculating negative interest as follows. Negative interest will continue to be charged on the portion of banks' sight deposits which exceeds a certain exemption threshold. However, this

exemption threshold will now be updated monthly and thereby reflect developments in banks' balance sheets over time.

This adjustment to the calculation basis takes account of the fact that the low interest rate environment around the world has recently become more entrenched and could persist for some time yet. The adjustment raises the exemption threshold for the banking system and reduces negative interest income for the SNB. The new exemption threshold calculation comes into effect on 1 November 2019.

The SNB regularly reviews the basis for calculating negative interest and adjusts it as necessary, in order to ensure room for manoeuvre in monetary policy going forward. The negative interest charge is to be limited to what is necessary, however.

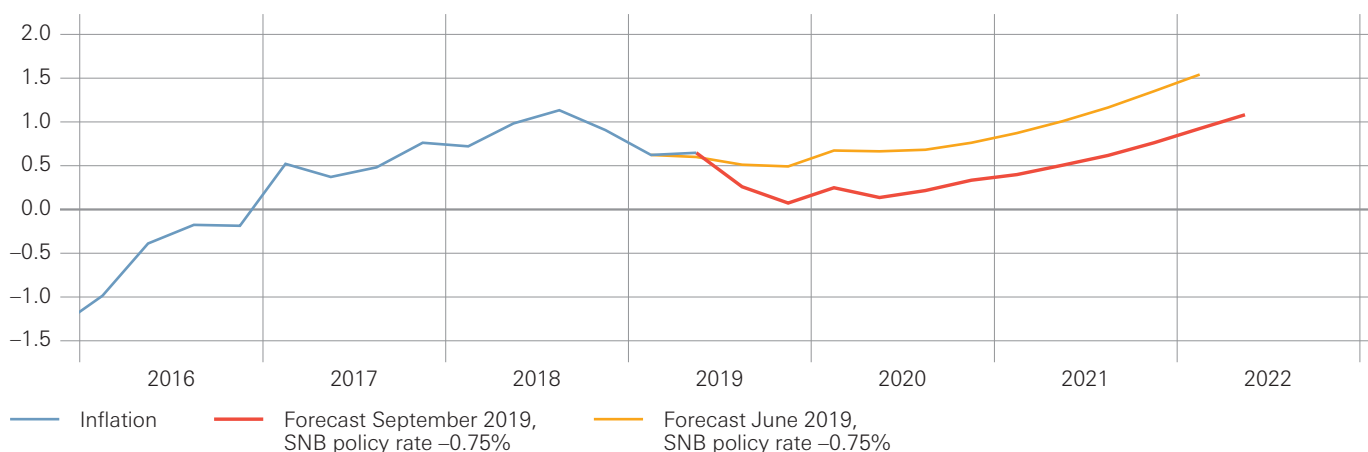
The new conditional inflation forecast is lower than in June (cf. chart 1.1). This is primarily due to weaker growth and inflation prospects abroad and the stronger Swiss franc. The forecast for the current year has been reduced slightly to  $0.4\%$ , from  $0.6\%$  in the previous quarter (cf. table 1.1). For 2020, the SNB now expects an inflation rate of  $0.2\%$ , compared to  $0.7\%$  last quarter. The inflation rate increases to  $0.6\%$  in 2021; in the previous quarter, a rise to  $1.1\%$  had been forecast. The conditional inflation forecast is based on the assumption that the SNB policy rate remains at  $-0.75\%$  over the entire forecast horizon.

Global economic signals have deteriorated in recent months due to heightened trade tensions and political uncertainty. Economic growth around the world slowed in the second quarter, and manufacturing output has since been showing signs of weakening. The economic slowdown is being accompanied by subdued capital spending and a decline in the global trade in goods. Employment growth in the advanced economies was

Chart 1.1

### CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2019

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



Sources: SFSO, SNB

also slower than in previous quarters. In light of the heightened economic risks and modest inflation dynamics, various central banks have adjusted their monetary policy stance and lowered their key rates.

In its new baseline scenario for the global economy, the SNB is revising down its growth forecast for the coming quarters. Over the short term, international momentum is likely to be modest. However, in the medium term the SNB expects the global economy to pick up again, not least due to monetary policy easing measures. Inflation is then expected to rise again gradually.

Risks to the global economy remain tilted to the downside. Chief among them are still political uncertainty and trade tensions, which could lead to renewed turbulence on the financial markets and a further dampening of economic sentiment.

The Swiss economy continued to grow at a moderate rate in the second quarter. Developments on the labour market also remained positive. Employment figures continued to rise, and the unemployment rate remained stable at a low level.

The deterioration of the international economic environment will likely cause growth to weaken temporarily. The SNB expects growth of between 0.5% and 1% for 2019 as a whole, compared to around 1.5% in June. The forecast adjustment is largely attributable to the fact that GDP growth rates for the second half of 2018 and the first quarter of 2019 were revised downwards.

Imbalances persist on the mortgage and real estate markets. Both mortgage lending and prices for single-family homes and privately owned apartments continued to rise slightly in recent quarters, while prices in the residential investment property segment declined somewhat. Nevertheless, due to the strong price increases in recent years and growing vacancy rates there is the risk of a correction in this segment in particular. The SNB therefore welcomes the latest revision of the self-regulation guidelines for banks in the area of investment properties. It 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. As the third element in implementing its monetary policy the SNB sets the SNB policy rate, and seeks to keep the secured short-term Swiss franc money market rates close to this rate.

Table 1.1

### OBSERVED INFLATION IN SEPTEMBER 2019

	2016				2017				2018				2019				2016	2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-1.0	-0.4	-0.2	-0.2	0.5	0.4	0.5	0.8	0.7	1.0	1.1	0.9	0.6	0.6			-0.4	0.5	0.9

Source: SFSO

### CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2019

	2019				2020				2021				2022				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2019, SNB policy rate -0.75%		0.6	0.5	0.5	0.7	0.7	0.7	0.8	0.9	1.0	1.2	1.4	1.5				0.6	0.7	1.1
Forecast September 2019, SNB policy rate -0.75%			0.3	0.1	0.2	0.1	0.2	0.3	0.4	0.5	0.6	0.8	0.9	1.1			0.4	0.2	0.6

Source: SNB



## 2 Global economic environment

Owing to heightened international trade tensions and political uncertainty, global economic signals have deteriorated in recent months. Following a robust first quarter, economic growth around the world slowed noticeably in the second quarter. In the summer months, too, manufacturing output has been showing signs of weakening in many countries, accompanied by subdued capital spending and a decline in the global trade in goods (cf. chart 2.1). Employment rates improved further in the advanced economies, albeit at a slower pace than in the previous quarters. Unemployment continued to fall.

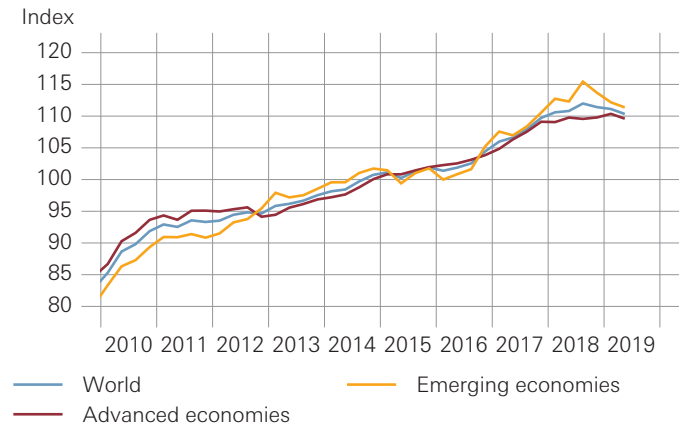
In light of the heightened economic risks and modest inflation, various central banks have adjusted their monetary policy stance and lowered their key rates. On the financial markets, expectations regarding key interest rates in the advanced economies fell sharply.

In its new baseline scenario for the global economy, the SNB has revised down its growth forecast for the coming quarters for almost all countries. Momentum worldwide is likely to be modest over the short term. In the medium term, the SNB expects the global economy to pick up again on the back of monetary policy easing. Inflation is then expected to rise again gradually.

Chart 2.1

### GLOBAL GOODS TRADE

Average of depicted period = 100



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

Table 2.1

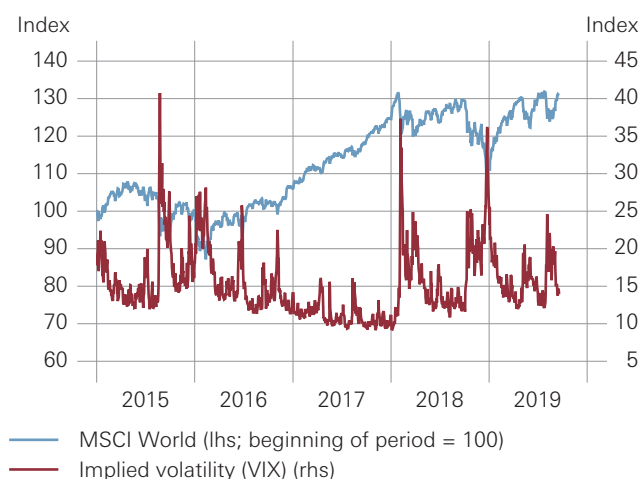
### BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2015	2016	2017	2018	Scenario	
					2019	2020
<b>GDP, year-on-year change in percent</b>						
Global <sup>1</sup>	3.5	3.5	4.0	4.0	3.4	3.5
US	2.9	1.6	2.4	2.9	2.3	2.0
Euro area	2.0	1.9	2.7	1.9	1.1	1.1
Japan	1.3	0.6	1.9	0.8	1.0	0.1
<b>Oil price in USD per barrel</b>						
	52.5	43.8	54.3	71.0	63.7	61.0

<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

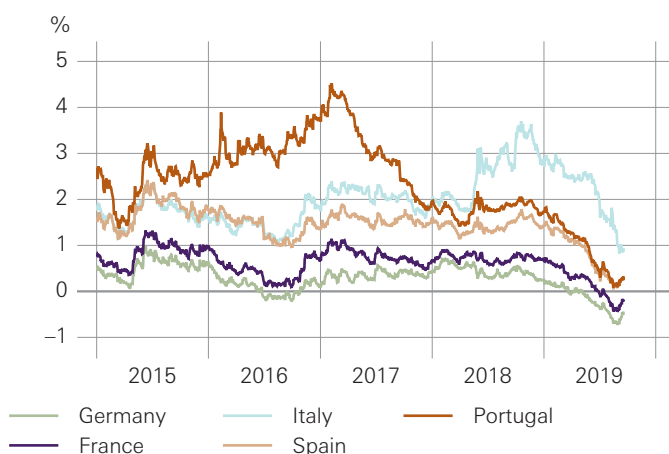


Source: Thomson Reuters Datastream

Chart 2.4

**EUROPEAN LONG-TERM INTEREST RATES**

10-year government instruments



Source: Thomson Reuters Datastream

Risks to the global economy remain tilted to the downside. Chief among them are still political uncertainty and trade tensions, which could lead to renewed turbulence on the financial markets and a further dampening of economic sentiment.

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 an oil price for Brent crude of USD 61 per barrel, which is USD 11 lower than in the June baseline scenario, and an exchange rate of USD 1.12 to the euro, as in June. Both correspond to the 20-day average when the current baseline scenario was drawn up.

**INTERNATIONAL FINANCIAL AND COMMODITY MARKETS**

Developments on the financial markets have been dominated since mid-June by the US-China trade dispute, political uncertainty in some advanced economies, and the downturn in global economic signals. After a spike in August, the implied volatility of US stocks as measured by option prices (VIX) has normalised again (cf. chart 2.2).

The equity markets have also been volatile. In mid-September, however, the MSCI World Index was back above its mid-June level.

Yields on ten-year government bonds in advanced economies fell at times, occasionally reaching new historical lows, such as in Germany, for example. Yields recovered in September. In Italy, the yield differential to other EU member states narrowed significantly from mid-year onwards (cf. charts 2.3 and 2.4).

The yen, regarded as a safe-haven currency, appreciated on a trade-weighted basis. The US dollar also gained in value somewhat, while the euro trended sideways. The pound sterling fluctuated on Brexit developments but by mid-September was back at its mid-June level (cf. chart 2.5). Against the backdrop of trade tensions, the renminbi lost further ground and broke through the 7-yuan-per-dollar mark for the first time since 2008.

