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Monetary policy report


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 14 December 2017’) is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 14 December 2017. 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 14 December 2017

Swiss National Bank leaves expansionary monetary policy unchanged

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy, with the aim of stabilising price developments and supporting economic activity. Interest on sight deposits at the SNB is to remain at –0.75% and the target range for the three-month Libor is unchanged at between –1.25% and –0.25%. The SNB will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

Since the last monetary policy assessment, the Swiss franc has weakened further against the euro and, more recently, has also depreciated against the US dollar. The overvaluation has thus continued to decrease, yet the franc remains highly valued. The depreciation of the Swiss franc reflects the fact that safe havens are currently less sought after. However, this development is still fragile. Therefore, despite the easing of the situation, the negative interest rate and the SNB’s willingness to intervene in the foreign exchange market as necessary remain essential. These measures keep the attractiveness of Swiss franc investments low and thus ease pressure on the currency. A renewed appreciation would still be a threat to price and economic developments.

The new conditional inflation forecast for the coming quarters is higher than it was in September (cf. chart 1.1). This is mainly due to increased oil prices and the further weakening of the Swiss franc. The longer-term inflation forecast is virtually unchanged. For the current year, it has risen marginally to 0.5%, from 0.4% in the previous quarter. For 2018, the SNB anticipates an inflation rate of 0.7%, compared to 0.4% last quarter. For 2019, it continues to expect inflation of 1.1%. The conditional inflation forecast is based on the assumption that the three-month Libor remains at –0.75% over the entire forecast horizon.

The past few months have seen further improvements in the international environment. The global economy exhibited strong, broad-based growth in the third quarter. The SNB expects it to continue developing favourably in the quarters ahead. The growth forecasts for the euro area and the US have been revised upwards slightly compared to the previous baseline scenario. While the normalisation of monetary policy gradually continues in the US, monetary policy in the euro area and Japan remains highly expansionary. In Switzerland, GDP grew in the third quarter at an annualised 2.5%. Growth was primarily driven by manufacturing, which benefited from dynamic economic developments abroad and the weaker Swiss franc. In the wake of this development, capacity utilisation in the economy as a whole increased further. The unemployment rate declined again slightly through to November.

Given the supportive global environment and favourable monetary conditions, the recovery in the Swiss economy looks set to continue in the coming months. For 2018, the SNB expects GDP growth of around 2%, compared to 1% in the current year.
Imbalances on the mortgage and real estate markets persist. While growth in mortgage lending remained relatively low in 2017, residential property prices rose again slightly. In the residential investment property segment, the strong price growth continued. The SNB will continue to monitor developments on these 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 DECEMBER 2017

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
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<th>Q2</th>
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<tbody>
<tr>
<td>Inflation</td>
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<td>0.1</td>
<td>0.0</td>
<td>-0.1</td>
<td>-0.7</td>
<td>-1.1</td>
<td>-1.4</td>
<td>-1.4</td>
<td>-0.4</td>
<td>-0.2</td>
<td>-0.2</td>
<td>0.5</td>
<td>0.4</td>
<td>0.5</td>
<td>0.0</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Table 1.1
CONDITIONAL INFLATION FORECAST OF DECEMBER 2017

|        | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
|--------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Forecast September 2017, with Libor at -0.75% | 0.4 | 0.3 | 0.2 | 0.3 | 0.5 | 0.6 | 0.8 | 1.0 | 1.2 | 1.4 | 1.7 | 1.9 | 0.4 | 0.4 | 1.1 |
| Forecast December 2017, with Libor at -0.75% | 0.7 | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 | 1.1 | 1.3 | 1.6 | 1.8 | 2.1 | 0.5 | 0.7 | 1.1 |
2

Global economic environment

The past few months have seen further improvements in the international environment. The global economy exhibited strong, broad-based growth in the third quarter. International trade, in particular, remained dynamic (cf. chart 2.1). In view of companies’ higher capacity utilisation and growing confidence, investment continued to recover. The employment trend remained positive, which helped to buoy household confidence, too. Inflation in most advanced economies trended sideways in recent months.

Economic signals for the coming months are encouraging. The SNB expects the global economy to continue developing favourably. It has even raised its forecasts slightly for the euro area and the US.

Economic recovery and convergence with the inflation target are most advanced in the US. This prompted the US Federal Reserve to carry out a number of interest rate adjustments and to initiate the reduction of the balance sheet this year. The Federal Reserve plans to continue its gradual policy normalisation. By contrast, the European Central Bank (ECB) intends to pursue its asset purchases until at least September 2018, and to leave its key rate unchanged beyond this horizon. In Japan, the highly expansionary monetary policy also looks set to continue.

The baseline scenario for the global economy is subject to risks. In the short term, growth could be stronger than

<table>
<thead>
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<th>Table 2.1</th>
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<tbody>
<tr>
<td>BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS</td>
</tr>
<tr>
<td>Scenario</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>GDP, year-on-year change in percent</td>
</tr>
<tr>
<td>Global ¹</td>
</tr>
<tr>
<td>US</td>
</tr>
<tr>
<td>Euro area</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Oil price in USD per barrel</td>
</tr>
</tbody>
</table>

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

Sources: SNB, Thomson Reuters Datastream
The SNB’s forecasts for the global economy are based on assumptions about oil prices and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 61 per barrel, which is USD 11 above September’s baseline scenario (cf. table 2.1), and an exchange rate of USD 1.17 to the euro, compared to USD 1.16 in September. Both correspond to the 20-day average when the current baseline scenario was drawn up.

**INTERNATIONAL FINANCIAL AND COMMODITY MARKETS**

Bolstered by the healthy global economy and robust corporate earnings, international stock market performance has shown a positive trend since the monetary policy assessment of mid-September. The MSCI World Index, the S&P 500 in the US and also, at times, the DAX in Germany recorded new highs. Furthermore, the volatility of US stocks as measured by option prices (VIX) – which serves an indicator of market uncertainty – dropped at the beginning of November to its lowest level since it was introduced in 1990 (cf. chart 2.2).

Yields on long-term government bonds in the advanced economies presented a mixed picture. In several euro area member states, they receded slightly after the ECB’s decision to extend its bond purchase programme until September 2018. Yields were slightly higher in the US thanks to the expected tax reform and positive economic data. In Japan, yields on ten-year government bonds persisted close to the Bank of Japan’s target of zero percent (cf. charts 2.3 and 2.4).

