

Quarterly Bulletin
4/2013 December

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
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4/2013 December

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Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of December 2013

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 12 December 2013') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 12 December 2013. 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 12 December 2013

SNB reaffirms minimum exchange rate

The Swiss National Bank (SNB) is maintaining its minimum exchange rate of CHF 1.20 per euro. The Swiss franc is still high. The SNB stands ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. With the three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc. The SNB is leaving the target range for the three-month Libor unchanged at 0.0–0.25%.

In December, the SNB's conditional inflation forecast was adjusted downwards slightly (cf. chart 1.1). On the one hand, the unexpectedly low rates of inflation for October and November are serving as a lower departure point for the forecast. On the other, the decline in inflation in the euro area and the slight fall in the oil price are also helping to dampen the inflation outlook. As in the previous quarter, the forecast is based on a three-month Libor of 0.0% over the next three years. For 2013, the SNB anticipates an unchanged inflation rate of –0.2%. For 2014 and 2015, the inflation forecast is down in each case by 0.1 percentage points and is now at 0.2% and 0.6% respectively. Consequently, no inflation risks can be identified for Switzerland in the foreseeable future.

As expected, the global economic recovery continued in the third quarter, with the main drivers being the US, the UK and China. In the euro area, by contrast, growth lacked momentum. In many emerging economies, too, economic activity was rather sluggish. For the coming months, the SNB expects a slight increase in global growth overall.

However, uncertainty about the continued recovery of the world economy remains high. In many advanced economies, low interest rates and high government indebtedness are constraining room for manoeuvre in economic policy and making the global economy prone to shocks. The forthcoming assessment of banks' balance sheets in the euro area as well as the further course of monetary policy normalisation in the major currency areas could lead to noticeable spikes on international financial markets.

In Switzerland, the economy continued to develop favourably in the third quarter. However, there are signs that growth may weaken temporarily in the fourth quarter. The SNB continues to expect growth of 1.5–2.0% for 2013. For 2014, it expects a growth rate of around 2.0%.

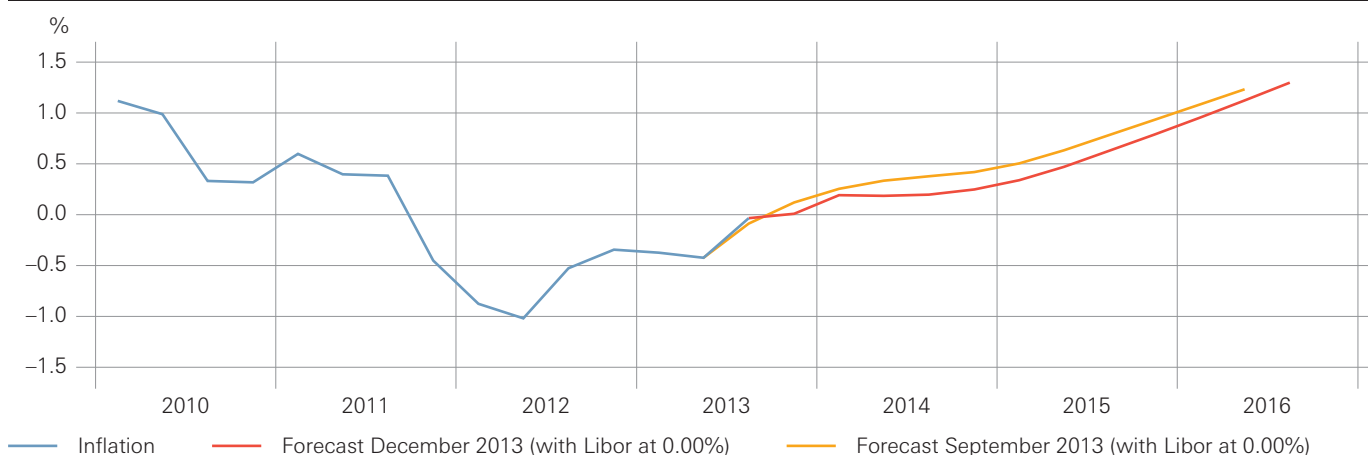
However, given the vulnerable economic situation abroad, downside risks still prevail for Switzerland.

In an environment of persistently low interest rates, the danger of a further build-up of imbalances on mortgage and real estate markets remains considerable. For this reason, the SNB continues to monitor the situation very closely, and regularly assesses whether the countercyclical capital buffer should be adjusted.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF DECEMBER 2013

Percentage change in Swiss consumer price index from previous year



Source: SNB

Monetary policy strategy at the SNB

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

The SNB has specified the way in which it exercises this mandate in a three-part monetary policy strategy. First, it regards prices as stable when the national consumer price index (CPI) rises by less than 2% per annum. This allows it to take account of the fact that the CPI slightly overstates actual inflation. At the same

time, it allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of the situation and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant short-term interest rate, shows how the SNB expects the CPI to move over the next three years. Third, the SNB sets its operational goal in the form of a target range for the three-month Swiss franc Libor. In addition, a minimum exchange rate against the euro is currently in place.

Table 1.1

OBSERVED INFLATION IN DECEMBER 2013

	2010				2011				2012				2013				2010	2011	2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	1.1	1.0	0.3	0.3	0.6	0.4	0.4	-0.5	-0.9	-1.0	-0.5	-0.3	-0.4	-0.4	0.0		0.7	0.2	-0.7

CONDITIONAL INFLATION FORECAST OF DECEMBER 2013

	2013				2014				2015				2016				2013	2014	2015	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Forecast September 2013, with Libor at 0.00%			-0.1	0.1	0.3	0.3	0.4	0.4	0.5	0.6	0.8	0.9	1.1	1.2			-0.2	0.3	0.7	
Forecast December 2013, with Libor at 0.00%				0.0	0.2	0.2	0.2	0.2	0.3	0.5	0.6	0.8	1.0	1.1	1.3			-0.2	0.2	0.6

Source: SNB

2 Global economic environment

The global economic recovery continued as expected in the third quarter. Growth in world trade, however, remained subdued (cf. chart 2.1). Overall, the revival in global economic activity was still modest in historical terms.

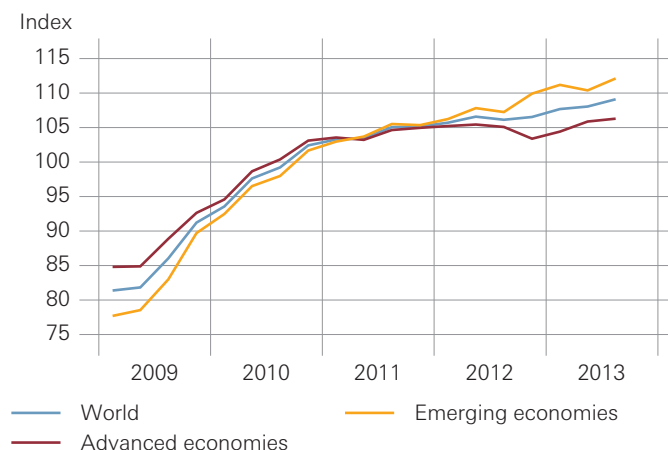
The main growth drivers in the third quarter were the US, the UK and China. By contrast, growth in the euro area, as well as in many emerging economies, lacked momentum. Inflation in the euro area slowed considerably more than expected.

The outlook for the global economy has not changed significantly since the monetary policy assessment of mid-September. According to leading indicators, the pace of expansion is likely to increase slightly in the coming months. Further recovery will be underpinned by the stability on financial markets, the reduction of debt in the US private sector, dwindling effects of restrictive fiscal policy in the US and Europe, as well as a sustained expansionary monetary policy in the major advanced economies. The growth path, however, could be volatile in the US and Japan. In the US, the temporary partial government shutdown due to the budget dispute in Congress is likely to have held back fourth-quarter growth. In Japan, the VAT increase decided on for 2014 could cause significant fluctuations in private consumer spending. Europe will continue to experience below-

Chart 2.1

GLOBAL EXPORTS

Period average = 100



Sources: CPB, Thomson Financial Datastream

Chart 2.2

STOCK MARKETS

Beginning of period = 100 (lhs)



Source: Thomson Financial Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	Scenario					
	2010	2011	2012	2013	2014	2015
GDP, year-on-year change in percent						
Global ¹	5.1	3.7	3.0	2.8	3.8	4.2
US	2.5	1.8	2.8	1.6	2.6	3.5
Euro area	1.9	1.6	-0.6	-0.4	1.3	2.2
Japan	4.7	-0.5	1.4	1.8	2.0	0.8
Oil price in USD per barrel ²						
	79.6	111.4	111.7	108.1	107.0	107.0

¹ PPP-weighted (US, euro area, United Kingdom, Japan, China, South Korea, Taiwan, Hong Kong, Singapore, India, Brazil and Russia).

² Level.

