Quarterly Bulletin
1/2024 March

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

Quarterly Bulletin
1/2024 March

Volume 42

SNB BNS

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2024

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 21 March 2024') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 21 March 2024. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 21 March 2024, the SNB decided to lower its policy rate by 0.25 percentage points to 1.5%. With its decision, the SNB is taking into account the reduced inflationary pressure as well as the appreciation of the Swiss franc in real terms over the past year. The new conditional inflation forecast is significantly lower than that of December.

- The global economy grew moderately in the fourth quarter of 2023. The short-term growth outlook remains subdued. Inflation has declined further slightly in recent months, but remains above central banks' targets in many countries. Many central banks have left their restrictive monetary policy unchanged.

- Economic growth in Switzerland was moderate in the fourth quarter of 2023, and activity is likely to be subdued going forward. The weak demand from abroad and the appreciation of the Swiss franc in real terms over the past year are having a dampening effect. For 2024, the SNB anticipates GDP growth of around 1%.

- Annual CPI inflation fell from 1.4% in November to 1.2% in February. Inflation expectations changed little and remained within the range of price stability.

- The Swiss franc has depreciated somewhat in trade-weighted terms since mid-December 2023. There has been barely any change in long-term bond yields, while equity prices have risen. The development of residential real estate prices was still somewhat less dynamic than in previous years. Growth rates in the broad monetary aggregates remained negative. Lending growth weakened further.

1
Monetary policy decision of 21 March 2024

Swiss National Bank eases monetary policy and lowers SNB policy rate to 1.5%
The Swiss National Bank is lowering the SNB policy rate by 0.25 percentage points to 1.5%. Banks' sight deposits held at the SNB will be remunerated at the SNB policy rate up to a certain threshold, and at 1.0% above this threshold. The SNB also remains willing to be active in the foreign exchange market as necessary.

The easing of monetary policy has been made possible because the fight against inflation over the past two and a half years has been effective. For some months now, inflation has been back below 2% and thus in the range the SNB equates with price stability. According to the new forecast, inflation is also likely to remain in this range over the next few years.

With its decision, the SNB is taking into account the reduced inflationary pressure as well as the appreciation of the Swiss franc in real terms over the past year. The policy rate cut also supports economic activity. Today's easing thus ensures that monetary conditions remain appropriate.

The SNB will continue to monitor the development of inflation closely, and will adjust its monetary policy again if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

Inflation has declined further since the beginning of the year, and stood at 1.2% in February. This decrease was attributable to lower goods inflation. Inflation is currently being driven above all by higher prices for domestic services.

The new conditional inflation forecast is significantly lower than that of December. In the short term, this is above all due to the fact that price momentum in the case of some categories of goods has slowed more quickly than had been expected in December. In the medium term, lower second-round effects are leading to a downward revision. Over the entire forecast horizon, the conditional inflation forecast is within the range of price stability (cf. chart 1.1). The forecast puts average annual inflation at 1.4% for 2024, 1.2% for 2025 and 1.1% for 2026 (cf. table 1.1). The forecast is based on the assumption that the SNB policy rate is 1.5% over the entire forecast horizon.

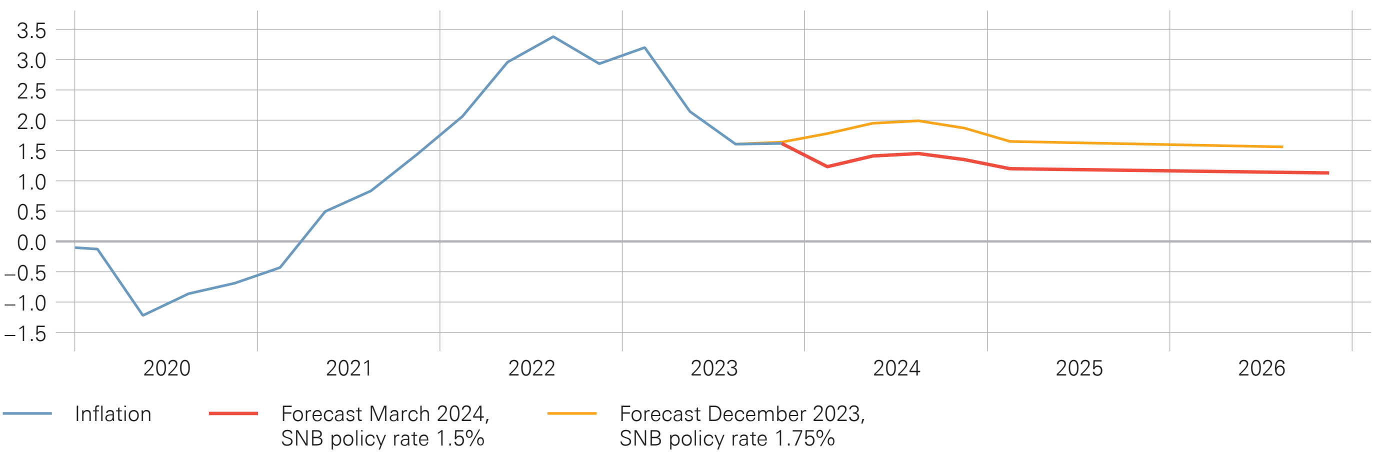
The global economy grew moderately in the fourth quarter of 2023. Having declined rapidly in many countries in 2023, inflation has decreased at a somewhat slower pace in recent months. Inflation in many countries remains above central banks' targets. Against this background, many central banks have left their restrictive monetary policy unchanged for the time being.

Global economic growth is likely to remain moderate in the coming quarters. Inflation is likely to decline further, not least due to the restrictive monetary policy.

This scenario for the global economy is still subject to significant risks. Inflation could remain elevated for longer in some countries, necessitating a tighter monetary policy there than expected in the baseline scenario. Equally, geopolitical tensions could increase. It therefore cannot be ruled out that global economic activity will be weaker than assumed.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF MARCH 2024
Year-on-year change in Swiss consumer price index in percent



Source(s): SFSO, SNB

Swiss GDP growth was moderate in the fourth quarter of last year. The services sector expanded again, while value added in manufacturing stagnated. Unemployment rose somewhat further, and the utilisation of overall production capacity was normal.

Growth is likely to remain modest in the coming quarters. The weak demand from abroad and the appreciation of the Swiss franc in real terms over the past year are having a dampening effect. Overall, Switzerland's GDP is likely to grow by around 1% this year. In this environment, unemployment is likely to continue to rise gradually, and the utilisation of production capacity is likely to decline somewhat further.

The forecast for Switzerland, as for the global economy, is subject to significant uncertainty. The main risk is weaker economic activity abroad.

Momentum on the mortgage and real estate markets has weakened noticeably in recent quarters. However, the vulnerabilities in these markets remain.

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. In addition, the SNB allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of inflationary pressure and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant SNB policy 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. If necessary, the SNB may also use additional monetary policy measures to influence the exchange rate or the interest rate level.

Table 1.1

OBSERVED INFLATION IN MARCH 2024

	2020				2021				2022				2023				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	−0.1	−1.2	−0.9	−0.7	−0.4	0.5	0.8	1.4	2.1	3.0	3.4	2.9	3.2	2.1	1.6	1.6	0.6	2.8	2.1

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF MARCH 2024

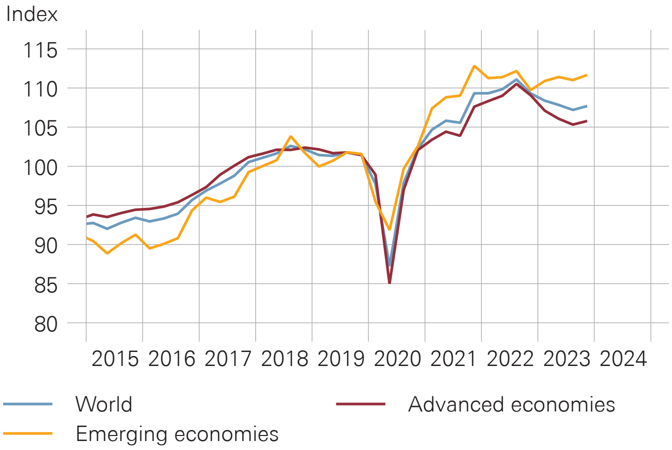
	2023				2024				2025				2026				2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast December 2023, SNB policy rate 1.75%				1.6	1.8	2.0	2.0	1.9	1.7	1.6	1.6	1.6	1.6	1.6	1.6		1.9	1.6	
Forecast March 2024, SNB policy rate 1.5%					1.2	1.4	1.5	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.4	1.2	1.1

Source(s): SNB

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



Source(s): CPB Netherlands Bureau for Economic Policy Analysis, LSEG Datastream

2 Global economic environment

The global economy grew moderately in the fourth quarter of 2023. However, developments continued to vary greatly between the individual economic areas. The US economy again showed robust growth, while activity was modest in many other countries. Global manufacturing activity also remained lacklustre. Nevertheless, goods trade did pick up slightly in the fourth quarter (cf. chart 2.1).

Following the rapid decline last year, inflation has continued to ease back slightly in recent months. However, it remains above central banks' targets in many countries. Against this background, many central banks have left their restrictive monetary policy unchanged for the time being.

Global economic growth is likely to remain moderate in the coming quarters, in particular due to the tightening of monetary policy in the last two years and less expansionary fiscal policy. Inflation is likely to decline further, not least due to the restrictive monetary policy.

This scenario for the global economy is still subject to significant risks. Inflation could remain elevated for longer in some countries, necessitating a tighter monetary policy there than expected in the baseline scenario. Equally, geopolitical tensions could increase. It therefore cannot be ruled out that global economic activity will be weaker than assumed.

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

					Scenario	
	2020	2021	2022	2023	2024	2025
GDP, year-on-year change in percent						
Global [1]	−2.8	6.3	3.5	3.1	2.7	2.7
US	−2.2	5.8	1.9	2.5	2.2	1.5
Euro area	−6.2	5.9	3.5	0.5	0.3	1.3
China	2.2	8.4	3.0	5.2	4.8	4.6
Oil price in USD per barrel	41.8	70.7	100.9	82.5	80.9	81.0

1 World aggregate as defined by the IMF, PPP-weighted.

Source(s): LSEG Datastream, SNB

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 81 per barrel, compared with USD 87 in the last baseline scenario, and an exchange rate of USD 1.08 to the euro compared with USD 1.06 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Since the last monetary policy assessment in December, inflation developments and market expectations regarding monetary policy have continued to dominate events in international financial markets.

Many central banks indicated towards the end of 2023 that key interest rates would not increase further and may fall in 2024. Markets initially expected key rates to be reduced quickly, causing yields on ten-year government bonds in advanced economies to decrease further through to the end of the year. However, these expectations were gradually dampened. One important reason for this was the surprisingly robust performance of the US economy, but also the fact that central banks emphasised that there would be no imminent easing of monetary policy in view of the persistent inflation. As a result, yields on ten-year government bonds in advanced economies have trended upwards again since the beginning of the year (cf. charts 2.2 and 2.3).

International stock markets benefited in particular from the favourable economic developments in the US. The MSCI World Index thus reached a new all-time high. Despite geopolitical risks, uncertainty about future price movements remained low, as indicated by the VIX, the index for the implied volatility of stocks in the US as measured by options prices (cf. chart 2.4).

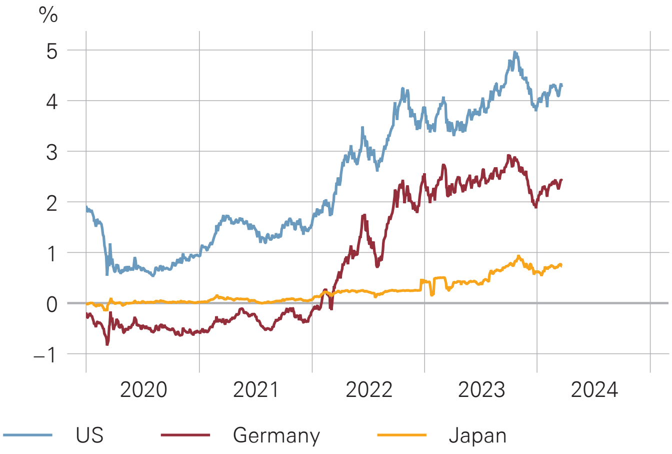
The strong US economy and markets' postponed expectations of US interest rate cuts have contributed to the US dollar's slight appreciation in trade-weighted terms since the beginning of the year. The euro showed little movement, while the yen lost value (cf. chart 2.5).

Owing to the conflict in the Middle East and ongoing oil production cuts by the OPEC+ states, oil prices rose slightly. The price of Brent crude latterly stood at around USD 85 per barrel, compared with roughly USD 75 in mid-December. Meanwhile, gas prices continued to fall, particularly in Europe. Commodity prices increased slightly overall (cf. chart 2.6).

