Swiss National Bank Quarterly Bulletin

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Contents

Monetary policy report

Report to the attention of the Governing Board of the Swiss National Bank
for its quarterly assessment of December 2011

This report is based primarily on the data and information available
as at 15 December 2011.

Monetary policy report
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About this report

The Swiss National Bank (SNB) has a statutory mandate to pursue a monetary policy serving the interests of the country as a whole. It ensures price stability while taking due account of economic developments.

It is a particular concern of the SNB that its monetary policy be understood by a wider public. Moreover, it is obliged by law to inform regularly of its policy and to make its intentions known. This monetary policy report performs both of these tasks. It 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.

Sections 2–5 of the present report were drawn up for the Governing Board's assessment of December 2011. Section 1 ('Monetary policy decision of 15 December 2011') is an excerpt from the press release published following the monetary policy assessment of 15 December 2011.

Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

1 Monetary policy decision of 15 December 2011

Swiss National Bank reaffirms its commitment to the minimum exchange rate of CHF 1.20 per euro

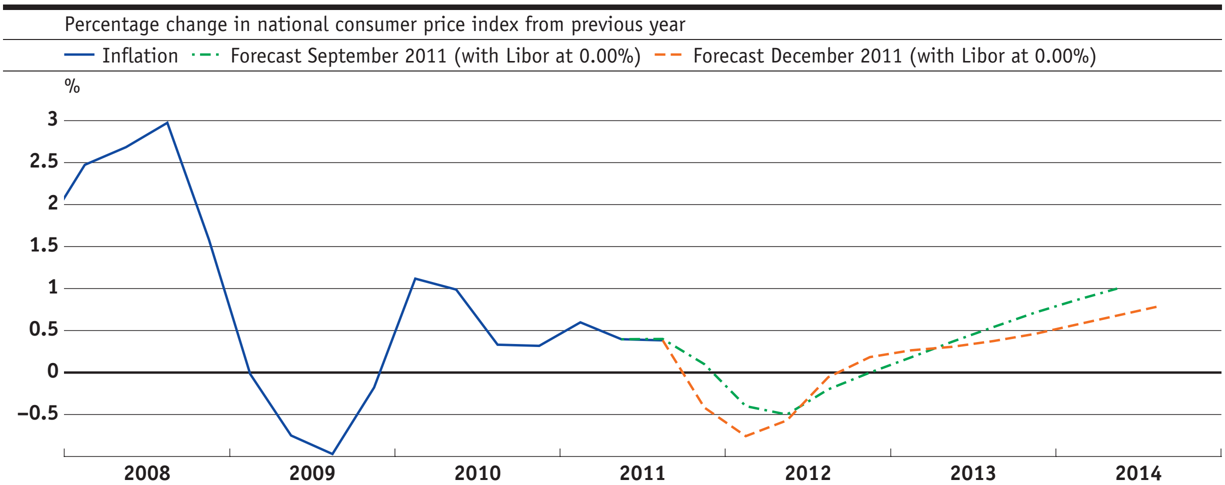
The Swiss National Bank (SNB) will continue to enforce the minimum exchange rate of CHF 1.20 per euro with the utmost determination. It is prepared to buy foreign currency in unlimited quantities. The target range for the Libor remains at 0.0–0.25%, and the SNB continues to aim for a three-month Libor close to zero. Even at the current rate, the Swiss franc is still high and should continue to weaken over time. The SNB stands ready to take further measures at any time if the economic outlook and the risk of deflation so require.

In the third quarter, the global economy picked up again slightly, thanks to positive stimuli from Japan, the US and China. Growth in Europe, however, remained weak and the economic outlook for the euro area deteriorated. In Switzerland, the pace of growth slowed considerably in the third quarter. The substantial appreciation of the Swiss franc over the summer is weighing heavily on the Swiss economy. For 2011 as a whole, real GDP growth of 1.5–2.0% can be expected. This is only because of the favourable economic development in the first half of the year. For 2012, the SNB is expecting economic growth in the order of 0.5%.

The international outlook continues to be highly uncertain. A further escalation of the European sovereign debt crisis cannot be ruled out. This would have grave consequences for the international financial system. Moreover, given our country's close relations with the euro area, Switzerland's economic prospects are highly dependent on how the crisis develops.

Compared to the previous quarter, the SNB's conditional inflation forecast has once again been adjusted downwards (cf. chart 1.1). In the short term, inflation will dip into negative territory sooner, owing to the effects of the earlier currency appreciation, which have been stronger than expected. From the third quarter of 2012, inflation rises above the previous forecast, because at this point the negative base effect of price declines since mid-2011 disappears. In the longer term, the worsening of the growth outlook for the euro area is dampening inflation. The forecast for 2011 shows an inflation rate of 0.2%. For 2012, the SNB is expecting inflation of –0.3% and for 2013, of 0.4%. These forecasts are based on the assumption of a constant three-month Libor of 0% over the entire twelve-month forecast horizon and implies a depreciating Swiss franc. In the foreseeable future, there is no risk of inflation in Switzerland. If foreign demand were to fall off more sharply than expected, downside risks to price stability would emerge.

Chart 1.1
Conditional inflation forecast of September 2011 and of December 2011



Source: SNB

Observed inflation in December 2011 Table 1.1

	2008				2009				2010				2011				2008	2009	2010
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	2.5	2.7	3.0	1.6	0.0	−0.7	−1.0	−0.2	1.1	1.0	0.3	0.3	0.6	0.4	0.4		2.4	−0.5	0.7

Conditional inflation forecast of September 2011 with Libor at 0.00% and of December 2011 with Libor at 0.00%

	2011				2012				2013				2014				2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast September 2011, Libor at 0.00%			0.4	0.1	−0.4	−0.5	−0.2	0.0	0.2	0.4	0.5	0.7	0.9	1.0			0.4	−0.3	0.5
Forecast December 2011, Libor at 0.00%				−0.4	−0.8	−0.6	−0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.7	0.8		0.2	−0.3	0.4

Source: SNB

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 national consumer price index (CPI) rises by less than 2% per annum. This allows it to take account of the fact that the CPI slightly overstates actual inflation. At the same time, it allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of the situation and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant short-term interest rate, shows how the SNB expects the CPI to move over the next three years. Third, the SNB sets its operational goal in the form of a target range for the three-month Swiss franc Libor. In addition, a minimum exchange rate against the euro is currently in place.

2 Global economic environment

Following a very weak second quarter, the global economy picked up again slightly in the third quarter, benefiting from the resumption of production following the earthquake disaster in Japan. The decline in commodity prices during the third quarter also had a positive effect. In Japan, the US and China in particular, aggregate economic activity strengthened slightly. In the euro area, on the other hand, economic growth was weak.

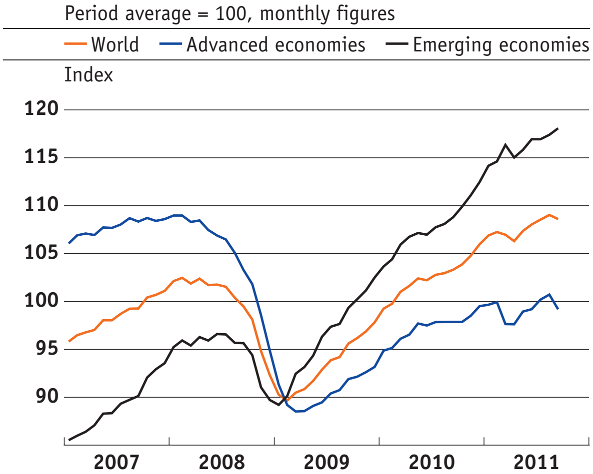
The outlook for global growth is nevertheless subdued, and has, if anything, deteriorated since the last monetary policy assessment. The most recent US economic data have been somewhat better than expected, but the escalation of the European debt crisis has clouded the economic outlook for the euro area. Bond yields for fiscally weak states have risen markedly. The growing unease among market participants is also reflected in the increased volatility on the financial markets. Mounting borrowing costs and the high level of uncertainty are contributing to a marked worsening of the business climate in the euro area.

The SNB has adjusted its growth assumptions for the euro area over the next three years substantially downwards. For the rest of the world, however, the SNB's forecasts remain essentially unchanged. Uncertainty about the future outlook for the global economy remains extremely high. In particular, the European sovereign debt crisis poses grave risks for the international financial system and the real economy.

2.1 International financial and commodity markets

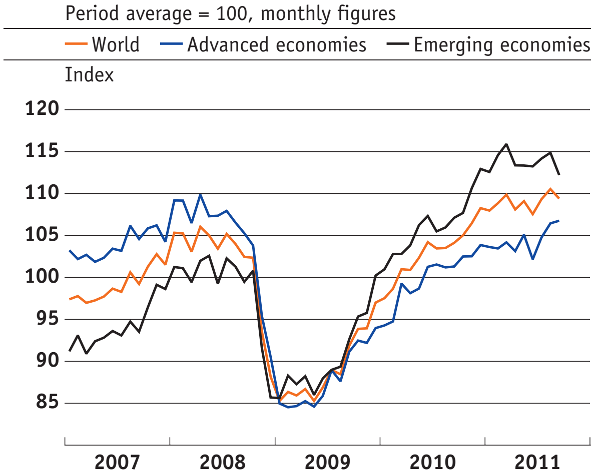
The considerable uncertainty triggered by the European debt crisis continued to shape events on the international financial markets. Concerns about the stability of European banks were compounded by increasing fears of recession in the euro area. The stock markets were still weak, and uncertainty measured against the volatility indices remained high (cf. chart 2.3). On the markets for government bonds, the yield spread between countries in the euro area widened. Yields for German ten-year government bonds fell to around 2%, while those for Italian paper rose to over 6.5%. In addition, the yield spread between French and German bonds had reached the highest level since the early 1990s. On the foreign exchange markets, the yen trended sideways, while the euro lost value in trade-weight-

Chart 2.1
Global industrial production



Sources: Netherlands Bureau for Economic Policy Analysis (CPB), Thomson Financial Datastream

Chart 2.2
Global exports

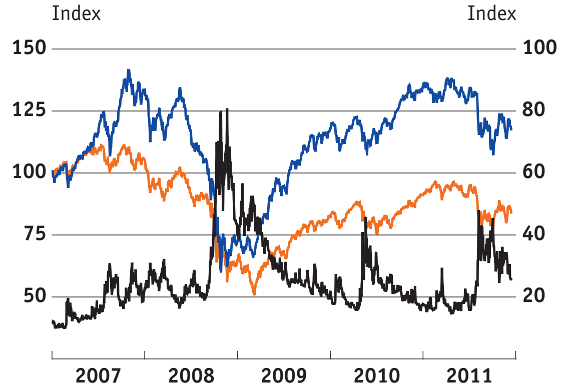


Sources: CPB, Thomson Financial Datastream

Chart 2.3
Stock markets

Beginning of period = 100 (lhs), daily figures

— Developed markets (MSCI) — Emerging markets
— Implied volatility (VIX) (rhs)

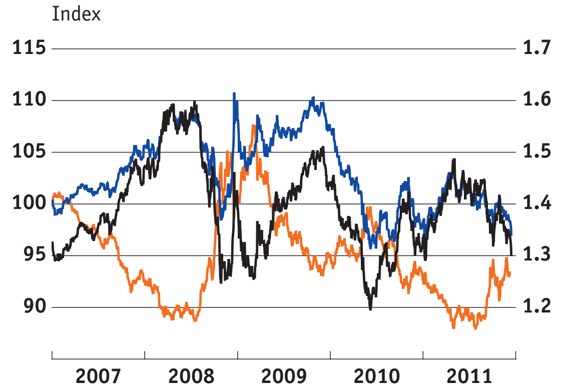


Sources: Reuters, Thomson Financial Datastream

Chart 2.4
Exchange rates

Beginning of period = 100 (lhs), daily figures

— USD trade-weighted — EUR trade-weighted
— USD per EUR (rhs)

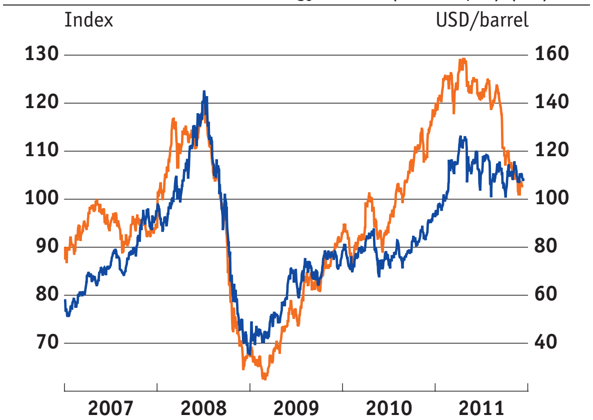


Sources: Reuters, Thomson Financial Datastream

Chart 2.5
Commodity prices

Daily figures

— Commodities excl. energy — Oil (Brent, spot) (rhs)



Sources: Reuters, Thomson Financial Datastream

ed terms (cf. chart 2.4). Commodity prices eased owing to the modest outlook for the global economy (cf. chart 2.5).

The SNB has slightly lowered the oil price and the dollar/euro exchange rate assumptions on which its forecasts are based. Over the forecast horizon it is predicting an oil price for Brent crude of USD 110 per barrel and an exchange rate of USD 1.37 to the euro.

2.2 United States

After having posted only weak growth in the first half of the year, GDP expanded by 2.0% in the third quarter. For the first time in almost four years it thus exceeded its pre-crisis level registered at the end of 2007. Per capita GDP, however, was still around 3% below the pre-crisis level.

Unemployment remains very high and is only likely to fall slowly, given the modest growth outlook. The subdued real estate market as well as the expiring economic stimulus programmes and upcoming consolidation measures in the government's budget are clouding prospects for the next few years. The greater forecasting uncertainty is also due to the debt crisis in the euro area, which could, in particular, trigger problems for the international banking system and a renewed loss of confidence. The SNB continues to expect a very moderate recovery in the US. As a result of the somewhat more favourable trend in the second half of 2011, it is raising its GDP forecasts slightly to 1.7% for 2011 and 2.0% for 2012.

Consumer price inflation amounted to 3.4% in November and was thus well above the core inflation rate of 2.2%. Based on the assumption that energy prices will remain stable, however, consumer price inflation is likely to fall rapidly. Persistently high unemployment should ensure that wage growth and upward pressure on prices remain low for the medium term.

The US Federal Reserve maintained its expansionary monetary policy. It left the target range for the federal funds rate at 0.0%–0.25% and reiterated its statement that, owing to the current economic outlook, it would not raise the interest rate before mid-2013. Moreover, the Fed decided to increase the average maturity of its portfolio in order to reduce longer-term interest rates. Securities falling due will continue to be re-invested. This applies, in particular, to securities of state-run mortgage banks that fall due (Fannie Mae and Freddy Mac), the aim being to provide support for the US real estate markets.

2.3 Euro area

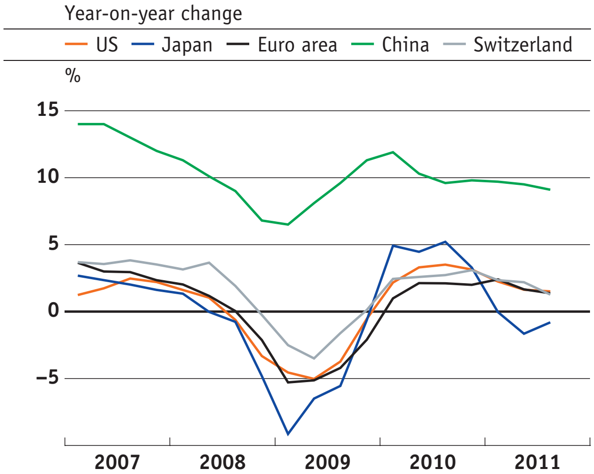
In the euro area, economic growth remained subdued in the third quarter. GDP expanded by just 0.6%, similar to the previous quarter. In terms of demand, growth shifted in favour of private consumption, which had previously performed very poorly. In Germany and France, growth picked up to a certain extent, but the countries at the edge of the euro area stagnated. The unemployment rate rose to 10.3% in September.

As a result of the intensifying debt crisis, the economic outlook for the euro area continued to deteriorate. The decline in confidence among households and companies, the depressed export expectations in industry and tighter lending conditions impacted severely on the business climate. The measures approved by the euro area member countries in October failed to counter the paralysing uncertainty. In addition to a partial waiver of debt by private creditors of Greece, these measures included more stringent capital adequacy requirements for banks and the recapitalisation of banks by the European bailout fund (EFSF), should the prescribed core capital quotas not be reached by the end of 2012. The decision taken at the EU summit in December to pursue stricter budget rules has thus far also failed to have any positive effect on the European financial markets. A recession in the euro area now appears likely. Moreover, the possibility that the crisis may spread cannot be ruled out. Against this backdrop, the SNB has lowered its growth forecast again. It now expects GDP growth of 1.6% in 2011 and 0.4% in 2012.

Consumer price inflation rose in November to 2.9%, but this increase is partly attributable to an adjustment in the index calculation in some member countries. The economic slowdown will probably dampen pressure on prices in the months ahead.

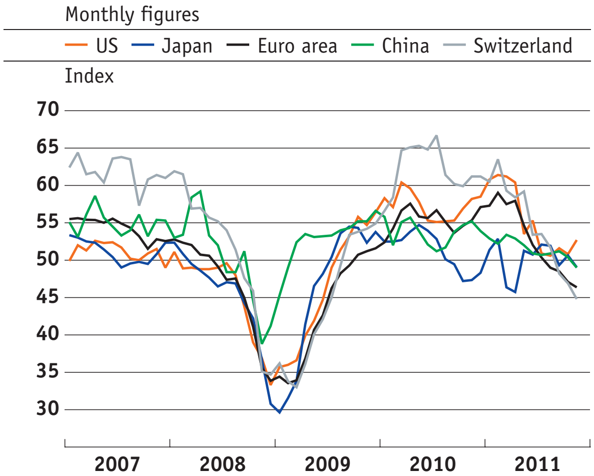
The European Central Bank (ECB) eased the monetary policy reins in several steps. In October, the ECB guaranteed an unlimited supply of liquidity until mid-2012 and offered banks one-year refinancing operations. It thus applied similar measures to those decided on after the collapse of Lehman Brothers in the autumn of 2008. In November, the ECB launched a second programme aimed at buying secured debt certificates (covered bonds) in the amount of EUR 40 billion. In December – to further support lending – it decided to carry out three-year refinancing transactions, to relax minimum reserve requirements for banks, and to extend the list of securities accepted as collateral. It also lowered the main refinancing rate to 1.0% by way of two 25-basis-point cuts in November and December.