Sources: SNB, Thomson Financial Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

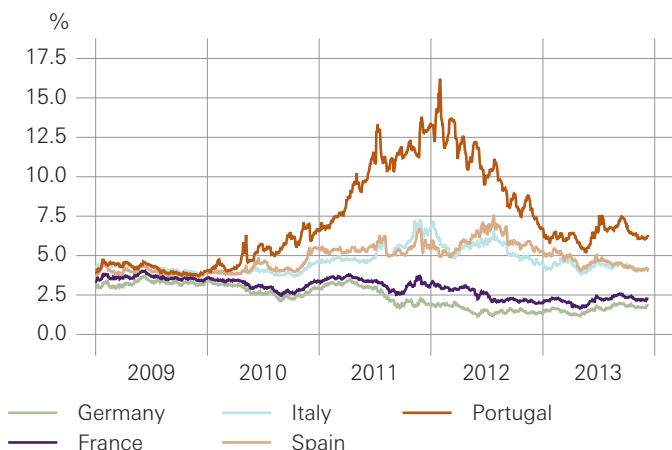


Source: Thomson Financial Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments

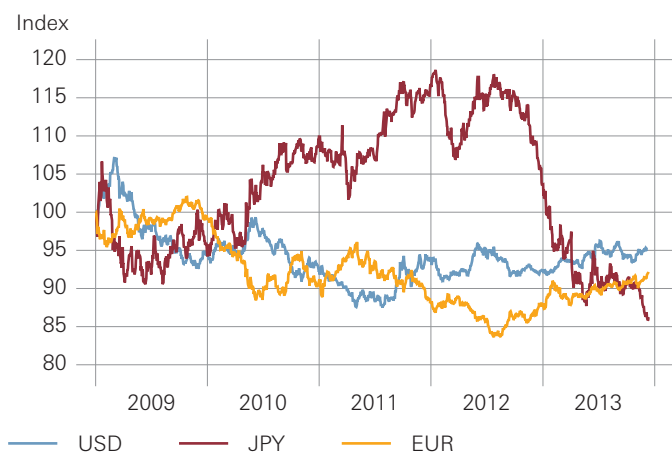


Source: Thomson Financial Datastream

Chart 2.5

EXCHANGE RATES

Trade-weighted, beginning of period = 100



Source: Thomson Financial Datastream

average growth, with banks' restrained lending policies and ongoing uncertainty hampering investment activity, and high unemployment dampening private consumption. Growth in the emerging economies is likely to differ from one country to the next. Firm domestic demand in China will buttress economic activity in Asia. There are also signs of increasing trading activity in the region. By contrast, in Brazil and India, growth is being held back by structural problems and – as a result of high inflation – a more restrictive monetary policy.

The global economic recovery remains uncertain. In many advanced economies, room for manoeuvre in economic policy is being constrained by the fact that interest rates are already very low and government indebtedness is high, making the global economy especially prone to shocks. In its baseline scenario, the SNB assumes that Europe can sustainably overcome the crisis. Nevertheless, key questions remain unanswered. A renewed escalation of the crisis can therefore still not be discounted. Other causes of uncertainty are the further course of monetary policy normalisation in the advanced economies, structural weaknesses in many emerging economies, and the sustainability of Japanese fiscal policy in the longer term.

The SNB's forecasts are based on assumptions about the oil price and the EUR/USD exchange rate. Over the forecast period, the SNB is assuming an oil price of USD 107 per barrel of Brent crude (which is USD 2 lower than the assumption made three months ago), and an exchange rate of USD 1.35 per euro.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Share prices around the globe have risen further since mid-September, in some cases reaching new highs (cf. chart 2.2). In the US, the stock market continued to trend upwards despite tensions relating to fiscal policy. At the same time, uncertainty as measured by the VIX volatility index remained low. Movements in the capital markets continued to be strongly influenced by communications from the US Federal Reserve. Following the unaltered continuation of the Federal Reserve's securities purchase programme in September, which was contrary to market expectations, there was a slight decline in yields on the majority of government bonds (cf. chart 2.3). Most euro area member states saw a decrease in yield spreads over German government bonds.

Uncertainty about the further course of US financial policy at times weighed on the US dollar, which, however, rallied from the end of October to recover exchange rate losses (cf. chart 2.5) on the back of favourable labour market figures. Signs of an economic stabilisation in the euro area bolstered the euro. By contrast, the yen depreciated slightly. Commodity prices continued to trend downwards (cf. chart 2.6). Food and energy prices, in particular, came under pressure due to good harvests and high inventory

levels. Prices of industrial commodities also decreased slightly.

UNITED STATES

The moderate recovery in the US economy continued. Third-quarter GDP expanded by 3.6%, following 2.5% in the previous quarter (cf. chart 2.7). Growth in final consumer demand was less dynamic. The higher GDP growth was mainly due to an increased build-up in inventories. There was also an increase in government demand, the first in a year. Aggregate capacity utilisation remained low. Recent months saw a modest rise in employment, although unemployment in November, at 7.0%, was still high (cf. chart 2.10).

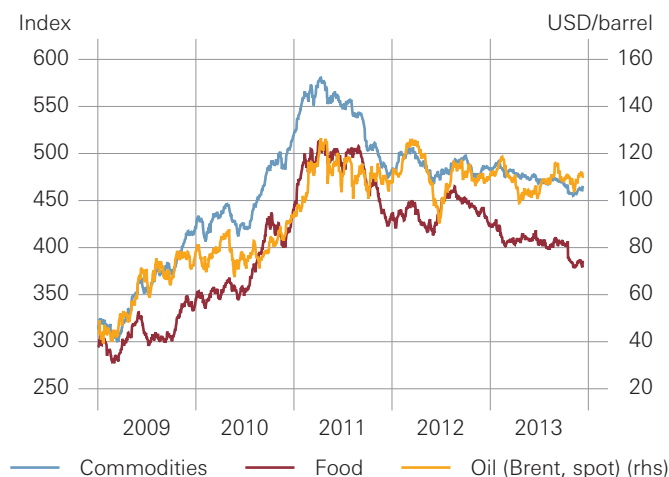
The partial government shutdown in October, whereby non-essential government services were suspended for 16 days, is likely to weigh on fourth-quarter GDP and lead to a corresponding countereffect in the following quarter. Government spending is likely to be less austere in 2014 than in 2013. It is also to be assumed that investment and private consumption will gradually pick up. This is backed by factors such as the waning negative effects of the increased employee contributions to social security (raised at the beginning of the year), increased house prices, progress in reducing household debt, and a more positive general mood. Overall, the SNB expects GDP growth of 1.6% for 2013 and 2.6% for 2014 (cf. table 2.1).

Consumer price inflation in the US remains modest. It declined in October to 1.0% due to a receding base effect relating to energy prices (cf. chart 2.11). Core inflation, at 1.7%, changed little in recent months (cf. chart 2.12). Wage growth remained weak.

US monetary policy is still very expansionary. The target range for the federal funds rate has been at 0.0–0.25% since December 2008 (cf. chart 2.13). In October 2013, the Federal Reserve reaffirmed that it will not raise the target rate as long as unemployment exceeds 6.5%, its medium-term inflation forecast stays below 2.5%, and its long-term inflation expectations remain well anchored. The Federal Reserve is also continuing to purchase securities amounting to USD 85 billion per month. It will consider reducing the purchases in the coming months if the economy firms as expected.

Chart 2.6

COMMODITY PRICES

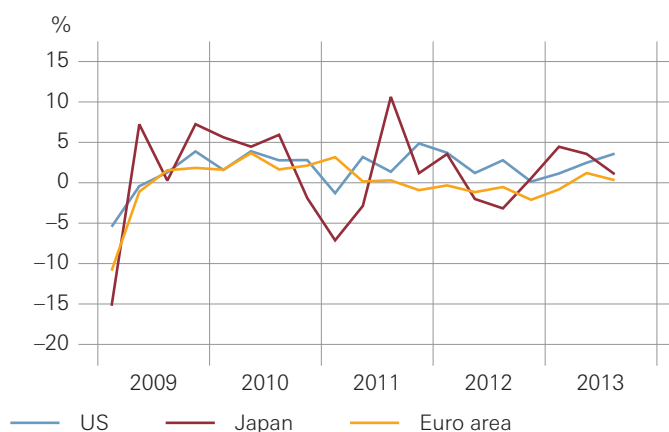


Source: Thomson Financial Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

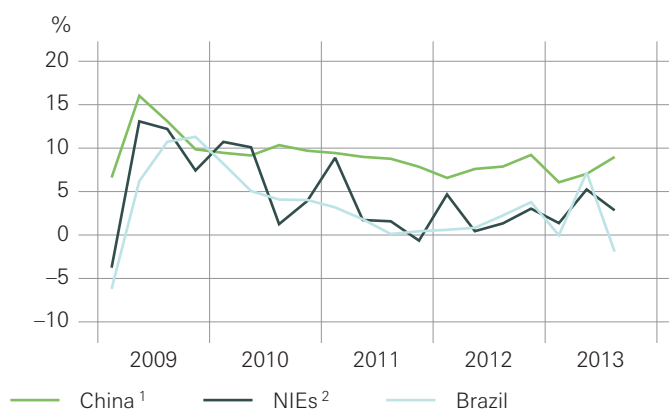


Source: Thomson Financial Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

Change from previous period



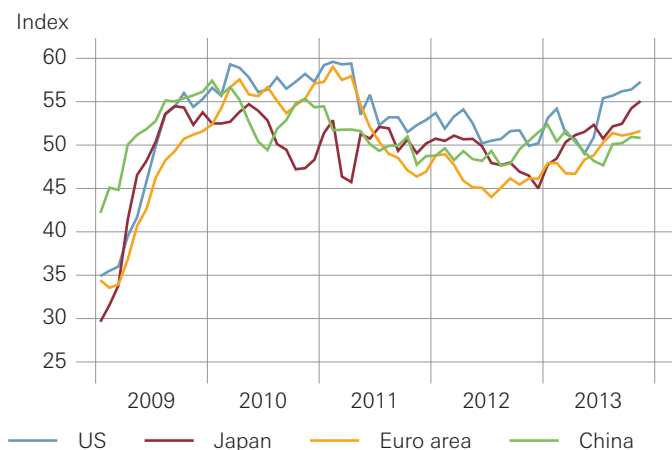
1 Estimate: SNB.