The heightened uncertainty as well as concerns over a global economic downturn initially weighed on oil prices, but they rose again in mid-September amid oil shortage fears following the curbing of production in Saudi Arabia. Prices for industrial metals fluctuated strongly and were latterly higher than three months earlier (cf. chart 2.6).

## UNITED STATES

The US economy expanded by 2.0% in the second quarter (cf. chart 2.7). Robust private consumption and higher government spending underpinned growth, while investment and exports declined. Labour market developments remained positive. Employment figures continued to rise, albeit at a slower pace than in the previous year, and the unemployment rate was virtually unchanged at 3.7% in August (cf. chart 2.10).

According to the monthly indicators, private consumption continued to exhibit strong growth in the third quarter. Manufacturing activity, meanwhile, lacked momentum and signals from industry surveys remained weak (cf. chart 2.9). The SNB anticipates GDP growth of 2.3% for 2019 and 2.0% for 2020 (cf. table 2.1). At the same time, it expects manufacturing activity to pick up gradually over the coming quarters. It is, however, very difficult to gauge the impact of the escalating trade dispute with China.

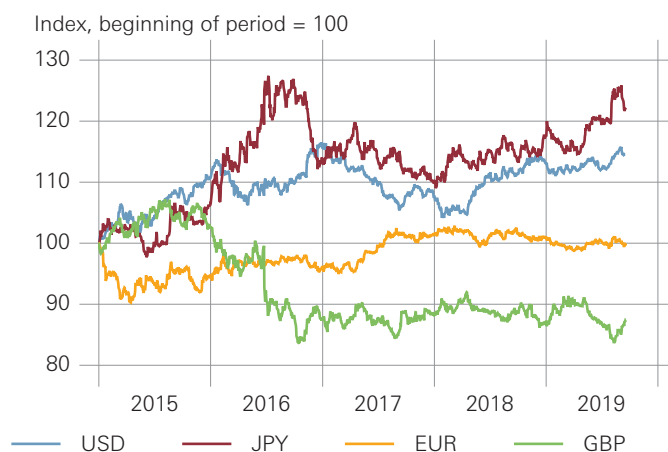
Inflation as measured by the consumer price index (CPI) was stable in recent months, and stood at 1.7% in August (cf. chart 2.11). Although energy price inflation eased, core inflation increased to 2.4% (cf. chart 2.12). In July, core inflation as measured by the personal consumption expenditure (PCE) deflator index was almost unchanged at 1.4%, thereby remaining below the US Federal Reserve's target value.

Having last increased the target range for its policy rate in December 2018, the Federal Reserve lowered the range in both July and September, by 25 basis points on each occasion, bringing it to 1.75–2.0% (cf. chart 2.13). The purpose of these reductions was to counter the threat of an economic downturn. In addition, the Fed concluded its balance sheet runoff in August, two months earlier than previously planned.

Chart 2.5

## EXCHANGE RATES

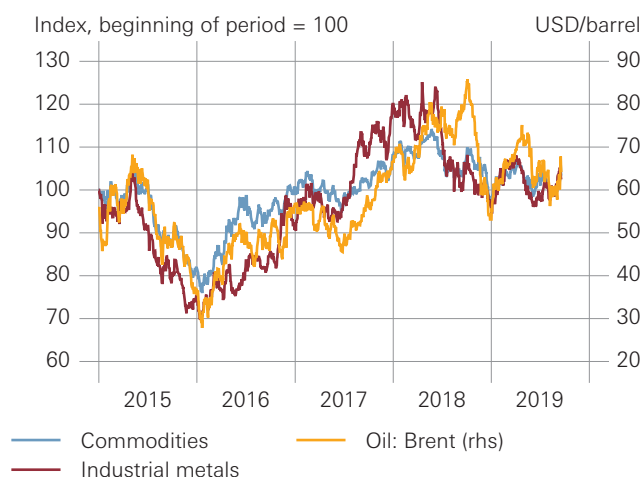
Trade-weighted



Source: Thomson Reuters Datastream

Chart 2.6

## COMMODITY PRICES

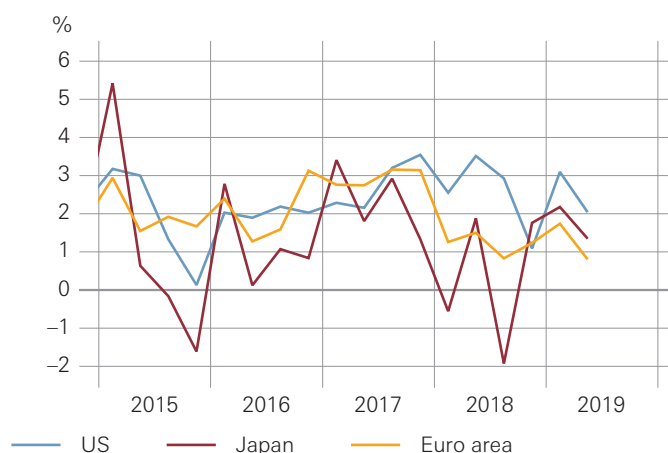


Source: Thomson Reuters Datastream

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

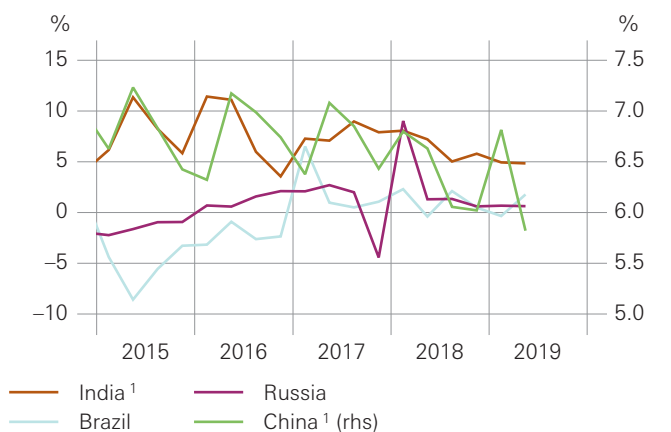


Chart 2.9

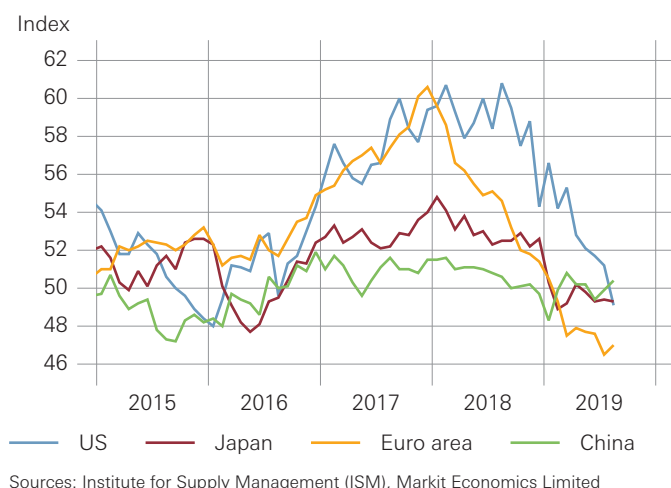
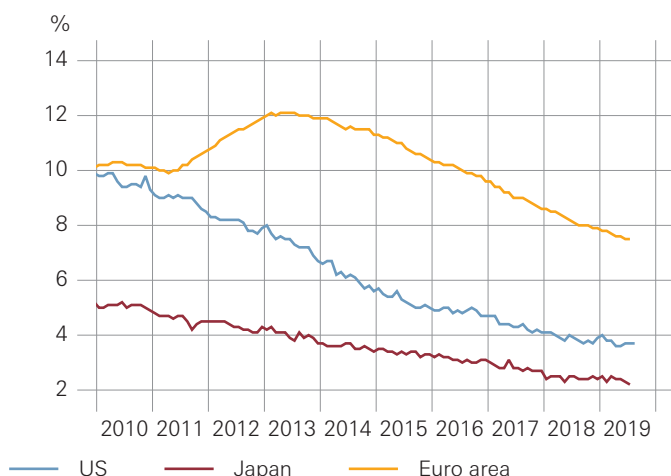
**PURCHASING MANAGERS' INDICES (MANUFACTURING)**

Chart 2.10

**UNEMPLOYMENT RATES****EURO AREA**

At 0.8%, GDP in the euro area again dropped below potential in the second quarter, having advanced significantly in the previous quarter (cf. chart 2.7). This slowdown in growth was largely attributable to Germany, where economic output declined. German industry was strongly affected by the reduction in global goods trade. Labour market developments remained positive overall; the unemployment rate fell further in July, to 7.5%, thus approaching its lowest level since the euro area first came into existence (7.3%).

Company and household surveys indicate that economic developments will remain subdued in the short term. The heightened uncertainty is likely to result in more cautious capital spending by companies and increased saving by consumers. In manufacturing, expectations with regard to exports are still muted. Against this background, the SNB is lowering its euro area growth forecast for both 2019 and 2020 to 1.1% (cf. table 2.1). The SNB assumes, however, that economic growth will firm in the medium term, underpinned by a more expansionary monetary policy and favourable developments in household income. Nevertheless, the growth outlook is subject to increased risks in connection with international trade tensions and Brexit.

Consumer price inflation in the euro area declined in recent months and stood at 1.0% in August (cf. chart 2.11). This was primarily due to lower energy prices. Core inflation also remained modest, hovering around 1.0%, as it has done for some years (cf. chart 2.12).

In mid-September, the European Central Bank lowered its deposit rate by 10 basis points, to -0.50%. It intends to maintain its key rates at their present levels or lower until inflation dynamics are sufficiently robust. Furthermore, it decided to purchase new securities to the value of EUR 20 billion per month, starting in November 2019. The asset purchase programme is expected to end shortly before the ECB raises its key rates again.

## JAPAN

In Japan, GDP expanded by 1.3% in the second quarter, following growth of 2.2% in Q1 2019 (cf. chart 2.7). The economy thus expanded considerably beyond potential in the first half year. Bolstered by an unprecedented ten-day holiday, domestic demand picked up substantially in the second quarter. Meanwhile, exports stagnated, which was reflected in weak growth in manufacturing activity.

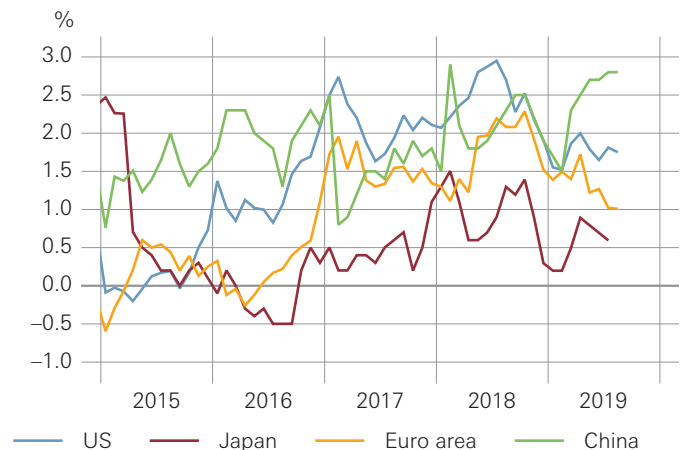
Although developments in the first six months of the year were generally more positive than expected, the economic outlook has deteriorated. Business confidence fell markedly in recent months, particularly in manufacturing. Exporters are concerned by factors such as weakening global investment activity, which given their significant focus on capital goods would affect them seriously. At the same time, consumer confidence has also suffered, due in part to the consumption tax hike scheduled for October 2019. However, stimulus measures in the amount of 1% of GDP – including infrastructure investment and a free education programme – should cushion the negative impact of the tax increase. Owing to the economic slowdown anticipated in the second half of the year, the SNB expects GDP expansion of 1.0% for 2019, i.e. slightly above potential, and sees growth essentially stagnating in 2020 (cf. table 2.1).

Consumer price inflation receded in the wake of falling energy price inflation, and stood at 0.5% in July (cf. chart 2.11). Core inflation was virtually unchanged at 0.3% (cf. chart 2.12). The government's planned free education programme will partially offset the inflation effect of the consumption tax increase. The longer-term inflation expectations derived from company surveys trended sideways and remained significantly below the Japanese central bank's inflation target of 2%. In light of the muted inflation momentum, the Bank of Japan intends to maintain the low level of interest rates for an extended period of time, at least through spring 2020. Additionally, it stressed that it was willing to take further easing action if necessary.