Chart 2.2

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

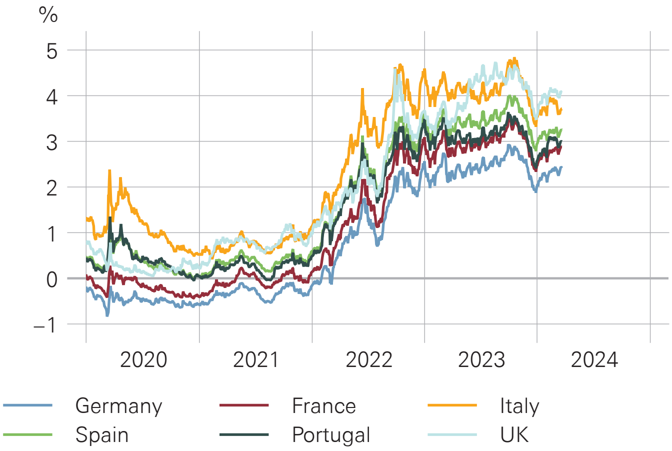


Source(s): LSEG Datastream

Chart 2.3

EUROPEAN LONG-TERM INTEREST RATES

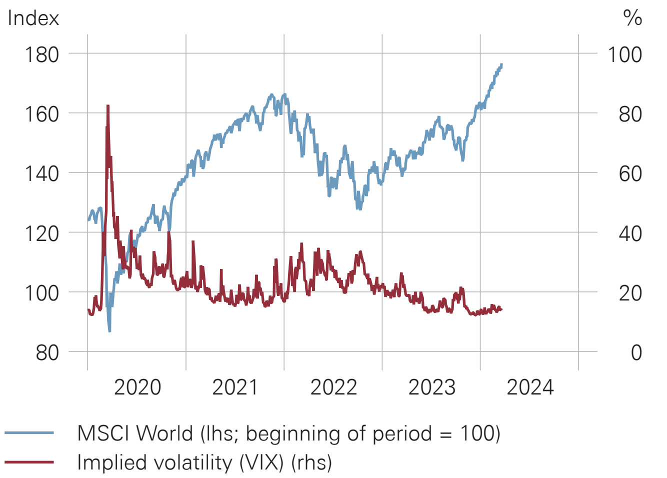
10-year government instruments



Source(s): LSEG Datastream

Chart 2.4

STOCK MARKETS

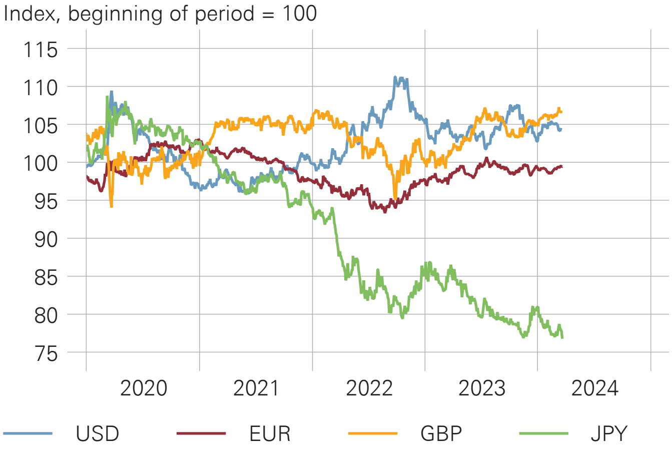


Source(s): LSEG Datastream

Chart 2.5

EXCHANGE RATES

Trade-weighted



Source(s): LSEG Datastream

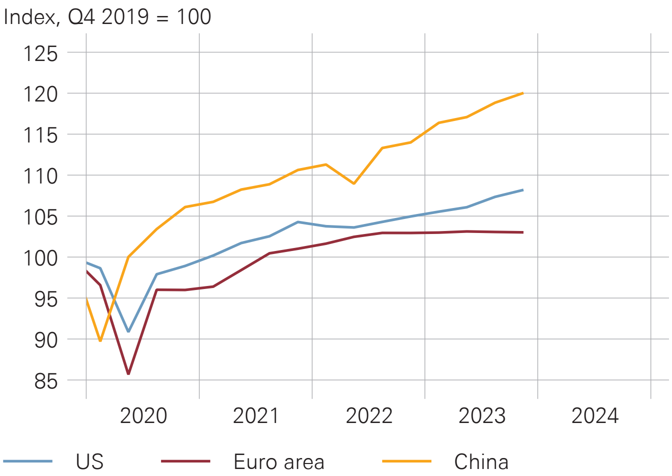
Chart 2.6

COMMODITY PRICES

Source(s): LSEG Datastream

Chart 2.7

REAL GDP



Source(s): LSEG Datastream

UNITED STATES

In the US, GDP expansion was solid again in the fourth quarter, up by 3.2% (cf. chart 2.7). While the strong growth was mainly driven by private consumption, exports and public spending also played a role.

The labour market remained well utilised, as reflected in the ongoing low level of unemployment, which stood at 3.9% in February (cf. chart 2.9). Employment momentum remained robust and wage growth above average.

Various economic indicators point to a slowdown in GDP expansion in the first quarter of 2024. Given that the monetary policy tightening over the last two years is still having a dampening effect and fiscal policy will presumably be less expansionary in the quarters ahead, growth momentum is set to weaken further as the year progresses. While the slowing growth is likely to be particularly evident in private consumption, investment is also expected to be sluggish due to the tight financing conditions. Owing to the surprisingly positive economic growth latterly, the SNB is nevertheless revising its 2024 growth forecast upwards compared to December, to 2.2%. For 2025, it anticipates below-average GDP expansion of 1.5% (cf. table 2.1).

Consumer price inflation remained virtually unchanged in recent months and stood at 3.2% in February (cf. chart 2.10). On the one hand, the negative contribution from energy inflation receded, while on the other, core inflation declined slightly further, to 3.8% (cf. chart 2.11). Inflation as measured by the personal consumption expenditure deflator – the index used by the US Federal Reserve to set its 2% inflation target – fell, but still remained above the Fed's target, at 2.4% in January.

In January and March, the Fed left its target range for the federal funds rate unchanged at 5.25–5.5% (cf. chart 2.12). It emphasised that, despite the progress achieved in combating inflation, it still needed to gain greater confidence before lowering its policy rate. Additionally, it will continue to reduce its balance sheet, further decreasing its portfolio of Treasury and mortgage-backed securities by up to USD 95 billion per month (roughly 1% of the current balance sheet).

EURO AREA

The economy in the euro area has stagnated for over a year (cf. chart 2.7). Households' loss of purchasing power due to inflation, tighter monetary policy and the less expansionary fiscal policy continued to weigh on demand in the fourth quarter. Nevertheless, employment figures rose further, and unemployment remained at a historically low level in January, at 6.4% (cf. chart 2.9).

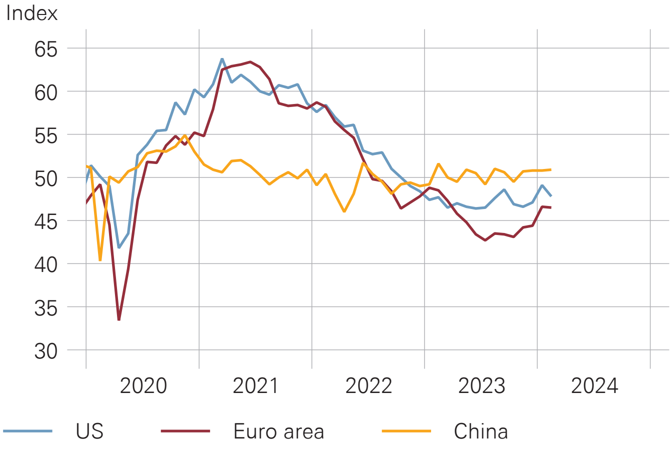
According to the most recent company surveys, economic growth remains weak in the first quarter of 2024. This applies in particular to manufacturing, but activity in the services sector, too, is expected to pick up only marginally. The tightening of monetary policy over the last two years as well as the less expansionary fiscal policy continue to weigh on growth. Owing to strong wage growth, private consumption is likely to gradually regain some momentum in the further course of the year. The SNB is leaving its growth forecast for 2024 practically unchanged at 0.3%. The forecast for 2025 is 1.3% (cf. table 2.1).

At 2.6% in February, consumer price inflation was still above the European Central Bank's target (cf. chart 2.10). Although core inflation declined further, it too remained high at 3.1% (cf. chart 2.11). While goods inflation latterly fell substantially due to the fact that supply bottlenecks had largely disappeared and energy costs had decreased, services inflation persisted at a high level amid the recent strong growth in wages.

The ECB left its key interest rates unchanged in January and March. The currently relevant interest rate in the money market – the deposit facility rate – thus remained at 4.0% (cf. chart 2.12). Furthermore, the ECB stated that it intends to maintain its key rates at sufficiently restrictive levels for as long as necessary to ensure that inflation returns to its 2% target. Since mid-2023, securities maturing under the Asset Purchase Programme (APP) have no longer been reinvested, with the result that the APP portfolio is shrinking by about EUR 25 billion per month (roughly 0.4% of the current balance sheet). Moreover, the reinvestment of securities maturing under the Pandemic Emergency Purchase Programme (PEPP) will be reduced from mid-2024 onwards and discontinued from next year.

Chart 2.8

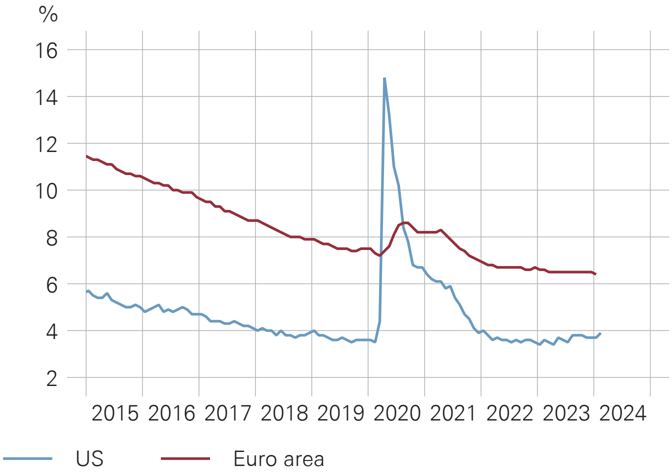
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source(s): Institute for Supply Management (ISM), S&P Global

Chart 2.9

UNEMPLOYMENT RATES

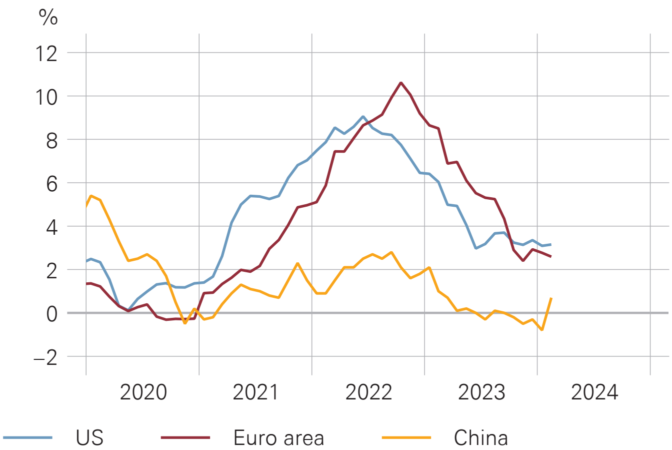


Source(s): LSEG Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

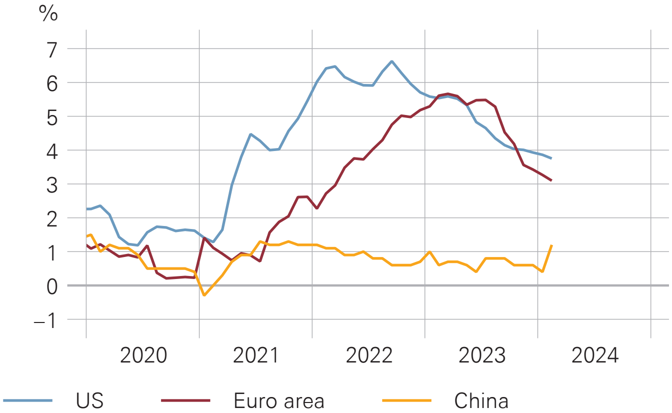


Source(s): LSEG Datastream

Chart 2.11

CORE INFLATION RATES[1]

Year-on-year change

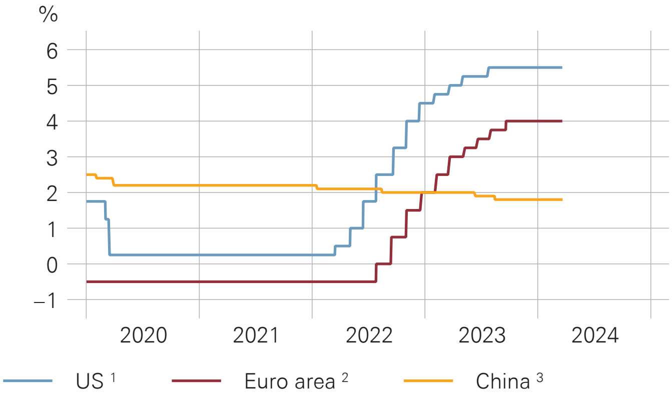


1 Excluding food and energy.

Source(s): LSEG Datastream

Chart 2.12

OFFICIAL INTEREST RATES



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

Source(s): LSEG Datastream

CHINA

In China, GDP expanded in the fourth quarter by 4.1%; this was, as expected, slower than in the previous quarter (cf. chart 2.7). Activity lost momentum in both services and manufacturing. By contrast, higher government expenditure for infrastructure projects supported the economy. For 2023 as a whole, GDP advanced by 5.2%, in line with the government's growth target of around 5%.

