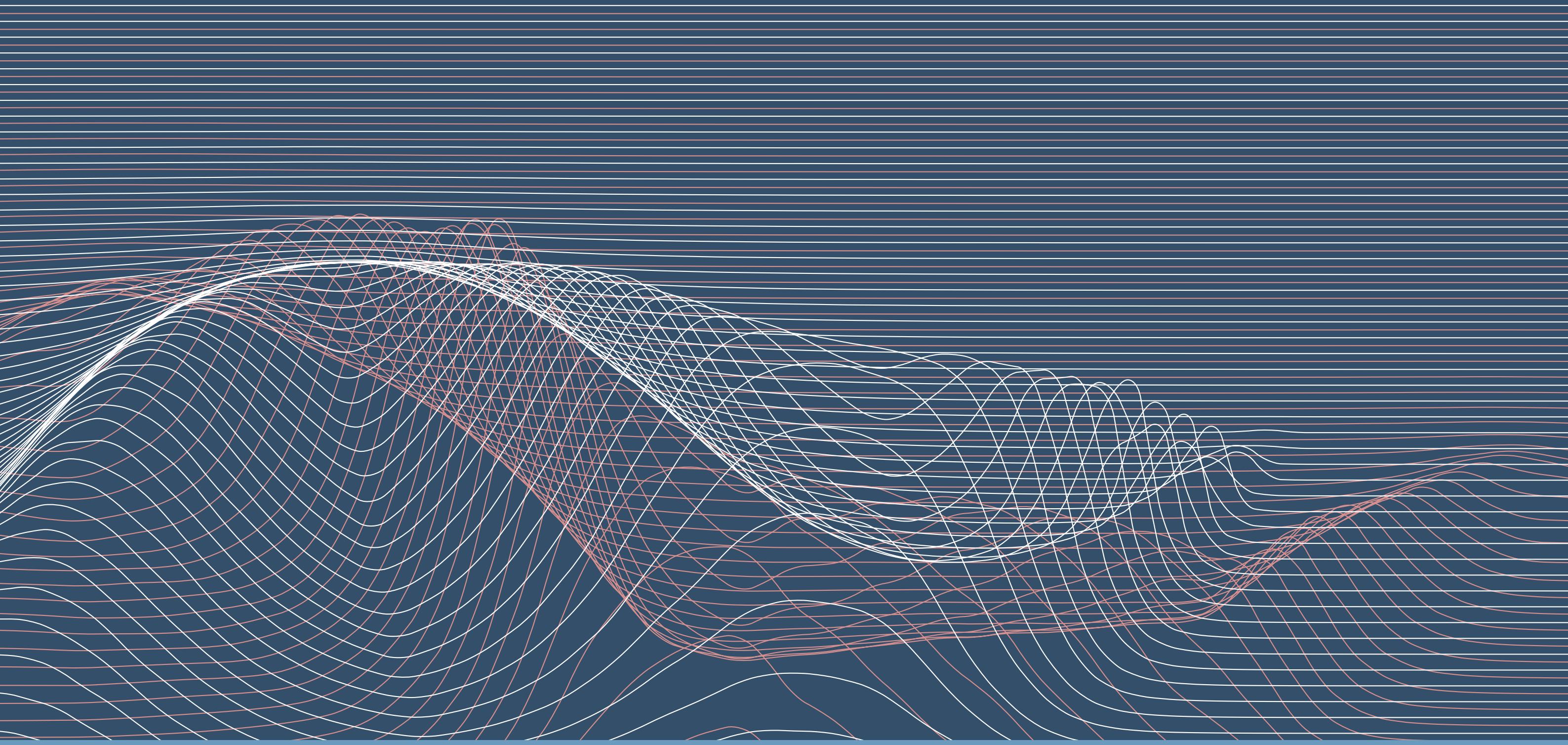


Quarterly Bulletin
1/2021 March

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

Quarterly Bulletin
1/2021 March

Volume 39

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2021

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 25 March 2021') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 25 March 2021. 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 25 March 2021

Swiss National Bank maintains expansionary monetary policy

The coronavirus pandemic is continuing to have a strong adverse effect on the economy. Despite the recent weakening, the Swiss franc remains highly valued. With a view to stabilising economic activity and price developments, the SNB is maintaining its expansionary monetary policy.

The SNB 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. It is also continuing to supply the banking system with liquidity on generous terms. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

The new conditional inflation forecast for 2021 and 2022 is higher than in December (cf. chart 1.1). This is primarily due to the rise in oil prices and the weaker Swiss franc. Looking beyond the two-year horizon, the inflation forecast is virtually unchanged compared with December. The forecast now stands at 0.2% for 2021, 0.4% for 2022 and 0.5% for 2023 (cf. table 1.1). The conditional inflation forecast is based on the assumption that the SNB policy rate remains at –0.75% over the entire forecast horizon.

Coronavirus and the measures implemented to contain it are continuing to shape the global economy more than a year after the outbreak of the pandemic. Following the strong recovery in the third quarter of 2020, economic growth worldwide was curbed by a renewed wave of infection. At the end of the year, GDP and employment were still significantly below pre-crisis levels in most countries.

The SNB's baseline scenario for the global economy anticipates a phased easing of the containment measures in place in many countries over the course of the spring. The economic recovery is therefore likely to regain momentum from the second quarter. In addition to the expected progress with vaccination programmes, the monetary and fiscal policy measures introduced worldwide are an important source of support. Nevertheless, global production capacity will remain underutilised for some time to come.

This scenario for the global economy is subject to risks on the upside and downside alike. On the one hand, new waves of infection could weigh on economic activity again. On the other, the monetary and fiscal policy measures implemented could support the recovery more strongly than anticipated.

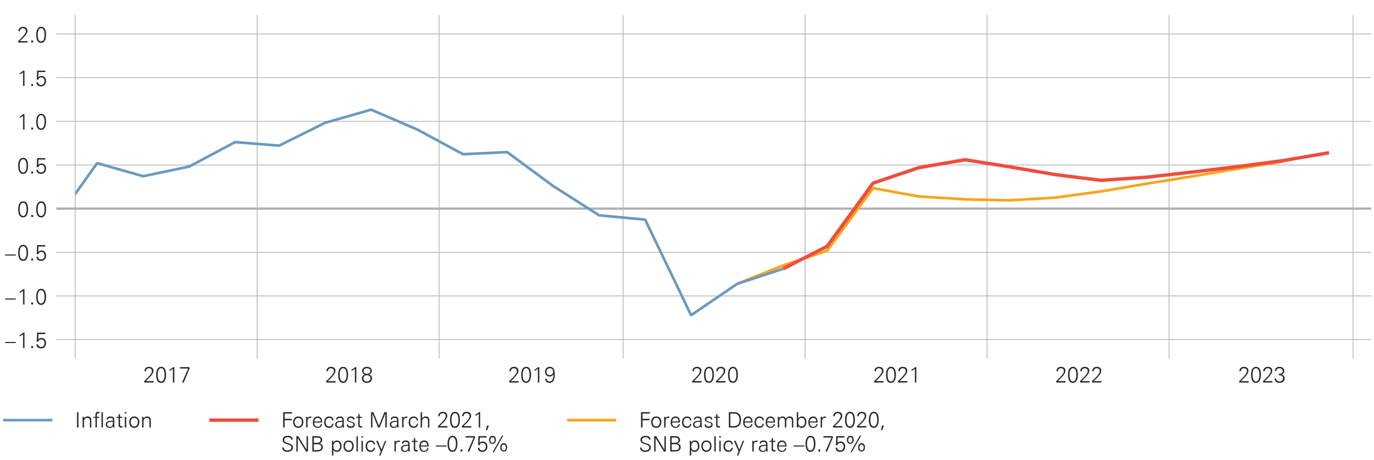
In Switzerland, the economic recovery has lost momentum since October 2020 in the wake of the second wave of the pandemic. However, economic activity has been restricted less strongly by comparison with the first wave in spring 2020. That said, value added has been seriously impacted in industries particularly affected by the containment measures.

GDP thus rose only slightly in the fourth quarter of 2020, this following robust growth in the previous quarter. A renewed decline is to be expected for the first quarter of 2021. The second wave of the pandemic is also taking its toll on the labour market. Short-time working has

Chart 1.1

CONDITIONAL INFLATION FORECAST OF MARCH 2021

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



Sources: SFSO, SNB

increased again in recent months, and unemployment has continued to rise.

Developments going forward hinge on whether there are renewed waves of the pandemic and which measures are implemented to contain them. The SNB's baseline scenario anticipates that the containment measures in Switzerland will be eased further in the coming months, and that there will be no renewed worsening of the pandemic situation and tightening of the measures thereafter.

Against this backdrop, the SNB continues to expect GDP growth of 2.5% to 3% for 2021. Activity is thus likely to return to its pre-crisis level in the second half of the year. However, production capacity will remain underutilised for some time yet.

In the current situation, both the inflation outlook as well as the growth forecasts for Switzerland and abroad are still subject to high uncertainty.

Mortgage lending and residential property prices have risen further in recent quarters. The vulnerability of these markets thus persists and continues to present a risk for financial stability.

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 MARCH 2021

	2017				2018				2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.5	0.4	0.5	0.8	0.7	1.0	1.1	0.9	0.6	0.6	0.3	–0.1	–0.1	–1.2	–0.9	–0.7	0.9	0.4	–0.7

Source: SFSO

CONDITIONAL INFLATION FORECAST OF MARCH 2021

	2020				2021				2022				2023				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast December 2020, SNB policy rate –0.75%				–0.7	–0.5	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.5		0.0	0.2	
Forecast March 2021, SNB policy rate –0.75%					–0.4	0.3	0.5	0.6	0.5	0.4	0.3	0.4	0.4	0.5	0.6	0.6	0.2	0.4	0.5

Source: SNB

2
Global economic environment

More than a year on, the pandemic and the measures implemented to contain it are continuing to shape the global economy. Economic activity in the advanced economies was mixed in the fourth quarter, depending on the epidemiological situation. The US continued its recovery, albeit at a slower pace, whereas economic activity waned in the euro area. Although global trade returned to its 2019 level in the fourth quarter of 2020 (cf. chart 2.1), in most countries GDP and employment were still substantially lower than they had been at the end of 2019.

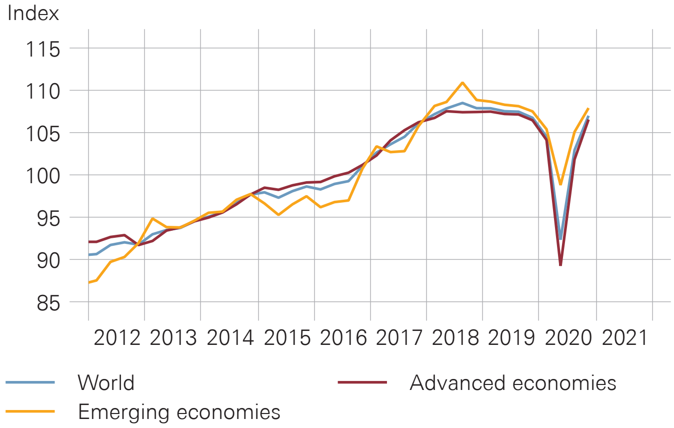
Significant pandemic-related restrictions are still in place in numerous countries. Added to this, the population are in part avoiding activities associated with a higher risk of infection. This is taking its toll on economic activity. However, the economic impact is currently not as pronounced as it was in the spring of last year. This is in part attributable to the fact that the containment measures opted for are less severe on the whole. Meanwhile, companies and households have also learned how to deal with the situation better.

The SNB's baseline scenario for the global economy anticipates a phased easing of the containment measures in place in many countries over the course of the spring. The economic recovery is therefore likely to regain momentum from the second quarter.

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



Sources: CPB Netherlands Bureau for Economic Policy Analysis, Refinitiv Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2017	2018	2019	2020	Scenario 2021	2022
GDP, year-on-year change in percent						
Global [1]	3.9	3.8	3.0	–2.6	8.2	4.9
US	2.3	3.0	2.2	–3.5	5.7	4.1
Euro area	2.7	1.9	1.3	–6.8	4.9	3.8
Japan	1.7	0.6	0.3	–4.9	3.4	2.7
Oil price in USD per barrel	54.3	71.0	64.3	41.8	58.7	59.0

1 PPP-weighted (US, euro area, UK, Japan, China, India, Brazil and Russia).

Sources: Refinitiv Datastream, SNB

Chart 2.2

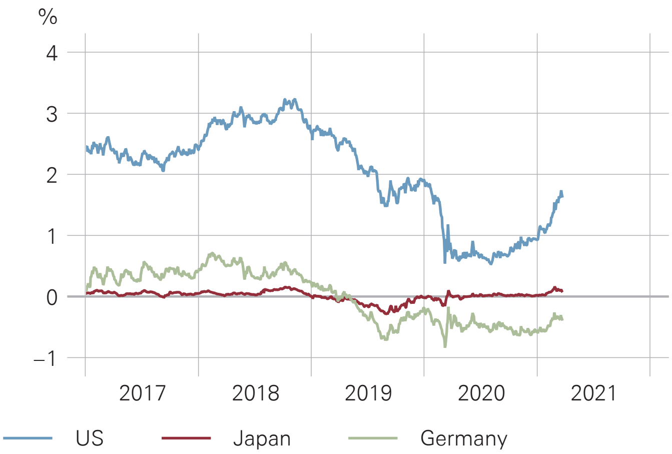
STOCK MARKETS

Source: Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

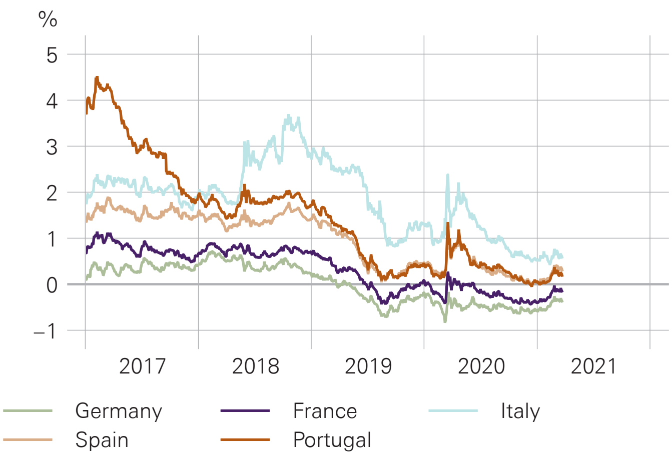


Source: Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments



Source: Refinitiv Datastream

In addition to the expected progress with vaccination programmes, the monetary and fiscal policy measures introduced worldwide are an important source of support. Nevertheless, global production capacity will remain underutilised for some time to come. Against this backdrop, inflation in most countries is expected to be only modest over the medium term as well. That said, the higher oil prices and various one-off effects are likely to bring about a temporary rise in inflation this year.

This scenario for the global economy is subject to risks on the upside and downside alike. On the one hand, new waves of infection could weigh on economic activity again. On the other, the monetary and fiscal policy measures implemented could support the recovery more strongly than anticipated.

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 59 per barrel, compared with USD 42 in the last baseline scenario, and an exchange rate of USD 1.21 to the euro compared with USD 1.18 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Financial market sentiment has picked up further in recent months. Several factors have contributed to this, namely the progress made in connection with coronavirus vaccinations, the prospect of a very substantial fiscal stimulus package in the US as well as positive developments in economic activity, especially in manufacturing. Driven by the related improvement in the growth outlook, the MSCI World Index has again risen to a new all-time high. However, given that the outlook was still very uncertain, the implied volatility of stocks as measured by option prices – e.g. the VIX in the US – was still higher than before the outbreak of the pandemic (cf. chart 2.2).

Yields on ten-year government bonds increased worldwide on the back of improved risk sentiment; the rise was particularly strong in the US, where they came closer to their pre-crisis level (cf. charts 2.3 and 2.4). Having lost ground in previous months, the US dollar appreciated slightly on a trade-weighted basis. The pound sterling also gained in value, while the yen, by contrast, was less sought after as a safe haven and depreciated. The euro also weakened somewhat (cf. chart 2.5).