Chart 2.11

### CONSUMER PRICES

Year-on-year change

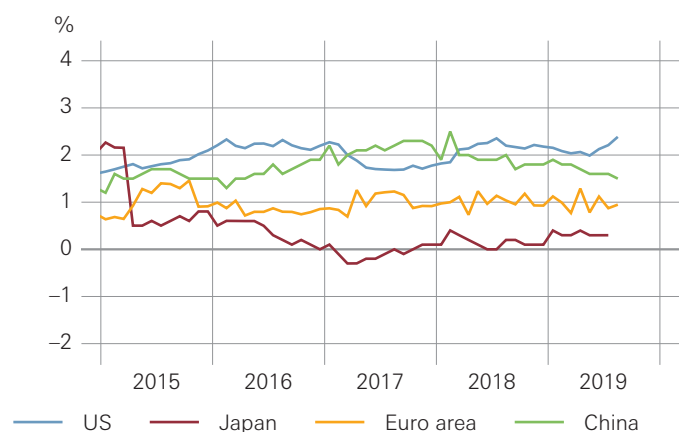


Source: Thomson Reuters Datastream

Chart 2.12

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

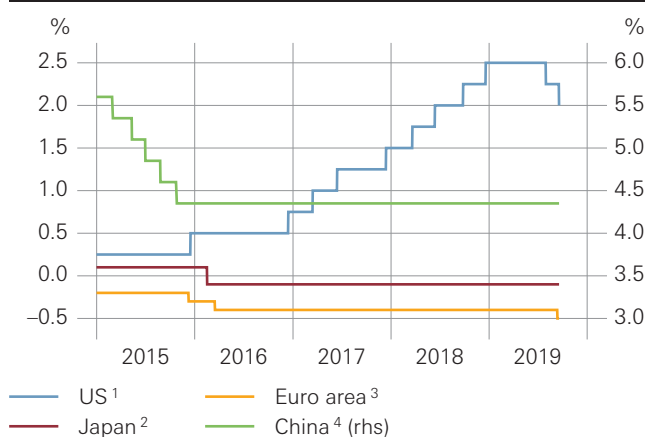
Year-on-year change



<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 Deposit facility rate

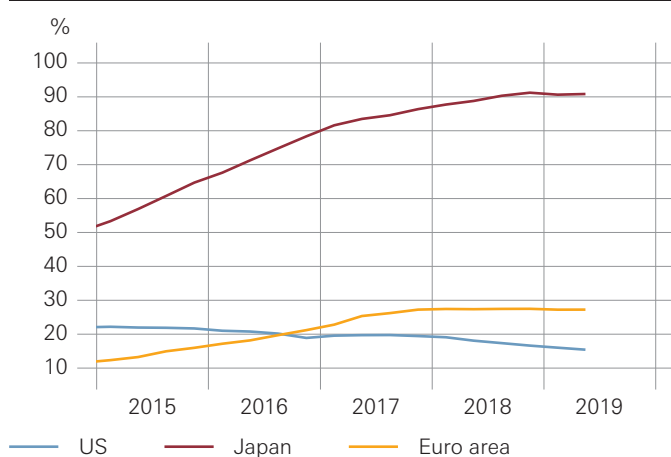
4 One-year lending rate

Source: Thomson Reuters Datastream

Chart 2.14

**MONETARY BASE**

Relative to GDP



Source: Thomson Reuters Datastream

**CHINA**

In China, GDP expansion slowed to 5.8% in the second quarter (cf. chart 2.8). While manufacturing activity lost further momentum, services exhibited robust growth.

Underpinned by continued healthy developments in services, GDP growth is likely to remain stable over the quarters ahead. Manufacturing momentum looks set to continue to slow slightly, which is also partly attributable to the heightened trade tensions with the US. The US government intends to impose an additional 15% tariff on a list of Chinese exports to the US with an annual trade value of USD 300 billion, doing so in two stages (September and December). Moreover, existing tariffs on exports valued at USD 250 billion are due to be increased from 25% to 30%. In retaliation, the Chinese government announced tariff hikes of between 5% and 10% on a list of goods imports from the US.

Economic policy measures are expected to provide positive impetus for growth. In spring of this year, the government decided to substantially increase infrastructure spending in the current year and to lower taxes for companies and individuals. In September, the People's Bank of China lowered the reserve requirement ratio by 50 basis points to keep liquidity in the banking system basically stable. The SNB anticipates GDP growth in China of 6.2% for 2019 and 5.9% for 2020.

**BRAZIL, INDIA AND RUSSIA**

Economic activity in the other major emerging economies remained muted (cf. chart 2.8). Economic policy in these countries is becoming increasingly expansionary and is likely to support GDP growth in the coming quarters. In this year alone, India's central bank has already lowered its policy rates four times, and further interest rate reductions are planned. This should serve to benefit private investment, in particular, which has been suffering for some time from sluggish lending. In addition, public infrastructure spending will continue to drive growth. In Brazil, too, monetary policy is already expansionary. In Russia, lower oil prices will hold back economic activity this year. Public infrastructure projects are likely to only partially offset the negative impact of oil prices.



### 3

## Economic developments in Switzerland

The Swiss economy continued to grow at a moderate rate in the second quarter. According to the initial estimate, GDP expanded by 1.1%.

Economic indicators show that momentum slowed further in the summer months, which was largely due to weaker manufacturing activity worldwide. International trade tensions and political uncertainty have caused turbulence on markets around the world and resulted in a downturn in manufacturing and the international goods trade. In Switzerland, the manufacture and export of capital goods have been particularly affected. The appreciation of the franc in recent months is additionally hampering development.

The labour market, by contrast, continues to be a mainstay of the Swiss economy. Employment figures rose further, and the unemployment rate remained at a low level through to August.

The SNB is now anticipating GDP expansion of between 0.5% and 1.0% for 2019. At the June 2019 monetary policy assessment, the SNB had expected growth of around 1.5%. The lower forecast is largely attributable to the data revision for the previous quarters. In addition, the weaker global economy and the appreciation of the Swiss franc are likely to hold back growth in the second half of the year.

### OUTPUT AND DEMAND

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

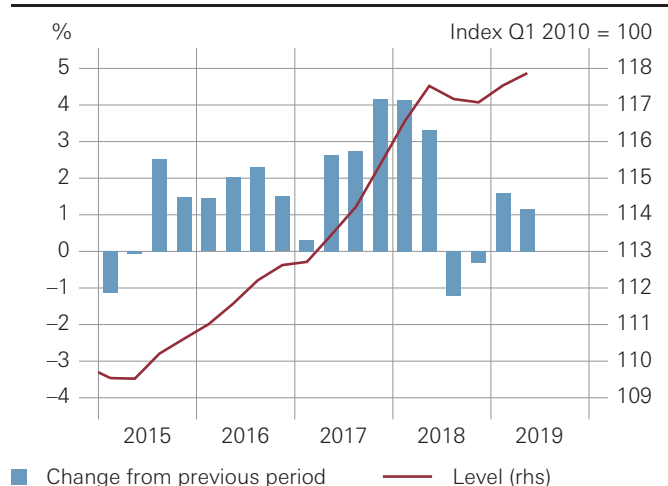
The annual figures of the System of National Accounts, revised by the Swiss Federal Statistical Office (SFSO), show higher GDP growth for the last three years than previously assumed. The increase in the annual figures also had an impact on the quarterly estimates by the State Secretariat for Economic Affairs (SECO). With growth averaging 3.4%, the period from the second quarter of 2017 to the second quarter of 2018 thus emerges as the strongest expansionary phase since the financial crisis (cf. chart 3.1).

#### ... but weaker since mid-2018

However, the new quarterly figures show that this short-lived boom is coming to more of an abrupt end than previously assumed. Growth momentum since the third quarter of 2018, for instance, has been revised downwards

Chart 3.1

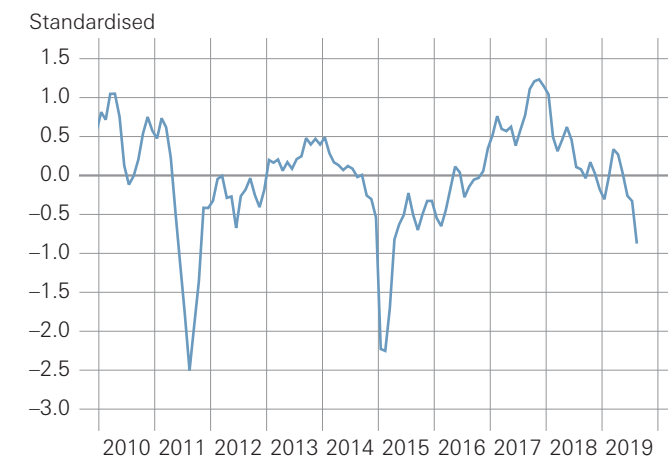
#### REAL GDP



Source: SECO

Chart 3.2

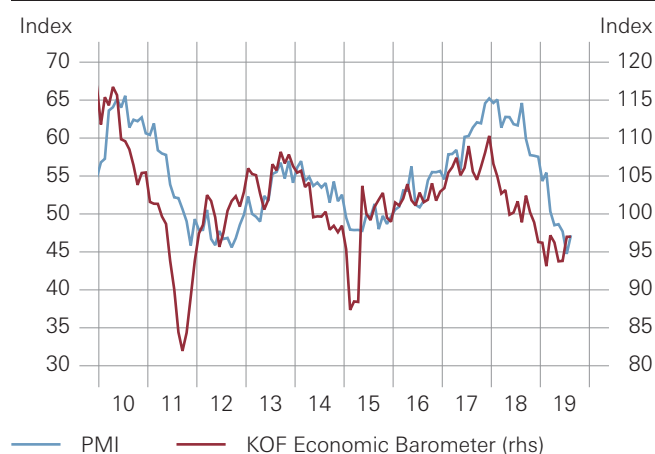
#### SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

#### MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Sources: Credit Suisse, KOF Swiss Economic Institute

by a considerable amount. Based on the new quarterly estimates, GDP growth stood at –1.2% in the third quarter of 2018 (instead of –0.7%, as previously assumed), at –0.3% in the fourth quarter of 2018 (instead of 1.3%) and at 1.6% in the first quarter of 2019 (instead of 2.3%). GDP growth for 2019 is thus half a percentage point lower.

#### Economic indicators more positive than GDP growth in second half of 2018

Although a wide range of information shows a gradual slowing in the economy since the beginning of last year, job market indicators and company surveys do not point to economic activity in the second half of 2018 as having been as weak as the most recent GDP estimate indicates. According to the SNB's Business Cycle Index (BCI), which offers a comprehensive overview of economic momentum, the pace of growth in the second half of 2018 also remained average, which corresponds to a value of zero in the standardised BCI (cf. chart 3.2).

#### Moderate GDP growth in second quarter of 2019

In line with expectations, GDP growth was moderate in the second quarter of 2019. According to SECO's initial estimate, GDP rose 1.1%, compared to 1.6% in the previous quarter. However, owing to weak developments in the second half of 2018, GDP was up just 0.2% year-on-year.

Growth was again driven primarily by manufacturing, in particular by the ongoing boom in the pharmaceutical industry, which is less sensitive than the rest of the manufacturing sector to changes in the international economic environment. Final demand stagnated, while consumer spending increased slightly.

#### Signs of weakening

Economic momentum continued to slow in recent months. The SNB's BCI has remained below its long-term average since June and is trending downwards. The figure for August corresponded to only very modest growth. The talks held by the SNB's delegates for regional economic relations with companies also suggest a further slowdown in the third quarter (cf. 'Business cycle signals', pp. 28 et seq.).

Similarly, the KOF Economic Barometer and the manufacturing purchasing managers' index (PMI) point to a prolonged period of weak economic growth (cf. chart 3.3). Through to August, the KOF Economic Barometer remained persistently below 100, i.e. the level that corresponds to average growth over the long term. Although the manufacturing PMI calculated by Credit Suisse advanced again somewhat in August, it is considerably below the growth threshold of 50.