Chart 2.6
Real GDP



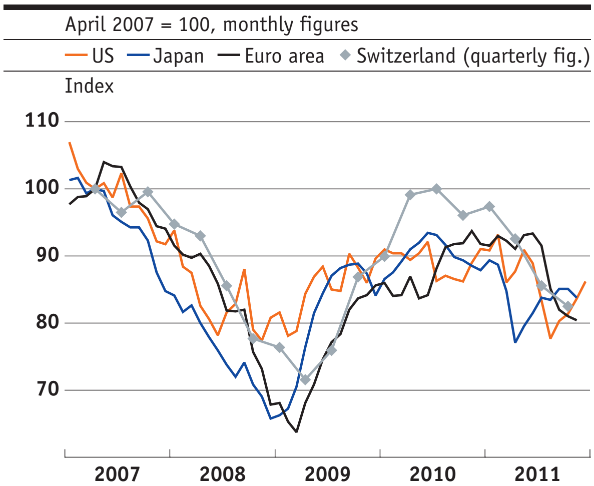
Sources: State Secretariat for Economic Affairs (SECO), Thomson Financial Datastream

Chart 2.7
Purchasing managers' indices (manufacturing)



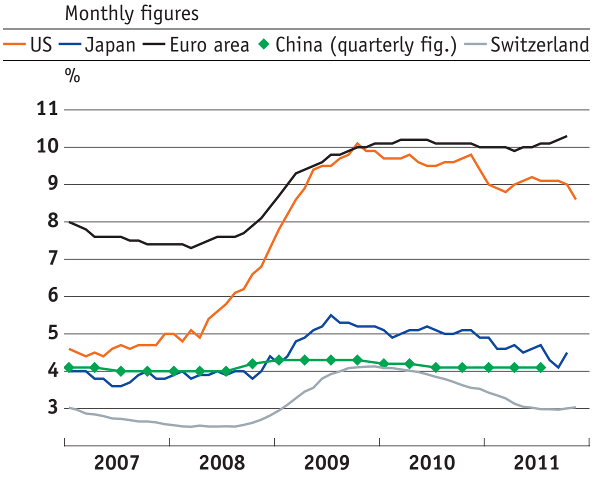
Source: Thomson Financial Datastream; copyright and database rights: Markit Economics Ltd 2009; all rights reserved

Chart 2.8
Consumer confidence index



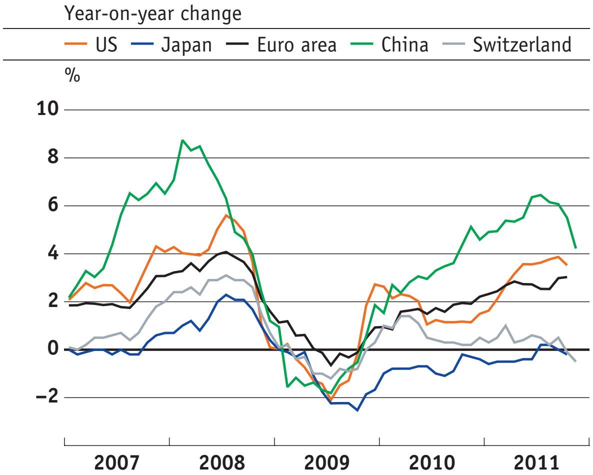
Sources: SECO, Thomson Financial Datastream

Chart 2.9
Unemployment rates



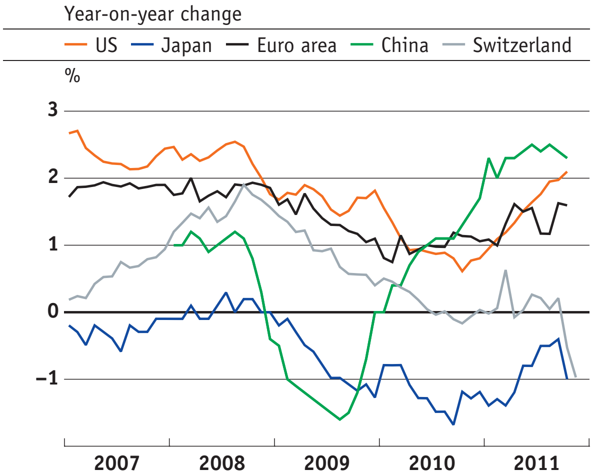
Sources: SECO, Thomson Financial Datastream

Chart 2.10
Consumer prices



Sources: Swiss Federal Statistical Office (SFSO), Thomson Financial Datastream

Chart 2.11
Core inflation rates



Sources: SFSO, Thomson Financial Datastream

2.4 Japan

Japan's economy has recovered rapidly from the slump in output seen after the earthquake catastrophe. The catch-up process began in the second quarter and was reflected in GDP growth of 5.6% in the third quarter. The GDP loss seen in the first half of the year could not be offset entirely, however.

The country still has some way to go to recoup the losses suffered in the 2008 recession. At the end of October, the Japanese government presented a third supplementary budget of around JPY 12,000 billion (2.6% of GDP) to support the regions affected by the earthquake. In view of the modest growth outlook for the global economy and the strong yen, the Japanese economy is likely to grow at a much slower pace in the quarters ahead. The severe flooding in Thailand is likely to weigh on output in the key electronics and automotive industries in the short term. The SNB is expecting a decline in GDP of 0.8% in 2011 and recovery-related growth of 2.2% in 2012.

Japan's deflation is persisting. Consumer prices fell by 0.2% in October compared with the previous year, while prices, excluding energy and food, slid by as much as 1.0%. Given the sluggish pace of recovery, utilisation of production capacity is still a long way off its normal level, and the yen is continuing to dampen imported inflation, so there is no prospect of inflationary pressure for the near future.

To combat the yen's appreciation, the Ministry of Finance intervened on the currency market in October and November with a record sum of over JPY 9,000 billion (CHF 110 billion). In addition, the Bank of Japan expanded the budget set aside for the acquisition of assets by a further JPY 5,000 billion. It left the call money rate unchanged at 0.0–0.1%.

2.5 Emerging economies in Asia

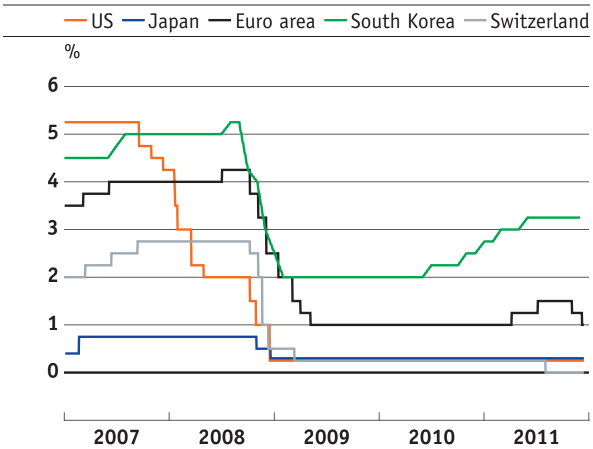
In the third quarter, China's GDP rose by 9.1% year-on-year (cf. chart 2.6). The country's economic development is still being driven by investment, but private consumption is gradually gaining in significance. In India, the corresponding growth figure stood at 6.9%, but tighter lending conditions resulting from the restrictive monetary policy dampened domestic demand. GDP growth in the newly industrialised economies (NIEs) – South Korea, Taiwan, Hong Kong and Singapore – remained at 1.5% in the third quarter and thus below its potential (approx. 4.5%), partly as a result of the extraordinarily strong growth at the beginning of the year. In particular, the electronics industry – a key sector in the region as a whole – lost momentum.

The regional economy will probably continue to suffer from the weak global environment in the next few months. In China, rising household incomes and government incentives will drive private consumption, and public social housing projects will go some way towards offsetting weaker corporate investment. In October, moreover, the Chinese government approved new measures to support SMEs. In India, where monetary policy is comparatively restrictive, domestic demand is likely to continue losing ground in the quarters ahead. In the NIEs, economic growth will be harder hit by the lower demand for exports, but domestic demand should continue to shore up economic growth. Furthermore, in most countries there is scope for fiscal policy measures to boost the economy. For 2011, the SNB is predicting growth in the region of slightly less than the average rate for the past ten years (roughly 8%). Expected growth for 2012 is lower, owing to the modest international demand. In China, it is set to weaken from around 9% in 2011 to about 8% in 2012.

Consumer price inflation is easing in the region. Chinese annual inflation reached a three-year high of 6.5% in July and declined to 4.2% up to November. However, the inflation target of 4% set by the Chinese government for 2011 is still out of reach. India's annual inflation receded in November to 9.1% and is likely to ease further in the next few months. Domestic pressure on prices also looks set to gradually decline in the smaller Asian economies owing to below-average growth, but the latest depreciation of local currencies is resulting in higher imported inflation.

In many of Asia's emerging economies the cycle of monetary policy tightening has been concluded. India's central bank raised the key interest rates again in October. The focus, however, was primarily on the growth risks. For instance, China's central bank eased the minimum reserve requirements at the end of November and allowed only a slight appreciation of the Chinese currency on a trade-weighted basis, while most monetary policymakers in the smaller economies have adopted a wait-and-see stance since the middle of the year.

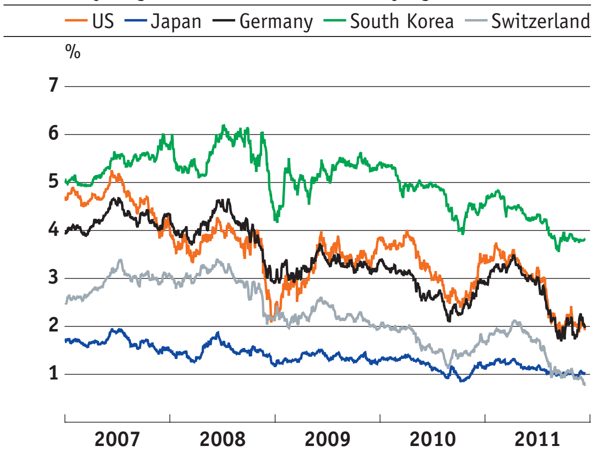
Chart 2.12
Official interest rates



Sources: SNB, Thomson Financial Datastream

Chart 2.13
International long-term interest rates

10-year government instruments, daily figures



Sources: SNB, Thomson Financial Datastream

3 Economic developments in Switzerland

In Switzerland, the pace of growth slowed considerably in the third quarter. According to preliminary estimates, annualised real GDP increased by only 0.9%. In particular, the substantial appreciation of the Swiss franc over the summer weighed heavily on the Swiss economy. Exports fell sharply. At the same time, domestic final demand stagnated.

The economic slowdown was accompanied by a slight decrease in technical capacity utilisation. In manufacturing, it is now around the long-term average. In the construction industry, it has declined slightly, but remains at a very high level. Narrow profit margins and mounting concerns over the international outlook held companies' demand for labour in check.

The introduction of the minimum exchange rate has corrected the massive overvaluation of the Swiss franc and has given companies a sounder basis for their investment planning. This notwithstanding, the situation for a large part of the economy remains difficult. Waning global demand will continue to hold back export growth. Economic uncertainty, coupled with a difficult earnings situation for many companies, will curb corporate investment. Moreover, since October, the seasonally adjusted unemployment figure has risen again slightly. The deterioration in the labour market should constrain both consumer spending and investment in residential construction.

It is likely that the Swiss economy will stagnate in the fourth quarter. For 2011 as a whole, real GDP growth of 1.5–2.0% can be expected. This is only because of the favourable economic development in the first half of the year. For 2012, the SNB is expecting economic growth in the order of 0.5%.

3.1 Aggregate demand and output

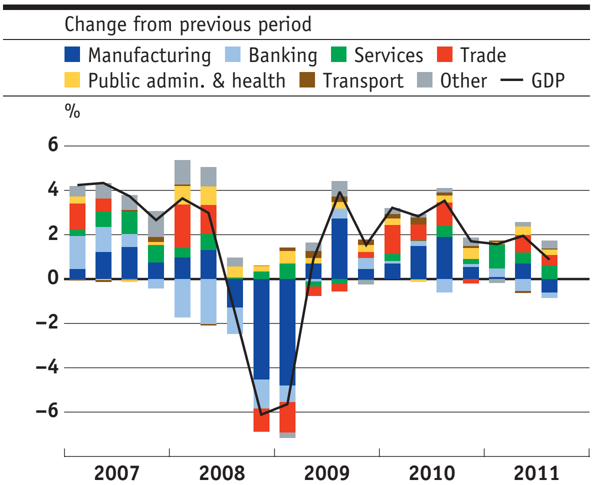
Slower production momentum

According to provisional estimates by the State Secretariat for Economic Affairs (SECO), GDP increased by just 0.9% in the third quarter. This is year-on-year rise of 1.3%. Internationally exposed sectors of the economy suffered as a result of the strong Swiss franc and the weak global manufacturing growth. Consequently, value added in manufacturing, banking and the hospitality industry declined. This was offset by a favourable trend in the domestic sectors, however. Corporate services and trade in particular contributed to the growth (cf. chart 3.1).

Foreign trade on the decline

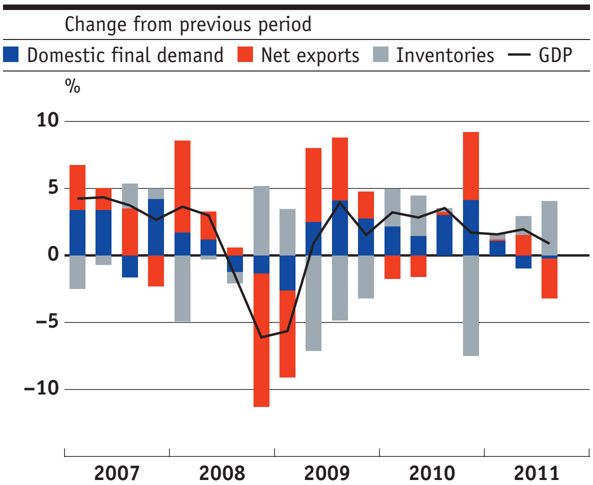
Foreign trade weakened sharply in the third quarter (cf. chart 3.2). Exports (excluding valuables) were down 5.7% compared with the previous quarter (cf. chart 3.3), while imports (excluding valuables) stagnated (cf. chart 3.4). The foreign trade contribution was thus negative overall (–3.0 percentage points).

Chart 3.1
Contributions to growth, by sector



Source: SECO

Chart 3.2
Contributions to growth in demand



Source: SECO

As a result of the global downturn in manufacturing and the growing strength of the Swiss franc, goods exports declined for the first time since the financial crisis. With the exception of watchmaking and precision instruments, all major export industries reported a decline, which was considerable in some cases. Exports in the mechanical and electrical engineering industries (MEM industries), in particular, contracted sharply. The decline was felt in all sales markets. Exports to the emerging economies of Asia were in the negative zone for the first time since the financial crisis.

Exports of services also fell in the third quarter. The decline was due primarily to a fall in receipts from commodity trading (merchanting). The tourism industry suffered from the strong Swiss franc and the cool, wet summer, while cross-border banking operations were affected not only by currency-related decreases in commission income, but also by the considerable uncertainty on the financial markets.

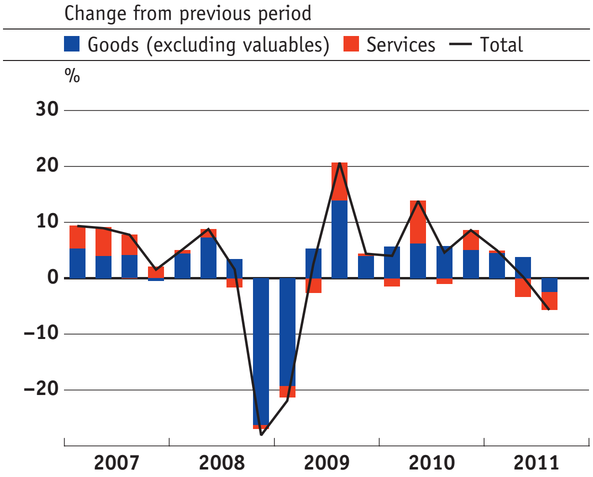
With regard to imports, the higher purchasing power of Swiss residents was offset by the increasingly gloomy economic outlook. Whereas spending on consumer goods and services from abroad rose, imports of capital goods and semi-finished products fell noticeably.

Domestic final demand weak

Domestic final demand lost further momentum in the third quarter and edged down by 0.2% (cf. chart 3.5 and table 3.1), due primarily to declining equipment investment. Consumer spending and construction investment, by contrast, continued to contribute to GDP growth. At 3.7%, domestic demand expanded quite strongly overall. This was, however, mainly the result of high inventories.

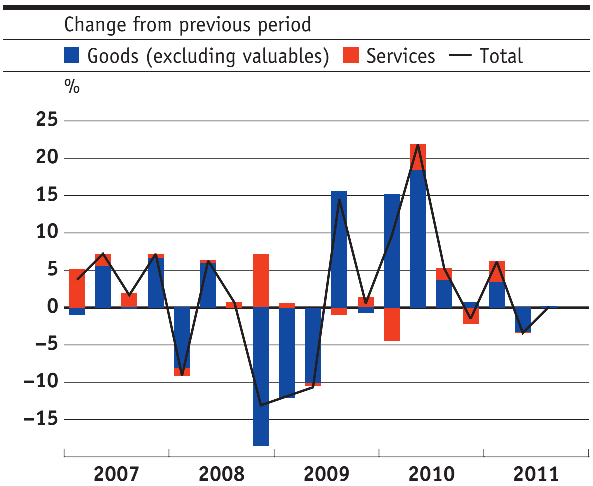
Equipment investment continued to decline in the third quarter (by 8.7%), which was probably also due to the difficult competitive situation and the associated contraction in margins. Segments that react particularly sensitively to international demand were affected to a disproportionately high degree. Investment in machinery and metal products, for instance, reported a substantial decrease. Overall, companies are still benefiting from favourable financing conditions. However, the persistently high uncertainty surrounding the global economic environment will probably continue to hold back investment.