2 PPP-weighted (South Korea, Taiwan, Hong Kong, Singapore).

Source: Thomson Financial Datastream

Chart 2.9

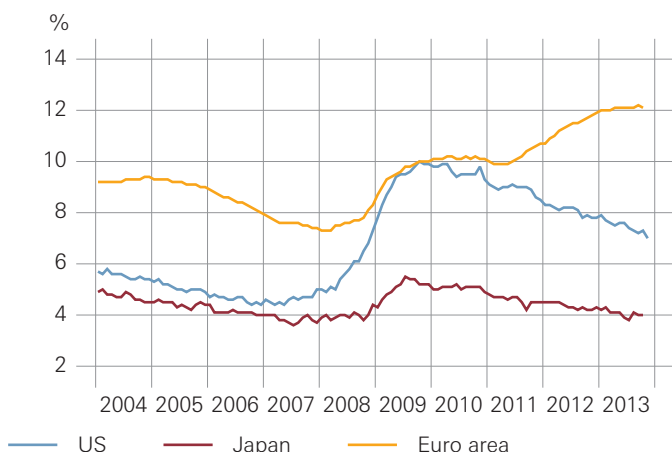
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source: Markit Economics Ltd 2009; all rights reserved

Chart 2.10

UNEMPLOYMENT RATES



Source: Thomson Financial Datastream

Chart 2.11

CONSUMER PRICES

Year-on-year change



Source: Thomson Financial Datastream

EURO AREA

At 0.3%, third-quarter growth in the euro area was modest, after GDP rose in the previous quarter for the first time in six quarters (cf. chart 2.7). Domestic demand increased slightly, while exports – following strong growth in the previous quarter – virtually stagnated. Developments varied widely from one country to the other. The main driver was again Germany, but many smaller member states also recorded some GDP growth, having previously experienced economic contraction over several quarters. In France, GDP declined again slightly following the surprisingly positive results of the previous quarter. Italy continued to be in recession. In view of the weak growth, unemployment in the euro area remained very high (cf. chart 2.10).

In recent months, however, business confidence has increasingly improved on the back of better export prospects (cf. chart 2.9). Furthermore, financial market conditions have eased again somewhat. Nevertheless, uncertainty still prevails regarding how the structural problems in the euro area are to be resolved. In addition, developments in the euro area differ considerably from one member state to the next. Overall, therefore, domestic demand is still expected to recover only gradually. The SNB continues to anticipate that GDP will contract by 0.4% in 2013 and grow by 1.3% in 2014.

Recent months saw a broad-based decline in consumer price inflation in the euro area due to weak demand. The decrease was surprisingly pronounced. Annual inflation briefly touched 0.7% in October, the lowest in almost four years, before climbing again to 0.9% in November. Core inflation declined slightly to 1.0%.

The ECB reduced its main refinancing rate by 25 basis points in November to a new historical low of 0.25% (cf. chart 2.13). The decision was based on its assessment that inflation is likely to remain low for an extended period. Furthermore, as part of its refinancing transactions, the ECB decided to provide banks with unlimited liquidity for a year longer, namely until at least mid-2015.

JAPAN

Under the influence of economic policy measures, the recovery in Japan continued in the third quarter (cf. chart 2.7). However, final consumer demand temporarily slowed, following strong growth in the first half-year.

Business confidence generally remained upbeat. It is likely that the strong expansion in aggregate demand will continue in the short term, due to the likelihood of anticipation effects in final consumer demand caused by the announcement of the VAT increase. The weak yen and the upturn in the global economy are also continuing to have a positive impact. Furthermore, the VAT increase is to be accompanied by a stimulus package worth about

JPY 5 billion, or 1% of GDP, entailing public infrastructure projects, tax incentives for investment, and financial aid for low earners. The SNB has therefore revised its GDP forecast for 2014 slightly upwards. Looking further ahead, the outlook is uncertain. The structural reforms announced as a part of the new growth strategy, but which have as yet failed to materialise, could underpin growth potential in the medium term. Sustained growth is necessary not least to tackle the fiscal policy challenges.

Japanese consumer price inflation continued to increase in recent months, reaching 1.1% in October (cf. chart 2.11). However, this was primarily due to a substantial hike in energy prices, which was the result of the depreciation. Excluding energy and food prices, consumer prices were slightly higher year-on-year, a first since 2008 (cf. chart 2.12). Gradually increasing inflation expectations could drive up prices in the medium term.

The Bank of Japan is retaining its monetary policy course introduced in April. In spring it set the goal of pushing up inflation to about 2% within two years. To this end, it intends to expand the monetary base through substantial purchases of Japanese government bonds with long maturities to JPY 270 billion – around half of nominal GDP – by the end of 2014 (cf. chart 2.14).

EMERGING ECONOMIES

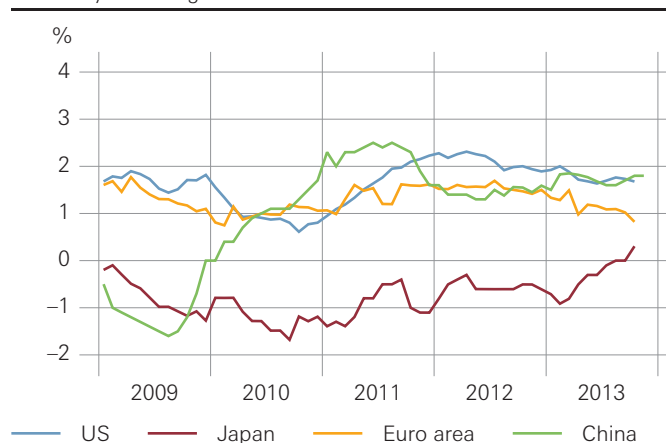
Developments in the emerging economies continued to vary from one country to another. In China, momentum continued to pick up in the third quarter (cf. chart 2.8). Growth was underpinned by a mild recovery in foreign trade and consumption. In addition, investment benefited from an easing in lending practice. By contrast, outstanding credit volumes continued to increase strongly. In India, economic growth improved somewhat following a sluggish first half-year. In the Asian newly industrialised economies (NIEs), the upturn faltered slightly in the third quarter. In Russia, growth continued to suffer as a result of poor investment demand. Brazil also experienced weak growth.

The short-term outlook for Asia remains positive. Increasing foreign demand is likely to enable the NIEs, in particular, to close the aggregate output gap in the coming quarters. In the long term, however, growth in the region is likely to weaken due to demographic trends. Furthermore, the Chinese government is striving for slower, but more sustainable growth. This is to be achieved by strengthening consumption rather than exports and investment, and by promoting the services sector. In Brazil and Russia, an unfavourable business climate and a lack of competitiveness are weighing on growth prospects. The outlook is also muted for India, although a good monsoon is likely to temporarily support growth in the fourth quarter. In addition, growth in all three countries is being held back by restrictive monetary policies.

Chart 2.12

CORE INFLATION RATES ¹

Year-on-year change

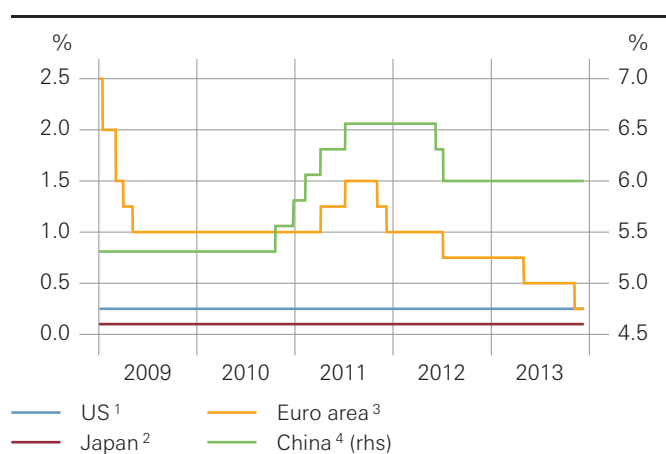


¹ Excluding food and energy.

Sources: CEIC, Thomson Financial Datastream

Chart 2.13

OFFICIAL INTEREST RATES



¹ Federal funds rate. ² Call money target rate. ³ Main refinancing rate.

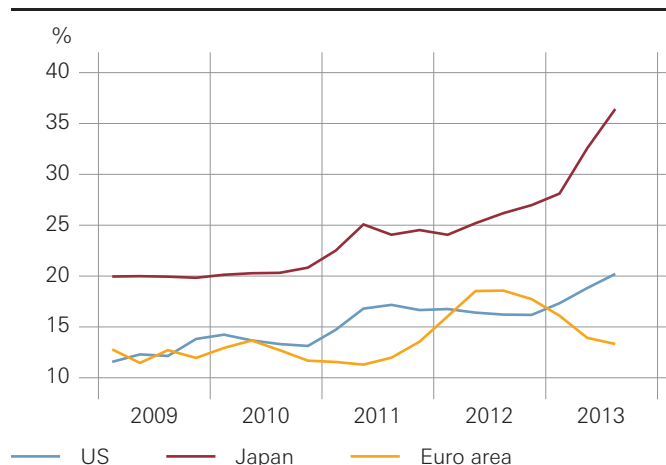
⁴ One-year lending rate.

Source: Thomson Financial Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Thomson Financial Datastream

Developments in consumer prices were very different from one country to the next. In China, the annual inflation rate rose further in recent months, but remained below the government target of 3.5% on average for 2013. In the NIEs, low inflation accompanied low capacity utilisation. In India, by contrast, inflation moved into double-digit territory. In Brazil and Russia, too, inflation rates exceeded monetary policy targets.

Monetary policy in the emerging economies tended to be restrictive, albeit for different reasons. In China, the central bank continued to endeavour to curb the strongly expanding volume of credit. This led to repeated and pronounced increases in market interest rates. In Brazil and India, the central banks further raised key rates to counter high inflation.

3 Economic developments in Switzerland

In Switzerland, economic developments remained favourable in the third quarter. According to preliminary estimates by the State Secretariat for Economic Affairs (SECO), real gross domestic product (GDP) increased by 2.1%. Growth was just as strong as in the first half of the year, but with a shift in impetus. Exports picked up substantially, while domestic final demand lost momentum. In terms of value added generated, manufacturing in particular recorded a positive development.

The negative output gap narrowed thanks to the robust GDP growth. Capacity utilisation in manufacturing increased, but remained at a low level. Employment in the manufacturing industry was up slightly, marking the first increase in over a year. The unemployment rate remained unchanged.

