Quarterly Bulletin
1/2016 March

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
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Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2016.

The report describes economic and monetary developments in Switzerland and explains the inflation forecast. It shows how the SNB views the economic situation and the implications for monetary policy it draws from this assessment. The first section ('Monetary policy decision of 17 March 2016') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 17 March 2016. 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 17 March 2016

Monetary policy remains expansionary

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy. The target range for the three-month Libor remains at between –1.25% and –0.25%, and interest on sight deposits at the SNB is unchanged at –0.75%. The Swiss franc is still significantly overvalued. Negative interest is making Swiss franc investments less attractive. At the same time, the SNB will remain active in the foreign exchange market, in order to influence exchange rate developments where necessary.

The global economic outlook has deteriorated slightly in recent months and the situation on international financial markets remains volatile. Against this background, the negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease pressure on the Swiss franc. The SNB's monetary policy is thus helping to stabilise price developments and support economic activity.

The new conditional inflation forecast has been revised downwards slightly compared to the previous quarter (cf. chart 1.1). The further drop in oil prices is contributing to a decline in inflation in the short term. In the medium term, the main factors dampening inflation are the globally low inflation levels and the lacklustre outlook for the global economy. The SNB continues to expect that inflation will re-enter positive territory in the coming year. It is projecting an inflation rate of –0.8% for 2016, compared with –0.5% in the December forecast. For 2017, the inflation forecast is at 0.1%, which is 0.2 percentage points lower than in the previous quarter, while for 2018 it is 0.9% (cf. table 1.1). The conditional inflation forecast is based on the assumption that the three-month Libor remains at –0.75% over the entire forecast period.

Global economic performance at the beginning of the year was slightly weaker than had been anticipated at the quarterly assessment in December. Around the world, manufacturing and trade remained sluggish, contributing to a further sharp fall in oil prices. Against expectations, the low energy prices have had only a limited stimulatory effect on household consumer spending. By contrast, they have had a negative impact on the growth outlook in oil-producing countries, including the US.

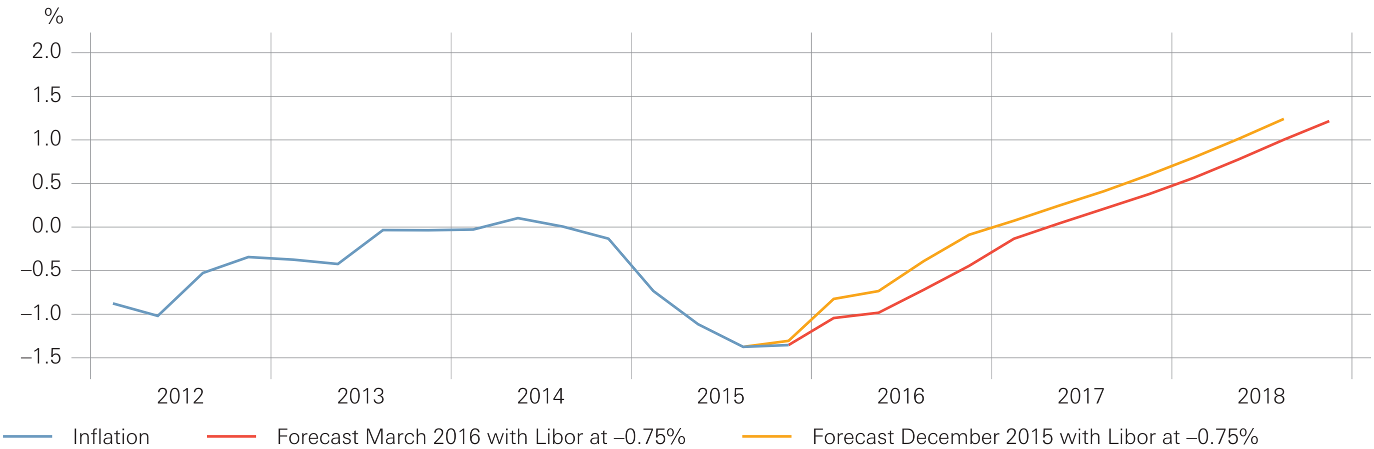
These factors will continue to hold back the global economy over the coming months. Accordingly, the SNB's assessment of the global economic outlook is somewhat less favourable than in December. The recovery in the advanced economies is expected to continue at a moderate pace. Growth in China is likely to slow further. Moreover, the prevailing risks are still considerable. The complex structural changes taking place in China could have negative repercussions for global demand. In Europe, structural weaknesses and political uncertainty could hamper economic development. Furthermore, renewed upheaval on global financial markets would impair financing conditions for households and companies.

In Switzerland, annualised real GDP increased by 1.7% in the fourth quarter. Thus, for 2015 as a whole, the Swiss economy recorded growth of just under 1%. This confirms the SNB's assessment at the time of the minimum exchange rate discontinuation. However, the economic momentum is not broad-based. Profit margins are still under pressure at many companies, and the willingness to invest and

Chart 1.1

CONDITIONAL INFLATION FORECAST OF MARCH 2016

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



Source: SNB

the demand for labour remain commensurately subdued. Consequently, the unemployment rate has risen again slightly in recent months.

Since the SNB assumes a more modest pace of global economic growth, it is also expecting a slower recovery in Switzerland. For this year, it is anticipating GDP growth of between 1% and 1.5%, instead of around 1.5% as hitherto.

Over the last few quarters, the downward trend in real estate price momentum has been confirmed. Mortgage volumes have also recorded slightly slower growth. Yet the imbalances on these markets persist, due to comparatively weak growth in fundamentals. The SNB will continue to monitor developments on the mortgage and real estate markets closely, and will regularly reassess the need for an adjustment of the countercyclical capital buffer.

Monetary policy strategy at the SNB

The SNB has a statutory mandate to ensure price stability while taking due account of economic developments.

The SNB has specified the way in which it exercises this mandate in a three-part monetary policy strategy. First, it regards prices as stable when the Swiss consumer price index (CPI) rises by less than 2% per annum. This allows it to take account of the fact that the CPI slightly overstates actual inflation. At the same time, it allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of the situation and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant short-term interest rate, shows how the SNB expects the CPI to move over the next three years. Third, the SNB sets its operational goal in the form of a target range for the three-month Swiss franc Libor.

Table 1.1

OBSERVED INFLATION IN MARCH 2016

	2012				2013				2014				2015				2013	2014	2015
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	–0.9	–1.0	–0.5	–0.3	–0.4	–0.4	0.0	0.0	0.0	0.1	0.0	–0.1	–0.7	–1.1	–1.4	–1.4	–0.2	0.0	–1.1

CONDITIONAL INFLATION FORECAST OF MARCH 2016

	2015				2016				2017				2018				2016	2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast December 2015, with Libor at –0.75%				–1.3	–0.8	–0.7	–0.4	–0.1	0.1	0.2	0.4	0.6	0.8	1.0	1.2		–0.5	0.3	
Forecast March 2016, with Libor at –0.75%					–1.0	–1.0	–0.7	–0.4	–0.1	0.0	0.2	0.4	0.6	0.8	1.0	1.2	–0.8	0.1	0.9

Source: SNB

2 Global economic environment

The global economy at the beginning of 2016 was in a somewhat weaker state than had been anticipated at the quarterly assessment in December. Around the world, manufacturing and trade remained sluggish, contributing to a further sharp fall in oil prices. Contrary to expectations, the low oil prices have so far proved only a modest stimulus to household consumer spending in most countries. Growth prospects even worsened in oil-producing countries, including the US, as a result of the decline in the oil price.

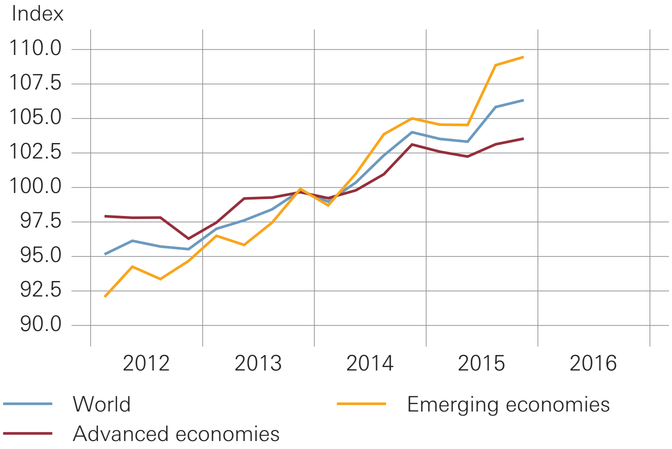
The SNB's prediction for global economic performance is somewhat less positive than in December. The recovery in the advanced economies is expected to continue at a moderate pace. Growth in China is likely to slow further. Some emerging economies will remain in recession.

Moreover, the prevailing risks are still considerable. The complex structural transition taking place in China bears risks for global demand. In Europe, structural weaknesses and political uncertainty could hold back economic development. Furthermore, renewed upheavals on global financial markets would impair financing conditions for households and companies.

Chart 2.1

GLOBAL EXPORTS

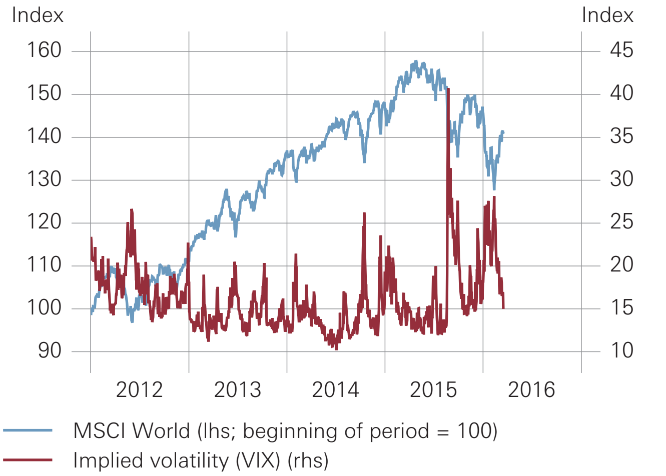
Period average = 100



Sources: CPB, Thomson Reuters Datastream

Chart 2.2

STOCK MARKETS



Source: Thomson Reuters Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

					Scenario	
	2012	2013	2014	2015	2016	2017
GDP, year-on-year change in percent						
Global [1]	3.0	3.2	3.5	3.2	3.3	3.6
US	2.2	1.5	2.4	2.4	2.2	2.3
Euro area	–0.9	–0.3	0.9	1.6	1.4	1.7
Japan	1.7	1.4	–0.1	0.5	0.7	0.8
Oil price in USD per barrel	111.7	108.7	99.0	52.5	33.0	33.0

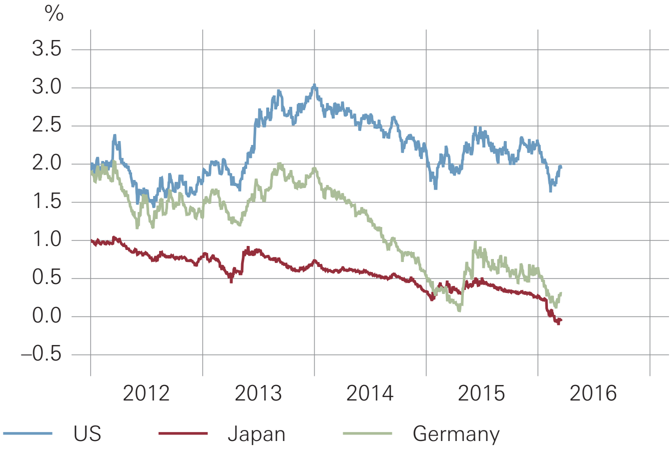
1 PPP-weighted (US, euro area, UK, Japan, China, South Korea, India, Brazil and Russia).