Chart 3.3
Contributions to export growth



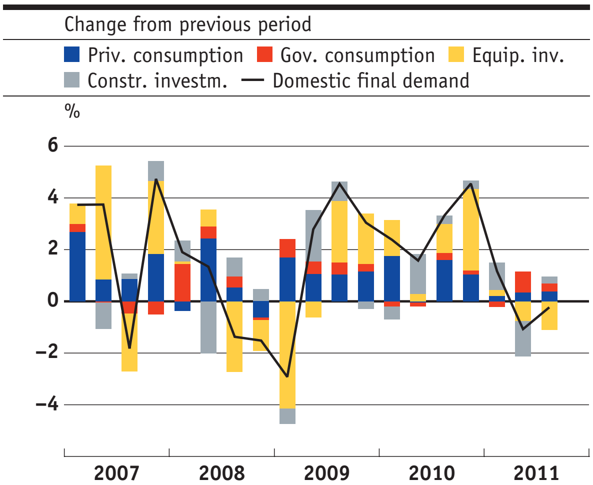
Source: SECO

Chart 3.4
Contributions to import growth



Source: SECO

Chart 3.5
Domestic final demand, growth contributions



Source: SECO

Real GDP and components Table 3.1

Growth rates on previous period, annualised

	2007	2008	2009	2010	2009	2010				2011		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private consumption	2.3	1.4	1.4	1.7	1.8	2.7	−0.1	2.5	1.6	0.3	0.5	0.6
Government consumption	0.3	2.7	3.3	0.8	2.3	−1.5	−1.2	2.0	1.2	−1.8	6.5	2.4
Investment in fixed assets	5.1	0.5	−4.9	7.5	7.1	3.7	7.9	6.3	14.8	5.3	−8.9	−3.8
Construction	−2.3	0.0	3.0	3.5	−2.8	−4.7	15.1	3.0	3.1	10.0	−12.6	2.7
Equipment	11.1	0.8	−10.8	10.9	16.2	11.1	2.3	9.1	25.0	1.8	−5.8	−8.7
Domestic final demand	**2.7**	**1.3**	**0.1**	**2.9**	**3.0**	**2.4**	**1.6**	**3.3**	**4.6**	**1.2**	**−1.1**	**−0.2**
Domestic demand	**1.4**	**0.5**	**0.6**	**1.5**	**−2.1**	**5.3**	**2.6**	**7.6**	**−6.1**	**2.8**	**0.2**	**3.7**
Total exports	9.6	3.1	−8.6	8.4	2.6	9.3	11.1	1.2	8.7	5.9	0.8	−4.9
Goods[1]	8.3	2.1	−11.1	9.4	5.9	8.3	9.0	8.5	7.4	6.7	5.6	−3.6
Services	12.8	4.3	−1.7	5.4	1.3	−4.6	24.7	−3.2	11.1	1.5	−10.5	−10.3
Aggregate demand	**4.4**	**1.5**	**−3.0**	**4.0**	**−0.4**	**6.8**	**5.8**	**5.1**	**−0.7**	**3.9**	**0.5**	**0.4**
Total imports	6.1	0.3	−5.5	7.3	−4.6	15.9	13.2	8.9	−5.9	9.6	−2.9	−0.9
Goods[1]	6.7	−1.0	−8.5	10.8	−0.9	19.5	23.1	4.6	1.0	4.2	−4.1	0.2
Services	11.2	4.1	7.4	−1.9	6.3	−20.3	17.0	7.9	−10.9	14.3	−0.6	−0.3
GDP	**3.6**	**2.1**	**−1.9**	**2.7**	**1.5**	**3.2**	**2.8**	**3.5**	**1.7**	**1.6**	**2.0**	**0.9**

1 Goods: excluding valuables (precious metals, precious stones and gems as well as works of art and antiques)
Source: SECO

Construction investment advanced slightly in the third quarter (by 2.7%). Civil engineering in particular continued to benefit from strong demand for infrastructure projects. Residential construction posted strong growth again, with impetus coming from low interest rates and immigration. The large number of new building permits approved in the past few quarters indicates that activity in this area is likely to remain brisk. By contrast, commercial construction was rather weak, due in part to the increasingly bleak economic outlook.

Private consumption advanced in the third quarter, too, owing to continued robust population growth. However, at 0.6%, the increase was rather weak. The residential, transport and healthcare sectors, in particular, made positive contributions. Cross-border shopping, which is still being driven by the strong Swiss franc, certainly continued to have a negative impact on the quarterly figures. Since goods imported by private individuals are not fully recorded, official figures for consumer expenditure is likely to underestimate actual spending. Owing to the deteriorating economic outlook and the general upward trend in unemployment – which is reflected, among other things, in worsening consumer confidence – consumer spending is unlikely to pick up by much in the short term.

3.2 Labour market

Employment growth slowing

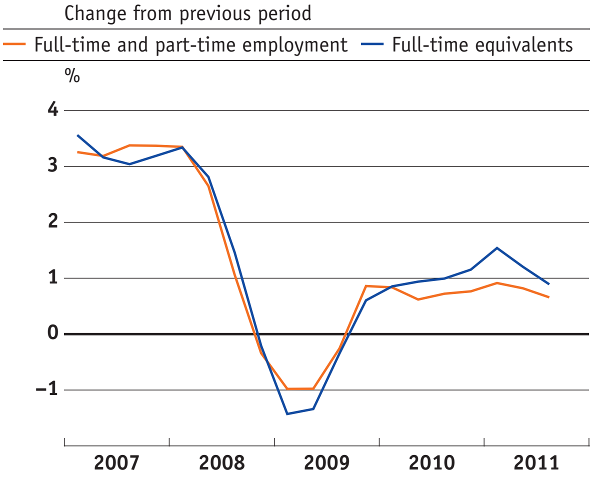
The flagging economy caused employment growth to slow in the third quarter. Full-time employment advanced by only 0.9%, while the number of persons in employment rose by 0.7% (cf. chart 3.6). The slowdown in the pace of growth is primarily due to a downward trend in the retail and hospitality industries as well as in education.

Slight rise in unemployment

The situation with regard to unemployment has reversed. The first indication of a change in the labour market was provided by the number of new registrations at regional employment offices, which began to rise again from June. While unemployment itself rose slightly in seasonally adjusted terms, the rate of unemployment remained unchanged at 3.0% (cf. chart 3.7). During the same period, the proportion of job-seekers also remained stable at 4.4%.

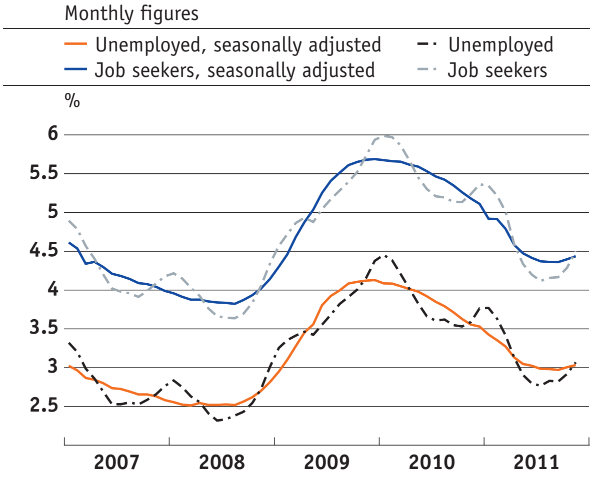
Short-time work declined steadily from May 2009 to August 2011. In September, short-time work expanded again slightly (cf. chart 3.8).

Chart 3.6
Employment



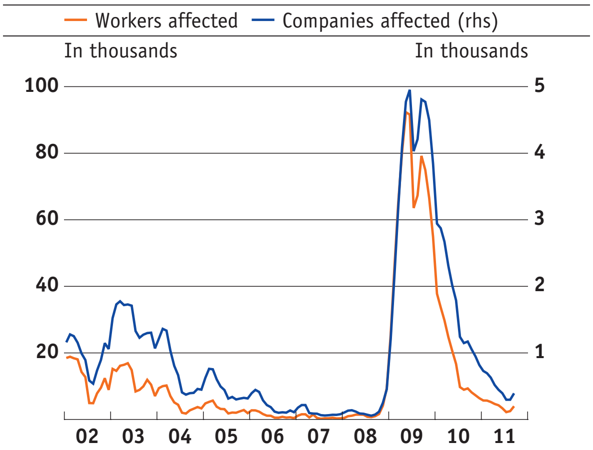
Source: SFSO, seasonal adjustment: SNB

Chart 3.7
Unemployment and job seeker rates



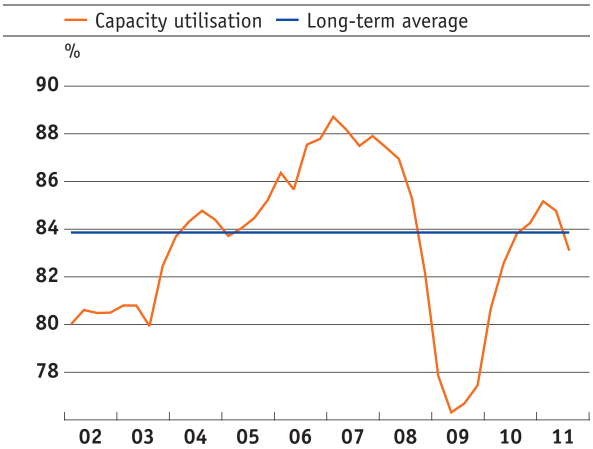
Unemployed and job seekers registered with the regional employment offices, as a percentage of the labour force according to the 2000 census (labour force: 3,946,988 persons).
Source: SECO

Chart 3.8
Short-time working



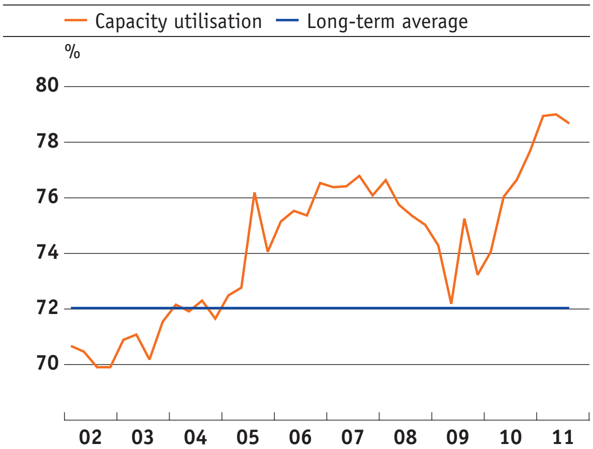
Source: SECO

Chart 3.9
Capacity utilisation in manufacturing



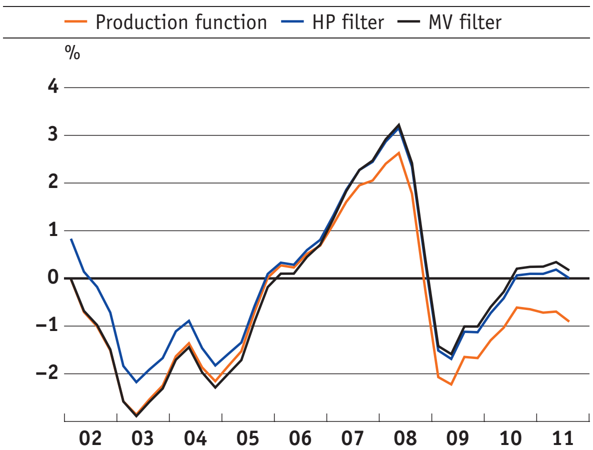
Source: KOF Swiss Economic Institute

Chart 3.10
Capacity utilisation in construction



Source: KOF Swiss Economic Institute

Chart 3.11
Output gap



Source: SNB

3.3 Capacity utilisation

Capacity utilisation returns to long-term average

The utilisation of technical capacity in the manufacturing industry declined in the third quarter. According to the survey conducted by the KOF Swiss Economic Institute, it was slightly below its long-term average at 83.1% (cf. chart 3.9). The number of businesses reporting a shortage of labour or technical capacity is also at an average level.

In the construction industry, utilisation remains exceptionally high. Although the level of machine utilisation in the third quarter was below the historical peak seen in the second quarter, it was – at 78.7% – still above average (cf. chart 3.10). Accordingly, many of the companies surveyed by the KOF are complaining of bottlenecks in machine and equipment capacity, as well as labour shortages. Among services companies, capacity utilisation recently declined somewhat. This is particularly noticeable in the hospitality industry.

Output gap widens

The output gap, which is defined as the percentage deviation of GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised.

Estimated potential output based on the production function approach indicates that the output gap amounted to –0.9% in the third quarter and has therefore widened again (cf. chart 3.11). Estimates using other methods (Hodrick-Prescott filter and multivariate filter) suggest that the output gap had closed.

The different estimates reflect the various ways of calculating production potential. The production function approach considers the labour market situation and the stock of capital in the economy. Since potential labour trends have been particularly robust in recent years – to some extent because of immigration – the estimate of production potential based on this method is higher than production potential estimated on the basis of statistical filters. Accordingly, the output gap estimated using the production function approach is higher.

3.4 Outlook for the real economy

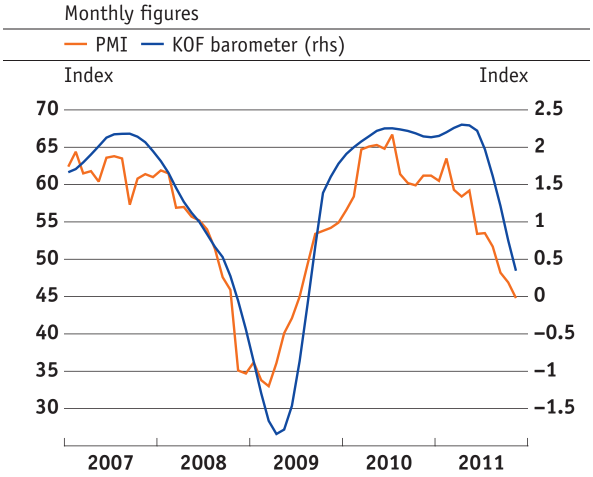
The outlook for the Swiss economy remains gloomy. Leading indicators and surveys have been reflecting a deterioration in the situation for some time. The SECO quarterly estimates for the third quarter now indicate a considerable slowdown in GDP figures. The factors responsible for this downturn are likely to shape the economic cycle for the next few quarters. The introduction of the EUR/CHF minimum exchange rate has corrected the massive appreciation of the Swiss franc and has given the export industry a sounder basis for investment planning, but the strong franc remains a burden. In particular, companies in industries where price-based competitiveness plays a major role and which have considerable depth of production in Switzerland are posting more losses. The muted outlook for the international economy is exacerbating this situation. The combination of low margins and weak demand is likely to force export-oriented companies in Switzerland, in particular, to make further adjustments in the quarters ahead.

At the same time, domestic economic factors, such as the low interest rate and the health development of real incomes, are still having a favourable impact. Domestic demand is still being supported by high immigration. Industries such as construction, trade, healthcare, transport and communications are likely to derive particular benefit from these factors. This should at least partially offset the negative developments in the export industries.

The SNB expects the Swiss economy to stagnate in the fourth quarter. While GDP growth of 1.5–2% can be expected for 2011 – owing to favourable economic developments in the first half of the year – the SNB is expecting GDP growth for 2012 to be in the order of 0.5%. The sluggish economy is likely to result in a modest rise in unemployment over the next few quarters. At the same time, the negative output gap will widen further.

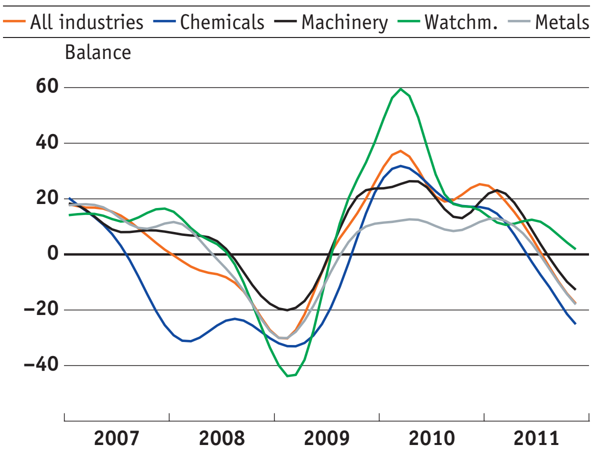
This assessment is associated with considerable uncertainty. As long as no sustainable solution is found for the European sovereign debt crisis, the outlook for Switzerland remains extremely uncertain. An escalation of the situation in the euro area could have serious consequences for the Swiss economy.

Chart 3.12
Leading indicators



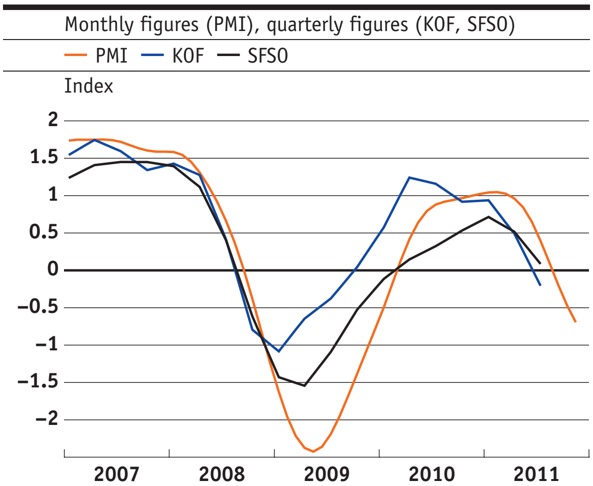
Sources: Credit Suisse, KOF Swiss Economic Institute

Chart 3.13
Expected new orders



Source: KOF Swiss Economic Institute

Chart 3.14
Employment leading indicators



Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

4 Prices and inflation expectations

Over the past few months, prices have been shaped by the strong Swiss franc. Inflation rates have trended lower, and prices of imported goods in particular have declined. The inflation expectations reported in surveys also fell. Even if inflation expectations are low, in the medium term they are still positive. Real estate prices have continued to rise strongly.

4.1 Consumer prices

Negative CPI inflation in October and November

The annual inflation rate as measured by the national consumer price index (CPI) turned negative in October and stood at –0.5% in November (cf. table 4.1). As in March, the temporary rise in inflation in September (0.5%) was attributable to a one-off effect, resulting from an increased survey frequency for clothing and shoes. This masked the effects of the Swiss franc's appreciation, which only became clearly visible in October.

National consumer price index and components Table 4.1
Year-on-year change in percent

	2010	2010	2011			2011		
		Q4	Q1	Q2	Q3	September	October	November
Overall CPI	**0.7**	**0.3**	**0.6**	**0.4**	**0.4**	**0.5**	**–0.1**	**–0.5**
Domestic goods and services	0.6	0.5	0.6	0.6	0.7	0.5	0.5	0.3
Goods	–0.1	–0.5	–1.0	–1.0	–1.1	–1.7	–1.8	–2.4
Services	0.8	0.8	1.1	1.1	1.2	1.2	1.2	1.1
Private services excluding rents	0.6	0.4	0.6	0.8	0.9	0.9	1.0	0.9
Rents	1.1	1.2	1.5	1.3	1.3	1.4	1.4	1.1
Public services	0.9	1.2	2.0	1.8	1.8	1.8	1.6	1.6
Imported goods and services	0.9	–0.1	0.5	–0.3	–0.4	0.3	–1.9	–2.7
Excluding oil products	–1.3	–1.5	–1.3	–1.9	–1.8	–1.4	–4.0	–5.1
Oil products	13.9	8.5	10.5	8.9	7.5	9.8	10.5	10.8

Sources: SFSO, SNB

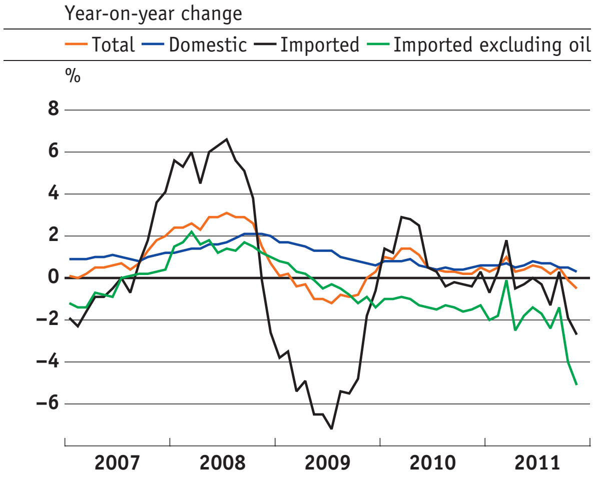
The steady appreciation of the Swiss franc, which lasted until August, pushed down prices of foreign goods and services in particular. Excluding oil products, prices for these goods in November were 5.1% lower than in the year-back period. This is to the sharpest decline since records began in 1967 (cf. chart 4.1). Owing to downward pressure from low purchase prices abroad, prices of domestic goods also fell. By contrast, inflation for domestic services remained positive (cf. chart 4.2).