The SNB continues to anticipate GDP growth of 1.5–2.0% for 2013 as a whole. Based on assumptions about global economic development, GDP in Switzerland is likely to increase by around 2% in 2014.

AGGREGATE DEMAND AND OUTPUT

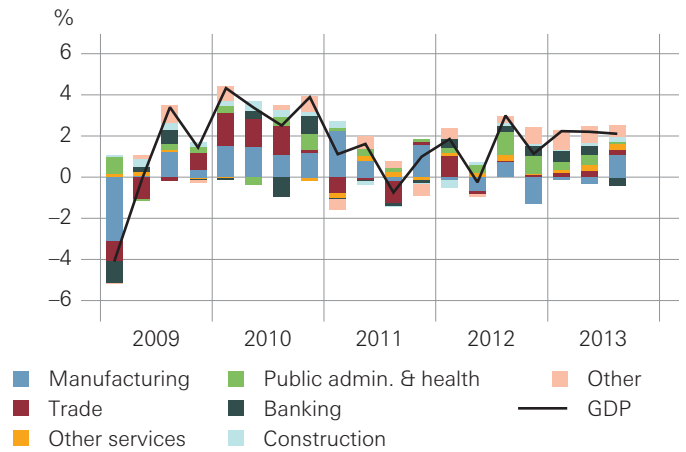
Recovery in manufacturing

The robust GDP growth in the third quarter was driven by a catch-up effect in manufacturing. Positive developments with respect to value added were also recorded in a number of services industries (cf. chart 3.1). Business-related services and insurance registered above-average growth, while financial services saw a decline in value added. Construction activity also made a tangibly positive contribution.

Chart 3.1

CONTRIBUTIONS TO GROWTH, BY SECTOR

Change from previous period

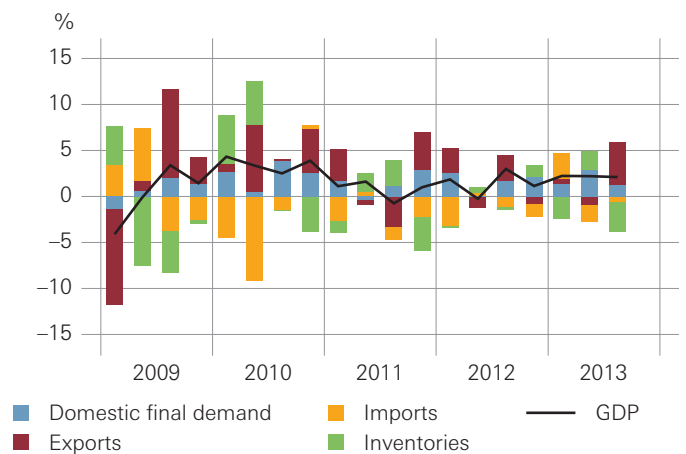


Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

CONTRIBUTIONS TO GROWTH IN DEMAND

Change from previous period

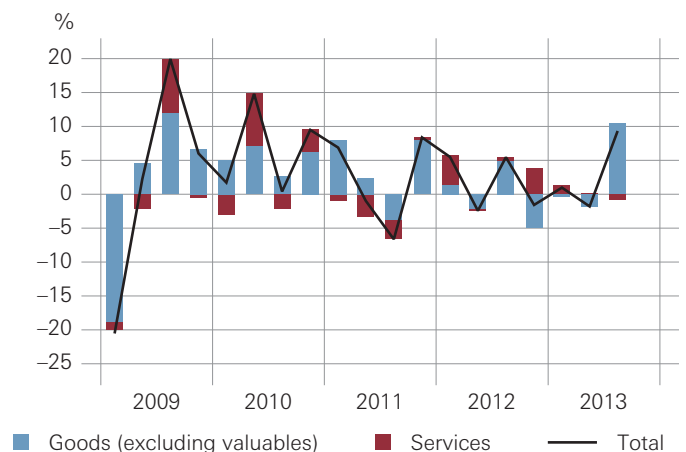


Source: SECO

Chart 3.3

CONTRIBUTIONS TO EXPORT GROWTH

Change from previous period



Source: SECO

Robust export growth

Exports picked up markedly following the sluggish development in the previous quarters (cf. chart 3.3). Particularly strong increases were recorded in exports of chemicals and pharmaceuticals, precision instruments and watches, and machinery. Export growth was also broad-based in terms of destinations. By contrast, after the substantial growth posted in the previous quarter, imports rose only moderately (cf. chart 3.4). Overall, this resulted in a foreign trade contribution to GDP growth of 4.0 percentage points in the third quarter (cf. chart 3.2 and table 3.1).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2009	2010	2011	2012	2012					2013		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private consumption	1.8	1.7	1.1	2.4	2.8	4.0	0.6	2.8	3.3	2.3	2.2	0.8
Government consumption	3.3	0.2	1.2	3.2	3.2	3.2	3.3	3.4	2.6	1.3	0.7	4.6
Investment in fixed assets	-8.0	4.8	4.5	-0.4	4.6	-0.6	-3.0	-1.4	-0.1	-0.5	7.8	1.6
Construction	3.0	3.5	2.5	-2.9	-3.7	-9.0	1.2	0.1	3.9	4.5	-0.1	4.0
Equipment	-15.5	5.8	6.1	1.7	11.7	6.9	-6.1	-2.6	-3.2	-4.5	14.8	-0.3
Domestic final demand	-0.4	2.2	1.8	1.8	3.2	2.8	0.1	1.9	2.4	1.6	3.3	1.4
Change in inventories ¹	0.1	0.8	-0.2	-0.1	-3.8	-0.2	0.6	-0.3	1.2	-2.5	2.0	-3.2
Total exports ²	-7.3	7.4	3.8	2.0	8.4	5.5	-2.4	5.5	-1.6	1.0	-1.8	9.3
Goods ²	-11.1	9.3	6.3	1.9	11.5	2.0	-3.1	7.3	-7.2	-0.6	-2.8	15.7
Services	1.2	3.5	-1.6	2.4	1.5	14.1	-0.9	1.5	11.8	3.9	0.2	-2.4
Total imports ²	-5.3	9.1	3.8	3.9	5.6	8.3	-0.7	2.7	3.6	-7.0	4.5	1.5
Goods ²	-8.3	10.6	3.1	2.5	3.0	8.1	-2.7	3.3	-2.2	-6.4	5.2	3.0
Services	9.0	3.0	6.8	9.4	16.7	9.2	7.7	0.7	28.6	-9.9	2.1	-3.7
Net exports ³	-1.6	0.2	0.4	-0.5	1.9	-0.5	-0.9	1.6	-2.2	3.3	-2.7	4.0
GDP	-1.9	3.0	1.8	1.0	1.0	1.9	-0.3	3.0	1.1	2.2	2.2	2.1

1 Contribution to growth in percentage points (including statistical discrepancy).

2 Excluding valuables (precious metals, precious stones and gems as well as works of art and antiques).

3 Contribution to growth in percentage points.

Source: SECO

Domestic demand weaker

Domestic final demand lost some momentum in the third quarter (cf. chart 3.5 and table 3.1). Although still benefiting from the high level of immigration, private consumer spending recorded a weaker increase than in previous quarters. This was because of a decrease in healthcare expenditure, which had previously risen sharply.

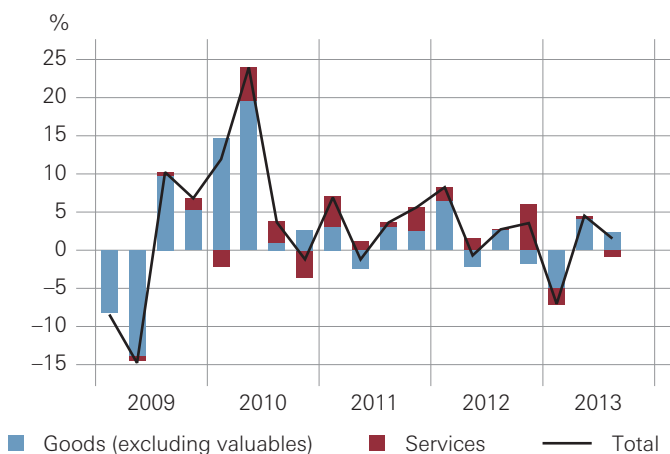
Equipment investment was down slightly in the third quarter, mainly due to a decline in investment in aircraft – a volatile segment. In other areas, too, companies were still reluctant to invest owing to the low utilisation of technical capacity and the uncertain global economic outlook.

By contrast, construction investment saw significant growth in the third quarter. Especially in residential construction, which is benefiting from the booming real estate market, activity remained at a high level. One exception was business construction, which was still suffering from the overall economic uncertainty and signs of an oversupply of office space.

