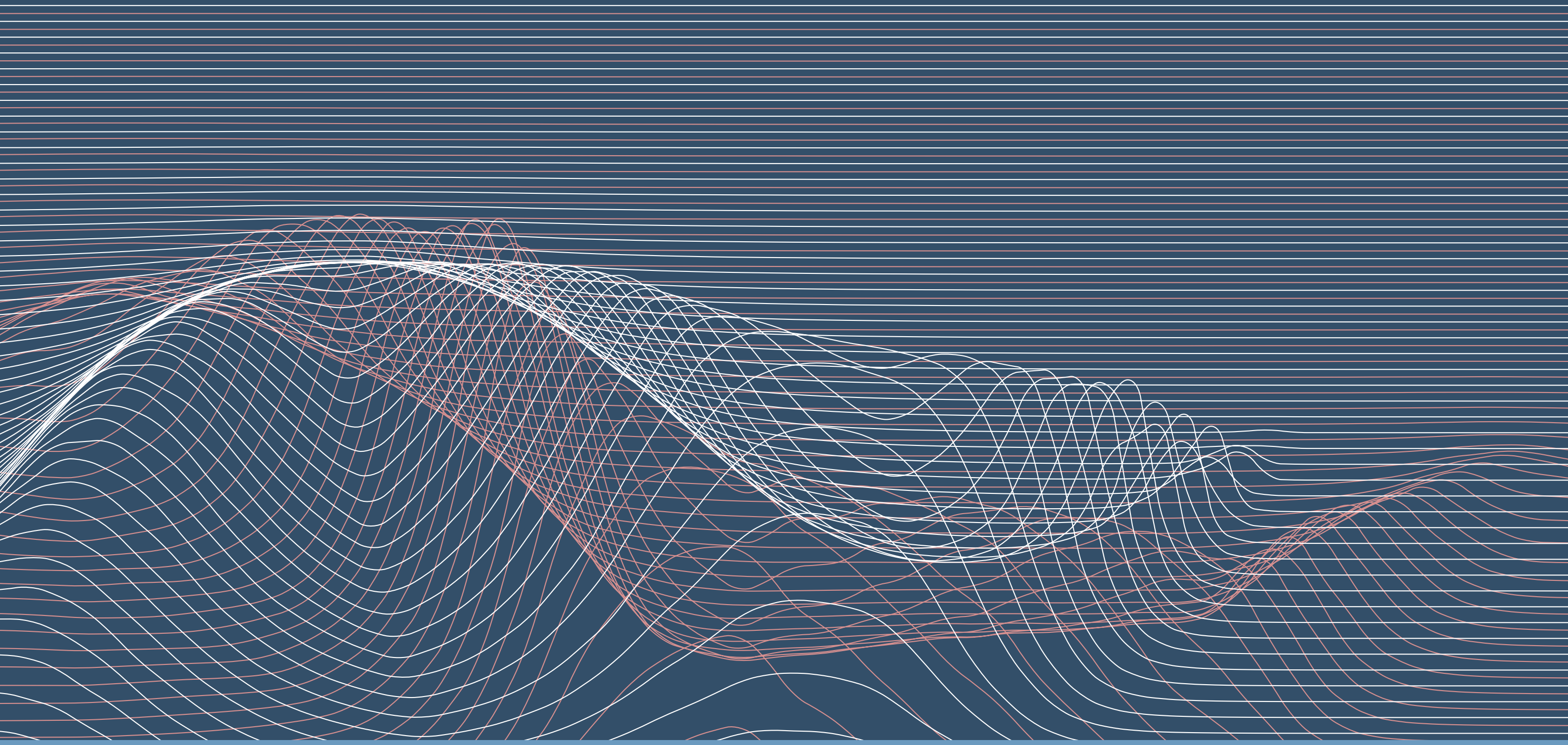


Quarterly Bulletin
2/2023 June

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

Quarterly Bulletin
2/2023 June

Volume 41

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2023

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 22 June 2023') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 22 June 2023. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 22 June 2023, the SNB decided to further tighten its monetary policy. It raised the SNB policy rate by 0.25 percentage points to 1.75% to counter the renewed increase in inflationary pressure. The conditional inflation forecast was above that of March over the medium term, and would have been even higher without the rise in the SNB policy rate.

- Global growth momentum and the outlook for the coming quarters remain subdued. Inflation has declined somewhat due to lower energy prices, but is still clearly above central banks' targets in many countries. Accordingly, numerous central banks have further tightened their monetary policy. Inflation is likely to remain elevated for the time being, however.

- The Swiss economy was robust in the first quarter, as had been expected, but growth is likely to be modest going forward. For this year, the SNB anticipates GDP growth of around 1%. The level of uncertainty associated with the forecast is still high.

- Annual CPI inflation fell from 3.4% in February to 2.2% in May, but nonetheless remained above the range consistent with price stability. The short-term inflation expectations derived from surveys remained elevated. Longer-term expectations were still within the range of price stability.

- The Swiss franc appreciated moderately in trade-weighted terms. Equity prices rose, but long-term bond yields declined slightly. Growth in residential real estate prices weakened. Monetary aggregates contracted, but lending growth remained robust.

1
Monetary policy decision of 22 June 2023

Swiss National Bank tightens monetary policy further and raises SNB policy rate to 1.75%
The SNB is tightening its monetary policy further and is raising 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. It cannot be ruled out that additional rises in the SNB policy rate will be necessary to ensure price stability over the medium term. To provide appropriate monetary conditions, the SNB also remains willing to be active in the foreign exchange market as necessary. In the current environment, the focus is on selling foreign currency.

The SNB policy rate change applies from 23 June 2023. Banks' sight deposits held at the SNB will 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.

Inflation has declined significantly in recent months, and stood at 2.2% in May. This decrease was above all attributable to lower inflation on imported goods, in particular lower prices for oil products and natural gas.

The new conditional inflation forecast is based on the assumption that the SNB policy rate is 1.75% over the entire forecast horizon (cf. chart 1.1). Through to the end of 2023, the new forecast is below that of March. The lower oil and gas prices and the stronger Swiss franc are having a dampening effect over the short term. From 2024 onwards, the new forecast is higher than in March, despite today's increase in the SNB policy rate. The reasons for this are ongoing second-round effects, higher electricity prices and rents, and more persistent inflationary pressure from abroad. The new forecast puts average annual inflation at 2.2% for 2023 and 2024, and 2.1% for 2025 (cf. table 1.1). Without today's policy rate increase, the inflation forecast would be even higher over the medium term.

Economic growth was modest in the advanced economies in the first quarter of 2023. Although inflation declined again in many countries, it remains clearly above central banks' targets. Core inflation in particular is still stubbornly elevated. Against this background, numerous central banks have tightened their monetary policy further, albeit at a somewhat slower pace than in the previous quarters.

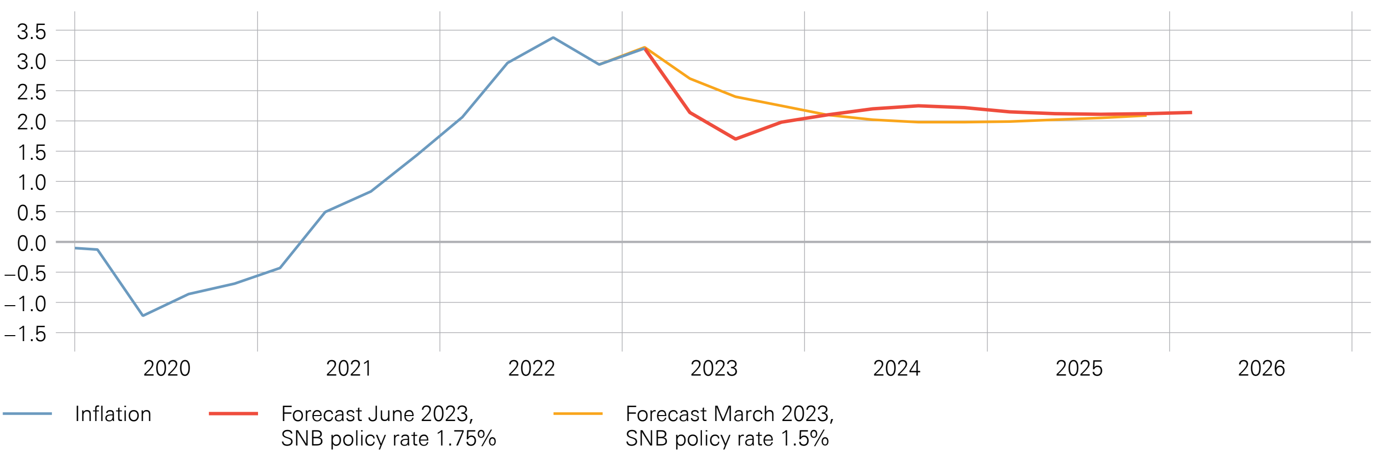
The growth outlook for the global economy in the coming quarters remains subdued. At the same time, inflation is likely to remain elevated worldwide for the time being. Over the medium term, however, it should return to more moderate levels, not least thanks to the more restrictive monetary policy and due to the economic slowdown.

This scenario for the global economy remains subject to large risks. In particular, the high level of inflation in some countries could be more persistent than expected. Equally, the energy situation in Europe could deteriorate again in Q4 2023 and Q1 2024.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF JUNE 2023

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



Source(s): SFSO, SNB

Swiss GDP growth was solid in the first quarter of 2023. The services sector gained momentum, and there was also a slight increase in value added in manufacturing. The labour market remained robust, and overall production capacity has been well utilised.

However, the SNB expects modest growth for the remainder of the year. Subdued demand from abroad, the loss of purchasing power due to inflation, and more restrictive financial conditions are having a dampening effect. Overall, GDP is likely to grow by around 1% this year. In this environment, unemployment will probably 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 high uncertainty. The main risk is a more pronounced economic slowdown abroad.

As regards the real estate market, price growth for single-family houses and privately owned apartments has slowed in recent quarters, while prices for apartment buildings have declined. Mortgage growth has remained largely unchanged. The vulnerabilities on the mortgage and real estate markets persist.

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 JUNE 2023

	2020				2021				2022				2023				2020	2021	2022
	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				−0.7	0.6	2.8

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2023

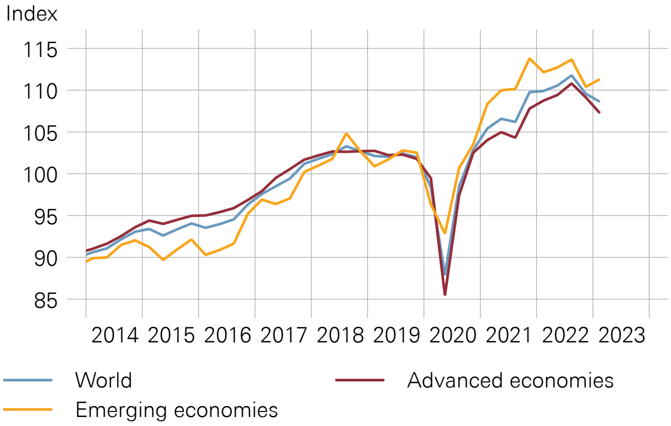
	2023				2024				2025				2026				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2023, SNB policy rate 1.5%	3.2	2.7	2.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1					2.6	2.0	2.0
Forecast June 2023, SNB policy rate 1.75%		2.1	1.7	2.0	2.1	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1				2.2	2.2	2.1

Source(s): SNB

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



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

2 Global economic environment

Economic growth was modest in the advanced economies in the first quarter of 2023, curbed by tighter monetary policy, the loss of purchasing power due to inflation, and the energy situation in Europe. By contrast, China's economy gained momentum after coronavirus containment measures were fully lifted in December. Global economic activity was modest overall, however, as reflected in the renewed decrease in global trade in the first quarter (cf. chart 2.1). Although inflation declined again in many countries, it remains clearly above central banks' targets. Core inflation in particular is still stubbornly elevated. Against this background, numerous central banks have tightened their monetary policy further, albeit at a somewhat slower pace than in the previous quarters.

The growth outlook for the global economy remains subdued. This is in particular attributable to the loss of purchasing power due to inflation in recent quarters and to tighter monetary policy. Inflation is likely to remain elevated worldwide for the time being, but should return to more moderate levels over the medium term, not least thanks to the more restrictive monetary policy and due to the economic slowdown.

This scenario for the global economy is subject to large risks. In particular, the high level of inflation in some countries could be more persistent than expected. Equally, the energy situation in Europe could deteriorate again in Q4 2023 and Q1 2024.

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

					Scenario	
	2019	2020	2021	2022	2023	2024
GDP, year-on-year change in percent						
Global [1]	2.8	−2.8	6.3	3.4	3.4	2.9
US	2.3	−2.8	5.9	2.1	1.3	0.5
Euro area	1.6	−6.2	5.3	3.5	0.7	0.7
Japan	−0.4	−4.3	2.2	1.0	1.0	0.9
China	6.0	2.2	8.4	3.0	6.0	5.0
Oil price in USD per barrel	64.3	41.8	70.7	100.9	78.6	77.0

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

Source(s): Refinitiv 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 77 per barrel, compared with USD 85 in the last baseline scenario, and an exchange rate of USD 1.10 to the euro compared with USD 1.08 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 March, inflation developments and tensions in the US banking sector have continued to dominate events in international financial markets. Uncertainty about the raising of the debt limit in the US also temporarily sparked volatility in markets. Meanwhile, positive economic signals, especially from the US, contributed to somewhat improving financial market sentiment in the second quarter and to increasing risk appetite.

Yields on ten-year government bonds in advanced economies trended slightly higher, supported mainly by market expectations that monetary policy will remain tight in most countries for longer than previously assumed. The rise was particularly pronounced in yields on UK government bonds, which reacted to unexpectedly high inflation and strong wage growth (cf. charts 2.2 and 2.3).

International stock markets recovered slightly on the back of generally favourable economic signals from the US and easing tensions in the US banking sector. Uncertainty about further price movements thus declined again, 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).