Significant fall in core inflation

For the evaluation of the CPI, the SFSO's core inflation rate (SFSO1), the trimmed mean (TM15) and the dynamic factor inflation (DFI) can be used. The latter two are calculated by the SNB. Chart 4.3 shows that both SNB core inflation rates reached a turning point in early 2011 and have been falling since then. The downtrend has accelerated in recent months. The trimmed mean and the DFI decreased between August and November from 0.6% to 0.1% and from 1.2% to 0.7% respectively. The slightly more volatile SFSO core inflation rate stood at –1.0% in November.

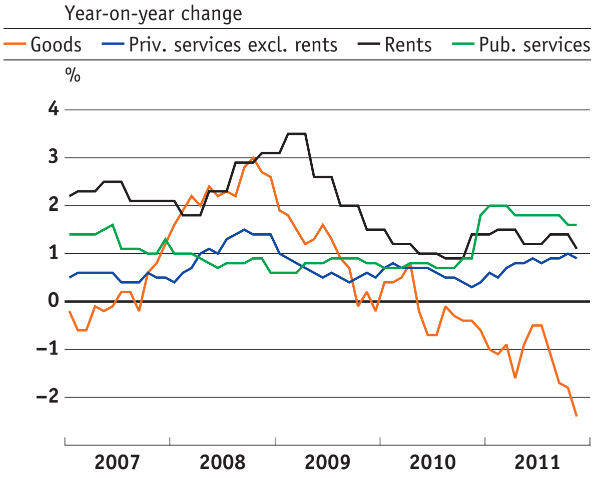
The SNB's two core inflation rates are based on different concepts. The DFI calculates core inflation using an empirically estimated dynamic factor model that includes other real and nominal economic data in addition to price data, whereas in the TM15, the goods prices with the highest and lowest annual inflation rates are excluded each month (15% at either end of the distribution). The TM15 – like the SFSO core inflation rate – is thus based on a reduced CPI basket.

Chart 4.1
CPI: domestic and imported goods and services



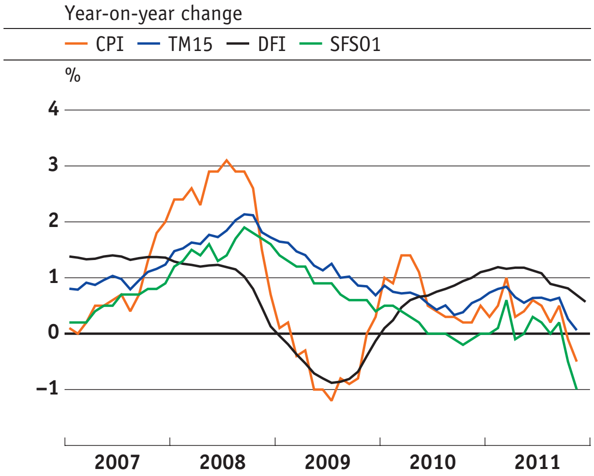
Sources: SFSO, SNB

Chart 4.2
CPI: domestic goods and services



Sources: SFSO, SNB

Chart 4.3
Core inflation rates



Sources: SFSO, SNB

4.2 Producer and import prices

Falling prices of total supply

The price trend for total supply (producer and import prices) indicates that CPI inflation will remain under downward pressure in the months ahead. Chart 4.4 shows that both producer and import prices were considerably lower in recent months than they were one year ago. Among domestic producers, prices of goods produced for both export and domestic sales have fallen. In November, the decline in producer prices was 2.2% year-on-year. Import prices fell by 2.8% in the same period. Bucking this trend, prices for imported energy goods rose by around 15%.

4.3 Real estate prices

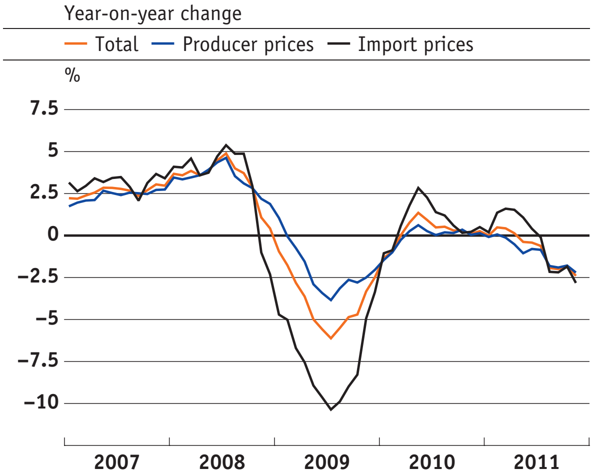
Renewed sharp rise in residential property prices

Prices on the market for single-family homes and owner-occupied apartments continued to rise sharply in the third quarter. According to the index calculated by Wüest & Partner, they exceeded their year-back level by around 4%. In addition, there are a number of indices that measure the trend in actual transaction prices. These indicate that transaction prices in the third quarter were also considerably higher than one year back.

Chart 4.5 illustrates the trend in transaction prices for owner-occupied apartments. This shows that over a period of several years, the available indices for transaction prices deviate considerably from one another. In 2011, however, they all show a clear rise. All three indices also demonstrate that the prices for owner-occupied apartments have risen more sharply over the past ten years than consumer prices, which have increased by around 8% since the beginning of 2002.

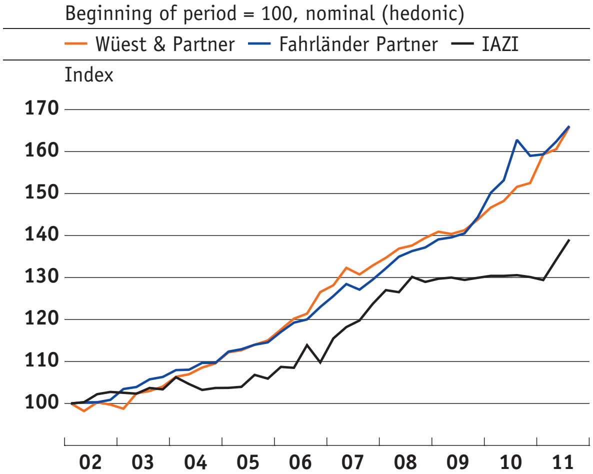
In the third quarter, rents again rose less steeply than prices for residential property. This is due primarily to rents in existing rental contracts. By contrast, rents for housing units offered on the market continued to rise in the third quarter (cf. chart 4.6). Existing rents are linked by law to

Chart 4.4
Producer and import prices



Source: SFSO

Chart 4.5
Transaction prices, owner-occupied apartments



Sources: Fahrländer Partner, IAZI, Wüest & Partner the reference mortgage rate. In October 2011, the Federal Council redefined the calculation rule for the reference rate. This new definition explains the decline in the reference rate by a quarter of a percentage point to 2.5% in December. As a result of this decline, inflation in existing rents is expected to remain low and below that for new rents.

4.4 Inflation expectations

Lower inflation expectations

Survey results show that expectations with regard to future price trends have been revised sharply downwards since the second quarter of 2011.

The quarterly survey conducted by SECO in October shows a further decline in the proportion of households expecting rising prices over the next twelve months (cf. chart 4.7). Nevertheless, the proportion of respondents who expect prices to rise remains higher (33%) than that of those who expect them to fall (24%). However, the largest portion now comprises those households that expect prices to remain unchanged (43%).

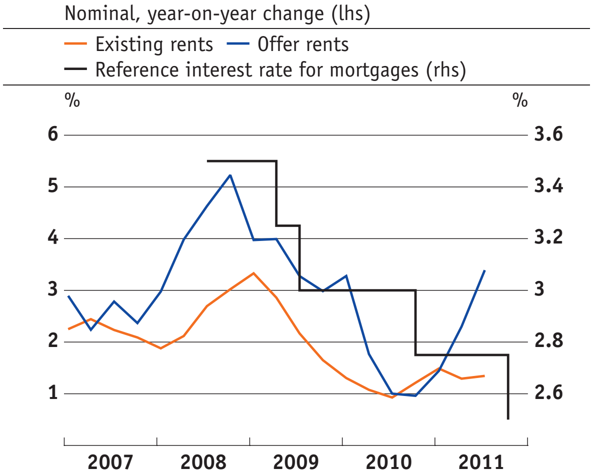
The monthly *Credit Suisse ZEW Financial Market Report* for November showed that 49% of financial market experts surveyed expect CPI inflation rates to remain unchanged over the next six months, while 34% expect a further fall and only 17% expect a rise in inflation. Based on this survey, inflation expectations since April have been revised sharply downwards.

Each quarter, the SNB delegates for regional economic relations hold talks on the economic situation with company representatives from all sectors of the economy. The discussions held in October and November show that the companies surveyed expect an average inflation rate of 0.4% on a six to twelve-month horizon. Compared with the talks held in July and August, inflation expectations are lower.

Producer purchase and sale prices expected to fall

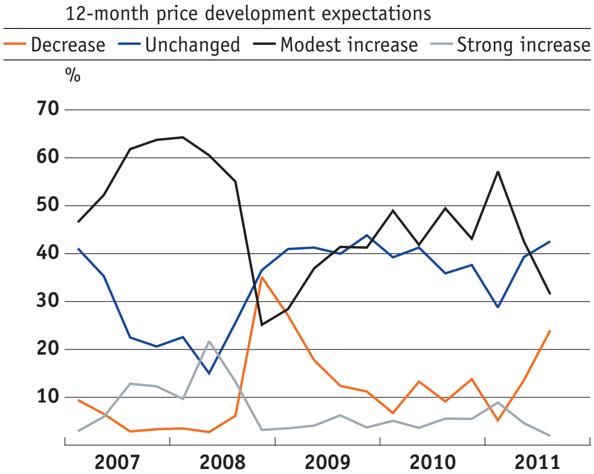
In the survey conducted by the KOF in October, wholesale and industrial companies expected to see a downtrend in sale and purchase prices over a three-month period. July 2009 was the last time they had expected to see purchase prices fall. By contrast, a fall in sale prices had already been predicted in the previous quarter.

Chart 4.6
Apartment rents and reference interest rate



Sources: Federal Office for Housing (FOH), SFSO, Wüest & Partner

Chart 4.7
Survey on expected movements in prices



Sources: SECO, SNB

5 Monetary developments

As a result of the substantial expansion of liquidity to combat the strength of the Swiss franc in August, some short-term interest rates turned negative. They have been close to zero since the previous monetary policy assessment. Long-term interest rates also declined further. In December, the yield on ten-year Confederation bonds reached a new low. The expansionary effects of monetary policy are also evident in the growth of the money supply and in real interest rates, which have remained at a low level.

Since the introduction of the minimum exchange rate on 6 September 2011, the Swiss franc exchange rate to the euro has been above CHF 1.20. Compared to August, the Swiss franc has even depreciated more against the US dollar than against the euro. Nevertheless, even at the current exchange rate, the Swiss franc is still high.

In August, the SNB greatly increased liquidity in order to weaken the heavily overvalued Swiss franc. Since then, banks' sight deposits with the SNB have been at historically high levels. The SNB will continue to maintain liquidity at exceptionally high levels, but has decided not to set a specific target level for sight deposits at present.

Both domestic mortgages and corporate lending in the real economy have continued to see robust growth. In the third quarter of 2011, lending standards and conditions for mortgages remained largely unchanged. By contrast, banks reported a slight tightening of lending standards and conditions for corporate loans – especially loans to large companies. Low interest rates continue to have a favourable effect on the demand for loans.

5.1 Summary of monetary policy since the last assessment

Monetary policy assessment of mid-September

In its quarterly assessment of monetary policy in mid-September, the SNB confirmed that it would implement the minimum exchange rate of CHF 1.20 per euro, announced on 6 September 2011, with the utmost determination. To this end, it was prepared to buy foreign currency in unlimited quantities. It also said that it was aiming to keep the three-month Libor as close to zero as possible, and that it would leave total sight deposits at the SNB at well over CHF 200 billion.

High sight deposits at the SNB

Total sight deposits held at the SNB have averaged CHF 232.2 billion since the last assessment. Of this amount, CHF 190.1 billion was accounted for by the sight deposits of domestic banks and CHF 42.2 billion by other sight deposits. The liquidity measures adopted in August to counter the strength of the Swiss franc led to a substantial increase in sight deposits. Between the assessments in mid-June and mid-September, total sight deposits at the SNB averaged CHF 102.1 billion.

In the week up to 9 December 2011 (the last calendar week before the December monetary policy assessment), total sight deposits at the SNB were reported at CHF 226.0 billion, of which CHF 176.5 billion was attributable to sight deposits of domestic banks.

Liquidity-providing open market operations

At the time of the September 2011 assessment, SNB Bills amounting to CHF 36.8 billion were outstanding. Since then, SNB Bills worth approx. CHF 18.3 billion have fallen due. Starting on 22 September 2011, the SNB has been carrying out regular liquidity-providing repo operations with one-week maturities. In addition, the SNB has provided the money market with liquidity with one-month maturities at regular intervals since 1 December 2011. Foreign exchange swaps have also been concluded at irregular intervals in order to create temporary Swiss franc liquidity. In a foreign exchange swap, the SNB buys foreign currency against Swiss francs in a spot transaction, and simultaneously sells the Swiss francs in a forward transaction.

Rise in banks' surplus reserves

Statutory minimum reserves averaged CHF 10.7 billion between 20 August and 19 November 2011, an increase of around CHF 700 million compared to the preceding period (20 May 2011 to 19 August 2011). On average, banks exceeded the requirement by around CHF 188.5 billion (previous period: CHF 32.1 billion). The average compliance level increased from 419% to 1856%. This shows that banks still wish to hold large amounts of liquidity, and that an increase in sight deposits at the SNB cannot be expected to have its usual effect on the money supply growth via the money multiplier.

Swap agreements with other central banks

On 30 November, the SNB, together with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Federal Reserve, announced the establishment of a temporary network of reciprocal swap lines. The central banks thus expanded their capacity to provide the global financial system with liquidity above and beyond the existing swap agreements in US dollars. The swap agreements enable the SNB to provide other central banks with Swiss francs when required. It would also be in a position to provide liquidity in Canadian dollars, pounds sterling, yen and euros in addition to the existing operations in US dollars. The central banks concerned also agreed to extend the existing US dollar swap arrangements and to lower the interest rate on such swap arrangements to the US dollar overnight index swap (OIS) rate plus 50 basis points (previously 100 basis points). Moreover, on 15 September, the SNB decided, in coordination with the Federal Reserve and other central banks, to offer US dollar liquidity tenders with a term of three months to cover the end of the year.

5.2 Money and capital market interest rates

Money market rates close to zero

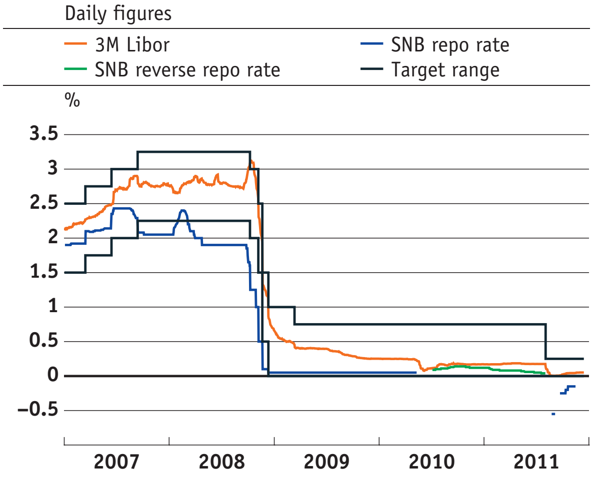
The expansion of Swiss franc liquidity implemented in August is reflected in the persistently low money market rates. The three-month Libor has hovered between 0.00% and 0.05% (cf. chart 5.1) since early September. The Libor rates for shorter maturities, which had temporarily been negative, returned to positive territory. The same applies to the Swiss average rates (SAR).

Long-term interest rates at historically low levels

The yields on medium and long-term Swiss Confederation bonds have been at historically low levels since the end of August. At the beginning of December, they registered a further slight fall. For instance, in mid-December the yield on ten-year Confederation bonds was down to only 0.8%.

The deterioration in the economic outlook resulted, on the one hand, in expectations that

Chart 5.1
Money market rates



Sources: Bloomberg, Reuters, SNB

short-term interest rates would remain low for some time to come. On the other hand, it meant that safe investments such as Swiss Confederation bonds became more attractive. The persistent uncertainty regarding the financing of sovereign debt in some European countries has reinforced this trend. Investor uncertainty is also reflected in the higher yield premia for bonds of companies with low credit ratings, compared with those for companies with good creditworthiness.

Flatter yield curve

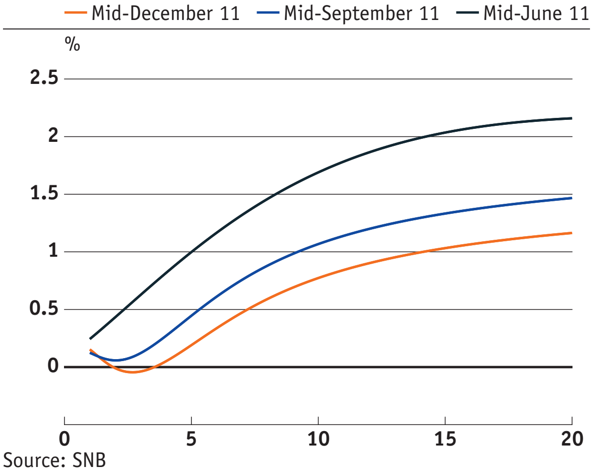
The rise in short-term interest rates from negative to positive territory, combined with a slight decline in long-term rates, resulted in the yield curve flattening out somewhat over the past three months (cf. chart 5.2). The spread between the yield on ten-year Confederation bonds and the three-month Libor, which stood at 1.0 percentage point in mid-September, was 0.8 percentage points in mid-December.