Oil prices have risen further since mid-December, and at around USD 65 per barrel recently returned to roughly their pre-crisis levels of end-2019. Support in this regard has come from the continued recovery of global manufacturing activity combined with oil output cuts. Industrial metal prices were also higher than three months ago (cf. chart 2.6).

UNITED STATES

Amid rising coronavirus cases and a tightening of containment measures, the recovery in economic activity in the US slowed towards the end of the year. GDP expanded by 4.1% in the fourth quarter, but was still 2.4% lower than before the outbreak of the pandemic (cf. chart 2.7). For the year as a whole, GDP registered a decline of 3.5%. Unemployment has fallen again slightly in recent months, and stood at 6.2% in February (cf. chart 2.9). Employment figures were still significantly lower than before the pandemic.

The number of new infections fell once more from mid-January, and the containment measures have largely been eased again since February. According to monthly indicators, the economy has picked up pace again. Moreover, in December 2020 and March 2021, Congress approved further comprehensive fiscal stimulus packages to boost the economy. These include one-time cash payments and tax rebates for households, forgivable loans to small and medium-sized enterprises, a temporary extension of unemployment benefits, and additional funding for the healthcare system and federal governments.

Owing to the positive signals from the economy and additional fiscal measures, the SNB is making a significant upward revision to its GDP forecast for the US. It expects strong GDP growth of 5.7% for 2021 and 4.1% for 2022 (cf. table 2.1).

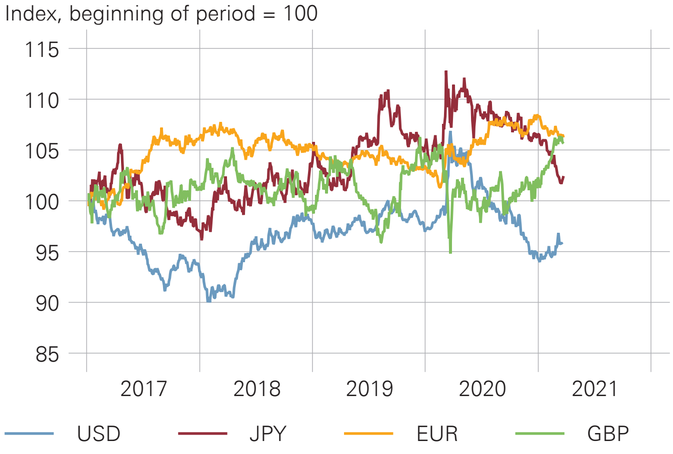
Annual inflation as measured by the CPI increased on the back of rising energy prices, from 1.2% in November to 1.7% in February, while core inflation declined (cf. charts 2.10 and 2.11). Core inflation as measured by the personal consumption expenditure deflator rose slightly in the last few months, but at 1.5% in January remained below the US Federal Reserve's target.

The Fed kept its target range for the federal funds rate unchanged at 0.0–0.25% (cf. chart 2.12). It plans to leave interest rates at their current level until the labour market has recovered from the crisis and inflation has risen to 2% and is on track to moderately exceed 2% for some time. By allowing inflation to moderately exceed its target for a period, the Fed is seeking to achieve a rate that averages 2%. It will continue its bond-buying programme until substantial further progress has been made with regard to its employment mandate and inflation target.

Chart 2.5

EXCHANGE RATES

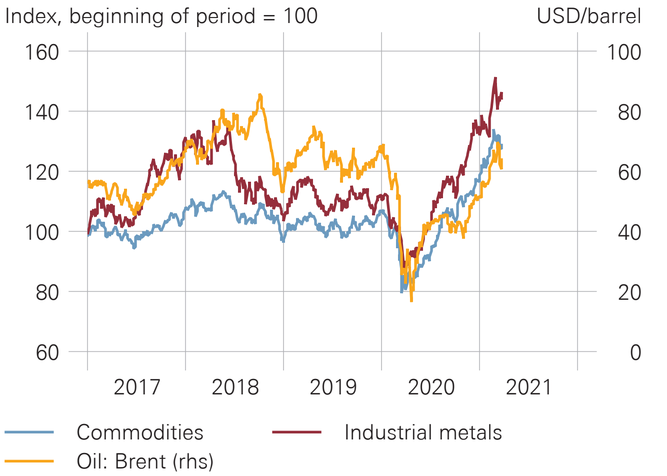
Trade-weighted



Source: Refinitiv Datastream

Chart 2.6

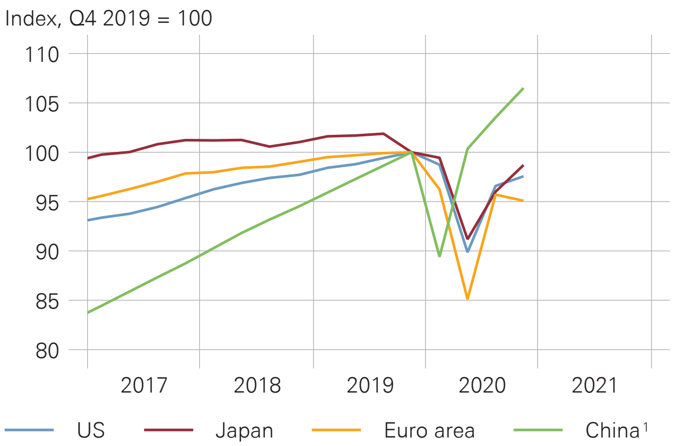
COMMODITY PRICES



Source: Refinitiv Datastream

Chart 2.7

REAL GDP

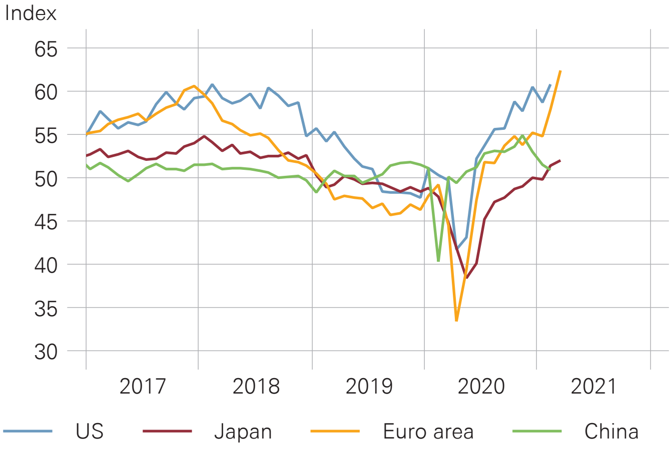


1 Seasonal adjustment: SNB

Source: Refinitiv Datastream

Chart 2.8

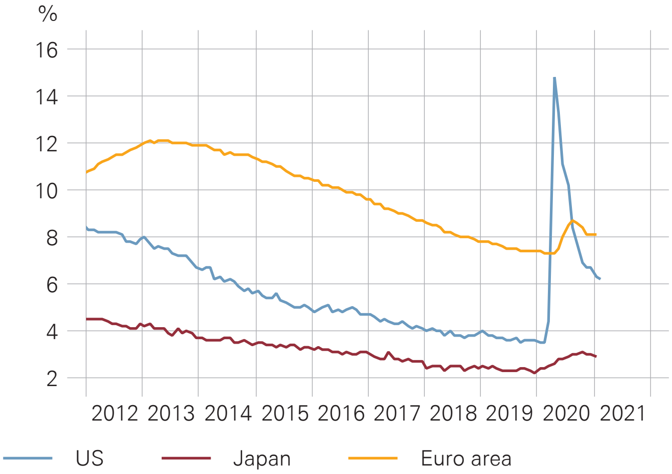
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Sources: Institute for Supply Management (ISM), Markit Economics Limited

Chart 2.9

UNEMPLOYMENT RATES

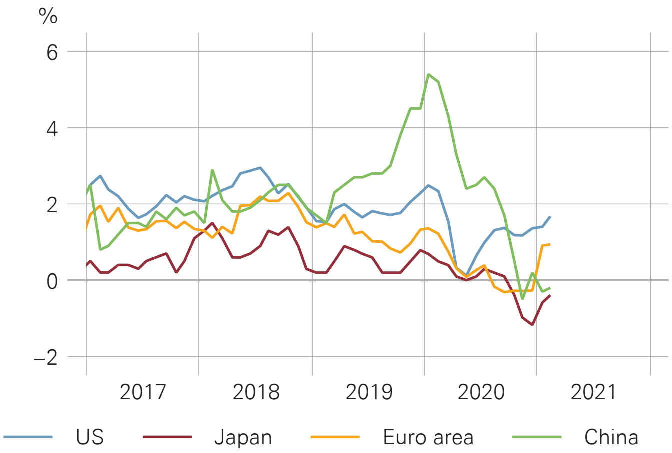


Source: Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change



Source: Refinitiv Datastream

EURO AREA

Following the tightening of containment measures in October, economic activity in the euro area weakened again. The fourth quarter saw GDP shrink by 2.6%, thus remaining around 5% down year-on-year (cf. chart 2.7). Once again, the services sector was particularly hard hit by the restrictions, whereas manufacturing continued to expand. Developments varied from one member state to another. While it registered a slight increase in Germany, GDP contracted sharply in France and Italy.

Unemployment eased back slightly from its peak in mid-2020, but at 8.1% in February was still almost one percentage point higher than before the pandemic (cf. chart 2.9). Short-time work schemes have been supporting employment in most euro area member states since the beginning of the pandemic and have helped curb the rise in unemployment.

Many of the containment measures implemented in autumn have remained in effect through the first quarter of 2021. As a result, economic activity in the euro area is likely to continue to stagnate. Thereafter, a gradual recovery can be expected. Fiscal policy should also lend support in the quarters ahead. Short-time work schemes will remain in place for the most part. Furthermore, a number of member states took additional relief measures, including the provision of targeted financial assistance to businesses forced to close temporarily. In the medium term, member states are due to receive support from the EU recovery fund in the form of grants and loans. Countries with limited fiscal space will likely be the main beneficiaries. In addition, the agreement reached in December on future relations between the EU and the UK removes a source of uncertainty for the growth outlook in the euro area. The SNB now expects growth in the euro area of 4.9% for 2021, following a decline of 6.8% in 2020. The recovery looks set to continue in 2022 (cf. table 2.1).

Having hit record lows in the previous months, consumer price inflation increased sharply at the beginning of the year and stood at 0.9% in February, its highest level since the outbreak of the pandemic (cf. chart 2.10). The rise was attributable to higher energy prices and a number of special factors such as the increase in Germany's VAT back up to the standard rate and an adjustment to the weightings in the basket of goods, the latter being particularly pronounced due to changes in consumer behaviour as a result of the pandemic.

Since relaxing its monetary policy in December 2020, the European Central Bank has made no further policy changes. It plans to continue purchasing securities under its pandemic emergency purchase programme (PEPP) until at least March 2022. In response to the latest rise in long-term interest rates, it intends to increase these purchases in the second quarter; the total volume of the programme shall remain unchanged, however. Furthermore, the ECB will continue to supply banks with liquidity as part of its targeted longer-term refinancing operations (TLTROs). It intends to maintain its key rates at their present or lower levels until inflation has sufficiently firmed.

JAPAN

Supported by fiscal policy and global demand, economic activity in Japan continued to recover at a robust pace in Q4. GDP grew in the same period by 11.7%, almost returning to its pre-crisis level (cf. chart 2.7). For 2020 as a whole, however, it contracted by 4.9% (cf. table 2.1). The last time Japan recorded a decline of this order was during the economic crisis in 2009 (–5.7%).

Labour market conditions remained difficult. Although the government granted companies subsidies through to the end of March to enable them to retain employees, unemployment in January was still substantially higher year-on-year at 2.9% (cf. chart 2.9).

In January, Japan declared another state of emergency for around two months, after the number of new infections had begun to rise again sharply from November 2020. While the restrictions under the new state of emergency were less strict than those imposed in the spring, they are still likely to temporarily interrupt the recovery in the first quarter. The SNB anticipates strong growth once the state of emergency has been lifted and now expects GDP to expand by 3.4% for 2021 and 2.7% for 2022 (cf. table 2.1).

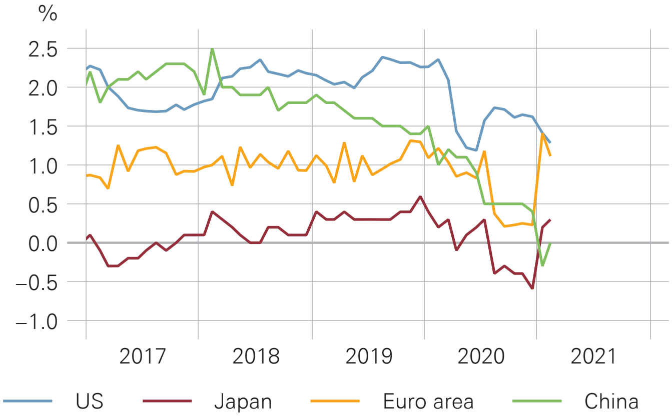
Core inflation moved into positive territory in January and stood at 0.3% in February (cf. chart 2.11). This marked increase was linked to the cancellation of substantial hotel discounts after the tourism campaign launched by the government last autumn was suspended amid rising case numbers. Inflation is likely to remain volatile in the short term.

The Bank of Japan left its targets under the yield curve control programme unchanged (cf. chart 2.12). However, it decided on some policy changes in March, following a review of its monetary policy tools, which gave it greater latitude. It adjusted its measures to promote lending in such a way as to cushion any negative impact for banks in the event of possible further interest rate cuts. It also made clear that it will allow yields on 10-year Japanese government bonds to fluctuate by up to 0.25 of a percentage point above or below the target level of 0%. Furthermore, it removed its previous targets for purchases of exchange-traded equity funds (ETFs), but maintained the upper limit.

Chart 2.11

CORE INFLATION RATES [1]

Year-on-year change

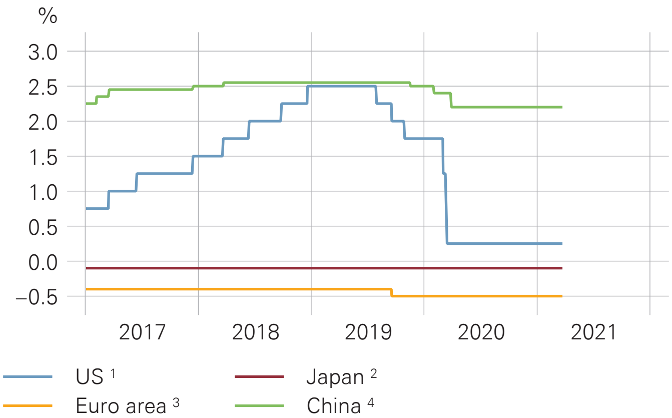


1 Excluding food and energy

Source: Refinitiv Datastream

Chart 2.12

OFFICIAL INTEREST RATES



1 Federal funds rate (upper limit of target range)
2 Call money target rate
3 Deposit facility rate
4 Reverse repo rate (7-day)

Source: Refinitiv Datastream

CHINA

Economic activity in China recovered quickly from the historic contraction in the first quarter of last year (cf. chart 2.7). By the fourth quarter, it had already returned to its pre-crisis trend in both manufacturing and services. Despite the pandemic, China recorded positive growth of 2.3% for the year as a whole. However, this was the lowest expansion since the mid-1970s and reflected a decline in consumption for the first time.

Economic activity has lost some momentum since the beginning of 2021. Owing to the emergence of new virus hotspots in some parts of the country, the government again decided to introduce containment measures aimed at restricting movement and thus limiting travel for the Chinese New Year. While these measures will likely hold back GDP growth in the first quarter, economic activity should return to normal thereafter.