The US dollar – which had been weakening continuously since the beginning of the year – appreciated slightly on a trade-weighted basis. Following the tightening of monetary policy by the Bank of England, the pound sterling also appreciated. Both the euro and the Japanese yen trended sideways (cf. chart 2.5).

Commodity prices maintained the upwards trend they have been experiencing since mid-year. A decline in inventory levels and the agreement among the important oil-producing countries to limit production contributed to a continued rise in oil prices. At mid-December, the oil price for a barrel of Brent crude was just above USD 60 per barrel, the highest level for more than two years. Prices for industrial metals increased overall from mid-year, although they have declined again somewhat since mid-November (cf. chart 2.6).
US

The US economy grew by 3.3% in the third quarter of 2017, much the same as the previous quarter (cf. chart 2.7). Private consumption and investment in equipment posted further large gains, while construction investment receded slightly once again. The pace of growth has accelerated since the beginning of the year, despite the hurricanes in August and September having a somewhat negative impact on activity and employment. Growth in employment continued over the past few months and the unemployment rate receded to 4.1% in November (cf. chart 2.10).

The outlook for the US economy has improved slightly since the monetary policy assessment in September. Domestic activity remains dynamic, with turnover in the retail sector continuing to increase in recent months, while industrial output recovered well in October from the impact of the hurricanes. Reconstruction efforts will provide additional growth stimulus in the months to come. Favourable financing conditions and the tax cuts planned for 2018 are likely to stimulate private consumption and corporate investment in the next few years. As a result of the stronger economic momentum, the SNB has revised its GDP forecast slightly upwards to 2.2% for 2017 and 2.4% for 2018 (cf. table 2.1). The forecast for the medium term, however, continues to be uncertain, as several planks of US economic policy have yet to be clearly defined.

As a consequence of higher energy prices, annual inflation as measured by the consumer price index increased slightly again in recent months, and stood at 2.2% in November (cf. chart 2.11). Core inflation was virtually unchanged at 1.7% (cf. chart 2.12). The core personal consumption expenditure (PCE) deflator index, the Federal Reserve’s preferred price inflation measure, posted modest gains in October. Inflation is still below target, but is set to rise gradually. In October, the Federal Reserve began reducing its balance sheet and in December it increased the target range for its policy rate to between 1.25% and 1.50%. The Federal Reserve plans to continue gradually normalising its monetary policy (cf. chart 2.13).
In the euro area, the economic uptrend continued. GDP registered a broad-based increase of 2.4% in the third quarter. Growth in Germany, Italy and Spain was significantly above potential. Investment and exports continued to expand strongly. Employment grew further and unemployment declined once again (cf. chart 2.10).

The economic outlook is positive across the board. Confidence in manufacturing and private households is particularly high. Surveys suggest that companies plan to expand their investment and, given the rise in utilisation, perhaps also increase their capacity. Bolstered by propitious financing conditions and improvements in the labour market situation, domestic demand is therefore likely to remain dynamic. Nevertheless, the outlook for the economy is still subject to risks. These include political uncertainties like the future shape of relations between the EU and the UK, and Italy’s elections to be held by May 2018. Given the favourable economic indicators, the SNB has once again revised its growth expectations for the euro area upwards, projecting GDP growth of 2.3% for 2017, which amounts to the strongest rise in the last ten years, and 2.1% for 2018.

Consumer price inflation trended sideways in recent months and stood at 1.5% in November (cf. chart 2.11). Core inflation, however, dipped marginally below 1.0%, which was predominantly attributable to prices for services (cf. chart 2.12). Medium-term inflation expectations derived from financial market indicators were up slightly but are still below the ECB’s target level of just under 2%. Despite the improvement on the labour market, wage growth in the euro area remained modest.

At the end of October, the ECB decided to extend its monthly asset purchases until at least September 2018, and to leave its key rates unchanged beyond that horizon. The purchase volume, however, is to be reduced from EUR 60 billion to EUR 30 billion per month as of January 2018. Furthermore, the ECB will continue to supply banks with unlimited liquidity until at least the end of 2019 as part of its regular refinancing operations.
In Japan, GDP has been growing above potential for almost two years. In the third quarter, it was 2.5%, reflecting primarily the strong foreign trade contribution (cf. chart 2.7). Demand has fluctuated widely in recent quarters, however. Since the beginning of the year, GDP has expanded by 2.3% on average, with exports, corporate investment and public sector investment experiencing a particularly sharp rise. The economy picked up pace again compared with the previous year. Aggregate economic capacity is well utilised and, at 2.8%, unemployment is at its lowest level since the mid-1990s.

The upswing in global manufacturing is likely to further support the Japanese economy. Robust corporate earnings, extremely favourable financing conditions and the general improvement in sentiment mean that corporate investment is likely to continue to gain momentum. By contrast, the effects of the economic stimulus package launched in summer last year are likely to taper off. As a result of data revisions, the GDP forecast for 2017 has gone up to 1.8%; this would be the strongest rate of growth since 2013. In 2018 too, GDP growth is set to be above potential (cf. table 2.1).

Inflation momentum has gradually improved. The consumer price index excluding energy and food prices rose slightly in recent months and had regained its year-back level in November (cf. chart 2.12). The trimmed mean calculated by the Bank of Japan, which excludes the products with the greatest price changes, saw a more pronounced rise since the beginning of the year, to 0.5%. In addition, energy inflation also went up. However, due to base effects relating to fresh food prices, the overall rate of inflation decreased to 0.2% in October (cf. chart 2.11). Mounting overall capacity utilisation, the impact of higher oil prices and a weaker yen are likely to cause inflation to rise again in the months to come. Longer-term inflation expectations derived from company surveys trended sideways and remained significantly below the Japanese central bank’s inflation target of 2%. Under these conditions, the Bank of Japan is planning to maintain its expansionary monetary policy.

**EMERGING ECONOMIES**

In China, GDP continued to expand strongly, at 6.7% in the third quarter (cf. chart 2.8). While both construction and manufacturing lost a little momentum, value added in the services sector posted further large, broad-based gains. At 7.3%, GDP in India advanced in line with potential. In Russia and Brazil, there are firming signs of recovery.
The outlook for China remains unchanged since the last monetary policy assessment. Consumption looks set to continue expanding strongly, thanks to rising levels of income and upbeat consumer confidence. By contrast, a slowdown in credit growth, as well as macroprudential measures implemented by the government in the real estate market, look set to rein in growth somewhat. GDP growth is expected to be 6.8% in 2017 and slightly lower in 2018. In India, the dampening impact of the tax reform is gradually receding. A more expansionary policy will stimulate the economy in the medium term. In particular, weak, quasi-governmental credit institutions are set to be recapitalised and the road infrastructure improved.