Real interest rates still low

Real interest rates remain at a low level. Both the yields on Confederation bonds and the inflation expectations approximated using inflation forecasts of various SNB models have fallen slightly since the assessment in mid-September. The resulting estimate of real interest rates therefore remained largely unchanged. Estimated real interest rates over a three-year horizon came to –0.1% in mid-December, the same as in mid-September (cf. chart 5.3).

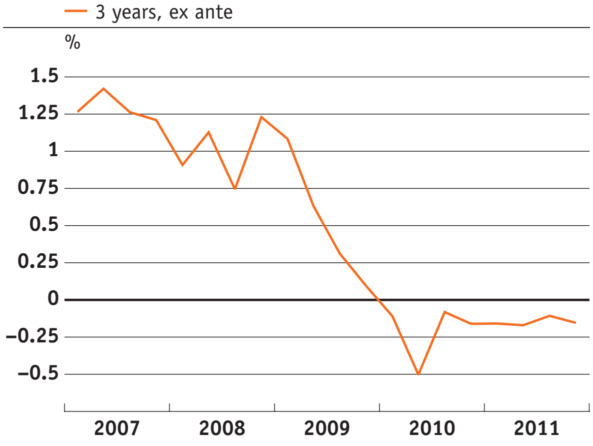
Chart 5.2
Term structure of Swiss Confederation bonds

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



Source: SNB

Chart 5.3
Estimated real interest rate



Source: SNB

5.3 Exchange rates

Slight depreciation of the Swiss franc

Since the assessment in September, the euro and US dollar have risen against the Swiss franc (cf. chart 5.4). In mid-December, the Swiss franc stood at 1.24 to the euro, compared with 1.20 at the time of the last assessment. Over the same period, the Swiss franc/dollar exchange rate rose from 0.89 to 0.95. However, although the export-weighted nominal exchange rate for the Swiss franc lost almost 20% by mid-December compared with its peak in August, it is still well above its level at the beginning of the year.

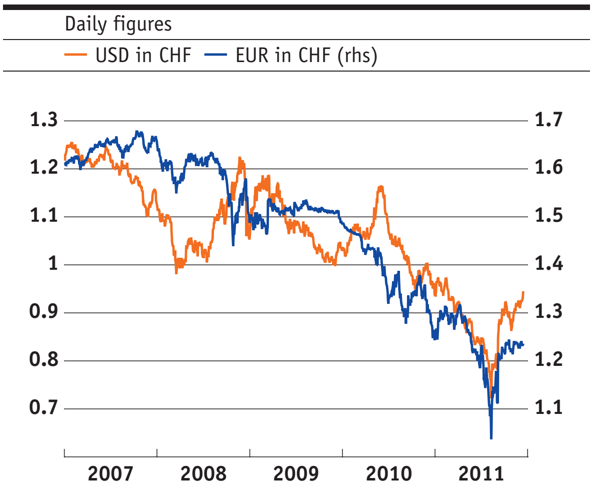
Monetary conditions dominated by exchange rate movements

Since the announcement of the Swiss franc's minimum exchange rate against the euro on 6 September 2011, monetary conditions have become slightly more expansionary. The Monetary Conditions Index (MCI) illustrated in chart 5.5 combines changes in the three-month Libor with the nominal trade-weighted external value of the Swiss franc. The MCI is reset to zero immediately after each monetary policy assessment. As the three-month Libor has hardly changed in recent months, the MCI is currently being shaped almost exclusively by exchange rate movements. The negative value of the MCI in December indicates that, owing to the marginally weaker Swiss franc, monetary conditions are slightly more expansionary than at the time of the last assessment.

Real external value of the Swiss franc remains high

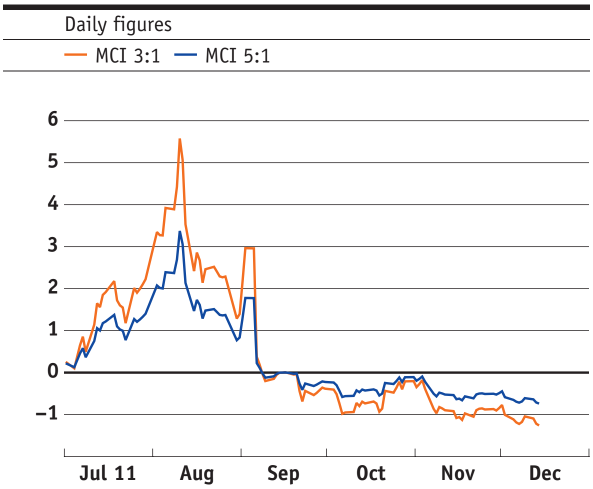
The real trade-weighted external value of the Swiss franc has continued to fall since the last assessment, having peaked in August (cf. chart 5.6). The real depreciation primarily reflects the weakening of the Swiss franc following the introduction of the minimum exchange rate. Despite the depreciation, the real value of the Swiss franc in November was still well above the long-term average and exceeded the high level of 1995 as well. The exchange rate situation continues to weigh on the competitiveness of Swiss exporters.

Chart 5.4
Exchange rates



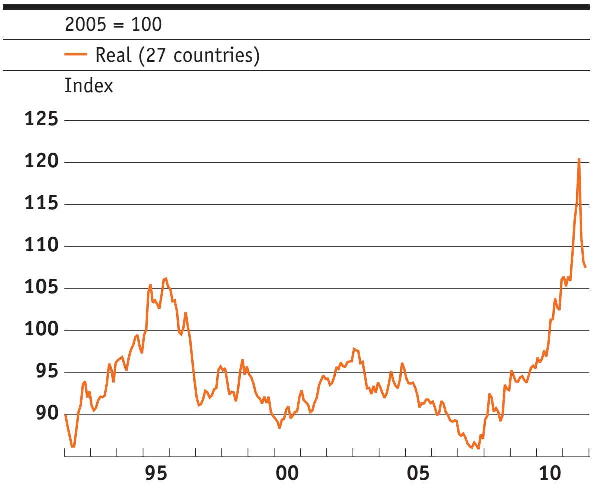
Source: SNB

Chart 5.5
MCI nominal



Source: SNB

Chart 5.6
Trade-weighted external value of Swiss franc



Source: Bank for International Settlements

5.4 Stock markets

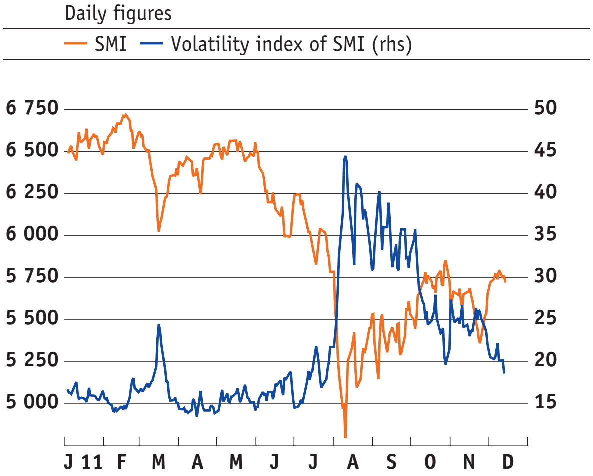
Pronounced uncertainty

The mood on the Swiss equity market has remained nervous in the three months since the last assessment. Although share prices managed by the end of October to recoup part of the losses sustained in July and August, they lost ground again in November. In mid-December, the Swiss Market Index (SMI) was still considerably lower than in the first half of the year (cf. chart 5.7).

The trend on the Swiss equity market mirrors that on the global stock markets. It also reflects investors' assessment of uncertainty. The SMI index of expected 30-day volatility climbed sharply in August. Since then it has fallen back again but remains at a high level.

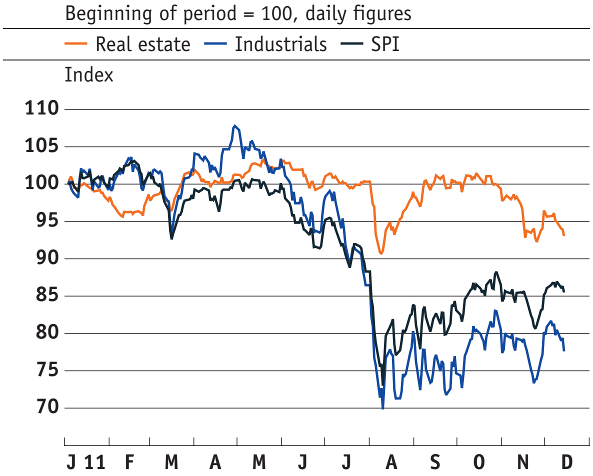
When broken down according to industry segment, share price performance varied greatly. Chart 5.8 shows that the shares of industrial companies, which are heavily influenced by international demand and the exchange rate, performed less well than those of companies that are more aligned with domestic demand, such as real estate companies.

Chart 5.7
Share prices and volatility



Source: Thomson Financial Datastream

Chart 5.8
SPI sector indices



Source: Thomson Financial Datastream

5.5 Monetary and credit aggregates

Monetary base at historically high level

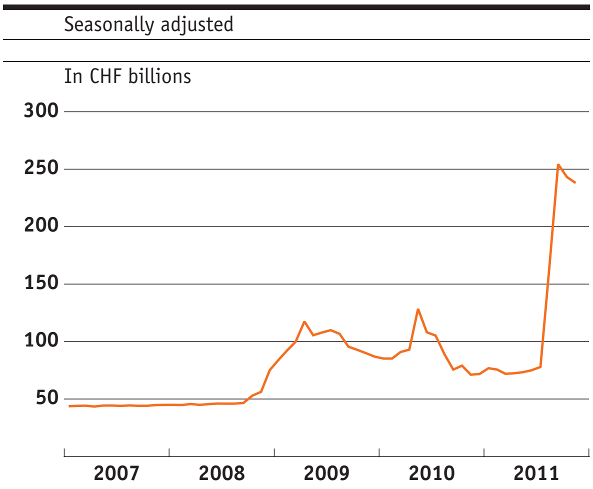
The monetary base, which is composed of banknotes in circulation plus the domestic banks' sight deposits with the SNB, is at a historically high level since its exceptionally sharp rise in August (cf. chart 5.9).

Since 2008, the development of the monetary base has been shaped mainly by the SNB's reaction to the financial crisis and the exchange rate situation. In autumn 2008, the SNB greatly expanded Swiss franc liquidity, in response to the much greater demand for liquidity on the part of banks following the collapse of Lehman Brothers. Liquidity was then scaled back again to a certain degree but remained high compared with pre-crisis levels. In the first half of 2010, foreign exchange market intervention resulted in a renewed, temporary liquidity expansion, prompting the SNB to increase liquidity substantially again in August 2011, in order to weaken the heavily overvalued Swiss franc.

Growth in broad monetary aggregates remains strong

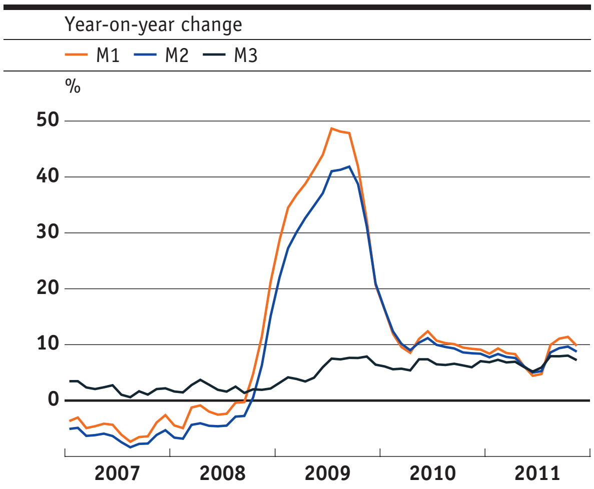
The M1, M2 and M3 aggregates provide a better insight than the monetary base into the impact of monetary policy on the economy and prices. After very strong growth following the substantial fall in interest rates in 2008 and 2009, the monetary aggregates climbed swiftly in 2010 and 2011, though at a slower pace than previously (cf. chart 5.10). In November, M1 (cash in circulation, sight deposits and transaction accounts) was 9.7% above its level a year earlier, while M2 (M1 plus savings deposits) was 8.7% higher and M3 (M2 plus time deposits) rose by 7.2% in the same period (cf. table 5.10). At present, the increase in M3 is being driven mainly by the growth in lending.

Chart 5.9
Monetary base



Source: SNB

Chart 5.10
Growth of monetary aggregates



Source: SNB

Lending growth accelerates

Bank lending accelerated in the third quarter. Measured against the previous year's rates, lending growth rose from 3.8% in the second quarter to 4.6% in the third (cf. table 5.1).

This trend is also reflected in the growth of Swiss franc-denominated loans, which account for around 96% of total loans (cf. chart 5.11). Having remained virtually unchanged in 2009 and 2010, Swiss franc lending growth rose again sharply in the second and third quarters of 2011. Both mortgage lending and other forms of credit contributed to this increase.

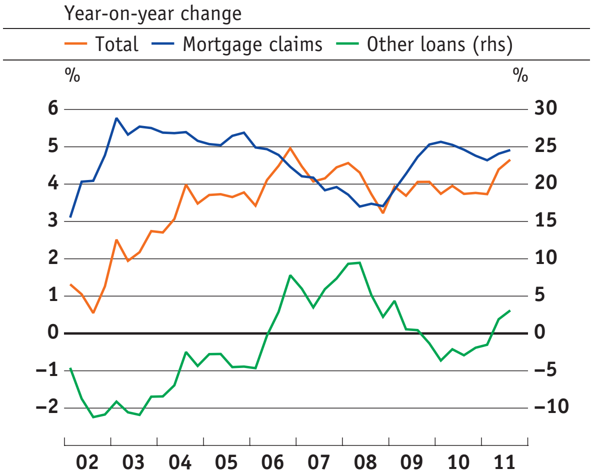
Growth in mortgage loans, which account for around four-fifths of total bank lending and are granted almost exclusively in Swiss francs, remains high at an annualised rate of 4.9% for the third quarter. The growth is being sustained by low mortgage rates, which fell to a new record low in September. The more volatile growth of other loans in Swiss francs returned to positive territory in the second quarter. In the third quarter, the annual rate climbed back to around 3%.

The SNB's quarterly survey of lending does not indicate any substantial changes in lending standards or conditions in the third quarter with regard to mortgage loans to households. By contrast, conditions for corporate loans tightened slightly, as in the previous quarter. Possible reasons are the deteriorating economic outlook and poorer financing opportunities on the interbank market.

Higher ratio of loans to GDP

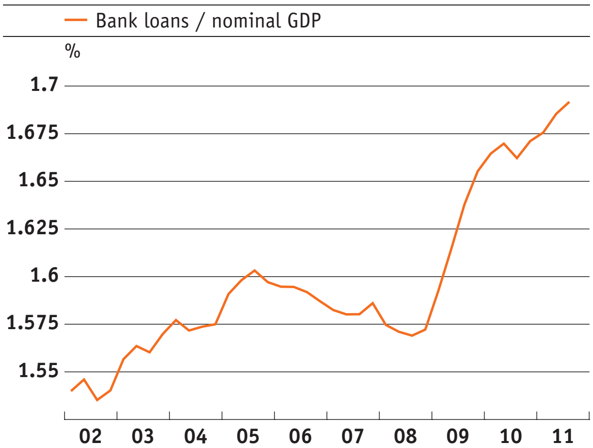
The strong growth in bank loans is reflected in the ratio of bank loans to nominal GDP (cf. chart 5.12). After a sharp rise in the 1970s and 1980s, this ratio remained largely unchanged until mid-2008. Since the beginning of the financial crisis it has increased again significantly. This increase means that banks' lending activities have supported total demand in recent years. The strong lending growth also entails risks for financial stability, however. Experience shows that excessive growth in lending is often the cause of later difficulties in the banking sector.

Chart 5.11
Growth in bank loans in CHF



Source: SNB

Chart 5.12
Bank loans as a percentage of GDP



Source: SNB

Monetary aggregates and bank loans Table 5.1

Year-on-year change in percent

	2010	2010 Q4	2011 Q1	Q2	Q3	2011 September	October	November
M1	**10.7**	**9.2**	**8.7**	**6.3**	**8.7**	**11.1**	**11.4**	**9.7**
M2	**10.2**	**8.4**	**7.9**	**6.2**	**7.8**	**9.4**	**9.7**	**8.7**
M3	**6.4**	**6.4**	**7.0**	**6.0**	**7.3**	**7.9**	**8.1**	**7.2**
Bank loans total [1, 3]	**3.8**	**3.8**	**3.6**	**3.8**	**4.6**	**4.9**	**4.5**	**–**
Mortgage claims [1, 3]	5.0	4.7	4.6	4.8	4.9	5.1	5.0	–
Households [2, 3]	4.9	4.7	4.4	4.4	4.5	4.7	4.7	–
Private companies [2, 3]	5.2	4.7	5.2	5.5	5.7	6.1	6.1	–
Other loans [1, 3]	−1.1	−0.6	−0.8	−0.3	3.1	4.0	2.2	–
Secured [1, 3]	3.8	4.3	6.6	3.6	4.3	6.1	0.5	–
Unsecured [1, 3]	−3.9	−3.5	−5.1	−2.8	2.4	2.7	3.3	–

1 Monthly balance sheets
2 Credit volume statistics
3 Growth rates for the bank loans item and for its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published in the *Monthly Bulletin of Banking Statistics*
Source: SNB

Business cycle trends
SNB regional network

Summary report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of December 2011

Fourth quarter of 2011
The Swiss National Bank's delegates for regional economic relations are constantly in touch with a large number of companies from the different economic sectors and industries. Their reports, which contain subjective evaluations by these companies, are a valuable source of information for assessing the economic situation. The following pages contain a summary of the most important results of the talks held in October and November 2011 with 228 representatives of various industries on the current and future situation of their companies and the economy in general. The selection of companies is made according to a model that reflects Switzerland's production structure; the companies selected differ from one quarter to the next. The reference parameter is GDP excluding agriculture and public services.

Region	Delegate
Geneva	Marco Föllmi
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Martin Wyss
Northwestern Switzerland	Daniel Hanimann
Eastern Switzerland	Jean-Pierre Jetzer
Vaud-Valais	Aline Chabloz
Central Switzerland	Walter Näf
Zurich	Markus Zimmerli

Summary

In the fourth quarter of 2011, the economic situation clouded over noticeably. Uncertainty about future developments has increased perceptibly. Although the introduction of the minimum exchange rate for the Swiss franc against the euro eased the situation for companies and gave them planning security, the exchange rate situation remained a focal point of attention. Moreover, the fragile state of the global economy depressed confidence.