The government intends to gradually unwind its economic stimulus measures that have been in place since the outbreak of the pandemic. As part of its five-year plan for 2021 to 2025, it is focusing on achieving high-quality growth. In particular, innovation and a focus on advanced technology are to drive productivity gains in the manufacturing industry.

Consumer price inflation remained historically low; at –0.2% in February, it was virtually unchanged from November; core inflation stood at 0.0% (cf. charts 2.10 and 2.11).

3 Economic developments in Switzerland

In Switzerland, the economic recovery has lost momentum in recent months in the wake of a second wave of the pandemic. However, economic activity has been restricted less strongly by comparison with the first wave in spring 2020. That said, value added has been seriously impacted in industries particularly affected by the containment measures.

GDP thus rose only slightly in the fourth quarter of 2020, this following robust growth in the previous quarter. A renewed decline is to be expected for the first quarter of 2021. The second wave of the pandemic is also taking its toll on the labour market. Short-time working increased again in recent months, and unemployment rose further.

Developments going forward hinge on whether there are renewed waves of the pandemic and which measures are implemented to contain them. The SNB's baseline scenario anticipates that the containment measures in Switzerland will be eased further in the coming months, and that there will be no renewed worsening of the pandemic situation and tightening of the measures thereafter.

Against this backdrop, the SNB continues to expect GDP growth of 2.5% to 3% for 2021. Activity is thus likely to return to its pre-crisis level in the second half of the year. However, production capacity will remain underutilised for some time to come. The forecast for Switzerland, as for the global economy, remains subject to high uncertainty.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. Despite the second wave of the pandemic and associated containment measures, many indicators suggest that the economy is still developing favourably. However, owing to the severe downturn in industries directly affected by the restrictions, economic activity is likely to have declined in January and February.

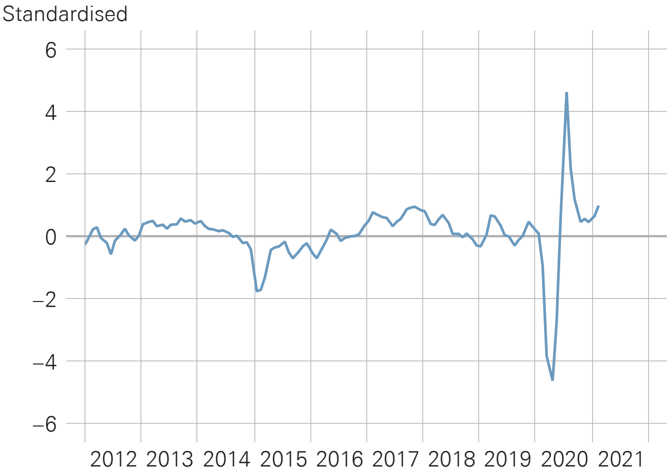
Chart 3.1

REAL GDP

Source: SECO

Chart 3.2

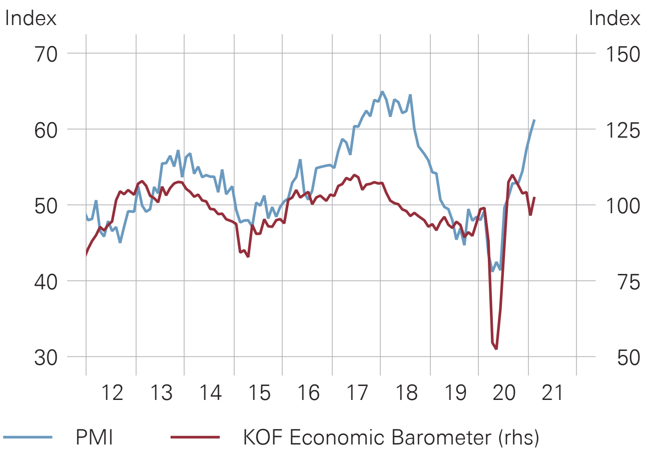
SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Sources: Credit Suisse, KOF Swiss Economic Institute

Slight rise in GDP in fourth quarter
Momentum slowed significantly in the fourth quarter as a result of the second pandemic wave. According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP grew by just 1.3%, having risen strongly in the previous quarter. As a result, fourth-quarter GDP was still 1.7% below its pre-crisis level at the end of 2019 (cf. chart 3.1).

Growth continued to vary widely across the industries. Despite the renewed wave of infection, value added rose in several industries, particularly in manufacturing as well as in the wholesale and retail trade segments. Meanwhile, in industries directly affected by the restrictions (hospitality and entertainment), value added saw a renewed drop.

Developments were also mixed on the demand side. Private consumption recorded a marked decline, while equipment investment and goods exports (excluding merchanting) recovered further (cf. table 3.1).

With the fourth-quarter estimate released, initial provisional annual figures for 2020 are available. GDP contracted by 2.9%, representing the largest drop since 1975. Government consumption was the only component on the demand side to record an increase. Even private consumption, which typically bolsters demand during crises, fell sharply. Value added declined in most industries, particularly in hospitality and entertainment.

Faltering recovery at start of year
The economic recovery lost momentum at the beginning of the year following the tightening of containment measures. As a result, consumption-oriented indicators in particular, such as retail trade or new car registrations, declined again. Moreover, signals from the hospitality and entertainment industries remained very subdued, while industries not directly affected by the restrictions continued to recover in line with leading indicators. In manufacturing, in particular, signals were still positive (cf. chart 3.3).

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum on a monthly basis. At the beginning of the year, both indicators pointed to slightly above-average growth (cf. charts 3.2 and 3.3). However, the signals currently need to be interpreted with caution. In view of the fact that the industries directly affected by the restrictions are not fully captured in either indicator, it is likely that first-quarter momentum is overestimated in both.

The weak growth in some services industries since the beginning of the year may prompt a renewed decline in GDP in the first quarter.

Table 3.1

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

	2017	2018	2019	2020	2019				2020			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private consumption	1.2	0.8	1.4	–4.4	1.8	2.4	0.1	1.8	–15.5	–28.8	58.4	–6.0
Government consumption	0.6	0.9	0.9	2.9	0.3	0.4	2.1	2.6	3.6	3.8	–0.3	9.5
Investment in fixed assets	3.6	0.8	1.2	–1.7	6.3	–2.4	0.0	19.0	–13.3	–24.9	35.7	5.0
Construction	1.5	0.0	–0.5	–0.7	0.5	–1.0	1.0	1.6	0.8	–18.8	23.4	0.5
Equipment	4.9	1.2	2.2	–2.3	9.7	–3.1	–0.6	29.8	–20.2	–28.3	43.4	7.7
Domestic final demand	1.8	0.8	1.3	–2.7	2.9	0.7	0.3	6.6	–12.6	–23.9	42.3	–1.0
Change in inventories [1]	–0.3	0.9	–0.2	–1.2	4.9	–0.8	2.6	–8.4	9.6	–10.9	2.7	2.1
Total exports [2]	3.4	5.0	2.1	–6.3	–1.5	3.3	1.5	2.9	–11.7	–31.7	21.5	–2.3
Goods [2]	5.3	5.0	4.8	–1.0	–4.4	9.4	5.5	4.5	–5.8	–23.4	26.9	–3.8
Goods excluding merchanting [2]	5.8	4.4	4.9	–2.9	–1.2	2.5	5.4	–3.3	8.0	–45.3	44.7	12.4
Services	0.1	5.0	–3.0	–17.3	4.7	–8.2	–6.7	–0.7	–23.0	–47.8	8.9	1.7
Total imports [2]	3.8	3.3	2.5	–9.6	13.8	0.5	3.6	–5.0	–1.2	–52.3	46.5	–2.6
Goods [2]	4.6	6.2	2.8	–7.4	20.7	–4.1	4.3	–8.6	–1.3	–45.7	54.4	–1.6
Services	2.4	–1.5	2.0	–13.4	2.6	8.9	2.5	1.4	–1.2	–61.9	32.9	–4.3
Net exports [3]	0.3	1.3	0.1	0.7	–6.8	1.7	–0.8	3.9	–6.0	5.8	–6.9	–0.1
GDP	**1.6**	**3.0**	**1.1**	**–2.9**	**0.6**	**1.5**	**2.1**	**1.7**	**–7.4**	**–25.7**	**34.3**	**1.3**

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 impact of the second wave of the pandemic was also felt in the labour market. Short-time working increased again in recent months, and unemployment rose further.

Rising unemployment

The number of people registered as unemployed at the regional employment offices rose again noticeably from October. Excluding seasonal fluctuations, around 166,000 people were registered as unemployed at the end of February. The seasonally adjusted unemployment rate published by SECO stood at 3.6%, which was slightly higher than at the end of October (3.4%) and more than one percentage point above its pre-crisis level at the end of 2019 (cf. chart 3.4).

In addition to the SECO unemployment rate, the Swiss Federal Statistical Office (SFSO) also 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 fourth quarter, the seasonally adjusted rate rose by 0.2 percentage points to 5.2%. Prior to the crisis, it had stood at 4.1%. Since the beginning of the crisis, unemployment has thus increased at a similarly strong rate to the number of registered unemployed.

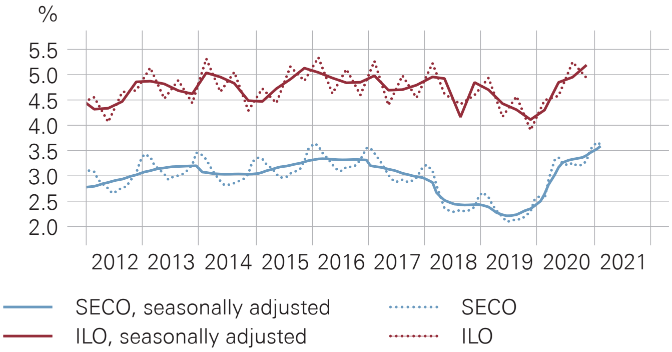
Stagnating employment

According to the Employment Statistics (ES), the seasonally adjusted number of persons employed rose again in the fourth quarter, but was still around 0.2% lower than before the crisis (cf. chart 3.5). The ES measure the number of employed persons on the household side and are based primarily on SLFS data.

The national job statistics (JOBSTAT), by contrast, measure employment on the company side and are based on a survey of firms. According to these statistics, the seasonally adjusted number of full-time equivalent positions stagnated in the fourth quarter, and thus likewise remained below its pre-crisis level. While employment in manufacturing and services was unchanged, construction saw a number of job losses (cf. chart 3.6).

Chart 3.4

UNEMPLOYMENT RATE

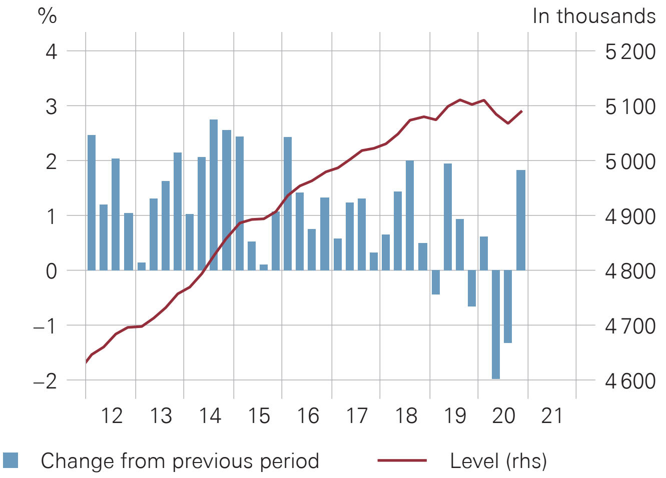


SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons). The number of economically active persons is based on the 2000 and 2010 censuses and the three-year averages of the 2012–2014 and 2015–2017 structural surveys.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

Sources: SECO, SFSO

Chart 3.5

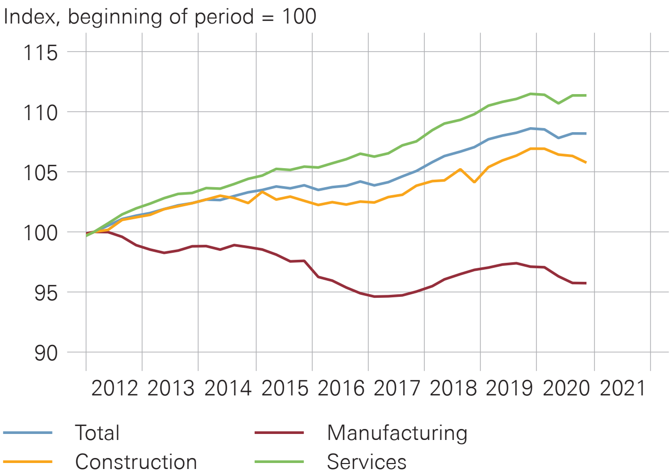
EMPLOYED PERSONS



Source: SFSO; seasonal adjustment: SNB

Chart 3.6

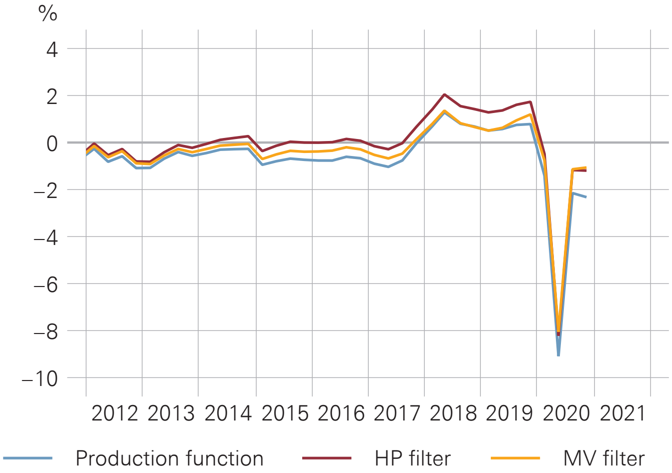
FULL-TIME EQUIVALENT JOBS



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

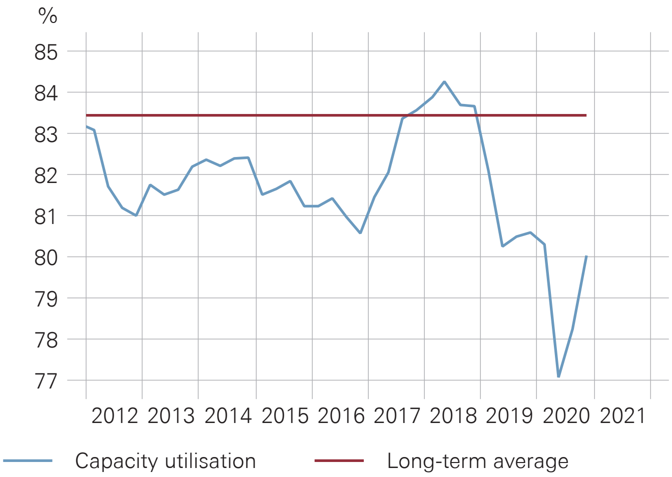
OUTPUT GAP



Source: SNB

Chart 3.8

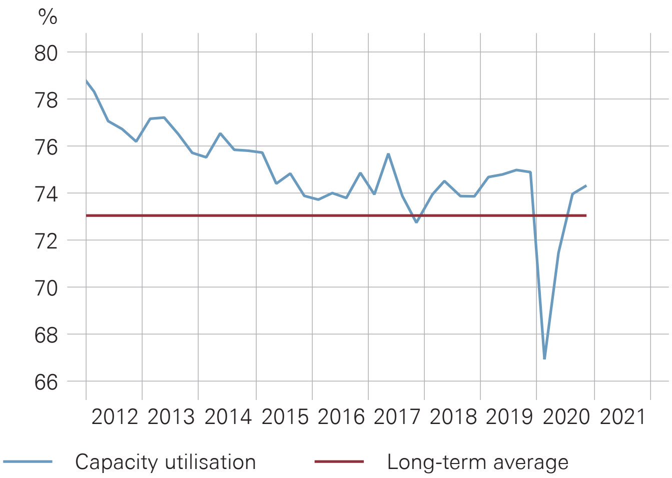
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

Renewed rise in short-time working

Short-time working has been on the rise again since November. Provisional figures from SECO suggest that the number of people in short-time work between October and December increased by 45,000 to 290,000. Thus, in December, around 6% of all economically active persons were in short-time work. This was lower than at the peak in April 2020 (1.3 million persons, or 29% of all economically active persons), but still considerably more than at the height of the financial crisis in 2009 (92,000 persons, or around 2% of all economically active persons).