Sources: SNB, Thomson Reuters Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

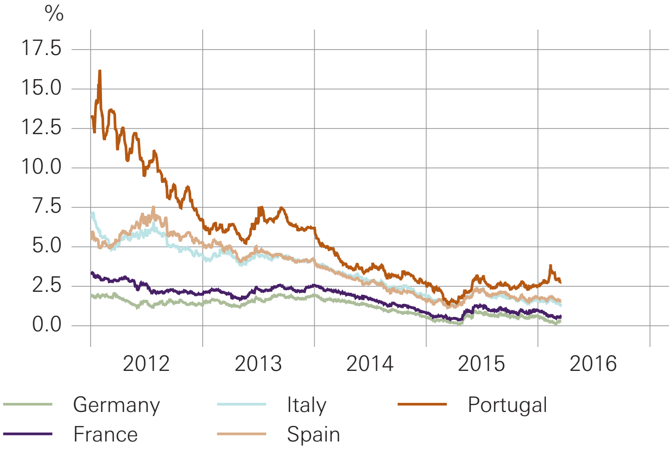


Source: Thomson Reuters Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments



Source: Thomson Reuters Datastream

Chart 2.5

EXCHANGE RATES

Trade-weighted, beginning of period = 100

Source: Thomson Reuters Datastream

The SNB's forecasts are based on assumptions about the oil price and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 33 per barrel (compared with USD 48 three months ago) and an exchange rate of USD 1.10 to the euro. Both correspond to the 20-day average when the baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Since the monetary policy assessment of December, renewed turbulence has influenced developments on the financial markets. This was due to concerns about global growth prospects and a further sharp decline in energy prices. Stock markets around the world came under pressure. Thus the MSCI World Index dipped temporarily to its lowest level since the end of 2013, and the implied volatility of US stocks as measured by option prices (VIX) – which serves as an indicator of market uncertainty, spiked (cf. chart 2.2).

Against this backdrop, market expectations about monetary policy in the advanced economies changed. According to interest rate futures, markets reckon with a more expansionary monetary policy than in December in the US, the euro area and the UK. Lower inflation prospects and an increased demand for safe investments contributed to generally declining yields on long-term government bonds in the advanced economies (cf. chart 2.3). In Japan, they even moved into negative territory. The only increases in yields on long-term government instruments were recorded in certain euro area member states, including Portugal and Greece, due to uncertainties in fiscal policy (cf. chart 2.4). Emerging market currencies exhibited a weakening trend, with the currencies of commodity exporters, like Russia and Brazil, being particularly affected. The US dollar also lost value on a trade-weighted basis, albeit slightly, from the end of January onwards, due to shifting market expectations with regard to US monetary policy. This constituted a break with the upward trend of preceding quarters. Initially, the euro gained a little ground. However, expectations of imminent monetary policy easing by the European Central Bank (ECB) manifested in a mild countermovement from mid-February onwards. The yen appreciated noticeably (cf. chart 2.5).

The oil price for Brent crude continued to decline as a result of persistent oversupply, dipping at times to its lowest level in twelve years. Food prices also fell (cf. chart 2.6). These developments played a role in the further softening of inflation expectations in the advanced economies.

UNITED STATES

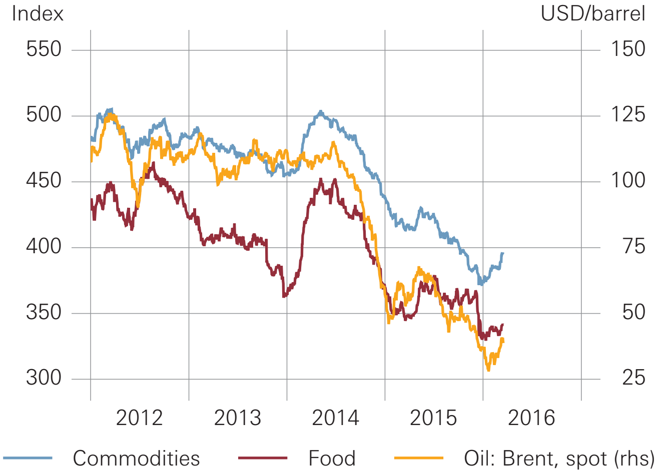
The US economy lost momentum slightly in the fourth quarter. GDP grew by 1.0%, compared to 2% in the preceding quarter (cf. chart 2.7). Investment cuts in the energy sector due to the low oil price had a dampening effect. Manufacturing activity continued to suffer as a result of the strong US dollar. Furthermore, somewhat surprisingly, higher household savings translated to only a modest increase in consumer spending. Companies continued to scale back their inventories. The recovery on the labour market, however, was unabated, with unemployment falling to 4.9% in February.

The prospects for the US economy are somewhat bleaker than at the last monetary policy assessment. Consumer spending is likely to regain momentum in coming months, due to higher levels of disposable income. However, financial conditions have deteriorated. On the one hand, the strong US dollar is hampering manufacturing activity. On the other, lending conditions for companies have tightened. Risk premia on corporate bonds have risen, and banks are exercising greater caution in lending. Against this backdrop, capital investment is likely to proceed at a modest pace in the short term. The SNB has therefore lowered its overall growth forecast by 0.4 percentage points to 2.2% for 2016, and expects growth of 2.3% in 2017 (cf. table 2.1). Inflation is thus likely to advance at a more modest rate in the medium term than previously anticipated.

US monetary policy remains expansionary. For the first time in some ten years, the US Federal Reserve raised the target range for the federal funds rate, by 25 basis points to between 0.25% and 0.5%. In the current environment, however, markets expect a slower normalisation than three months ago.

Chart 2.6

COMMODITY PRICES

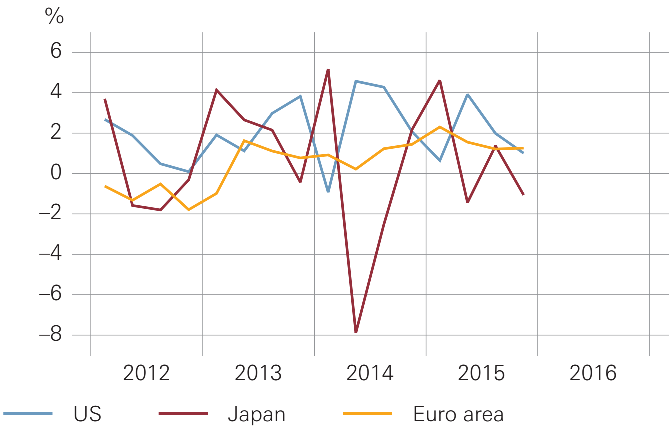


Source: Thomson Reuters Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

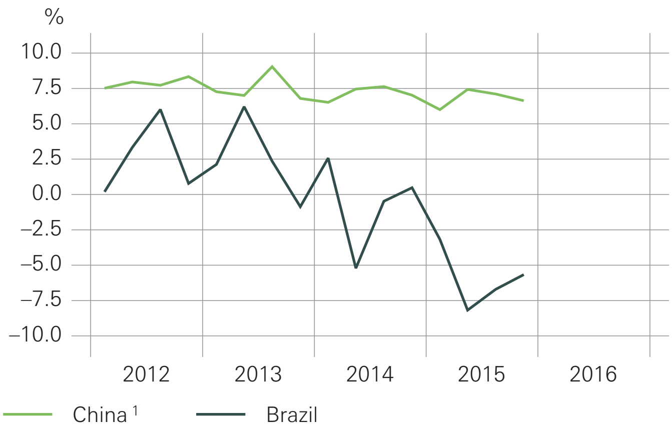


Source: Thomson Reuters Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

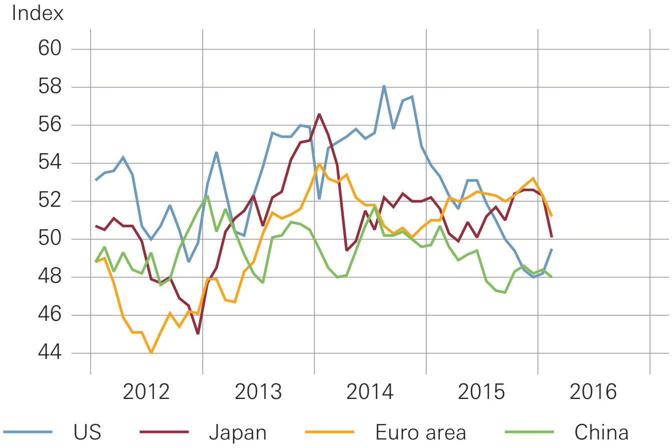
Change from previous period



1 Estimate: SNB.
Source: Thomson Reuters Datastream

Chart 2.9

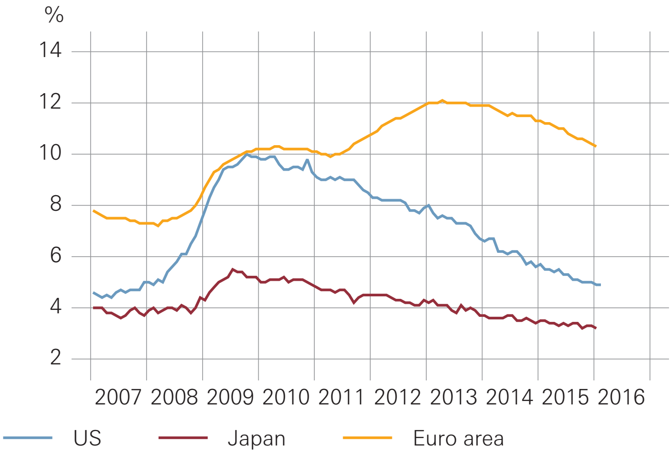
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source: Markit Economics Ltd 2009; all rights reserved

Chart 2.10

UNEMPLOYMENT RATES

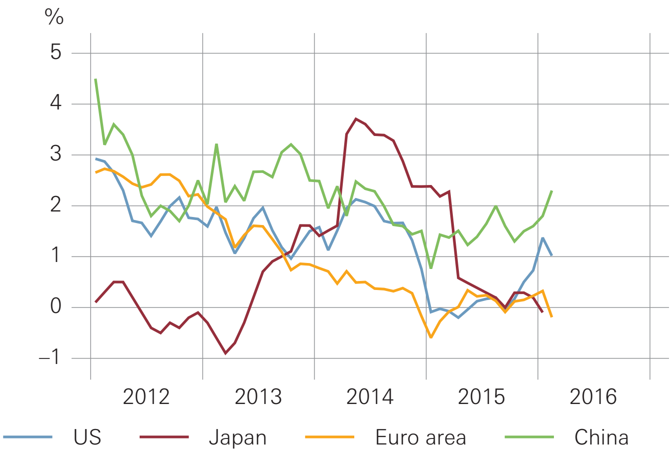


Source: Thomson Reuters Datastream

Chart 2.11

CONSUMER PRICES

Year-on-year change



Source: Thomson Reuters Datastream

EURO AREA

The tentative pace of economic recovery in the euro area continued in the fourth quarter, with GDP up by 1.3%. Economic output increased across the board and in almost all member states. Growth in 2015 amounted to 1.6%. Unemployment in the euro area registered another slight decrease (cf. chart 2.10).

The economic outlook is subdued. Relaxed monetary and fiscal policy is having a positive effect, and low energy prices are likely to encourage consumer spending. However, concerns about foreign demand and recent financial market turmoil undermined business confidence at year-begin, and are likely to dampen the willingness to invest. The approaching referendum in Britain on leaving the EU (Brexit) as well as bank problems in some euro area member states are also casting a shadow. Furthermore, the implementation of growth-stimulating reforms continues to pose a serious challenge. For 2016, the SNB has lowered its euro area growth forecast by 0.4 percentage points to 1.4%. For 2017, it predicts GDP growth of 1.7% (cf. table 2.1).

As a result of low energy prices, consumer price inflation in the euro area declined once again into negative territory, thereby falling significantly short of the ECB's target of just under 2%. In February, annual inflation stood at –0.2% (cf. chart 2.11). However, core inflation rates also declined (0.8%) (cf. chart 2.12). Inflation expectations derived from financial indicators fell markedly in recent months.