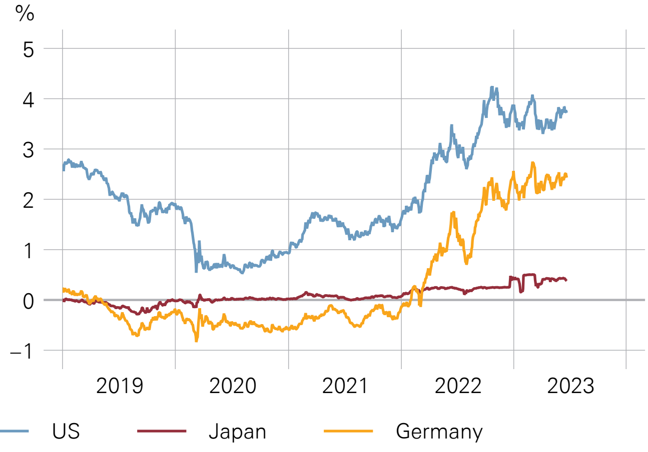
The outlook for monetary policy in the advanced economies as well as developments in the US banking sector continued to influence movements in the foreign exchange market. The US dollar initially weakened in trade-weighted terms, but recovered again latterly. The reverse was the case for the euro. With the prospect of a sustained expansionary monetary policy in Japan, the yen lost in value, while the pound sterling was supported by the possibility of tighter monetary policy in the UK (cf. chart 2.5).

Commodity prices decreased further overall. The price of Brent crude hovered around USD 80 per barrel, and latterly stood at around USD 77 (cf. chart 2.6).

Chart 2.2

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

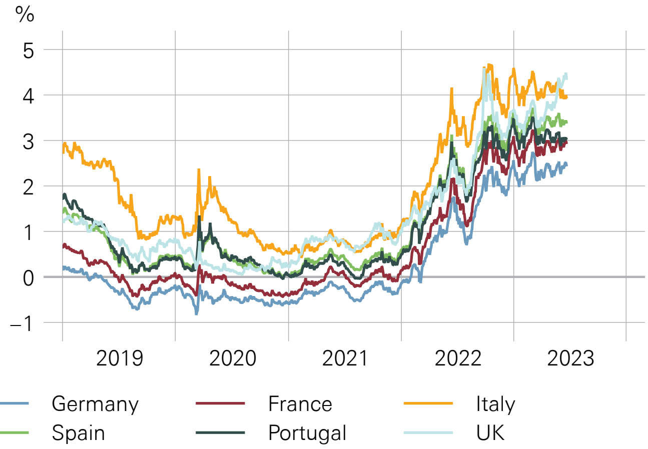


Source(s): Refinitiv Datastream

Chart 2.3

EUROPEAN LONG-TERM INTEREST RATES

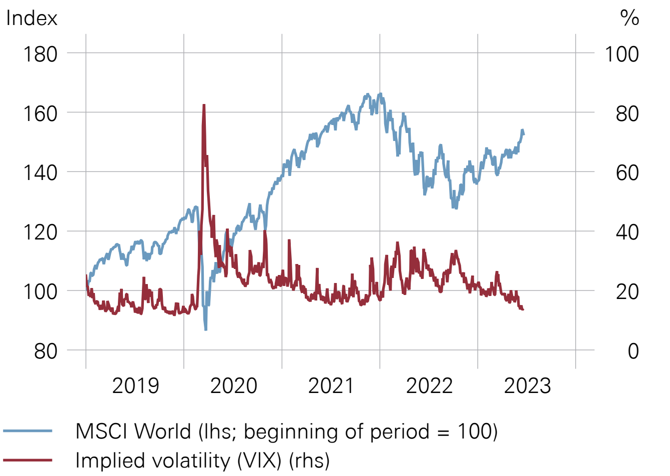
10-year government instruments



Source(s): Refinitiv Datastream

Chart 2.4

STOCK MARKETS

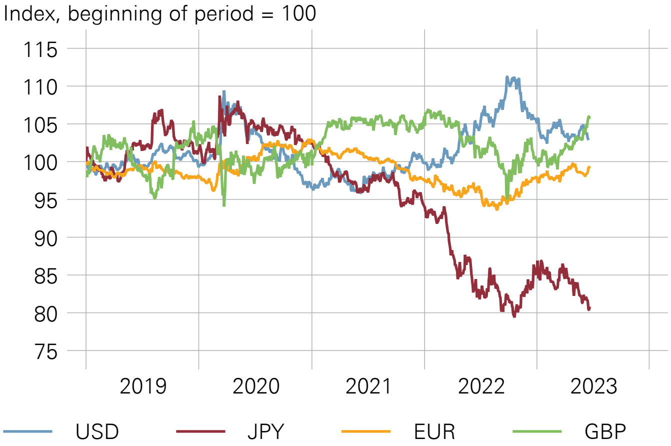


Source(s): Refinitiv Datastream

Chart 2.5

EXCHANGE RATES

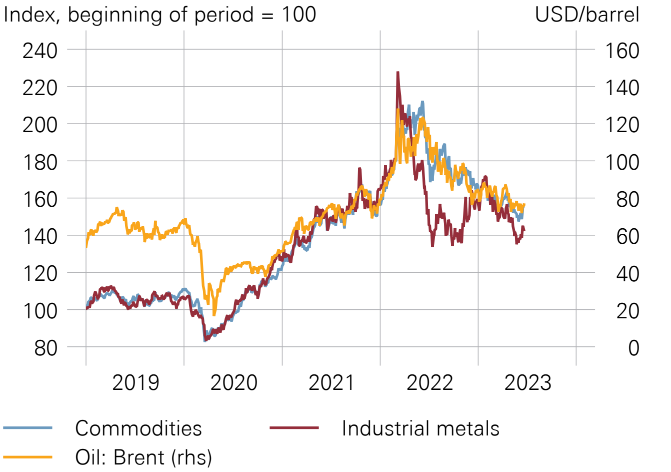
Trade-weighted



Source(s): Refinitiv Datastream

Chart 2.6

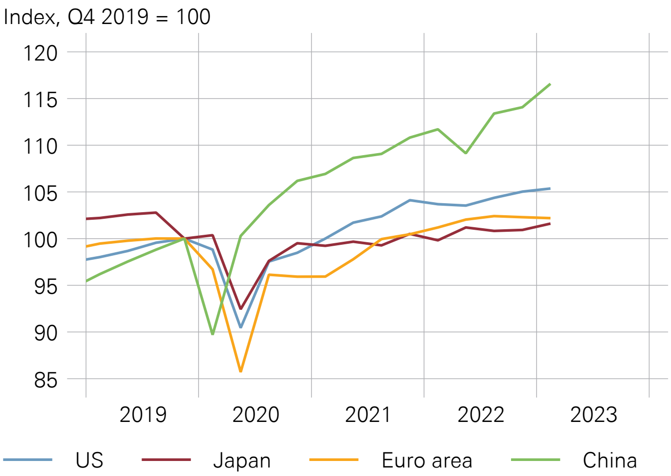
COMMODITY PRICES



Source(s): Refinitiv Datastream

Chart 2.7

REAL GDP



Source(s): Refinitiv Datastream

UNITED STATES

In the US, GDP growth amounted to 1.3% in the first quarter of 2023 and was thus slower than in the previous quarter (cf. chart 2.7). Private consumption expanded vigorously, and exports increased again. Inventory investment, on the other hand, declined, and this weighed on growth.

The labour market remained very well utilised. Employment figures rose once again at an above-average rate, and unemployment stayed at a low level in May, at 3.7% (cf. chart 2.9).

Key economic indicators (such as private consumption and employment) point to a sound development in economic activity at the beginning of the second quarter. Nevertheless, growth momentum is likely to slow markedly over the course of the year, primarily due to tighter monetary policy and less expansionary fiscal policy. Added to this is the negative impact that banking sector tensions will have on lending. In view of the recent sound economic developments, the SNB is nevertheless leaving its 2023 growth forecast compared to March virtually unchanged at 1.3%. For 2024, it has revised its forecast downwards slightly against March, to 0.5% (cf. table 2.1).

Consumer price inflation weakened further in recent months and stood at 4.0% in May (cf. chart 2.10). Energy inflation fell considerably. Food inflation and core inflation also decreased, although the latter remained very high, at 5.3% (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 – amounted to 4.4% in April, thus remaining significantly above the Fed's target.

Against the background of high inflation and favourable labour market conditions, the Fed increased its target range for the federal funds rate by 25 basis points in May, to stand at 5.0–5.25% (cf. chart 2.12). In June, the Fed decided against a further interest rate adjustment, although it signalled that the rate could be raised further in the second half of the year.

EURO AREA

In the euro area, GDP receded again slightly in the first quarter (cf. chart 2.7). The persistently high level of inflation and the more restrictive monetary policy weighed on domestic demand. Exports also posted weak growth. Despite falling gas prices, energy-intensive industries experienced only a slight recovery, while manufacturing contracted overall.

Nevertheless, labour market developments continued to be positive. Employment figures climbed again, while unemployment, at 6.5% in April, remained at its all-time low (cf. chart 2.9).

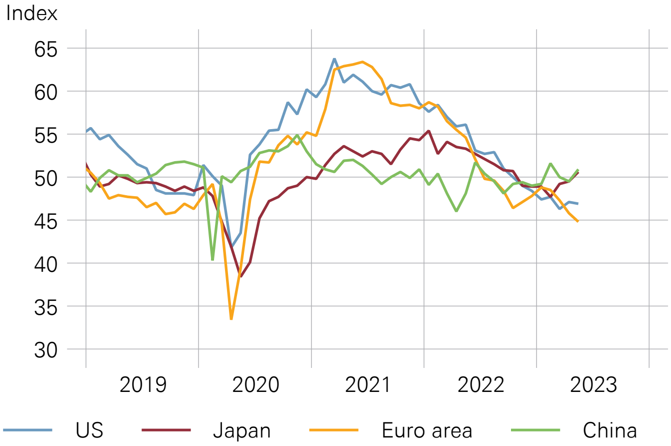
In line with expectations, economic activity was sluggish in recent months, and the growth outlook is still muted for the quarters ahead. In particular, demand is being dampened by households' loss of purchasing power due to inflation, tighter financing conditions for companies, and less expansionary fiscal policy. The SNB expects GDP growth to remain virtually unchanged at 0.7% for both 2023 and 2024 (cf. table 2.1).

Consumer price inflation fell markedly in recent months, but, at 6.1% in May, it was still well above the ECB target (cf. chart 2.10). The decline in inflation was mainly attributable to lower energy prices. Core inflation decreased only slightly, to 5.3%, and was broad-based (cf. chart 2.11). It reflects in part the pass-through of high energy costs last year to prices of goods and services.

The ECB raised its key interest rates by 25 basis points in May, and again in June. The relevant interest rate in the money market – the deposit facility rate – thus latterly stood at 3.5% (cf. chart 2.12). Furthermore, from July on, the ECB will no longer renew securities maturing under its asset purchase programme (APP). The APP portfolio, which currently amounts to around EUR 3,400 billion, will subsequently shrink by EUR 25 billion per month (compared to EUR 15 billion previously).

Chart 2.8

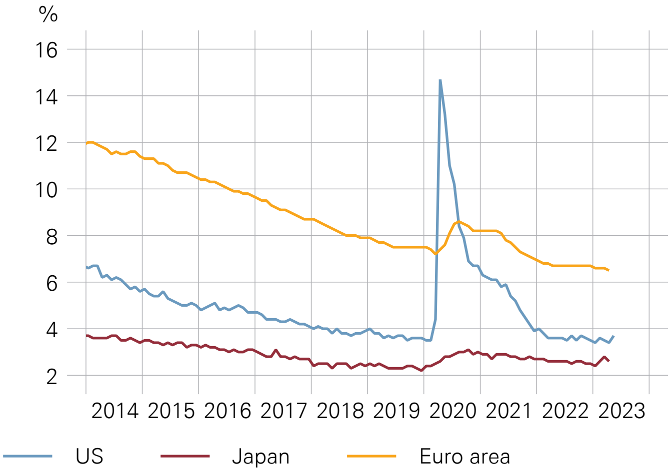
PURCHASING MANAGERS' INDICES (MANUFACTURING)



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

Chart 2.9

UNEMPLOYMENT RATES

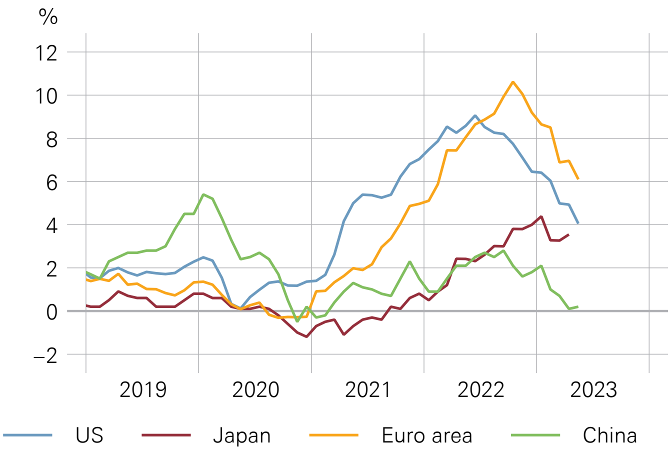


Source(s): Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

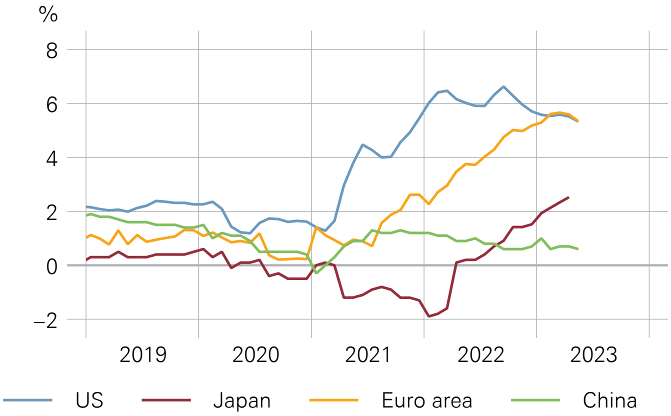


Source(s): Refinitiv Datastream

Chart 2.11

CORE INFLATION RATES [1]

Year-on-year change

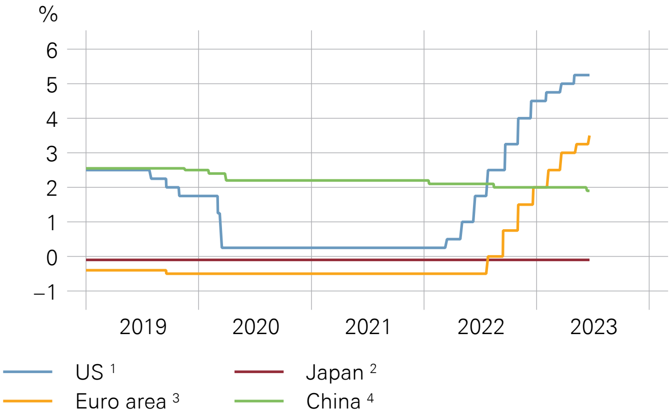


1 Excluding food and energy.

Source(s): Refinitiv Datastream

Chart 2.12

OFFICIAL INTEREST RATES



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

Source(s): Refinitiv Datastream

JAPAN

With GDP growth of 2.7%, Japan's economic recovery continued in the first quarter (cf. chart 2.7). Domestic demand gained momentum following the lifting of pandemic-related restrictions, and exports of services benefited from the return of inbound tourism. However, goods exports declined for the first time in over a year, and industrial output contracted.