Chart 3.4

CONTRIBUTIONS TO IMPORT GROWTH

Change from previous period

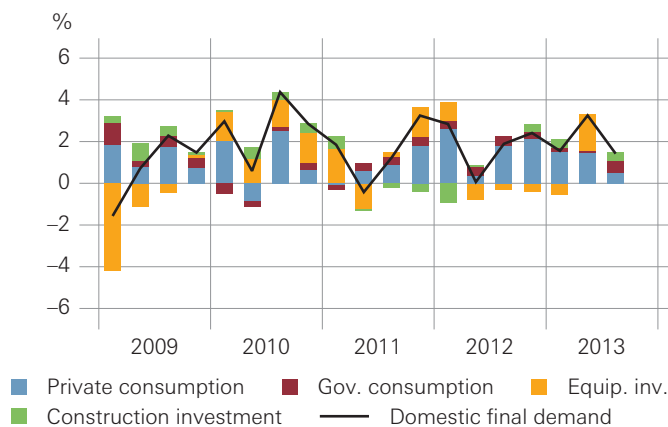


Source: SECO

Chart 3.5

DOMESTIC FINAL DEMAND, GROWTH CONTRIBUTIONS

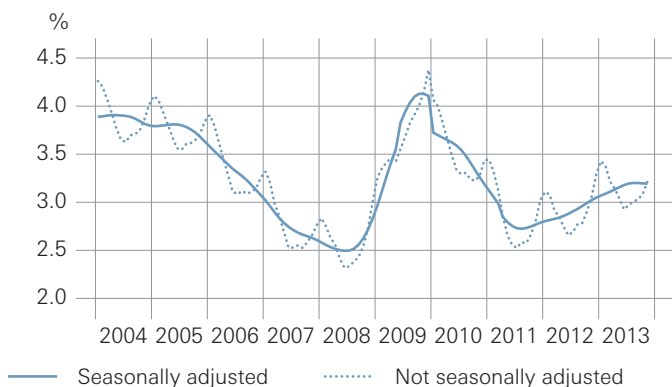
Change from previous period



Source: SECO

Chart 3.6

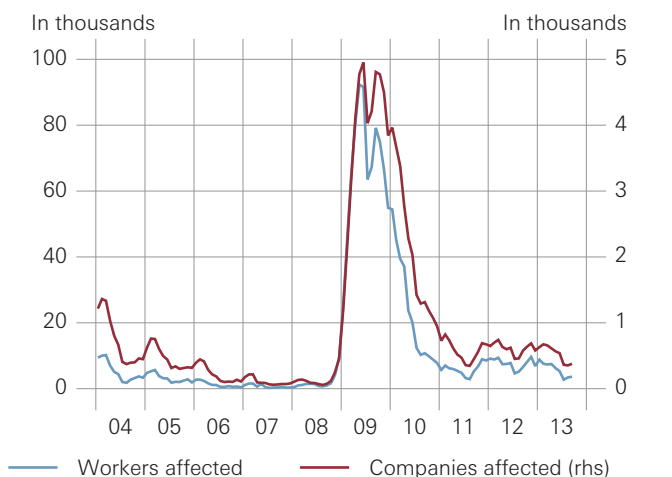
UNEMPLOYMENT RATE



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) to 2009, and according to the 2010 census (labour force: 4,322,899 persons) from 2010.
Source: SECO

Chart 3.7

SHORT-TIME WORKING

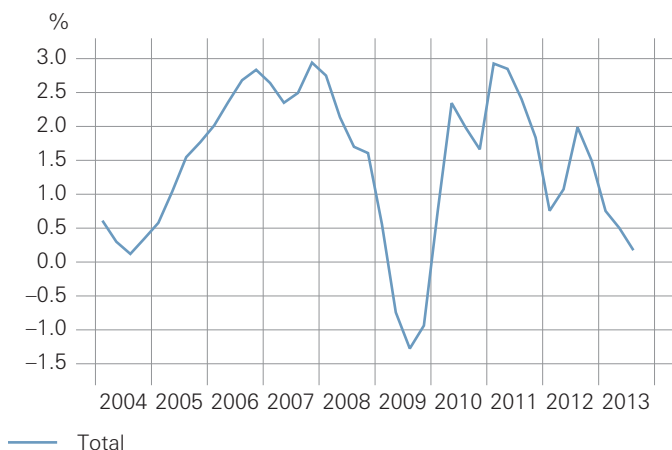


Source: SECO

Chart 3.8

EMPLOYED PERSONS

Change from previous period



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

LABOUR MARKET

Employment momentum was muted in the third quarter. At the same time, the situation on the Swiss labour market remained favourable in an international comparison.

Stagnating unemployment

Unchanged at 3.2% since May (cf. chart 3.6), the rate of unemployment has most likely peaked. Between August and November, the number of people registered as unemployed with regional employment offices decreased slightly on a seasonally adjusted basis.

Short-time working remained low in the third quarter, affecting approximately 3,650 people in September (cf. chart 3.7).

Weak rise in employment

According to the employment statistics (ES) published by the Swiss Federal Statistical Office (SFSO), the increase in employment continued to slow in the third quarter, coming to a virtual standstill compared with the previous quarter (0.2%) (cf. chart 3.8).

Based on the SFSO's job statistics (JOBSTAT), new jobs were created in manufacturing for the first time in over a year. Jobs were also added in the services industries, albeit considerably fewer than in the previous quarter.

CAPACITY UTILISATION

Manufacturing capacity utilisation sees slow recovery

According to the survey conducted by KOF Swiss Economic Institute, utilisation of technical capacity in manufacturing rose to 81.2% in the third quarter. However, at this level, manufacturing capacity utilisation was still well below its long-term average (cf. chart 3.9). In construction, by contrast, machine utilisation declined somewhat, but still remained at a very high level (cf. chart 3.10). Consequently, many construction companies complained of bottlenecks in machine and equipment capacity as well as labour shortages. In the services sector, surveys continued to suggest average utilisation levels.

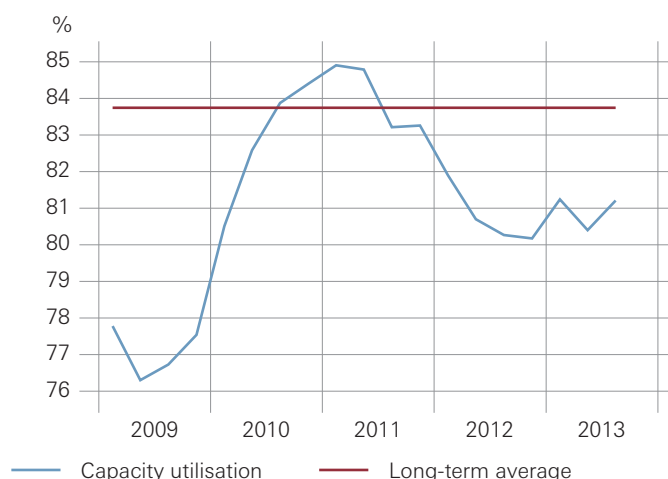
Output gap narrows

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. Above-average GDP growth in the third quarter narrowed the gap, but it remained negative. Estimated potential output calculated by means of a production function showed an output gap of -0.9% for the third quarter (cf. chart 3.11). Estimates using other methods (Hodrick-Prescott filter and multivariate filter) suggest a somewhat narrower output gap (-0.4% in both cases).

The different estimates reflect the various ways of calculating production potential. The production function approach considers the labour market situation and the stock of capital in the economy. Since 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.

Chart 3.9

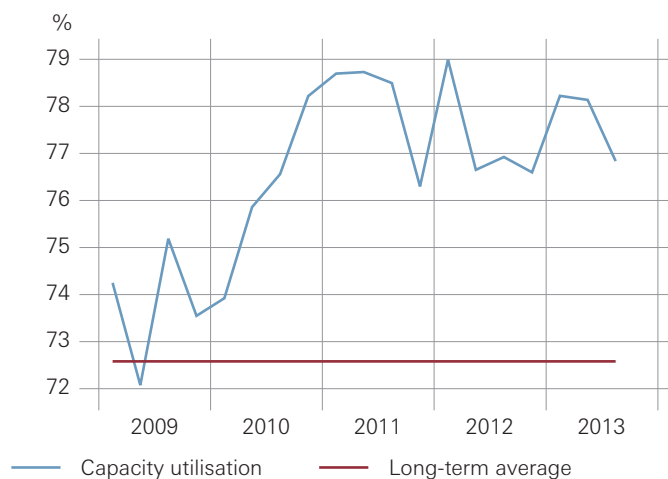
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.10

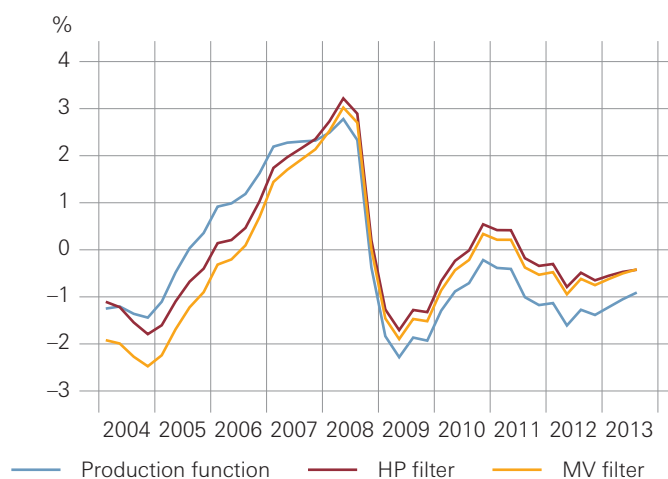
CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

Chart 3.11

OUTPUT GAP



Source: SNB

Chart 3.12

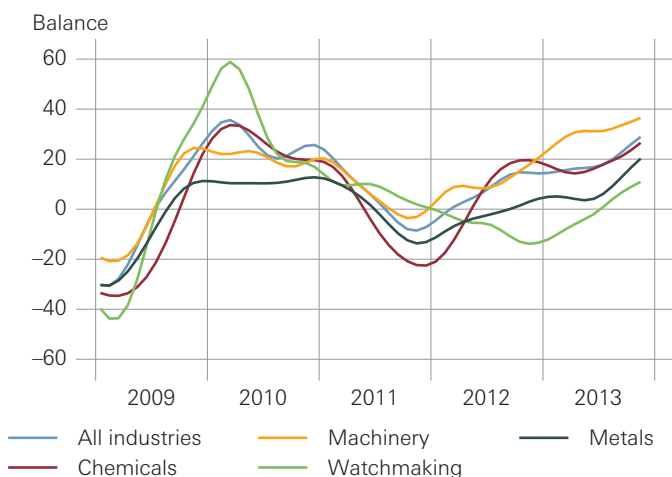
PURCHASING MANAGERS' INDEX (MANUFACTURING)



Source: Credit Suisse

Chart 3.13

EXPECTED NEW ORDERS



Source: KOF Swiss Economic Institute

Chart 3.14

EMPLOYMENT LEADING INDICATORS



¹ Monthly figures

Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

OUTLOOK FOR THE REAL ECONOMY

Following the favourable momentum witnessed so far this year, available indicators are pointing to a temporary slowdown in the fourth quarter. In particular, goods exports are expected to contract slightly following the strong growth seen in the previous quarter. The SNB still anticipates GDP growth of 1.5–2.0% for 2013.