Given these conditions, the ECB decided in March on a further, substantial easing of monetary policy. It again lowered the reference rates: the deposit rate by 10 basis points to –0.4%, and the main refinancing rate by 5 basis points to zero (cf. chart 2.13). At the same time, it increased its asset purchase programme as of April by EUR 20 billion to EUR 80 billion per month, and expanded the set of debt securities from non-financial companies that are eligible for purchase. Furthermore, the ECB again granted special loans to banks from mid-year onwards in order to encourage lending to the private sector.

JAPAN

Japan saw GDP growth of 0.5% in 2015, following stagnation in the previous year. Economic performance fluctuated strongly over the course of the year. In the fourth quarter, GDP contracted by 1.1% (cf. chart 2.7), due partially to a weather-related decline in consumer spending. By contrast, equipment investment continued to gather pace, on the back of high corporate earnings.

The Japanese economy remains fragile. Dependent as it is on energy imports, the country gained from low oil prices. However, the recent appreciation of the yen, weaker global environment and slump in the stock market have sapped business confidence. Overall, economic growth for 2016 is expected to be weaker than was predicted last quarter.

Recent months have seen consumer price inflation continue to hover around zero. In January, annual inflation stood at 0.0% (cf. chart 2.11). Excluding energy and food prices, it amounted to 0.7% (cf. chart 2.12). Longer-term inflation expectations have fallen slightly, thus remaining below the Japanese central bank's inflation target of 2%.

In January, the central bank decided to again ease its monetary policy. In mid-February, it therefore introduced an interest rate –0.1%. The negative rate applies to part of the sight deposits held by commercial banks at the central bank. The central bank continued to pursue its asset purchase programme, which was introduced in April 2013 and expanded in October 2014.

EMERGING ECONOMIES

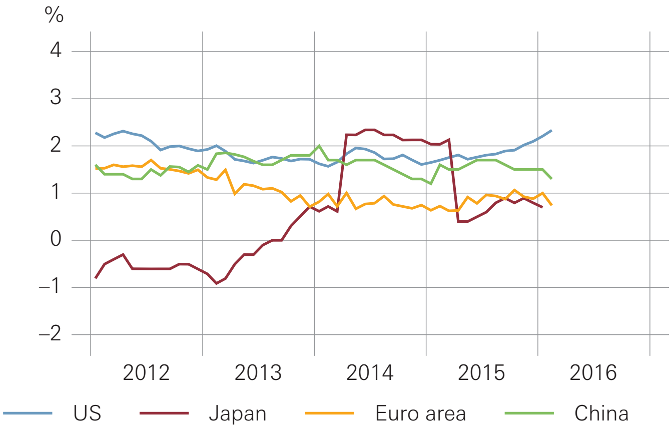
Growth in the emerging economies faltered in the fourth quarter. In China, manufacturing stabilised, although activity in the service sector lost a little momentum. GDP growth in 2015 amounted to almost 7%; while corresponding to the government's target, this constitutes the lowest growth rate since 1990. In India, growth in the fourth quarter was also weaker. In Russia and Brazil, the deep recession persisted.

In China, this year should again see value added in the services sector outpace value added in manufacturing. Various stimulus measures (including infrastructure projects and a reduction in value added tax on small cars) should prevent a substantial slowdown in manufacturing. However, high overcapacity and indebtedness in manufacturing and construction still carry risks. For 2016, the SNB expects GDP growth in China of 6.5%.

Chart 2.12

CORE INFLATION RATES [1]

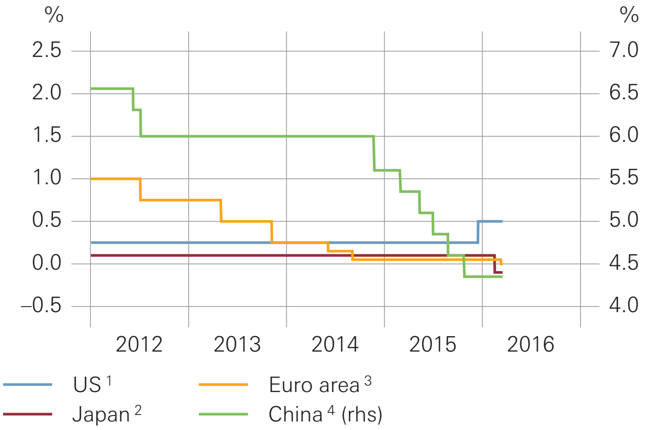
Year-on-year change



1 Excluding food and energy.
Source: Thomson Reuters Datastream

Chart 2.13

OFFICIAL INTEREST RATES

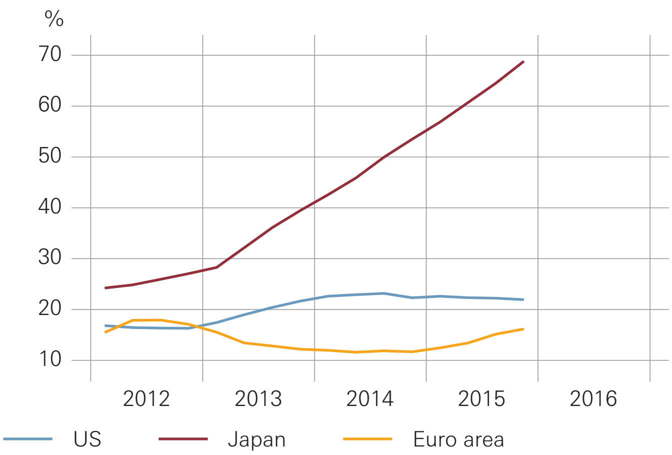


1 Federal funds rate.
2 Call money target rate.
3 Main refinancing rate.
4 One-year lending rate.
Source: Thomson Reuters Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Thomson Reuters Datastream

The expected recovery of the Russian economy is likely to be delayed by the renewed decline in the oil price. The recession in Brazil is also likely to continue, due to high inflation, rising unemployment and prevalent uncertainty.

Inflation in the emerging economies rose slightly in recent months, partly as a result of higher food prices. In China, however, annual inflation of 2.3% in February was still markedly lower than the central bank's target of 3% (cf. chart 2.11). In India, it climbed to just under 6% by January, thereby falling within the central bank's target range. In Russia and Brazil, inflation persisted at a very high level, due in part to their weak currencies (8.0% and 10.4% respectively).

The Chinese central bank again lowered its minimum reserve ratio, in February, to underpin the economy. In recent months, it has also allowed the Chinese currency to depreciate slightly on a trade-weighted basis. The Indian central bank has undertaken no further steps since the downward revision of its reference rate in September of last year. In Russia and Brazil, the central banks kept reference rates unchanged at a high level in order to combat inflation and currency depreciation.

3 Economic developments in Switzerland

As expected, economic growth in Switzerland picked up again somewhat in the fourth quarter. The driving force was manufacturing, with other industries contributing relatively little, while value added declined further in trade. Exports recovered significantly towards the end of the year, although the momentum was almost exclusively limited to chemical and pharmaceutical products. For 2015 as a whole GDP growth came to almost 1%, which confirms the SNB's expectations at the time of the discontinuation of the minimum exchange rate.

However, this growth was not sufficient to ensure better utilisation of overall production capacity. In the fourth quarter, the output gap remained in negative territory, and the seasonally adjusted unemployment figures again increased slightly over those at the previous quarterly assessment. Profit margins remain under pressure at numerous companies and this, in turn, is curbing investment appetite and labour demand.

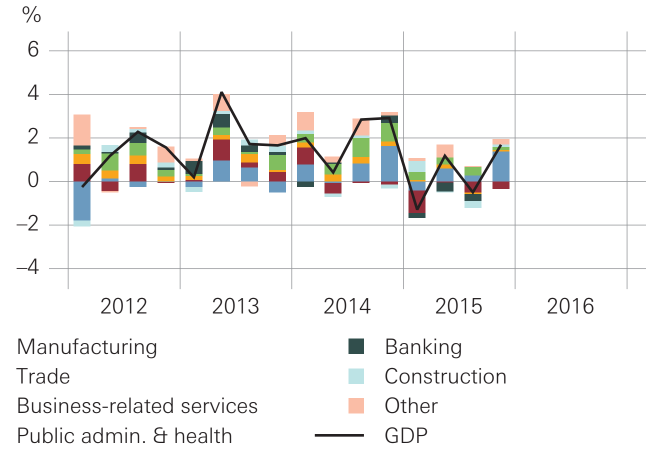
The Swiss franc remains high, which is placing a burden on large sections of the economy. Furthermore, since the beginning of the year the international environment has appeared less favourable than had been assumed in December. The SNB now forecasts growth of 1–1.5% for 2016.

AGGREGATE DEMAND AND OUTPUT

Growth recovers slightly in fourth quarter
The first official estimate shows GDP increasing by 1.7% in the fourth quarter of 2015 following a slight decline in the third quarter. This growth was mainly driven by greater value added in manufacturing, while the performance of other industries was subdued overall. Value added in trade slipped back further, although the decline was less marked than in the third quarter (cf. chart 3.1).

Chart 3.1

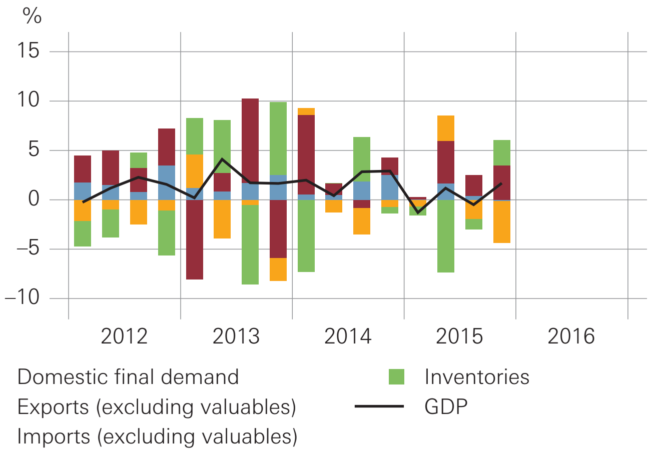
CONTRIBUTIONS TO GROWTH, BY SECTOR
Change from previous period



Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

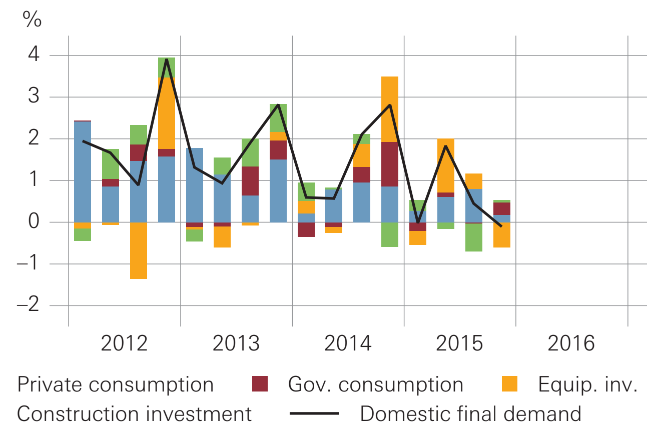
CONTRIBUTIONS TO GROWTH IN DEMAND
Change from previous period



Source: SECO

Chart 3.3

DOMESTIC FINAL DEMAND, GROWTH CONTRIBUTIONS
Change from previous period



Source: SECO

Strong export growth in chemicals and pharmaceuticals
Goods exports acquired momentum in the fourth quarter, with increasing exports to the US, Germany and China, in particular. This favourable development, however, was principally attributable to chemical and pharmaceutical exports. In most other manufacturing industries, goods exports lacked momentum due to the sluggish state of global manufacturing. Unlike those of goods, exports of services recorded a significant decline (cf. table 3.1).

In real terms, exports of goods and services in the fourth quarter were up 4.8% on the same quarter in the previous year. In nominal terms, however, they decreased slightly, reflecting price reductions which Swiss exporters had granted after the minimum exchange rate was discontinued, to ensure that they remained competitive. Accordingly, margins remain very difficult for many exporters.

Domestic final demand stagnating
In the fourth quarter, domestic final demand stagnated (cf. chart 3.3 and table 3.1), although movements in the individual components of demand varied. Growth in consumer spending almost came to a standstill despite the favourable development in real income. This was due in part to the fact that exceptionally warm weather reduced expenditure on heating energy and winter clothing.