Although the unemployment rate in April, at 2.6%, was slightly higher than in January, it remained low by historical standards (cf. chart 2.9). In addition, companies indicated that there was an increasing shortage of job-seekers.

Catch-up effects in various areas of the economy are likely to influence future growth. The pay increases planned for this year as per wage negotiations as well as the government's energy subsidy aimed at reducing the burden on households, effective until autumn, will support the recovery in consumption. Furthermore, survey results suggest that business in manufacturing improved somewhat recently. The SNB continues to expect GDP growth of around 1.0% for 2023 and 2024, thus slightly above potential (cf. table 2.1).

On the back of the energy subsidy that came into effect at the beginning of this year, inflation eased somewhat overall and stood at 3.5% in April (cf. chart 2.10). Food inflation continued to climb, however. Core inflation also advanced, latterly to 2.5% (cf. chart 2.11). This reflected not only the pass-through of high import costs last year to goods prices, but also the recent price increases for certain services, such as tourism.

The Bank of Japan expects inflation to return to below the target level of 2% in the medium term. Against this backdrop, it decided to maintain its expansionary monetary policy in recent months and leave its targets under the yield curve control programme unchanged.

CHINA

GDP in China grew by 9.1% in the first quarter (cf. chart 2.7). Following the lifting of coronavirus containment measures at the end of last year, activity in the services sector regained momentum, particularly in hospitality and transport. In manufacturing, by contrast, developments remained subdued.

Expansion is likely to slow in the further course of the year. Although there is still some catching up to be done in consumption, the growth outlook is being dampened by sluggish income growth. In addition, weaker foreign demand and the crisis in the real estate market are expected to weigh on economic activity. The SNB is leaving its GDP forecast virtually unchanged at 6.0% for 2023 and at 5.0% for 2024 (cf. table 2.1). The forecast for this year thus remains above the government's growth target of around 5%.

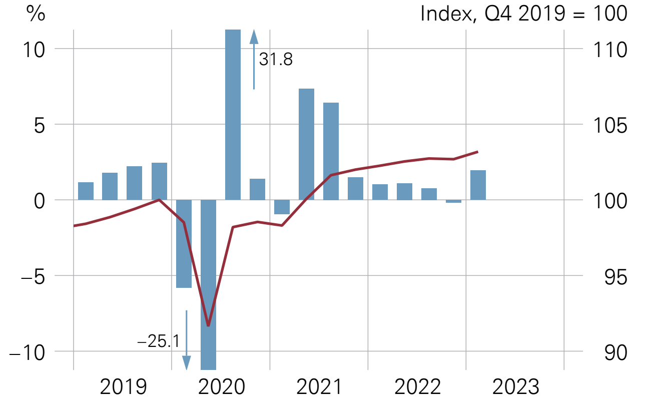
Consumer price inflation decreased further, to 0.2% in May (cf. chart 2.10), while core inflation remained stable at 0.6% (cf. chart 2.11).

The People's Bank of China lowered official interest rates slightly in June in order to support economic activity (cf. chart 2.12). The government proposed additional stimulus measures.

Chart 3.1

REAL GDP

Adjusted for sporting events

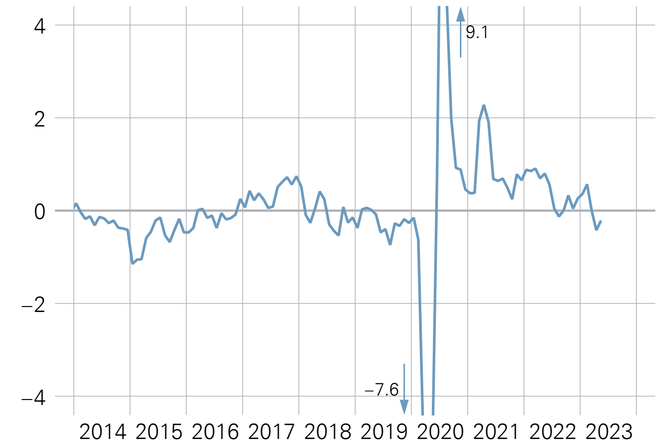


Source(s): SECO

Chart 3.2

SNB BUSINESS CYCLE INDEX

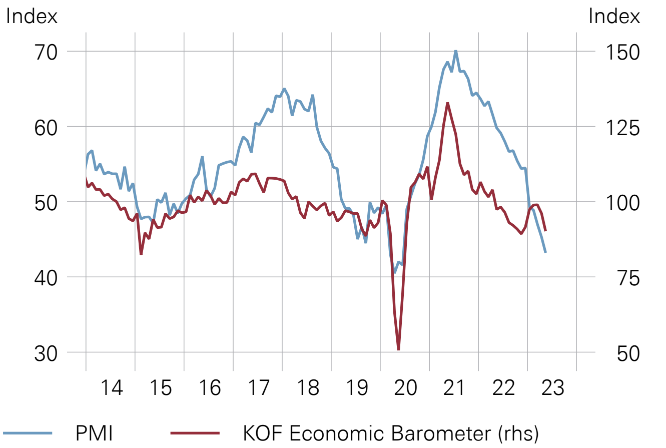
Standardised



Source(s): SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Source(s): Credit Suisse, KOF Swiss Economic Institute

3 Economic developments in Switzerland

Swiss GDP growth was solid in the first quarter of 2023. The services sector gained momentum, and there was also a slight increase in value added in manufacturing. The labour market remained robust, and overall production capacity has been well utilised.

Growth is expected to be modest for the remainder of the year. Subdued demand from abroad, the loss of purchasing power due to inflation, and more restrictive financial conditions are having a dampening effect. Overall, GDP is likely to grow by around 1% this year. In this environment, unemployment will probably 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 high uncertainty. The main risk is a more pronounced economic slowdown abroad.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. The information indicates that, following a temporary revival in the first quarter, economic activity lost momentum again in the second quarter.

Sound GDP growth in first quarter of 2023

According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP exhibited broad-based growth of 1.9% in the first quarter. In line with expectations, the economy thus developed robustly (cf. chart 3.1).

Following weak expansion in the previous period, services regained momentum and thereby made a significant contribution to GDP growth in the first quarter. Value added in manufacturing also increased, having declined slightly in the preceding quarters. In construction, too, value added advanced, for the first time in over a year.

Growth was also broad-based on the demand side, with equipment investment and foreign trade in goods both registering a strong increase. Likewise, private consumption rose at an above-average rate (cf. table 3.1).

Momentum slows in second quarter

Economic indicators suggest that momentum slowed significantly again in the second quarter.

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. Both indicators point to below-average economic growth for the second quarter (cf. charts 3.2 and 3.3).

Signals from the purchasing managers' index (PMI) surveys are mixed. In manufacturing, the PMI declined further and was considerably below the growth threshold in May (cf. chart 3.3), while in services, the survey results continue to indicate expansion.

The talks held by the SNB's delegates for regional economic relations with companies also signal a slowdown in growth in the second quarter. Additionally, recruitment of personnel remains a major challenge for many companies (cf. 'Business cycle signals', pp. 30 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

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

	2019	2020	2021	2022	2021			2022				2023
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	1.2	−4.2	1.7	4.0	16.5	9.6	1.0	1.2	5.3	2.4	0.9	2.6
Government consumption	0.8	3.5	3.5	0.1	2.2	3.0	1.3	−1.4	−1.5	0.2	−0.2	0.1
Investment in fixed assets	0.9	−3.1	4.2	−0.3	6.3	0.1	12.1	−11.6	0.4	2.1	−0.3	6.9
Construction	−0.9	−1.0	−3.0	−4.4	−3.3	−1.7	−4.7	−6.5	−2.8	−6.1	−2.2	−0.3
Equipment	1.8	−4.2	8.1	1.8	11.6	1.0	21.2	−13.8	2.0	6.2	0.5	10.8
Domestic final demand	1.1	−2.9	2.7	2.2	11.3	5.8	4.2	−3.2	2.9	2.0	0.4	3.5
Change in inventories [1]	0.7	−0.1	−1.9	−0.3	−4.9	−9.5	0.7	−5.3	18.9	−14.4	−3.7	−0.5
Total exports [2,3]	2.0	−4.5	9.9	5.6	10.2	26.9	−0.1	16.5	−25.6	32.6	2.5	10.6
Goods [2]	3.5	−1.2	10.7	4.3	10.8	23.7	−7.1	31.7	−41.1	48.3	5.2	16.8
Goods excluding merchanting [2]	4.9	−3.7	12.7	5.0	10.7	13.7	12.7	3.5	−3.8	6.2	−7.0	23.7
Services [3]	−0.8	−11.0	8.0	8.9	8.8	34.5	17.0	−12.5	28.1	3.5	−3.5	−3.7
Total imports [2,3]	2.9	−5.9	4.3	6.2	8.1	10.2	6.5	2.2	7.9	11.7	−3.1	15.0
Goods [2]	2.8	−6.3	4.3	8.2	0.0	14.1	3.0	22.0	−0.3	9.6	−5.3	23.6
Services [3]	3.0	−5.3	4.3	3.3	20.7	5.0	11.8	−21.7	22.2	15.0	0.4	2.8
Net exports [3,4]	−0.2	0.2	3.4	0.4	2.0	10.8	−3.2	8.9	−20.4	13.4	3.2	−0.8
GDP [3]	**1.5**	**−2.5**	**3.9**	**2.0**	**7.3**	**6.4**	**1.5**	**1.0**	**1.1**	**0.8**	**−0.2**	**1.9**

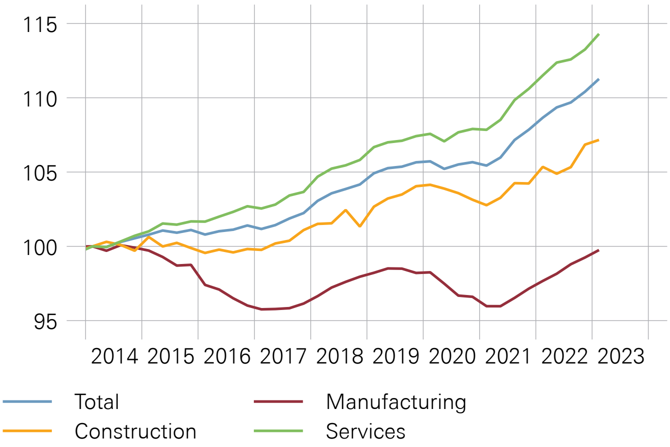
1 Contribution to growth in percentage points (including statistical discrepancy).
2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).
3 Adjusted for sporting events.
4 Contribution to growth in percentage points.

Source(s): SECO

Chart 3.4

FULL-TIME EQUIVALENT JOBS

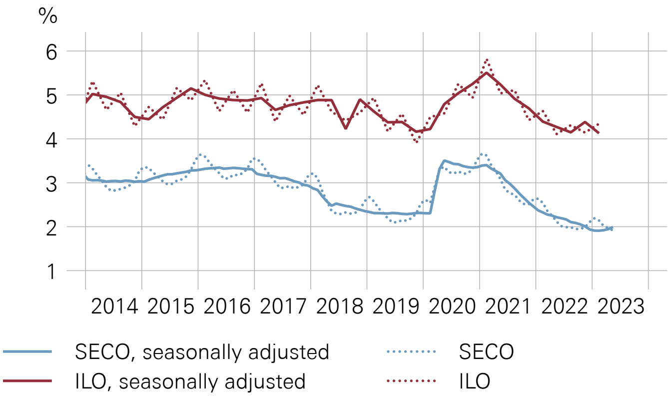
Index, beginning of period = 100



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.

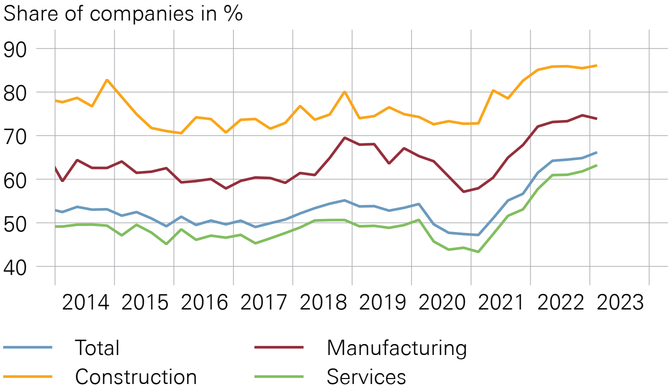
Source(s): SECO, SFSO

Chart 3.6

RECRUITMENT DIFFICULTIES

Qualified workers

Share of companies in %



Estimate based on the national job statistics (JOBSTAT). Only companies that are actively recruiting are taken into account.

Source(s): SFSO, SNB

LABOUR MARKET

The labour market remained in robust shape. Employment increased again, while unemployment stayed at a low level. Recruitment of personnel continued to be difficult for companies.