CAPACITY UTILISATION

Negative output gap in fourth quarter

The output gap, defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well production capacity in an economy is being utilised. In the case of overutilisation the gap is positive, and in the case of underutilisation it is negative.

In the fourth quarter, the economy grew at much the same pace as estimated potential output. The output gap thus remained virtually unchanged. Potential output as estimated by means of a production function shows an output gap of –2.3% for the fourth quarter. Estimates using other methods to establish potential output indicate a narrower gap (cf. chart 3.7).

Underutilisation in many industries

The surveys conducted among companies confirm that the utilisation of production factors remained below average in most industries. They also show, however, that there are significant differences between industries. According to the KOF survey, utilisation in construction was once again above its long-term average in the second half of 2020 (cf. chart 3.9). Although utilisation of technical capacity in manufacturing continued to be well below average, the situation improved considerably in the fourth quarter (cf. chart 3.8). In many service industries, by contrast, the survey showed capacity remaining underutilised. The hotel industry was particularly affected, with occupancy rates still very low.

As regards the labour situation, the majority of companies indicated that their staffing levels remained too high. This development is consistent with the large numbers of people in short-time work.

OUTLOOK

The second wave of the pandemic and the associated tightening of containment measures have interrupted the economic recovery in Switzerland. Overall, however, economic activity was less severely affected than in spring 2020.

Following the reopening of all shops, the recovery is likely to have resumed in March, additionally supported by positive momentum in global manufacturing (cf. chart 3.10). As a result, the business situation, which was still hampered at the beginning of the year (cf. chart 3.11), is expected to improve further. The employment outlook is already starting to show some initial signs of improvement (cf. chart 3.12).

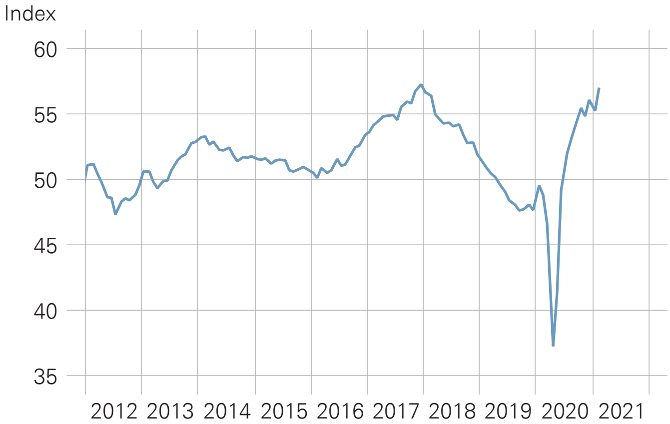
Developments going forward hinge on whether there are renewed waves of the pandemic and which measures are implemented to contain them. Moreover, in the event of another pandemic wave, the Swiss vaccination programme should allow for less stringent containment measures than before, provided it can be implemented as planned and the vaccines work as hoped. The SNB's baseline scenario anticipates that the containment measures in Switzerland will be eased further in the coming months and will not need to be tightened again.

For 2021, the SNB continues to expect GDP growth of 2.5–3%. Activity is thus likely to return to its pre-crisis level in the second half of the year. However, production capacity will remain underutilised for some time to come. The forecast for Switzerland, as for the global economy, is subject to high uncertainty.

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

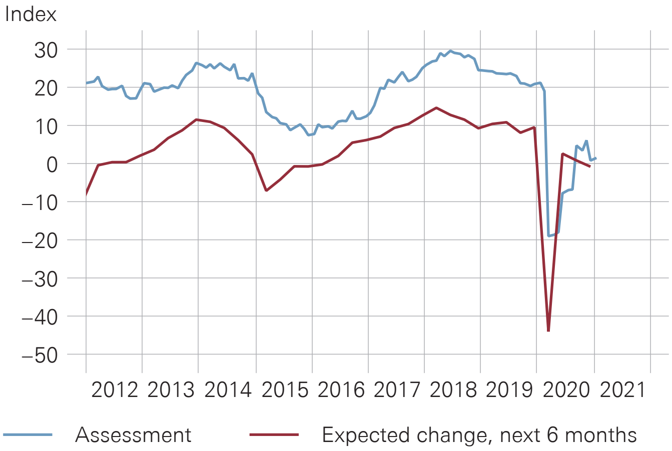


Sources: International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

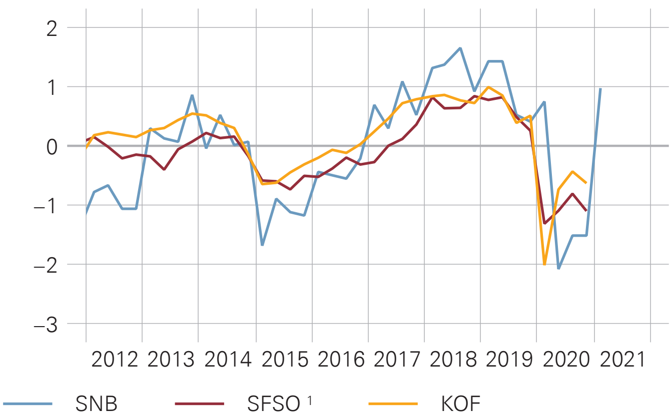


Source: KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

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

4
Prices and inflation expectations

The inflation rate as measured by the CPI was somewhat higher than in November. However, at –0.5%, it was still in negative territory in February. Although core inflation remained above CPI inflation, as in previous quarters, it was still low.

Short-term inflation expectations increased slightly, but stayed at a low level, while longer-term expectations were virtually unchanged. As in the quarters before, they were 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

Annual inflation rate somewhat higher

Following a marginal decline from –0.7% in November to –0.8% in December, the annual CPI inflation rate rose slightly in the last two months and stood at –0.5% in both January and February (cf. chart 4.1, table 4.1).

As usual, at the beginning of the year the SFSO published its updates to the weightings of goods and services in the CPI basket. The adjustment was particularly large this year because the changes in the consumer behaviour of households were unusually strong due to the coronavirus pandemic. While spending for tourism-related services and restaurants fell proportionately, it increased for healthcare products, rent and food.

Negative inflation for imported products

Although inflation for imported goods and services was still clearly negative, it rose from –2.7% in November to –1.6% in February. The increase was largely attributable to the rise in inflation for oil products, which climbed substantially from –16% in November to –2.3% in February. By contrast, inflation for imported goods and services excluding oil products declined in the same period, from –1.0% to –1.4%, primarily as a result of prices in tourism-related services. The negative CPI inflation is almost exclusively due to the contribution of imported goods and services (cf. chart 4.1).

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2020	2020				2020	2021	
		Q1	Q2	Q3	Q4	December	January	February
Overall CPI	**–0.7**	**–0.1**	**–1.2**	**–0.9**	**–0.7**	**–0.8**	**–0.5**	**–0.5**
Domestic goods and services	0.0	0.2	–0.2	–0.1	0.0	–0.2	–0.1	–0.2
Goods	0.0	–0.2	0.1	0.0	0.1	–0.3	0.3	0.1
Services	0.0	0.3	–0.3	–0.1	0.0	–0.1	–0.3	–0.3
Private services excluding housing rents	–0.4	0.2	–1.0	–0.5	–0.2	–0.3	–0.6	–0.7
Housing rents	0.9	1.1	1.1	0.9	0.5	0.4	0.4	0.5
Public services	–0.8	–0.9	–0.8	–0.8	–0.6	–0.7	–0.3	–0.3
Imported goods and services	–2.9	–1.1	–4.2	–3.3	–2.8	–2.8	–1.8	–1.6
Excluding oil products	–1.4	–0.8	–2.3	–1.4	–1.1	–1.4	–0.7	–1.4
Oil products	–13.7	–3.8	–18.6	–16.8	–15.3	–13.5	–10.0	–2.3

Sources: SFSO, SNB

Slightly lower inflation for domestic products
After moving into positive territory for a brief time in October, inflation for domestic goods and services fell again slightly and stood at –0.2% in February (cf. chart 4.2). While inflation for domestic goods was slightly positive in both January and February, inflation for services excluding housing rents remained negative and stood at –0.6% in February.

Slight rise in rent inflation
Housing rent inflation stood at 0.5% in February, up 0.1 percentage points on November (cf. chart 4.3).

Core inflation still above CPI inflation
The SFSO core inflation rate 1 (SFSO1) initially rose from –0.4% in December to 0% in January, only to drop again in February to –0.3%. However, it was still above annual CPI inflation. Core inflation, as measured by the SNB's trimmed mean (TM15), was up from –0.1% in December to 0.2% in January and remained unchanged in February (cf. chart 4.4).

Both core inflation rates exclude goods and services with particularly volatile prices. When calculating SFSO1, energy and fuel as well as unprocessed food and seasonal goods and services are not included. TM15 excludes the goods and services with the most extreme price changes every month (i.e. the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest).

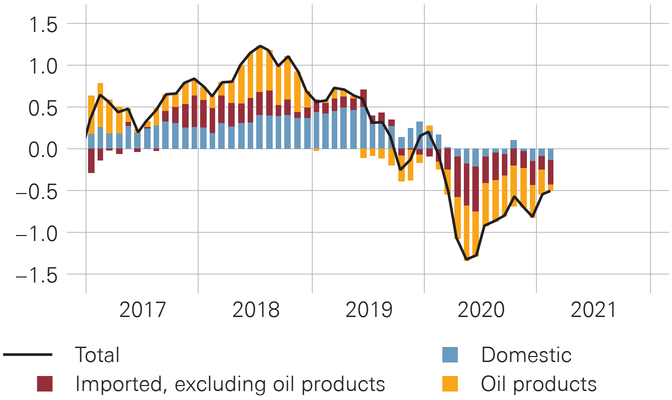
PRODUCER AND IMPORT PRICES

Less negative inflation for producer and import prices
Inflation for producer and import prices rose further in recent months and stood at –1.1% in February, compared to –2.7% in November 2020 (cf. chart 4.5).

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.

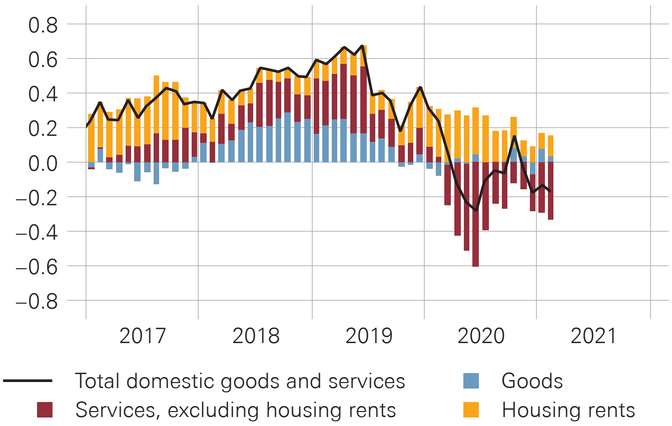


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

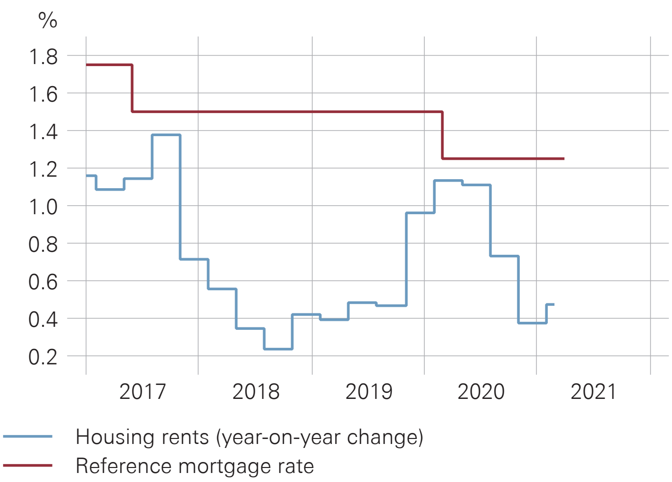
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

HOUSING RENTS

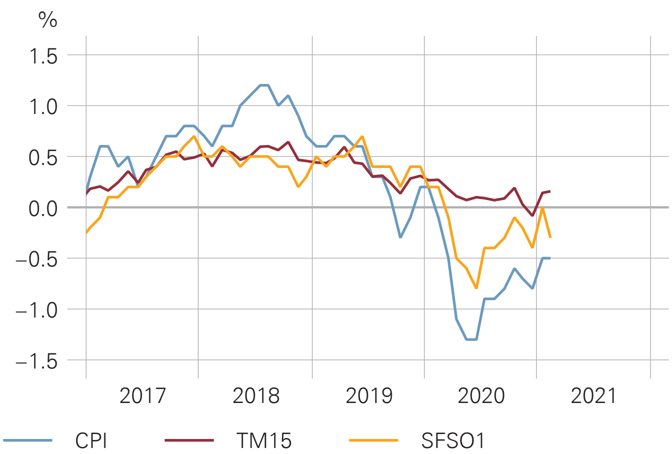


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

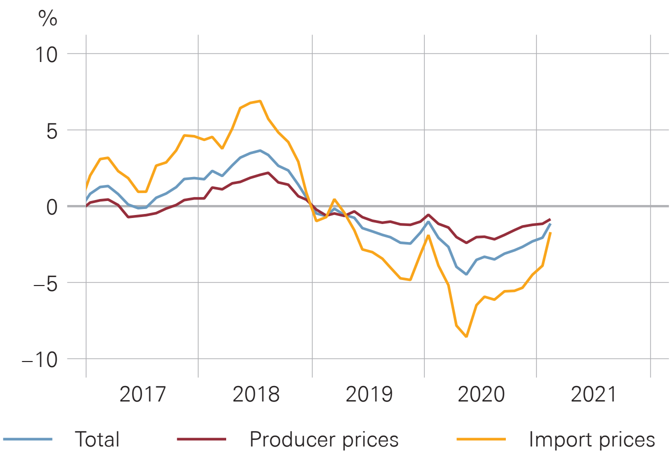


Sources: SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change

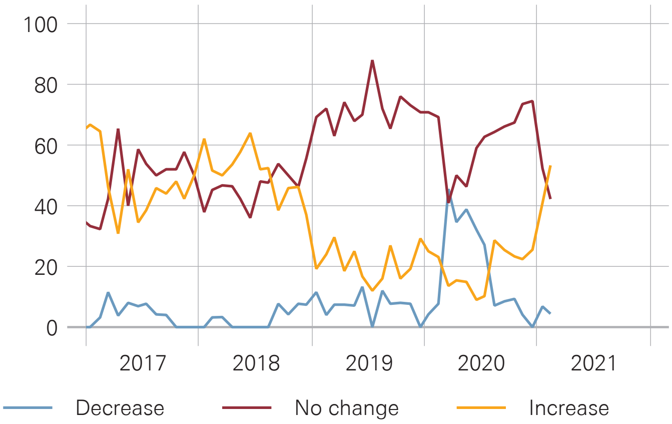


Source: SFSO

Chart 4.6

CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS

Proportion of respondents in %



Sources: CFA Society Switzerland, Credit Suisse

INFLATION EXPECTATIONS

Short-term inflation expectations slightly higher

Although short-term inflation expectations registered a slight increase quarter-on-quarter, they stayed at a low level.

According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, 53% of analysts questioned in February 2021 expected inflation rates to rise in the next six months (cf. chart 4.6). Meanwhile, 42% of respondents anticipated unchanged rates, and less than 5% thought rates would fall. It is likely that survey participants would have known the annual CPI inflation rate of January, which stood at –0.5%. The survey results suggest that respondents expect annual inflation rates to rise to zero or edge into positive territory in the months ahead.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors also pointed to expectations of marginally higher inflation (cf. chart 10 in 'Business cycle signals'). In the first quarter of 2021, company representatives anticipated an annual inflation rate of 0.3% for the next six to twelve months. In the preceding quarter, they had put the rate at 0.2%.