Owing to the real estate crisis and subdued household and business sentiment, the economic climate in China remains difficult. However, an expansionary economic policy will likely continue to underpin the economy. The focus here is on government investment in infrastructure in particular, but private consumption and investment are also to be supported. Added to this are a range of easing measures by the central bank, including the lowering of the mortgage reference rate and banks' reserve requirement ratio. The SNB's GDP growth forecast for China for this year is almost unchanged at 4.8%, and thus close to the government's growth target. For 2025, the SNB expects GDP expansion of 4.6% (cf. table 2.1).

At 0.7% in February, consumer price inflation was back in positive territory for the first time in several months (cf. chart 2.10). The recent upswing was partly attributable to higher prices for tourism services and food during the Chinese New Year holiday. Core inflation increased as well, to 1.2% (cf. chart 2.11).

3
Economic developments in Switzerland

Swiss GDP growth was moderate in the fourth quarter of last year.[1] In the services sector, value added rose again. In manufacturing, however, it stagnated, this being above all attributable to subdued momentum in global manufacturing, and in particular to the weak activity in Germany. Unemployment rose somewhat, and the utilisation of overall production capacity was normal.

Economic activity is likely to remain modest going forward. The weak demand from abroad and the appreciation of the Swiss franc in real terms over the past year are having a dampening effect. The SNB anticipates GDP growth of around 1% for 2024. In this environment, unemployment is likely to continue to rise slightly, and the utilisation of production capacity is likely to decline somewhat.

The forecast for Switzerland, as for the global economy, is subject to significant uncertainty. The main risk is weaker economic activity abroad.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. According to this information, economic activity has improved somewhat in the short term.

Moderate growth in fourth quarter of 2023
According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP advanced by 1.1% in the fourth quarter (cf. chart 3.1). In line with expectations, economic activity thus remained muted.

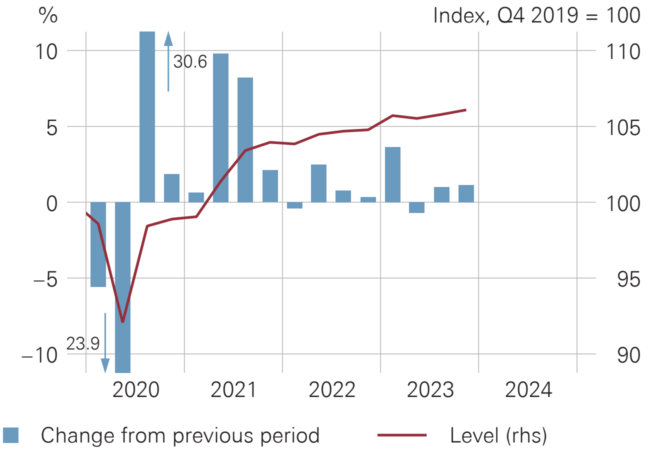
As in the preceding quarters, growth was supported by the services sector. By contrast, value added in manufacturing stagnated. This was mainly attributable to subdued momentum in global manufacturing, particularly weak activity in Germany.

On the demand side, GDP expansion was largely supported by private consumption, while investment declined significantly for the third consecutive quarter. Foreign trade made hardly any contribution to GDP growth (cf. table 3.1).

1 The GDP figures commented on and forecast by the SNB in the press release and Quarterly Bulletin are adjusted for sporting events (cf. Glossary).

Chart 3.1

REAL GDP
Adjusted for sporting events

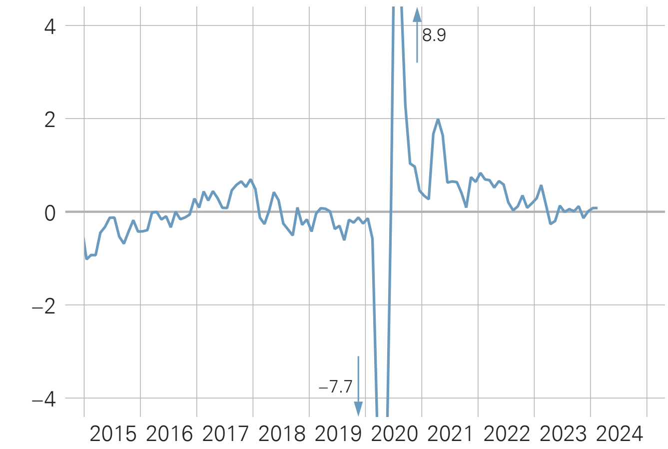


Source(s): SECO

Chart 3.2

SNB BUSINESS CYCLE INDEX

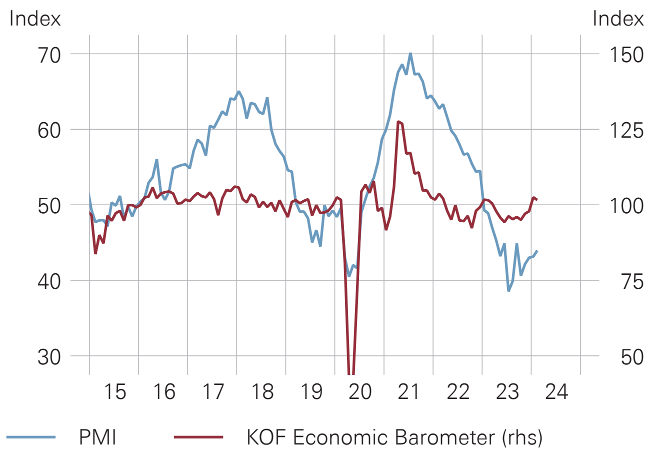
Standardised



Source(s): SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Source(s): KOF Swiss Economic Institute, UBS

With the fourth-quarter estimate released, initial provisional annual figures for 2023 are available. Following robust GDP growth in 2022 (2.5%), the Swiss economy recorded growth of 1.3% in 2023, supported primarily by private consumption.

Slightly improved economic growth in first quarter of 2024

Many economic indicators suggest that economic activity was slightly more dynamic in the first quarter of 2024 than in the preceding quarters.

The SNB's Business Cycle Index and the KOF Economic Barometer – which aim to depict overall economic momentum – point on the whole to average economic growth in the first quarter (cf. charts 3.2 and 3.3).

However, signals in manufacturing and services are mixed. While the manufacturing purchasing managers' index (PMI) still indicates weak growth in manufacturing (cf. chart 3.3), the services PMI was recently considerably above the growth threshold, which indicates continued expansion in this sector.

The talks held by the SNB's delegates for regional economic relations with companies also suggest that economic momentum has picked up somewhat, particularly in services (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, seasonally adjusted, annualised

	2020	2021	2022	2023	2022				2023			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private consumption	−3.4	1.8	4.2	2.1	2.0	4.8	2.4	3.0	2.4	1.1	0.6	1.1
Government consumption	3.8	3.3	−0.8	−0.5	−2.1	−1.8	0.2	0.3	−2.4	−0.9	1.7	2.2
Investment in fixed assets	−1.4	2.8	1.2	−2.0	−7.0	3.8	−0.1	−1.1	3.3	−10.5	−2.5	−6.8
Construction	−1.0	−3.1	−5.5	−2.1	−8.4	−2.9	−8.7	−2.3	0.8	−3.2	0.8	−1.1
Equipment	−1.6	6.0	4.6	−1.9	−6.2	7.0	4.0	−0.5	4.6	−13.8	−4.1	−9.5
Domestic final demand	−1.9	2.3	2.6	0.6	−1.4	3.6	1.3	1.4	2.0	−2.7	−0.2	−1.1
Change in inventories [1]	−0.7	−0.8	0.4	1.1	−8.5	19.5	−18.3	4.2	14.2	−6.3	−8.4	1.9
Total exports [2,3]	−4.6	11.5	4.6	4.4	14.5	−29.3	37.2	−2.2	5.2	−0.2	13.5	2.3
Goods [2]	−1.2	12.3	4.0	4.8	31.2	−42.7	54.7	0.5	3.6	−3.8	21.3	2.1
Goods excluding merchanting [2]	−3.7	12.7	4.6	3.0	1.9	−2.7	4.2	−6.0	19.5	−9.1	12.5	−5.9
Services [3]	−11.1	9.8	6.0	3.4	−16.9	16.2	4.3	−8.3	9.1	9.0	−3.3	2.8
Total imports [2,3]	−5.9	5.3	6.2	6.2	−0.8	2.1	8.3	7.4	30.8	−15.0	−2.5	2.8
Goods [2]	−6.3	4.3	7.6	0.6	20.7	−0.6	10.0	−6.1	21.5	−24.3	4.7	6.7
Services [3]	−5.2	6.7	4.3	14.7	−24.7	6.4	5.7	30.4	46.6	−0.8	−11.4	−2.4
Net exports [3,4]	0.2	3.8	−0.2	−0.3	9.2	−20.2	18.0	−5.2	−12.4	7.9	9.6	0.1
GDP [3]	**−2.2**	**5.1**	**2.5**	**1.3**	**−0.4**	**2.5**	**0.8**	**0.3**	**3.6**	**−0.7**	**1.0**	**1.1**

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 Adjusted for sporting events.
4 Contribution to growth in percentage points.

Source(s): SECO

LABOUR MARKET

Labour market developments were positive overall. Employment increased substantially, while unemployment stayed at a low level. Many companies continued to report difficulties in recruiting staff.

Considerable employment growth in fourth quarter
According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose significantly in the fourth quarter, having declined slightly in the previous quarter. While many new jobs were created in services, employment stagnated in manufacturing and construction (cf. chart 3.4). The Employment Statistics (ES) confirmed the generally positive trend; the seasonally adjusted number of persons employed also increased.

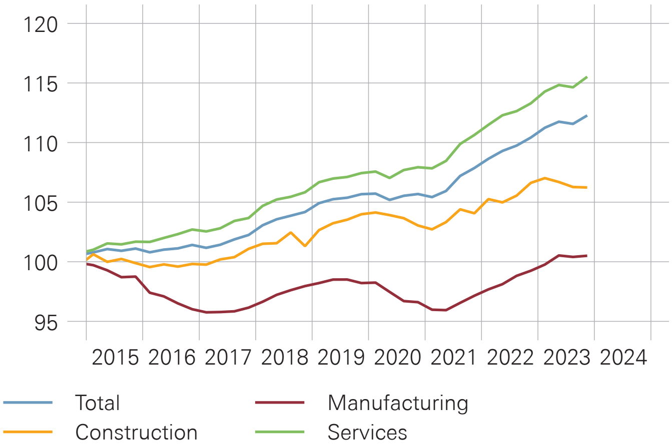
Unemployment at low level
In recent months, the number of unemployed persons continued to rise slightly according to figures published by SECO. Excluding seasonal fluctuations, 102,000 people were registered as unemployed at the end of February. The seasonally adjusted unemployment rate stood at 2.2% and thus remained low by historical standards. The unemployment figures calculated by the Swiss Federal Statistical Office (SFSO) in line with the definition of the International Labour Organization (ILO) also persisted at a low level in historical terms and were unchanged at 4.1% in the fourth quarter (cf. chart 3.5).

Difficulty recruiting personnel
Many companies indicated that they were still finding it difficult to recruit suitable personnel. According to JOBSTAT, the situation deteriorated somewhat in the fourth quarter (cf. chart 3.6). In contrast, the talks held by the SNB with companies pointed to a slight easing in the recruitment situation (cf. 'Business cycle signals', pp. 28 et seq.).

Chart 3.4

FULL-TIME EQUIVALENT JOBS

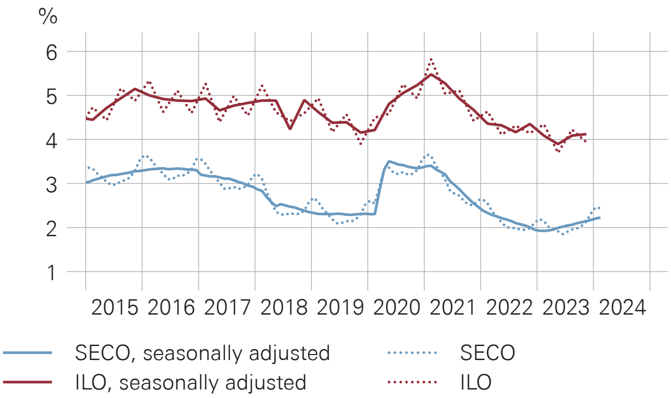
Index, beginning of period = 100



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.5

UNEMPLOYMENT RATE

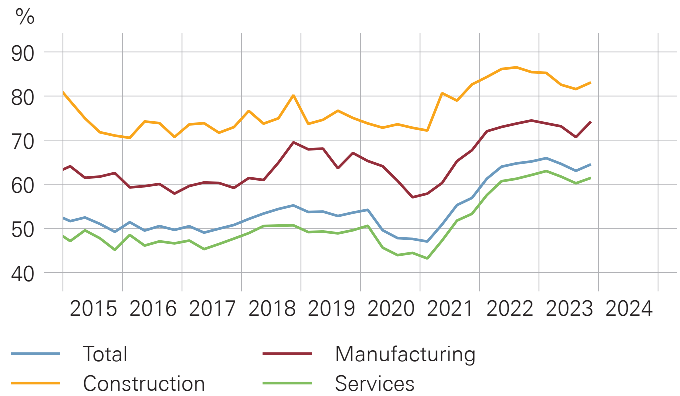


SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons).
ILO: Unemployment rate based on International Labour Organization definition.