Equipment investment also declined in light of squeezed profit margins and low capacity utilisation (cf. Business Cycle Trends, page 28).

Construction investment, and in particular residential construction, recovered slightly in the fourth quarter, after having declined significantly since early 2014.

Table 3.1

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

	2012	2013	2014	2015	2014				2015			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private consumption	2.7	2.2	1.3	1.1	0.3	1.3	1.6	1.4	0.5	1.0	1.3	0.3
Government consumption	2.1	1.3	1.3	1.7	–2.8	–1.0	3.0	8.6	–1.7	0.8	–0.3	2.3
Investment in fixed assets	2.9	1.2	2.1	1.4	2.8	–0.4	3.0	3.5	–0.3	4.2	–1.1	–2.1
Construction	2.9	3.1	3.3	–1.2	4.2	0.4	2.2	–5.6	2.4	–1.5	–6.4	0.5
Equipment	2.8	0.0	1.3	3.2	1.8	–0.9	3.4	9.8	–2.0	8.1	2.3	–3.7
Domestic final demand	2.7	1.8	1.5	1.2	0.6	0.6	2.1	2.8	0.0	1.8	0.5	–0.1
Change in inventories [1]	–1.0	0.7	–0.4	–1.1	–7.3	0.0	4.5	–0.7	–0.9	–7.4	–1.1	2.6
Total exports [2]	3.0	0.0	4.2	3.3	15.6	2.2	–1.6	3.4	0.6	8.4	4.1	6.7
Goods [2]	0.9	–2.3	5.1	5.0	20.6	9.5	–5.2	0.0	4.2	11.6	5.7	16.7
Goods excluding merchanting [2]	1.7	–1.0	4.0	0.7	12.7	2.3	10.8	–5.6	–8.0	3.9	4.7	12.0
Services	7.4	4.7	2.4	–0.2	6.8	–10.9	6.2	10.3	–6.2	2.1	0.8	–12.1
Total imports [2]	4.4	1.3	2.8	1.8	–1.7	3.0	6.3	1.7	1.5	–6.3	4.9	10.8
Goods [2]	2.3	0.7	1.7	–0.9	–9.0	9.3	2.4	–7.5	1.7	–12.4	3.5	17.9
Services	9.3	2.9	5.1	7.4	16.1	–9.2	15.2	23.2	1.1	6.2	7.4	–1.3
Net exports [3]	–0.2	–0.6	1.0	0.9	8.8	–0.1	–3.5	1.1	–0.4	6.9	0.2	–0.8
GDP	**1.1**	**1.8**	**1.9**	**0.9**	**2.0**	**0.4**	**2.8**	**2.9**	**–1.3**	**1.2**	**–0.5**	**1.7**

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

Source: SECO

LABOUR MARKET

Initial indications of a stabilisation on the labour market emerged towards the end of 2015, with the number of employed persons and the number of jobs both rising again somewhat. The labour market indicators based on the KOF Swiss Economic Institute surveys also recovered slightly.

Marginal rise in employment

Statistics on employment show that the seasonally adjusted number of employed persons increased slightly in the fourth quarter, following a stagnation in the previous quarter (cf. chart 3.4). This means that the number of employed persons, at slightly more than five million, was higher than ever before.

According to the national job statistics, new jobs were created in the services sector, which accounts for approximately three-quarters of full-time equivalent positions. By contrast, the number of jobs in manufacturing again declined somewhat (cf. chart 3.5).

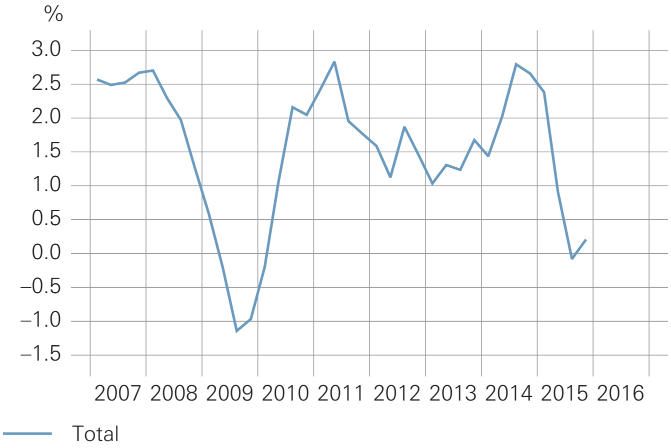
Slight rise in unemployment

Unemployment registered another slight increase. Excluding seasonal fluctuations, a total of 149,000 people were recorded as unemployed at the end of February. This amounts to an increase of around 13,000 since the end of 2014. In February, the seasonally adjusted unemployment rate was 3.4% (cf. chart 3.6).

Chart 3.4

EMPLOYED PERSONS

Change from previous period

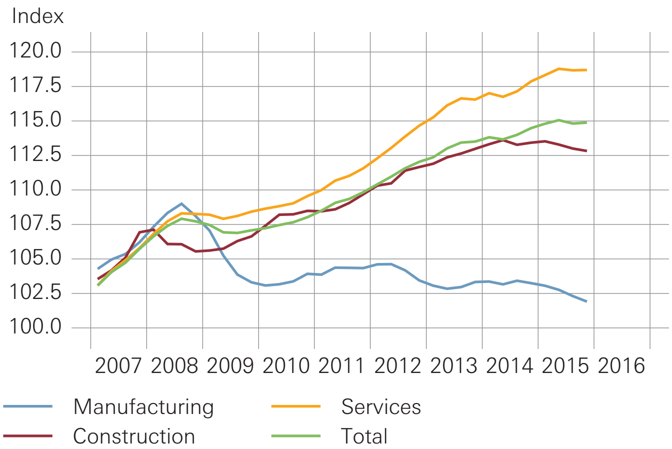


Source: Swiss Federal Statistical Office (SFSO); seasonal adjustment: SNB

Chart 3.5

FULL-TIME EQUIVALENT JOBS

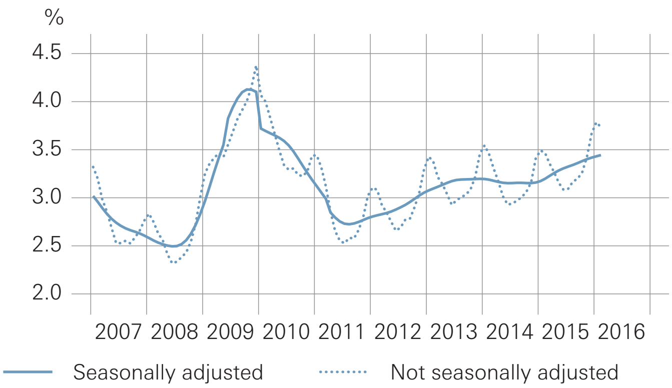
Q1 2006 = 100



Source: SFSO; seasonal adjustment: SNB

Chart 3.6

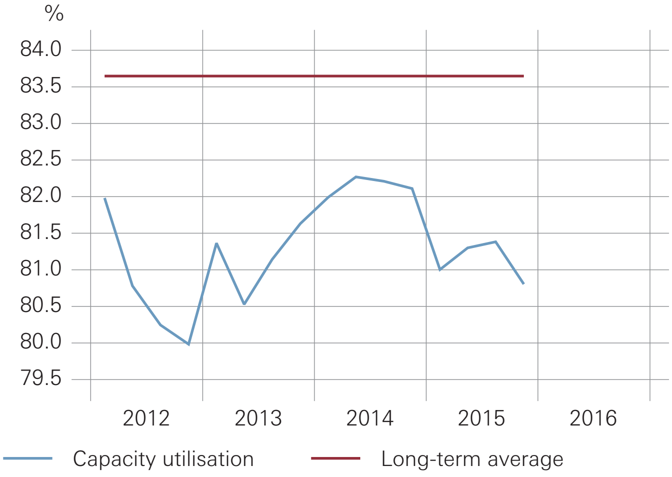
UNEMPLOYMENT RATE



Unemployed registered with the regional employment offices, as a percentage of the labour force according to the 2000 census (labour force: 3,946,988 persons) up to 2009, and according to the 2010 census (labour force: 4,322,899 persons) from 2010.
Source: SECO

Chart 3.7

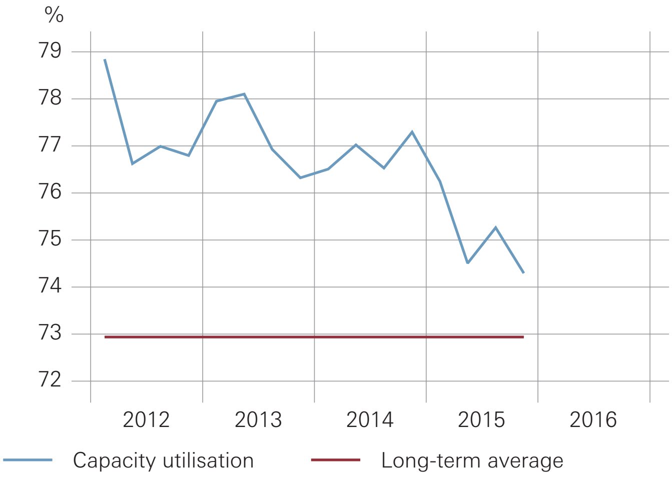
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.8

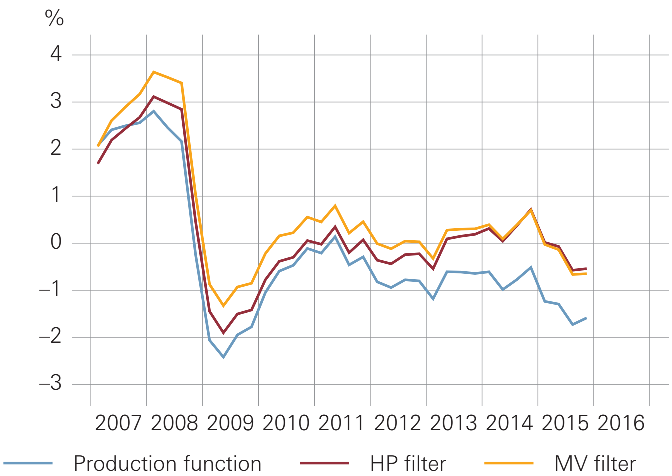
CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

Chart 3.9

OUTPUT GAP



Source: SNB

CAPACITY UTILISATION

Underutilisation in manufacturing
According to the survey by KOF, utilisation of technical capacity in manufacturing decreased, from 81.4% to 80.8%, in the fourth quarter. It is thus still well below the long-term average (cf. chart 3.7). Machine utilisation in the construction industry also declined in the fourth quarter. Unlike in manufacturing, capacity utilisation in construction remains above the long-term average (cf. chart 3.8). As for the services sector, the surveys continue to point to an average level of capacity utilisation.

Negative output gap
The output gap, which is defined as the percentage deviation of observed GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised. This gap closed slightly with the increase in GDP in the fourth quarter. Estimated potential, calculated by means of a production function, showed an output gap of –1.6% for the fourth quarter, compared to –1.7% in the previous quarter. Other methods for estimating potential output (Hodrick-Prescott filter and multivariate filter) suggest a less negative output gap (cf. chart 3.9).

The different estimates reflect the various ways of calculating potential output. The production function approach considers the labour market situation and the stock of capital in the economy. Since the supply of labour, in particular, has risen steadily in recent years – primarily as a result of immigration – potential output and, hence, the output gap are larger when calculated with this method than with purely statistical filtering methods.