The survey of households conducted by SECO in January paints a similar picture. The proportion of households expecting prices to rise in the next twelve months was somewhat greater than that of households expecting unchanged prices. The share of respondents anticipating a fall in prices remained at around 10%.

Longer-term expectations consistent with price stability

Medium and longer-term inflation expectations changed little and remained within the range consistent with price stability, which the SNB equates to a rise in CPI of less than 2% per year.

Company representatives interviewed by the SNB's delegates in the first quarter of 2021 thus put the average inflation rate in three to five years at approximately 1.1%, compared to 1.0% in the preceding quarter.

5 Monetary developments

At its quarterly assessment of 17 December 2020, the SNB reaffirmed its expansionary monetary policy. It kept the SNB policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc it remained willing to intervene more strongly in the foreign exchange market. Furthermore, under the SNB COVID-19 refinancing facility (CRF), it continued to provide the banking system with liquidity and thus supported the supply of credit to the economy at favourable terms.

In the period following the December 2020 monetary policy assessment, share prices and yields on long-term Confederation bonds rose. By the end of March, the Swiss franc had weakened significantly against the US dollar and the euro.

Growth rates for the broad monetary aggregates continued their upward trend, with approximately one-third of this increase being attributable to money creation resulting from the granting of COVID-19 bridging loans. Annual growth in bank lending remained robust in Q4 2020 at the level reported for the previous quarter.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged

At its quarterly assessment of 17 December 2020, the SNB confirmed its expansionary monetary policy stance. The environment continued to be impacted by the coronavirus pandemic. Against this backdrop, the SNB left unchanged, at –0.75%, the SNB policy rate and 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 confirmed its willingness to intervene more strongly in the foreign exchange market to contribute to the stabilisation of the situation. In so doing, it continued to take the overall exchange rate situation into account. Moreover, under the CRF, it continued to provide the banking system with liquidity on generous terms and thus supported the supply of credit to the economy at favourable conditions.

Continued provision of CHF and USD liquidity

In December 2020 and January 2021, the SNB selectively provided the money market with Swiss franc liquidity through repo auctions, thereby ensuring that the secured short-term money market rates remained close to the SNB policy rate.

The SNB also continued to conduct weekly USD auctions with maturities of 7 and 84 days in coordination with the Bank of England, the Bank of Japan and the European Central Bank and in consultation with the US Federal Reserve.

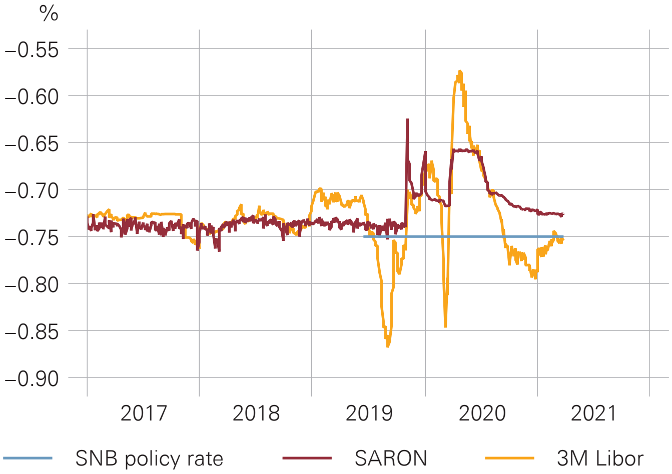
Sight deposits at the SNB slightly lower

Since the monetary policy assessment of December 2020, total sight deposits held at the SNB have decreased somewhat. In the week ending 19 March 2021 (last calendar week before the assessment of March 2021), they amounted to CHF 702.9 billion. This was slightly lower than in the last calendar week preceding the December 2020 assessment (CHF 704.9 billion). Between the assessments of December 2020 and March 2021, sight deposits at the SNB averaged CHF 703.6 billion. Of this amount, CHF 635.3 billion were sight deposits of domestic banks and the remaining CHF 68.3 billion were other sight deposits.

Statutory minimum reserves averaged CHF 21.1 billion between 20 November 2020 and 19 February 2021. Overall, banks exceeded the minimum reserve requirement by some CHF 621.6 billion (previous period: CHF 622.0 billion). Banks' excess 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

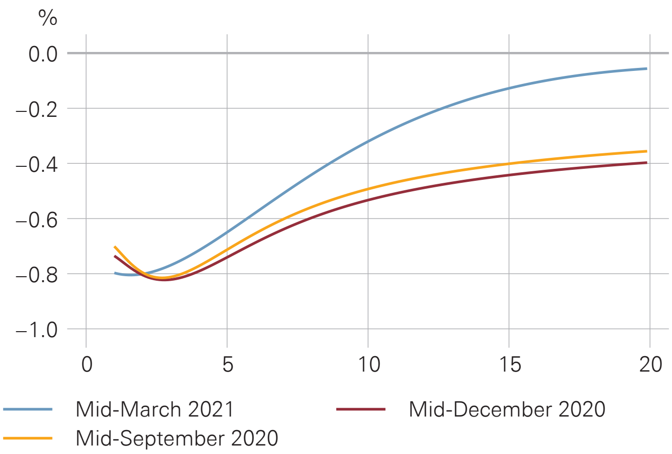
10-YEAR SWISS CONFEDERATION BOND YIELD

Source: SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

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



Source: SNB

MONEY AND CAPITAL MARKET INTEREST RATES

Money market rates largely unchanged

Money market interest rates have consistently tracked close to the SNB policy rate of –0.75% since the last monetary policy assessment. On the secured money market, SARON stood at around – 0.73% at the end of March, while on the unsecured market, the three-month Libor was just under –0.75% (cf. chart 5.1). The setting of CHF Libor rates will cease as per end-2021.

Increase in capital market rates

Long-term capital market rates rose in the first quarter of 2021. The increase was largely consistent with movements in corresponding rates abroad and reflected the improved economic outlook. The yield on ten-year Confederation bonds stood at –0.32% in mid-March. It was thus around 20 basis points higher than in the middle of December 2020 (cf. chart 5.2).

Steeper yield curve

Owing to a rise in estimated yields for medium and long-term maturities in particular, the yield curve for Confederation bonds was steeper at the end of March than at the time of the December 2020 monetary policy assessment (cf. chart 5.3). Yields across all maturities nevertheless remained in negative territory.

Real interest rates low

Real interest rates – the difference between nominal interest rates and inflation expectations – are an important factor in the saving and investment decisions of companies and households.

The rise in nominal interest rates led to a slight increase in real interest rates, but they persisted at a low level in the first quarter of 2021 nonetheless. This was attributable to the fact that although nominal yields on Confederation bonds registered a rise, they remained in negative territory. At the same time, survey measures of medium and long-term inflation expectations barely changed and thus remained positive.

EXCHANGE RATES

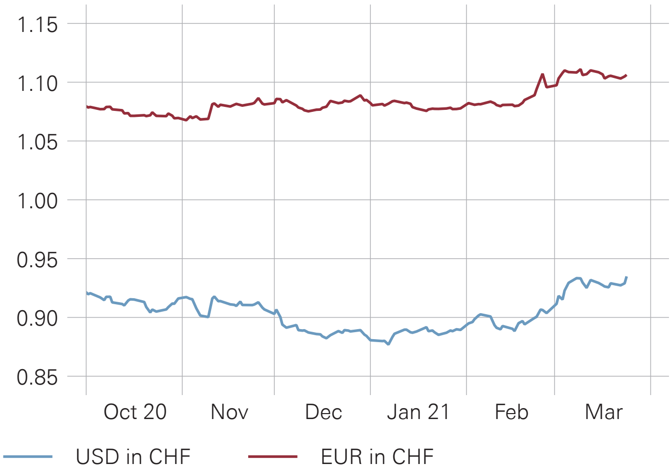
Weakening Swiss franc
Since the last monetary policy assessment in December 2020, the Swiss franc has weakened against the euro and the US dollar (cf. chart 5.4). While Swiss franc exchange rates were initially relatively stable against the euro and the US dollar up to mid-February, the franc depreciated across a broad front at the end of the month. With share prices and interest rates rising globally in an environment of positive risk sentiment, not only the franc, but also the yen – likewise regarded as a safe haven – lost value. At the end of March, one euro was worth around CHF 1.11, the highest it has been since mid-2019. The Swiss franc weakened against the US dollar to around CHF 0.93, thus partially cancelling out the appreciation that occurred up to the end of 2020.

Swiss franc's trade-weighted external value weaker
The nominal trade-weighted external value of the Swiss franc declined noticeably in February and, at the end of March, stood around 4% lower than at the time of the December monetary policy assessment (cf. chart 5.5). At end-March, the franc was at its weakest level in nominal trade-weighted terms since the start of the coronavirus pandemic in early 2020, but it was still considerably stronger than in previous years. The decrease in the nominal external value primarily reflects the depreciation of the Swiss franc against the euro (+2.5%, index weighting 43%) and the US dollar (+6%, index weighting 15%). Moreover, the weakening against the pound sterling (+7%, index weighting 7%) and the renminbi (+6%, index weighting 9%) also contributed to the franc's trade-weighted depreciation.

Real external value still high
Following the Swiss franc's nominal depreciation in February, the real external value also declined (cf. chart 5.6). At end-February, it was at a similar level to 2016. In a longer-term comparison, the Swiss franc remains highly valued.

Chart 5.4

EXCHANGE RATES



Source: SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2020 monetary policy assessment = 100

Source: SNB

Chart 5.6

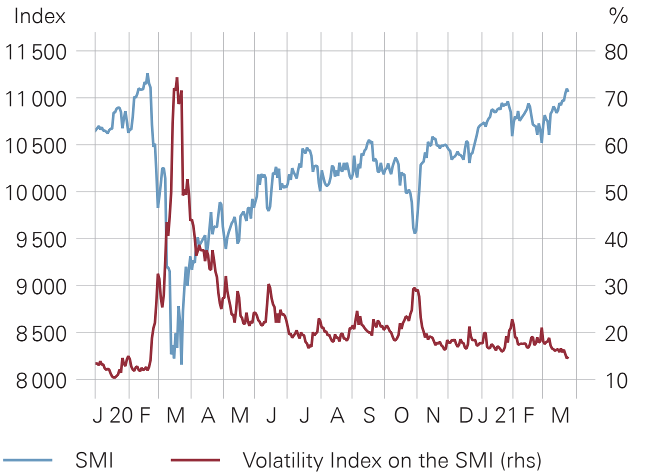
REAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100

Source: SNB

Chart 5.7

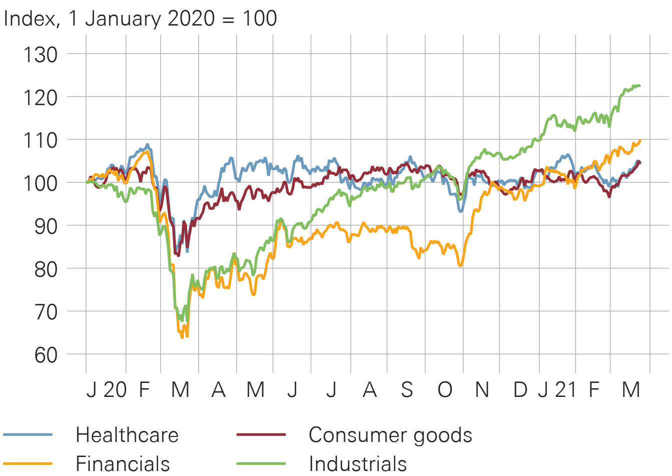
SHARE PRICES AND VOLATILITY



Sources: Bloomberg, Refinitiv Datastream

Chart 5.8

SELECTED SPI SECTORS

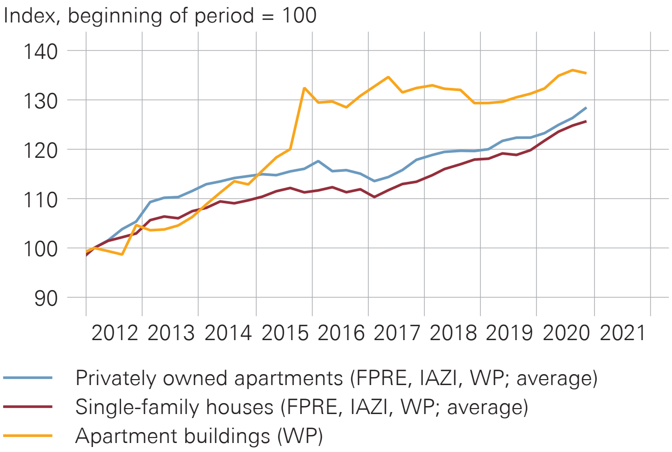


Source: Refinitiv Datastream

Chart 5.9

HOUSING TRANSACTION PRICES

Nominal (hedonic)



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

SHARE AND REAL ESTATE PRICES

Rise in share prices

In the period since the last monetary policy assessment in December 2020, share prices increased further in the major economies. The rise suggests that market participants were highly confident of the economy making a strong recovery from the effects of the pandemic. This development was also reflected in the Swiss stock market. At the end of March, the Swiss Market Index (SMI) was up about 6% on the mid-December level (cf. chart 5.7).

Little change to market uncertainty

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). In the quarter under review, the index stayed roughly at the level of the previous quarters and thus remained higher than before the outbreak of the pandemic.

Sub-indices varied

Chart 5.8 shows the movements of important sub-indices in the broad-based Swiss Performance Index (SPI). Compared with the previous quarter, share prices rose particularly in those industries hardest hit by the outbreak of the pandemic one year ago.

Continued growth in residential real estate prices

In the fourth quarter of 2020, transaction prices for residential real estate increased further (cf. chart 5.9), with the exception of prices in the apartment buildings segment, which stagnated. All in all, the residential real estate market seems to be only marginally affected by the coronavirus pandemic thus far. However, it is not possible to rule out the pandemic affecting this market in the future.

MONETARY AND CREDIT AGGREGATES

Slight rise in monetary base
The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, averaged CHF 729.4 billion in February 2021 (cf. chart 5.10), and was thus up CHF 0.9 billion on November 2020.

Broad monetary aggregates rise further
Growth rates for the broad monetary aggregates continued to trend upwards. In February 2021, the M1 aggregate (currency in circulation, sight deposits and transaction accounts) was 10.0% up year-on-year (cf. table 5.1). In the same period, M2 (M1 plus savings deposits) grew by 6.9% and M3 (M2 plus time deposits) was up by 6.7%. Almost a quarter of the growth in the broad monetary aggregates can be attributed to money creation resulting from the granting of COVID-19 bridging loans.

Quarter-on-quarter lending growth unchanged
Bank lending (by domestic bank offices, in all currencies) was up 3.5% year-on-year in the fourth quarter of 2020. Lending growth thus remained largely unchanged by comparison with the previous quarter (cf. table 5.1). While growth in mortgage lending increased slightly, other loans expanded at a slower pace than in the third quarter of 2020.