Momentum declined, or even, in some cases, came to a standstill in the manufacturing, construction and services sectors. The demand for labour no longer recorded an increase overall.

As regards real growth in turnover, the outlook for the services sector remains slightly positive, but the growth figure is substantially lower than in previous quarters. In the other two sectors, turnover is likely to stabilise at the current level. Only in construction is capital expenditure likely to continue growing. Average technical capacity utilisation is normal to very high in all three sectors. However, it is likely to decline in the months ahead.

Worries about future developments focus on uncertainty relating to the consequences of the European debt crisis, the risk of a slowdown in the global economy and further exchange rate developments. Substantial portions of the economy are experiencing heavy pressure on their margins. Widespread use is being made of cost-cutting measures and in some places the introduction of short-time working is under preparation.

Reactions to the appreciation in the Swiss franc vary according to sector. In general, the burden on the economy is considerable and has increased further, particularly in the services sector (cf. 'Exchange rate survey: Effects of Swiss franc appreciation and company reactions', pp. 42–47).

1 Business activity

Manufacturing

In manufacturing, the tense exchange rate situation continued to have a negative impact. Business activity lost considerable momentum, also as a result of the slowdown in the global economy. Real turnover decreased slightly from the previous quarter, and no more than a modest increase was recorded by comparison with the previous year.

Most industries were affected by this unfavourable trend, with particularly strong quarter-on-quarter declines recorded in the textile industry and among wood, cardboard and paper-processing companies. The machine and machine tools industry was also hard hit. In watchmaking, business activity was still significantly above year-back levels; momentum has been extremely lively and remains so. Pharmaceuticals representatives also assessed their situation relatively favourably.

The export sector was largely supported by demand from the emerging economies of Asia, while there was also talk in some industries of growing stimulus from North America. Within the euro area, demand originated mainly from Germany, although it had weakened by comparison to the previous quarter.

Construction

In construction, the business situation continued to be favourable, but here, too, momentum slowed. Turnover was slightly up compared to the previous year, but growth over the previous quarter remained no more than modest.

In residential construction and in the finishing trade, the turnover trend remained strong and it is hard to see any end to this favourable basic trend, with order books generally well filled. However, competition has become harsher. In many cases, orders are now only being chosen in a very selective manner, or else offers are consciously being priced high so as to curtail the extremely large number of orders. Yet there are also reports of suspended construction projects, in particular in the public sector. Business activity tends to be more restrained in commercial and industrial construction.

A number of respondents expressed misgivings as regards real estate market risk, even in regions that have not been regarded as trouble spots to date.

Services

In the services sector, turnover remained stable overall, as in the previous quarter, both quarter-on-quarter and year-on-year.

Business activity retained its strong momentum in the case of IT companies, fiduciary companies and consultancies. The situation of commercial banks was somewhat better, particularly in lending business.

Retailing and the hotel industry recorded a decline in business activity. In retailing, customer expenditure per individual purchase is dropping. Cross-border shopping continues to be very widespread and has reached a critical level for some businesses. Since the summer months, several hotel representatives have noted a substantial drop in the number of overnight stays. In the area of seminars and company events, a few hotel representatives spoke of a wave of cancellations, primarily on the part of German guests. There was a significant difference between the rather more favourable business climate in city tourism and the tense situation in the mountain regions, although it was not as extreme as in previous quarters. Recruitment firms also reported a considerable decline in business momentum since summer. Assessments by transport operators and logistics companies also suggest a slowdown in business activity.

2 Capacity utilisation

Overall, utilisation of production capacity is judged to be normal. However, variations between the different sectors remain considerable. Many companies are still faced with the problem of low or inadequate profitability at a high level of utilisation. Compared to the previous quarter, finished product inventories have risen significantly.

In manufacturing, utilisation slipped slightly in comparison to the previous quarter, although it was still considered to be comparatively high. The watchmaking industry and its suppliers reported a very high level of capacity utilisation. Relatively high utilisation was recorded by manufacturers of precision parts, computer equipment, and electronic and optical devices. Most representatives of the chemical industry reported high utilisation. By contrast, the level is low in the pharmaceutical industry.

In construction, technical capacity utilisation was already very high, and climbed even further in the period under consideration. As in previous quarters, all companies that took part in the survey were very satisfied with their level of utilisation. Some companies were unable to meet demand in full. For the months ahead, companies are now expecting a decline in utilisation (measured in terms of normal seasonal utilisation).

In the services sector, capacity utilisation was rated as normal overall, as in the preceding quarters. As before, the highest level of utilisation was recorded at engineering firms and real estate companies. IT companies showed a relatively high level of capacity utilisation while the financial industry and recruitment firms reported normal utilisation. For wholesalers, retailers and the hotel industry, utilisation diminished further.

3 Demand for labour

Overall, the demand for labour has decreased slightly. In manufacturing, it has fallen considerably compared to the previous quarter. While, in the third quarter, company representatives were still assessing staff numbers as slightly too low, they now regarded numbers as too high overall. They were thus exercising restraint in their staff policies. On the whole, they were not replacing employees that left and any seasonal increases in demand were met by taking on temporary staff or though overtime work.

In construction, the demand for labour remained high. The majority of respondent companies rated the size of their current workforce as somewhat low, and the difficulties that a number of them are experiencing in recruiting suitable employees have intensified further. The competition for specialised staff has greatly intensified. Consequently, as in the previous quarter, a limiting factor is often the lack of availability of staff.

In the services sector, staff levels were generally considered appropriate. The IT area and a few firms in real estate were practically the only companies still reporting high staff requirements. The hospitality industry was still overstaffed, as was trading. Some insurance companies also reported that staff numbers were too high.

While difficulties in recruiting staff have increased further in construction, they have eased or become less time-consuming in manufacturing in particular, and – to a lesser extent – in the services sector. An exception here are auditing companies and operators in the transport industry, who report that recruitment is more difficult than usual. In both cases, the reasons given are that requirements with regard to qualifications have been stepped up. Generally speaking, it was still proving rather hard to find specialists and well-qualified staff.

Overall, per capita labour costs were seen as being more or less stable; this represented a further slowdown compared to the previous quarter. Construction was the only area where labour costs were still pointing slightly upwards, but this was less marked than in the previous quarter. However, there is still a severe shortage of specialists in numerous industries, resulting in cost pressure in certain areas. The services sector, especially real estate, consultancies and transport, was faced with higher labour costs per capita.

4 Prices, margins and earnings situation

Generally speaking, the level of margins was still a problem. They were seen as weaker than usual in all sectors of the economy. The main reasons for this situation are the continuing strength of the Swiss franc, increasing prices for some commodities and a weakening in demand. The pressure to optimise costs increased further and, as a result, wide use has been made of a number of different measures. These include recruitment stops, investment stops and the introduction of longer working hours for the same wage. In some cases, companies have made preparations to introduce short-time working. A few companies are outsourcing abroad or are increasingly considering to do so.

As before, manufacturing suffered most from the pressure on profit margins. In many places, the exchange rate situation eliminated profits altogether, according to respondents. Most companies expect purchase prices to decline in the months ahead. However, substantial concessions will also need to be made with regard to selling prices in Swiss francs. Consequently, margins are unlikely to improve significantly. Pharmaceutical companies judged their margins to be within the normal range.

In construction, profit margins were assessed to be lower than usual. In the previous quarters, industry representatives had reported a practically normal margin situation. Expected purchase and expected selling prices were both assessed as tending downward.

In the services sector, respondents in practically all industries considered their profit margins to be below average overall. The situation was particularly bad in wholesaling, retailing and the hospitality industry, but also in the finance industry, which has been suffering from tight margins for a considerable time now. One exception was the IT industry, which reported normal margins overall.

As in the previous quarters, companies taking part in the October/November 2011 survey were again asked about the impact of the Swiss franc appreciation on their businesses. Despite the introduction of a minimum exchange rate for the Swiss franc against the euro at the beginning of September, the situation has again deteriorated slightly from that in the third quarter of 2011. This is attributable to a slightly worse state of affairs in the services sector. Once again, the most negative impact by far of the strength of the Swiss franc was felt by the manufacturing industry. This time, 63% of companies reported that they had experienced negative effects overall (previous quarter: 58%), 29% of companies were unaffected by the appreciation (31%) and 8% of companies reported positive effects (10%) (cf. 'Exchange rate survey: Effects of Swiss franc appreciation and company reactions', pp. 42–47).

5 Outlook

Uncertainty about future developments has increased perceptibly. The caution being exercised by companies is expressed in their restrained employment and investment plans. Their turnover expectations for the next few months have diminished substantially compared to the previous quarter.

Overall, manufacturing companies expect turnover to remain unchanged in the next six months. However, assessments vary considerably from one industry to another. Capacity utilisation is likely to decline, as is employment. In this very uncertain environment, business planning is taking the form of scenarios.

In construction, turnover is likely to stabilise in the next few months in seasonally-adjusted terms, with employment persisting at the current level. Although, in many cases, companies have full order books well into next year, technical capacity utilisation is, on the whole, likely to decrease slightly.

In general, companies in the services sector are cautiously upbeat about the business trend in the next six months. However, turnover growth is projected to be considerably lower than in the previous quarter. Capacity utilisation and headcounts are likely to stabilise at their present levels. Representatives of the IT industry rate their turnover prospects very optimistically while the travel industry is also relatively optimistic. There are considerable differences between mountain tourism, which has been heavily affected by exchange rate movements, and city tourism, which is more dynamic. Industry representatives are expecting a difficult winter season. Commercial banks are more positive, as opposed to asset management banks. Staff recruitment companies also anticipate relatively unfavourable developments. Retailers for their part expect turnover to stabilise at the current rather low level in the months ahead.

With regard to global risk, the focus is on further repercussions from the European debt crisis as well as on the slowdown in the global economy. The increasing number of pessimistic news reports is reducing confidence. However, less mention is being made of commodity shortages than in previous quarters.

Erosion of margins – largely the result of the Swiss franc appreciation – is causing a great deal of concern to the companies affected. In many places, further price cuts will be unavoidable and, in conjunction with even more intense competition, continue to put pressure on margins. A number of respondents hinted at (further) serious consequences for their businesses if the Swiss franc remains at its current high level. A few respondents expressed unease about the continued low level of interest rates and the associated risks in the real estate industry.

The high level of uncertainty with regard to the future path of the economy is reflected in investment plans. Equipment investment is likely to stagnate at the current volume in all three segments. A slight increase in building investment is still planned in the area of construction and, to a lesser extent, in the services sector. Some manufacturing companies intend to cut back investment in Switzerland in favour of new investment abroad. This applies particularly to companies already operating abroad.

Acknowledgements

The SNB would like to thank representatives from some 900 companies that have consented to take part in interviews with the delegates for regional economic relations during the course of 2011. In doing so, they have made a significant contribution to the evaluation of economic developments. The companies listed below have agreed that their names may be published:

A

A. Käppeli's Söhne AG, Sargans; A. Schneider SA; Aaretal Reisen; Abacus Research AG; ABB Schweiz AG; Accenture AG; acrevis Bank AG; Actelion Ltd; Adecco Human Resources AG; AERNI riedogroup AG; ag möbelfabrik horgenglarus; Agathon AG; Agie Charmilles New Technologies SA; Agie-Charmilles SA; Agility Logistics AG; Aldo Lepori SA Impresa Costruzioni; Alfred Müller AG; Aligro – Demaurex & Cie SA; Allianz Suisse SA; Allreal-Gruppe; Alltitude SA; ALPAR Flug- und Flugplatzgesellschaft AG; Alpiq InTec West AG; AMAG Automobil- und Motoren AG; Amaris Consulting Sàrl; Amaudruz SA; Ammonia Casale SA; ANDRITZ HYDRO AG; Angela Bruderer AG; Anliker AG; Anthamatten Meubles SA; Aptar SA (Lugano); Arbosa SA; Arfa Röhrenwerke AG; ASAG Auto-Service AG; Atelier d'architecture Brodbeck-Roulet SA; Atelier Jeca; Atmoshaus-Gruppe; Auto Marti AG; Auto Schwarz AG; auto-schweiz; Avis Autovermietung AG; AXA Winterthur.

B

B. Braun Medical SA; Bachem AG; Bad Schinznach AG; Baechler Teinturiers SA; Baker & McKenzie Genève; Baltensperger AG, Seuzach; Banca Popolare di Sondrio (Suisse) SA; Banca Raiffeisen del Vedeggio società cooperativa; Bangerter Mikrotechnik AG; Bank EEK; Bank Julius Bär AG; Bank Vontobel AG; Banque Bonhôte & Cie SA; Banque Cantonale de Fribourg; Banque Cantonale du Jura; Banque Cantonale du Valais; Banque Cantonale Vaudoise; Banque de dépots et de gestion; Basel Tourismus; BASF; BASF Monthey SA; BASF Pharma (Evionnaz) SA; Basler & Hofmann AG; Basler Kantonalbank; Basler Versicherungen; Batimetal SA; Baumann Federn AG; Baumann Koelliker AG; BDO AG; Beck Glatz Confiseur AG; Beckman Coulter Eurocenter SA; Belcolor AG Flooring; Belimo Automation AG; Belimport SA; Bergbahnen Sörenberg AG; Bergeon SA; Bern Tourismus; Berndorf Luzern AG; BERNINA International AG; Bertholet + Mathis SA; Bertschi AG; Best Western Hotel Bristol und Bären, Bern; Best Western Hôtel Mirabeau, Lausanne; Bezirks-Sparkasse Dielsdorf; BG Ingénieurs Conseils SA; Bici Entertainment SA; Bico AG; BINDELLA Terra vite vita SA; bio-familia AG; Biokema SA; Blumenbörse Rothrist; BMW (Schweiz) AG; Bobst SA; Bodum (Schweiz) AG; Bolle & Cie SA; Bondpartners SA; Bordier & Cie; Bosch Packaging Systems AG; Bossard Holding AG; BP (Switzerland) AG; BR Bauhandel AG; Bracelets Protexo SA; Brauchli SA; Brenntag Schweizerhall AG; Bringhen SA; Brossi AG; BS MediaVision; BSI SA; B-Source SA; Bucher Reisen AG, Luzern; Bucherer (Lausanne) SA; Bühler AG, Uzwil; Burckhardt Compression AG; Burkhalter Holding AG; BVZ Holding AG.

C

C. Messerli SA; C. Vanoli AG; CABB AG; Cafim SA; CAMPUS Sursee; Cand-Landi SA; Candrian Catering AG; Carasso-Bossert SA; Cargill International SA; Carlson Wagonlit Travel; CasaInvest Rheintal AG; Cash+Carry Angehrn AG, Gossau/SG; CDM Hôtels & Restaurants SA, Lausanne; CDS Bausoftware AG; Centre Commercial Chavannes-de-Bogis; Centre de Congrès Montreux SA; Chic Chaussures SA; Chocolat Frey AG; Chocolat Stella SA; Chocolats et Cacaos Favarger SA; Christian Cavegn AG; Christian Jakob AG; Cinérive SA; Ciolina AG; City-Garage AG, St. Gallen; Clariden Leu AG; Claudio d'Orlando SA; Clientis Bezirkssparkasse Uster; Clientis EB Entlebucher Bank; Clientis Sparcassa 1816, Wädenswil; CMB Banque Privée (Suisse) SA; Coiffeur Tscharner/Model Hair; Communication AG; Compagnie Financière Tradition SA (CFT); Competec Holding AG; Comptoir Immobilier SA; Confiserie Sprüngli AG; Consitex SA; Contrinex S.A.; Coop; Corti Holding AG; Création Baumann AG; Credit Suisse; Cristuzzi Immobilien Treuhand AG.

D

Data-Unit AG Informatik; Dätwyler Holding AG; Debio Recherche Pharmaceutique SA; Debrunner Acifer AG; Delta Möbel AG; Dentan Frères SA; Dipl. Ing. Fust AG; Dolder AG; Doors Computer SA; Dosenbach-Ochsner AG; Dr. Röthlisberger AG; Dreyfus Söhne & Cie AG; DSR Groupe; Dubois & Dépraz SA; Dupasquier & Cie SA; Dyhrberg AG.

E

e.e.com elektroanlagen ag; EAO Group; EBM; eboutic.ch SA; Ecom Agroindustrial Corp Ltd; ECOPLAN; Ed. Perillat SA; EFG International SA; Eichenberger + Siegenthaler AG; Einkaufszentrum Glatt AG; Einkaufszentrum Säntispark Migros; Electrolux Schwanden AG; Elektro-Material AG; ELESTA relays GmbH; elvetino ag; Embrex Stickereien AG; Emil

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F

F. Hunziker + Co AG; Falegnameria Bertolini SA; Favre Transports internationaux TIR; Felco SA; Feldmann Bau AG Bilten; Feldschlösschen Getränke AG; Felix Transport AG; Feller AG, Horgen; Felss Rotaform AG; Ferriere Cattaneo SA; Ferrovia Monte Generoso SA; Fert & Cie SA; Fisba Optik AG; FLUMROC AG; FNAC (Suisse) SA; Fogal AG; FONCIA Switzerland SA; Forces motrices valaisannes; Forever Laser Institut SA; Forster Rohner AG; Four Seasons Hôtel des Bergues, Genève; Fraisa Holding AG; Frey Ernst AG; Fritz Bruderer AG; Fritz Schiess AG; FTI Touristik AG.

G

G. Fornerod; Gadola Unternehmungen; Gainerie Moderne SA; Galenica Gruppe; Galland & Cie SA; Galliker Transport AG; Gallo Reinigungen AG; Ganz + Co. AG, St. Gallen; Garage Berger SA; Garaventa AG; Garbani AG; Gastrag; gategroup; Gebr. Ammann & Co. AG; Gebrüder Kuoni Transport AG; Genecand Traiteur SA; Genedata AG; GENERALI Assurances Générales SA; Géo-Découverte SA; Georg Fischer AG; Georges Dentan SA; Gétaz Romang SA; Gewerbe-Treuhand-Gruppe, Luzern; GGZ Gartenbau Genossenschaft Zürich; Givaudan (Suisse) SA; Glarner Kantonalbank; Gmür + Co AG; Golfhotel Les Hauts de Gstaad; Gondrand SA; Gotec SA; Grand Casino Basel AG; Grand Casino Kursaal Bern AG; Grand Casino Luzern AG; Grand Hotel Kempinski, Genève; Grand Hotel Zermatterhof, Zermatt; Grandi Magazzini Manor Sud SA; Grands Magasins Globus SA; Grands Magasins Manor SA; Graphax AG; Grau Electricité SA; Gregor Furrer & Partner Dienstleistungs AG; Griesser AG; Group8 Sàrl; Groupe Urfer SA; Groupe Vaudoise Assurances; Gruner AG; Gruppo Fabbri (Svizzera) SA; Guignard Desserts Orbe SA.