OUTLOOK FOR THE REAL ECONOMY

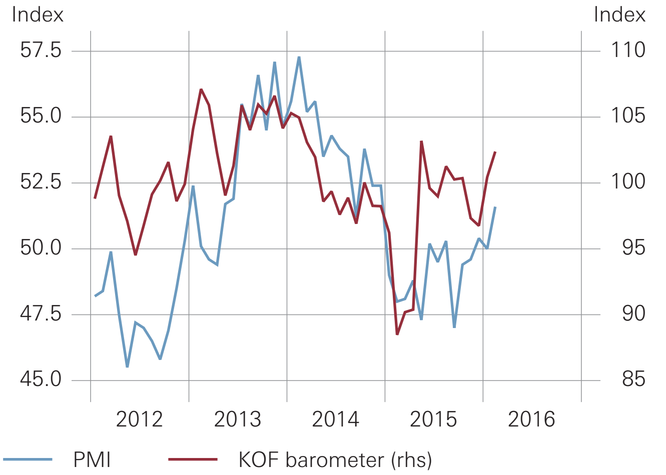
The latest indicators for Switzerland show a mixed picture. Although the purchasing managers' index in manufacturing again improved somewhat, expected new orders remain depressed; growth momentum in manufacturing is therefore likely to slow in the first quarter. For the other production sectors, too, indicators available to date suggest muted developments at the beginning of the year. Thus, no more than modest GDP growth overall may be expected for the first quarter.

However, as the year proceeds, the economy in Switzerland is likely to gain some momentum. Two factors, in particular, will be decisive here. First, according to SNB assumptions, the global economy should continue to strengthen slightly (cf. chapter 2). Second, the effect of the past appreciation in the Swiss franc should slowly ease. Accordingly, demand for Swiss goods and services is likely to further recover. More positive stimulus is also to be expected from the domestic economy again.

For 2016, the SNB is now expecting GDP growth of between 1% and 1.5%, instead of around 1.5% as hitherto. The slight downward revision is mainly due to the rather more moderate growth of the global economy foreseen in the new baseline scenario.

Chart 3.10

LEADING INDICATORS

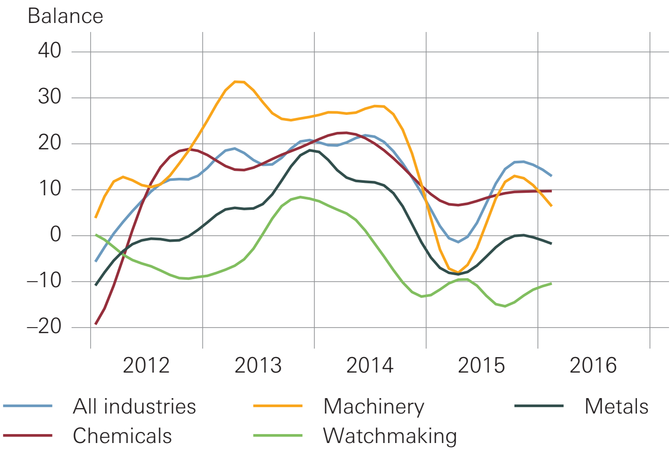


Sources: Credit Suisse, KOF Swiss Economic Institute

Chart 3.11

EXPECTED NEW ORDERS

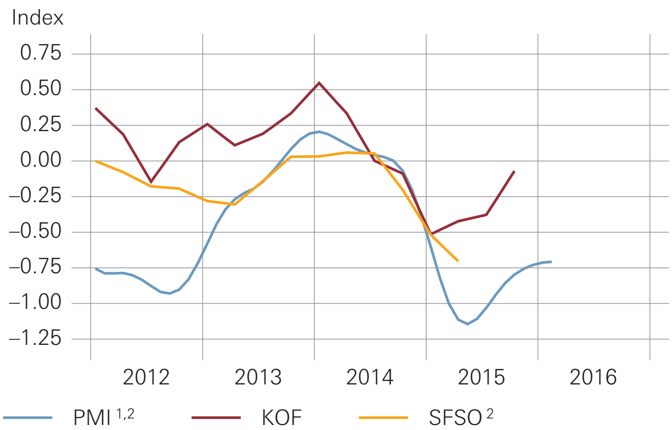
Trend component



Source: KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT LEADING INDICATORS



1 Monthly figures.
2 Trend component: SNB.
Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

4

Prices and inflation expectations

The decline in consumer prices compared with the year-back period has become smaller in recent months. In February 2016, the annual inflation rate was −0.8%, while core inflation rates ranged between −0.3% and −0.5%. Producer and import prices, which have a downstream effect on consumer prices, continued to record considerably higher negative annual inflation rates than consumer prices.

Surveys on inflation expectations show that respondents anticipate negative inflation rates in the short term. In the medium and long term, however, inflation expectations remain positive. They have changed little in recent months.

CONSUMER PRICES

Annual CPI inflation rate negative

The annual inflation rate as measured by the national consumer price index (CPI) was −0.8% in February 2016, and thus remained in negative territory (cf. table 4.1). Negative annual rates have declined significantly compared to previous months, but this partly reflects statistical base effects. CPI inflation receded slightly not only over the past twelve months, but also over the last three and last six months.

Increase in inflation rate for imported goods and services influenced by base effect

Imported goods and services continue to make a greater contribution to the negative annual CPI inflation rate than domestic goods and services. However, the contributions of these two components have converged (cf. chart 4.1). The negative annual inflation rate for imported goods and services decreased by half between November and February. This is mainly a reflection of a statistical base effect, i.e. the sharp decline in imported goods and services prices of the corresponding period of 2015 – driven by the price of oil and the discontinuation of the minimum exchange rate – which is now no longer a factor in the calculation of the annual rate.

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2015	2015				2015	2016	
		Q1	Q2	Q3	Q4	December	January	February
Overall CPI	**–1.1**	**–0.7**	**–1.1**	**–1.4**	**–1.4**	**–1.3**	**–1.3**	**–0.8**
Domestic goods and services	0.1	0.5	0.2	0.0	–0.3	–0.5	–0.6	–0.4
Goods	–0.7	0.0	–0.7	–1.0	–1.0	–1.2	–1.7	–1.2
Services	0.3	0.6	0.5	0.3	–0.1	–0.2	–0.3	–0.2
Private services excluding apartment rents	0.4	0.8	0.5	0.4	–0.2	–0.3	–0.4	–0.2
Apartment rents	0.8	1.0	1.2	0.9	0.3	0.1	0.1	0.2
Public services	–0.8	–0.8	–0.9	–0.9	–0.5	–0.6	–0.5	–0.5
Imported goods and services	–4.7	–4.2	–4.8	–5.4	–4.4	–3.8	–3.3	–2.2
Excluding oil products	–2.5	–1.5	–2.7	–3.1	–2.7	–2.4	–2.2	–1.1
Oil products	–17.4	–19.3	–16.6	–18.5	–14.9	–13.1	–10.8	–10.3

Sources: SFSO, SNB

Decline in domestic price inflation
Annual inflation for domestic goods and services turned negative in September 2015, and has fallen further since then (cf. chart 4.2). Prices for domestic goods continue to decline much more steeply than those for domestic services compared to the same month one year earlier. Since domestic goods included in the CPI basket have a smaller weighting than services, the difference in the contribution to inflation is less pronounced.

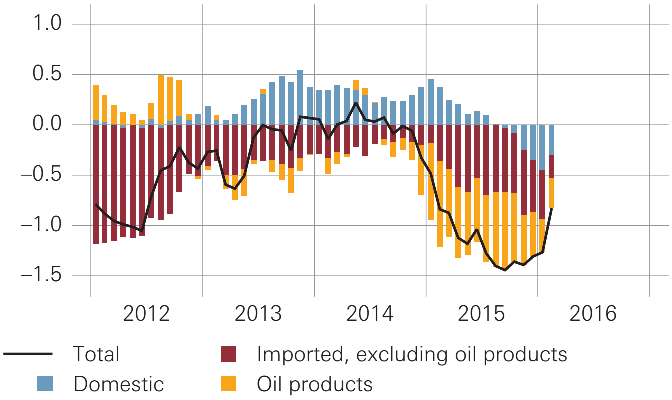
Rent inflation close to zero
Apartment rents surveyed on a quarterly basis increased slightly between November and February. Annual rent inflation, which had registered a further decline as a result of the decrease in the reference interest rate of June 2015, remained virtually unchanged, however (cf. chart 4.3). It therefore persists at slightly over zero.

The reference interest rate is decisive for the adjustment of rents as a result of changes in the mortgage rates. It is based on the average bank mortgage rate.

Chart 4.1

CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

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

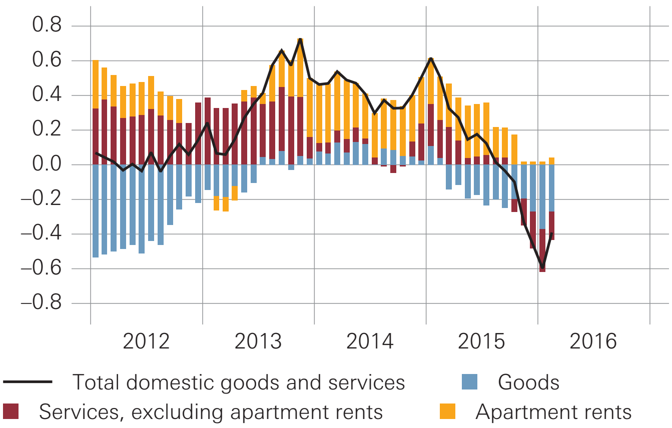


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

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

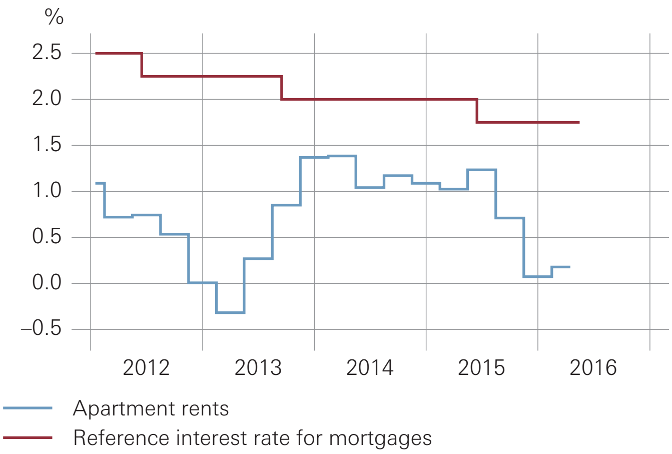


Sources: SFSO, SNB

Chart 4.3

APARTMENT RENTS

Year-on-year change

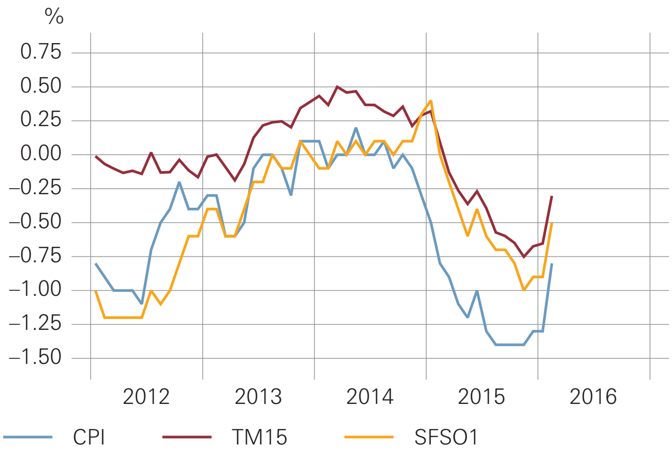


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

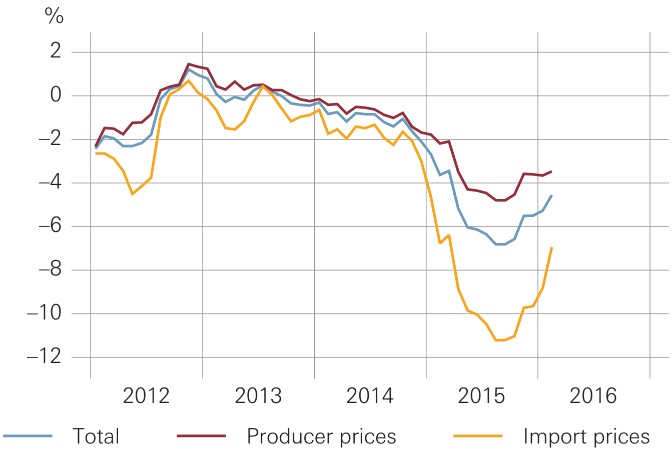


Sources: SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change

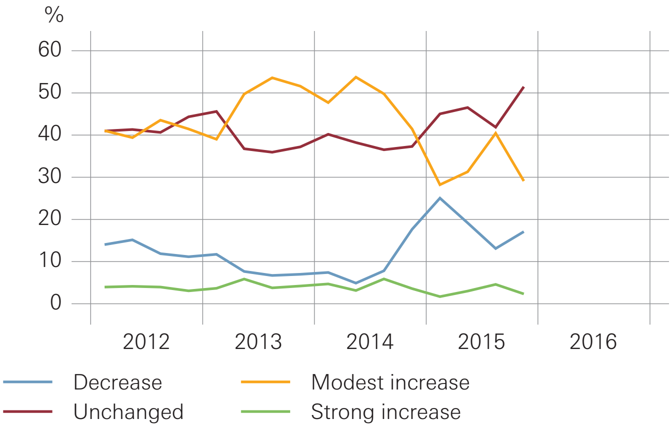


Source: SFSO

Chart 4.6

PRICE EXPECTATIONS

Survey of households on expected movements in prices for coming 12 months



Sources: SECO, SNB

Negative core inflation rates

After core inflation rates had fallen sharply between January and November 2015, they have since risen slightly again. They are still in negative territory, however (cf. chart 4.4). In February 2016, the SFSO core inflation rate 1 (SFSO1) and the trimmed mean calculated by the SNB (TM15) were −0.5% and −0.3% respectively.