Subsequently, GDP should again grow at a stronger rate. The forecast for 2014 is based on the outlook for the international economy outlined in chapter 2; the situation for export-oriented industries will be more encouraging next year thanks to the gradual global economic recovery. Accordingly, production capacity utilisation is expected to be higher and companies should see an improvement in their financial situation. Against this background, investments look set to gradually increase from the middle of the year on. Industries with a domestic focus will continue to benefit from the favourable domestic environment, which includes the labour market, immigration and lending conditions.

GDP is likely to increase by around 2% in 2014. Unemployment is likely to have peaked, and go down slightly in the course of next year. Given the vulnerable economic situation abroad, downside risks still prevail for Switzerland. Should developments abroad be weaker than in the expected basis scenario, the anticipated recovery in the export industry would be delayed.

CPI inflation at virtually zero in November

At 0.1%, annual inflation, as measured by the national consumer price index (CPI), was practically at the same level in November as in the third quarter and slightly above the negative inflation registered in the first half of 2013. Broken down by origin, domestic goods prices are still making a positive contribution to the annual inflation rate, while imported goods had a negative impact (cf. table 4.1).

Consumer price inflation remains in the region of 0%. The same applies to core inflation rates, which are based on a smaller basket of goods. At present, supply prices with an upstream effect are also not exerting any pressure on prices.

Surveys suggest that inflation expectations have remained largely unchanged in the last few months. Quantitative inflation expectations are in the low positive range and continue to be consistent with the SNB's definition of price stability.

Unlike consumer prices, real estate prices have risen sharply in the last few years. Consequently, the SNB is monitoring these price movements with concern. In the second and third quarter, the rise in prices slowed at a high level. According to most indices, real estate prices are still well above the previous year's level.

Table 4.1

NATIONAL CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

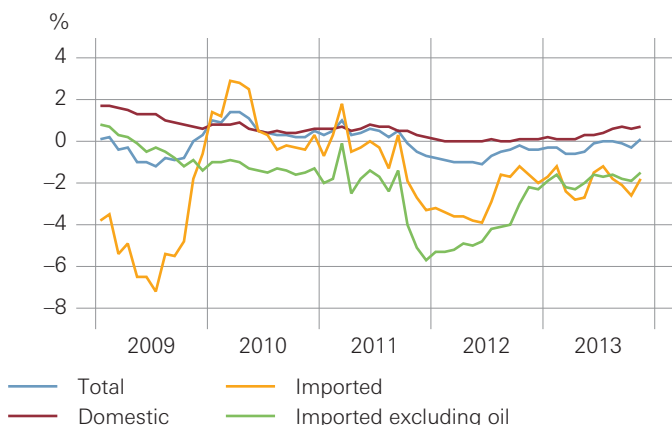
	2012	2012 Q4	2013 Q1	Q2	Q3	2013 September	October	November
Overall CPI	-0.7	-0.3	-0.4	-0.4	0.0	-0.1	-0.3	0.1
Domestic goods and services	0.0	0.1	0.1	0.3	0.5	0.7	0.6	0.7
Goods	-1.8	-1.0	-0.8	-0.6	0.2	0.4	-0.1	0.2
Services	0.6	0.4	0.4	0.5	0.6	0.7	0.8	0.9
Private services excluding rents	0.6	0.5	0.5	0.6	0.5	0.6	0.6	0.5
Rents	0.6	0.2	-0.2	0.1	0.7	0.9	0.9	1.4
Public services	0.4	0.6	1.1	1.1	1.1	1.1	1.1	1.0
Imported goods and services	-2.7	-1.6	-1.8	-2.3	-1.7	-2.1	-2.6	-1.8
Excluding oil products	-4.2	-2.5	-1.9	-1.9	-1.7	-1.8	-1.9	-1.5
Oil products	5.0	3.0	-1.0	-4.3	-1.6	-3.3	-5.6	-3.1

Sources: SFSO, SNB

Chart 4.1

CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

Year-on-year change

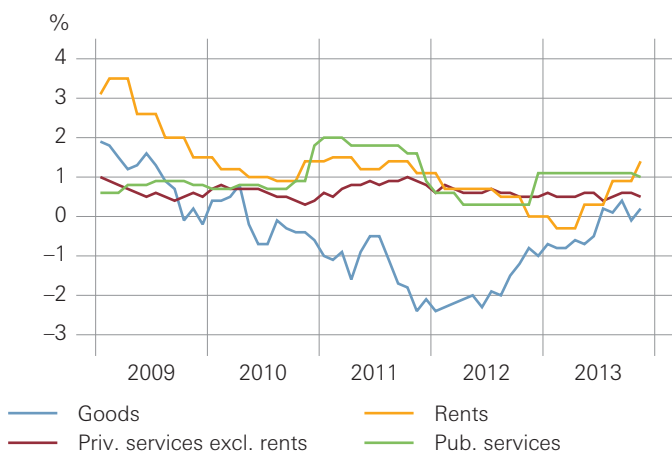


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

Year-on-year change

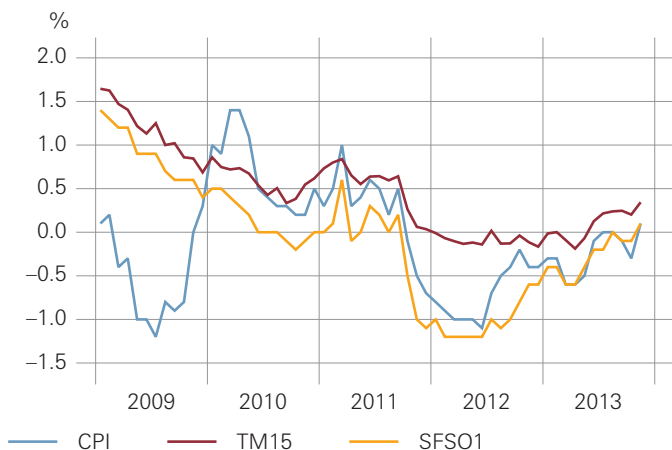


Sources: SFSO, SNB

Chart 4.3

CORE INFLATION RATES

Year-on-year change



Sources: SFSO, SNB

Prices for imported goods still below year-back level

Inflation for imported CPI components was -1.8% in November. In summer 2012, it had stabilised at approximately -2%, and has been moving sideways since. During this period, its short-term fluctuations were mainly driven by the price of oil (cf. chart 4.1).

Higher rents

Inflation for domestic CPI components rose slightly this year and was 0.7% in November. First, this reflects the stabilisation of goods prices and second, higher rent inflation (cf. chart 4.2). After having risen by two increments already in May and August, rent inflation climbed to 1.4% in November. The increase is inflated by a base effect, however. In the previous year, rents had been falling gradually since February 2012, contributing to the rise in annual rent inflation in 2013.

Core inflation remains low

The trimmed mean calculated by the SNB (TM15) and the SFSO's core inflation 1 (SFSO1) were 0.3% and 0.1% respectively (cf. chart 4.3). SFSO1 thus crossed the zero line for the first time since September 2011. However, both indicators still have extremely low core inflation.

PRODUCER AND IMPORT PRICES

Supply prices largely stable

Annual inflation for producer and import prices remained close to zero. It increased between May and July, crossing the zero line. It has fallen again since then. In October, it amounted to -0.3% (cf. chart 4.4).

The SFSO's core inflation for producer and import prices is based on a basket of goods which excludes very volatile goods prices. In October, this core inflation was 0%. This is an indication that there is currently no upward or downward pressure from movements in producer and import prices being exerted on consumer prices.

REAL ESTATE PRICES

Slower rise in residential property prices

The rise in prices for residential property was less pronounced in the second and third quarters than in the first quarter of 2013. In the third quarter, some indices even suggested lower prices than in the previous quarter. Real estate prices nevertheless remained well above their year-earlier levels. Depending on the index, the increase ranged from 4% to 8% (owner-occupied apartments) and 2% and 6% (single-family homes).

While the Wüest & Partner and IAZI indices show a further price increase in owner-occupied apartments in the third quarter compared with the previous quarter, the Fahrländer Partner index records a decrease (cf. chart 4.5). In the case of single-family homes, only the IAZI index shows another increase, while the Wüest & Partner and Fahrländer Partner indices are lower than in the previous quarter.

Divergence between asking and existing rents

In the third quarter, rents recorded by Wüest & Partner for apartments offered on the market (asking rents) were more than 3% higher than their previous year's level. Annual inflation for these rents therefore increased somewhat. Since annual inflation for rents under existing contracts – measured according to the rental component of the CPI – rose, the difference between new and existing rents remained largely unchanged (cf. chart 4.6).

Annual inflation for new rents remains well above that of existing rents. One reason for this is that rents for existing contracts are tied by law to the reference interest rate. In the last few years, this rate has gradually been going down and has stood at 2% since September 2013.

