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News conference

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Introductory remarks by Philipp Hildebrand

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy. The target range for the three-month Libor remains at 0.0–0.75%, and the SNB intends to keep the Libor within the lower part of the target range at around 0.25%.

The global economic recovery is continuing, even if the outlook has dampened somewhat in the past few weeks. The level of capacity utilisation in the Swiss economy is rising. Despite the strong appreciation of the Swiss franc, the economy continues to benefit from robust international demand. However, margins in the export industry are coming under increasing pressure. For 2011, the SNB is maintaining its forecast of real growth in Swiss GDP of around 2%.

Overall, however, downside risks predominate. These include, in particular, the debt problems in the euro area periphery. In addition, high deficits require several countries in various parts of the world to undertake fiscal consolidation measures, economic fragility notwithstanding. The recent commodity price increase weighs on global economic growth and poses upside risks to inflation. In Switzerland, the main risks remain, on the one hand, the effects of the strong Swiss franc on the export industry and, on the other, the danger of overheating in the real estate sector.

Until the beginning of 2012, the path of the SNB's conditional inflation forecast lies above that of the previous quarter's forecast. This is attributable to the assumption of higher oil prices compared to the previous quarter and somewhat higher import prices. Assuming an unchanged three-month Libor of 0.25% over the forecast horizon, the SNB expects average inflation rates of 0.9% for 2011, 1.0% for 2012 and 1.7% for 2013. Over the course of 2012, the path of the new forecast is lower than that of March because of the latest appreciation of the Swiss franc and the slightly slower development of international growth. Towards the end of the forecast period, inflation rises briskly and exceeds the upper bound of 2%. This shows that the current expansionary monetary policy cannot be maintained over the entire forecast horizon without compromising price stability in the long term. Due to the risks mentioned previously, the conditional inflation forecast is, however, associated with a high level of uncertainty.

Global economic outlook

Economic growth continued worldwide in the first quarter, although there were considerable regional differences. As in the previous quarters, the emerging economies recorded the highest growth rates. In the euro area, particularly Germany, the recovery was supported by strong export and investment activity. In the US, by contrast, high energy prices weighed on sentiment and held back growth. In addition, the persistent crisis on the real estate market is hampering the economic recovery. In Japan, there was a significant decline in GDP as a result of the earthquake.

Although the international economic outlook is somewhat less favourable than in March, the upswing in the global economy is likely to be maintained in the months ahead. In the US, in particular, the latest production and labour market indicators have been disappointing. Due to the high commodity prices and the production losses in Japan, the SNB has revised its 2011 growth forecast for the advanced economies downwards to some extent. Moreover, numerous countries are planning to undertake additional cost-cutting measures in the year ahead. The rise in commodity prices since autumn of last year is expected to result in significantly higher inflation worldwide in 2011.

Swiss economic outlook

According to the SECO estimate, the growth of real GDP in Switzerland slowed in the first quarter, mainly because of the muted advance in private consumption and equipment investment. By contrast, exports recorded a marked gain as a result of robust international demand, particularly from Germany and Asia, despite the strength of the Swiss franc. The strong momentum in construction also supported growth. Utilisation of technical capacity continued to pick up and was above the long-term average in manufacturing; in the construction sector it actually attained a record high level. The recovery on the labour market also continued. After a massive increase during the crisis, measures introducing short-term work have largely been retracted. In May, the seasonally-adjusted unemployment ratio decreased to 3.0% and companies are reporting more difficulties in recruiting qualified employees.

Due to the appreciation of the Swiss franc, export-geared companies are exposed to strong price competition. In manufacturing, in particular, margins are under very strong pressure in some cases. However, survey results still suggest that robust foreign demand allows for good utilisation of capacities and supports exports. The short-term outlook also remains good for domestic demand. Construction investment is benefiting from favourable financing conditions, while higher capacity utilisation should stimulate equipment investment. Demand for labour is likely to firm further. For 2011, the SNB is maintaining its forecast of real GDP growth amounting to around 2%.

Monetary and financial conditions

Monetary conditions were again characterised by the divergence between low interest rates and the Swiss franc, which appreciated significantly in the second quarter. Since the last monetary policy assessment, the three-month Libor has persisted in the lower part of the target range. With inflation expectations rising slightly, real interest rates have remained low and even, in the short-term range, negative. In general, although long-term interest rates have risen since their low point in August 2010, they are still at a low level.

By contrast, the real export-weighted Swiss franc appreciated further in the second quarter and has reached an all-time high. By the beginning of May, the US dollar – mainly – had weakened significantly against the Swiss franc. Thereafter, renewed concerns about stability in the euro area also led to a depreciation of the euro. My colleague, Jean-Pierre Danthine, will speak about the situation on the international financial markets in more detail later on. The SNB is concerned about exchange rate developments. The SNB forecasts are based on the premise that the exchange rate developments will stabilise in the medium term. Should the exchange rate again be subject to significant changes, a reassessment of the inflation outlook would be required.