PRODUCER AND IMPORT PRICES

Inflation rate for producer and import prices still negative

Producer and import prices continue to be well below their level of one year ago. Since August 2015, they have largely stabilised, however. Accordingly, annual rates of inflation were less negative in recent months than last summer (cf. chart 4.5).

Import prices again receded by considerably more year-on-year than producer prices.

INFLATION EXPECTATIONS

Inflation expectations largely unchanged

Various surveys suggest that respondents expect negative inflation rates in the short term. Medium-term inflation expectations, however, were still in the low positive range. Inflation expectations have remained largely unchanged in recent months.

Short-term inflation expectations still negative

According to the survey of households conducted by SECO in January 2016, the share of respondents expecting lower or unchanged prices over the next twelve months rose to 17% and 51% respectively (cf. chart 4.6). By contrast, fewer households than three months ago expected higher prices (31%).

The *Credit Suisse ZEW Financial Market Report* shows that, in February 2016, 53% of the financial analysts surveyed were expecting inflation rates to remain unchanged over a six-month horizon (November 2015: 66%). The share of respondents anticipating rising inflation rates grew from 25% to 35%, whereas the share expecting lower, i.e. even more negative inflation, rose from 9% to 12%.

In talks held by the SNB delegates for regional economic relations with company representatives from all sectors of the economy in the first quarter of 2016, the respondents surveyed expect the inflation rate to be −0.3% in six to twelve months (fourth quarter 2015 expectation: –0.4%).

Medium and long-term inflation expectations in positive range

In addition, the respondents surveyed in the first quarter of 2016 anticipate an inflation rate of 0.7% in three to five years (fourth quarter 2015: 0.6%). Participants in Deloitte's CFO survey in the fourth quarter put inflation in two years' time at 0.7%, compared to 0.8% in the third quarter.

No new surveys on inflation expectations over longer-term horizons have been published since the monetary policy assessment of December. The latest surveys suggest that inflation expectations with a time horizon of six to ten years are still firmly anchored.

5
Monetary developments

Monetary conditions have become somewhat more expansionary since the monetary policy assessment in December 2015. The Swiss franc weakened slightly, while money market interest rates remained virtually unchanged. Confederation bond yields dipped again to new record lows. Yields on confederation bonds with terms up to well over 10 years were in negative territory.

The Swiss franc depreciated in January, but largely made up these losses by the end of February. The weakening in January coincided with a period of growing uncertainty, as manifested in significant losses on the international stock markets. The major stock indices in Switzerland likewise registered substantial declines during this period.

Growth in bank lending continued to slow. The new accounting rules for banks, which were incorporated into banking statistics in November 2015, had no material effect on the development of monetary and credit aggregates.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged
The SNB confirmed its monetary course at its monetary policy assessment on 10 December 2015. It decided to leave the target range for the three-month Libor unchanged at between –1.25% and –0.25%. It also left unchanged, at –0.75%, the interest rate on sight deposits held by banks and other financial market participants at the SNB which exceed a given threshold.

The SNB reaffirmed its willingness to intervene in the foreign exchange market in order to influence exchange rate developments, where necessary. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease pressure on the Swiss franc. In this way, the SNB's monetary policy helps to stabilise price developments and support economic activity.

Higher sight deposits at the SNB
Since the monetary policy assessment of December 2015, total sight deposits held at the SNB have increased. In the week ending 11 March 2016 (last calendar week before the mid-March assessment), they rose by CHF 13.8 billion to CHF 481.3 billion, compared to CHF 467.5 billion in the same period before the mid-December 2015 assessment. Between the two assessments, sight deposits at the SNB averaged CHF 473.5 billion, of which CHF 408.5 billion were accounted for by the sight deposits of domestic banks and the remaining CHF 65.0 billion by other sight deposits.

High level of banks' surplus reserves
Between 20 November 2015 and 19 February 2016, statutory minimum reserves averaged CHF 14.5 billion. Overall, banks exceeded the requirement by some CHF 396.3 billion on average (previous period: CHF 391.6 billion). Banks' surplus reserves have thus once again increased.

MONEY AND CAPITAL MARKET INTEREST RATES

Stable money market interest rates
Short-term money market rates were largely unchanged in the first quarter of 2016. They remained in negative territory, close to the interest rate on sight deposits at the SNB of –0.75% (cf. chart 5.1). As in the previous quarter, monetary policy expectations contributed to a slight temporary fall in the three-month Libor.

Long-term interest rates still in negative territory
In the three months since the December monetary policy assessment, the yield on ten-year Confederation bonds declined temporarily to new historic lows of under –0.4%. Mid-March saw the yield at around −0.3%, which was marginally lower than mid-December.

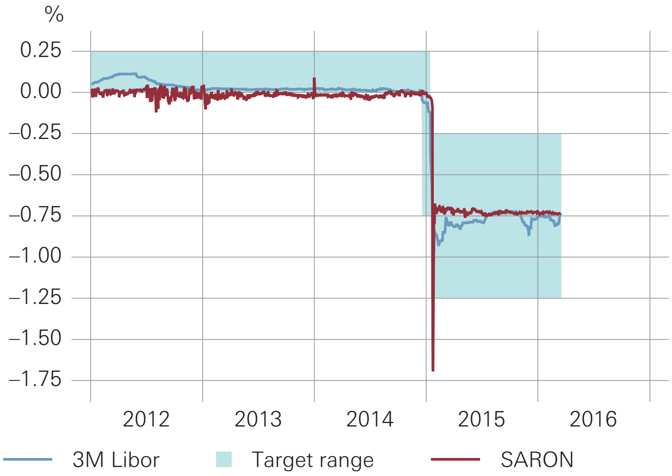
Flatter yield curve
The yield curve for Confederation bonds flattened between mid-December and mid-March (cf. chart 5.2). Longer-dated Confederation bond yields increasingly fell into negative territory, with yields on terms of up to 18 years occasionally dropping below zero.

Low long-term real interest rates
The estimated long-term real interest rate was close to 0% in mid-March, the same level as three months earlier (cf. chart 5.3). The long-term real interest rate thus remained at a very low level.

The real interest rate estimate is based on the development of the ten-year yield on Confederation bonds and the estimated inflation expectations for the same time horizon, determined using a vector autoregressive (VAR) model.

Chart 5.1

MONEY MARKET RATES

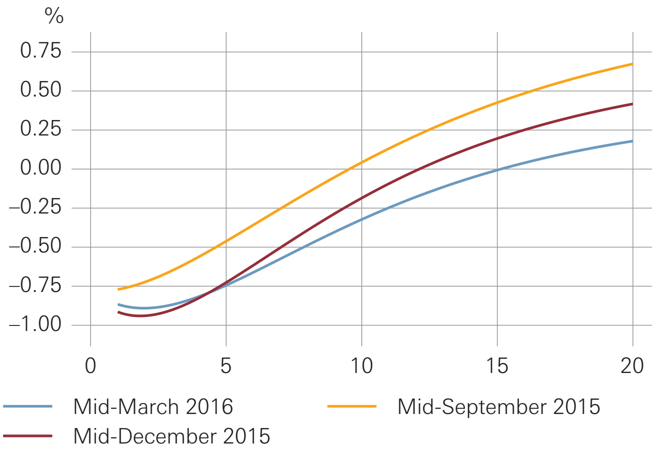


Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

TERM STRUCTURE OF CONFEDERATION BONDS

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



Source: SNB

Chart 5.3

ESTIMATED REAL INTEREST RATE

10-year Confederation bonds
Inflation expectations estimated with VAR model

Source: SNB

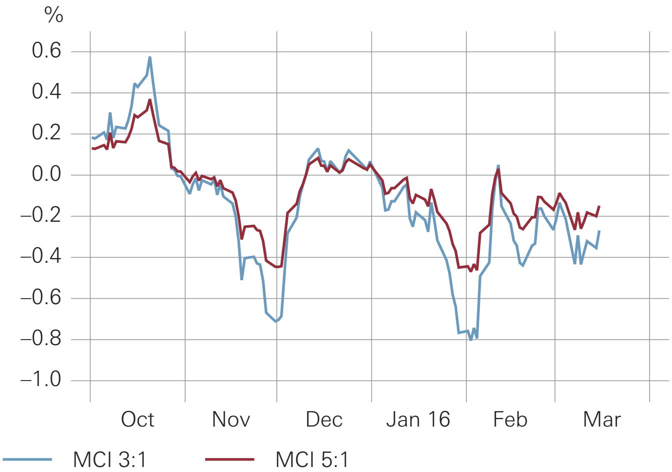
Chart 5.4

EXCHANGE RATES

Source: SNB

Chart 5.5

MCI NOMINAL



Source: SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Export-weighted, January 1999 = 100

Source: SNB

EXCHANGE RATES

Swiss franc against euro and US dollar virtually unchanged overall

Since December, there has been little overall change in the Swiss franc against the euro and the US dollar (cf. chart 5.4). Although the Swiss franc depreciated during the course of January, it largely made up for these losses again in February. The marked slide of the US dollar in the first half of February was mainly attributable to investors revising their expectations for US interest rates downwards.

Monetary conditions somewhat eased

On an export-weighted basis, the Swiss franc has weakened slightly since the monetary policy assessment of December. With short-term interest rates largely unchanged, monetary conditions have thus become slightly more expansionary.

The Monetary Conditions Index (MCI) in chart 5.5 combines changes in the three-month Libor with the nominal export-weighted external value of the Swiss franc to provide a measure of monetary conditions. To take account of uncertainty regarding the relative impact of changes in interest and exchange rates, two versions of the index are used, with each version assigning a different weight to the two components. The index is reset to zero at the time of the last monetary policy assessment. Negative MCI values indicate an easing of monetary policy.

Weakening of Swiss franc's real external value at high level

The export-weighted real external value of the Swiss franc has steadily weakened since mid-2015. This is primarily due to the nominal depreciation of the Swiss franc against the euro and the US dollar. In February, the real external value of the Swiss franc stood at approximately 6% below the peak level reached in the period since the discontinuation of the minimum exchange rate (cf. chart 5.6). However, in a longer-term context, the Swiss franc remains highly valued.

SHARE AND REAL ESTATE PRICES

Volatile share prices

Share prices, both in Switzerland and abroad, came under pressure at the beginning of 2016. The main reasons were the sharp drops on the Chinese stock markets and the continuing collapse in prices on the commodity markets, which reflected growing uncertainty about the growth prospects for China and the global economy. Share prices recovered from mid-February, but were still lower than at the beginning of the year (cf. chart 5.7).