Table 3.1

#### REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2015	2016	2017	2018	2017		2018				2019	
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	1.7	1.4	1.2	1.0	1.9	0.8	1.0	1.1	0.1	1.0	1.2	1.4
Government consumption	1.1	1.3	1.2	0.3	1.7	1.6	–1.6	0.2	–0.2	1.5	2.2	0.5
Investment in fixed assets	2.3	2.5	3.4	1.1	3.0	3.1	4.1	–1.6	–5.0	–2.2	6.7	–2.6
Construction	1.6	–0.2	1.5	1.2	2.6	4.4	–1.2	2.9	–0.3	–0.8	1.8	–0.4
Equipment	2.7	4.3	4.6	1.1	3.2	2.3	7.4	–4.1	–7.7	–3.0	9.8	–3.9
Domestic final demand	1.8	1.7	1.8	0.9	2.2	1.5	1.5	0.2	–1.3	0.2	2.8	0.2
Change in inventories <sup>1</sup>	–0.4	–1.4	0.0	0.6	–8.2	12.6	–5.7	6.0	0.0	–11.4	0.1	1.2
Total exports <sup>2</sup>	2.6	6.5	3.8	4.5	17.6	–6.3	17.4	–6.8	–8.1	20.8	4.0	–2.3
Goods <sup>2</sup>	2.6	5.9	5.2	5.9	18.8	–9.0	21.8	–5.6	–12.8	38.0	2.6	–3.1
Goods excluding merchanting <sup>2</sup>	0.7	5.8	5.8	4.4	6.1	1.8	7.3	4.2	–11.3	28.3	3.9	1.3
Services	2.4	7.6	1.1	1.6	15.1	–0.8	9.3	–9.0	1.7	–7.9	7.1	–0.7
Total imports <sup>2</sup>	3.0	4.4	4.4	2.4	0.9	14.4	2.5	–2.2	–10.1	1.1	7.7	–2.6
Goods <sup>2</sup>	0.0	3.8	5.2	6.2	0.8	24.8	7.8	0.4	–12.7	3.1	11.8	–6.7
Services	8.8	5.5	2.8	–4.3	1.1	–3.2	–6.9	–7.3	–4.7	–2.8	–0.2	6.3
Net exports <sup>3</sup>	0.1	1.6	0.2	1.4	9.0	–9.8	8.5	–2.9	0.0	10.9	–1.0	–0.2
<b>GDP</b>	<b>1.3</b>	<b>1.7</b>	<b>1.8</b>	<b>2.8</b>	<b>2.7</b>	<b>4.2</b>	<b>4.1</b>	<b>3.3</b>	<b>–1.2</b>	<b>–0.3</b>	<b>1.6</b>	<b>1.1</b>

<sup>1</sup> Contribution to growth in percentage points (including statistical discrepancy).

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

<sup>3</sup> Contribution to growth in percentage points.

Source: SECO



## LABOUR MARKET

Labour market developments were favourable overall. While unemployment remained low, the number of employed persons and the number of jobs continued to rise.

### Unemployment stable

The number of people registered as unemployed at the regional employment offices changed very little in recent months. Excluding seasonal fluctuations, around 106,000 people were recorded as unemployed at the end of August, while the seasonally adjusted unemployment rate published by SECO stood at 2.3% (cf. chart 3.4).

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 includes people who are looking for work but are not registered, or are no longer registered, as unemployed 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 2019, the seasonally adjusted unemployment rate fell to 4.5%.

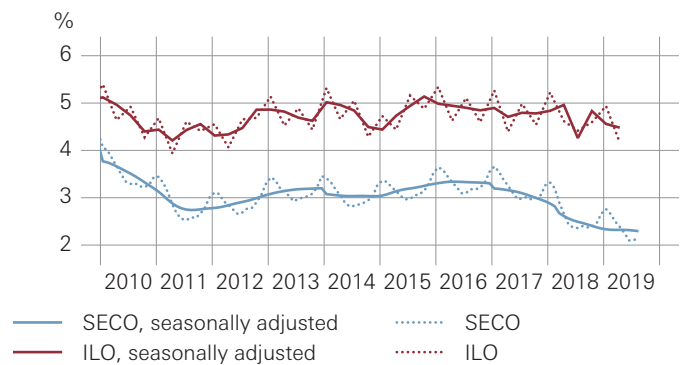
### Continued growth in employment

According to the Employment Statistics (ES), the seasonally adjusted number of persons employed rose in the second quarter by 1.1% (cf. chart 3.5). Growth was thus close to the long-term average. The ES measure the number of employed persons on the household side and are 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 grew only slightly in the second quarter (cf. chart 3.6). While employment in manufacturing and construction registered substantial growth, services saw only a slight increase in the number of full-time equivalent positions.

Chart 3.4

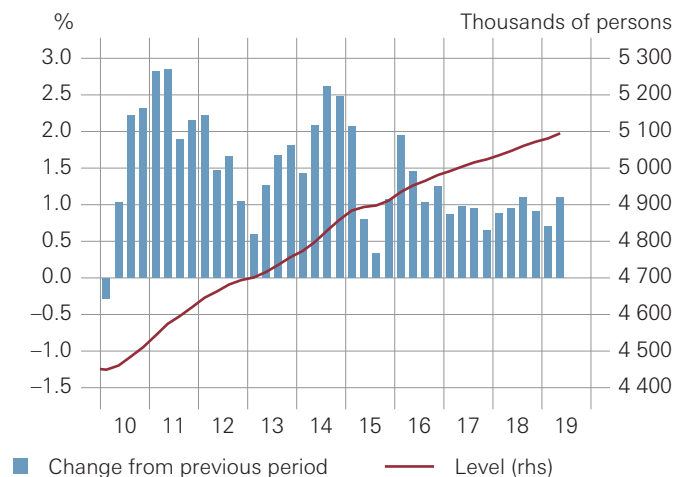
### UNEMPLOYMENT RATE



SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons). The number of economically active persons is based on the 2000 and 2010 censuses and the three-year averages of the 2012–2014 and 2015–2017 structural surveys.  
ILO: Unemployment rate based on International Labour Organization definition.  
Sources: SECO, SFSO

Chart 3.5

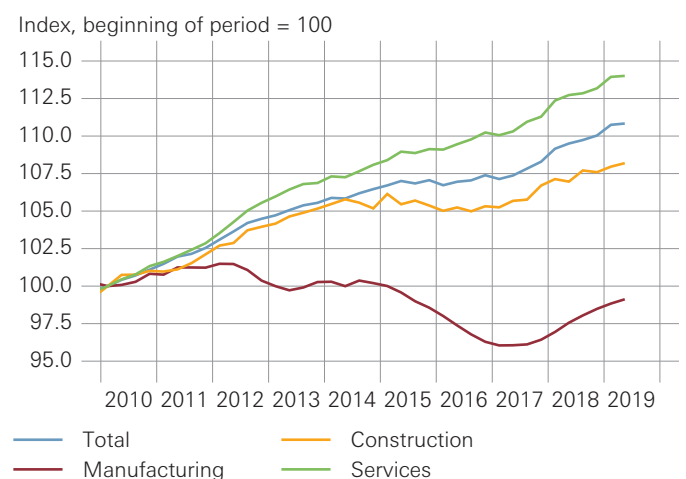
### EMPLOYED PERSONS



Source: SFSO; seasonal adjustment: SNB

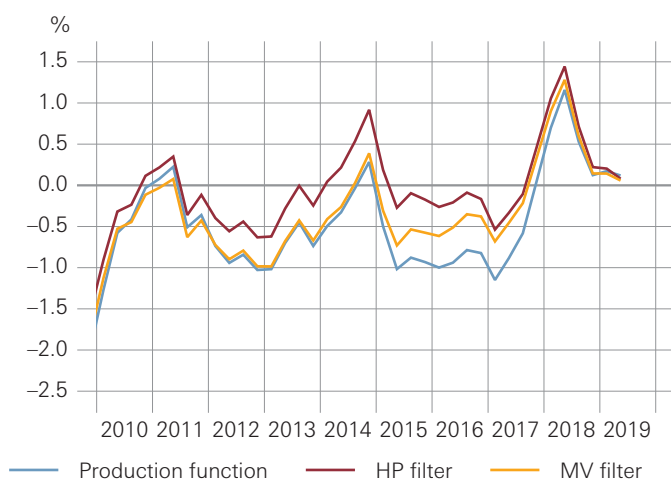
Chart 3.6

### FULL-TIME EQUIVALENT JOBS



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

**OUTPUT GAP**

Source: SNB

**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 quarterly figures for GDP, the estimates suggest the gap has closed. Potential output as estimated by means of a production function shows an output gap of 0.1% for the second quarter of 2019 (Q1 2019: 0.2%). Estimates using other methods to establish potential output (Hodrick-Prescott filter and multivariate filter) confirm that the gap is closed (cf. chart 3.7).

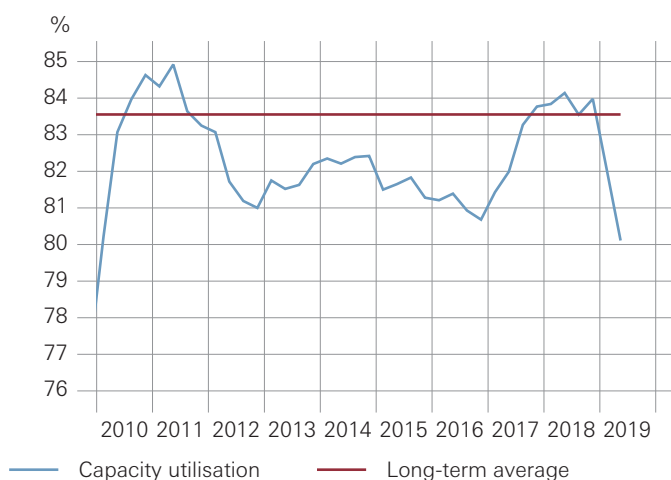
**Surveys continue to paint mixed picture**

The various surveys on the utilisation of production factors presented a very mixed picture for the second quarter. Overall, however, they suggested that capacity utilisation in the Swiss economy was at a normal level.

According to the KOF survey, utilisation of technical capacity in manufacturing declined further to 80.1% in the second quarter, which is considerably below the long-term average (cf. chart 3.8). Data from other sources do not confirm this picture, however. The KOF survey also asks companies for an assessment of current technical capacity. Respondents reported that technical capacity was still rather tight. The talks conducted by the SNB's delegates for regional economic relations also point to normal levels of utilisation. Machine utilisation in construction remained marginally above the long-term average in the second quarter (cf. chart 3.9). As for services, the surveys point to an above-average level of technical capacity utilisation.

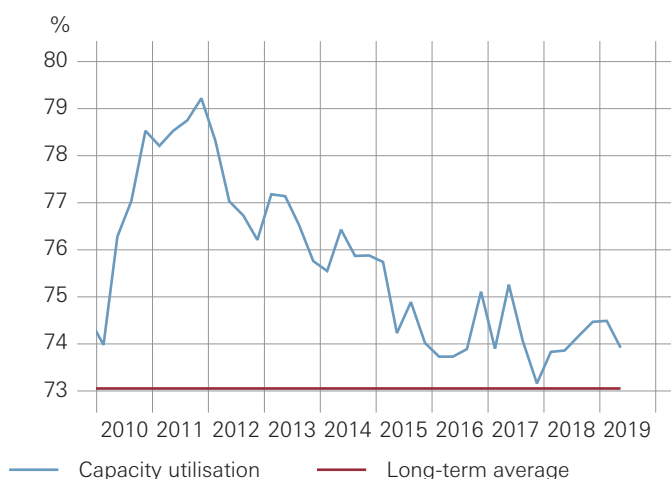
With regard to personnel, staff shortages persist. Surveys on the labour situation carried out in the various industries indicate that filling vacant positions continues to be somewhat of a challenge for companies.

Chart 3.8

**CAPACITY UTILISATION IN MANUFACTURING**

Source: KOF Swiss Economic Institute

Chart 3.9

**CAPACITY UTILISATION IN CONSTRUCTION**

Source: KOF Swiss Economic Institute

## OUTLOOK

The outlook for the Swiss economy has deteriorated slightly since the quarterly assessment in June. According to the baseline scenario for the world economy (cf. chapter 2), this is largely due to weaker global economic developments. At present, there are no discernible signs of the global manufacturing cycle picking up pace again (cf. chart 3.10) or of international trade rallying. This is compounded by the appreciation of the Swiss franc, which is impacting on the price competitiveness of the export industry. Correspondingly, the downturn that has been observed for some time in many economic indicators is proving to be more pronounced and more persistent than originally thought.

That said, by far not all economic signals are pointing to the downside. As KOF surveys show, the business situation is still considered to be favourable in all industries. Furthermore, the expected business situation for the next six months has not changed significantly in recent quarters. Even in manufacturing, companies have been cautiously optimistic to date (cf. chart 3.11). The continued positive employment outlook also offers grounds for confidence (cf. chart 3.12).