Source(s): SECO, SFSO

Chart 3.6

RECRUITMENT DIFFICULTIES

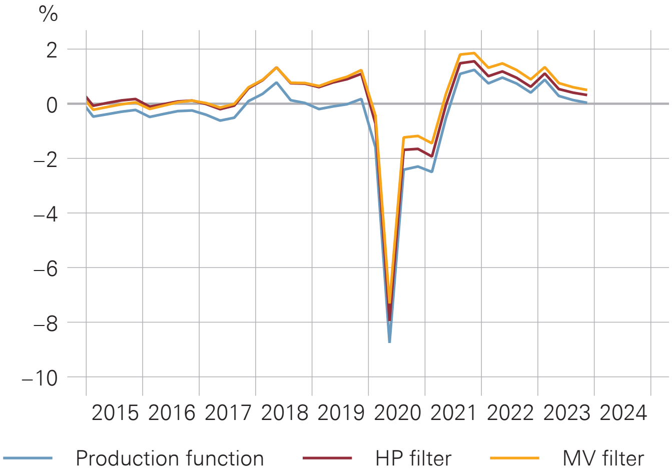


Share of companies that had difficulties or did not succeed in recruiting qualified staff. Only companies that are actively recruiting qualified staff are taken into account. Estimate based on the national job statistics (JOBSTAT).

Source(s): SFSO, SNB

Chart 3.7

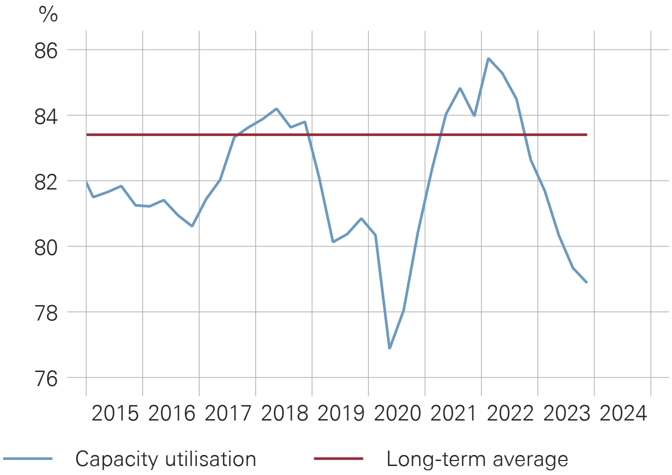
OUTPUT GAP



Source(s): SNB

Chart 3.8

CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

CAPACITY UTILISATION

Output gap closed

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.

Potential output as estimated by means of a production function shows a closed output gap for the fourth quarter, corresponding to a normal level of utilisation. Other estimation methods indicate that the gap is still slightly positive (cf. chart 3.7).

Capacity utilisation varies between sectors

In addition to the estimation of the aggregate output gap, surveys also play an important role in assessing utilisation levels. The surveys on the utilisation of production factors presented a mixed picture for the fourth quarter.

According to the surveys conducted by KOF, technical capacity utilisation in manufacturing continued to fall; it thus remained well below its long-term average (cf. chart 3.8). In most areas of the services sector, by contrast, utilisation was slightly above average. The available indicators pointed to an average level of utilisation for the economy as a whole.

As regards the labour situation, the surveys indicate that staff numbers in most services industries were still considered to be tight in the fourth quarter. The situation has improved somewhat in manufacturing.

OUTLOOK

Switzerland's economy is expected to see modest growth in the quarters ahead, with services likely providing an important source of support. The international economic environment, by contrast, remains lacklustre, as shown by the export-weighted manufacturing PMI (cf. chart 3.9). Accordingly, developments in manufacturing are expected to be sluggish. Swiss companies across all industries continue to be cautiously optimistic with regard to their future business situation (cf. chart 3.10). Although the indicators for the employment outlook have declined further in general, they continue to point to employment growth (cf. chart 3.11).

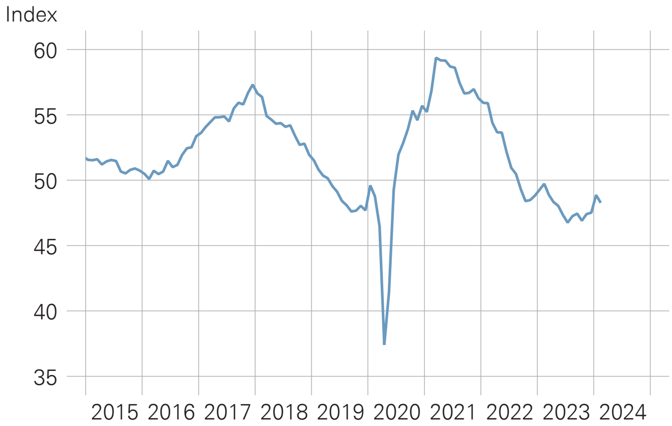
The SNB anticipates GDP expansion of around 1% for 2024. Subdued demand from abroad and the appreciation of the Swiss franc in real terms over the past year are having a dampening effect. Unemployment is likely to continue to increase slightly, and the utilisation of production capacity is likely to decline somewhat.

The level of uncertainty associated with the forecast remains significant. The main risk is weaker economic activity abroad.

Chart 3.9

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

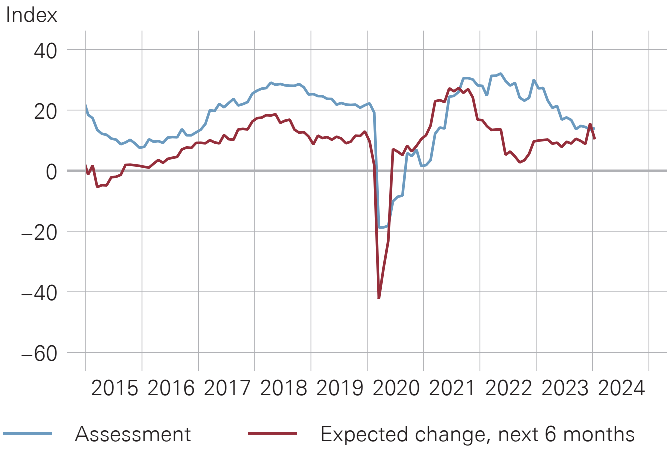


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), LSEG Datastream, SNB

Chart 3.10

BUSINESS SITUATION

Average across all KOF surveys

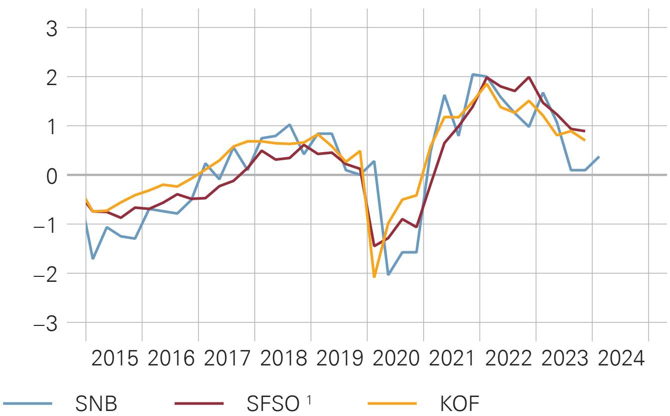


Source(s): KOF Swiss Economic Institute

Chart 3.11

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



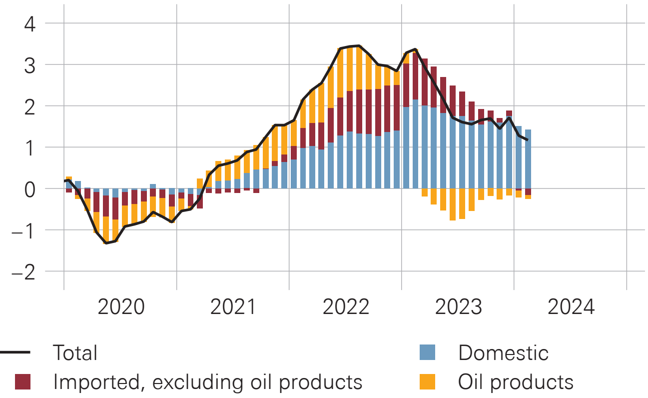
1 Seasonal adjustment: SNB.

Source(s): KOF Swiss Economic Institute, SFSO, SNB regional network

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.

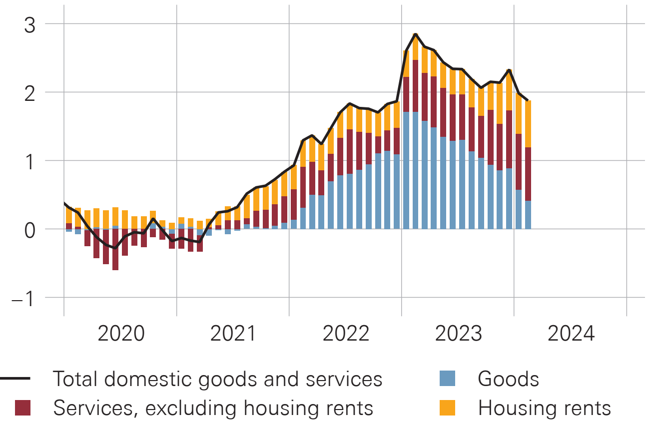


Source(s): SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

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



Source(s): SFSO, SNB

4 Prices and inflation expectations

The inflation rate as measured by the consumer price index (CPI) declined further in the past three months and stood at 1.2% in February, just under half a percentage point below the level recorded in the second half of 2023. Underlying inflation as measured by core inflation has also fallen since November.

Short and longer-term inflation expectations, by contrast, hardly changed and remained well anchored within the range consistent with price stability.

CONSUMER PRICES

Further decline in annual inflation

Annual CPI inflation receded from 1.4% in November to 1.2% in February (cf. chart 4.1, table 4.1). In contrast to the preceding quarters, the fall in inflation was no longer primarily attributable to imported inflation; roughly two-thirds of the decline was due to domestic inflation. While the contribution made by imported inflation stood at just under –0.3 percentage points in February (November: –0.2 percentage points), domestic inflation contributed slightly more than 1.4 percentage points (November: 1.6 percentage points). Domestic inflation remained the key driver of inflation.

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2023	2023				2023		2024	
		Q1	Q2	Q3	Q4	Nov	Dec	Jan	Feb
Overall CPI	**2.1**	**3.2**	**2.1**	**1.6**	**1.6**	**1.4**	**1.7**	**1.3**	**1.2**
Domestic goods and services	2.4	2.7	2.5	2.2	2.2	2.1	2.3	2.0	1.9
Goods	5.4	6.9	5.8	5.0	3.9	3.7	3.8	2.5	1.8
Services	1.5	1.4	1.4	1.3	1.7	1.7	1.9	1.8	1.9
Private services excluding housing rents	1.5	1.3	1.4	1.5	2.0	1.8	2.0	1.9	1.8
Housing rents	1.7	1.5	1.5	1.6	2.2	2.4	2.4	2.4	2.8
Public services	0.8	1.3	1.4	0.5	0.2	0.0	0.6	0.7	0.6
Imported goods and services	1.4	4.6	1.2	−0.1	−0.1	−0.6	−0.2	−0.9	−1.0
Excluding oil products	2.9	5.0	3.9	2.1	0.8	0.5	0.6	−0.3	−0.7
Oil products	−10.0	1.9	−17.2	−15.7	−6.9	−8.7	−5.8	−5.9	−3.5

Source(s): SFSO, SNB

Lower inflation for domestic goods
The decrease in domestic inflation from 2.1% in November to 1.9% in February was driven by price developments in goods (cf. chart 4.2, table 4.1). Domestic goods inflation fell during this period by almost 2 percentage points to 1.8%, with food accounting for the largest portion of the decline.

Higher inflation for domestic services, particularly for rents
In February, inflation for domestic services advanced to 1.9% (November: 1.7%), owing partly to increased rent inflation. Housing rent inflation stood at 2.8% (cf. chart 4.3), putting it at its highest level in 15 years. Overall, domestic inflation was almost the sole driver of inflation in February.

The rise in rent inflation of 1.2 percentage points since August 2023 is largely due to the increase in the mortgage reference rate to 1.5% at the beginning of June. The subsequent hike to 1.75% at the beginning of December is unlikely to have had a decisive impact yet, as changes to the reference rate typically do not affect rent inflation for several months owing to contractual notice periods for rent adjustments.

Inflation for domestic services excluding housing rents climbed from 1.3% in November to 1.5% in February. This rise can be attributed to public services inflation, which increased from 0.0% in November to 0.6% in February, due in large part to public transport. Inflation for private domestic services excluding housing rents remained stable at 1.8% (cf. table 4.1).

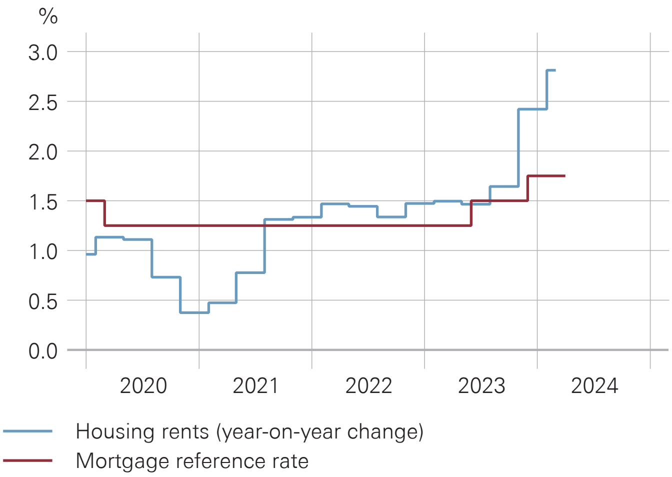
Lower imported inflation
Imported inflation fell from –0.6% in November to –1.0% in February. As in the previous two quarters, this decline was attributable to imported goods and services excluding oil products (cf. table 4.1). While inflation for these products was still in positive territory in November (0.5%), it had dropped to –0.7% by February. Goods such as clothing, gas and food as well as tourism services contributed to the decline in inflation in this product group.