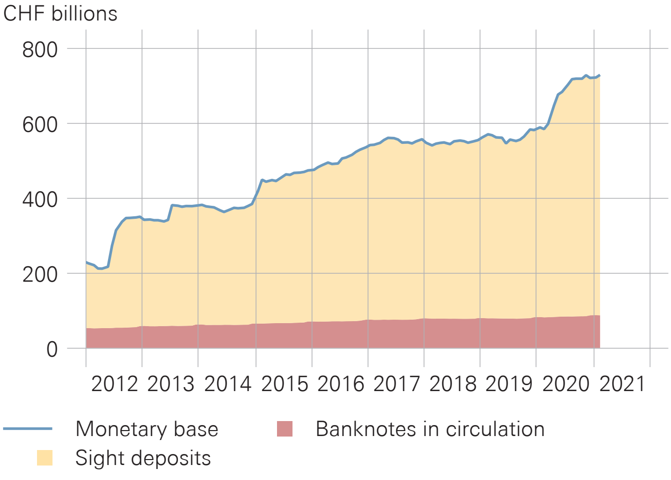
Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.1% year-on-year in the fourth quarter (cf. chart 5.11). Demand for mortgages continued to be supported by low mortgage interest rates. The ten-year mortgage interest rate stood at around 1.4% in February 2021, which was only slightly above the all-time low of approximately 1.2% recorded in August 2019.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.12) and grew substantially in the first half of 2020. This was primarily due to secured other loans, which include the COVID-19 bridging loans guaranteed by the federal government. This programme, which grants loans at exceptionally favourable conditions (cf. 'Emergency corporate loans', Quarterly Bulletin 2/2020 June), has enabled around 135,000 companies – most of them small firms – to access liquidity (credit lines) totalling almost CHF 17 billion. Secured other loans increased once again in the fourth quarter of 2020.

By contrast, following a sharp rise in March 2020, the volume of unsecured other loans declined during the second half of the year. The current level is similar to that recorded before the coronavirus pandemic.

Chart 5.10

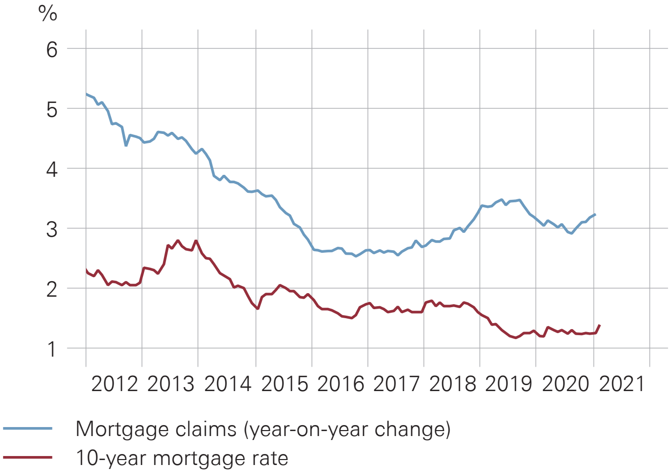
MONETARY BASE



Source: SNB

Chart 5.11

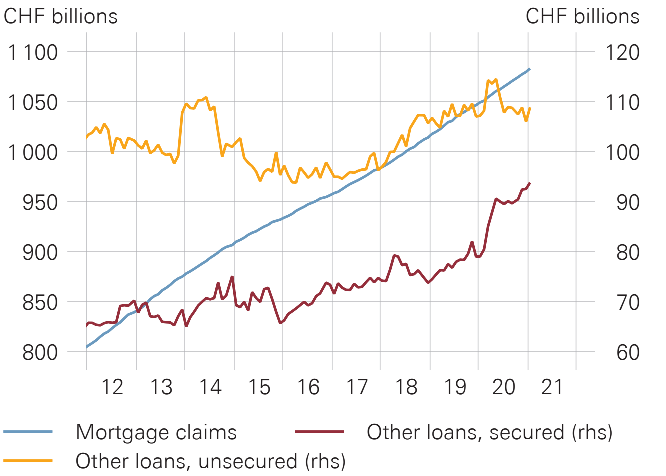
MORTGAGE CLAIMS AND INTEREST RATES



Source: SNB

Chart 5.12

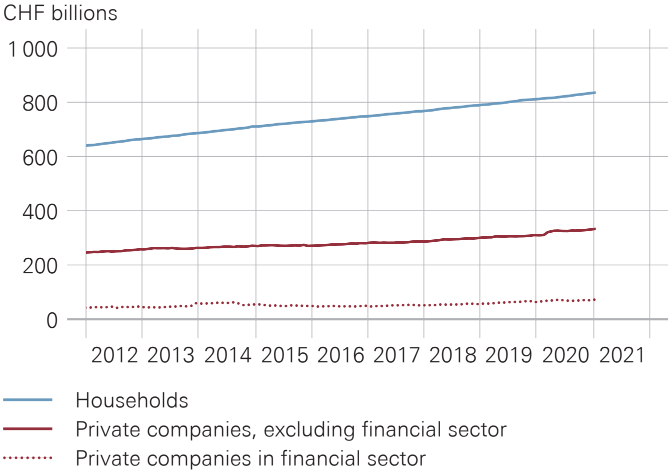
MORTGAGE CLAIMS AND OTHER LOANS



Source: SNB

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES



Source: SNB

Lending growth by sector
Both households and non-financial companies continue to make use of the favourable financing conditions. This was reflected in the steady rise in bank loans (mainly mortgage loans) extended to these two important customer groups (cf. chart 5.13).

At the end of January 2021, loans to households recorded a year-on-year increase of CHF 23.2 billion (2.9%) and loans to non-financial companies a rise of CHF 23.7 billion (7.7%). Loans to financial companies rose in the same period by CHF 7.5 billion (11.4%).

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2020	2020 Q1	Q2	Q3	Q4	2020 December	2021 January	February
M1	**4.3**	**0.6**	**3.5**	**5.2**	**8.1**	**9.0**	**10.0**	**10.0**
M2	**2.3**	**–0.3**	**1.5**	**2.8**	**5.2**	**6.0**	**6.8**	**6.9**
M3	**3.2**	**0.5**	**2.5**	**4.0**	**5.9**	**6.5**	**7.0**	**6.7**
Bank loans, total [1, 3]	**3.6**	**3.5**	**4.0**	**3.5**	**3.5**	**3.7**	**4.1**	
Mortgage claims [1, 3]	3.1	3.1	3.0	2.9	3.1	3.2	3.2	
Households [2, 3]	2.7	2.7	2.6	2.6	2.7	2.7	2.7	
Private companies [2, 3]	4.4	4.3	4.4	4.1	4.6	4.7	5.2	
Other loans [1, 3]	6.8	5.7	9.4	6.5	5.7	6.7	8.9	
Secured [1, 3]	13.5	8.1	16.5	14.8	14.5	17.2	18.7	
Unsecured [1, 3]	2.0	3.9	4.4	0.6	–0.8	–1.0	1.6	

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

Business cycle signals

Results of the SNB company talks

First quarter of 2021

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 throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 238 company talks were conducted between 19 January and 9 March.

In light of the coronavirus crisis, the delegates addressed several additional issues, and asked specific questions on the liquidity situation and credit demand (for more details, cf. page 32).

Regions	Delegates
Central Switzerland	Gregor Bäurle
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Fabian Schnell

Key points

- In the wake of the lockdown, the economy has shrunk quarter on quarter, albeit to a much less pronounced extent than in spring last year. There are still exceptionally large differences between industries, and even within industries themselves.
- Real turnover has declined primarily in the services sector, while manufacturing has seen slight growth.
- Production capacity and infrastructures remain substantially underutilised, except in the construction sector, where utilisation has been largely normal.
- Difficulties with procurement and delivery are again increasingly cited as a problem.
- The margin and liquidity situation at companies varies widely from industry to industry. Thanks to measures taken by governments and by companies themselves, these figures have improved slightly overall. Margins nevertheless remain substantially below the levels that would be considered normal.
- Staff numbers are seen as too high. Given the greater need for staff expected in the coming quarters, companies are mostly avoiding making redundancies, with short-time working also helping in this regard.
- Companies anticipate a significant improvement in their business in the coming quarters. The vaccination campaign is a major factor in this confidence. The indeterminate duration of the pandemic remains the biggest risk factor. There are growing signs of 'pandemic fatigue'.

CURRENT SITUATION

Economy shrinks slightly owing to pandemic
Economic developments in the quarter under review were shaped by the ongoing pandemic and the measures to contain it. Overall the economy shrank by comparison with the previous quarter, although significantly less so than in the first wave in spring 2020. Contributory factors include the fact that companies have been able to adjust to the restrictions better, fewer industries overall are directly affected, and international demand is holding at a higher level.

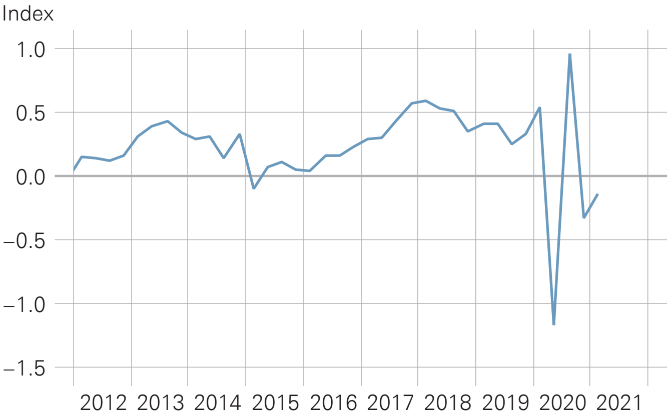
Closures ordered by the authorities and other restrictions are having a curbing effect on the services sector above all. By contrast, the development of real turnover in manufacturing points to a slight improvement in business activity. Overall, these differing developments have resulted in a slight quarter-on-quarter decline in economic output (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). Turnover remains significantly lower year-on-year. The differences within individual sectors, between industries, and even within industries themselves, have increased.

Business with European countries is still described as very sluggish. The signals regarding sales in the US are mixed but all in all point to a slight improvement. By contrast, the development of exports to Asia, in particular China, has been dynamic. Demand for medtech and pharmaceutical products in connection with pandemic management continues to be a driver. The civil aviation industry still faces major problems, which is having a negative impact on many suppliers.

The assessment of the overall effect of the coronavirus crisis to date has hardly changed from last quarter, with around 70% of companies saying in Q1 2021 that they had been negatively affected by the pandemic, most of them clearly so (cf. chart 2). Of the companies surveyed, 16% reported a positive impact, and 17% said the positive and negative effects had cancelled each other out or that the pandemic had had no tangible impact.

Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER

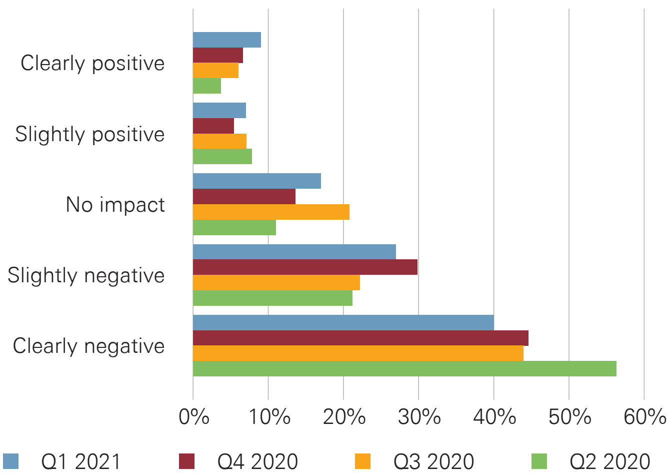


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source: SNB

Chart 2

OVERALL EFFECT OF CORONAVIRUS CRISIS



Source: SNB

Production capacity underutilised
As a result of the coronavirus crisis, technical capacity in manufacturing and infrastructure in the services sector remain substantially underutilised (cf. chart 3). Underutilisation in the services sector has become more pronounced. By contrast, utilisation in the construction sector is largely at normal levels.

Growing number of procurement bottlenecks – sales obstacles discernible
Around two-thirds of the companies surveyed said that they were not having difficulties procuring raw materials and intermediate products, which is comparable to the situation before the coronavirus crisis began. However, 28% of companies report bottlenecks and delays in deliveries from suppliers. This has to do with the fact that some production facilities abroad are manufacturing less as a result of the pandemic, as well as the fact that there are bottlenecks in the availability of freight containers in Asia. In addition to metals, electronic components are particularly prone to shortages.

Problems with regard to sales have become more pronounced: just under half the companies reported difficulties in delivering their products and services in the normal manner. While the situation is not as serious as in the second quarter of last year, it is much more problematic than in the fourth quarter. The main reasons given were travel restrictions, business closures and compliance with precautionary measures.

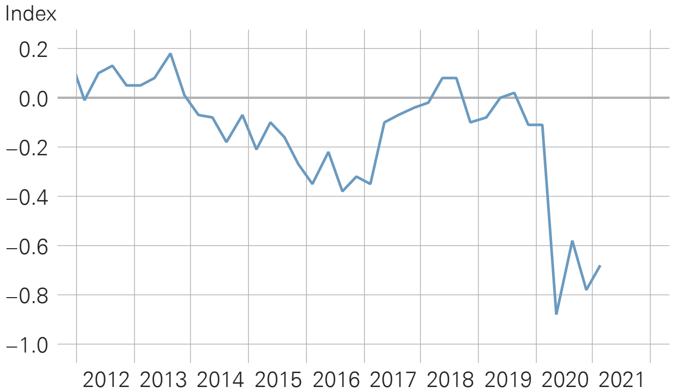
Staff levels too high
In many cases personnel resources are substantially underutilised. Over 40% of the companies view their current staff levels as too high. Besides short-time working, which is still widespread, companies are reducing overcapacity by not replacing people leaving on account of natural turnover.

Hiring significantly easier
Companies that have been looking for new staff reported an above-average number of responses to job advertisements as well as many unsolicited applications. Recruitment is said to be easier than is normally the case owing to availability on the market and the quality of applicants being higher than average. However, the fact that hiring has to be conducted predominantly online is often found to be a disadvantage. Specialists in certain areas, including IT, chemicals, engineering and construction site management, remain in strong demand.

Continued pressure on profit margins
The pressure on profit margins remains high. In all three sectors – manufacturing, services and construction – profit margins are viewed as being lower than usual. However, there are signs that the implemented measures – such as short-time working, investment freezes and cost reductions – are having an effect. This is reflected in the fact that in Q1 2021 fewer representatives described their company’s margins as not being sustainable. There are still very large differences between industries and from company to company.

Chart 3

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

Liquidity situation and lending conditions

Since the outbreak of the coronavirus crisis, securing sufficient liquidity has been among the most pressing challenges facing companies. The SNB has thus included additional questions on this issue in its company talks.

A quarter-on-quarter comparison of the liquidity situation reveals a similar picture (cf. chart 4). Just under half the companies describe the situation as being the same as before the coronavirus crisis. Around 25% of the companies see the liquidity situation as tighter than before the outbreak of the crisis, and around 25% see it as more relaxed. There have, however, been extraordinarily marked differences between industries depending on the extent to which they have been affected by the second wave of infection. Hospitality is one of the industries particularly affected by the problem of liquidity.

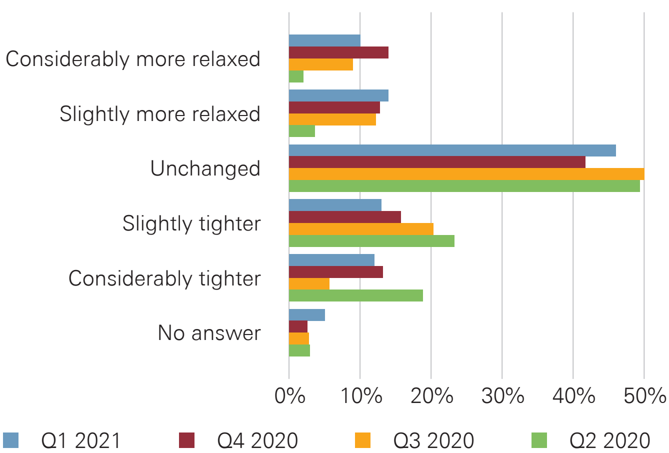
The short-time working mechanism, the federal government's bridging loans and measures undertaken by companies to secure liquidity have had a stabilising effect. A frequently used measure is strict receivables management. A large number of companies continue to report that there have thus far been hardly any delays in payment on the part of their customers and practically no bad debt losses. In some instances, companies have even had customers seeking to pay earlier than normal.