The SNB now anticipates GDP expansion of between 0.5% and 1.0% for 2019, compared to around 1.5% in June. The weaker pace of growth is, to a significant extent, attributable to data revisions for the previous quarters; these have resulted in annual growth for 2019 being reduced by half a percentage point. The dampened outlook for the second half of the year lowers the annual forecast by 0.2 percentage points. The SNB's assessment of further economic developments has thus changed less dramatically than the revision of annual growth might suggest. Unemployment is likely to remain largely unchanged for the remainder of the year.

As with the baseline scenario for the global economy, the risks for Switzerland also remain to the downside. Any unexpectedly sharp economic downturn abroad would quickly spread to Switzerland.

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

### EXPECTED BUSINESS SITUATION IN MANUFACTURING

Change in expectations for next six months

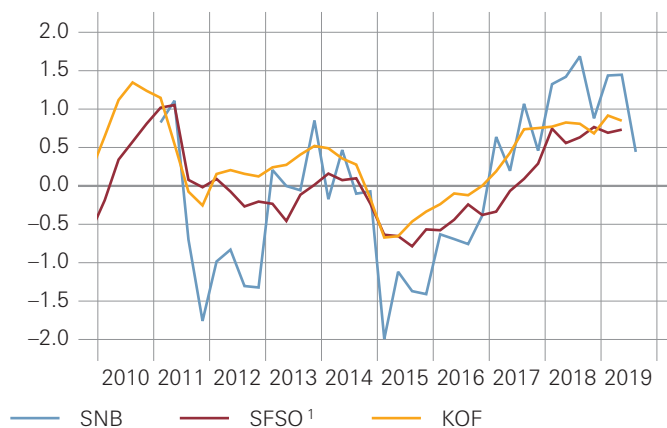


Source: KOF Swiss Economic Institute

Chart 3.12

### EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

Sources: KOF Swiss Economic Institute, SFSO, SNB regional network

# Prices and inflation expectations

The annual inflation rate as measured by the CPI declined in the third quarter of 2019, having remained largely unchanged in the first half of the year. Core inflation rates also fell, staying close to the annual CPI inflation rate.

Inflation expectations saw virtually no change, and, like the annual CPI inflation and core inflation rates, remained 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

### Falling annual inflation rate

Having remained largely unchanged in the first half of 2019, the annual CPI inflation rate decreased by half in July and August, to 0.3% (cf. table 4.1). With the exception of housing rents, all of the main CPI components contributed to this reduction.

### Lower inflation for imported products ...

Inflation for imported goods and services slowed and stood at just 0.1% in August. The contribution of foreign products to annual CPI inflation thus fell almost to zero (cf. chart 4.1); the contribution of oil products was even negative.

### ... and for domestic products

Inflation for domestic goods and services also decreased and stood at 0.4% in August (cf. chart 4.2). With this fall, the moderate but steady rise that had begun in early 2018 came to an end. Both goods and services, excluding housing rents, contributed to this reduction.

### Stable rent inflation

Rent inflation remained stable. In August 2019, the quarterly figures for housing rents were 0.5% higher than their year-back level. The reference interest rate used for rent adjustments based on mortgage rate fluctuations has been unchanged at 1.5% since June 2017 (cf. chart 4.3).

Table 4.1

## SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2018	2018		2019		2019		
		Q3	Q4	Q1	Q2	June	July	August
<b>Overall CPI</b>	<b>0.9</b>	<b>1.1</b>	<b>0.9</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.3</b>	<b>0.3</b>
Domestic goods and services	0.4	0.5	0.5	0.6	0.7	0.7	0.4	0.4
Goods	0.8	1.0	1.2	0.9	0.9	0.8	0.5	0.6
Services	0.3	0.4	0.3	0.5	0.6	0.7	0.4	0.4
Private services excluding housing rents	0.7	0.9	0.7	0.7	0.9	1.0	0.5	0.6
Housing rents	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.5
Public services	-0.8	-0.8	-0.7	0.1	-0.1	-0.2	-0.2	-0.5
Imported goods and services	2.4	3.0	2.1	0.7	0.6	0.4	0.1	0.1
Excluding oil products	1.1	1.1	0.6	0.6	0.7	0.9	0.4	0.6
Oil products	11.9	16.6	12.5	1.1	0.1	-3.2	-2.6	-3.5

Sources: SFSO, SNB

### Core inflation close to annual inflation

Overall, core inflation rates have changed very little since autumn 2017 (cf. chart 4.4). In the last three months, they declined somewhat more weakly than annual CPI inflation, with the result that the gap between the two rates has narrowed further. In August 2019, the trimmed mean calculated by the SNB (TM15) corresponded to the annual CPI inflation rate of 0.3%, while the SFSO's core inflation rate 1 (SFSO1) was marginally higher, at 0.4%.

The SFSO1 and TM15 rates are both 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

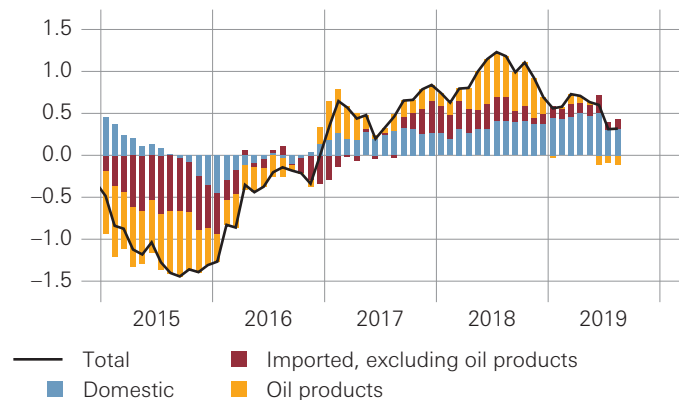
#### Declining producer and import prices

Producer and import prices have been below their year-back level since the beginning of 2019. In August 2019, the corresponding inflation rate stood at -1.9% (cf. chart 4.5). Having hovered just below zero in the first few months of the year, it descended further into negative territory in recent months. This development was largely attributable to import prices, which fell considerably more sharply than producer prices.

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.

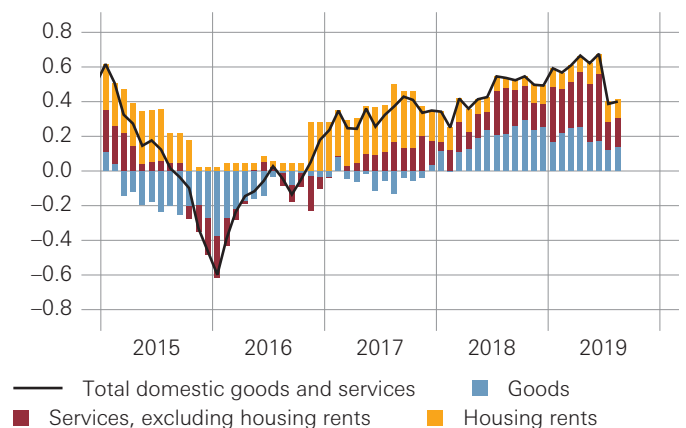


Sources: SFSO, SNB

Chart 4.2

### CPI: DOMESTIC GOODS AND SERVICES

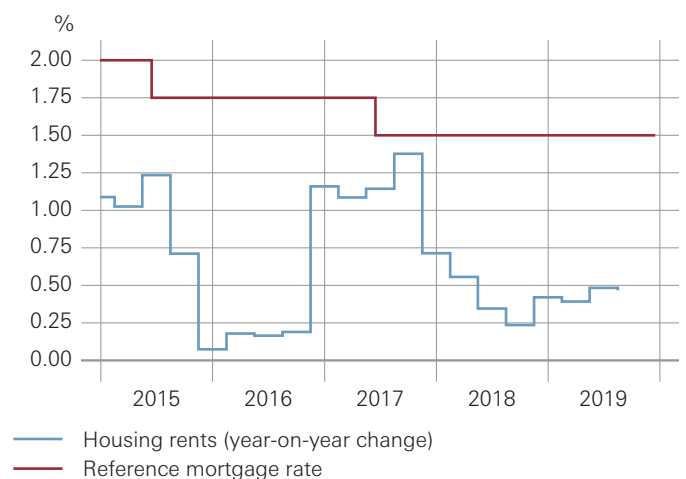
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

### HOUSING RENTS

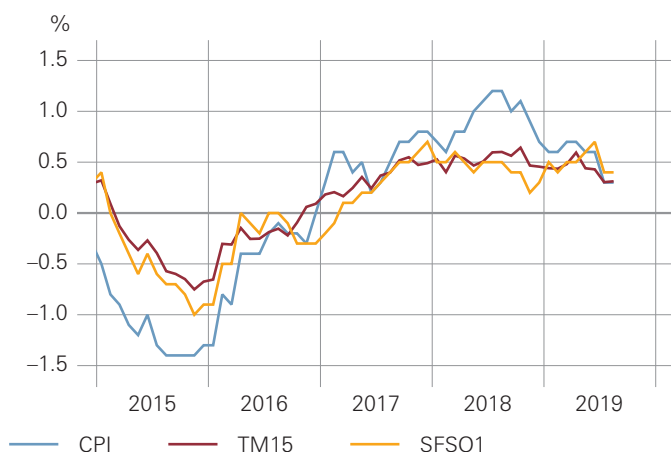


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

**CORE INFLATION RATES**

Year-on-year change

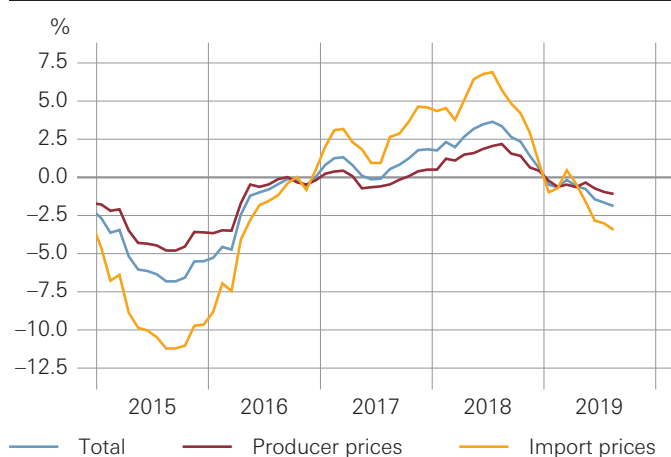


Sources: SFSO, SNB

Chart 4.5

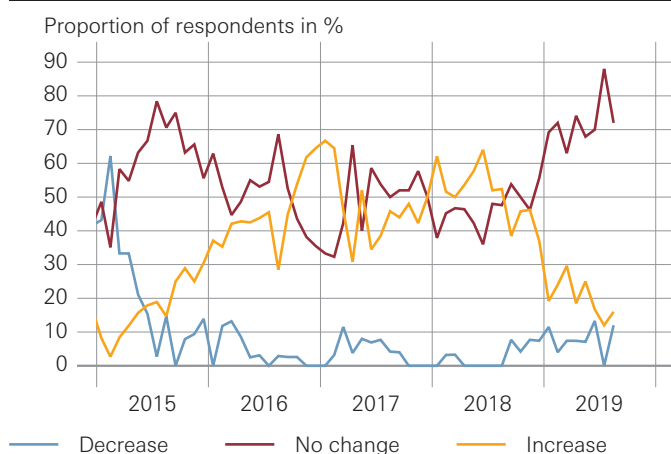
**PRODUCER AND IMPORT PRICES**

Year-on-year change



Source: SFSO

Chart 4.6

**CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS**

Sources: CFA Society Switzerland, Credit Suisse

**INFLATION EXPECTATIONS****Inflation expectations consistent with price stability**

Both short and long-term inflation expectations are still in the low positive range. They thus remain consistent with the objective of price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

**Short-term inflation expectations still slightly positive**

According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, the significant majority of analysts questioned in August 2019 expected inflation rates to remain unchanged in the next six months (cf. chart 4.6). The remaining respondents anticipated in almost equal parts either a rise or a fall in inflation. Given that the annual CPI inflation rate stood at 0.3% in July, the survey results point to short-term inflation expectations in the low positive range.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors also suggest low short-term inflation expectations. In the third quarter of 2019, respondents said they expected an average annual inflation rate of 0.5% for the next six to twelve months (Q2 2019: 0.4%).