Inflation in the emerging economies saw different rates of development in recent months. In China it was 1.7% in November, virtually unchanged compared to August (cf. chart 2.11). By contrast, India saw a noticeable increase to 4.9% due to higher food and energy prices. Inflation was slightly up in Brazil, too, though at 2.8% it remained considerably below the central bank’s target. By contrast, inflation in Russia continued to decrease, to 2.5%.

Monetary policy also varied across the emerging economies. From January 2018, the People’s Bank of China plans to grant a reduction in the minimum reserve rate of up to 150 basis points to commercial banks which increase their lending to small companies or agricultural enterprises. The central bank did stress, however, that this measure does not indicate a general easing of monetary policy, rather, the aim is to provide support to companies which have previously received insufficient loans. The central banks of Russia and Brazil both lowered their key rates in light of low inflation. The Reserve Bank of India left its monetary policy unchanged.
3
Economic developments in Switzerland

In Switzerland, the recovery continues. GDP grew by 2.5% in the third quarter, strengthening economic recovery as expected. Manufacturing, in particular, benefited from the favourable economic situation abroad and the depreciation of the Swiss franc.

On the back of solid growth, capacity utilisation has improved and business confidence has continued to pick up. Against this background, the willingness of companies to invest is likely to increase further.

The gradual recovery on the labour market has also continued. Demand for labour is firming progressively and the unemployment rate declined again through to November.

The outlook remains positive. Leading indicators suggest that the recovery will continue to gain momentum. For 2018, the SNB expects GDP growth of around 2.0%, after 1% in the current year.

AGGREGATE DEMAND AND OUTPUT

The SNB takes a wide range of information into account when assessing the economic situation. At present, many signals are suggesting favourable economic momentum.

Vigorous GDP growth in the third quarter of 2017
According to a provisional estimate by the State Secretariat for Economic Affairs (SECO), the rate of growth continued to increase in the third quarter. GDP rose by 2.5%, the strongest advance since the end of 2014 (cf. chart 3.1). In addition, GDP for the previous quarters has been revised upwards. The most recent estimate puts second-quarter growth at 1.8% (originally 1.1%).

Value added increased in most industries in the third quarter. Manufacturing was the main driver of robust GDP growth, with value added again rising sharply (cf. chart 3.2). Most services industries also showed a positive trend. However, in financial services, value added contracted following a marked increase in the previous quarter.

On the expenditure side, growth in the third quarter also proved broadly based. Given the favourable global economic developments and the weakening of the Swiss franc, exports and equipment investment continued to trend positively. Private consumption also rose more strongly than in the first half of the year. By contrast,
construction investment stagnated. After posting extremely strong growth in the previous quarter, imports receded.

**Positive economic indicators**

In addition to GDP, other economic indicators are also showing positive momentum. The KOF Economic Barometer has been well above its long-term average for some time now (cf. chart 3.3). As various surveys show, the positive developments are mainly driven by manufacturing. This is also borne out in the high level of the PMI.

The discussions with company representatives conducted by the SNB’s delegates for regional economic relations during the course of the year also paint the picture of a significant economic upswing (cf. ‘Business cycle signals’, p. 28). According to the most recent talks, the positive momentum continued in the fourth quarter. Companies report considerable improvements in the business environment, compared with the previous year.

Despite these positive developments overall, parts of the economy continue to be confronted with substantial challenges. Regulatory or technology factors mean that a number of industries are undergoing structural adjustment and are facing significant pressure on prices and margins.

### Table 3.1

**REAL GDP AND COMPONENTS**

Growth rates on previous period in percent, annualised

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<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Private consumption</td>
<td>2.6</td>
<td>1.3</td>
<td>1.8</td>
<td>1.5</td>
<td>0.5</td>
<td>2.0</td>
<td>0.9</td>
<td>1.3</td>
<td>2.9</td>
<td>0.3</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Government consumption</td>
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<td>2.2</td>
<td>1.2</td>
<td>1.6</td>
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<td>2.5</td>
<td>1.8</td>
<td>1.4</td>
<td>2.8</td>
<td>0.8</td>
<td>1.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Investment in fixed assets</td>
<td>0.6</td>
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<td>2.2</td>
<td>3.1</td>
<td>-0.9</td>
<td>7.9</td>
<td>1.2</td>
<td>4.8</td>
<td>-1.6</td>
<td>-3.5</td>
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</tr>
<tr>
<td>Construction</td>
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<td>3.2</td>
<td>1.6</td>
<td>0.9</td>
<td>2.4</td>
<td>1.7</td>
<td>-2.3</td>
<td>5.1</td>
<td>0.3</td>
<td>0.6</td>
<td>2.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>Equipment</td>
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<td>2.9</td>
<td>2.6</td>
<td>4.5</td>
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<td>5.4</td>
<td>3.6</td>
<td>3.5</td>
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<tr>
<td>Domestic final demand</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
<td>1.9</td>
<td>0.3</td>
<td>3.7</td>
<td>1.1</td>
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<td>1.7</td>
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<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Change in inventories</td>
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<td>-0.5</td>
<td>-0.3</td>
<td>-1.9</td>
<td>5.3</td>
<td>-7.4</td>
<td>-4.6</td>
<td>5.3</td>
<td>-7.8</td>
<td>-3.6</td>
<td>7.0</td>
<td>-3.9</td>
</tr>
<tr>
<td>Total exports</td>
<td>-0.1</td>
<td>5.2</td>
<td>2.3</td>
<td>6.8</td>
<td>6.3</td>
<td>16.5</td>
<td>7.2</td>
<td>-9.3</td>
<td>12.2</td>
<td>3.2</td>
<td>1.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Goods</td>
<td>-2.3</td>
<td>5.8</td>
<td>2.6</td>
<td>6.2</td>
<td>1.9</td>
<td>30.1</td>
<td>3.4</td>
<td>-15.2</td>
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<td>23.5</td>
<td>2.7</td>
<td>8.7</td>
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<tr>
<td>Goods excluding merchanting</td>
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<td>4.0</td>
<td>0.7</td>
<td>6.6</td>
<td>16.7</td>
<td>7.8</td>
<td>4.8</td>
<td>3.8</td>
<td>-7.1</td>
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<td>4.9</td>
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<td>Services</td>
<td>4.5</td>
<td>4.0</td>
<td>1.7</td>
<td>7.9</td>
<td>15.2</td>
<td>-6.1</td>
<td>15.1</td>
<td>3.2</td>
<td>46.8</td>
<td>-25.2</td>
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<td>-1.7</td>
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<tr>
<td>Total imports</td>
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<td>3.3</td>
<td>3.2</td>
<td>4.7</td>
<td>16.7</td>
<td>5.6</td>
<td>-2.1</td>
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<td>1.1</td>
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<td>0.0</td>
<td>4.4</td>
<td>20.4</td>
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<td>Services</td>
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<td>9.6</td>
<td>5.4</td>
<td>10.2</td>
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<td>-6.4</td>
<td>11.2</td>
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<td>-3.1</td>
<td>9.1</td>
<td>-2.9</td>
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<tr>
<td>Net exports</td>
<td>-0.6</td>
<td>1.3</td>
<td>-0.1</td>
<td>1.6</td>
<td>-3.3</td>
<td>6.2</td>
<td>4.6</td>
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<td>5.9</td>
<td>3.1</td>
<td>-8.5</td>
<td>4.9</td>
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<tr>
<td>GDP</td>
<td>1.9</td>
<td>2.4</td>
<td>1.2</td>
<td>1.4</td>
<td>2.2</td>
<td>2.1</td>
<td>1.0</td>
<td>-0.4</td>
<td>0.5</td>
<td>1.8</td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