Since the last monetary policy assessment, the M2 and M3 aggregates have been growing at about 7% year-on-year. Some of this high growth rate is attributable to the current low interest rates. Overall, ample liquidity is available in the economy and this means potential risks for price stability in the long term.

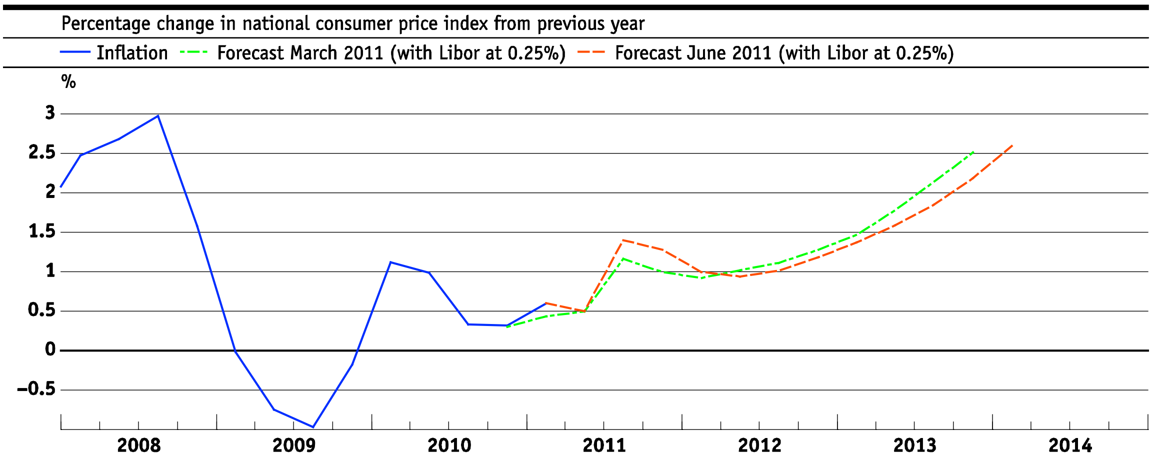
Mortgage lending has also continued to increase substantially, growing at a rate of 4.7% in April. In an environment of low interest rates and substantial advances in real estate prices, a high rate of growth in mortgages can harbour risks for financial stability. In the speech that follows, my colleague Thomas Jordan will outline for you the SNB's *Financial Stability Report*. In view of the potential risks for the financial sector, the SNB continues to closely observe the situation on the mortgage and real estate markets.

Chart of conditional inflation forecast

The (dashed) red curve on the chart represents the new conditional inflation forecast. It shows the future path of inflation, assuming that the three-month Libor remains constant at 0.25% over the next twelve quarters, and it covers the period from the first quarter of 2011 to the first quarter of 2014. For purposes of comparison, the (dash-dotted) green curve shows the conditional inflation forecast published in March, which was also based on the assumption of a three-month Libor of 0.25%.

Until the beginning of 2012, the path of the SNB's new conditional inflation forecast lies above that of the previous quarter's forecast. This is attributable to the assumption of higher oil prices compared to the previous quarter and somewhat higher import prices. The significant increase in the third quarter of 2011 is due to a base effect, because inflation in the corresponding quarter of 2010 was comparatively low. In addition, a one-off statistical effect can be expected in the third quarter of 2011. This is attributable to more frequent data collection in the case of prices for clothing and shoes; it also accounted for an increase in inflation in the first quarter. During the course of 2012, the path of the new forecast falls below that of March, due to the slowdown in inflation attributable to the latest appreciation in the Swiss franc. Towards the end of the forecast period, inflation rises briskly and exceeds the upper bound of 2%. This shows that the current expansionary monetary policy cannot be maintained over the entire forecast horizon without compromising price stability in the long term. Due to the risks mentioned previously, the conditional inflation forecast is, however, associated with a high level of uncertainty.

Conditional inflation forecast of March 2011 and of June 2011



Observed inflation June 2011

	2008				2009				2010				2011				2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	2.5	2.7	3.0	1.6	0.0	-0.7	-1.0	-0.2	1.1	1.0	0.3	0.3	0.6				2.4	-0.5	0.7

Conditional inflation forecast of March 2011 with Libor at 0.25% and of June 2011 with Libor at 0.25%

	2011				2012				2013				2014				2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2011, Libor at 0.25%	0.4	0.5	1.2	1.0	0.9	1.0	1.1	1.3	1.5	1.8	2.1	2.5					0.8	1.1	2.0
Forecast June 2011, Libor at 0.25%		0.5	1.4	1.3	1.0	0.9	1.0	1.2	1.4	1.6	1.8	2.2	2.6				0.9	1.0	1.7