As in the previous quarter, around one-third of representatives had the impression that the banks' lending conditions were 'normal' (cf. chart 5). Of the representatives interviewed, 15% characterised the banks' lending conditions as loose and 9% as tight. Representatives of industries that have been hard hit by the coronavirus crisis are experiencing greater restraint on the part of the banks when it comes to matters of financing. Companies who had been in contact with banks generally found them very cooperative. 41% of the companies were unable to answer this question as they do not require loans or, if so, have not approached banks.

Chart 4

LIQUIDITY SITUATION

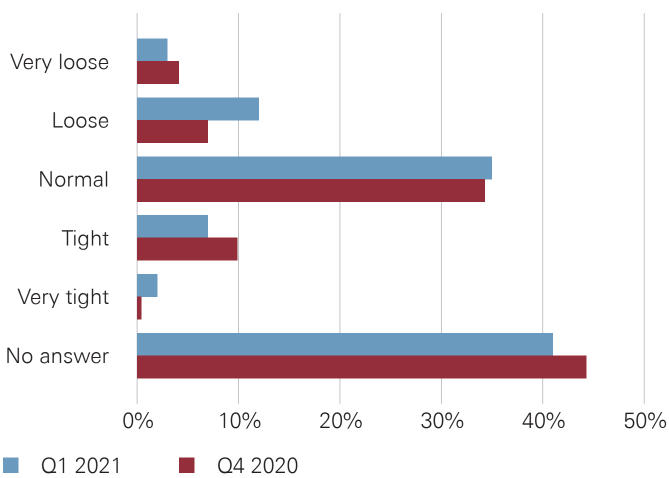
vs pre-COVID 19



Source: SNB

Chart 5

LENDING CONDITIONS



Source: SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

The trade industry continues to be impacted by restrictions due to the pandemic. Real turnover has declined quarter-on-quarter, and was also lower on a year-on-year basis. The infrastructures of bricks-and-mortar retailers, particularly in non-food, have often been markedly underutilised. Online distribution channels, on the other hand, remain in strong demand.

Tourism and hospitality have been particularly affected by the effects of the pandemic and the lockdown. Real turnover in the industries in question was significantly lower on both a quarter-on-quarter and a year-on-year basis, irrespective of target customers. The fact that there is practically no more business travel is having serious consequences for city hotels, and representatives fear permanent structural change in this segment of the market.

The entertainment and leisure industry, as well as conferences and trade fairs, are still among the segments most affected by the pandemic. Events cannot be held. Companies in these industries thus face a correspondingly serious situation as regards turnover, infrastructure utilisation and margins. Business activity in the media industry has also been weak.

The financial industry reported higher business volume both year-on-year and quarter-on-quarter. Favourable stock market developments and inflows of new money have been contributory factors. Margins are at levels representatives consider to be normal. Infrastructure utilisation remains low. This has prompted some banks to further reduce their branch networks.

Real turnover in the ICT industry has continued to increase. A powerful driver of demand is the need for fast and secure IT infrastructure and digitalisation.

Healthcare companies have recorded a decline in turnover and utilisation, both quarter-on-quarter and year-on-year. This still has to do with the postponement of non-urgent surgery and treatments. More frequent quarantine also means that fewer staff are available for such procedures. These factors are weighing heavily on margins.

Business in manufacturing has varied widely depending on the industry. Activity and margins remain weak in the case of food manufacturers, owing primarily to a decline in catering industry sales. By contrast, business activity in the chemicals and pharmaceuticals industry has been very dynamic.

In the mechanical engineering, electrical engineering and metals industries, manufacturers of precision instruments and plastics have seen a slight improvement in real turnover. However, production capacity remains underutilised in large sections of these industries, and profit margins are often below the levels that would be considered normal. Travel restrictions are having a negative impact in terms of the supply of machinery, the execution of service and maintenance work, and customer acquisition.

There have been stronger signs of an upturn in the watchmaking and automotive industries. On the other hand, suppliers in large sections of the civil aviation industry are still experiencing markedly weak demand.

The construction sector continued to be a mainstay of the economy in the quarter under review. Seasonally-adjusted turnover was only just below last quarter’s level, and roughly on a par year-on-year. The hygiene and distancing rules have limited productivity and thus put pressure on margins, this being compounded by the highly competitive market environment. However, the industry is profiting from a generally high level of investment in residential housing. Business activity has also been favourable for architectural, engineering and planning firms, where public infrastructure construction in particular has been a driver.

When asked about the situation on the real estate market, respondents in some regions raised the issue of high vacancy rates for rental properties.

OUTLOOK

Growing confidence

Companies in the services and manufacturing sectors expect to see a significant increase in real turnover – albeit from very low levels in some cases – in the coming two quarters (cf. chart 6). This confidence stems from the efficacy of vaccines and from the experience of last year, when large sections of the economy recovered rapidly after the lockdown.

Even so, a substantial proportion of representatives still anticipate a protracted difficult phase: 23% of the companies surveyed foresee a return to pre-crisis levels in 2021, although most do not expect this to happen until the second half of the year. Around 25% of companies do not expect a return to pre-crisis levels until 2022 or even later (cf. chart 7). Just under half of the companies had returned to this level in the course of last year already or did not suffer any decline in turnover in the first place.

The representatives anticipate an appreciable increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 8), in line with higher turnover expectations. Individual companies expect 'catch-up' effects as their customers resume projects that had been postponed.

Slight rise in investment

Having invested only very cautiously last year, many companies are planning somewhat higher investment again for the coming twelve months. However, they often foresee only a slight increase in expenditure on both construction and equipment. Added to this, only 28% of the companies planning to invest said they intended to use their investment primarily to expand their production capacity. For the others the focus, if any, is on investment to meet replacement and modernisation needs. The majority of investment projects involve expanding and modernising IT.

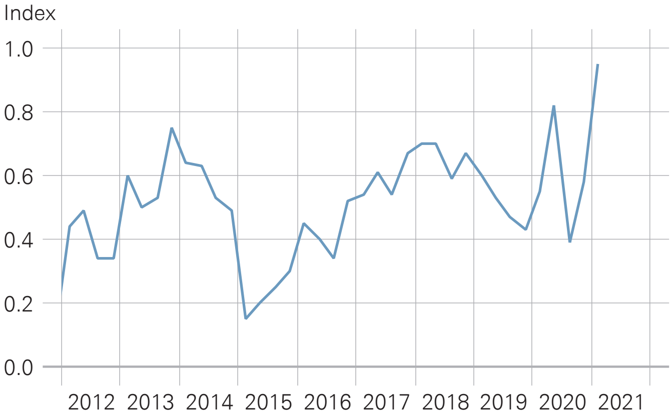
Purchase and sales prices rising slightly

While expectations regarding purchase and sales prices were indicating a decline in Q4 2020, the situation has now changed. Representatives anticipate a slight increase in purchase prices for the next two quarters. This is attributable to the corresponding assessments in manufacturing and construction.

There are also signs of a slight upward trend in sales prices, since companies are trying wherever possible to pass on higher purchase prices to their customers. In this regard, there is particularly frequent mention of marked increases in the price of steel and other metals, as well as in the case of plastic granules and electronic components. Higher transport costs due to capacity bottlenecks are also contributing to higher prices.

Chart 6

EXPECTED TURNOVER

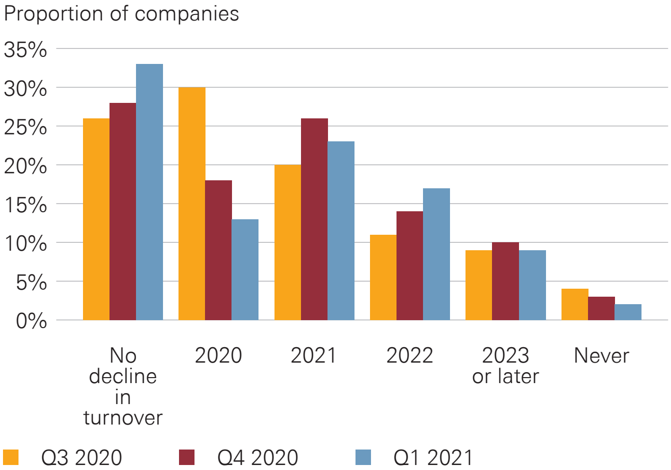


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source: SNB

Chart 7

RETURN TO PRE-CRISIS TURNOVER LEVELS



Source: SNB

Planned increase in staff numbers
Having anticipated staff cutbacks in previous quarters, companies are now planning to increase staff numbers in the next two quarters (cf. chart 9), especially in the manufacturing and services sectors. This is because of the more favourable outlook and the fact that staff numbers had already been adjusted down in the previous quarters.

The following industries are planning very pronounced increases in staff numbers: information and communications technology, pharmaceuticals, precision instrument manufacturing and logistics. Civil engineering companies and manufacturers of electrical equipment, by contrast, intend to cut back staff.

Given the difficult situation at present, companies see little scope for wage increases on a broad scale. On the basis of the responses given, wages will increase by an average of 0.5% in the coming year, mostly by way of structural adjustments or performance-related wage rises.

ENVIRONMENT AND RISKS

While uncertainty exists, still primarily concerning the further course of the pandemic, it is less pronounced than in Q4 2020 thanks to the launch of the vaccination campaign and the improved business outlook. Concerns about increasing municipal debt have increased, as this could mean a reduction in public sector investment.

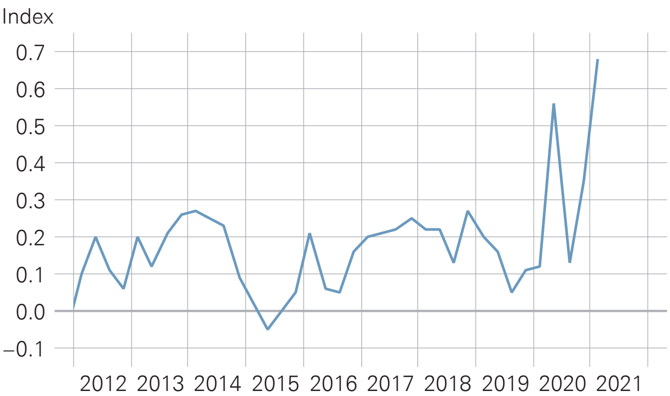
Representatives increasingly mention the threat posed by the long-term social and societal consequences of the pandemic. They also raise the problem of a certain 'pandemic fatigue' among the workforce. Widespread working from home continues to bolster digitalisation efforts. The impact of working from home on efficiency and corporate culture is also the subject of debate.

Companies appreciate the stability of the Swiss franc against the euro. The strength of the franc was mentioned only rarely as a problem, owing among other things to it depreciating towards the end of this round of interviews. With a view to the potential for inflation and the stability of the financial system, the representatives are observing the ultra-loose monetary policy around the world with concern, and to some extent see a decoupling of the financial markets from the real economy.

The independence of the SNB is important to the representatives.

Chart 8

EXPECTED CAPACITY UTILISATION

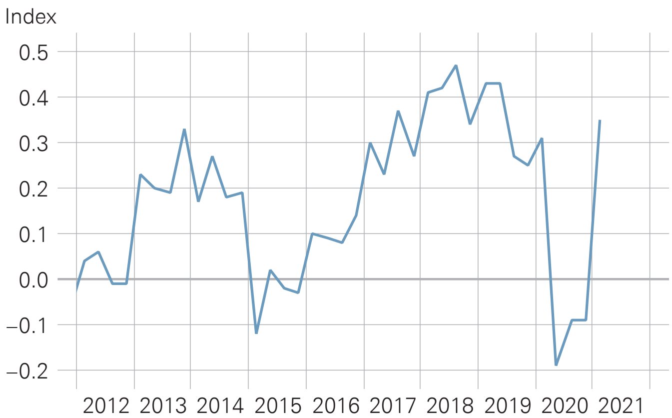


Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).

Source: SNB

Chart 9

EXPECTED EMPLOYMENT



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

Source: SNB

INFLATION EXPECTATIONS

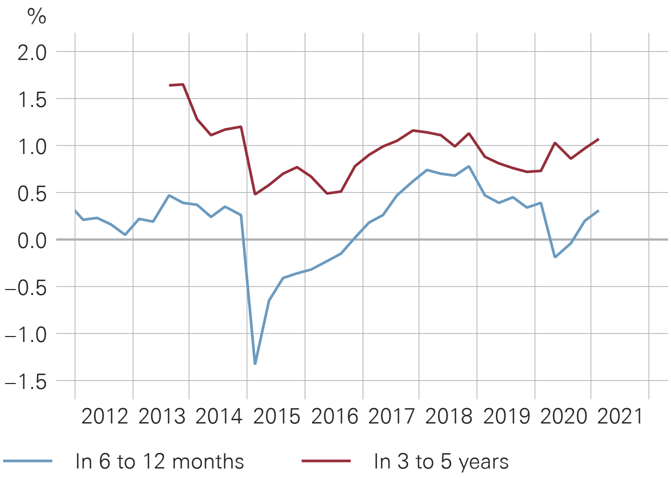
The delegates also ask company representatives about their short and long-term inflation expectations as consumers.

While some representatives expect to see demand stimulated with aggressive price cuts after the lockdown, a larger proportion assumes that once the pandemic has subsided, positive demand effects coupled with supply remaining inelastic in the short term will lead to rising prices.

Overall, however, there has been little change in short-term and longer-term inflation expectations as measured by the consumer price index. The average for the next six to twelve months (blue line in chart 10) is 0.3%, compared to 0.2% in the previous quarter. Over the longer term – i.e. with a time horizon of three to five years (red line in chart) – the average is around 1.1% (1.0% in the previous quarter). Many representatives are surprised that substantial expansion in the money supply has so far not led to higher inflation.

Chart 10

EXPECTED INFLATION



Source: SNB

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 administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. 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.

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, *The SNB*, *SNB regional network*.

Glossary

Annualised	Data are said to be annualised when they are converted to an annual value. When → GDP increases by 1% from one quarter to the next, the annualised growth is 4.06%.
Baseline scenario	The SNB's baseline scenario comprises forecasts for what it considers to be the most likely global economic development for the coming three years. It serves as an important basis for the domestic economic and → inflation forecasts.
Basket of goods	The basket of goods represents an average household's expenditure on goods and services. It is determined on the basis of a household survey and is used to calculate the → Swiss consumer price index.
Bond	A bond is a → security. The buyer of a bond (creditor) makes a specific amount of money available to the bond issuer for a specific period. The issuer repays this amount to the creditor at the end of the term, and in most cases also pays → interest.
Business cycle, business cycle conditions	Business cycle refers to deviations in economic activity from the long-term trend. In addition to → real → GDP, the business cycle is also reflected in a variety of other economic → indicators (e.g. unemployment and consumer confidence indices). A business cycle lasts from the beginning of an upturn and all the way through the economic downturn to its end (→ recession).
Capacity utilisation	Capacity utilisation measures the degree of utilisation of the technical capacities (e.g. machines and equipment) of a company or an industry.
Capital	Capital refers on the one hand to financing resources (→ equity and → debt capital) and on the other to a → factor of production (e.g. machinery).
Capital market	The capital market supplements the → money market, and is a market for raising and investing funds with a term of more than one year. A distinction is made between the market for → equity capital (→ shares), and the market for → debt capital (→ bonds).
Collateral	In credit transactions, the debtor can provide the creditor with collateral (→ secured loan) in order to reduce the risk for the creditor and thus the → interest. The creditor can take possession of the collateral if the debtor is unable to pay the agreed interest or make the repayment.
Consumer price index	→ Swiss consumer price index
Core inflation	Core inflation is a measure of → inflation that excludes goods and services with particularly volatile prices (e.g. energy and food). Core inflation thus captures the underlying price trend.
Corporate bond	A corporate bond is a → bond issued by a company.
Countercyclical capital buffer	The countercyclical capital buffer is a → macroprudential measure which contributes towards → financial stability. If the capital buffer is activated, banks are required to hold more → capital. The capital buffer can be targeted at the entire credit market or just individual sectors, e.g. the mortgage market.
Debt capital	Debt capital refers to the borrowings and provisions of a company.
Deflation	Deflation denotes a sustained decrease in the general price level over time.
Delegates for regional economic relations	The delegates for regional economic relations represent the SNB in the various regions of Switzerland, collect information on economic development through their contacts to companies in those regions and, as ambassadors of the SNB, explain its policies. They are supported by the Regional Economic Councils. The SNB maintains representative offices in Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St Gallen and Zurich.
Equity	Equity is the difference between a company's assets and liabilities (→ debt capital).
Exchange rate	The exchange rate is the rate at which two currencies are exchanged. It is expressed as the price of one currency in units of another currency. If the exchange rate is adjusted for the price development of the countries concerned, it is referred to as the real exchange rate; if it is measured against the currencies of trading partners, it is referred to as the → trade-weighted exchange rate.
Exemption threshold, threshold factor	The exemption threshold indicates the limit below which no → negative interest is charged on a bank's → sight deposits. This threshold applies to each sight deposit account holder and is at least CHF 10 million. For a domestic bank, the exemption threshold is usually calculated as the three-year average of the → minimum reserve requirement multiplied by the threshold factor (currently 30) minus the bank's cash holdings.
Factors of production	Factors of production are the inputs (primarily labour and → capital) used in the production of goods and services.
Final demand, domestic	Domestic final demand is the sum of private and public consumption plus construction and equipment investment (e.g. new machines).