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

The recovery on the labour market continues. Unemployment has receded further in the past few months, and the number of employed persons has risen again.

Ongoing decline in unemployment
Excluding seasonal fluctuations, the number of people registered as unemployed with regional employment offices was 136,600 at the end of November. Jobless figures thus declined further, while at end-November the seasonally adjusted unemployment rate published by SECO stood at 3.0% (cf. chart 3.4).

In addition, the Swiss Federal Statistical Office (SFSO) calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss labour force survey of households (SAKE), conducted quarterly. This survey also includes people who are unemployed (although looking for work) but not registered, or no longer registered, with the regional employment offices. The SFSO unemployment rate calculated in accordance with the ILO definition is therefore higher than the one published by SECO. In the third quarter of 2017, the seasonally adjusted unemployment rate amounted to 4.8%, slightly below the peak reached a few quarters ago. It is thus similar to SECO’s unemployment rate.

Employment continues to rise
The Employment Statistics (ES), which are also based on SAKE data, measure the number of employed persons on the household side. These figures suggest that, after rather subdued growth in previous quarters, employment growth had returned to more or less its long-term average in the third quarter (cf. chart 3.5).

The national job statistics, which are based on a survey of firms, measure employment on the company side. They thus complement the ES, especially with regard to developments at industry level. According to these statistics, in the third quarter the number of full-time equivalent positions also increased in line with the average (cf. chart 3.6). Growth in employment was driven by services, which make up roughly three-quarters of jobs. Manufacturing, which includes roughly 15% of jobs, was up again as well. By contrast, in construction, job cuts – ongoing for nearly three years – continued.
**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. The negative output gap has recently narrowed further. Potential output as estimated by means of a production function showed an output gap of −0.9% for the third quarter, compared with −1.2% in the previous quarter. Estimates using other methods to establish potential output (Hodrick-Prescott filter and multivariate filter) suggest a somewhat narrower, but also negative output gap (cf. chart 3.7).

**Surveys show lower level of underutilisation**
According to the KOF survey, utilisation of technical capacity in manufacturing increased in the third quarter by 1.1 percentage points to 83.0%. Owing to this significant increase, capacity utilisation in manufacturing was just slightly below its long-term average (cf. chart 3.8). While machine utilisation in construction has recorded a marked decline, it remains above its long-term average (cf. chart 3.9). As for the different services industries, the surveys point to an average level of capacity utilisation. Overall, these indicators of utilisation thus show a more positive picture than GDP-based measures of the output gap.
OUTLOOK FOR THE REAL ECONOMY

In the context of strong economic growth worldwide, the outlook for Switzerland remains positive. The export-weighted PMI abroad has continued to improve in the past few months and has thus moved closer to the peak values of 2010 and 2011 (cf. chart 3.10). Export-oriented industries, in particular, will benefit from the stimulus from abroad. Surveys among manufacturing companies thus suggest a further improvement in the economic outlook (cf. chart 3.11). As a result, services industries, too, are likely to pick up momentum. Most other indicators also suggest that the recovery will continue. For example, there is evidence of a consolidation of demand on the labour market (cf. chart 3.12).

The SNB expects a positive economic trend in Switzerland in the medium term, too. This favourable outlook is based on a number of factors. First, according to the baseline scenario (cf. chapter 2), global economic developments will continue to stimulate the Swiss economy. Second, the depreciation of the Swiss franc in the past few months has resulted in improved price competitiveness. Third, the solid population growth is likely to persist for the time being. Fourth, low interest rates are supporting this growth.

For 2017, the SNB expects GDP growth of 1.0%. In 2018, growth is likely to rise noticeably; the SNB is expecting roughly 2.0%. The higher growth mainly reflects greater momentum in exports and equipment investment. Major uncertainties remain attached to the forecast, mostly in connection with developments abroad (cf. chapter 2).
4
Prices and inflation expectations

Rates of inflation rose slightly against the backdrop of a weakening Swiss franc. This was true for both consumer and producer prices. Core inflation rates were also up, albeit to a lesser extent than the unadjusted rates.

Inflation expectations remained largely unchanged, persisting within a range that is consistent with the SNB’s definition of price stability.

CONSUMER PRICES

Slight rise in annual inflation rate
The annual inflation rate as measured by the national consumer price index (CPI) increased slightly in autumn 2017 (cf. chart 4.1). It stood at 0.8% in November 2017, after averaging 0.5% in the first three quarters of the year (cf. table 4.1). The increase was mainly due to the depreciation of the Swiss franc, which set in at the end of July.

Higher inflation for imported goods and services
Inflation for imported goods and services rose threefold between August and November to 2.2%, owing predominantly to higher inflation for imported goods excluding oil products. Inflation contribution by oil products remained largely unchanged over the same period (cf. chart 4.1).