The quarterly survey of households' price expectations for the next twelve months, conducted by SECO, yielded similar results in July 2019 to those in the previous quarter. Just over half of the respondents anticipated a rise in prices, while around two-fifths thought they would stay the same; only very few expected prices to go down.

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

Longer-term inflation expectations are still 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 0.8%, as they had in the previous quarter.



## 5 Monetary developments

---

At its quarterly assessment of 13 June 2019, the SNB introduced the SNB policy rate, which replaced the target range for the three-month Libor. This change had no impact on the SNB's monetary policy stance. Its monetary policy continued to be based on the negative interest rate on sight deposits held by banks at the SNB and on its willingness to intervene in the foreign exchange market as necessary.

Owing to global factors, long-term capital market rates have fallen since the June assessment. By contrast, the overnight rate (SARON) remained unchanged at the same level as the SNB policy rate and the negative interest rate on sight deposits at the SNB (–0.75%).

On the foreign exchange market, the Swiss franc appreciated against most other currencies. In August, the Swiss franc's trade-weighted nominal external value thus climbed to the highest level since the days immediately following the discontinuation of the minimum exchange rate in January 2015.

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 of 13 June 2019. It also decided to set the newly introduced SNB policy rate at –0.75% and to leave 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.

As of 13 June 2019, the SNB policy rate replaced the target range for the three-month Libor. The SNB announced that, going forward, it would use this rate in taking and communicating its monetary policy decisions, and would also seek to keep the secured short-term money market rates – particularly SARON – close to the SNB policy rate.

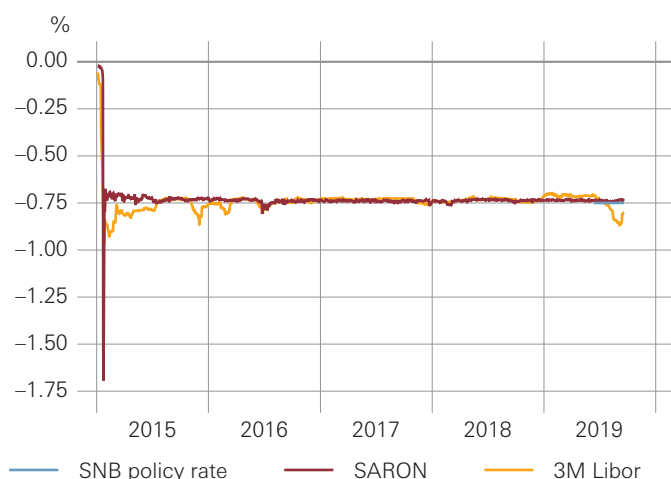
#### **Sight deposits at the SNB slightly higher**

Since the monetary policy assessment of June 2019, total sight deposits held at the SNB have increased. In the week ending 13 September 2019 (last calendar week before the September 2019 assessment), they amounted to CHF 592.4 billion, up by CHF 14.4 billion compared to the last calendar week preceding the mid-June 2019 assessment. Between the assessments in June and September 2019, sight deposits at the SNB averaged CHF 585 billion. Of this amount, CHF 474.7 billion were sight deposits of domestic banks, and the remaining CHF 110.3 billion were other sight deposits.

Statutory minimum reserves averaged CHF 17.3 billion between 20 May and 19 August 2019. Overall, banks exceeded the minimum reserve requirement by CHF 459.2 billion (previous period: CHF 471.7 billion). Banks' surplus reserves thus remain very high.

Chart 5.1

### SNB POLICY RATE AND MONEY MARKET RATES



Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

### 10-YEAR SWISS CONFEDERATION BOND YIELD

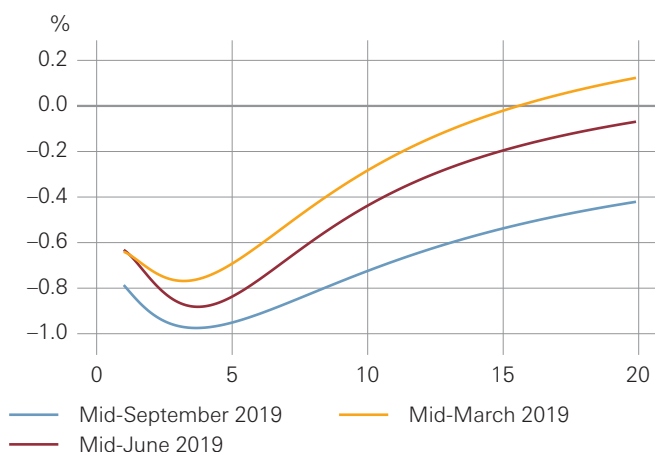


Source: SNB

Chart 5.3

### TERM STRUCTURE OF CONFEDERATION BONDS

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



Source: SNB

## MONEY AND CAPITAL MARKET INTEREST RATES

### Money market rates largely unchanged

In the last three months, money market rates have remained largely unchanged. SARON has consistently tracked close to the SNB policy rate of  $-0.75\%$ . Inflation rate expectations contributed to a slight fall in money market rates such as the three-month Libor (cf. chart 5.1).

### Further decline in capital market rates

Capital market rates decreased further over the summer months, reaching new historical lows. In mid-August, yields on ten-year Confederation bonds dipped below  $-1.0\%$  for the first time (cf. chart 5.2).

The fall in Confederation bond yields primarily reflected global factors. Chief among these were the heightened US-China trade dispute and the deteriorating economic situation worldwide. Yields on government bonds in the US and other major advanced economies also registered a sharp decline.

### Flatter yield curve

The yield curve for Confederation bonds is both lower and flatter than it was three months and six months ago (cf. chart 5.3). In mid-September 2019, yields for maturities of up to nine years were below the current SNB policy rate of  $-0.75\%$ .

### Real interest rates still low

Real interest rates are key determinants for saving and investment decisions of companies and households. The development of the yield curve for Confederation bonds in combination with the survey measures of inflation expectations indicate that real interest rates have fallen further.



## EXCHANGE RATES

### Swiss franc stronger against euro

Since the monetary policy assessment of June, the Swiss franc has appreciated by 2% against the euro (cf. chart 5.4). At the beginning of September, one euro was at times worth CHF 1.08, the weakest the euro has been since mid-2017. The Swiss franc moved sideways against the US dollar.

The franc's appreciation was driven, on the one hand, by market expectations of an easing of monetary policy abroad. On the other hand, Swiss franc exchange rates once again reflected changes in risk sentiment, which were attributable in particular to the escalation in the trade dispute between the US and China.

### Swiss franc's nominal external value at highest level since early 2015

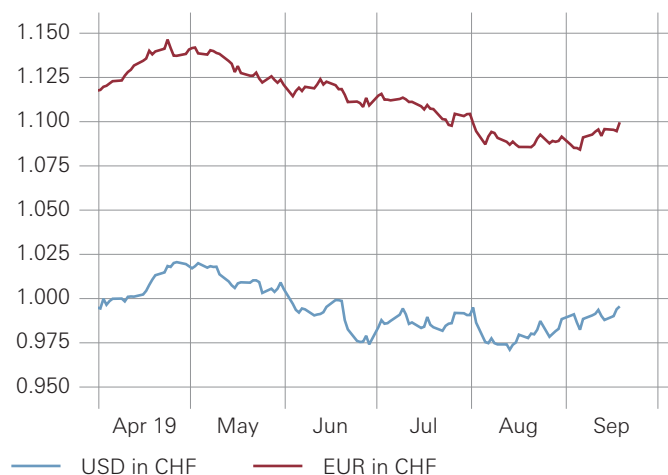
The nominal trade-weighted external value of the Swiss franc rose markedly in August, recording its highest level since the days immediately after the discontinuation of the minimum exchange rate in January 2015. In mid-September, it was around 1.3% higher than at the time of the June assessment (cf. chart 5.5). Apart from the appreciation against the euro, the increase in the Swiss franc's nominal external value was largely due to the weakness of the pound sterling (−1.5%) and the renminbi (−2%).

### Increase in real external value of Swiss franc

With the Swiss franc appreciating in nominal terms, its real trade-weighted external value also increased (cf. chart 5.6). In a longer-term comparison, the value of the Swiss franc remains high.

Chart 5.4

### EXCHANGE RATES



Source: SNB

Chart 5.5

### NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100



Source: SNB

Chart 5.6

### REAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100



Source: SNB

Chart 5.7

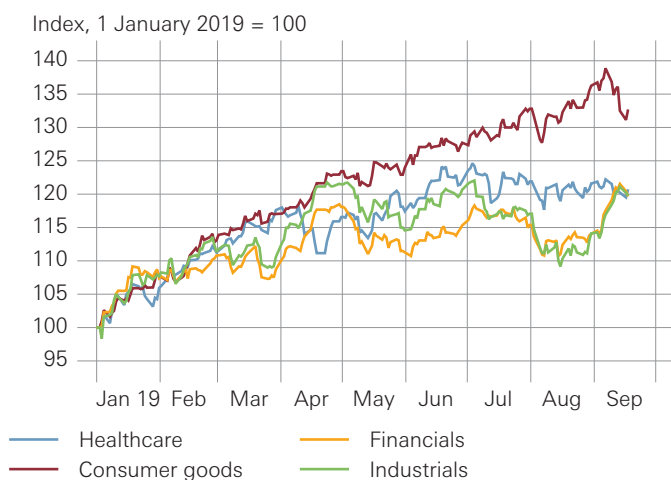
### SHARE PRICES AND VOLATILITY



Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

### SELECTED SPI SECTORS

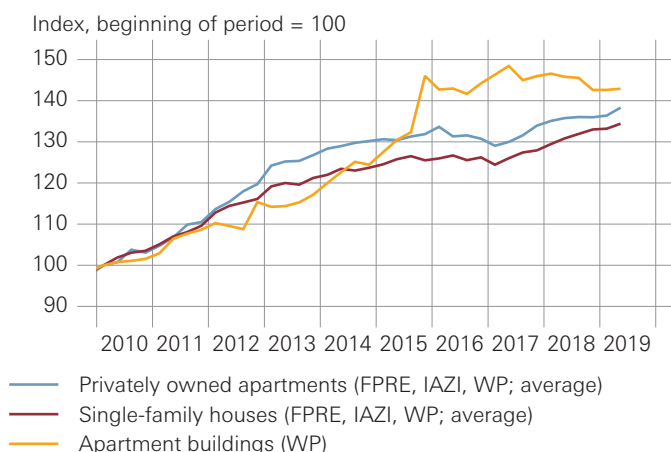


Source: Thomson Reuters Datastream

Chart 5.9

### HOUSING TRANSACTION PRICES

Nominal (hedonic)



Sources: F  hrl  nder Partner Raumentwicklung (FPRE), IAZI, W  est Partner (WP)

### SHARE AND REAL ESTATE PRICES

#### Short-lived slowdown on stock market

Share prices of the largest Swiss companies fell in early August (cf. chart 5.7). This development was mainly due to global factors such as the US-China trade dispute and the deteriorating economic situation worldwide. The Swiss Market Index (SMI) subsequently recovered quickly, and reached a new all-time high in September.

#### High level of market uncertainty in short term

The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). At the beginning of August, the volatility index rose sharply and, also in the weeks that followed, tracked above the average level achieved so far in 2019. By historical standards, the volatility index was not unusually high, however.

#### Movements in sectoral indices

Chart 5.8 shows the movements of important sub-indices in the broader-based Swiss Performance Index (SPI). The sectoral index for consumer goods continued to rise almost unabated. Meanwhile, the other sectoral indices lost some momentum or stagnated as of mid-2019. However, all four of these indices have gained 20% or more in value since the beginning of the year.

#### Prices for single-family houses and privately owned apartments up year-on-year

Prices for privately owned apartments and single-family houses continued to increase slightly in the second quarter of 2019. By contrast, prices for apartment buildings (residential investment property) have hardly changed at all since the end of 2015. In recent years, supply has grown noticeably in this segment, while demand has remained moderate; this is reflected in a growing vacancy rate.

## 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 553.0 billion in August 2019 (cf. chart 5.10). Of this amount, CHF 78.7 billion were banknotes in circulation, and CHF 474.3 billion were sight deposits of domestic banks.

### Stable growth in broad monetary aggregates

Growth rates for the broad monetary aggregates (M2 and M3) stabilised mid-year, having risen steadily in the previous four quarters (cf. table 5.1).

In August 2019, M1 (currency in circulation, sight deposits and transaction accounts) was 4.0% above its year-back level, while M2 (M1 plus savings deposits) was up 2.9%, and M3 (M2 plus time deposits) rose by 2.7% in the same period.