H

H. Goessler AG; HACO Swiss Group; Haderer AG Wisa-Gloria; Haldimann AG Murten; Hälg Holding AG; Hans K. Schibli AG; Häring & Co AG; Harisport Adelboden; Hartmetall AG; Heggli AG; Heineken Switzerland AG; Helbling Holding AG; Helsinn Holding SA; Helvetia Versicherungen; Hermann Bühler AG; Hewlett-Packard (Schweiz) GmbH; Hiestand Schweiz AG; Hiltl AG; Hilton International Switzerland GmbH; Hoffmann F.-La Roche AG; Holzbau Kayser AG; Holzwerk Lehmann AG; Hornbach Baumarkt (Schweiz) AG; Hotel Alpine Lodge, Saanen-Gstaad; Hotel Bad Horn AG, Horn; Hôtel Beau-Rivage SA, Genève; Hotel Bernerhof Gstaad; Hotel Carlton-Europe, Interlaken; Hotel Cascada AG, Luzern; Hotel Colorado SA, Lugano; Hôtel de la Paix, Lausanne; Hotel Des Balances AG, Luzern; Hotel Du Lac, Lugano; Hotel Ermitage-Golf und Beatus, Schönried ob Gstaad; Hôtel Intercontinental Genève; Hotel Laudinella, St. Moritz; Hotel Lido Seegarten, Lugano; Hotel Lugano Dante Center SA; Hotel Palace Luzern AG; Hôtel Palafitte, Neuchâtel; Hotel Säntispark, Abtwil; Hotel Schweizerhof, Lenzerheide; Hotel Schweizerhof, St. Moritz; Hotel Seehof, Davos Dorf; Hotel Sempachersee AG, Nottwil; Hotel Steffani, St. Moritz; Hôtel Vanessa, Verbier; Hotel Waldhaus, Sils Maria; Hotel Waldstätterhof AG, Brunnen; Hotel zum Storchen, Zürich; HOTELBERN; Hotelplan Suisse (MTCH AG); HRS Real Estate AG, St. Gallen; HUG AG; Hugo Steiner AG; Hunkeler AG.

I

iba AG; IKEA AG; Ilem SA; Implenia AG; Importexa SA; Impresa Generale Pfister SA; INDUCS AG; Induni & Cie SA; Ing. Marco Taddei SA; Inkasso Küng AG; Internationale Treuhand AG; Interprox SA; IOZ InformationsOrganisationsZentrum AG; ISS Schweiz AG; ITECOR Suisse SA; ITS SA.

J

Jakob Müller AG; Jean Gallay SA; Jenny Fabrics AG; Jensen Group; Jet Aviation AG; Jetivia SA; Johann Müller AG; Jungfraubahnen Holding AG; JURA Elektroapparate AG; JUST Schweiz AG.

K

K. Dysli AG; K+D AG, St. Gallen; Kardex Systems AG; Karl Steiner AG; Karl Vögele AG; Keller AG, Wald; Kindlimann AG; Klarer Fenster AG; Knorr-Nährmittel AG; Kongress + Kursaal Bern AG; KPMG AG; Kudelski SA; Kuhn Rikon AG; Kuoni Travel Holding Ltd.

L

L. Kellenberger & Co. AG, St. Gallen; La Tipografica SA; Lamello AG; Lamprecht Transport AG; Landis Bau AG; Lantal Textiles AG; Lardi & Partners SA; Lässer AG, Stickmaschinen; Laubscher Präzision AG; Lauener + Cie SA; Laurent Membrez SA; Lausanne Palace & SPA; Lavagetti Service Sagl; Lavanderia Cavazzi Sagl; Lavotel SA; Lazzarini AG; Leica Geosystems AG; Leister Process Technologies; LEM SA; Lemco SA; LeShop SA; Let's Go Fitness Holding SA; LGT Bank (Schweiz) AG, Bern; Locanda del Giglio Sagl, Roveredo; Loeb AG; Lonza AG; Losinger Constructions SA; Losinger Marazzi SA; Lötscher Tiefbau AG, Luzern; Lükon Thermal Solutions AG; Luxury Good International (L.G.I.) SA; Luzerner Kantonalbank AG; LWP Ledermann Wieting & Partners SA; LZ&A Architekten ETH-SIA AG.

M

Maerki Baumann & Co. AG; Maestrani Schweizer Schokoladen AG; Mandarin Oriental Genève; Manor AG; Manotel SA, Genève; Manpower AG; Märchenhotel Bellevue, Braunwald; Marti Bauunternehmung AG, Luzern; Marti Ernst AG; Martin Brunner Transport AG; Marvinpac SA; Matériaux de construction Jérôme SA; Mathys SA; Matti Immobilien AG; Maulini SA; maxon motor AG; MCI Group Holding SA; MCL Medizinische Laboratorien AG; Media Markt Grancia SA; Medtronic (Suisse) SA; Mercedes-Benz Automobil AG; Mercuri Urval AG; Mercuria Energy Trading SA; Mérinat SA; Metallizzazione SA; Metzgerei Angst AG; Micarna SA; Microsoft Schweiz GmbH; Migros Bank; Migros; Mirabaud & Cie; MIT-GROUP; Mitloedi Textildruck AG; Möbel Hubacher AG; Möbel Lehmann AG; Möbel Märki; Möbel Pfister AG; Möbel Svoboda AG; mobilezone AG; Mobilière Suisse, Agence générale Genève; Model AG; Model Emballages SA; Montres Louis Erard SA; Mopac modern packaging AG; Mordasini Maler Gipser AG; Muesmatt AG Fenster und Schreinerei; Müller AG Verpackungen; Muttoni SA.

N

Naef & Cie SA; Namics AG; Nationale Suisse; Nestlé Suisse SA; Netstal-Maschinen AG; New Access SA; Newave Energy Holding SA; Nidwaldner Kantonalbank; Niederer Kraft & Frey AG; Notter Otto AG; Nouvag AG; Novartis International AG; Novelis Switzerland SA; Nuova Benelli SA; NZZ Mediengruppe.

O

OBOBettermann AG; Obwaldner Kantonalbank; Oertli Instrumente AG; Oleificio Sabo SA; OLZ & Partners Asset and Liability Management AG; Opus One SA; Orange Communications SA; Oris SA; Ottiger & Partner BSW AG; Otto Fischer AG Elektromaterial.

P

Pac-Team SA; PanGas AG; Panorama Resort & Spa, Feusisberg; Papirec SA; Partners Group AG; Pasta Röthlin AG; Pathé Suisse SA; PEMSA Human Resources SA; Perosa AG; Perreten & Milleret SA; PESA SA; Pestalozzi+Co AG; Pfister SA Case Unifamiliari; PFISTERER SEFAG AG; Pierhor SA; Piguet Galland & Cie SA; Pilatus- Bahnen AG; Pilet & Renaud SA; Pini & Associati, Ingegneri Consulenti SA; Pirelli Société Générale SA; Pivoine SA; PKB Privatbank AG; planova human capital AG; Planzer Transport AG; PLCO Pipelines Construction SA; Poli Bau AG; Polivideo SA; Poretti SA; POSCOM Ferien Holding AG; PP Pharmacie Principale SA; PPC Electronic AG; Prantl Bauplaner AG; Precicast SA; PricewaterhouseCoopers Schweiz; PRO Entreprise Sociale Privée; PSG Gastro AG; PX Holding SA.

Q

Qualipet AG.

R

R. Bühler AG; R. Nussbaum AG; Radio Basilisk; Radisson Blu Hotel, Luzern; Radisson Blu Hotel, St. Gallen; Ramelet SA; Ramseier Holding AG; Randstad (Suisse) SA; Raymond Weil SA; Redinvest Immobilien AG; Regazzi SA; Régence Production SA; Régie du Rhône SA; Regiobank Männedorf AG; Regionalflugplatz Jura-Grenchen AG; Reitzel (Suisse) SA; Restaurant Bären Köniz; Rhenus Alpina AG; Rhyner Logistik; Richter·Dahl Rocha & Associés architectes SA; Ricola AG; Rigot & Rieben Engineering SA; Ringier Print Adligenswil AG; Risi AG, Baar; Ritschard SA; Rittmeyer AG; rlc ag; Röfix AG; Rohner AG; Rolf Gerber AG; Rolic Technologies Ltd; Rolla SP Propellers SA; Romantik Hotel Sternen, Kriegstetten; Roth Gerüste AG; RWD Schlatter AG.

S

SA di Gestione Shopping Center Morbio Inferiore; SABAG Holding AG; SAFED Suisse SA; Saint-Gobain Isover SA; Sanaro SA; Sanitas Troesch AG; Santhera Pharmaceuticals (Schweiz) AG; SAP (Schweiz) AG; Savoy SA; saw spannbetonwerk ag; SB Saanen Bank AG; SBB Cargo AG; Schaffner Holding AG; Schifffahrtsgesellschaft des Vierwaldstättersees AG; Schindler Elettronica SA; Schmelzmetall AG; Schmid Gruppe; Schmidlin-TSK AG; Schulthess Group AG; Schweizer Reisekasse REKA; Schweizerische Rheinhäfen; Schwob AG; Schwyzer Kantonalbank; Sécheron SA; Sedelec SA; Seeburg Hotels AG, Luzern; Seiler Hotels Zermatt AG; Service 7000 AG; Shell (Switzerland) AG; Shopping Arena; Sicpa SA; Sika Schweiz AG; Silent Gliss Holding AG; Slongo AG; Smarthotel Geranio au Lac Sagl, Muralto; Società Anonima Emanuele Centonze; Società Cooperativa fra produttori e consumatori Migros – Ticino; Società Elettrica Sopracenerina SA (SES); Société d'Instruments de Précision SA; Société Fiduciaire d'Expertise et de Révision SA (SFER); Société Générale Private Banking (Suisse) SA; Sonova Holding AG; Spaini Bau AG; Spar + Leihkasse Gürbetal; Sparkasse Schwyz; Spavetti AG; Spirig Pharma AG; Sportbahnen Schwyz-Stoos-Fronalpstock AG; Sporthotel Adler, Adelboden; Spross-Holding AG; Spühl AG; St. Galler Kantonalbank; Stamm Bau AG; StarragHeckert AG; STEG Computer GmbH; Steinemann Technology AG; Steiner Mollis AG; STETTLER SAPPHIRE AG; Stewo International AG; Stöcklin Logistik AG; Studi Associati SA; Stump's Alpenrose AG, Wildhaus; Suhner AG, Winterthur; Suitenhotel Parco Paradiso; Sunstar-Hotels AG, Davos Platz; SV Group; Swatch Group; Swiss Heidi Hotel AG, Maienfeld; Swiss Madeness Solutions Group; Swissmetal AG;

Swissôtel Le Plaza Basel; Swissôtel Métropole Genève; Swissquote Bank SA; Symbios Orthopédie SA; Syngenta AG.

T

Tarchini Group; Tavernier Tschanz Avocats; Téléverbier SA; Telsa SA; Teo Jakob AG; The Nielsen Company (Switzerland) GmbH; Thermalp Les Bains d'Ovronnaz SA; Thiébaud & Co SA; Toggenburger Unternehmungen; Topwell-Apotheken AG; Tourisme Pour Tous; Treuhand- und Revisionsgesellschaft Mattig-Suter und Partner; Triba Partner Bank AG; Trivadis AG; Trüb AG; TRUMPF Grüsch AG; TRUMPF Maschinen AG; Trunz Holding AG; TRUVAG Treuhand AG; Tschanz AG; Tschopp Holzindustrie AG; Tschümperlin + Co AG; Twerenbold Reisen Gruppe; Tyco Electronics Logistics AG.

U

UBS AG; UD Print AG; Uhren und Bijouterie Nicklès; Union AG; Union Bancaire Privée, UBP SA; Unisto AG; Unitechnologies AG; upc cablecom GmbH; Urner Kantonalbank; USM U. Schärer Söhne AG.

V

Vacheron Constantin; Valiant Bank AG; Vallera Sagl; VBG Verkehrsbetriebe Glattal AG; Vectoris AG; Verwo Acquacut AG; VICTORIA-JUNGFRAU Grand Hotel & Spa; Visilab SA; Volg Konsumwaren AG.

W

W. Dieziger AG Bauunternehmung; WAGO Contact AG; Waldhaus Flims Mountain Resort AG, Flims; Walo Bertschinger AG; Walter Meier AG, Schwerzenbach; Weisbrod-Zürrer AG; Weiss + Appetito AG; Weleda AG; Wellis AG; Welti-Furrer AG; Weseta Textil AG; Westiform AG; WEZ Kunststoffwerk AG; wincasa AG; Windlin Gruppe; Wisekey SA; WMC IT Solutions AG.

Z

Zehnder Group AG; Zentrum Paul Klee; Ziegelei Schumacher; Ziegler Papier AG; zoller & partner Immobilien-Management AG; Zoo Basel; Zoo Zürich AG; Züblin Immobilien Holding AG; Zuger Kantonalbank; Zünd Transport AG; Zürcher Kantonalbank; Zürcher Landbank AG, Elgg; Zurich Financial Services Group; Zweifel Pomy-Chips AG.

4

4PL Central Station Group.

Exchange rate survey: Effects of Swiss franc appreciation and company reactions

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of December 2011

Fourth quarter of 2011

In the economic survey for the fourth quarter, which was carried out in October and November 2011, delegates from the SNB's regional network once again systematically raised the exchange rate situation with companies, with the aim of quantifying the effects of the appreciation of the Swiss franc. A total of 228 companies took part in the survey. The selection of companies is determined according to a model that reflects Switzerland's production structure. The companies selected differ from one quarter to the next. The reference parameter is GDP excluding agriculture and public services.

1 Overall results of the survey

Compared to the previous quarter, the overall results of the company survey again declined slightly, despite the EUR/CHF minimum exchange rate of 1.20 set by the SNB at the beginning of September. The renewed deterioration was mainly attributable to the services sector. Of the respondent companies, 63% (previous quarter: 58%) reported experiencing negative effects from the appreciation of the Swiss franc (39% significantly and 24% moderately negative). A total of 29% of companies (previous quarter: 31%) said the appreciation of the Swiss franc had not significantly affected their business activities. As can be seen from chart 2, the majority of these companies have no exchange rate exposure. In addition, hedging strategies or mutually offsetting factors help to neutralise exchange rate effects. Accordingly, most of these companies are not anticipating any impact in the near future either (cf. chart 3).

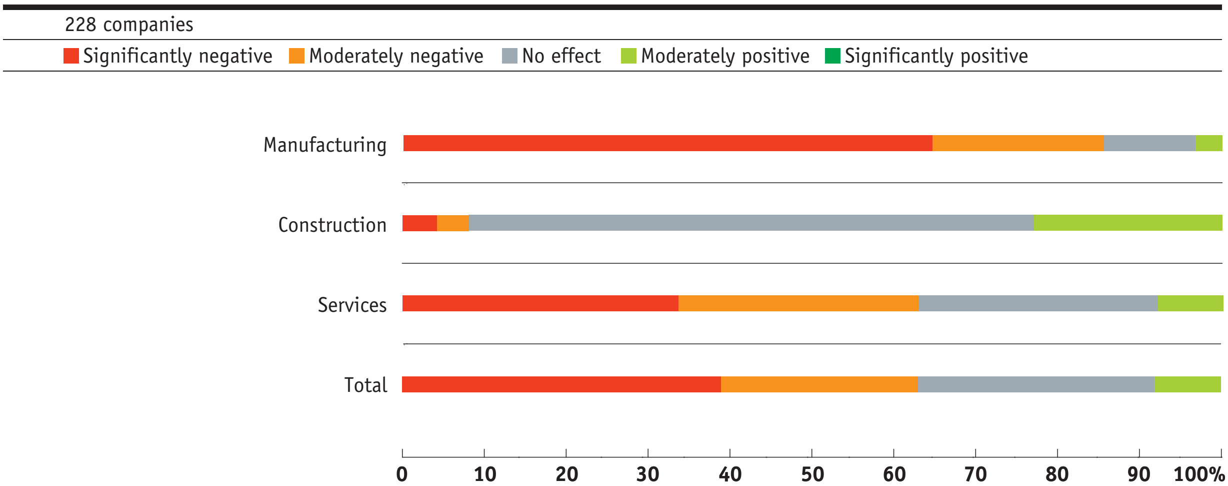
Positive effects from the appreciation of the Swiss franc were experienced by the remaining 8% of respondent companies (previous quarter: 10%).

In manufacturing, the proportion of companies reporting significantly negative effects remained virtually unchanged at 65%. Similarly, the proportion of companies experiencing moderately negative effects stayed level at around 20%. In the services sector, the proportion of companies experiencing negative effects increased to 63% (previous quarter: 56%); both the proportion of companies experiencing moderately and those experiencing significantly negative effects increased. In addition, the share of companies reporting positive effects of appreciation declined to 8%. In construction, the situation remained largely unchanged: as before, about two-thirds of companies are unaffected by the Swiss franc's strength. By contrast, the proportion of companies experiencing positive effects decreased to 23% (previous quarter: 29%). Furthermore, there were no longer reports by any of the construction companies of significantly positive effects from the appreciation. It should be noted that industrial companies with construction-related activities are included under manufacturing. Thus, any negative effects experienced by such companies as a result of fiercer competition from abroad do not influence the construction sector results in this survey.

2 Negative effects – where and how?

In all, 143 companies reported moderately or significantly negative effects from the appreciation of the Swiss franc. Chart 4 shows the markets where these negative effects were observed and the form they took; compared to the previous quarter, the picture changed only marginally. As expected, export activities were again hardest hit. In most cases, the companies that were adversely affected found themselves faced with lower profit margins in their foreign sales markets (almost two-thirds of companies), lower sales volumes (47% of companies) and lower Swiss franc-equivalent sales prices (47% of

Chart 1
Effects of appreciation of Swiss franc, by sector



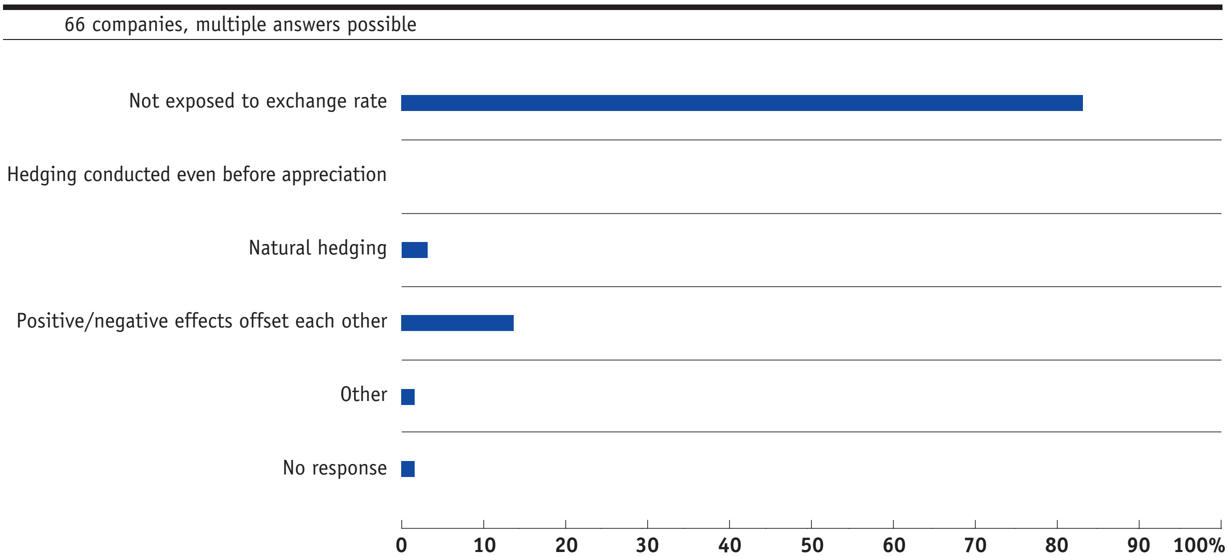
Source: SNB

companies). The phenomenon of unsatisfactory sales prices was thus more marked than in the previous quarter. It was also clear that companies are losing orders because of the stiffer competitive environment. In the domestic market, too, a higher proportion of companies reported tighter margins, lower sales prices and reduced sales compared to the previous quarter.