Employment growth in first quarter

According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions once again saw a strong rise in the first quarter. New jobs were created in services as well as in manufacturing and construction (cf. chart 3.4). The Employment Statistics (ES) confirmed the positive trend; the seasonally adjusted number of persons employed also increased.

Unemployment at low level

In recent months, the unemployment rate published by SECO increased slightly. Excluding seasonal fluctuations, 92,000 people were registered as unemployed at the end of May. The seasonally adjusted unemployment rate stood at 2.0% and was thus still the lowest it had been since 2002. The unemployment figures calculated by the Swiss Federal Statistical Office (SFSO) in line with the definition of the International Labour Organization (ILO) fell in seasonally adjusted terms to 4.1% in the first quarter, slightly below its pre-pandemic level (cf. chart 3.5).

Difficulty recruiting personnel

According to JOBSTAT, many companies found it even more difficult to recruit personnel in the first quarter. Numerous vacant positions could not be filled, or only with considerable effort. While the recruitment situation deteriorated further in both services and construction, it improved somewhat in manufacturing (cf. chart 3.6).

CAPACITY UTILISATION

Output gap slightly positive
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.

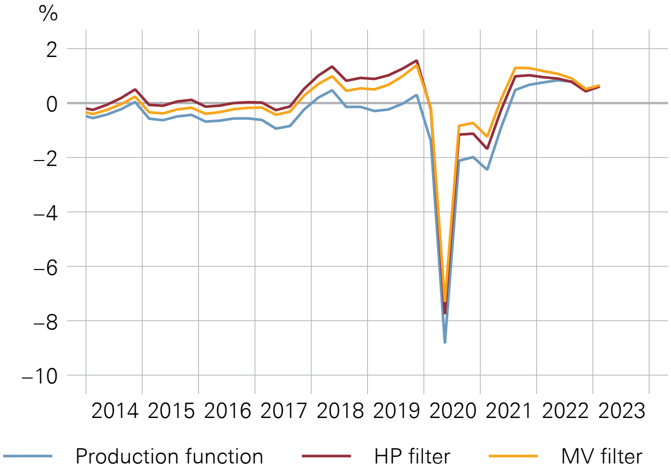
Potential output as estimated by means of a production function shows a slightly positive output gap for the first quarter. Other estimation methods confirm this assessment (cf. chart 3.7).

Well-utilised production capacity
In addition to estimating the aggregate output gap, surveys also play an important role in assessing utilisation levels. The surveys conducted by KOF show that technical capacity was well utilised overall in the first quarter. In manufacturing, utilisation was close to its long-term average (cf. chart 3.8). In services, an area hard hit by the pandemic, utilisation improved further and is now slightly above its end-2019 level. Utilisation was up particularly in transport services. In construction, production capacity remained well utilised (cf. chart 3.9).

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

Chart 3.7

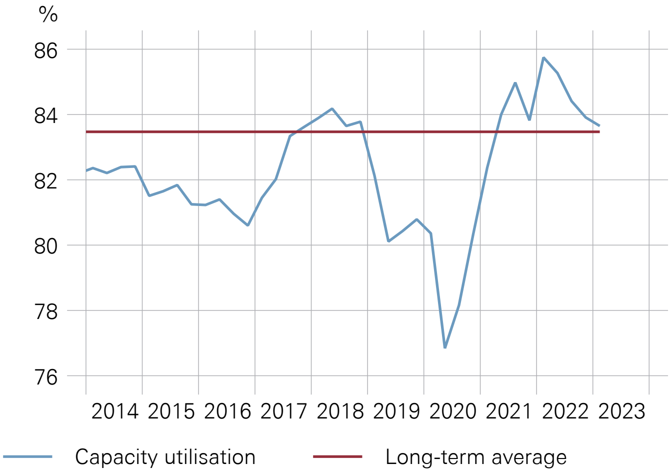
OUTPUT GAP



Source(s): SNB

Chart 3.8

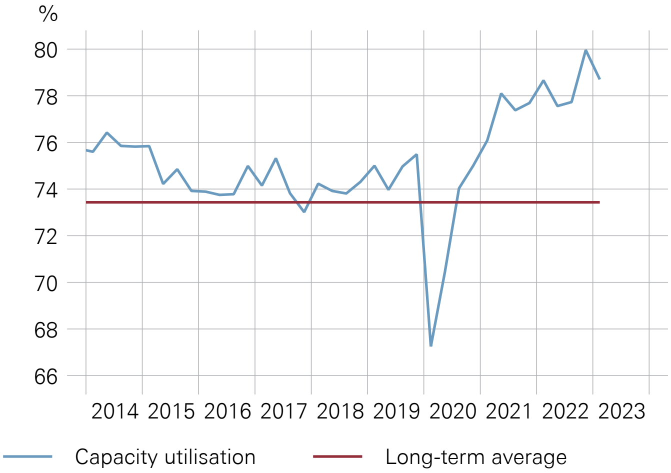
CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION

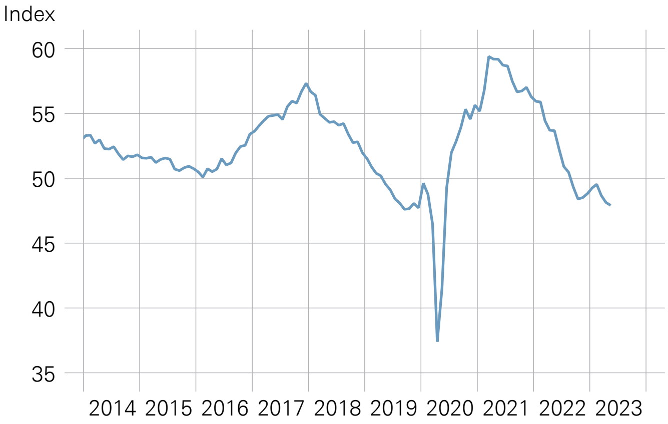


Source(s): KOF Swiss Economic Institute

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

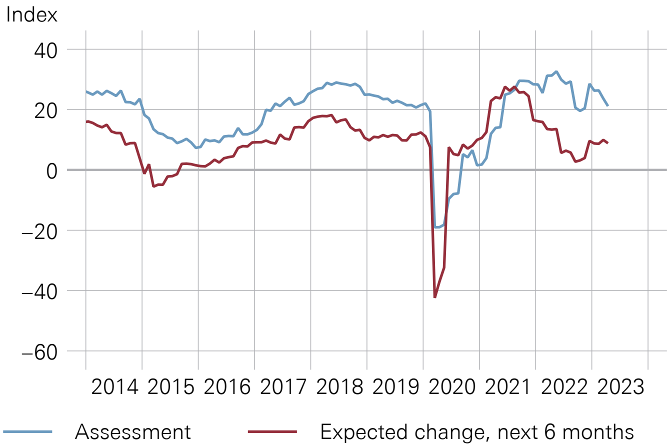


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

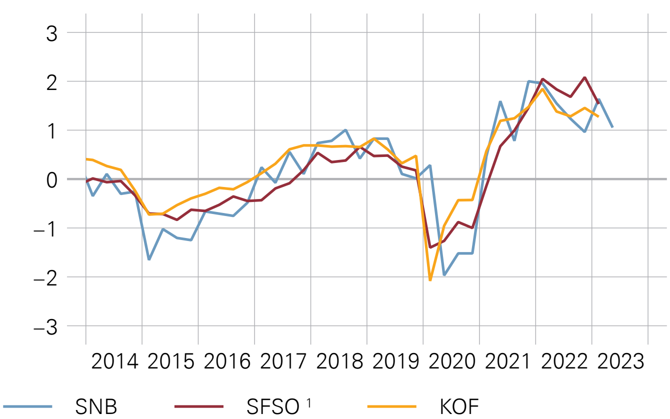


Source(s): KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB.

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

OUTLOOK

The economic outlook for Switzerland remains muted. As shown by the export-weighted manufacturing PMI, growth stimuli from abroad are weak at best (cf. chart 3.10). Accordingly, manufacturing in Switzerland is likely to remain lacklustre. The outlook in the services sector is more positive. Overall, Swiss companies are cautiously optimistic with regard to the future business situation (cf. chart 3.11). Conditions on the labour market are likely to remain difficult. The employment outlook continues to be favourable (cf. chart 3.12).

GDP is likely to expand by around 1% this year. Following the strong first quarter, growth looks set to slow in the further course of the year. Foreign demand is not expected to provide much momentum. In addition, the loss of purchasing power due to inflation will weigh on private consumption. Furthermore, the more restrictive financial conditions will likely slow growth. Against this backdrop, it is expected that unemployment will increase slightly and the utilisation of production capacity will decline somewhat.

The level of uncertainty associated with the forecast remains high. The main risk is a more pronounced economic slowdown abroad.

4
Prices and inflation expectations

The inflation rate as measured by the CPI fell from 3.4% in February to 2.2% in May, thus remaining above the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year. Both core inflation measures also decreased; in May, the SFSO1 stood at 1.9% and the TM15 at 1.6%.

Inflation expectations were almost unchanged. While short-term inflation expectations persisted at an elevated level, longer-term expectations were still within the range consistent with price stability.

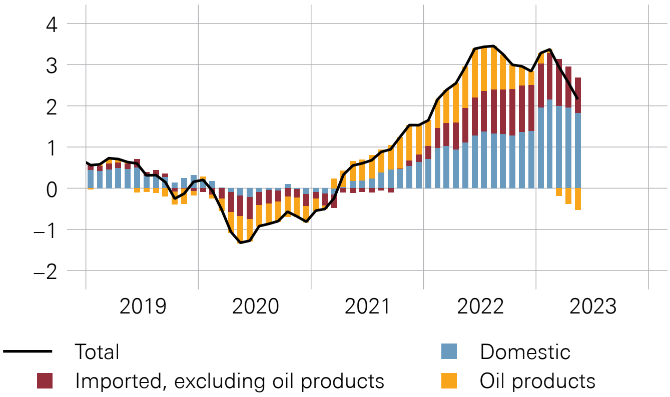
CONSUMER PRICES

Lower annual inflation rate
Annual CPI inflation stood at 2.2% in May, compared with 3.4% in February (cf. chart 4.1, table 4.1). The substantial decline in annual CPI inflation was primarily attributable to oil product prices, which saw another sharp drop in inflation, from 3.4% in February to –16.5% in May.

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.

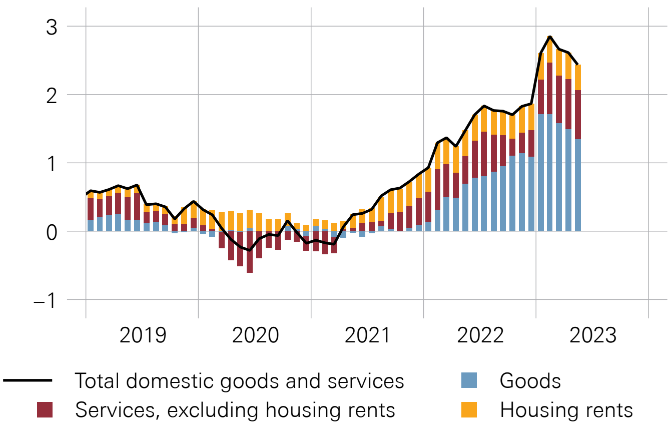


Source(s): SFSO, SNB

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

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

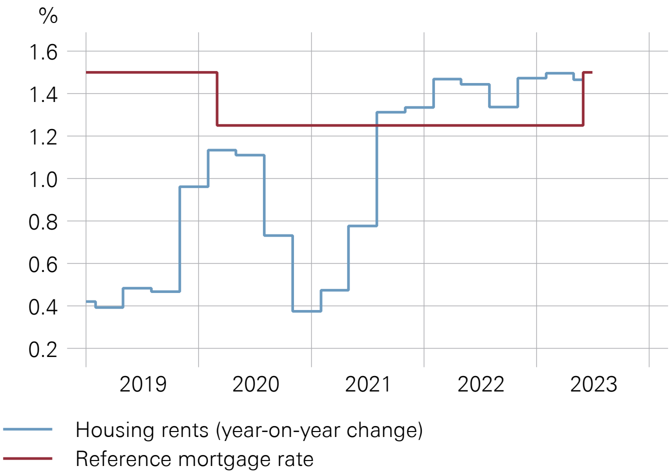
Year-on-year change in percent

	2022	2022 Q2	Q3	Q4	2023 Q1	2023 Feb	Mar	Apr	May
Overall CPI	**2.8**	**3.0**	**3.4**	**2.9**	**3.2**	**3.4**	**2.9**	**2.6**	**2.2**
Domestic goods and services	1.6	1.5	1.8	1.8	2.7	2.9	2.7	2.6	2.4
Goods	2.9	2.5	3.3	4.3	6.9	7.1	6.6	6.2	5.7
Services	1.1	1.1	1.2	0.9	1.4	1.5	1.4	1.5	1.4
Private services excluding housing rents	1.1	1.3	1.3	0.4	1.3	1.5	1.3	1.5	1.4
Housing rents	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Public services	0.5	0.0	0.7	1.2	1.3	1.3	1.3	1.4	1.4
Imported goods and services	6.7	7.5	8.3	6.3	4.6	4.9	3.8	2.4	1.4
Excluding oil products	3.9	3.6	4.7	5.0	5.0	5.1	5.1	4.5	3.9
Oil products	31.8	42.5	39.6	18.0	1.9	3.4	−6.3	−12.1	−16.5

Source(s): SFSO, SNB

Chart 4.3

HOUSING RENTS

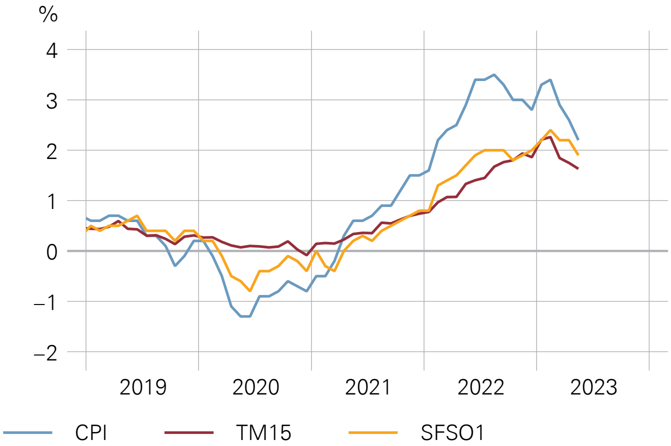


Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change



Source(s): SFSO, SNB

Inflation for imported products down further

Inflation decreased not only for oil products but also for other imported goods and services, falling from 5.1% in February to 3.9% in May.