The development of the M3 monetary aggregate is generally closely linked to banks' lending activities. At present, this monetary aggregate is growing virtually in step with Swiss franc-denominated bank loans (cf. chart 5.11).

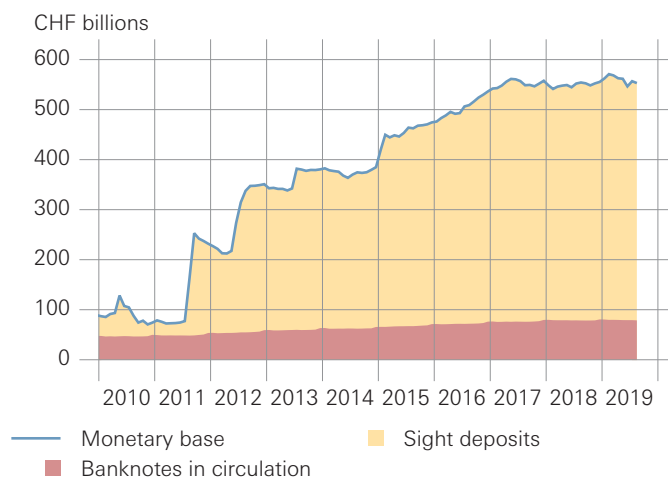
### Growth in mortgage claims unchanged

Bank lending (domestic bank offices, all currencies) was up 3.3% year-on-year in the second quarter of 2019, compared to 3.6% in the previous quarter (cf. table 5.1). While growth in mortgage lending remained unchanged, growth in other loans saw a decrease.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were 3.4% above their year-back level in the second quarter, the same as in the first quarter. Demand for mortgages continues to be supported by low mortgage interest rates. The ten-year mortgage interest rate has fallen considerably since the beginning of the year, reaching a new all-time low of 1.2% in July (cf. chart 5.12).

Chart 5.10

### MONETARY BASE

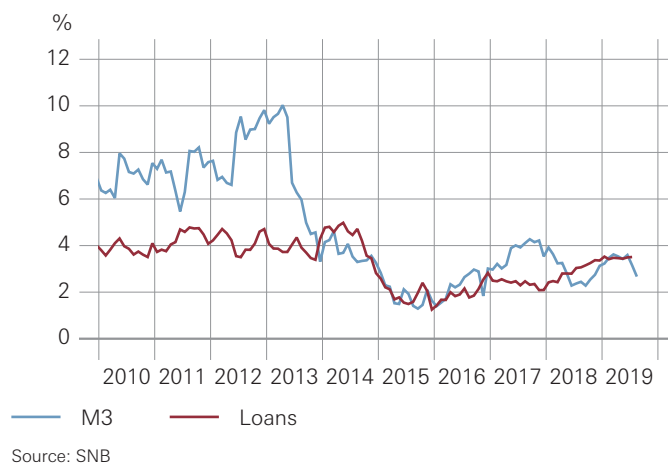


Source: SNB

Chart 5.11

### M3 MONETARY AGGREGATE AND BANK LOANS IN SWISS FRACS

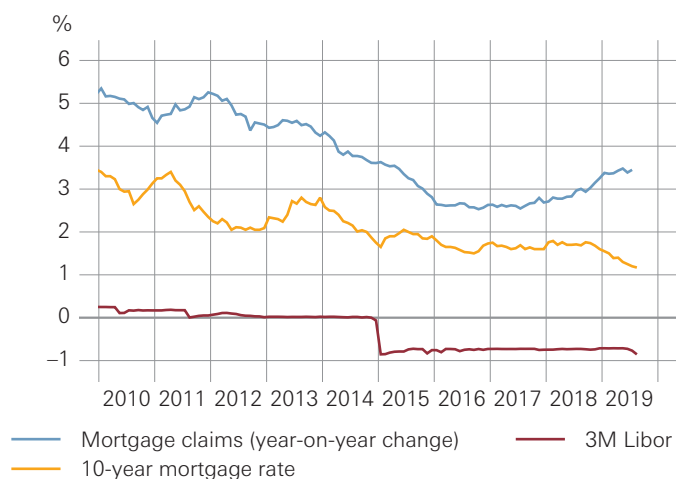
Year-on-year change



Source: SNB

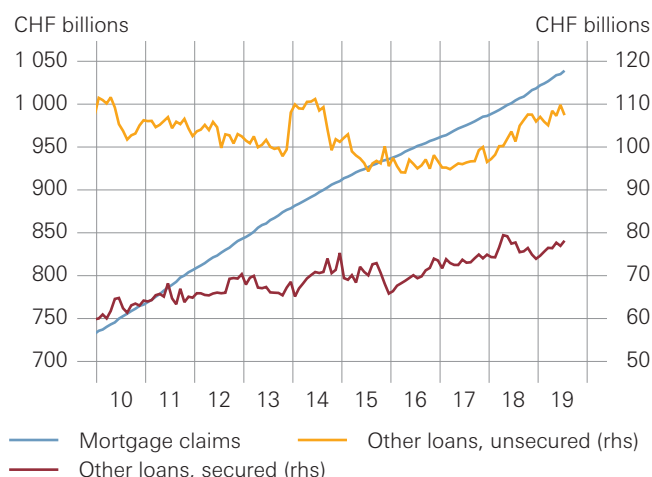
Chart 5.12

### MORTGAGE CLAIMS AND INTEREST RATES



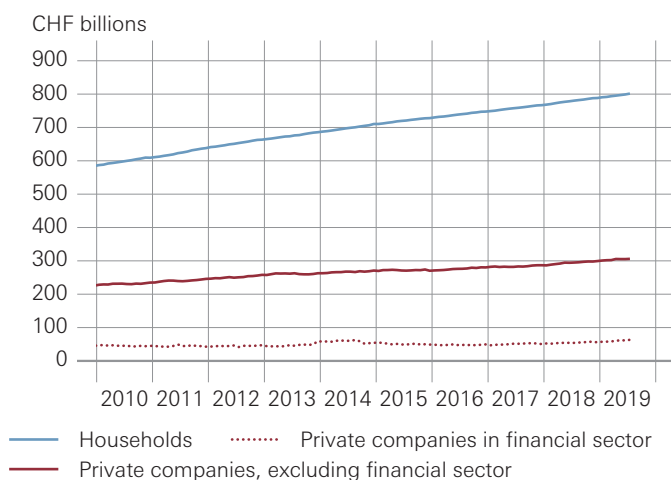
Sources: Bloomberg, SNB

Chart 5.13

**MORTGAGE CLAIMS AND OTHER LOANS**

Source: SNB

Chart 5.14

**LOANS TO HOUSEHOLDS AND COMPANIES**

Source: SNB

Other loans (i.e. loans not secured by mortgages) are significantly more volatile than mortgage loans (cf. chart 5.13). They grew 2.7% year-on-year in the second quarter of 2019 (Q1 2019: 4.6%). This increase is attributable to the rise in unsecured other loans. In the second quarter, secured other loans were slightly below their year-back level.

**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 2019, loans to households – of which 95% are mortgage loans – recorded a year-on-year increase of CHF 20.4 billion (2.6%). Over the same period, loans to non-financial companies (share of mortgage loans: 77%) rose by CHF 11.0 billion (3.7%), while loans to financial companies (share of mortgage loans: 36%), which exhibit greater volatility at a significantly lower volume, were up CHF 7.1 billion (13.1%).

Table 5.1

**MONETARY AGGREGATES AND BANK LOANS**

Year-on-year change in percent

	2018	2018 Q3	Q4	2019 Q1	Q2	2019 June	July	August
<b>M1</b>	<b>5.8</b>	<b>5.0</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>5.1</b>	<b>4.7</b>	<b>4.0</b>
<b>M2</b>	<b>3.2</b>	<b>2.6</b>	<b>3.1</b>	<b>3.3</b>	<b>3.7</b>	<b>3.7</b>	<b>3.4</b>	<b>2.9</b>
<b>M3</b>	<b>2.9</b>	<b>2.4</b>	<b>2.8</b>	<b>3.4</b>	<b>3.5</b>	<b>3.6</b>	<b>3.2</b>	<b>2.7</b>
<b>Bank loans, total</b> <sup>1, 3</sup>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>	<b>3.3</b>	<b>3.3</b>	<b>3.5</b>	
Mortgage claims <sup>1, 3</sup>	2.9	3.0	3.1	3.4	3.4	3.4	3.4	
Households <sup>2, 3</sup>	2.6	2.7	2.7	2.8	2.8	2.7	2.8	
Private companies <sup>2, 3</sup>	3.8	3.8	4.4	5.2	5.6	5.4	5.4	
Other loans <sup>1, 3</sup>	5.4	6.2	5.1	4.6	2.7	3.1	3.7	
Secured <sup>1, 3</sup>	3.9	3.9	0.6	0.7	-2.1	-0.7	0.5	
Unsecured <sup>1, 3</sup>	6.6	7.9	8.6	7.6	6.5	6.0	6.1	

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 2019

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 211 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

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

## Key points

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- The Swiss economy clearly lost momentum in the third quarter. Growth in real turnover slowed further and there was a marked increase in uncertainty. This reflects, first and foremost, a slowdown in the global economy.
- All in all, utilisation of technical capacity is at a normal level, albeit with more pronounced differences between the sectors than has been the case. Staff numbers are still viewed as being slightly on the low side, but less so than in previous quarters.
- Pressure on profit margins has increased somewhat overall, but the levels are mostly described as being 'sustainable' or 'comfortable'.
- Looking to the next two quarters, company representatives expect moderate growth in turnover, staff levels and investment.
- For the first time since the beginning of 2017, representatives no longer expect an increase in purchase and sales prices.
- The main risks cited concern the effects of trade tensions, the outlook for the global economy, and a further appreciation of the Swiss franc.

## CURRENT SITUATION

### Momentum slows further

The Swiss economy lost momentum in the third quarter as the gradual weakening from the high recorded at the beginning of 2018 persisted.

Compared with the previous quarter, company representatives reported weaker 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 slowdown in new orders is weighing more heavily on sentiment than the current developments with regard to turnover.

The weakening in the German economy is having a marked impact on various companies that are (directly or indirectly) oriented towards exports. Meanwhile, business with the US remains largely favourable. In the case of trade with Asia and Europe, the signals are very mixed from sector to sector and from company to company. This is partly the result of the trade dispute between the US and China. Certain sectors are also feeling the impact of the turmoil stemming from the protests in Hong Kong.

### Production capacity utilisation normal

Utilisation of technical capacity remains at a normal level overall (cf. chart 2). Around 40% of companies gave this assessment, whereas 30% said capacity was substantially underutilised and 30% substantially overutilised. In manufacturing, capacity is marginally underutilised, and the problems cited until just recently with regard to supply bottlenecks and long delivery times in certain cases are now scarcely mentioned. Capacity utilisation in the construction sector remains high.

### Staff shortage problem improving

Company representatives continue to view their staff numbers as being somewhat on the low side, albeit much less so than in the previous quarter. In manufacturing in particular, levels are now in line with demand overall. In certain instances, companies are planning not to replace departing staff.

Many industries are reporting that recruitment is more difficult than usual. This is partly due to a lack of applicants but also to higher qualification and skill requirements in job profiles, especially as regards IT. The shortage of specialists continues to be one of the main concerns for many companies, although not to quite the same extent as in previous quarters. IT and technical specialists as well as engineers are still in high demand. Many representatives say their companies are prioritising in-house training and maintaining their appeal as an employer in an effort to attract and retain staff.

### Slightly higher pressure on profit margins

The pressure on margins has increased slightly overall, and they are just below levels regarded by the companies as normal. That being said, 85% of the representatives describe margins as being sustainable or even comfortable.

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 / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.  
Source: SNB



## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Real turnover in the trade sector was on a par with the previous quarter. This applies to wholesale, retail and vehicle trade alike. Meanwhile infrastructure is underutilised in both the retail and wholesale trade. The pressure on margins in the stationary retail trade has increased further. Crossborder shopping is not seen as an acute problem, but rather as a risk were the Swiss franc to appreciate further.

In the financial sector – i.e. among banks, insurers and asset managers – turnover remains unchanged from the previous quarter. The situation with regard to margins has heightened yet further throughout the sector, and this is particularly noticeable in the case of banks. Profit margins are substantially lower than would be considered normal. The reasons for this are the general fall in interest rates, the ongoing decline in net interest margins that can only be partly offset by the volume growth in customer deposits and lending, and the costs involved in implementing digitalisation and regulation. Added to this are the greater caution discernible in customers' investment behaviour and increasing competition from new players entering the market.