Table 4.1

<table>
<thead>
<tr>
<th>SWISS CONSUMER PRICE INDEX AND COMPONENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-on-year change in percent</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Overall CPI</td>
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<tr>
<td>Domestic goods and services</td>
</tr>
<tr>
<td>Goods</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Private services excluding housing rents</td>
</tr>
<tr>
<td>Housing rents</td>
</tr>
<tr>
<td>Public services</td>
</tr>
<tr>
<td>Imported goods and services</td>
</tr>
<tr>
<td>Excluding oil products</td>
</tr>
<tr>
<td>Oil products</td>
</tr>
</tbody>
</table>

Sources: SFSO, SNB
Stable inflation for domestic goods and services
Inflation for domestic goods and services barely changed. While housing rents and other services made a positive contribution to inflation, prices for goods were again slightly below the year-back level (cf. chart 4.2).

Slight decline in inflation for rents
Inflation for rents as measured by the index for housing rents dropped to 0.7% in November, down from 1.4% in August (cf. chart 4.3). The decline reflects both a base effect and reference interest rate developments. The reference interest rate, based on the average of current mortgage interest rates, receded by 0.25 percentage points in June 2017. It is a key variable for rent adjustments and normally impacts the index for housing rent with a lag of several months.

Slight rise in core inflation rates
Similar to the CPI annual inflation rate, core inflation rates recorded a slight upward trend (cf. chart 4.4). The trimmed mean calculated by the SNB (TM15) and the SFSO’s core inflation 1 (SFSO1) amounted to 0.5% and 0.6%, respectively, in November. They were thus slightly below the annual CPI inflation rate of 0.8%.

Both core inflation rates are based on the prices of a reduced version of the CPI basket of goods. SFSO1 excludes the same CPI products every month (fresh and seasonal products, energy and fuel), whereas TM15 excludes the products with the greatest price changes every month (15% at either end of the distribution curve of annual rates of change in product prices).
PRODUCER AND IMPORT PRICES

Exchange rate drives import prices
In November, the index of producer and import prices was 1.8% higher than the year before (cf. chart 4.5). Influenced by the Swiss franc’s depreciation, import prices rose significantly over the past few months. Producer prices, by contrast, remained close to last year’s level.

INFLATION EXPECTATIONS

Inflation expectations in price stability territory
Inflation expectations continue to be in the low positive range. They thus remain consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Short-term expectations largely unchanged
The quarterly survey of households conducted by SECO shows that a majority of respondents anticipate an increase in prices over the next 12 months (cf. chart 4.6), while the remainder expect that prices will remain more or less unchanged. The proportion of households expecting prices to rise was slightly up in October 2017, whereas the share of those anticipating unchanged or lower prices declined marginally.

According to the joint monthly financial market surveys by CFA Society Switzerland and Credit Suisse, 58% of the economists and analysts questioned in November expect inflation rates to persist at their present level in the next six months. The remaining 42% anticipate a rise in inflation. These figures have changed only slightly since the summer.

Talks held by the SNB’s delegates for regional economic relations with companies from all parts of Switzerland present a similar picture. On average, in the fourth quarter, the company representatives expected annual inflation to stand at 0.6% in six to twelve months, compared to 0.5% in the previous quarter.

Longer-term expectations slightly above short-term expectations
Longer-term inflation expectations were again slightly higher than short-term inflation expectations. Participants in the CFO survey by Deloitte, which was conducted in the third quarter of 2017, anticipate an inflation rate of 1.0% in two years’ time. Company representatives interviewed by the SNB’s delegates put the rate of inflation in three to five years at 1.2%, up from the 1.0% predicted in the previous quarter.
Monetary developments

At its monetary policy assessment of mid-September 2017, the SNB left its expansionary monetary policy unchanged. This means that, over the last three months, monetary policy has continued to be based on the negative interest rate on sight deposits held at the SNB and on the SNB’s willingness to intervene in the foreign exchange market as necessary.

In recent months, short and long-term interest rates have hardly changed. The three-month Libor rate was on a par with the SNB’s negative interest rate, while the yield on ten-year Confederation bonds hovered around 0% to –0.2%.

There has, however, been movement with respect to exchange rates. At the end of July, the Swiss franc weakened considerably against the euro; in the months that followed, it also lost ground against the US dollar. Although the overvaluation of the franc has decreased, the currency is still highly valued.

As in the previous quarter, the M3 monetary aggregate and bank loans have grown at a moderate pace.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged
The SNB confirmed its expansionary monetary policy stance at its assessment on 14 September 2017. 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. Furthermore, the SNB reaffirmed that it will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

The negative interest rate and the SNB’s willingness to intervene in the foreign exchange market serve to ease upward pressure on the Swiss franc. The SNB’s monetary policy thus helps to stabilise price developments and support economic activity.

Sight deposits at SNB virtually unchanged
Since the monetary policy assessment of September 2017, total sight deposits held at the SNB have decreased slightly. In the week ending 8 December 2017 (last calendar week before the mid-December assessment), they amounted to CHF 575.9 billion, or CHF 3.1 billion less than in the last calendar week preceding the mid-September 2017 assessment (CHF 579 billion). Between the assessments in mid-September and mid-December 2017, they averaged CHF 577.9 billion. Of this amount, CHF 473.6 billion was accounted for by the sight deposits of domestic banks and the remaining CHF 104.3 billion by other sight deposits.

High level of banks’ surplus reserves
Statutory minimum reserves averaged CHF 16 billion between 20 August and 19 November 2017. Overall, banks exceeded the minimum reserve requirement by some CHF 459.3 billion (previous period: CHF 471.2 billion) on average. Banks’ surplus reserves have thus decreased slightly.
MONEY AND CAPITAL MARKET INTEREST RATES

Money market rates practically unchanged
Conditions on the Swiss franc money market continue to be stable. Over the last few quarters, interest rates on secured (SARON) and unsecured (three-month Libor) money market transactions have hardly moved, remaining close to the rate on sight deposits held at the SNB, which has been –0.75% since January 2015 (cf. chart 5.1).

Long-term interest rates move sideways
The yield on ten-year Confederation bonds was similar to that in the previous quarter, fluctuating between just under –0.2% and 0%. The sideways movement in the Confederation bond yield mirrored the trend in long-term bonds of other sovereigns. In mid-December, the return on ten-year Confederation bonds stood at –0.1%.

Almost no change in yield curve
The yield curve for Confederation bonds is virtually the same as three months earlier (cf. chart 5.2). Yields on Confederation bonds with terms of up to about 12 years continue to be negative.

Long-term real interest rates still low
In December 2017, the estimated long-term real interest rate was low but positive (cf. chart 5.3). It was more or less unchanged compared to the previous quarter.