Price rises for imported goods and services (including oil products) weakened overall (cf. table 4.1). Compared with the same month in the previous year, prices of imported goods and services rose by 1.4% in May (February: 4.9%).

Lower but still elevated inflation for domestic products

Following a strong increase at the beginning of the year, domestic inflation declined again between February and May, remaining elevated but going down from 2.9% to 2.4% (cf. chart 4.2). The decline in domestic inflation is mainly attributable to price developments in domestic goods.

Inflation for domestic services excluding housing rents remained stable in the last three months, and remained at 1.4% in May.

Rent inflation unchanged

Housing rent inflation changed little between February and May, and remained at 1.5% (cf. chart 4.3).

The mortgage reference rate used for determining rents increased at the beginning of June by 25 basis points, from 1.25% to 1.5%. It was the first change in this reference rate since the beginning of 2020 and the first ever increase since its introduction in 2008.

The reference rate is a key statutory factor in determining rents. Typically, changes to this rate do not affect rent inflation for several months.

Core inflation down, but remains elevated

Since February, both core inflation rates declined from their record levels. Core inflation, as measured by the SNB's trimmed mean (TM15), decreased from 2.3% in February to 1.6% in May. The SFSO core inflation rate 1 (SFSO1) stood at 1.9% in May, compared with 2.4% in February (cf. chart 4.4).

PRODUCER AND IMPORT PRICES

Lower inflation for producer and import prices
Inflation for total producer and import prices declined from 2.7% in February to –0.3% in May (cf. chart 4.5). Both import prices and producer prices contributed to this result. In May, inflation for producer prices stood at 2.0%, while for import prices it was –4.6%. One of the reasons for the decrease in import and producer price inflation was the continued decline in prices for energy products. Another was the reduction in the inflation contribution made by intermediate goods since February. The remediation of supply bottlenecks is likely to have played an important role here.

INFLATION EXPECTATIONS

Short-term inflation expectations remain elevated
Although survey results on short-term inflation expectations stabilised this quarter, they remained elevated.

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). Nevertheless, the survey conducted in April indicated that just under three-quarters of households still anticipate an increase in prices in the short term.

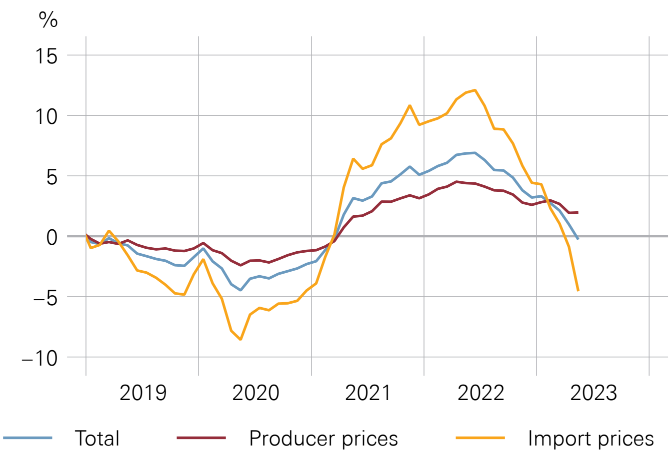
The index based on the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland declined again and was latterly once again close to the low level recorded at the beginning of the year (cf. chart 4.6). According to the May survey, over half of all respondents expected inflation to fall in the next six months.

In the talks conducted by the SNB's delegates for regional economic relations, companies expected inflation to remain unchanged in the short term (cf. chart 10 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months stayed at 2.4%.

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change



Source(s): SFSO

Chart 4.6

SHORT-TERM PRICE AND INFLATION EXPECTATIONS

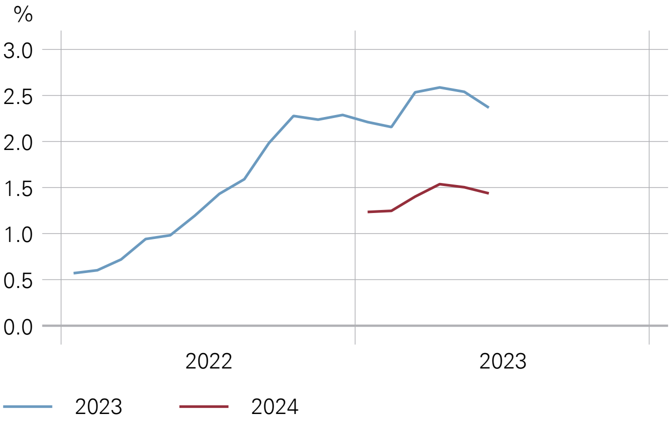
Aggregate responses from SECO survey on consumer sentiment and CS CFA financial market survey

Source(s): CFA Society Switzerland, Credit Suisse, SECO

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

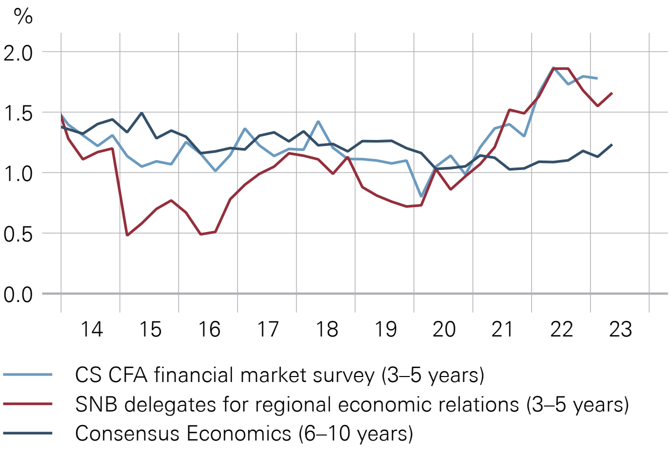
Monthly forecasts for annual inflation



Source(s): Consensus Economics Inc.

Chart 4.8

MEDIUM AND LONG-TERM INFLATION EXPECTATIONS



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

The banks and economic institutions participating in the monthly survey conducted by Consensus Economics maintained their forecast for expected inflation in 2023, putting it at 2.4% in June (cf. chart 4.7). As in the previous quarter, the panel of experts anticipated a decline in inflation for 2024, to 1.4%.

Longer-term inflation expectations largely unchanged

Longer-term inflation expectations also changed only slightly.

For CS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years remained unchanged at 1.8% (cf. chart 4.8). Company representatives interviewed by the SNB's delegates put inflation for the same time frame at 1.7%, compared with 1.5% in the previous quarter.

According to the Consensus Economics survey conducted in April, the long-term inflation expectations of participating banks and economic institutions latterly stood at 1.2%, which was marginally higher than in the previous quarter (1.1%).

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.

5 Monetary developments

In the period following the March monetary policy assessment, global financial market momentum was shaped by the measures aimed at stabilising the banking system, uncertainty surrounding the raising of the government debt limit in the US, and revisions to expectations regarding the development of inflation and the outlook for global monetary policy.

This led to yields on long-term Confederation bonds being slightly lower than at the time of the March monetary policy assessment, whereas prices on the Swiss stock market were significantly higher. The Swiss franc appreciated moderately on a trade-weighted basis.

There was only little change in the monetary base between February and May. The broad monetary aggregates contracted further. Growth in bank lending weakened slightly, but remained robust.

MONETARY POLICY MEASURES SINCE THE ASSESSMENT IN MARCH 2023

Monetary policy tightened in March

At its monetary policy assessment of 23 March 2023, the SNB decided to tighten its monetary policy further. In doing so, it was countering the renewed increase in inflationary pressure. It raised the SNB policy rate by 0.5 percentage points to 1.5%. Furthermore, it confirmed its willingness to be active in the foreign exchange market as necessary so as to provide appropriate monetary conditions. For some quarters now, the focus has been on selling foreign currency.

Remuneration of sight deposits

Following the increase in the SNB policy rate at the monetary policy assessment in March, sight deposits up to the threshold were remunerated at an interest rate of 1.5%. At the same occasion, the SNB also raised the interest rate on sight deposits above the threshold by 0.5 percentage points to 1.0%. A discount of 0.5 percentage points relative to the SNB policy rate thus continued to apply to such sight deposits. 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 (cf. box, p. 29).

Absorption of sight deposits via repo transactions and SNB Bills

Since the monetary policy assessment in March 2023, the SNB has 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 week to a year were auctioned on a weekly basis. Furthermore, in the overnight segment, repo transactions were in some cases conducted on a bilateral 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 March assessment, outstanding liquidity-absorbing repo transactions have averaged CHF 77.1 billion. In the same period, the average level of outstanding SNB Bills amounted to CHF 123.0 billion.

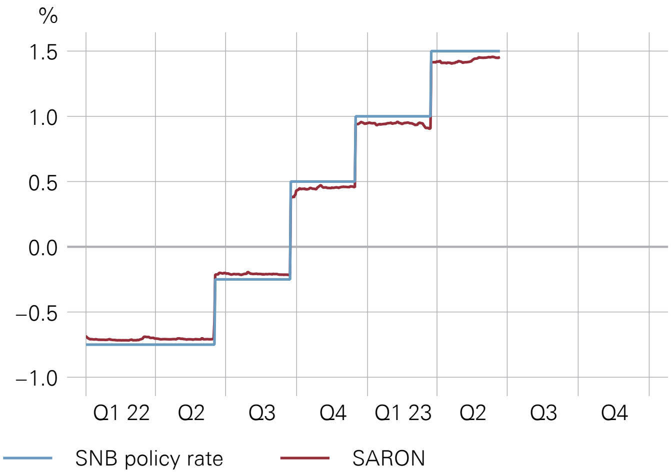
Sight deposits at SNB increased at times

Sight deposits held at the SNB increased temporarily following the liquidity assistance provided to Credit Suisse. The absorption of sight deposits via repo transactions and SNB Bills counteracted this development. In the week ending 16 June 2023 (last calendar week before the assessment of June 2023), sight deposits amounted on average to CHF 510.6 billion, a level similar to that of the week ending 17 March 2023, i.e. the last calendar week preceding the March assessment (CHF 515.1 billion). Between these two assessments, they averaged CHF 527.0 billion. Of this amount, CHF 508.4 billion were sight deposits of domestic banks and the remaining CHF 18.6 billion were other sight deposits.

Statutory minimum reserves averaged CHF 22.7 billion between 20 February 2023 and 19 May 2023. Overall, banks still exceeded the minimum reserve requirement by CHF 492.4 billion (previous period: CHF 490.4 billion). Banks’ excess reserves thus remain very high.

Chart 5.1

SNB POLICY RATE AND SARON



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

Chart 5.2

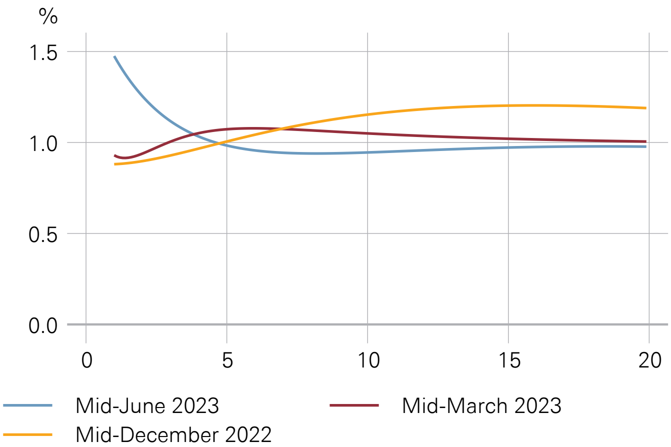
10-YEAR SWISS CONFEDERATION BOND YIELD

Source(s): SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

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



Source(s): SNB

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate

Following the increase in the SNB policy rate by 0.5 percentage points to 1.5% in March, SARON – the average overnight interest rate on the secured money market – also rose by 0.5 percentage points, from 0.91% to 1.41%. In mid-June, SARON was somewhat higher, at 1.45% (cf. chart 5.1).

Slightly lower long-term yields

In the period under review, yield movements on Confederation bonds were dominated by heightened uncertainty in international financial markets owing to problems in the banking sector and to the fact that the US government's debt limit had been reached.

Against this backdrop, demand for safe investments such as Confederation bonds increased, thus contributing to the decline in the yield on ten-year Confederation bonds from around 1.1% at the time of the monetary policy assessment in March to 0.95% in mid-June (cf. chart 5.2).

Flattening of yield curve

While yields on Confederation bonds with maturities of more than four years have fallen slightly since the last monetary policy assessment, yields on one-year Confederation bonds have risen by more than 50 basis points (cf. chart 5.3). The upwards shift at the short end of the yield curve essentially reflects the fact that financial markets are expecting a slightly more pronounced tightening of monetary policy over the short term. The lower yields for longer maturities are to some extent a reflection of increased demand for safe investments.

Little change in real interest rates

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 remained roughly on par with the mid-March level. By historical standards, the estimated long-term real interest rate was still low.

EXCHANGE RATES

Franc appreciates moderately against euro and US dollar
Since the monetary policy assessment in March, the Swiss franc has gained in value against the euro by just under 1.5% and against the US dollar by 2.7% (cf. chart 5.4). In mid-June, one euro was worth around CHF 0.98, while one dollar was just under CHF 0.90.

After the SNB policy rate was increased in mid-March, the Swiss franc appreciated against both the euro and the US dollar up to the end of April. The franc subsequently continued to strengthen almost steadily against the euro until the end of May, only to weaken again somewhat in June. It depreciated slightly against the US dollar in May. The depreciation in May is consistent with other developments, namely that market expectations regarding the monetary policy stance in the US have been revised in the meantime and also that uncertainty has eased about the US government's debt limit being raised.