Business performance in the hospitality industry is rather dynamic, with turnover up on Q2 2019 and clearly higher year-on-year. Both hotels and restaurants assess capacity utilisation as being normal, with the former also reporting profit margins as well above normal levels. Mountain tourism in Switzerland profited from the heatwave and stronger domestic demand.

Turnover in the ICT industry is reported as being substantially higher quarter-on-quarter and compared with 2018. The factors cited as driving this performance are digital transformation, rising demand from the fintech area, and cybersecurity. However, the persisting shortage of specialist staff is having a curbing effect.

Consultancies and auditors, engineering and architecture firms, and facility management services providers are all experiencing strong sales momentum. Companies in the healthcare sector report dynamic business performance with margins higher than normal.

In manufacturing, the majority of industries recorded higher turnover quarter-on-quarter. The pharmaceuticals industry reports that business is excellent, with turnover well in excess of the comparison periods. Plastics manufacturers, producers of electrical equipment and energy suppliers also assess their business as being dynamic. However, turnover is down quarter-on-quarter for the metal products and processing industry and in the machinery industry, and margins are below normal levels.

The watchmaking industry is exhibiting solid business performance overall although this continues to vary considerably between companies. Suppliers in the automotive industry are still feeling the effect of uncertainty in this market stemming from technological change, new test procedures and heightened environmental awareness among customers.

In seasonally adjusted terms, turnover in the construction sector is up on the previous quarter and higher year-on-year, with production capacity overutilised. This overall result is particularly attributable to civil engineering and the finishing trade. In the case of structural engineering, business is roughly on a par with last quarter, and profit margins here are under strong pressure despite the fact that the order situation remains healthy. In the construction sector as a whole, there is little sign of a marked slowdown in the short term. Although the pace of growth in residential construction may ease back somewhat, new opportunities are opening up amid the increasing need for renovation and refurbishment in the case of buildings and infrastructure and as a result of high-density construction. Rising vacancy rates are additionally driving the demand for renovation of older buildings.

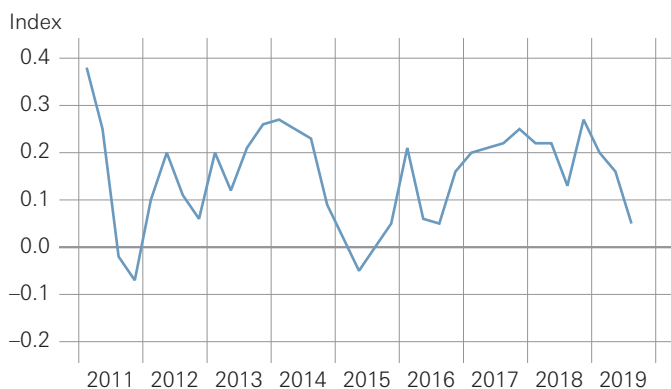
Chart 3

**EXPECTED TURNOVER**

Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source: SNB

Chart 4

**EXPECTED CAPACITY UTILISATION**

Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).

Source: SNB

Chart 5

**EXPECTED EMPLOYMENT**

Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source: SNB

**OUTLOOK****Muted optimism**

Company representatives anticipate slightly higher real turnover in the next two quarters. However, their expectations are somewhat more cautious than in 2018 (cf. chart 3), this being above all attributable to the weaker outlook for the global economy and a decline in new orders.

Manufacturing and construction companies are less confident than in the previous quarter, although this is partly offset by brighter prospects in the services sector. As regards technical capacity and available infrastructure at their companies, representatives do not expect any change in the review period, with utilisation thus remaining at normal levels (cf. chart 4).

**Somewhat greater caution regarding investment**

Companies' willingness to invest has waned slightly against the backdrop of reduced economic momentum and as a result of trade tensions. Companies in all three sectors envisage increasing their expenditure on investment in equipment and construction only slightly in the next twelve months. That said, the low interest rate environment is still having a favourable impact on investment projects. Just under a quarter of companies will use their spending on equipment specifically to increase production capacity. Investment is focused above all on the expansion and modernisation of IT.

**Price expectations marginally lower**

Over the past two years, company representatives have mostly expected purchase and sale prices to increase, but for the coming two quarters they now anticipate a slight fall. Representatives from manufacturing in particular envisage price reductions. Upward pressure on prices of raw materials and preliminary products was still visible in the spring; this has now dissipated, and the recent high level of capacity utilisation among suppliers is likewise no longer noticeable.

**Hiring demand remains**

Representatives say their companies are planning to further increase headcount over the coming two quarters (cf. chart 5), albeit this view is not as widely held as in recent quarters. 37% of companies want to hire more staff, compared with 41% in Q2 2019. Instances of companies that intend to reduce staff levels are to be found in industries such as foodstuffs and printing.

## ENVIRONMENT AND RISKS

As regards the perceived international risks, the representatives' focus is primarily on the trade dispute between the US and China and the potential impact, be it direct or indirect, on their companies. They also referred to other sources of geopolitical uncertainty. Brexit is an issue that is often raised, and one that could have a positive or negative impact depending on the company in question. Other risks cited stem from the slowdown in the global economy and the high levels of public debt.

Domestically, the shortage of specialised staff remains one of the main challenges mentioned. Various companies also reported that they had been unable to fill all their apprenticeship positions. Also frequently mentioned were the risks arising from the low interest rate environment and potentially even lower rates, particularly for pension schemes. The appreciation of the Swiss franc is being given more emphasis as a risk than before. A number of representatives see cause for concern in the situation on the real estate market, where construction activity is continuing despite residential vacancy rates already being high in some regions. Digitalisation is an issue that is being actively debated and explored.

## INFLATION EXPECTATIONS

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

Short-term inflation expectations are marginally higher. The average for the next six to twelve months (blue line in chart 6) is 0.5%, compared to 0.4% in the previous quarter. Over the medium term – i.e. with a time horizon of three to five years (red line in chart) – the average is unchanged at 0.8%.

### About this report

#### Approach

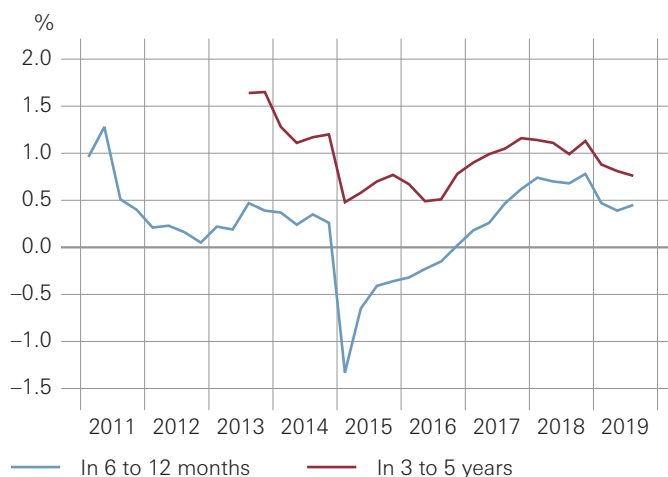
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

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

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).

At its quarterly assessment of 19 September, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at  $-0.75\%$ . The SNB also adjusts the basis for calculating negative interest, thereby raising the exemption threshold for the banking system and reducing negative interest income for the SNB. 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. Negative interest and the willingness to intervene serve to counteract the attractiveness of Swiss franc investments and thus ease pressure on the currency. In this way, the SNB stabilises price developments and supports economic activity.

September 2019

At its quarterly assessment of 13 June, the SNB leaves the interest rate on sight deposits with the SNB at  $-0.75\%$ . 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.

June 2019

On 13 June, the SNB introduces the SNB policy rate and announces that it will use this rate in taking and communicating its monetary policy decisions going forward. The SNB policy rate replaces the target range for the three-month Libor. Interest on sight deposits held by banks at the SNB currently corresponds to the SNB policy rate and remains at  $-0.75\%$ . The SNB will seek to keep the secured short-term Swiss franc money market rates close to the SNB policy rate.

At its quarterly assessment of 21 March, the SNB leaves the interest rate on sight deposits with the SNB at  $-0.75\%$  and its target range for the three-month Libor at between  $-1.25\%$  and  $-0.25\%$ . 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.

March 2019

At its quarterly assessment of 13 December, the SNB leaves the interest rate on sight deposits with the SNB at  $-0.75\%$  and its target range for the three-month Libor at between  $-1.25\%$  and  $-0.25\%$ . 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.

December 2018

At its quarterly assessment of 20 September, the SNB leaves the interest rate on sight deposits with the SNB at  $-0.75\%$  and its target range for the three-month Libor at between  $-1.25\%$  and  $-0.25\%$ . 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.

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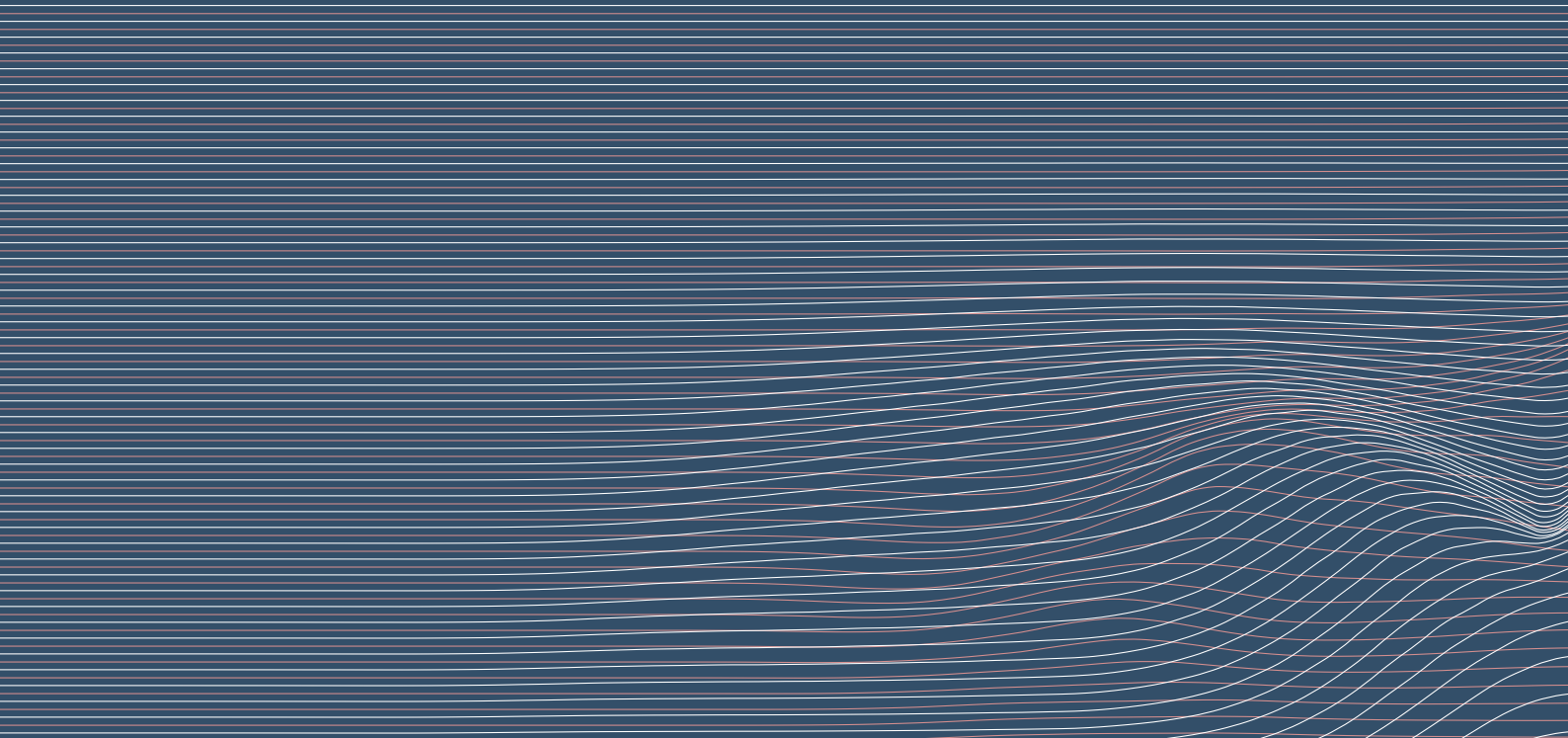
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