Annual inflation for oil products rose further to –3.5%, having stood at –8.7% in November (cf. table 4.1) and hit a low of –22.6% in June of last year.

Decline in core inflation
Various core inflation metrics have fallen since November. Core inflation, as measured by the SNB's trimmed mean (TM15), decreased slightly from 1.3% in November to 1.2% in February, while the SFSO core inflation rate 1 (SFSO1) receded from 1.4% to 1.1% during the same period (cf. chart 4.4).

Chart 4.3

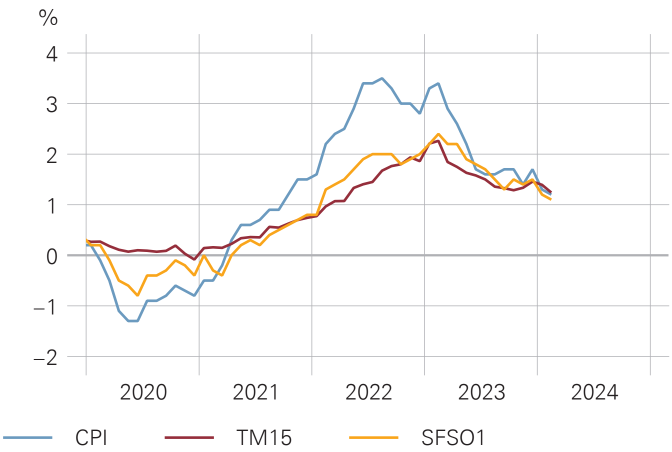
HOUSING RENTS



Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES
Year-on-year change

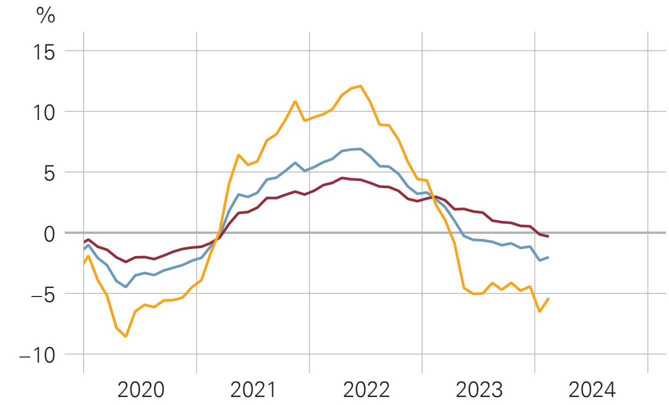


Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change

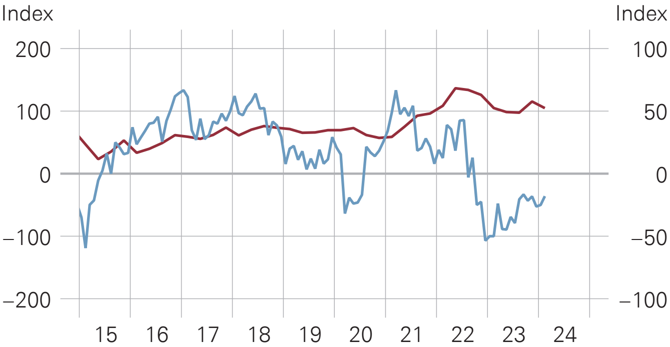


Source(s): SFSO

Chart 4.6

SHORT-TERM PRICE AND INFLATION EXPECTATIONS

Aggregate responses from SECO survey on consumer sentiment and UBS CFA financial market survey



Source(s): CFA Society Switzerland, SECO, UBS

PRODUCER AND IMPORT PRICES

Lower inflation for producer and import prices

Inflation for producer and import prices decreased from –1.3% in November to –2.0% in February (cf. chart 4.5), with both contributing to this decline. The inflation rate for import prices was down from –4.8% in November to –5.4% in February, while that for producer prices declined from 0.6% to –0.3%. The main drivers of the decrease in inflation were intermediate goods and consumer goods in the case of import prices, and intermediate goods and energy products in the case of producer prices.

INFLATION EXPECTATIONS

Short-term inflation expectations largely unchanged

The indicators for short-term inflation expectations either remained stable or declined slightly this quarter.

Although the index on the expected development of prices over the next twelve months – which is based on the survey of consumer sentiment conducted by SECO – fell again slightly (cf. chart 4.6), the survey conducted in January indicated that just over four out of five households still anticipated a rise in prices in the short term.

The index based on the joint monthly financial market survey by UBS and the CFA Society Switzerland was virtually unchanged over the past three months (cf. chart 4.6). Given that more respondents continued to expect inflation to fall rather than rise in the next six months, the index remained in negative territory. In the February survey, however, more than half of respondents anticipated unchanged inflation rates.

In the talks conducted by the SNB's delegates for regional economic relations this quarter, companies expected inflation to fall slightly in the short term (cf. chart 8 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months stood at 1.6%, compared with 1.8% in the previous quarter.

The forecast of the banks and economic institutions participating in the monthly survey conducted by Consensus Economics for expected inflation in 2024 also decreased somewhat and stood at 1.4% in March (cf. chart 4.7). For 2025, the panel of experts anticipated a decline in inflation to 1.1%.

Longer-term inflation expectations consistent with price stability

Longer-term inflation expectations remained largely stable this quarter.

That said, for UBS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years fell in December to 1.4%, compared with 1.7% in the previous quarter (cf. chart 4.8). Meanwhile, company representatives interviewed by the SNB's delegates in the first quarter left their inflation expectations for the same time frame virtually unchanged, also at around 1.4%.

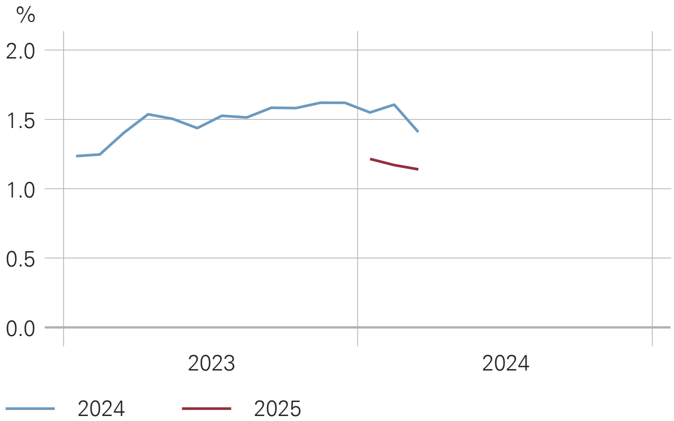
According to the Consensus Economics survey conducted in January, the long-term inflation expectations (six to ten years) of participating banks and economic institutions also remained stable at 1.2%.

Survey results on medium and long-term inflation expectations were thus still within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

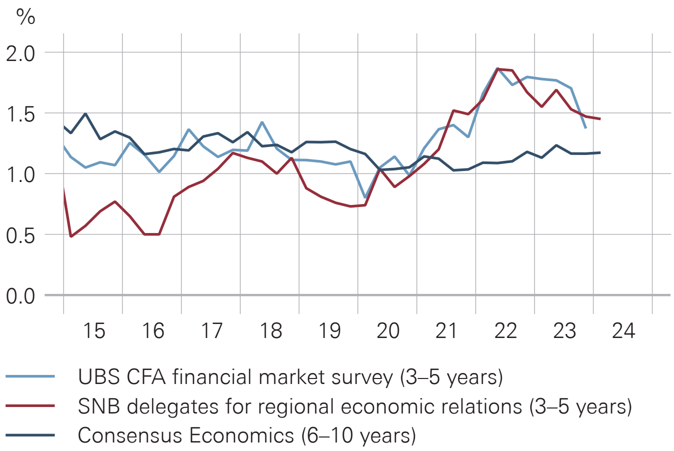
Monthly forecasts for annual inflation



Source(s): Consensus Economics Inc.

Chart 4.8

MEDIUM AND LONG-TERM INFLATION EXPECTATIONS



Source(s): CFA Society Switzerland, Consensus Economics Inc., SNB, UBS

5
Monetary developments

Yields on long-term Confederation bonds have barely changed since the monetary policy assessment in December. The Swiss franc has depreciated somewhat in trade-weighted terms. In mid-March, prices on the Swiss stock market were slightly higher compared with mid-December.

Growth rates in the broad monetary aggregates remained negative. Growth in bank lending weakened further over the past quarter.

MONETARY POLICY MEASURES SINCE DECEMBER 2023 ASSESSMENT

Monetary policy unchanged

At its monetary policy assessment of 14 December 2023, the SNB decided to leave its policy rate unchanged at 1.75%. Furthermore, it confirmed its willingness to be active in the foreign exchange market as necessary so as to ensure appropriate monetary conditions. At the same time, it pointed out that it was no longer focusing on foreign currency sales as inflationary pressure had decreased slightly. However, uncertainty remained high. The SNB therefore emphasised that it would continue to monitor the development of inflation closely, and would adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

Remuneration of sight deposits

Sight deposits up to the threshold were remunerated at an interest rate of 1.75%, while the rate for sight deposits above the threshold was 1.25%. A discount of 0.5 percentage points relative to the SNB policy rate thus continued to apply to sight deposits above the threshold. Together with the absorption of sight deposits via open market operations, this tiered remuneration of sight deposits ensures that monetary policy will be passed through efficiently to interest rates in the money market overall.

Absorption of sight deposits via repo transactions and SNB Bills

The SNB continued to absorb sight deposits by way of repo transactions and the issuance of SNB Bills. For this purpose, repo transactions with a term of one week were auctioned daily, while SNB Bills with terms ranging from a month to a year were auctioned on a weekly basis. By absorbing sight deposits, the SNB reduced the liquidity supply in the money market, and thus ensured that the secured short-term Swiss franc money market rates remained close to the SNB policy rate. Since the December monetary policy assessment, outstanding liquidity-absorbing repo transactions have averaged CHF 68.5 billion. In the same period, the average level of outstanding SNB Bills amounted to CHF 75.0 billion.

Sight deposits at the SNB virtually constant

Sight deposits held at the SNB have remained more or less unchanged compared with the December assessment. In the week ending 15 March 2024 (last calendar week before the March assessment), they amounted on average to CHF 469.2 billion. This was marginally lower than in the week ending 8 December 2023, the last calendar week preceding the December assessment (CHF 471.7 billion). Between these two assessments, they averaged CHF 473.5 billion. Of this amount, CHF 464.2 billion were sight deposits of domestic banks and the remaining CHF 9.2 billion were other sight deposits.

Statutory minimum reserves averaged CHF 21.2 billion between 20 November 2023 and 19 February 2024. Overall, banks still exceeded the minimum reserve requirement by CHF 446.5 billion (previous period: CHF 448.8 billion). Banks' excess reserves thus remain very high.

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate
At its December monetary policy assessment, the SNB left its policy rate unchanged at 1.75%. SARON – the average overnight interest rate on the secured money market – fluctuated within a narrow range slightly below the SNB policy rate (cf. chart 5.1). In mid-March, it stood at 1.70%.

Little change in long-term yields
In mid-March, the yield on ten-year Confederation bonds stood at just under 0.70%, which was roughly the level recorded at the beginning of the period under review (cf. chart 5.2).

The volatility of yields on Swiss government bonds was considerably lower than that of yields on euro area and US government bonds. This is likely due in part to the fact that the market was less uncertain about future inflation and monetary policy developments in Switzerland than abroad.

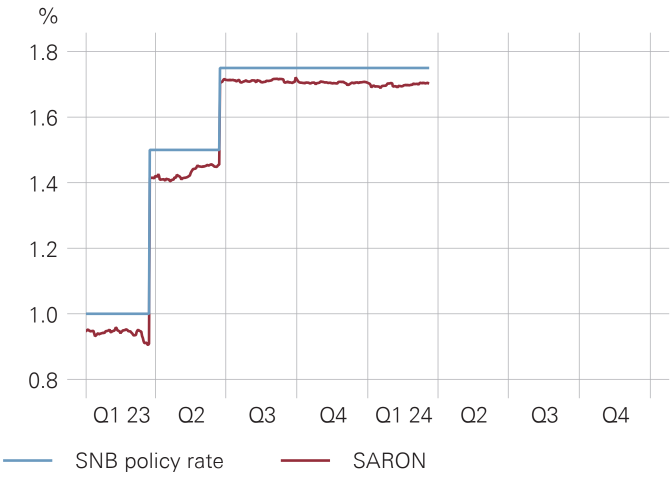
Yield curve also virtually unchanged
Since the monetary policy assessment in December, both the expectations regarding the development of the SNB policy rate and the assessment of macroeconomic risks in the financial market have changed only slightly. In mid-March, yields on Confederation bonds across the entire maturity range were therefore close to their mid-December levels (cf. chart 5.3).

Long-term real interest rates relatively stable
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.