Implied volatility derived from options on SMI futures contracts, which serves as a measure of the uncertainty on the stock market, increased in January and the beginning of February in step with the losses on the stock markets. The recovery of share prices from mid-February was accompanied by a drop in implied volatility.

Substantial losses on bank shares

Of the four SMI sub-indices shown in chart 5.8, the consumer goods sub-index has performed considerably better since mid-2015 than the health care and industrials sub-indices. The financials sub-index performed poorly as a result of declines in bank share prices, while insurance performed in line with the overall index. Disappointing quarterly figures for domestic and foreign banks and the growing doubts of investors about banks' prospects for improving sustainable profitability have depressed bank shares since the beginning of 2016. The price losses on bank shares are mitigated, however, by the fact that their index considerably outperformed the overall index in the first half of 2015.

Slight rise in prices for residential property

According to available real estate price indices, residential property prices grew at a lower rate in 2015 than in previous years. The deceleration affected owner-occupied apartments (cf. chart 5.9) more than single-family homes. Nevertheless, measured over multi-year periods, prices for owner-occupied apartments still outpaced those for single-family homes.

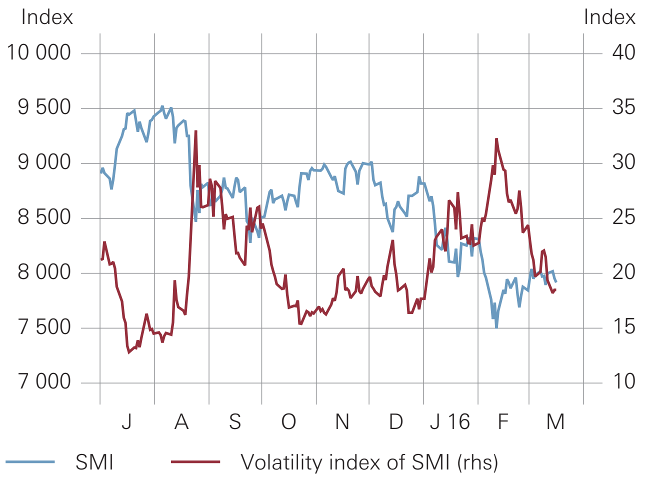
MONETARY AND CREDIT AGGREGATES

Further rise in the monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, continued to increase from November 2015 to February 2016 (cf. chart 5.10). While banknotes in circulation increased by CHF 2.2 billion, domestic banks' sight deposits rose by CHF 10.5 billion.

Chart 5.7

SHARE PRICES AND VOLATILITY

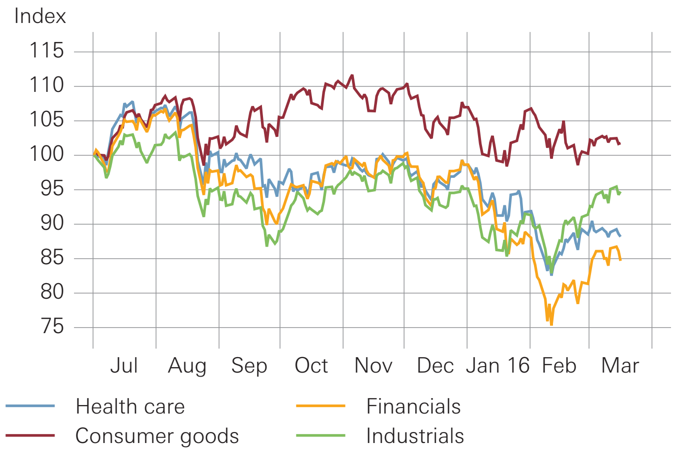


Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

SELECTED SPI SECTORS

Beginning of period = 100

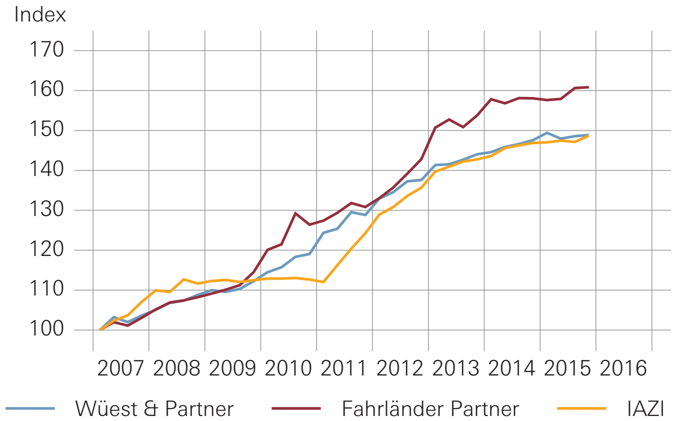


Source: Thomson Reuters Datastream

Chart 5.9

TRANSACTION PRICES, OWNER-OCCUPIED APARTMENTS

Nominal (hedonic), beginning of period = 100



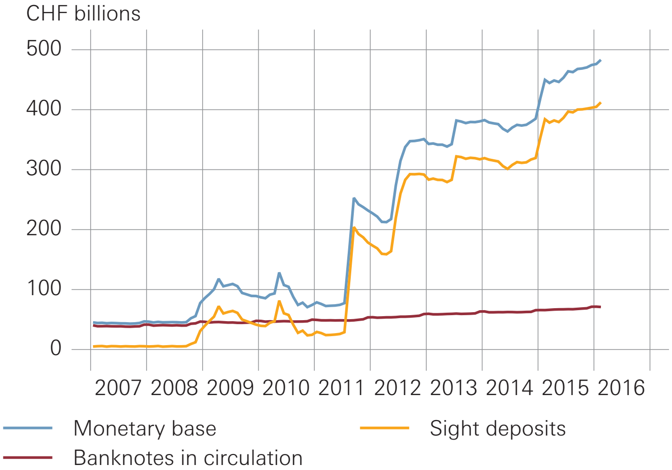
Sources: Fahrländer Partner, IAZI, Wüest & Partner

Marginal changes in broad monetary aggregates
The broad monetary aggregates changed only slightly between November and February. The M1 monetary aggregate (notes and coins in circulation, sight deposits and transaction accounts) was marginally down year-on-year, whereas the M2 (M1 plus savings deposits) and M3 (M2 plus time deposits) aggregates slightly surpassed their year-back level (cf. table 5.1). Over the last two to three years, growth in monetary aggregates has flattened considerably (cf. chart 5.11).

Slowdown in mortgage lending
Banks' mortgage claims, which make up roughly 85% of all bank lending, registered year-on-year growth of 2.9% in the fourth quarter of 2015, following 3.2% growth in the third quarter (cf. table 5.1). Despite mortgage rates being at historically very low levels, growth in mortgage lending thus continued to slacken (cf. chart 5.12).

Chart 5.10

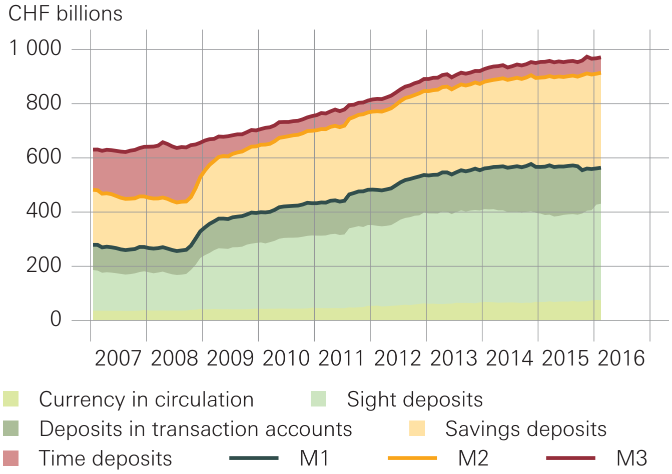
MONETARY BASE



Source: SNB

Chart 5.11

MONETARY AGGREGATES



Source: SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2015	2015 Q1	Q2	Q3	Q4	2015 December	2016 January	February
M1	**–0.2**	**0.9**	**0.2**	**0.6**	**–2.4**	**–1.4**	**–1.0**	**–0.7**
M2	**1.1**	**1.6**	**0.9**	**1.0**	**1.0**	**1.4**	**1.6**	**1.9**
M3	**1.8**	**2.4**	**1.7**	**1.5**	**1.7**	**1.7**	**1.4**	**1.7**
Bank loans, total [1, 3]	**1.9**	**2.5**	**1.6**	**1.6**	**1.7**	**1.0**	**1.5**	
Mortgage claims [1, 3]	3.3	3.6	3.5	3.2	2.9	2.8	2.6	
Households [2, 3]	3.4	3.5	3.5	3.4	3.2	3.1	2.9	
Private companies [2, 3]	3.3	3.9	3.7	3.0	2.6	2.5	2.3	
Other loans [1, 3]	–5.3	–2.9	–7.3	–6.4	–4.4	–8.5	–4.5	
Secured [1, 3]	–0.4	4.2	0.5	0.1	–5.8	–12.6	–4.4	
Unsecured [1, 3]	–8.5	–7.2	–12.2	–10.8	–3.4	–5.6	–4.6	

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

Source: SNB

Decline in other loans

The volume of other loans decreased in the fourth quarter by 4.4% year-on-year. Despite substantial fluctuations, the trend line for these loans has been flat since the onset of the financial and economic crisis (cf. chart 5.13). While secured other loans have slightly increased since the beginning of 2009, unsecured other loans marginally declined over the same period.

Growth in lending by sector

Both households and non-financial companies have benefited from the favourable financing conditions of recent years, as reflected in a continuous rise in bank loans (cf. chart 5.14). At the end of December 2015, loans to households were up CHF 17.6 billion (2.5%) year-on-year. Loans to companies, however, declined slightly: loans to non-financial companies were down by CHF 0.5 billion (–0.2%), while loans to financial companies (involving a lower volume and considerably greater volatility) decreased by CHF 5.2 billion (–9.6%).

Marginal effects of new accounting rules on monetary and credit aggregates

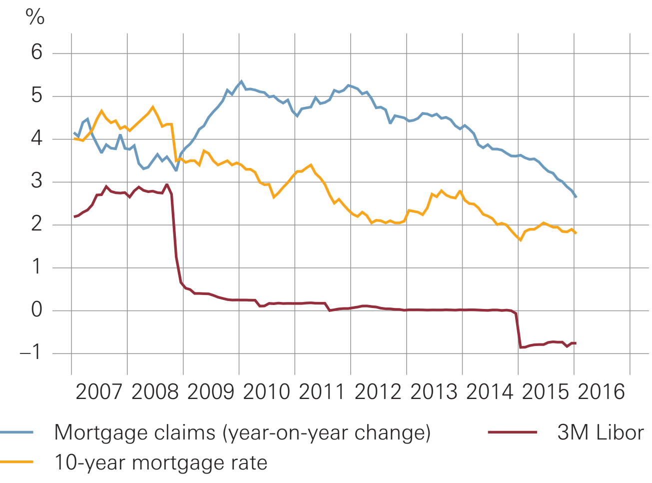
The introduction of the new accounting rules for banks (ARB; FINMA-Circ. 15/01) changed the breakdown and content of banks' balance sheets and income statements. These changes are reflected in the tables on bank statistics (data.snb.ch), which the SNB converted to the ARB system as of the reporting month November 2015. However, there has been minor impact on monetary and credit aggregates.

Credit aggregates are lower under the ARB since banks are obliged to offset value adjustments against the associated asset item rather than, as previously, reporting them on the liabilities side. Nevertheless, a comparison with the development of gross claims in credit volume statistics shows that this change probably only reduced total loans reported in November 2015 by approximately 0.1%.

The effect of the new ARB on the monetary aggregates was also minor. The one notable development related to time deposits. One banking institution reallocated items previously included under amounts due from cash bonds to time deposits. Although this did not affect the M1 and M2 aggregates, it increased the M3 monetary aggregate as at November 2015.