Chart 4.4

PRODUCER AND IMPORT PRICES

Year-on-year change

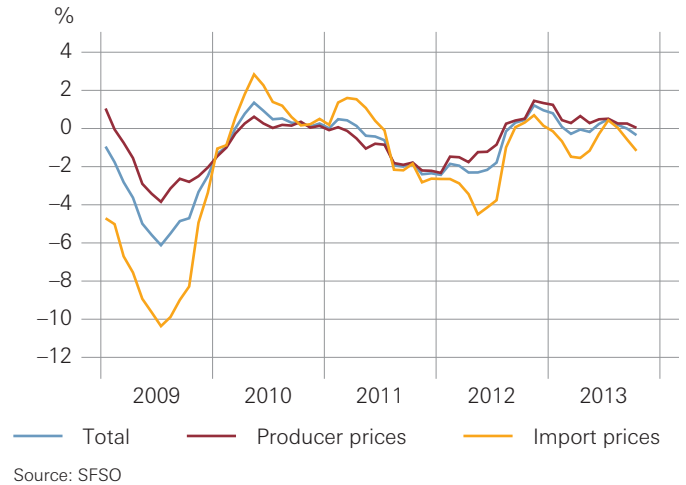


Chart 4.5

TRANSACTION PRICES, OWNER-OCCUPIED APARTMENTS

Nominal (hedonic), beginning of period = 100

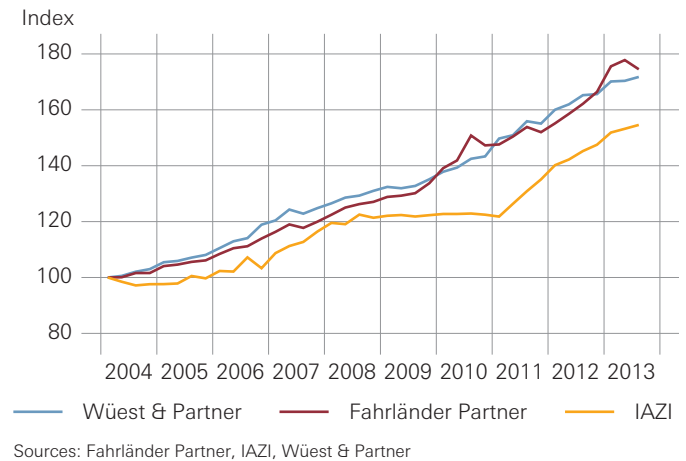
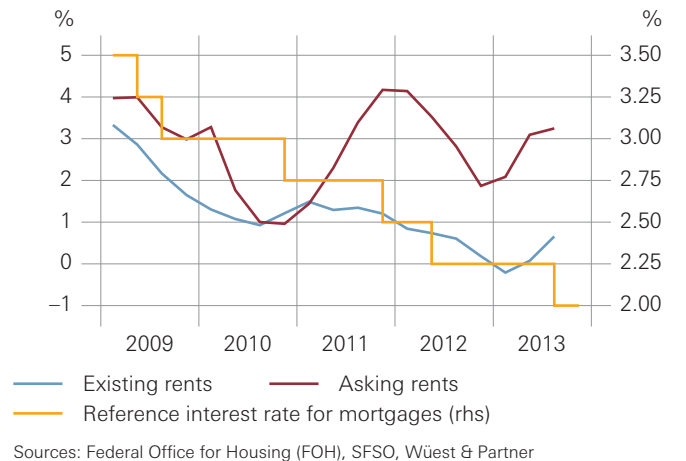


Chart 4.6

APARTMENT RENTS AND REFERENCE INTEREST RATE

Nominal, year-on-year change (lhs)



INFLATION EXPECTATIONS

Inflation expectations remain low

Results of surveys conducted among households and experts suggest that inflation expectations have barely changed over the last few months. Expected inflation remains low, yet in the medium term, inflation rates are expected to be slightly higher than in the short term.

The quarterly survey conducted by SECO in October showed that 54% of households surveyed expected prices to rise moderately over the coming twelve months (cf. chart 4.7). This percentage rose slightly, as was also the case in July. The proportion of respondents anticipating unchanged or declining prices decreased accordingly. The share of respondents expecting prices to rise sharply has been persisting at a very low level for several years now.

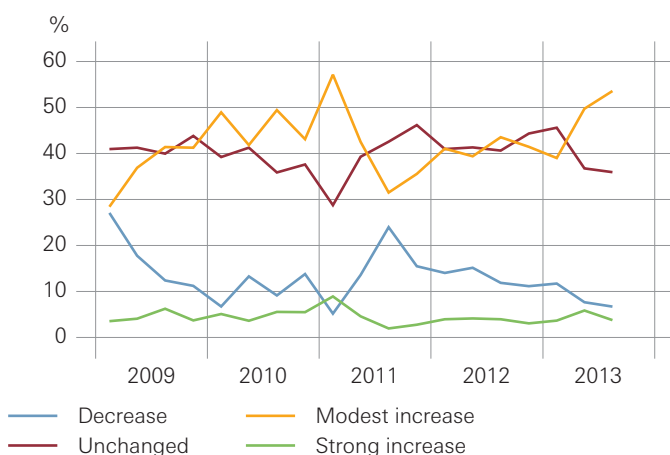
According to the *Credit Suisse ZEW Financial Market Report*, 71% of financial analysts surveyed in November predicted that annual inflation rates would remain unchanged at a low level for the next six months. A further 25% expected inflation rates to climb, while the remainder thought they would decline.

Information on quantitative inflation expectations is provided by the talks held by the SNB delegates for regional economic relations with companies from all sectors of the economy. Inflation expectations for the next six to twelve months were 0.4% in the fourth quarter, after they had amounted to 0.5% in the previous quarter. The CFO survey conducted by Deloitte showed that the rate of inflation expected in two years was 1.3% in the third quarter, and thus slightly higher than in the previous quarter (1.2%).

Chart 4.7

PRICE EXPECTATIONS

Survey on expected movements in prices for coming 12 months



Sources: SECO, SNB

5

Monetary developments

After having risen worldwide in the previous quarter as a result of discussions about a possible reduction in the US Federal Reserve's bond purchase programme, long-term interest rates receded slightly in the fourth quarter. By contrast, the ECB's interest rate reduction on 7 November had little impact on Switzerland. One possible reason for this is that money market rates in the euro area were already at a very low level before the ECB's decision and did not fall any further.

The inflation differential between Switzerland and abroad narrowed. On the one hand, the decline in the price level in Switzerland has not continued, while on the other, inflation abroad, especially in the euro area, is receding. This decreased inflation differential means that the real exchange rate of the Swiss franc will hardly change from now on and will remain considerably above its long-term average. Unless there is a substantial nominal depreciation, the current high value of the Swiss franc will therefore continue.

Sight deposits held by banks with the SNB did not continue to rise, if the issuing of the bank licence to PostFinance is disregarded. Growth in the M1, M2 and M3 monetary aggregates has also been considerably weaker since summer; this is primarily attributable to the rise in long-term interest rates. Liquidity held by households and companies has nevertheless remained high. In the past, a sustained high level of liquidity generally pointed to inflation risks. As a result of the financial crisis, however, this correlation cannot currently be made. Thus, in recent years, the inflation rate has remained exceptionally low despite a high level of liquidity.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Continuation of the monetary policy announced in September 2011

In the past quarter, the SNB maintained unchanged the monetary policy which it announced in September 2011 and has reiterated at subsequent assessments. On 6 September 2011, the SNB had set a minimum exchange rate of CHF 1.20 to the euro. In August that year, it had already narrowed the target range for the three-month Libor to 0.0–0.25%.

Sight deposits at the SNB virtually unchanged

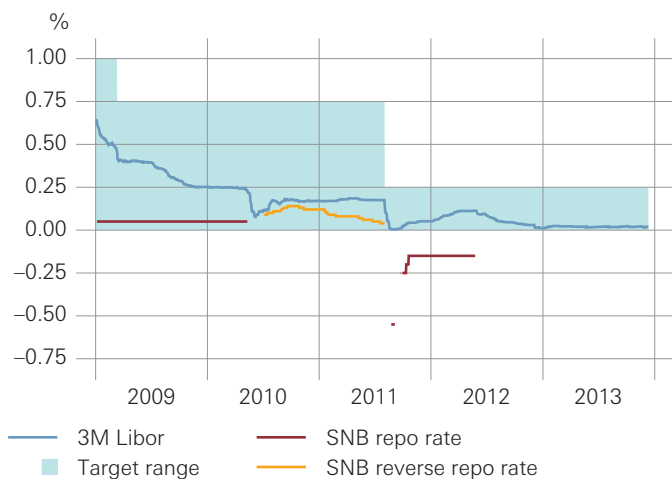
Since the September monetary policy assessment, total sight deposits held with the SNB have remained almost unchanged. In the week ending 6 December 2013 (last calendar week before the mid-December assessment), sight deposits totalled CHF 366.7 billion, compared to CHF 369.5 billion in the last calendar week before the mid-September assessment. Between the assessments in mid-September and mid-December, they averaged CHF 368.6 billion. Of this amount, CHF 318.9 billion was accounted for by the sight deposits of domestic banks and the remaining CHF 49.7 billion by other sight deposits.

High level of banks' surplus reserves

Statutory minimum reserves averaged CHF 14.7 billion between 20 August and 19 November 2013. This represents an increase of 1.0% over the previous period (20 May 2013 to 19 August 2013). On average, banks exceeded the requirement by some CHF 310.3 billion (previous period: CHF 297.6 billion). Thus, banks' surplus reserves have remained exceptionally high.

Chart 5.1

MONEY MARKET RATES

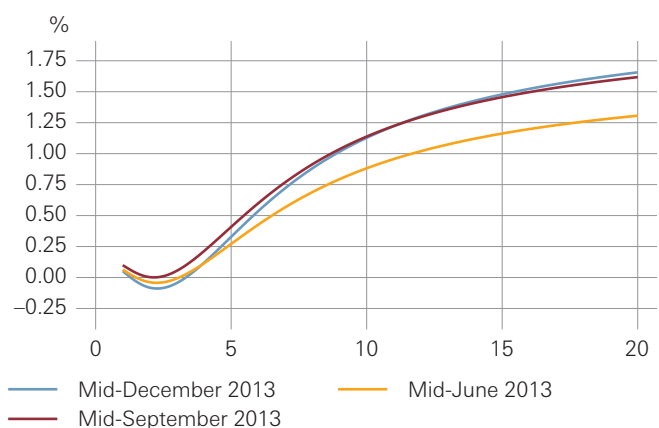


Sources: Bloomberg, SNB

Chart 5.2

TERM STRUCTURE OF SWISS CONFEDERATION BONDS

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



Source: SNB

Chart 5.3

ESTIMATED REAL INTEREST RATE

10-year Confederation bonds
Inflation expectations estimated with VAR model



Source: SNB

MONEY AND CAPITAL MARKET INTEREST RATES

Money market interest rates remain low

The situation on the money market remained virtually unchanged compared to the last assessment. Low trading volumes and the persistently low money market interest rates reflect the continued high level of liquidity (cf. chart 5.1).