Long-term real interest rates in mid-March stood roughly at their mid-December levels, given that both long-term nominal interest rates (cf. chart 5.3) and long-term inflation expectations remained largely stable (cf. chapter 4).

Chart 5.1

SNB POLICY RATE AND SARON



Source(s): Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

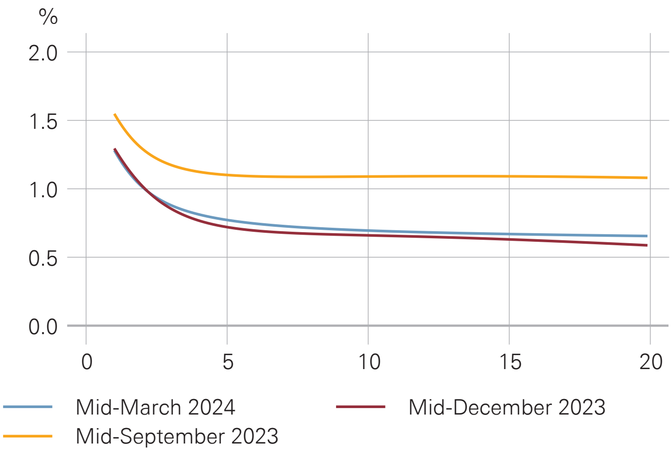
10-YEAR SWISS CONFEDERATION BOND YIELD

Source(s): SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

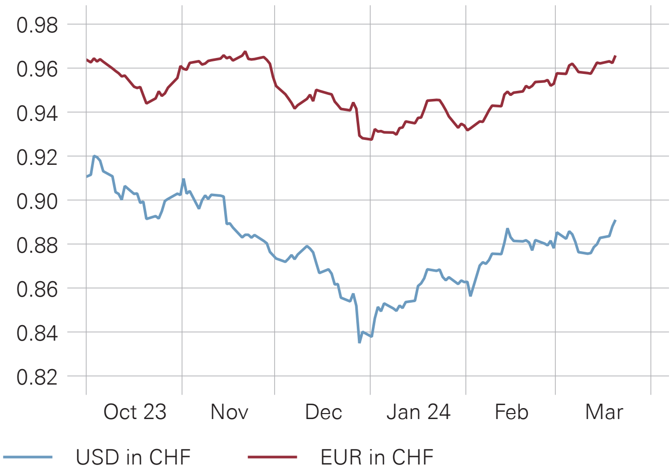
Years to maturity (horizontal axis); Nelson-Siegel-Svensson method



Source(s): SNB

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

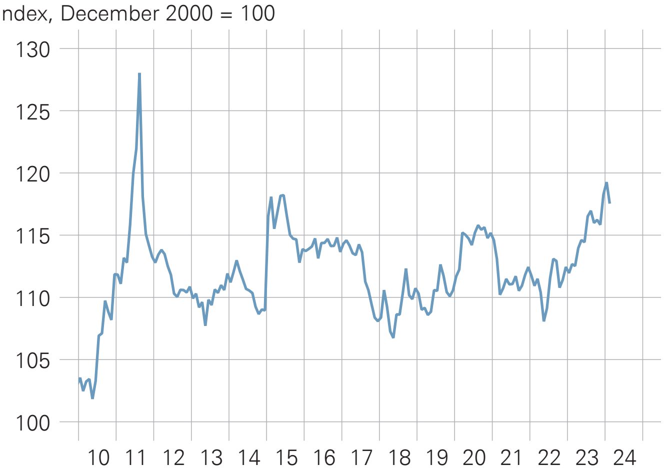
Index, December 2023 monetary policy assessment = 100

Source(s): SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100



Source(s): SNB

EXCHANGE RATES

Swiss franc somewhat weaker against euro and US dollar

Compared with the last monetary policy assessment in December, the Swiss franc depreciated slightly against both the euro and the US dollar (cf. chart 5.4). In mid-March, one euro was worth CHF 0.97, while one dollar was CHF 0.89.

In the period under review, the Swiss franc exchange rates moved largely in line with fluctuations in interest rate differentials with the euro area and the US. In the second half of December, interest rate differentials fell in response to the publication of surprisingly low inflation figures abroad and the subsequent reinforcement of market expectations regarding an easing of monetary policy in the major currency areas. While the Swiss franc gained considerably in value during this period, there was a trend reversal at the beginning of 2024. The fact that communications by central banks in the major currency areas were interpreted as being indicative of a restrictive stance, together with robust US economic data, caused interest rates abroad to rise again more substantially than in Switzerland. This led to a renewed widening of interest rate differentials, which contributed significantly to a weakening of the Swiss franc.

Trade-weighted Swiss franc exchange rate slightly weaker

After some significant fluctuations in the period under review, the trade-weighted Swiss franc exchange rate was around 1% lower in mid-March than it was in mid-December (cf. chart 5.5).

Overall, in this period, the Swiss franc depreciated by 2.2% against the euro (index weighting just under 40%), by 1.7% against the US dollar (17%), by around 3.0% against the pound sterling (7.5%) and by around 1.5% against the renminbi (8.6%). However, it strengthened by just over 2% against the yen (index weighting 2.7%).

Real external value roughly at December level

The considerable nominal appreciation of the Swiss franc towards the end of last year led to a temporary rise in the real trade-weighted exchange rate. In January 2024, it reached its highest level since mid-2011 (cf. chart 5.6). The real Swiss franc exchange rate fell again somewhat in February.

SHARE AND REAL ESTATE PRICES

Swiss share prices higher
In mid-March, the Swiss Market Index (SMI) was around 4% higher than at the time of the monetary policy assessment in December (cf. chart 5.7). This rise was consistent with developments on the global stock markets and reflected largely robust corporate earnings.

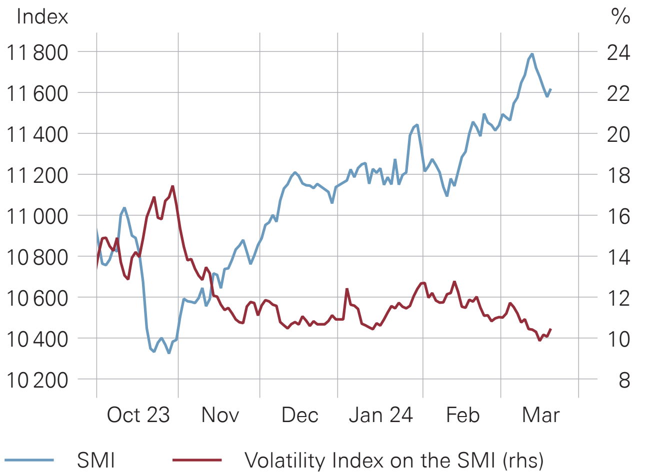
Little change in stock market volatility
The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). In mid-March, this index stood close to its mid-December level, thus remaining low by historical standards. Movements in the volatility index since mid-December have been relatively modest compared with the previous quarter.

Further rise in most sector indices
Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). Almost all sector indices gained in value in the period under review. In mid-March, the share indices for industrials, financials and healthcare companies were between 4% and 9% above their levels at the time of the monetary policy assessment in December. The index for consumer goods companies was roughly at the level recorded in mid-December.

Momentum in residential real estate prices subdued
Transaction prices for privately owned apartments and single-family houses rose in the fourth quarter of 2023. Overall, however, momentum remained somewhat weaker than in previous years (cf. chart 5.9). Although the apartment buildings segment – which includes residential investment property of private and institutional investors – registered an increase in prices in the fourth quarter, prices were still lower than a year ago.

Chart 5.7

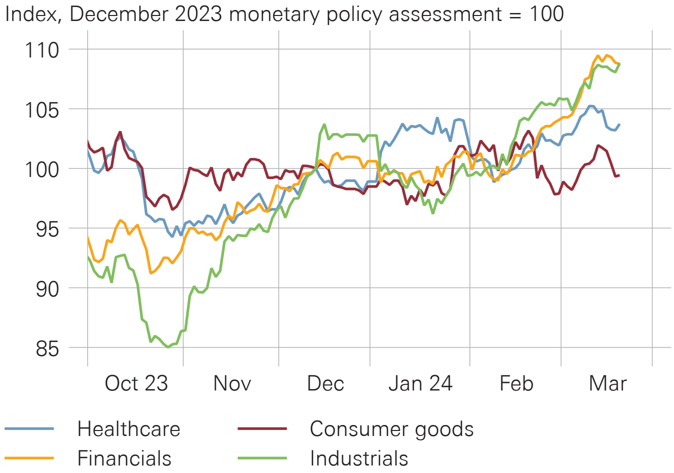
SHARE PRICES AND VOLATILITY



Source(s): SIX Swiss Exchange Ltd

Chart 5.8

SELECTED SPI SECTORS

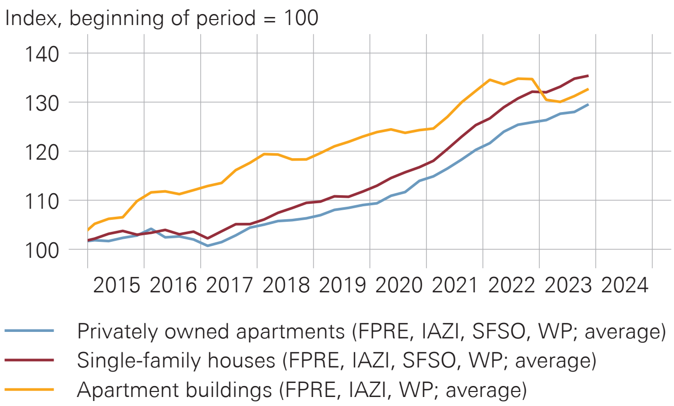


Source(s): SIX Swiss Exchange Ltd

Chart 5.9

TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE

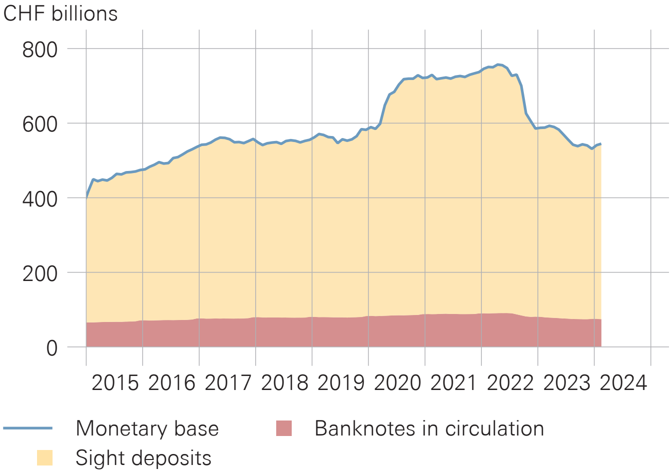
Nominal (hedonic)



Source(s): Fahrländer Partner Raumentwicklung (FPRE), IAZI, SFSO (from 2017), Wüest Partner (WP)

Chart 5.10

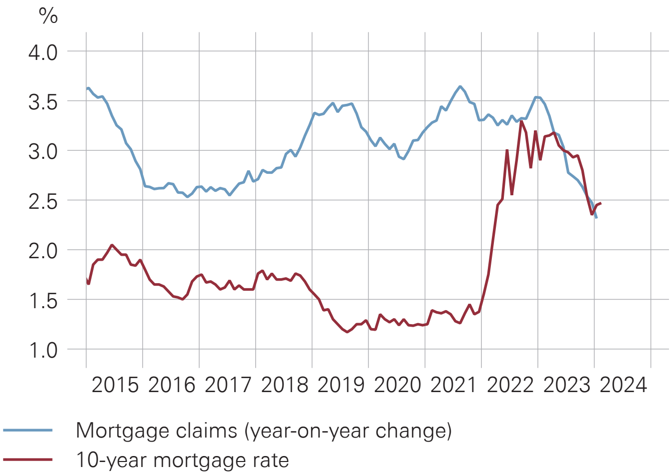
MONETARY BASE



Source(s): SNB

Chart 5.11

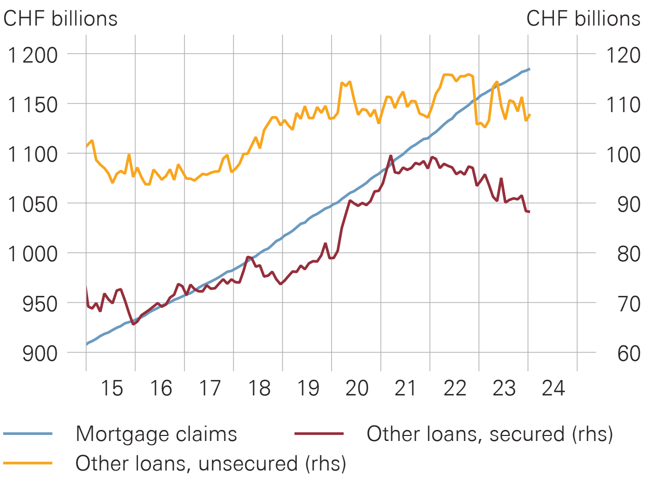
MORTGAGE CLAIMS AND INTEREST RATES



Source(s): SNB

Chart 5.12

MORTGAGE CLAIMS AND OTHER LOANS



Source(s): SNB

MONETARY AND CREDIT AGGREGATES

Little change to monetary base

Having declined in 2023, the monetary base increased again marginally in early 2024. In February 2024, it averaged CHF 544.8 billion (cf. chart 5.10), and was thus up by around CHF 4.5 billion on November.