Financial stability	A financial system is stable if its individual components – banks, financial markets and financial market infrastructures (e.g. stock exchanges) – fulfil their individual functions and are resilient to potential disruptions.
Fine-tuning operations	Fine-tuning operations refer to measures taken by a central bank to curb excessive volatility in short-term → interest rates on the → money market. This can be carried out using → repo transactions, for example.
Fiscal policy	Measures (receipts and expenditure) that aim to influence → business cycle conditions.
Foreign exchange	Foreign exchange comprises credit balances and claims denominated in a foreign currency.
Foreign exchange market interventions	When a central bank intervenes in the foreign exchange market, it buys or sells its domestic currency against a foreign currency with the aim of influencing the → exchange rate.
Full-time equivalent (FTE)	The full-time equivalent is the unit of measure for the number of full-time employees that would be needed to complete the working hours of full-time and part-time employees.
Futures contract	A futures contract governs a transaction that has to be performed at a future point in time specified in the contract.
Government bond	A government bond is a → bond issued by a public-law institution.
Government consumption	Government consumption measures government consumption expenditure, i.e. current spending on goods and services provided by the government to the citizens of a country (e.g. schools, healthcare, defence).
Gross domestic product, GDP	Gross domestic product indicates the total value of all final goods and services produced in a country during a period, after subtracting the cost of intermediate inputs. → Real GDP is the most important measure of an economy's → value added.
Hodrick-Prescott filter (HP filter)	The Hodrick-Prescott filter is a tool for calculating a trend in a data series. For example, deviations of → real → GDP from trend are used in business cycle analysis.
ICT industry	The ICT industry comprises those companies active in information and communications technology.
Indicator	An indicator is a statistical metric or data series that, for example, provides information on → business cycle conditions.
Inflation forecast, conditional	The SNB publishes a forecast of movements in the → inflation rate over the coming three years every quarter at its → monetary policy assessment. The forecast is conditional because it is based on the assumption that the SNB will not change the → SNB policy rate over the forecast horizon. The SNB bases its monetary policy decisions on the inflation forecast.
Inflation, inflation rate	Inflation is a sustained increase in the general price level over time. Inflation reduces the → purchasing power of money. In Switzerland, inflation is measured using the → Swiss consumer price index (CPI). The inflation rate denotes the percentage change in the index compared to the previous year.
Interest differential, interest margin transaction	The difference between → interest rates on investments which vary, for example, according to currency or risk, is called the interest rate differential. An interest margin transaction uses the interest differential between various financial products to generate profit.
Interest, interest rate	Interest is the price a borrower pays to the creditor in return for the latter making a sum of money available for a certain period. Its level is influenced by the term and the financial standing (creditworthiness and solvency) of the debtor as well as the quality of any → collateral. Interest is expressed as a percentage of the loan (interest rate) and usually refers to a time period of one year.
Joint and several guarantee	A joint and several guarantee is a form of guarantee in which the guarantor may already be held liable after one unsuccessful reminder to the debtor.
KOF Economic Barometer	The KOF Economic Barometer is an → indicator that shows how the Swiss → business cycle is likely to develop in the near future. It has been published by the KOF Swiss Economic Institute at ETH Zurich since the 1970s.
Libor	The Libor (London Interbank Offered Rate) corresponds to the average → interest rate at which banks report being able to borrow on the → money market in a given currency and for a certain term without depositing → collateral. The Swiss franc Libor is being discontinued at the end of 2021.
Liquidity	Liquidity has three meanings in economics. First, being liquid refers to the ability to make due payments at any time and without restriction. Second, liquidity describes the funds required for this purpose. Banks exchange liquidity via the → money market, and the SNB can influence liquidity with → repo transactions, among other things. Third, a market is considered liquid if transactions can be effected without triggering significant price movements.
Macroprudential measure	Regulatory requirement for banks, for example, which contributes to → financial stability.
Mandate	Mandate refers to the SNB's statutory tasks. Article 99 of the Federal Constitution entrusts the Swiss National Bank, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The National Bank Act sets this out in detail, explaining that the SNB is required to ensure → price stability and, in so doing, to take due account of economic developments (art. 5 para. 1 NBA).

MEM industries	MEM industries refers to the companies in the mechanical engineering, electrical engineering and metals industries.
Minimum reserves, minimum reserve requirement	In order to facilitate the smooth functioning of the → money market, banks are required to hold minimum reserves against a certain percentage of their Swiss franc short-term liabilities (e.g. customer deposits). The minimum reserves are composed of cash in Swiss francs and → sight deposits held at the SNB. The minimum reserves form the basis for calculating the → exemption thresholds for → negative interest.
Monetary aggregate, broad	The broad monetary aggregate, in contrast to the → monetary base, is the stock of money held by households and companies outside the banking sector. It comprises money held on bank accounts and cash.
Monetary base	The monetary base is composed of the sum of banknotes in circulation plus the → sight deposits of domestic commercial banks held at the SNB. The monetary base is also referred to as the M0 monetary aggregate.
Monetary conditions	The interest rate level and the → exchange rate determine monetary conditions. The SNB uses → monetary policy instruments to influence monetary conditions in order to fulfil its → mandate.
Monetary policy	Monetary policy is the implementation of → monetary policy instruments by the central bank to set appropriate → monetary conditions and thereby fulfil its statutory → mandate.
Monetary policy assessment	As a rule, the SNB conducts a monetary policy assessment every quarter. Based on economic developments both domestically and abroad as well as → monetary conditions in Switzerland, the SNB Governing Board decides whether → monetary policy is to remain unchanged, or be tightened or eased.
Monetary policy instruments	In order to set appropriate → monetary conditions, the SNB uses monetary policy instruments such as → repo transactions and → foreign exchange market interventions.
Monetary policy strategy	The SNB's monetary policy strategy sets out how it operationalises its statutory → mandate. The strategy, which has been in place since December 1999, consists of three elements: the definition of → price stability, the conditional → inflation forecast over the subsequent three years, and the → SNB policy rate.
Money market	The money market is the market for raising and investing short-term → liquidity. Here, banks in particular grant short-term loans to each other, either secured against → collateral (→ repo transactions) or unsecured. Short-term liquidity is defined as liquidity with a term of up to one year.
Mortgage loan	A → secured loan for which real estate serves as the collateral.
Multivariate filter (MV filter)	Multivariate filters are used, for example, in business cycle analysis. In contrast to the → HP filter, MV filters use multiple → indicators to calculate a trend in a data series.
Negative interest	Negative interest is the → interest which the SNB charges on → sight deposits held by banks and other financial market participants at the SNB above a certain → exemption threshold. It is a → monetary policy instrument and currently corresponds to the → SNB policy rate.
Nominal	Nominal is the term used when an economic variable is not adjusted to reflect price development (→ nominal interest rate).
Nominal interest rate	→ Interest rates are usually stated in nominal terms, i.e. they do not take into account that, during → inflation, the → purchasing power of money is lower after the credit transaction expires than before the credit transaction.
Open market operations	Open market operations are a type of → monetary policy instrument. In contrast to → standing facilities, the use of open market operations is initiated by the SNB, rather than a commercial bank.
Option	An option is the right to either buy (call option) or sell (put option) a → share, for example, at a fixed price on a specific date. This right can be securitised and traded on exchanges.
Other loans	According to the SNB's definition, the other loans category comprises all loans granted to households and companies that are not → mortgage loans. They can be secured or unsecured (→ secured loan).
Output gap	The output gap is defined as the percentage deviation of → real → GDP from the estimated → potential output. If actual economic output falls below potential output, the output gap is negative and the economy is thus underutilised.
Personal consumption expenditure (PCE) deflator	The personal consumption expenditure (PCE) deflator measures the development of prices for domestic and foreign goods and services in demand by households in Switzerland. Unlike the → Swiss consumer price index, it is not based on a specific → basket of goods, rather it takes all current consumer spending into account.
PMI manufacturing	The Purchasing Managers' Index is based on surveys and is an important → indicator of activity in the manufacturing sector. The Swiss index is composed of sub-indices covering production, order volume, delivery times, inventory, purchases and number of employees. A value above 50 points is considered a growth signal.
Potential growth	Potential growth refers to the change in → potential output.

Potential output, production potential	Potential output or production potential is the level of → real → GDP at normal utilisation of the → factors of production. Potential output is estimated using tools such as the → HP filter.
Price stability	According to the SNB's definition, price stability is considered to prevail when → inflation, as measured by the → Swiss consumer price index, is below 2%, and there is also no → deflation.
Production function	A production function describes the relationship between inputs (→ factors of production) and the resulting output (goods and services).
Purchasing power	The purchasing power of money indicates how many goods and services in a fixed → basket of goods can be bought with one unit of money. If → inflation prevails, purchasing power decreases over time.
Real	Real is the term used when an economic variable is adjusted to reflect price development (→ real rate of interest).
Real rate of interest	Adjusting the → nominal interest rate for the loss of → purchasing power due to → inflation over the duration of a credit transaction gives the real interest rate. The real rate of interest is thus calculated as the difference between the → nominal interest rate and the → inflation rate.
Recession	A recession is an economic downturn. There is no uniform definition, but a recession is often said to occur when → real → GDP falls for at least two consecutive quarters.
Refinancing	Refinancing has two meanings in economics. First, refinancing is when commercial banks raise funds on the → money market or → capital market. Second, it refers to the replacement of maturing debt by means of new debt.
Repo transactions, repo rate	In a repo transaction, the cash taker sells → securities to the cash provider and simultaneously agrees to repurchase securities of the same type and quantity at a later date. Economically, a repo transaction is a → secured loan. The → interest rate used in a repo transaction is called the repo rate. The SNB can use repo transactions to steer → liquidity in the → money market.
Risk premium	A risk premium reflects the valuation of the risk associated with a financial instrument.
SARON	SARON (Swiss Average Rate Overnight) is the interest rate for → repo transactions in Swiss francs with overnight maturity. It is based on → transaction prices and trade quotes. The SNB has been focusing on SARON in seeking to keep the short-term Swiss franc money market rates close to the → SNB policy rate.
Seasonal adjustment	Seasonal adjustment is a statistical method to remove regular seasonal effects (such as the rise in unemployment in the winter months) from time series so that → business cycle conditions, for example, can be more easily identified.
Secured money market rate	The secured money market rate is the → interest for → secured loans on the → money market which are usually concluded as → repo transactions (→ SARON).
Secured/covered loan	A secured or covered loan, in contrast to an unsecured (uncovered) loan, is a loan where the debtor provides → collateral. The main type of secured loan is a → mortgage loan.
Security	A security certifies a property right (e.g. the right to receive an interest payment). The most important securities traded on a market are → shares and → bonds.
Share	A share or → stock is a → security with which the buyer acquires a participation in a company.
Sight deposits at the SNB	Banks use their sight deposits held at the SNB to carry out transactions (e.g. payments) for their customers. In addition to sight deposits held by domestic banks, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities.
SNB COVID-19 refinancing facility (CRF)	The CRF is a → standing facility established as part of the measures to cushion the economic impact of the coronavirus pandemic. The CRF allows banks to obtain liquidity from the SNB. The corporate loans, for which the Confederation and cantons have provided guarantees, serve as → collateral. The SNB can also accept other collateral for the CRF.
SNB policy rate	The Swiss National Bank implements its → monetary policy by setting the SNB policy rate. The SNB seeks to keep short-term Swiss franc → money market rates close to the SNB policy rate. → SARON is the most representative of these rates today. The → negative interest rate currently corresponds to the SNB policy rate.
Standing facilities	Standing facilities are a type of → monetary policy instrument. In contrast to → open market operations, the use of standing facilities is initiated not by the SNB, but by a commercial bank.
Stock	→ share
Swap, interest rate swap	A swap is a financial transaction in which the contracting parties exchange payment flows. In an interest rate swap, one contracting party pays the other a variable → interest rate linked to a market interest rate and in return receives fixed interest payments contractually determined in advance.
Swiss consumer price index (CPI)	The Swiss consumer price index (CPI), which is compiled by the Swiss Federal Statistical Office (SFSO), measures the average development of prices for goods and services in demand by households in Switzerland. The CPI is calculated every month based on a → basket of goods representative of household consumption.

Trade-weighted exchange rate	The trade-weighted or effective → exchange rate is the value of an economy's currency vis-à-vis the currencies of its trading partners. It is calculated using bilateral exchange rates with trading partners, with weightings dependent on trading activity.
Transaction price	The price at which a transaction is actually executed, as opposed to a bid or ask price.
Unemployment rate	The rate of unemployment is the ratio of the number of unemployed people to the number of people in the labour force (i.e. those employed and unemployed), expressed as a percentage.
Utilisation of credit lines	Depending on the type of loan, a borrower can decide whether to use the maximum amount granted by the bank or just some of it. Utilisation refers to the amount drawn down.
Value added	Value added measures the economic output of a sector or industry. It is defined as the difference between the value of goods and services produced in a given sector and the value of inputs obtained from other sectors. Total value added of all sectors, adjusted for taxes and subsidies, gives → GDP.
Volatility	Volatility describes the extent of fluctuations in given variables, e.g. share prices or → interest rates, over a certain period of time.
Yield	Yield refers to the return on financial assets or investments and is usually expressed as a percentage of the → capital invested.
Yield curve	The yield curve, also known as the term structure of interest rates, graphically represents the → yields of fixed-interest investments of the same quality with different maturities. Typically, the yields of → government bonds are used. The yield curve usually slopes upwards as investors demand a → risk premium for bonds with longer maturities.

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

March 2021

At its quarterly assessment of 25 March, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. It remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall exchange rate situation into account. It is also continuing to supply the banking system with liquidity on generous terms. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

December 2020

At its quarterly assessment of 17 December, the SNB leaves its policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. The SNB continues to supply the banking system with liquidity on generous terms via the SNB COVID-19 refinancing facility. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

September 2020

At its quarterly assessment of 24 September, the SNB leaves its policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. The SNB continues to supply the banking system with liquidity via the SNB COVID-19 refinancing facility (CRF). The SNB's expansionary monetary policy thus helps stabilise economic activity and price developments in Switzerland.

June 2020

At its quarterly assessment of 18 June, the SNB leaves its policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc it remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. The SNB's expansionary monetary policy thus helps stabilise economic activity and price developments in Switzerland.

May 2020

On 11 May, the SNB announces that it will also accept claims secured by loan guarantees or credit default guarantees offered by cantons as collateral for the SNB COVID-19 refinancing facility, and that claims secured by joint and several guarantees provided for startups by the federal government in cooperation with the cantons will also be deemed eligible collateral.

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