Trade-weighted Swiss franc exchange rate up somewhat
In March, the nominal trade-weighted Swiss franc exchange rate fluctuated strongly, largely due to the turmoil in the banking sector. As the banking system stabilised, fluctuations in the effective exchange rate of the franc also declined noticeably.

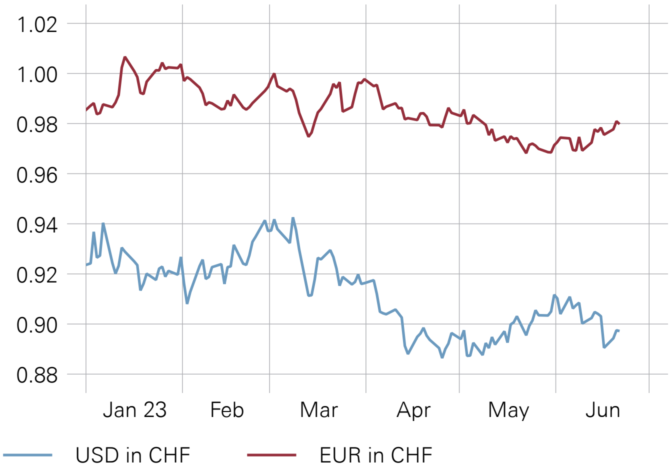
Since the end of March, the franc has gained 2.6% in value on a nominal trade-weighted basis (cf. chart 5.5). This was driven not only by the franc's appreciation against the euro and the dollar, but also by its appreciation against the yen (around 9%, index weighting 3%) and the renminbi (just under 7%, index weighting 6%).

Slight real appreciation of Swiss franc
Over the last two years, the real trade-weighted external value of the Swiss franc has changed only little overall, despite a significant nominal appreciation; this is because the franc's nominal appreciation has been more or less offset by inflation differentials between other countries and Switzerland.

In April and May, the franc strengthened somewhat more in nominal terms, which also led to a slight appreciation in real terms (cf. chart 5.6).

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, March 2023 monetary policy assessment = 100

Source(s): SNB

Chart 5.6

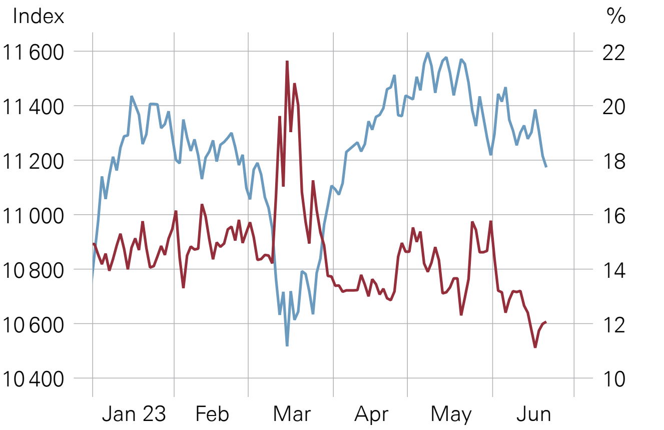
REAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100

Source(s): SNB

Chart 5.7

SHARE PRICES AND VOLATILITY



SMI — Volatility Index on the SMI (rhs)

Source(s): SIX Swiss Exchange Ltd

Chart 5.8

SELECTED SPI SECTORS

Index, 1 January 2023 = 100

Healthcare — Consumer goods — Financials — Industrials

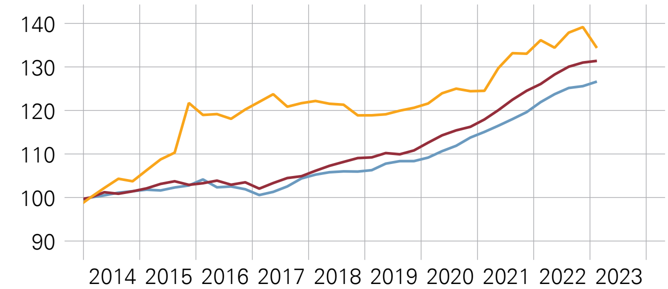
Source(s): SIX Swiss Exchange Ltd

Chart 5.9

TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE

Nominal (hedonic)

Index, beginning of period = 100



Privately owned apartments (FPRE, IAZI, WP; average)
Single-family houses (FPRE, IAZI, WP; average)
Apartment buildings (WP)

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

SHARE AND REAL ESTATE PRICES

Higher share prices

Over the course of the second quarter, share prices recovered significantly from their drop in March, which at the time had reflected the heightened uncertainty regarding the bankruptcies of some US regional banks and the difficulties experienced by Credit Suisse.

The acquisition of Credit Suisse by UBS as well as the measures taken to stabilise the US banking sector eased the situation on stock markets, with the result that share prices rose significantly between the end of March and early May. In May, uncertainty about the raising of the debt limit in the US led to temporary price declines (cf. chart 5.7). In mid-June, the Swiss Market Index (SMI) was almost 4% above the level at the time of the monetary policy assessment in March.

Decline 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). Following the index's sharp rise in March, the development of the volatility index also reflected the easing of the stock market situation. Since the monetary policy assessment in March, the index has fluctuated slightly below the level recorded at the beginning of the year.

Higher share indices in major sectors

Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). Shares have gained in value across all sectors since the monetary policy assessment in March. This rise in share prices was least pronounced in the index for financial services companies, where an increase was held back by losses on bank shares.

Compared with the beginning of the year, the sector indices registered price gains up to mid-June of between 2% (financials) and 17% (industrials).

Momentum weaker in residential real estate prices

Transaction prices for privately owned apartments and single-family houses increased further in the first quarter of 2023, but recently lost momentum (cf. chart 5.9). The apartment buildings segment – which includes residential investment property of private and institutional investors – registered a substantial decline in prices compared to the previous quarter, with the result that prices were lower than a year ago.

MONETARY AND CREDIT AGGREGATES

Little change to monetary base
With the transition to the positive SNB policy rate last year, the monetary base decreased significantly as a result of the liquidity-absorbing operations required. The sale of foreign currency in Q4 2022 was also a contributing factor in this regard. The monetary base has changed only little since December. The substantial liquidity assistance provided by the SNB in March to safeguard financial stability was absorbed by open market operations in order to continue keeping SARON close to the SNB policy rate. In May, the monetary base averaged CHF 582.8 billion (cf. chart 5.10), and was thus down on February by around CHF 5.4 billion.

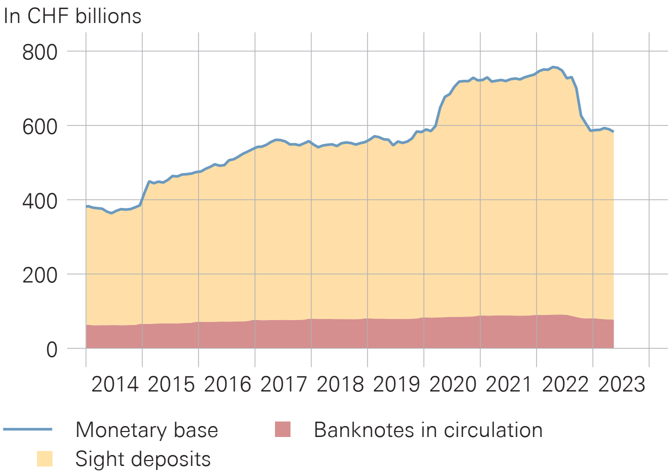
Weak growth in broad monetary aggregates
In May, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) fell by 12.2% year-on-year. M2 (M1 plus savings deposits) contracted in May by 9.4% compared to the previous year, and M3 (M2 plus time deposits) was 1.2% below its year-back level (cf. table 5.1). The negative growth rates are primarily due to the fact that the increased interest rate level reduces the incentive to hold short-term bank deposits at lower rates of interest.

Growth in mortgage claims slightly weaker
Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were 3.4% above their year-back level in the first quarter of 2023, the same as in the previous quarter (cf. table 5.1). Growth in mortgage claims slowed in recent months, however, and stood at 3.2% in April. While growth in mortgage lending to households declined slightly in the last quarter, lending to private companies picked up.

In line with interest rate movements in the capital market, published interest rates for fixed-rate mortgages also saw a rise (cf. chart 5.11). The ten-year mortgage interest rate has climbed from 1.4% in December 2021 to over 3.0% since the second half of last year, thus reaching its highest level in eleven years. Money market mortgage rates have also risen significantly since the end of September 2022, after the SNB raised its policy rate above zero.

Chart 5.10

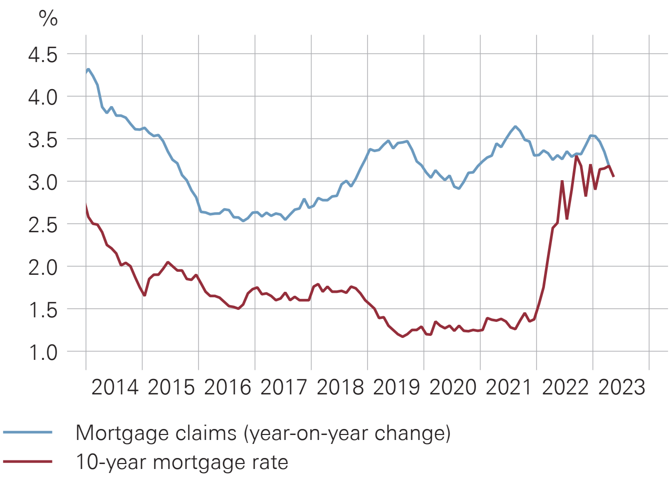
MONETARY BASE



Source(s): SNB

Chart 5.11

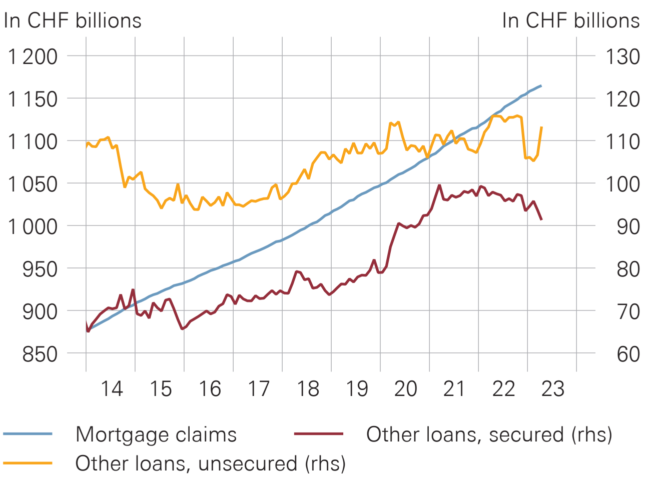
MORTGAGE CLAIMS AND INTEREST RATES



Source(s): SNB

Chart 5.12

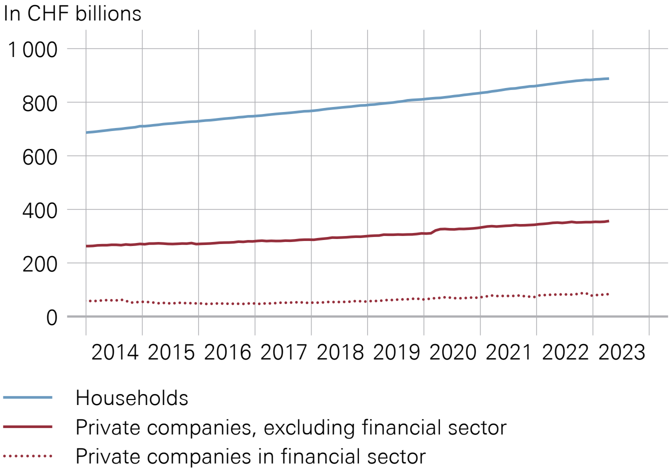
MORTGAGE CLAIMS AND OTHER LOANS



Source(s): SNB

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES



Source(s): SNB

From a long-term perspective, mortgage rates remain relatively low overall, despite the increase in recent months. So far, demand for mortgage loans seems to have been only marginally affected by the higher interest rates. However, there has been increased demand for mortgage loans with relatively short maturities.

Decline in other loans

Other loans are considerably more volatile than mortgage loans (cf. chart 5.12). Having expanded in the fourth quarter of 2022 by an annualised 1.5%, these loans receded in the first quarter of 2023 by 4.4%. The volume of secured other loans has declined since the beginning of 2022, which is attributable to the repayments of COVID-19 loans in the amount of over CHF 8 billion. The volume of unsecured other loans fell substantially towards the end of 2022, having increased at the start of the year. These strong fluctuations primarily reflect developments in other loans to financial companies.

Lending growth by sector

Bank loans to all categories of borrower continued to grow on an annual basis (cf. chart 5.13). At the end of April 2023, loans to households recorded a year-on-year increase of CHF 19.2 billion (2.2%) and loans to non-financial companies a rise of CHF 6.9 billion (2.0%). Loans to financial companies rose in the same period by CHF 1.4 billion (1.7%).

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2022	2022 Q2	Q3	Q4	2023 Q1	2023 Mar	Apr	May
M1	**2.2**	**3.3**	**2.1**	**−0.7**	**−7.2**	**−9.7**	**−10.3**	**−12.2**
M2	**−0.3**	**0.2**	**−0.1**	**−2.2**	**−5.9**	**−7.5**	**−8.1**	**−9.4**
M3	**0.2**	**0.0**	**−0.2**	**0.2**	**−0.2**	**−0.6**	**−0.2**	**−1.2**
Bank loans, total [1,3]	**3.1**	**3.2**	**3.1**	**3.1**	**2.2**	**2.1**	**2.0**	
Mortgage claims [1,3]	3.3	3.3	3.3	3.4	3.4	3.3	3.2	
Households [2,3]	3.0	3.1	3.0	2.9	2.6	2.5	2.4	
Private companies [2,3]	4.2	3.9	4.1	4.9	5.7	5.7	5.4	
Other loans [1,3]	1.9	2.9	1.8	1.5	−4.4	−4.7	−4.2	
Secured [1,3]	−0.1	1.1	−1.3	−1.8	−3.8	−3.5	−6.7	
Unsecured [1,3]	3.6	4.4	4.6	4.5	−5.0	−5.8	−2.1	

1 Monthly balance sheets (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).
2 Credit volume statistics (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).
3 Growth rates for the bank loans item and its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published on the SNB's data portal, data.snb.ch.