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

Further weakening of Swiss franc
Since the September monetary policy assessment, the Swiss franc has lost ground against the major currencies (cf. chart 5.4). Against the euro, it weakened by more than 1%, despite the ECB’s announcement at end-October that it would continue to pursue its expansionary monetary policy, as well as the bouts of market uncertainty caused by the referendum in Catalonia. At times, one euro was worth CHF 1.17, the highest value since the minimum exchange rate was discontinued in January 2015.

The Swiss franc also depreciated against the US dollar, the pound sterling and the Japanese yen. It lost just under 3% against the US dollar, and in mid-December was trading at 99 centimes to the dollar. The franc depreciated slightly more against the pound sterling, which was buoyed by the Bank of England raising its reference rate.

Decline in trade-weighted exchange rate index
On a trade-weighted basis, the nominal external value of the Swiss franc fell by more than 1% between mid-September and mid-December (cf. chart 5.5). The slight countermovement in November was primarily driven by the exchange rate to the US dollar.

Over the same three-month period, the real trade-weighted external value of the Swiss franc fell somewhat more than the nominal rate. This reflects the inflation differential vis-à-vis other countries: inflation in Switzerland is lower than elsewhere.

Real trade-weighted exchange rate still high
The real trade-weighted exchange rate index calculated by the SNB (on the basis of consumer prices) is now back at roughly the same level as before the discontinuation of the minimum exchange rate, although it remains above its long-term average. The same is true for the indices calculated by the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) (cf. chart 5.6).
SHARE AND REAL ESTATE PRICES

Slight rise in share prices

The Swiss Market Index (SMI) rose by around 5% between the beginning of September and mid-December, having shown little change in the preceding months (cf. chart 5.7). As such, its movements were in line with those in the main equity indices in Europe and North America.

Although in December 2017 the SMI rose to a new high for the year, this was nonetheless slightly below the record level of June 2007 or the multi-year high of August 2015.

Market uncertainty on the wane

The volatility index derived from options on SMI futures contracts is used to gauge uncertainty on the stock market. It rose slightly in August, on the back of growing concern about an escalation of tensions over North Korea, and has since fallen back to its previous low level (cf. chart 5.7).

Moderate differences between SPI sub-indices

The main sub-indices of the Swiss Performance Index (SPI) fluctuated moderately, but developed on largely parallel paths during the second half of the year (cf. chart 5.8). Whereas the financials and industrials sub-indices briefly rose somewhat more strongly than health care and consumer goods, the differences were nevertheless small.

Rise in residential property prices

Most available price indices for privately owned apartments and single-family houses rose slightly in the second and third quarters. The rise encompassed almost all regions and price segments.

Despite the recent increase in residential property prices, the available indices show that a marked stabilisation has taken place in recent years. Chart 5.9 shows transaction prices for privately owned apartments. While two of the three indices shown have recently posted slight gains, they are still well below their peak values.

<table>
<thead>
<tr>
<th>SHARE PRICES AND VOLATILITY</th>
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<tbody>
<tr>
<td><img src="image" alt="Graph showing share prices and volatility." /></td>
</tr>
</tbody>
</table>

Sources: Bloomberg, Thomson Reuters Datastream

<table>
<thead>
<tr>
<th>SELECTED SPI SECTORS</th>
</tr>
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<tbody>
<tr>
<td><img src="image" alt="Graph showing selected SPI sectors." /></td>
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</table>

Sources: Thomson Reuters Datastream

<table>
<thead>
<tr>
<th>TRANSACTION PRICES, PRIVATELY OWNED APARTMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Graph showing transaction prices." /></td>
</tr>
</tbody>
</table>

Sources: Fahrländer Partner, IAZI, Wüest Partner

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SNB BNS © 2017
Quarterly Bulletin 4/2017 December
MONETARY AND CREDIT AGGREGATES

Slight decline in monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has marginally declined over recent months and stood at an average of CHF 551.9 billion in November 2017 (cf. chart 5.10).

This slight decline primarily reflects movements in domestic banks’ sight deposits, which fell by CHF 9.5 billion between June and November 2017. However, other sight deposits at the SNB increased during the same period. Total sight deposits at the SNB were largely unchanged for the second half of the year.

Stable growth in broad monetary aggregates

Despite the stabilisation of the monetary base, the M1, M2 and M3 monetary aggregates grew further (cf. chart 5.11). These broader monetary aggregates, which measure the money supply in the hands of the public, are currently growing irrespective of fluctuations in the monetary base as the banks have a large amount of liquidity; in other words, sight deposits held by banks at the SNB substantially exceed the statutory minimum reserve requirement.

At the end of November, M1 (cash in circulation, sight deposits and transaction accounts) was 8.1% above its level a year earlier, while M2 (M1 plus savings deposits) had risen by 4.8% and M3 (M2 plus time deposits) by 4.4% over the same period (cf. table 5.1).

Parallel movement of monetary aggregates and loans

Over the last few years, Swiss franc-denominated loans by domestic banks have developed roughly in parallel with domestic customers’ Swiss franc deposits, which, together with cash in circulation, make up the M3 monetary aggregate. Chart 5.12 plots the cumulative changes in Swiss franc balance sheet positions of domestic banks since the beginning of 2014. During this period, loans grew by CHF 86 billion, and customer deposits by CHF 89 billion. Moreover, there was a noticeable increase in the Swiss franc liquidity of domestic banks, i.e. sight deposits held at the SNB. Yet this increase in liquidity did not result in either an acceleration in lending growth or an expansion of customer deposits beyond what was caused by the granting of loans.
The expansion in domestic banks’ liquidity is offset primarily by the currency mismatch item. This is an offsetting item in the balance sheet, and is made up of domestic banks’ net domestic and foreign liabilities in foreign currency, as well as foreign liabilities in Swiss francs (although the latter are negligible). As the banks usually hedge their exchange rate risk, a rise in the currency mismatch item indicates that other economic agents have increased their Swiss franc exposure in the form of derivatives (for a general discussion of the method, cf. ‘The effect of the monetary base expansion on the balance sheet of domestic banks’ by L. Altermatt and R. Baeriswyl, SNB, Quarterly Bulletin 1/2015, pp. 34 et seq.).