Broad monetary aggregates contract

Annual growth rates for the broad monetary aggregates have remained negative over the past three months (cf. table 5.1). In February, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) fell by 16.7% year-on-year, compared with a decline of 18.5% in November. The M2 aggregate (M1 plus savings deposits) contracted by 11.9% year-on-year in February and M3 (M2 plus time deposits) by 2.8%, compared with decreases of 13.4% and 3.1%, respectively, in November.

Slowdown in mortgage claims growth

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, slowed further. Having increased by over 3% in the first half of 2023, they were up 2.5% year-on-year in the fourth quarter (cf. table 5.1). This slowdown occurred as a result of the tightening of monetary policy in the preceding quarters and is attributable to mortgage lending to households and to private companies alike.

In line with interest rate movements in the capital market, published interest rates for fixed-rate mortgages fell significantly in the second half of 2023. The ten-year mortgage interest rate declined from over 3% mid-year to around 2.5% in February 2024 (cf. chart 5.11). Money market mortgage rates, by contrast, have remained stable at 2.7% since June 2023.

Decline in other loans

Other loans are considerably more volatile than mortgage loans (cf. chart 5.12). They contracted in the fourth quarter of 2023 by an annualised 4.5%.

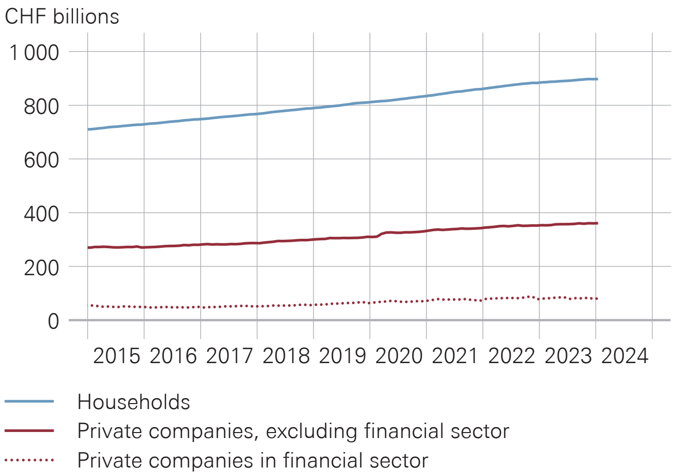
The volume of secured other loans has declined further since the beginning of 2022, which is attributable to repayments of COVID-19 loans to the value of CHF 10.4 billion. At the end of February, it was estimated that approximately CHF 5.3 billion in COVID-19 loans was still outstanding. The volume of unsecured other loans has remained largely stable since 2020, with fluctuations primarily reflecting developments in other loans to financial companies.

Lending growth by sector

Bank loans to households and companies continued to grow on an annual basis (cf. chart 5.13). At the end of January 2024, loans to households, to non-financial companies, and to financial companies recorded year-on-year increases of CHF 12.6 billion (up 1.4%), CHF 7.4 billion (up 2.1%), and CHF 1.1 billion (up 1.4%), respectively.

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES



Source(s): SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2023	2023 Q1	Q2	Q3	Q4	2023 Dec	2024 Jan	Feb
M1	**−13.6**	**−7.1**	**−12.2**	**−17.5**	**−17.9**	**−17.4**	**−17.0**	**−16.7**
M2	**−10.2**	**−5.8**	**−9.3**	**−12.8**	**−13.0**	**−12.4**	**−12.1**	**−11.9**
M3	**−1.5**	**−0.1**	**−0.9**	**−2.2**	**−2.6**	**−2.0**	**−2.1**	**−2.8**
Bank loans, total [1,3]	**1.8**	**2.2**	**2.0**	**1.5**	**1.5**	**1.8**	**1.6**	
Mortgage claims [1,3]	3.0	3.4	3.1	2.7	2.5	2.5	2.3	
Households [2,3]	2.1	2.6	2.3	1.9	1.8	1.7	1.6	
Private companies [2,3]	5.2	5.7	5.5	5.1	4.7	4.6	4.3	
Other loans [1,3]	−4.6	−4.4	−4.0	−5.3	−4.5	−2.2	−2.2	
Secured [1,3]	−5.2	−3.8	−5.4	−5.6	−6.0	−5.4	−6.7	
Unsecured [1,3]	−4.0	−5.0	−2.9	−5.1	−3.3	0.6	1.7	

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(s): SNB

Business cycle signals

Results of the SNB company talks

First quarter of 2024

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

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and members of management at companies throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 242 company talks were conducted between 16 January and 5 March.

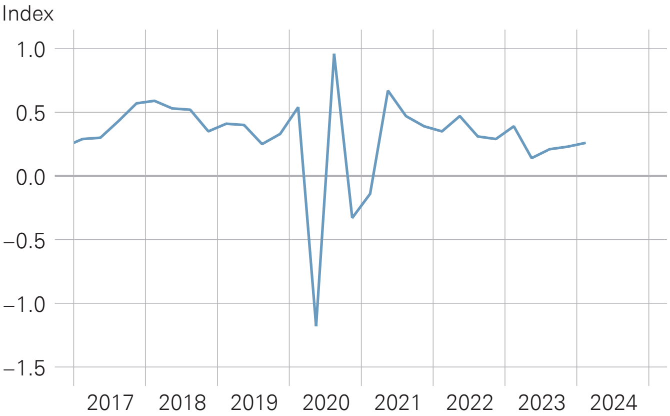
Regions	Delegates
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Marco Huwiler

Key points

- Growth in the Swiss economy was moderate in the first quarter. The expansion was driven by the services sector, with construction also contributing. Manufacturing, by contrast, continued to stagnate.
- Staff levels in the services sector are still rather tight despite an appreciable easing in recruitment difficulties, while infrastructure utilisation is close to normal. In the case of manufacturing, on the other hand, utilisation of personnel and technical capacity is unsatisfactory.
- In manufacturing, persistently weak global demand remains the main concern, with companies also increasingly citing the Swiss franc exchange rate as a challenge. They see hardly any latitude in pricing, which means their margins are under pressure.
- The outlook is improving. Companies in the services sector expect the robust growth to continue and manufacturing companies are also anticipating increases in turnover again.

Chart 1

TURNOVER

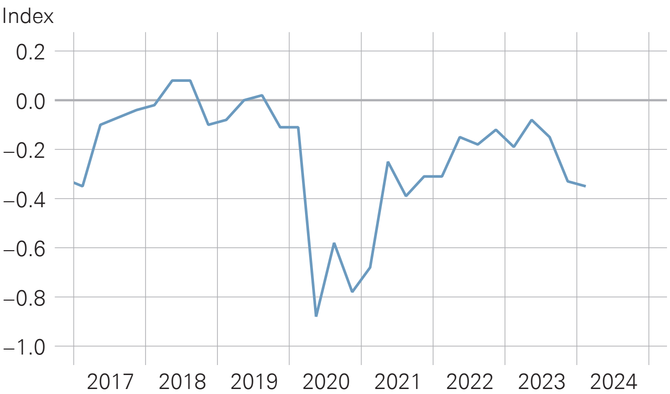


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

CAPACITY UTILISATION



Utilisation of technical capacity and/or business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

CURRENT SITUATION

Robust business activity in services and construction, stagnation in manufacturing

Overall, the Swiss economy showed a moderate expansion in the first quarter (cf. chart 1), with robust growth in services and construction. In manufacturing, by contrast, turnover continued to stagnate. Order backlogs, which a year ago were still considerable in most cases, have now been reduced to a large extent, and in many instances new orders have yet to come in. Some companies are still observing that demand, which is already weak, is being curbed further by customers reducing their inventories. Customers in neighbouring European countries are particularly reluctant to place orders. Sales to China also continue to present difficulties for many companies. By contrast, representatives say that momentum in the US remains positive overall. Several companies also make special mention of India as a dynamically growing market.

Technical capacity underutilised, particularly in manufacturing

Technical capacity utilisation is declining slightly and is below normal levels overall (cf. chart 2). Particularly in manufacturing, persistently weak demand is leading to low capacity utilisation. In the services sector, on the other hand, infrastructure utilisation is in most cases normal, or there is only minor underutilisation, usually because of a slight surplus of office space. Capacity utilisation in construction is fluctuating strongly despite solid development in demand overall. Reasons for this include delays in the granting of building permits or in the planning of major projects.

Decreasing staff shortages and easier recruitment
Staff shortages continue to ease (cf. chart 3). While companies in the services and construction sectors still regard staff levels to be rather too low, many manufacturing companies consider them to be too high. Companies are often not renewing contracts with temporary employees, and some are applying for short-time working. Wherever possible, however, companies are avoiding making skilled workers redundant.

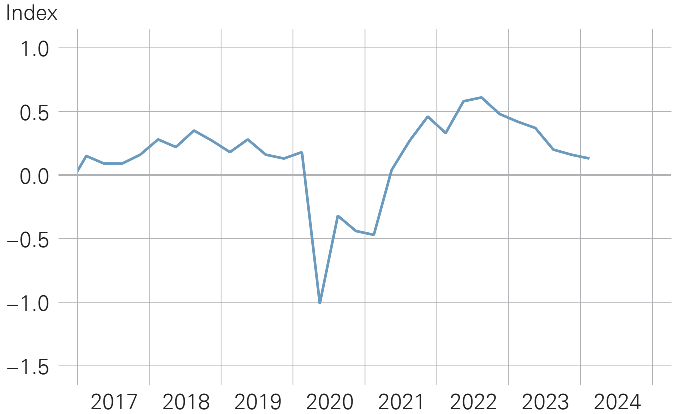
Recruitment difficulties are also easing. The effort involved in recruiting low-skilled workers is said to be generally normal. Some companies also report that owing to downsizing at international technology groups and the integration of Credit Suisse into UBS, they are now able to fill positions that have been vacant for some time, for example in wealth management but also in some cases in IT. Engineering specialists and staff in various skilled trades remain hard to find.

Robust profit margins, except in manufacturing
Profit margins remain robust overall (cf. chart 4). There are, however, considerable differences between the sectors. Margins in manufacturing have come under pressure, the main problem being the continued underutilisation of production capacity. Manufacturing companies also increasingly cite the Swiss franc exchange rate as a challenge. This is of additional consequence given the weak demand and the associated price pressure. Services and construction companies, by contrast, continue to enjoy solid margins.

Most companies still describe their liquidity situation as comfortable. Despite the current difficult earnings situation, this also applies to manufacturing, where some companies are benefiting from good business performance in recent years.

Chart 3

STAFF SHORTAGES

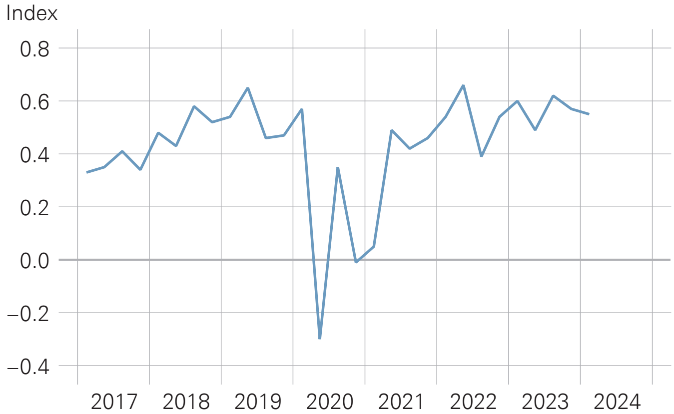


Assessment of staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

Source(s): SNB

Chart 4

CHARACTERISATION OF MARGINS



Characterisation of the margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Persisting weakness in manufacturing
Turnover is stagnating in broad sections of manufacturing. Manufacturers of capital goods in particular, for example in the mechanical engineering industry, are having to contend with weak global demand. There has also been a significant slowing in the watchmaking industry. Sales to China are particularly disappointing. Manufacturers of consumer goods are also feeling little momentum. Swiss premium segment products, however, continue to enjoy growing popularity in overseas markets.

Medical technology and the pharmaceutical industry are regaining some momentum. Demand for goods for rail transport, aviation and defence has also continued to pick up. For this reason some companies are seeking ways of targeting these customer segments. The fact that construction also remains a stable source of orders is benefiting industries such as timber processing.

Growth in trade and logistics industries modest
Retailers are seeing solid demand for food and other everyday items. Last year, customers were tending to switch to cheaper product lines because of losses in purchasing power. This trend continues but is not deteriorating further. It remains fairly difficult for both bricks-and-mortar and online retailers to sell durable goods such as clothing, sporting goods and electronics.

The tentative development of demand, due not least to higher leasing interest rates, and the tight supply situation are leading to heavy price pressure in the motor vehicle trade. Customers are increasingly opting for low-price rather than mid-range vehicles, which is reflected in rather weak sales of electric models. Demand for luxury vehicles, on the other hand, remains high.

The situation in wholesale and logistics is mixed. On the one hand, the weak state of manufacturing and the subdued momentum of online retail are curbing trade and transport volumes. On the other, there are signs of an end to the reduction in inventories of purchased goods in parts of the manufacturing sector, which is supporting trading volumes.