Source(s): SNB

Implementation of monetary policy in the money market
With the transition to a positive SNB policy rate in September 2022, the SNB introduced a new approach to implementing its monetary policy in the money market. This approach is based on the tiered remuneration of sight deposits, a tool the SNB has already been applying in a similar form since 2015, and on the absorption of sight deposits.[1] Together, these two levers ensure that the secured short-term Swiss franc money market rates remain close to the SNB policy rate, even in a positive interest rate environment. This approach has proved successful. Even after the adjustment, SARON – the reference rate in Swiss francs – remained close to the SNB policy rate (cf. chart 1).

Sight deposits held by banks and other financial market participants at the SNB are remunerated using a tiered system. This means that sight deposits up to a certain threshold are remunerated at the SNB policy rate, while sight deposits above this threshold are remunerated at the SNB policy rate minus a discount (cf. chart 1).[2] The discount is currently 0.5 percentage points. In using this system of tiered remuneration, the SNB pursues two objectives. First, it influences the interest rate level in the Swiss franc money market by determining the level at which sight deposits are remunerated. Second, this tiered system creates an incentive to trade sight deposits in the Swiss franc money market, thereby contributing to the robustness of SARON. Institutions which have not exceeded their threshold have an incentive to borrow reserves, while those with sight deposits above their threshold have an incentive to lend reserves. Sight deposits can be traded, for instance, via repo transactions. Since September 2022, interbank repo market activity has been comparable with trading volumes prior to the transition to a positive SNB policy rate; it thus remains at a robust level (cf. chart 2).

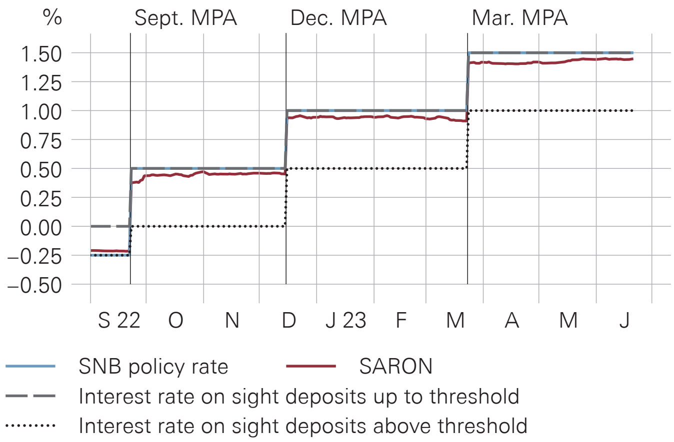
Institutions with sight deposits above the threshold can also offer these via repo transactions with the SNB or invest them in SNB Bills (cf. chart 3). The SNB uses these instruments to absorb sight deposits, thereby reducing the liquidity supply in the Swiss franc money market. This ensures that the secured short-term Swiss franc money market rates remain close to the SNB policy rate. Without the absorption of sight deposits, money market rates would stay near the interest rate on sight deposits above the threshold, and thus considerably below the SNB policy rate.

To ensure appropriate monetary conditions, the SNB is also active in the foreign exchange market. These operations influence the liquidity supply in the Swiss franc money market. In recent quarters, for instance, foreign currency sales have led to a reduction in sight deposits.

1 Between January 2015 and September 2022, sight deposits that exceeded a given exemption threshold were subject to a negative interest rate. This corresponded to the SNB policy rate.
2 Cf. 'Instruction sheet governing interest on sight deposits' at www.snb.ch.

Chart 1

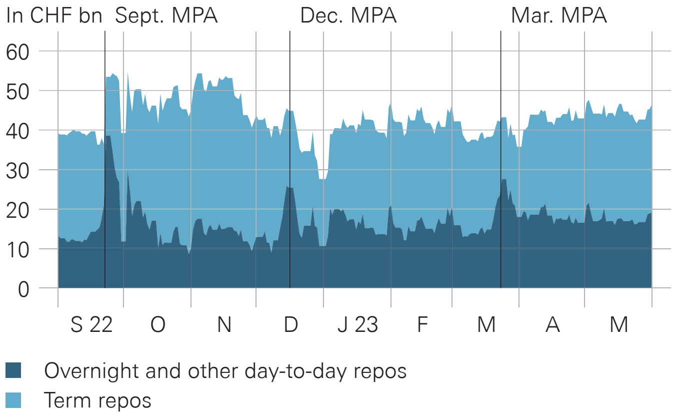
SNB POLICY RATE AND SARON



MPA: SNB monetary policy assessment
Source(s): Bloomberg, SNB

Chart 2

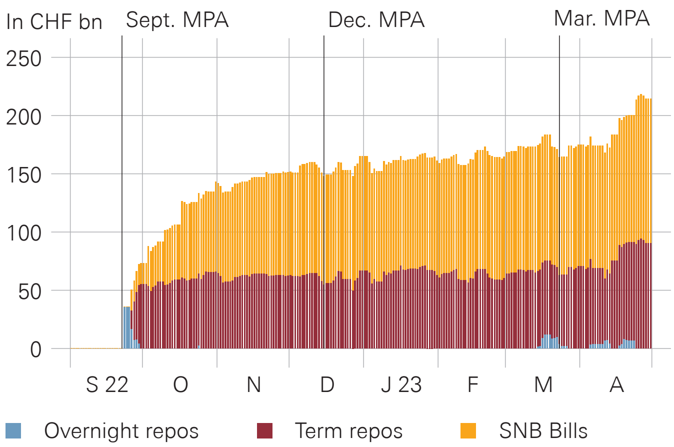
OUTSTANDING INTERBANK REPOS
Swiss franc repos against securities eligible for SNB repos



MPA: SNB monetary policy assessment
Source(s): SIX Repo Ltd

Chart 3

OUTSTANDING SNB REPOS AND SNB BILLS



MPA: SNB monetary policy assessment
Source(s): SNB

Business cycle signals

Results of the SNB company talks

Second quarter of 2023

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 241 company talks were conducted between 18 April and 6 June.

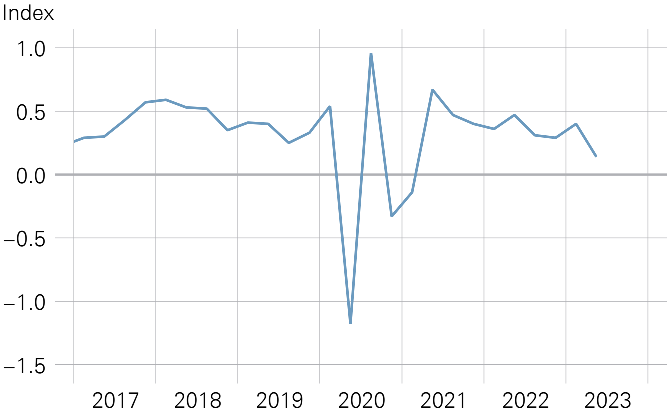
Regions	Delegates
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Marco Huwiler

Key points

- After strong growth at the beginning of the year, turnover increased only modestly in the second quarter.
- Despite the weakening in growth, most companies are satisfied with business activity. Utilisation of technical capacity and infrastructure remains good, for example. Despite concerns about the global economy in the coming quarters, companies anticipate a return to robust turnover growth.
- Companies assess staff shortages as somewhat less pronounced than in the previous quarter, however the staffing situation is still the main concern for many.
- Supply chains have largely normalised. Only in isolated cases do long delivery times still represent an obstacle to production.
- Companies anticipate stable purchase prices over the next six months. Some foresee further increases in sales prices, although with price competition having reportedly picked up again, these are likely to be less pronounced than in previous quarters.

Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER



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

Source(s): SNB

Chart 2

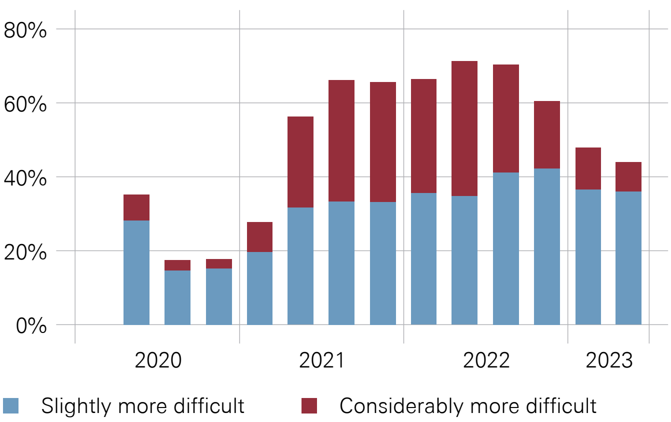
CAPACITY UTILISATION

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

Source(s): SNB

Chart 3

PROCUREMENT SITUATION



Share of companies facing a more difficult procurement situation as compared to a normal situation.

Source(s): SNB

CURRENT SITUATION

Growth in turnover weak

Real turnover growth, in other words turnover growth adjusted for price changes, weakened significantly in the second quarter (cf. chart 1). There have been hardly any further increases in turnover in manufacturing and construction. Momentum in the services sector has also weakened by comparison with the previous quarter, although it remains positive overall.

Export-oriented companies are experiencing waning momentum in their sales markets. Demand from Europe in particular has been weak, and especially from Germany, where an inflation-related loss of household purchasing power is weighing on demand for consumer goods and higher financing costs are reducing demand for capital goods. Many customers are also reducing inventory levels, which is curbing orders temporarily. Order intake from China is also turning out to be disappointing. On the other hand, companies describe turnover in the US as comparatively robust. Demand from Latin America and the Middle East is also reported to be quite solid.

As regards the domestic economy, momentum has been mixed. IT companies and domestically-oriented financial services providers continue to enjoy robust demand. In these industries the shortage of staff is the key limiting factor. Construction is benefiting from sustained demand for energy-efficient renovations. However, some construction companies and their suppliers are noticing signs of a slowdown in new projects and extensions in the building construction field. A noticeable growth slowdown is also evident in consumer-related industries, with retailers, logistics companies and producers of durable consumer goods reporting weak demand. The food services industry also experienced a rather weak quarter owing to a prolonged spell of poor weather.

Capacity utilisation solid

Despite weak growth in turnover, companies report that utilisation of their technical production capacity and infrastructure remains at a close to normal level overall (cf. chart 2). The improved procurement situation is providing support to some manufacturers, allowing them to now work off accumulated order backlogs. Services companies also report normal utilisation of their infrastructure. Only a few firms still say they have too much office space owing to homeworking. At the same time, homeworking is enabling some companies to expand their workforce without coming up against limits in terms of space.

Further easing regarding procurement
The procurement situation continues to ease. While around one-third of companies say they are still having to contend with a difficult procurement situation (cf. chart 3), the proportion facing serious supply problems has declined from around one-third in summer 2022 to well below 10% most recently. There are hardly any supply problems any more for raw materials such as steel and timber. However, the supply situation remains problematic for certain metal parts and electronic components, especially from Asia. Owing to the tight supply situation, many companies have increased their inventories of procured goods and materials in recent quarters to make their production less vulnerable to supply bottlenecks. As the situation on the procurement side eases, companies are now drawing these high inventories back down again somewhat.

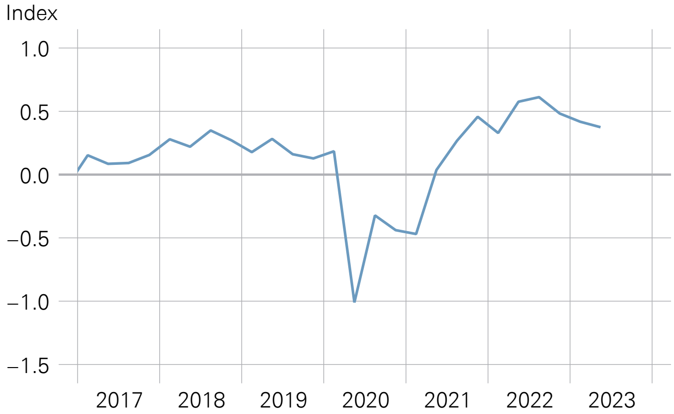
Slight reduction in staff shortages
Companies assess staff shortages as somewhat less pronounced than in the previous quarter (cf. chart 4). Even so, this continues to be the main concern for many, with around 40% of companies still describing their staffing levels as too tight. Recruitment difficulties remain substantial and often hinder stronger workforce expansion. When it comes to technical professions such as engineering, but also specialised staff in industrial manufacturing, the hiring situation has even worsened somewhat recently. In construction it remains difficult to find specialists to plan and carry out energy-efficient renovations.

On the other hand there are signs of a slight easing in the availability of IT specialists. Downsizing at the big tech firms is helping to fill vacancies a little faster in some areas. This applies chiefly to companies offering attractive conditions for highly qualified IT specialists. A certain easing can also be observed in the recruitment of commercial staff. The difficulties in recruiting unskilled workers have also eased.

Largely robust profit margins and stable liquidity situation
For the vast majority of companies, margins are still sufficient to conduct business and make the necessary investments (cf. chart 5). Some of these companies also have a certain buffer. Only about one in six firms describes its margins as not being sustainable. This share has risen slightly compared to the previous quarter. The margin situation is primarily a problem for companies where a weakening in demand coincides with significant increases in costs. In the services sector, wage increases are putting pressure on margins, while scope for price increases is limited. In manufacturing, on the other hand, margins are improving, partly thanks to declining purchase prices.