Table 5.1

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<thead>
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<tbody>
<tr>
<td></td>
<td>Q4</td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>September</td>
<td>October</td>
<td>November</td>
</tr>
<tr>
<td>M1</td>
<td>2.1</td>
<td>5.8</td>
<td>5.8</td>
<td>6.4</td>
<td>6.6</td>
<td>6.9</td>
<td>7.2</td>
</tr>
<tr>
<td>M2</td>
<td>2.8</td>
<td>3.5</td>
<td>3.7</td>
<td>4.1</td>
<td>4.4</td>
<td>4.6</td>
<td>4.5</td>
</tr>
<tr>
<td>M3</td>
<td>2.3</td>
<td>2.6</td>
<td>3.1</td>
<td>3.7</td>
<td>4.1</td>
<td>4.3</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Bank loans, total</strong> 1, 3</td>
<td>2.0</td>
<td>2.6</td>
<td>2.7</td>
<td>2.5</td>
<td>2.6</td>
<td>2.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Mortgage claims 1, 3</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Households 2, 3</td>
<td>2.8</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>2.5</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Private companies 2, 3</td>
<td>2.6</td>
<td>2.7</td>
<td>3.2</td>
<td>3.2</td>
<td>3.5</td>
<td>4.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Other loans 1, 3</td>
<td>−1.1</td>
<td>2.5</td>
<td>2.9</td>
<td>2.2</td>
<td>2.3</td>
<td>1.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Secured 1, 3</td>
<td>0.0</td>
<td>7.2</td>
<td>8.0</td>
<td>5.0</td>
<td>4.6</td>
<td>4.0</td>
<td>4.3</td>
</tr>
<tr>
<td>Unsecured 1, 3</td>
<td>−2.0</td>
<td>−0.7</td>
<td>−0.7</td>
<td>0.2</td>
<td>0.7</td>
<td>−0.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

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

Source: SNB
Stable growth in mortgage lending
Banks’ mortgage claims, which make up roughly 85% of all bank lending to domestic customers, recorded a 2.6% year-on-year increase in the third quarter of 2017 (cf. table 5.1). Thus, since the beginning of 2016, growth in mortgage claims has been largely stable, against a background of historically low mortgage interest rates (cf. chart 5.13).

Other loans were up by 2.3% year-on-year in the third quarter. However, if short-term fluctuations are disregarded, other loans are still at roughly the same level as ten years ago.

Rising loan ratio
The strong growth in lending recorded in the last ten years is reflected in the loan ratio, i.e. the ratio of bank loans to nominal GDP (cf. chart 5.14). After a sharp rise in the 1980s, this ratio remained largely unchanged until 2008. Since the onset of the financial and economic crisis, it has increased again substantially. Despite the slowdown in lending growth that began in 2015, bank loans continue to grow more strongly than nominal GDP. Thus, the risks for financial stability arising from the increase in the loan ratio continue to be present.
Business cycle signals
Results of the SNB company talks

Fourth quarter of 2017

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

The appraisals presented here are based on discussions between the SNB’s delegates for regional economic relations and company managers. A total of 237 company talks were conducted between mid-October and the end of November.

Regions
Geneva
Italian-speaking Switzerland
Mittelland
Northwestern Switzerland
Eastern Switzerland
Vaud-Valais
Central Switzerland
Zurich

Delegates
Jean-Marc Falter
Fabio Bossi
Roland Scheurer
Daniel Hanemann
Urs Schönholzer
Aline Chabloz
Walter Näf
Rita Kobel
Key points

• Discussions with company representatives indicate that growth in the Swiss economy was robust and broad-based in the fourth quarter and that this momentum will be maintained in the first half of 2018.

• Quarter-on-quarter, real turnover once again increased noticeably – and over the corresponding quarter a year ago the increase was substantial.

• Companies’ utilisation of technical production capacity has almost normalised, although in a few industries the situation remains unsatisfactory.

• Margins continue to improve, particularly in manufacturing. However, overall, they still remain slightly below what company representatives regard as usual. The situation continues to vary considerably between industries.

• In the coming six months, company representatives expect somewhat stronger advances in real turnover due in large part to the favourable international economic environment and the weakening of the Swiss franc. Companies are therefore planning to increase investment slightly and make some additional hires; the lack of specialised staff was mentioned more frequently than in the past.

• Overall, risk perception has eased. Apart from geopolitical risk, company representatives are now expressing more concern about imbalances on the stock exchange and the real estate market.
CURRENT SITUATION

Strong turnover growth continues
Discussions with companies suggest that economic growth in Switzerland has continued to accelerate. Since mid-year, a number of companies have experienced a significant upturn in business; as in the previous quarter, this has been especially noticeable in manufacturing.

Company representatives report robust quarter-on-quarter growth in real turnover, i.e. turnover adjusted for changes in sale prices (cf. chart 1; for guidance on interpreting the charts, see the relevant section at the end of this report). A comparison with the corresponding quarter a year ago is even more striking. All three sectors – services, manufacturing and construction – are contributing equally to this favourable overall picture.

Export industries are experiencing continued positive or even improved momentum in business, with companies supplying goods to the automotive, medical products and telecom sectors recording particularly good results. Sales to Europe are doing well across a wide geographical area and company representatives also mention the US and Asia as drivers of current developments. Signals from Russia, on the other hand, are mixed.

In addition to the success of the export sector, domestic turnover is also trending better than in previous quarters.

Utilisation of production capacity normal
Utilisation of technical production capacity has now almost normalised. The gradual improvement in utilisation began in the second half of 2016 (cf. chart 2).

Half of the companies interviewed rate their technical capacity utilisation as normal. Of the remaining 50%, around half report underutilisation and half overutilisation. Certain firms have added more shifts to meet higher demand. In some cases, staff are working more overtime or at weekends.

Staff numbers appropriate
At present, staff numbers are judged to be in line with needs in all three sectors, although in isolated cases there are indications that they are a little too low. By contrast, during 2016, staff numbers were still considered somewhat too high.

Recruitment problems have increased during the quarter under review, particularly in the services sector. Apart from the improvement in the domestic labour market, there have been fewer job applications from Germany, Austria and Italy, where the economic situation has picked up.

Margins normalise
Margins continue to follow a trajectory of normalisation that began in early 2016. Key factors in this development are rising turnover volumes as well as, more recently, the potential for price increases. While, overall, profit margins remain slightly below what company representatives regard as usual, their general assessment is on a par with their assessment before the discontinuation of the minimum exchange rate against the euro. However, margins continue to vary widely within the sectors and between companies.
DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

In wholesale trade, real turnover is quite significantly up, both quarter-on-quarter and also with respect to the year-back quarter. This development is less pronounced in retail trade, which continues to be affected by structural changes such as the shift to e-commerce. Conventional retailing therefore faces a challenging operating environment with considerable pressure on margins. Notwithstanding this, price erosion appears to have come to a halt in the quarter under review.