Tourism industry successful – little momentum in food services
The majority of hotels and mountain railways are very satisfied with the utilisation of their infrastructure and with their earnings situation. Tourism businesses geared to an international clientele are benefiting from solid development in demand, particularly from travellers from the US, Southeast Asia and India. The numbers of guests from China and Japan are also picking up again. These tend to be individual travellers; the number of tour groups has not yet returned to pre-pandemic levels. Guests from Switzerland are also proving to be an important source of business for tourism. Growth in guest numbers from European countries, on the other hand, is modest. Companies attribute this partly to the weak euro.

In food services there is generally a lack of significant momentum. The effects of lower purchasing power are still being felt in some cases. Moreover, bookings for corporate events are considered to be subdued.

Robust business activity in financial and ICT industries
Business activity in the financial industry remains robust. Banks are benefiting from profitable interest business. The positive overall development of income from wealth management and other services such as the credit card business is supporting the commission and services business.

The development of demand in the ICT industry is also robust overall. Investments in cybersecurity, digitalisation and artificial intelligence are still key growth drivers. Demand tends to be focused more on cost reductions than on actual innovations, which is why there is a particular call for process optimisation technologies. Both private companies and public institutions often rely on support from external service providers for these technologies. A certain easing in the availability of skilled workers is making it easier for consulting companies to increase staff levels and handle more engagements in future.

Solid capacity utilisation in construction
Construction companies are seeing solid development in demand, although capacity utilisation can fluctuate strongly owing to delays in the granting of permits or in planning. The public sector is an important source of support, particularly when it comes to the maintenance and expansion of transport infrastructure. In addition, the need for energy-efficient renovation remains high in both residential and commercial construction. Residential construction is generally benefiting from robust demand for residential space, although regulatory obstacles, higher interest rates and persistently high construction costs are seen as curbing factors.

OUTLOOK

Improved business outlook

The business outlook has improved. Overall, companies expect solid development in turnover in the next two quarters (cf. chart 5). This is particularly true of the services sector. The first tentative signs of recovery are also being seen in manufacturing, particularly at companies where changes in the business cycle are typically reflected in demand early on. Some companies are seeing signs of an end to their customers reducing inventories. This should lead to a revival in demand. In addition, some representatives point out that interest rates could soon fall in the US and Europe. However, only a few companies expect the economy to recover significantly in the coming months. The economic situation in Europe is still viewed with concern. However, companies are also counting on being able to gain market share with innovative products and improved sales strategies and thus increase sales volumes again.

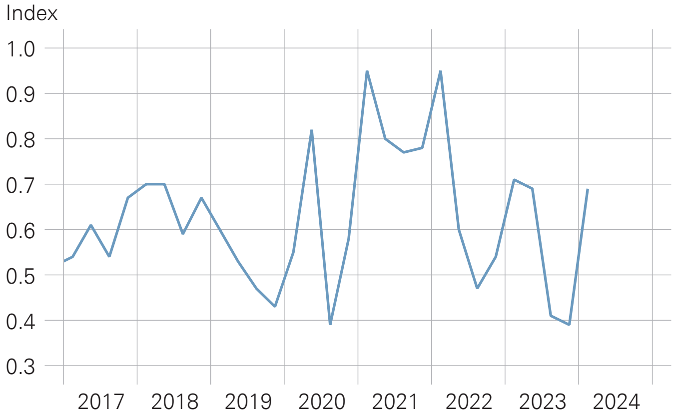
Companies remain cautious when it comes to their investment plans. The need for investment in automation and IT infrastructure remains unbroken, as does the trend to investment in sustainable and energy-efficient technologies. However, in manufacturing in particular, many companies have only just completed major investment projects and, given the low capacity utilisation, are now holding off on further phases of expansion.

The overall intention is to continue increasing staff levels (cf. chart 6), although such plans are now limited almost exclusively to services companies. Manufacturing companies are holding back on hiring new staff and some are using natural attrition to reduce their workforce.

Given the lower level of inflation and the less tight labour market, companies expect wage growth to weaken. They are currently assuming that wages will rise by an average of 2.1% in 2024 after 2.3% last year. For 2025, they expect wage growth to weaken again slightly to below 2%.

Chart 5

EXPECTED TURNOVER

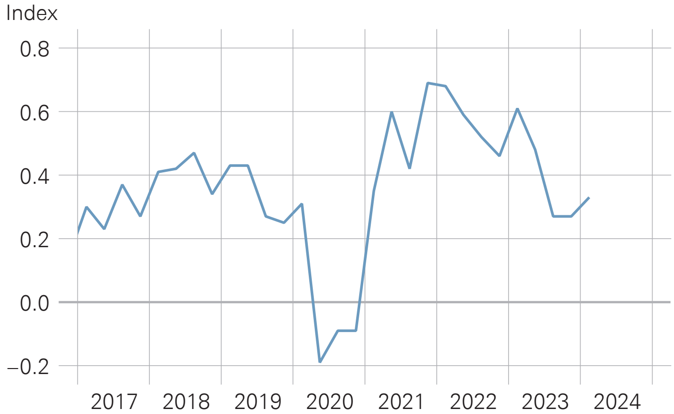


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 6

EXPECTED EMPLOYMENT



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

Source(s): SNB

Chart 7

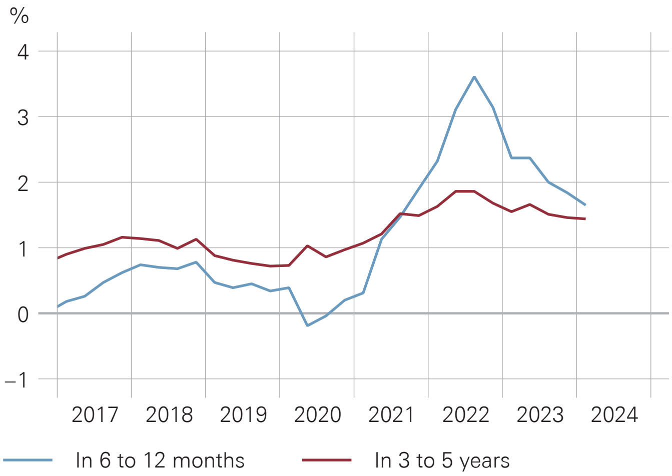
EXPECTED CHANGE IN PURCHASE AND SALES PRICES

Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 8

EXPECTED INFLATION



Source(s): SNB

Stable purchase and sales prices

The majority of companies expect no or only minor price changes in the next two quarters (cf. chart 7). Services companies are tending to anticipate slight increases in purchase and sales prices, while the expectation among manufacturing companies is more that purchase prices will decrease slightly with sales prices remaining unchanged. Despite weak capacity utilisation, manufacturing companies are trying to refrain from reducing prices. Only rarely do they see any latitude for raising their prices. This also applies to exporters, who, given the stronger Swiss franc, would have to increase prices in foreign currency to keep their margins constant. The disruptions in international shipping due to the attacks on merchant ships in the Red Sea have so far barely affected companies' price expectations.

INFLATION EXPECTATIONS

The delegates also ask company representatives about their short and medium-term inflation expectations.

Short-term inflation expectations as measured by the consumer price index have continued to fall slightly: The average for the next six to twelve months is now 1.6%, compared with 1.8% in the previous quarter (cf. chart 8). Inflation expectations over a three to five-year horizon remain virtually unchanged at 1.4%.

About this report

Each quarter, the SNB's delegates for regional economic relations hold more than 200 talks with company executives. 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 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. 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). The index values shown in the charts represent the average of the findings from all companies visited.

Further information can be found in the 'Business cycle signals' reports at www.snb.ch, The SNB/Regional economic relations.

Chronicle of monetary events

The chronicle summarises the most recent monetary events. For events dating further back, please refer to the **press releases** and **chronicle of monetary events** at www.snb.ch.

March 2024

At its quarterly assessment of 21 March, the SNB lowers its policy rate to 1.5%. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold, and at 1.0% above this threshold. The SNB also remains willing to be active in the foreign exchange market as necessary. With its decision, the SNB is taking into account the reduced inflationary pressure as well as the appreciation of the Swiss franc in real terms over the past year. The policy rate cut also supports economic activity. The easing thus ensures that monetary conditions remain appropriate. The SNB will continue to monitor the development of inflation closely, and will adjust its monetary policy again if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

December 2023

At its quarterly assessment of 14 December, the SNB leaves its policy rate unchanged at 1.75%. Inflationary pressure has decreased slightly over the past quarter. However, uncertainty remains high. The SNB will therefore continue to monitor the development of inflation closely, and will adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold, and at 1.25% above this threshold. A discount of 0.5 percentage points relative to the SNB policy rate thus continues to apply to sight deposits above the threshold. The SNB is also willing to be active in the foreign exchange market as necessary. The focus is no longer on foreign currency sales.

September 2023

At its quarterly assessment of 21 September, the SNB leaves its policy rate unchanged at 1.75%. The significant tightening of monetary policy over recent quarters is countering remaining inflationary pressure. The SNB does not rule out that a further tightening of monetary policy may become necessary to ensure price stability over the medium term. To provide appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. Banks' sight deposits held at the SNB will continue to be remunerated at the SNB policy rate of 1.75% up to a certain threshold. Sight deposits above this threshold will be remunerated at an interest rate of 1.25%, and thus still at a discount of 0.5 percentage points relative to the SNB policy rate.

June 2023

At its quarterly assessment of 22 June, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.25 percentage points to 1.75%. In doing so, it is countering inflationary pressure, which has increased again over the medium term. To provide appropriate monetary conditions, the SNB also remains willing to be active in the foreign exchange market as necessary. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of 1.25%, and thus still at a discount of 0.5 percentage points relative to the SNB policy rate.

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 calendar 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. The Swiss Federal Statistical Office therefore takes neither energy and fuel nor unprocessed food and seasonal goods and services into account when calculating the SFSO1 core inflation rate. The TM15, as calculated by the SNB, excludes the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest every month.
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).
Excess reserves	Excess reserves are → sight deposits held by banks at the SNB that exceed their → minimum reserve requirement.
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.
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 goods. → 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, 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.
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.
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.
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.
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.
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.
Merchanting	Merchanting refers to a Swiss-domiciled company purchasing goods outside Switzerland and then directly reselling them unchanged to a customer outside Switzerland, without the goods passing through Switzerland.

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 → thresholds for the domestic banks.
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 use 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 2000, consists of three elements: the definition of → price stability, the conditional → inflation forecast over the subsequent three years, and the implementation of monetary policy by means of the → SNB policy rate and, if needed, additional measures.
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	Between January 2015 and September 2022, the SNB charged negative interest on sight deposits above a certain exemption threshold. The negative interest rate corresponded 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 all domestic and foreign goods and services consumed by households. Unlike the → 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. It can provide liquidity or, using a reverse repo, absorb liquidity.
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 Bills	SNB Bills are interest-bearing debt certificates issued by the SNB and denominated in Swiss francs. They were first issued in autumn 2008. The SNB uses this instrument to temporarily absorb → liquidity from the market. The amount of the SNB Bill is withdrawn from the counterparty's sight deposit at the SNB, and the SNB increases the liability item SNB debt certificates. SNB Bills have a maximum term of 12 months. They are eligible as → collateral in → repo transactions with the SNB.
SNB policy rate	The SNB implements its → monetary policy by setting the SNB policy rate. It seeks to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. → SARON is the most representative of these rates.
Sporting-event adjustment	Adjustment for sporting events smooths the data associated with such events symmetrically throughout the year in which the event takes place. This involves the → gross domestic product, the → value added by the entertainment industry, and the import and export of services. Adjusted for sporting events, the data provide a clearer picture of the economic situation as they are no longer affected by the fluctuations caused by major sporting events.
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 consumed by households in Switzerland. The CPI is calculated every month based on a → basket of goods representative of household consumption.

Threshold	If the → SNB policy rate is zero percent or positive, → sight deposits at the SNB up to a certain threshold are subject to interest (or 'remuneration') at the SNB policy rate. Sight deposits above this threshold are remunerated at the SNB policy rate minus a discount. Sight deposits which are held to meet minimum reserve requirements are not remunerated. The threshold per sight deposit account holder is at least zero. For domestic banks, the threshold corresponds to the three-year average of the → minimum reserve requirements, multiplied by the applicable threshold factor.
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.
Yield curve control	Yield curve control involves a central bank setting a target for the yield of government bonds with a specific maturity, typically longer-term, and using bond purchases to ensure that the actual yield is close to the target.

Published by
Swiss National Bank
Economic Affairs
Börsenstrasse 15
P.O. Box
CH-8022 Zurich

Design
Interbrand Ltd, Zurich

Typeset
NeidhartSchön AG, Zurich

Language versions:
The Quarterly Bulletin is
available in printed form in
German (ISSN 1423-3789),
French (ISSN 1423-3797) and
Italian (ISSN 2504-3544), either as
single copies or on subscription, from:
Swiss National Bank, Library
P.O. Box, CH-8022 Zurich
Telephone +41 58 631 11 50
Email: library@snb.ch

The Quarterly Bulletin can also be downloaded from the SNB website in the following language versions:
English: www.snb.ch, News & Publications/
Economic publications/
Quarterly Bulletin (ISSN 1662-257X)
German: www.snb.ch, News & Publikationen/
Ökonomische Publikationen/
Quartalsheft (ISSN 1662-2588)
French: www.snb.ch, News et publications/
Publications économiques/
Bulletin trimestriel (ISSN 1662-2596)
Italian: www.snb.ch, Notizie et pubblicazioni/
Pubblicazioni economiche/
Bollettino trimestrale (ISSN 2504-480X)

Website
www.snb.ch

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