Chart 4

STAFF SHORTAGES

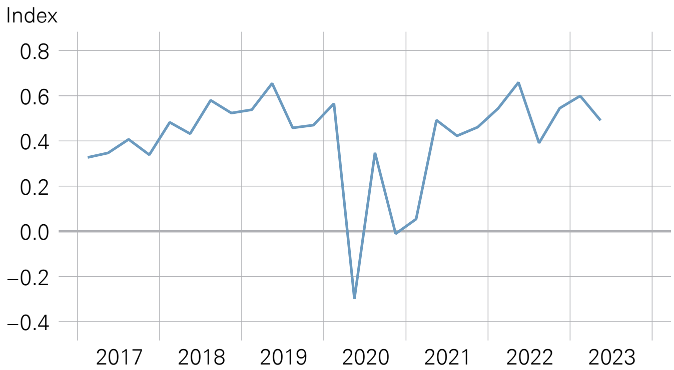


Assessment of current staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

Source(s): SNB

Chart 5

CHARACTERISATION OF MARGINS



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

Source(s): SNB

For the most part, companies' liquidity situation also remains comfortable thanks to robust margins. Although the cost of financing investments has risen in line with the general increase in interest rates, there are otherwise virtually no signs of a change in the banks' lending conditions.

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Disappointing sales volumes in retail

Turnover growth in retail has been weak. A number of retail companies report that consumers have reacted more strongly than expected to price increases. Added to this, the rainy weather at the beginning of the second quarter curbed appetite for leisure-related purchases, for example sports or gardening equipment. In connection with leisure in particular, companies also mention that a certain degree of normalisation after the pandemic-related boom is limiting turnover growth.

While the motor vehicle trade was able to increase sales in the second quarter, as it was possible to deliver vehicles delayed by supply bottlenecks, the intake of orders was disappointing. In addition to reduced purchasing power, the uncertainty as to which drive technology will prevail as well as higher lease instalments owing to increased interest rates were cited as dampening factors.

Turnover growth in wholesale was also weak. With demand in many industries weaker than expected, inventories increased. Companies have been responding by reducing orders, which has curbed sales in wholesale and logistics. This has been accompanied by increasing price pressure.

Mixed signals from hospitality industry

In the hotel industry, numbers of guests from abroad are still below the record pre-pandemic levels. The full return of Chinese guests has been delayed, in part because of limited flight and visa availability. However, this shortfall has largely been made up for by travellers from other regions of Asia, the US and the Middle East. This clientele is seen as being wealthy, and various establishments have endeavoured to position their offering accordingly.

The positive development of the hotel industry is also reflected in solid demand at food services establishments geared to tourism. At the same time, some reported lower turnover compared with the previous quarter, particularly owing to rainy weather at the beginning of the period during which the talks were conducted. Companies also seem to be restraining spending on corporate events.

Financial and ICT industries see mixed development

Momentum in the financial industry during the reporting period was mixed. Domestically-focused financial services providers report that business developed well, highlighting their interest income in particular. Banks with significant international asset management business, by contrast, are observing some caution among their clients in an uncertain economic and monetary policy environment.

Turnover growth in the ICT industry remains high due to the digital transformation taking place at many companies and the pronounced need for cybersecurity solutions.

Utilisation good but outlook subdued in construction

Order books in construction remain solid overall. Demand is underpinned by the great need for energy-efficient renovations and the general shortage of residential space. However, there are growing signs of a slowdown in the coming quarters. Private clients, for example, seem to be increasingly restrained when it comes to extension plans, with higher construction costs likely having a dampening effect. In general, companies report increased competition for new contracts. The availability of building land and obstacles associated with obtaining building permits are also cited as limiting factors.

Slowdown in broad sections of manufacturing

Broad sections of manufacturing are affected by a slowdown, although in some cases there are pronounced differences between industries. Many companies in the mechanical engineering, electrical engineering and metals industries, for example, report significant weakening. They include some companies involved in the manufacturing of metal products. There was frequent mention of customers reducing inventory, which is curbing demand. By contrast, manufacturers of goods required for the energy transition continue to see robust demand. This also applies to suppliers to the construction industry, for example those that manufacture products for energy-efficient renovations or energy infrastructure. Other suppliers to the construction industry are simultaneously witnessing a decline in their volume of business; this is often explained by the fact that interest rates have risen.

Business is also subdued for suppliers of consumer goods. Companies are experiencing restrained demand for durable goods as well as for high-price foods. Some watch manufacturers, by contrast, have been able to significantly increase turnover and thus escape the general slowdown in growth. While demand remains strong globally, watchmakers, like companies in other industries, are reporting disappointing sales in China.

OUTLOOK

Confidence largely intact

Despite the recent slowdown in growth, most companies remain optimistic about the next two quarters and anticipate robust turnover growth (cf. chart 6). Manufacturers in particular are in most cases confident that the effects of inventory reductions will fade as the year progresses or that they will be able to overcome the present dip with better market positioning and innovative products. Services companies also expect their business to regain momentum on a broad basis.

In line with the positive outlook and current staff shortages, they plan to expand staff numbers (cf. chart 7). Owing to the difficult recruitment situation and higher inflation, companies have increased wages by an average of 2.7% this year. For 2024, companies currently expect wages to increase by 1.9%. However, in many cases they point out that the development of their business and inflation measured at the time of wage negotiations will have a considerable influence on the agreements reached.

Compared to the previous quarter, companies expect the increase in investment activity to be somewhat lower over the coming 12 months. Some have recently completed major investments and are therefore now being more restrained. The pent-up demand after the pandemic is dwindling. Companies continue to favour investments in automation and IT infrastructure as a means of countering staff shortages.

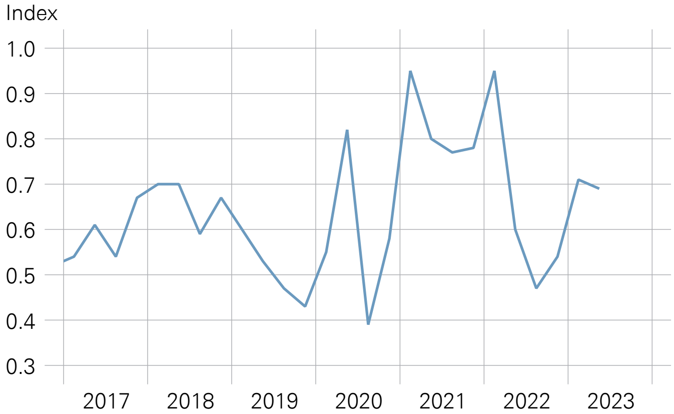
Increase in purchase and sales prices slows

Given the easing in the supply chain situation, lower commodity prices and intensifying competition in the wake of the global economic slowdown, companies expect hardly any further increases in purchase prices (cf. chart 8). Some representatives from manufacturing and construction even anticipate declines – in some cases of a significant magnitude. This applies in particular to raw materials such as timber and steel. The services sector, by contrast, expects purchase prices to increase further, albeit moderately, citing increased wage and energy costs at suppliers.

On the other hand, there are more frequently plans to increase sales prices further. Companies say this is due to their having been unable to fully pass on increases in wage and procurement costs and that there is still some need to catch up in this respect. While price increases met with unusually low resistance in some cases in recent quarters, the competitive situation now means such moves are frequently becoming difficult again.

Chart 6

EXPECTED TURNOVER

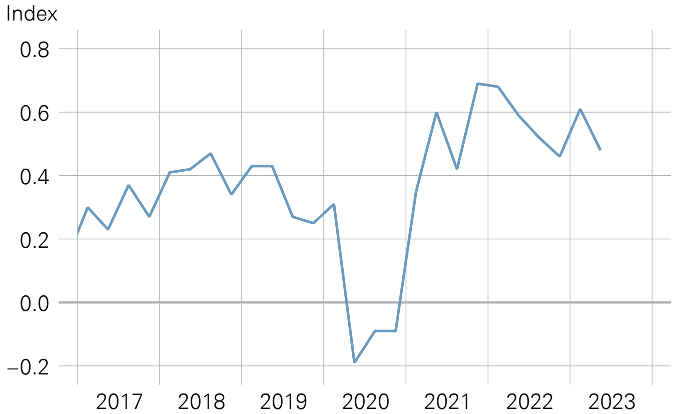


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

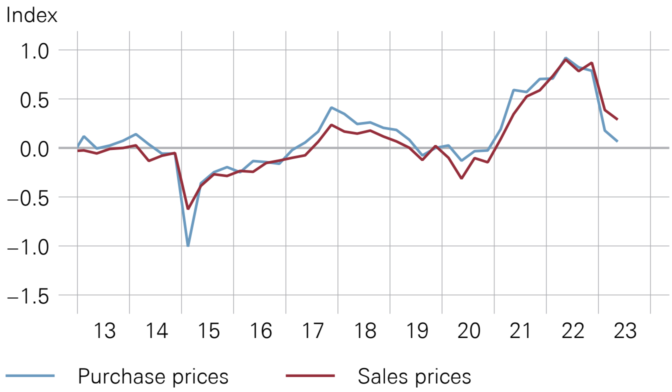


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES

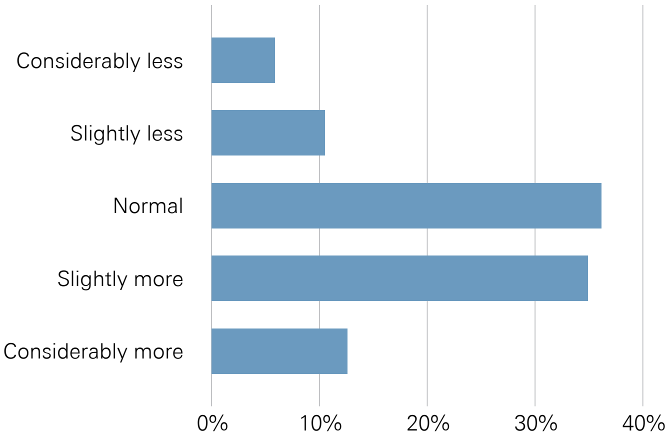


Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.
Source(s): SNB

Uncertainty remains heightened
Compared to last year, companies perceive uncertainty about the future course of business to be somewhat less pronounced. Concerns about the supply of energy are currently no longer in the foreground, although an energy shortage is still seen as a risk for the coming winter. An easing in the supply chain situation is also helping to make it easier to plan.

However, a number of imponderables means uncertainty is still above what is considered a normal level for almost half of companies (cf. chart 9). They are voicing concerns about the economic outlook, for example. Even though most representatives expect business to pick up again, they are unsettled by the current weakening in demand. They are still finding it difficult to assess the impact of inflation and higher interest rates. The geopolitical situation, especially the war in Ukraine and the tensions between China and Taiwan, are also cited as sources of uncertainty. Some companies also see their sales prospects jeopardised by increased protectionism from China.

Owing to the turmoil in the US banking industry and the crisis at Credit Suisse, financial stability was mentioned as an additional risk by some companies, especially at the beginning of the period during which the talks were conducted. The medium-term effects of UBS's acquisition of Credit Suisse are an issue for companies providing services to these banks. In addition, medium-sized companies in particular want to diversify their banking relationships and work with multiple banks. There is also concern that competition in the corporate banking business could weaken due to UBS's acquisition of Credit Suisse.

Staff shortages are still frequently cited as a risk factor. Some companies doubt that it will be possible to implement planned increases in staff numbers. The labour shortage is no longer seen merely as a short-term challenge. As society ages, more and more people are going into retirement, and the trend will accelerate further. Companies are therefore trying to make themselves more attractive as employers.

While digitalisation is seen as an opportunity, especially against the backdrop of staff shortages, the threat of cyberattacks remains undiminished.

Another challenge is the trend towards sustainability. Many companies are seeking to reduce their environmental footprint by, for example, fitting their roofs with photovoltaic systems. Changing customer preferences, but also the increasing sensitivity of investors, are prompting companies to adapt their business models.

And finally, some companies see the increasingly complex, dense or uncertain regulatory environment as a challenge. In addition to environmental protection, this pertains above all to product safety as well as to noise and building regulations.

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 remain stable: The average for the next six to twelve months remains unchanged at 2.4% (cf. chart 10). In the medium term, representatives expect inflation to level off to within the range that the SNB equates with price stability. Their inflation expectations over a three to five-year horizon are 1.7%, a somewhat higher figure than the previous quarter. Company representatives emphasise the important role of the central banks in ensuring price stability in the medium term.

Chart 10

EXPECTED INFLATION

Source(s): SNB

About this report

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

Over 200 companies are visited every quarter. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while the public administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. Different companies are visited from one quarter to the next.

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

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

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

Additional information
Further information on the 'Business cycle signals' report is available at www.snb.ch, The SNB/SNB regional network.

Chronicle of monetary events

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

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.

March 2023

At its quarterly assessment of 23 March, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.5 percentage points to 1.5%. In doing so, it is countering the renewed increase in inflationary pressure. 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 1.0%. With this tiered remuneration of sight deposits and open market operations, the SNB is ensuring that the secured short-term money market rates are close to the SNB policy rate.

On 19 March, the SNB announces it will provide ample liquidity assistance to support the implementation of the acquisition of Credit Suisse by UBS. Based on the Federal Council's Emergency Ordinance, in addition to the SNB's existing facilities, Credit Suisse and UBS can obtain further liquidity assistance loans for a total amount of up to CHF 200 billion. These loans are secured by preferential rights in bankruptcy proceedings and some also by a federal default guarantee. This ensures that Credit Suisse is solvent at all times during the crisis. In particular, substantial amounts in foreign currencies have to be provided. In so doing, the SNB performs its statutory task to contribute to the stability of the financial system. With the acquisition of Credit Suisse by UBS, supported by the federal government, the Swiss Financial Market Supervisory Authority (FINMA) and the SNB, a solution has been found to secure financial stability and protect the Swiss economy in an exceptional situation.

December 2022

At its quarterly assessment of 15 December, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.5 percentage points to 1.0%. In doing so, it is countering increased inflationary pressure and a further spread of inflation. 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 are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of 0.5%. With this tiered remuneration of sight deposits and open market operations, the SNB is ensuring that the secured short-term money market rates are close to the SNB policy rate.

September 2022

At its quarterly assessment of 22 September, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.75 percentage points to 0.5%. In doing so, it seeks to counter the rise in inflationary pressure and a broad spread of inflation to goods and services. To ensure appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. Moreover, the SNB adjusts the implementation of its monetary policy to the positive interest rate environment. This ensures that the secured short-term money market rates remain close to the SNB policy rate. 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 zero percent.

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).
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.

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 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. 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.

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