In addition to the direct impact on the export industry, indirect effects were also reported by suppliers to export-oriented companies (cf. lower third of chart 4). These indirect negative effects also seem to have increased somewhat.

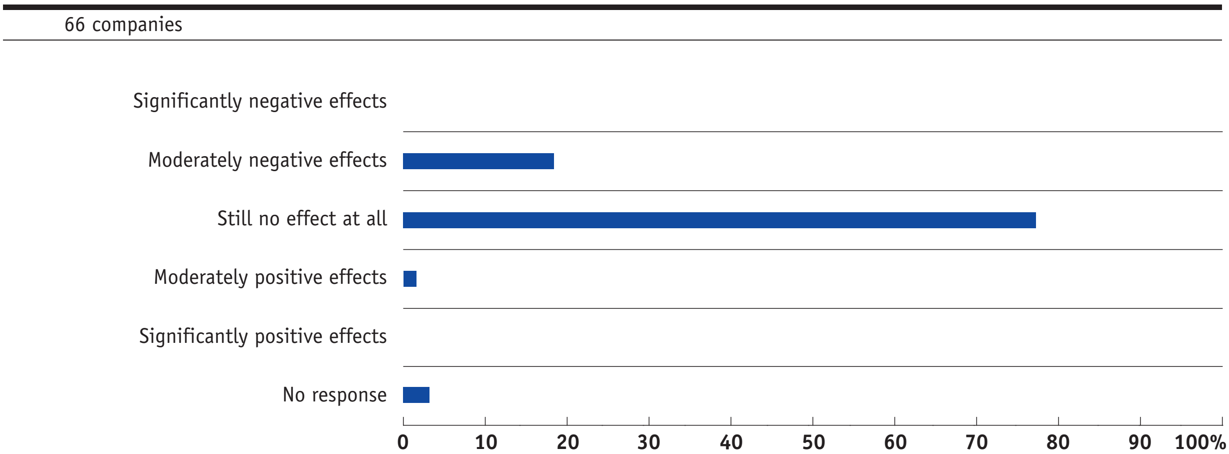
The industries hit hardest by the negative effects of the appreciation were textiles and clothing, the metals and machinery industries, and manufacturers of electronic products and precision instruments. The results for the hospitality industry continued to worsen compared to the previous quarter's survey. Of the 22 hotel representatives interviewed, eleven reported significantly negative effects from the appreciation and eight reported moderately negative effects; the other three hotel representatives said the strength of the Swiss franc had no appreciable impact. City-based tourism continued to perform better than tourism in the mountain regions, albeit less markedly than in previous quarters. The picture for retailing has deteriorated further since the previous quarter, with practically all retailers surveyed reporting negative effects from the exchange rate situation. There was a further increase in Swiss residents shopping abroad, and this phenomenon was

Chart 2
Companies not affected: explanations



Source: SNB

Chart 3
Companies not affected: expectations while the exchange rate remains unchanged



Source: SNB

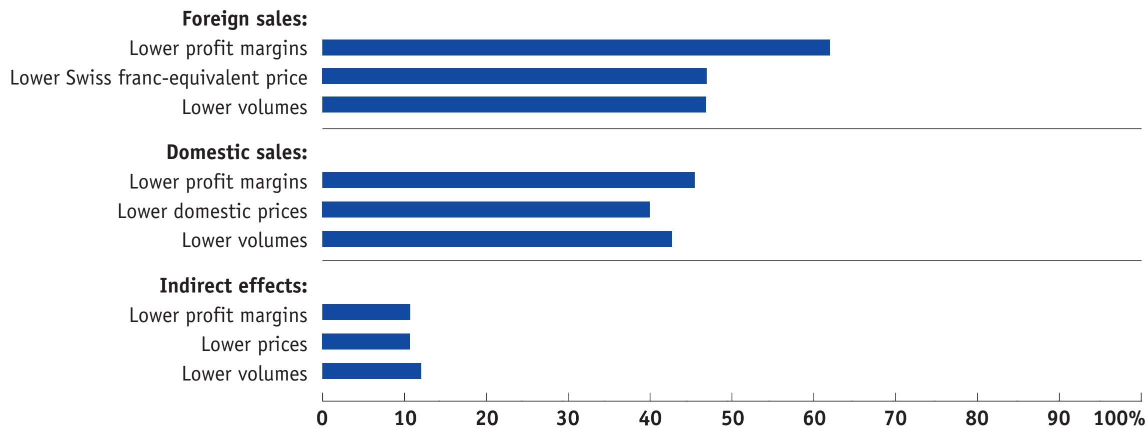
once again observed in area beyond the border regions; for some of the affected businesses, the situation has become critical. The situation in wholesaling has also worsened, with the majority of respondents reporting moderately or even significantly negative effects. Banks with asset management activities experienced mainly negative effects, although the situation has cased slightly since the third quarter. By contrast, representatives of the IT and the real estate management and brokerage industries, as well as fiduciary firms, generally reported either no effects or positive effects.

3 Negative effects – how are companies reacting?

Companies were also asked about the measures they had already taken to counter the effects of the Swiss franc's appreciation. Chart 5 shows the range of these reactions. The large majority of the companies did take action, with the most frequent measures being those aimed at reducing production costs. Labour costs have been cut mainly by lowering headcount. The tendency to extend working hours while keeping pay levels unchanged also increased further. The percentage of negatively affected companies that have implemented or are considering implementing cuts in headcount is 21%. In most cases, however, cost-cutting measures have continued to

Chart 4
Negatively affected companies: effects of appreciation of Swiss franc

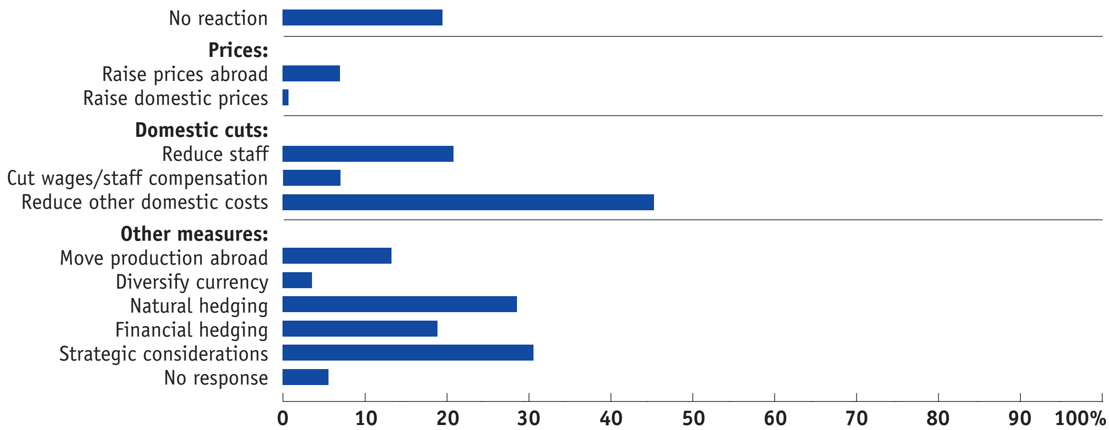
143 companies, multiple answers possible



Source: SNB

Chart 5
Negatively affected companies: reactions to appreciation of Swiss franc

143 companies, multiple answers possible



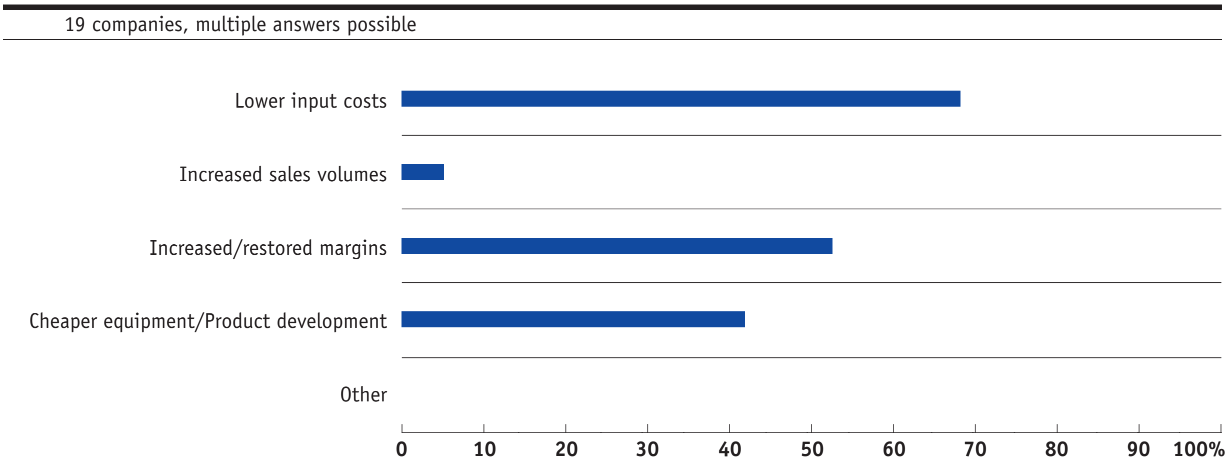
Source: SNB

focus on other production costs, with the percentage of these measures further increasing to 45% (previous quarter: 38%). The use of hedging strategies (mainly in the form of natural hedging) is widespread. Some companies are trying to enhance their range of products and services in terms of value added. More than 30% of the adversely affected companies said they were also engaging in strategic thinking about the future of the company, including a possible relocation overseas. This percentage has also increased since the previous quarter.

4 Positive effects – where and how?

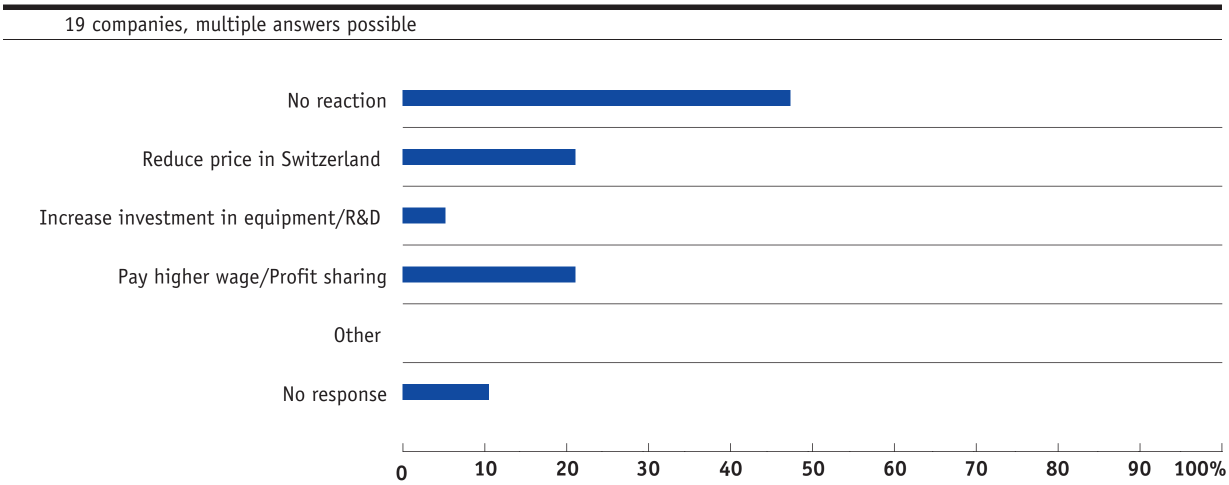
On the whole, 19 respondent companies (8% of the total, as against 10% in the previous quarter) experienced moderately or even significantly positive effects from the appreciation of the Swiss franc. As can be seen from chart 6, the greater part of the positive effects was due to lower input costs (approximately 70% of cases) and/or improved profit margins (53% of cases). In addition, more than 40% of the companies mentioned more favourable conditions for investment and for research and development. Chart 7 suggests that just under half of the companies did not react to the appreciation in a specific way. More than 20% of positively affected

Chart 6
Positively affected companies: effects of appreciation of Swiss franc



Source: SNB

Chart 7
Positively affected companies: reactions to appreciation of Swiss franc



Source: SNB

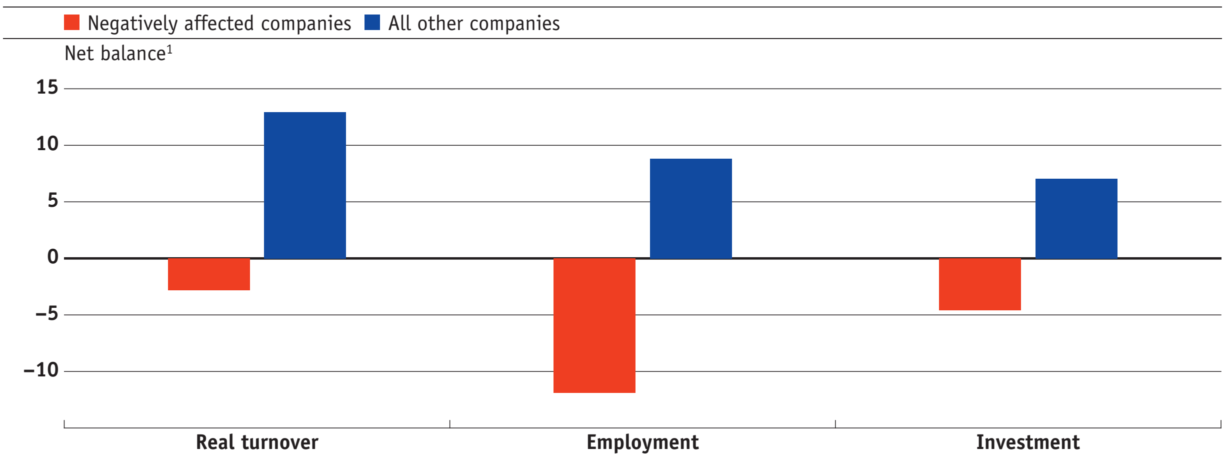
companies reported passing on the improved business conditions in the form of lower sales prices in Switzerland and/or as higher wages and profit sharing. To a lesser extent, the more favourable business conditions also led to higher investment in equipment and in research and development.

5 Expectations for the near future remain positive

Companies were also asked about their expectations with regard to real turnover, staff numbers and investment in the coming six/twelve months. Their answers are recorded on a scale ranging from 'significantly higher' to 'significantly lower'. Based on this information, an index is created by subtracting the negative assessments from the positive ones ('net assessments'). Significantly positive and significantly negative assessments are assigned higher weights than slightly positive or slightly negative assessments. The index is constructed in such a manner that its value can range between +100 and −100. A positive index value reflects positive assessments overall, while a negative value shows negative assessments overall.

The evaluation was conducted for two subgroups – first, companies affected negatively by the appreciation of the Swiss franc, and second, all other companies. Compared to the previous quarter, the situation has changed considerably. As chart 8 shows, the fourth quarter saw expectations diverge markedly between the two sub-groups while the 'all other companies' group continues to expect overall growth in turnover, employment and investment, negatively affected companies anticipate a decline in all three. The former group's positive expectations for real turnover and employment have also fallen sharply quarter-on-quarter. Overall, therefore, companies' expectations have again deteriorated significantly compared to the previous quarter's survey.

Chart 8
Expectations: turnover, employment and investment



1 Weighted positive estimates of companies minus weighted negative estimates regarding the future development of real turnover, employment and investment. The time horizon is 6 months (for real turnover and employment) or 12 months (for investment).
Source: SNB

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.

December 2011

At its quarterly assessment of 15 December, the SNB reaffirms that it will continue to enforce the minimum exchange rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities. It is leaving the target range for the Libor at 0.0–0.25%, and continues to aim for a three-month Libor close to zero. Even at the current rate, the SNB considers that the Swiss franc is still high and should continue to weaken over time. The SNB goes on to say that it will continue to maintain liquidity at exceptionally high levels, but has decided not to set a specific target level for sight deposits at present. The SNB stands ready to take further measures at any time if the economic outlook and the risk of deflation so require.

November 2011

On 30 November, the SNB, together with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Federal Reserve, announces the conclusion of temporary liquidity swap arrangements, which is authorised through 1 February 2013. Should market conditions so warrant, liquidity can be provided in each of the central banks' jurisdictions, in any of their currencies. Furthermore, these central banks agree to extend the existing US dollar liquidity swap arrangements and to lower the pricing on such swap arrangements by 50 basis points so that the new rate will be the US dollar overnight index swap (OIS) rate plus 50 basis points. The SNB intends to continue conducting US dollar liquidity-providing repo operations at terms of one week and three months.

September 2011

On September 15, the SNB decides, in coordination with the Bank of England, the Bank of Japan, the European Central Bank and the Federal Reserve, to offer US dollar liquidity with a term of 84 days to cover the end of the year. These tenders will be conducted in addition to the 7-day operations. The first 84-day US-dollar liquidity operation will be carried out on 12 October 2011.

At its quarterly assessment of 15 September, the SNB affirms that it will enforce the minimum exchange rate of CHF 1.20 per euro set on 6 September with the utmost determination. It is prepared to buy foreign currency in unlimited quantities. It continues to aim for a three-month Libor at zero and will maintain total sight deposits at the SNB at significantly above CHF 200 billion.

On 6 September 2011, the SNB announces that it will no longer tolerate a EUR/CHF exchange rate below the minimum rate of CHF 1.20. It will enforce this minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities. In addition, the SNB emphasises that, even at a rate of CHF 1.20 per euro, the Swiss franc is still high and should continue to weaken over time. If the economic outlook and deflation risks so require, the SNB will take further measures.

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