Chart 5.12

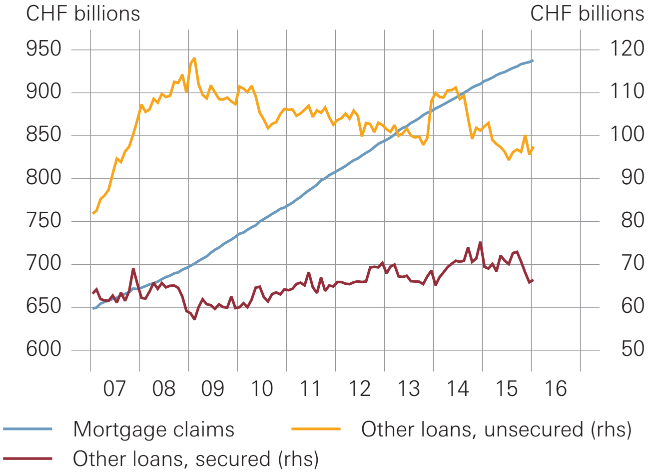
MORTGAGE CLAIMS AND 3M LIBOR



Sources: Bloomberg, SNB

Chart 5.13

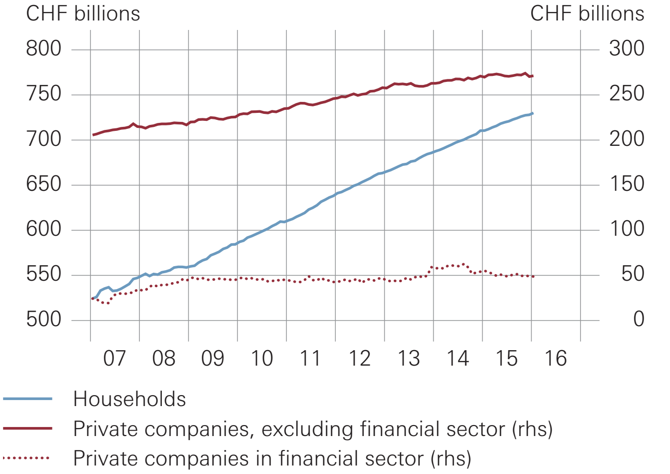
MORTGAGE CLAIMS AND OTHER LOANS



Source: SNB

Chart 5.14

LOANS TO HOUSEHOLDS AND COMPANIES



Source: SNB

Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2016

First quarter of 2016
The Swiss National Bank's delegates for regional economic relations are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted from the beginning of January to the end of February 2016 with 239 managers and entrepreneurs on the current and future situation of their companies and on the economy in general. The selection of companies differs from one quarter to the next. It reflects the industrial structure of the Swiss economy, based on the composition of GDP (excluding agriculture and public services).

Regions	Delegates
Central Switzerland	Walter Näf
Eastern Switzerland	Urs Schönholzer
Geneva	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Martin Wyss
Northwestern Switzerland	Daniel Hanimann
Vaud-Valais	Aline Chabloz
Zurich	Rita Kobel
	Markus Zimmerli

SUMMARY

According to this survey, real turnover remained on a par with the previous quarter overall. Margins continue to be strained for many companies, although the situation has not deteriorated further.

Despite a subdued course of business in the current quarter, expectations regarding real turnover in the coming months reflect greater confidence than was the case in the previous quarter. Companies are counting on somewhat stronger foreign demand, and the measures taken to improve efficiency are gradually taking effect, promising better margins.

Staff numbers are once again likely to recede slightly in manufacturing, but should increase a little in the services sector. Willingness to invest is marginally higher than in the past few quarters.

BUSINESS ACTIVITY

Turnover remains stagnant
Real turnover in manufacturing remained at the level of the previous quarter. Producers of machinery recorded higher real turnover overall, although the situation varies greatly from one segment to another. Turnover was noticeably lower in companies contacted in the food and plastics industries. All other lines of manufacturing recorded little change. Signals from the watchmaking industry increasingly point to a slowdown in demand. Demand for pharmaceutical products, by contrast, is consistently good.

As to foreign trade, sales to the US and to Germany remain fairly dynamic. Business with the UK is also reported to be good. Demand from Japan and Scandinavia has, in some cases, increased. By contrast, many industries continue to feel the effects of the unfavourable economic situation in Russia as well as the slowdown in China and in the Middle East.

In construction, business activity ranged from stable to slightly weaker, although momentum remains at a high level.

In the services sector, real turnover overall was unchanged against the previous quarter. The picture varies between sectors: while information and communications technology (ICT), insurance and facility management services recorded increases in turnover, respondents from car dealers, wholesale trading, the transport industry and banks reported lower turnover. Retailing also presented a heterogeneous picture, albeit with a slightly upward trend overall. Cross-border shopping and the shift to online shopping, which continues to experience strong growth, present a challenge to a large number of companies.

For banks, it is mainly the weak start to the year on the stock markets that is having a dampening effect on business. Restructuring at banks is impacting other parts of the economy – such as the IT, hotel and facility management industries – in the form of lower demand. This applies in particular to the cantons of Geneva and Ticino.

CAPACITY UTILISATION

Ongoing underutilisation
Production capacity at the companies surveyed remains considerably underutilised. However, the situation has not deteriorated further in comparison with the previous quarter. More than 40% of the survey respondents rated their utilisation as lower than usual.

Around half the responding companies in manufacturing reported a slight to significant underutilisation of capacity, with most industries being affected. Capacity utilisation was rated as normal by the chemical and pharmaceutical companies surveyed.

In construction, seasonally adjusted utilisation of technical capacity was somewhat lower than in the previous quarter. This applies both to the main lines of construction and to construction-related industries. Lower-lying regions continue to notice greater competitive pressure from the mountain regions. The reason usually cited is lower capacity utilisation in the mountain areas as a result of the vote to curb second-home ownership ('Zweitwohnungsinitiative'). Stronger price pressure from public authorities is also noticeable.

In the services sector, most segments reported a slight to significant underutilisation of infrastructure (office and retail space as well as IT and transport capacity). This is especially pronounced in the case of hotels and banks, as well as transportation and logistics companies. By contrast, infrastructure utilisation in ICT is described as good to very good.

Mountain hotels report very low utilisation rates, predominantly due to a further decline in the number of European guests, which can only partly be compensated by the increase in numbers from Asia, the US and Switzerland. Weather and snow conditions in the first half of the winter season also had an unfavourable impact.

DEMAND FOR LABOUR

Staff numbers somewhat too high
As in the past few quarters, staff numbers tend to be seen as too high overall. This applies particularly to manufacturing, where most industries – with the exception of pharmaceutical companies and producers of electrical appliances – report headcounts as being somewhat too high. In construction, staff numbers are also considered slightly higher than needed, especially in the case of civil engineering companies. Regarding the services sector, respondents from transport and hospitality indicate that headcounts are also somewhat too high. In contrast, ICT, fiduciary and auditing companies are recruiting more staff.

Staff numbers are reduced mainly by not replacing departing employees or by employing fewer temporary workers. In some cases, however, employees are dismissed. Other measures implemented or currently under discussion include longer working hours for the same pay and short-time working.

Overall, respondents find staff recruitment somewhat easier than before. Many companies received a comparatively high number of spontaneous job applications.

PRICES, MARGINS AND EARNINGS SITUATION

Margin pressure stabilised

Margins remain strained in all three sectors, but the situation has not deteriorated further. Over half the companies surveyed rated their margins as lower than usual. One-third reported that margins were within the normal range. The cost reduction measures implemented are gradually proving effective. Only very rarely is there room for price increases; if at all, then mostly abroad.

Considerable margin pressure still prevails in manufacturing, where respondents from all industries considered their margins to be lower or even significantly lower than usual.

Expectations regarding price developments suggest an ongoing downward trend in purchase prices and – somewhat less pronounced than in the previous quarter – in sale prices.

OUTLOOK

Cautious optimism

The outlook for the near future remains characterised by caution and predictability of business performance is deemed to be comparatively low. Despite the risks, a slight increase in real turnover is expected for the coming months in all three sectors. Most company representatives are therefore anticipating slightly higher utilisation of production capacity. Optimism is somewhat more marked than in the past quarter. Reasons for this include the current exchange rate conditions, anticipated economic developments abroad and the impact of the measures taken to raise efficiency and innovation. This constellation is expected to gradually lead to higher margins.

As to employment plans, the situation has improved slightly compared to the previous quarter. The improvement, however, is entirely on the services sector side. Respondents from the manufacturing and construction industries expect further slight reductions in staff numbers.

Investment plans for the coming 12 months point to a slight upturn in certain instances.

Companies' inflation expectations (as measured by the consumer price index) average –0.3% over the short term of 6–12 months (previous quarter: –0.4%). Expectations over the longer-term horizon of 3–5 years are 0.7% (previous quarter: 0.6%).

Concerns expressed by respondents include accelerated structural transformation in Switzerland, potentially negative consequences of the implementation of the initiative against mass immigration, greater geopolitical risks, the refugee problem, further slowing of growth in China, and the limited room for manoeuvre for central banks in the case of another crisis. Respondents also express the hope that the Swiss franc does not appreciate again. The current interest rate environment is viewed critically with regard to the long-term outlook for pension funds.

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.

At its quarterly assessment of 17 March 2016, the SNB leaves its target range for the three-month Libor unchanged at between –1.25% and –0.25% and the interest rate on sight deposits with the SNB at –0.75%. The SNB reaffirms that it will remain active in the foreign exchange market, in order to influence exchange rate developments where necessary. In the SNB's view, the Swiss franc is still significantly overvalued. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease pressure on the Swiss franc. The SNB's monetary policy thus helps to stabilise price developments and support economic activity.

March 2016

At its quarterly assessment of 10 December 2015, the SNB leaves its target range for the three-month Libor unchanged at between –1.25% and –0.25% and the interest rate on sight deposits with the SNB at –0.75%. The SNB reaffirms that it will remain active in the foreign exchange market in order to influence the exchange rate situation, as necessary. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market are intended to ease pressure on the Swiss franc. The SNB's monetary policy thus helps to stabilise price developments and support economic activity.

December 2015

At its quarterly assessment of 17 September 2015, the SNB leaves its target range for the three-month Libor unchanged at between –1.25% and –0.25% and the interest rate on sight deposits with the SNB at –0.75%. The SNB reaffirms that it will remain active in the foreign exchange market as necessary, in order to take account of the impact of the exchange rate situation on inflation and economic developments. In the SNB's view, the Swiss franc is still significantly overvalued, despite a slight depreciation. The negative interest rates in Switzerland and the SNB's willingness to intervene as required in the foreign exchange market serve to ease the pressure on the franc.

September 2015

At its quarterly assessment of 18 June 2015, the SNB leaves its target range for the three-month Libor unchanged at between –1.25% and –0.25% and the interest rate on sight deposits with the SNB at –0.75%. Negative interest rates in Switzerland help to make holding investments in Swiss francs less attractive. In the view of the SNB, the Swiss franc is significantly overvalued. The SNB reaffirms that it is taking account of the exchange rate situation and its impact on inflation and economic developments. It therefore remains active in the foreign exchange market, as necessary, to influence monetary conditions.

June 2015

On 22 April 2015, the SNB reduces the group of sight deposit account holders that are exempt from negative interest; the only exemptions now are those of the central Federal Administration and the compensation funds for old age and survivors' insurance, disability insurance and the fund for loss of earned income (AHV/AVS; IV/AI; EO/APG).

April 2015

At its quarterly assessment of 19 March 2015, the SNB leaves the target range for the three-month Libor unchanged at between –1.25% and –0.25%. The interest rate on sight deposits with the SNB remains at –0.75% and the exemption thresholds remain unchanged. Negative interest helps to make it less attractive to hold investments in Swiss francs. In the view of the SNB, the Swiss franc is significantly overvalued overall and should continue to weaken over time. The SNB affirms that it will continue to take account of the exchange rate situation and its impact on inflation and economic developments. It will therefore remain active in the foreign exchange market, as necessary, in order to influence monetary conditions.

March 2015

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