Once again, the finance sector has made a positive showing with contributions from commission, trading and interest business. Utilisation of bank infrastructure (office and sales space as well as IT capacity) has improved, although margins remain below what is considered normal.

In the hospitality industry, business has mostly been good since summer. Various regions have recorded an increase in tourism, particularly from Asia but also from the US. Switzerland’s reputation as a safe destination has been a decisive factor in driving demand. Margins are within the normal range due to cost-cutting – as well as price increases in some areas.

The vast majority of transportation and logistics companies are showing sound business results.

The business situation remains favourable for the ICT industry, with turnover substantially up quarter-on-quarter and with respect to the year-back quarter. Business drivers include digitalisation, automation and regulation, although margin pressure is still on the high side.

In manufacturing, almost all industries report higher turnover than in the previous quarter. Overall, utilisation is still slightly below normal levels. A noticeable improvement in the watchmaking industry and its supplier companies is evident, although margin pressures continue. Companies in printing and packaging as well as in mechanical engineering are recording tighter-than-usual margins.

In construction, business performance has retained its momentum in both the building industry and ancillary trades, with residential construction as the main driver. However, margins are under severe pressure due to intense predatory competition. In structural engineering, the low barriers to market entry are often cited as the reason for this intense competition.
OUTLOOK

Broad-based confidence

The company representatives interviewed by the SNB are distinctly optimistic about their business prospects for the coming six months. Overall, a further increase in real turnover is expected (cf. chart 3), attributable to services and to manufacturing. Factors responsible for this assessment include the favourable international economic situation, improved exchange rate conditions (namely the stronger euro), and the clear impact of efficiency drives. Orders are looking extremely positive for many companies in 2018.

In the coming six months, the company representatives expect both purchase and sales prices to move upwards – in the latter case, for the first time since 2011. Many of them attribute this to higher raw material prices and the weaker Swiss franc; they also note that it is easier to push through sales price increases than it has been in the past.

Moderate staff increases planned

The prospect of higher capacity utilisation as well as the slight shortage of personnel indicated in some cases are also affecting companies’ recruitment plans, with company representatives planning moderate increases in staff numbers (cf. chart 5). This is particularly true of the services sector. In order to counter staff shortages, some temporary hires are being contracted on a permanent basis. In certain industries such as printing, companies will reduce staff numbers for structural reasons.

Rising wages

Based on the information obtained in the talks, already planned salary increases for 2018 come to an average of 1.1% and a number of companies intend to grant a general bonus for the first time in many years.
ENVIRONMENT AND RISKS

Companies rate uncertainty in their operating environment as relatively low. Potential risks mentioned include geopolitical risk, protectionist trends and a certain fragility in the global economic recovery. Risk perception with regard to Europe has eased, although a number of company representatives point to unsolved structural problems. The consequences of Brexit remain difficult to assess.

Many company representatives find the complex domestic regulatory environment to be very burdensome. Other risks highlighted include the increasing lack of specialised staff and a renewed appreciation of the Swiss franc. In a large number of industries, company representatives mention digitalisation, which is seen as both a risk and an opportunity. Some company representatives, particularly in the finance industry, draw attention to threats associated with cybercrime.

Some company representatives see persistently low interest rates as a problem for pension funds. They express increasing unease about the impact on the real estate market, where institutional investors are embarking on large investment projects despite the increase in vacant housing units. More and more company representatives are sceptical about stock exchange developments.

Although most company representatives describe the weakening of the Swiss franc against the euro since the summer as ‘helpful’, they remain cautious, noting that the development will have to be lasting to have a meaningful impact.

INFLATION EXPECTATIONS

As part of the exchange of views, the delegates regularly ask company representatives about their short and long-term inflation expectations (in terms of the consumer price index) as consumers.

In the fourth quarter of 2017, the upward trend in short and long-term inflation expectations, which had begun during 2015, continued. Expectations for the next six to twelve months now average 0.6%, compared to 0.5% in the previous quarter (blue line in chart 6). Mid-term inflation expectations (time horizon of 3–5 years) are 1.2%, compared to 1.0% in the previous quarter (red line in the chart).

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Acknowledgements

The SNB would like to thank the representatives from around 900 companies that have consented to take part in interviews with the delegates for regional economic relations during the course of 2017. 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

B

C

D
E

F

G

H

I
IBSA Institut Biochimique SA. IFEC Ingegneria SA. Iltest AG. Ilapak International SA. IM Maggia Engineering SA. IMTF. Induserv AG. Ineichen AG. Infomaniak Network SA. Intensiv SA. InterCheese AG.
Intersport Schweiz AG. Investas AG. Iseppi Frutta SA. ISS Schweiz AG. Itten + Brechbühl AG.

J

K

L

M

N

O

P

Q
Quickline Holding AG.

R

**T**


**U**


**W**


**Y**

Y & R Group Switzerland AG.

**Z**


**1**

1875 Finance SA.

**II**

II-VI Laser Enterprise GmbH.
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 14 December 2017, the SNB leaves the interest rate on sight deposits with the SNB at –0.75% and its target range for the three-month Libor unchanged at between –1.25% and –0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. The depreciation of the Swiss franc reflects the fact that safe havens are currently less sought after. The situation on the foreign exchange market continues to be fragile. In the SNB’s view, the Swiss franc remains highly valued. The negative interest rate and the SNB’s willingness to intervene in the foreign exchange market as necessary remain essential. The expansionary monetary policy aims to stabilise price developments and support economic activity.

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At its quarterly assessment of 15 June 2017, the SNB leaves the interest rate on sight deposits with the SNB at –0.75% and its target range for the three-month Libor at between –1.25% and –0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as 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 are intended to make Swiss franc investments less attractive, thereby easing upward pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.

At its quarterly assessment of 16 March 2017, the SNB leaves the interest rate on sight deposits with the SNB at –0.75% and its target range for the three-month Libor at between –1.25% and –0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as 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 are intended to make Swiss franc investments less attractive, thereby easing upward pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.

On 19 December 2016, the SNB announces the further strengthening of provisions for currency reserves. The annual allocation will continue to be determined on the basis of double the average nominal economic growth rate over the previous five years. However, a minimum annual allocation of 8% of the provisions will now also apply. This is aimed at ensuring that sufficient allocations are made to the provisions and the balance sheet is strengthened even in periods of low nominal GDP growth. Since nominal GDP growth over the last five years has averaged just 1.9%, the minimum rate of 8% will be applied for the 2016 financial year.

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