In mid-December, the three-month Libor remained at 2 basis points, as in the previous quarters. Interest rates in the secured money market (Swiss Average Rates) and also the issuing yields for money market debt register claims of the Swiss Confederation remained in the negative range.

Slight decline in long-term interest rates

After having risen markedly in some cases in the previous quarter, primarily as a result of speculations about a less expansionary monetary policy in the US, yields on long-term government bonds of major economies receded slightly in the fourth quarter. The same pattern is also evident in movements in Swiss confederation bond yields. In mid-December, the yield on ten-year Confederation bonds reached a level of around 1.1%, compared to 1.2% at the time of the quarterly assessment of September.

Slightly steeper yield curve

Yields for maturities of up to ten years declined slightly, meaning that the yield curve is currently slightly steeper than it was three months ago (cf. chart 5.2).

Slightly lower real interest rates

The modest decline in nominal yields, combined with largely unchanged inflation expectations, led to slightly lower real interest rates. The estimated ten-year real interest rate was just under 0.7% in the fourth quarter (cf. chart 5.3). Calculation of this real interest rate is based on the ten-year yield on Confederation bonds and the estimated inflation expectations for the same time horizon, determined using a vector autoregressive (VAR) model.

EXCHANGE RATES

Appreciation of the Swiss franc in December

In the first half of December, the Swiss franc gained in value against the euro and the US dollar. At the beginning of the month, the exchange rates were still practically at the same level as they had been at the time of the last assessment in September.

The exchange rate movements registered between mid-September and the end of November proved to be only temporary. The political crisis in Italy and the ECB's interest rate reduction both led to temporary weakening of the euro against the Swiss franc in September and in November respectively. The US dollar also lost ground at times, the reasons for this being the budget stand-off in the US Congress and the decision by the Federal Reserve to leave its securities purchase programme in place.

Over the year as a whole, the weakness of the Japanese yen was still the most prominent feature of the foreign exchange market. Against the yen, the Swiss franc is currently around 20% lower than one year ago.

Slightly tighter monetary conditions

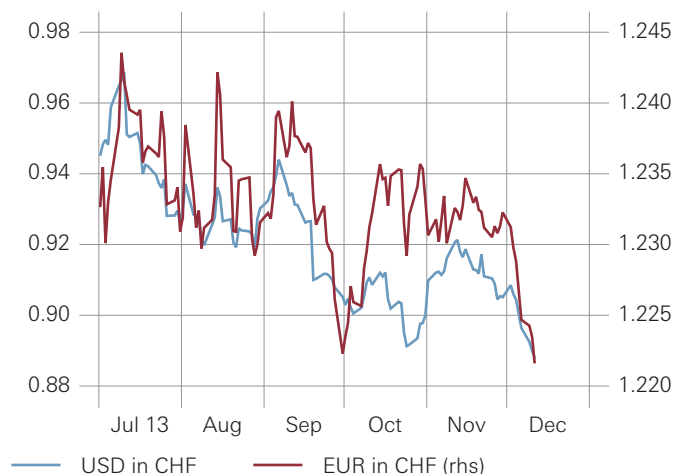
The appreciation of the Swiss franc has led to slightly tighter monetary conditions since the monetary policy assessment in September. The Monetary Conditions Index (MCI) shown in chart 5.5 combines changes in the three-month Libor with the nominal export-weighted external value of the Swiss franc. To take account of uncertainty regarding the relative impact of changes in interest rates and exchange rates, two different weightings are used for the MCI (3:1 and 5:1). The index is reset to zero at the time of the last monetary policy assessment, so a positive MCI value signifies a tightening of monetary conditions.

Real external value of Swiss franc still at a high level

The real export-weighted external value of the Swiss franc rose by 1.4% between July and October. Despite this increase, the external value of the Swiss franc rose only slightly over the course of the year as a whole (cf. chart 5.6). It remains well above the long-term average.

Chart 5.4

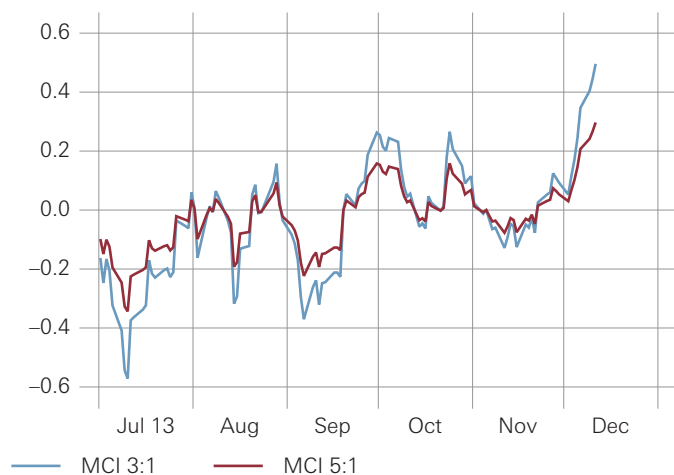
EXCHANGE RATES



Source: SNB

Chart 5.5

MCI NOMINAL



Source: SNB

Chart 5.6

EXTERNAL VALUE OF SWISS FRANC

Export-weighted, January 1999 = 100



Source: SNB

STOCK MARKETS

Buoyant mood on the stock market

Share prices have risen worldwide since mid-October, when a compromise was reached in the US budget crisis and the debt ceiling was lifted. The latest quarterly figures posted by large joint-stock companies give the impression that many companies have been successful in reducing costs. Falling inflation rates in the major advanced economies and the consequently nurtured expectations of continued expansive monetary policy also contributed to the buoyant mood.

SMI almost at annual peak

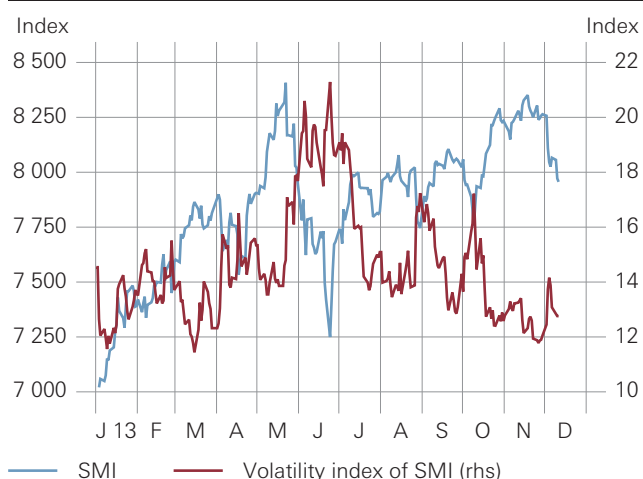
At present, the Swiss Market Index (SMI) is approximately 17% above the level recorded at the end of 2012, which is only a few percent below its annual peak, recorded in May. Uncertainty in the markets abated parallel to this latest rise in the SMI. The 30-day expected volatility of the SMI, which is calculated using option prices, is currently at a low level (cf. chart 5.7).

Bank shares under pressure

Chart 5.8 shows movements in four important sub-indices in the Swiss Performance Index (SPI): banks, health care, industrials and consumer goods. The health care index, which is dominated by the large pharmaceutical companies, has recorded the best performance since the beginning of the year. The bank index lost ground in recent months; this can be partially attributed to discussions about more stringent capital requirements for both big banks.

Chart 5.7

SHARE PRICES AND VOLATILITY

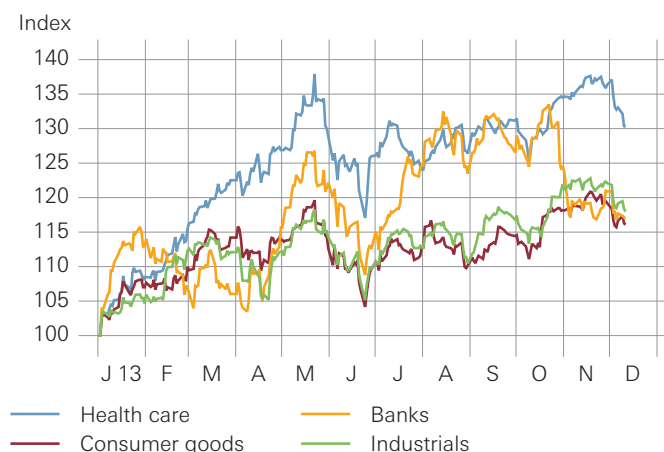


Source: Thomson Financial Datastream

Chart 5.8

SELECTED SPI SECTORS

Beginning of period = 100



Source: Thomson Financial Datastream

MONETARY AND CREDIT AGGREGATES

Stable monetary base

The monetary base, which is made up of banknotes in circulation plus the domestic banks' sight deposits with the SNB, has seen almost no change since the monetary policy assessment in September. As stated in the last monetary policy report (*Quarterly Bulletin 3/2013*), the increase recorded in June and July was attributable to PostFinance being granted a banking licence. This meant that PostFinance's sight deposits held at the SNB became a part of the monetary base. If PostFinance had not changed status, then the monetary base would have remained largely unchanged since September 2012. By long-term standards, the monetary base remains at a very high level (cf. chart 5.9).

Slowdown in growth of money supply

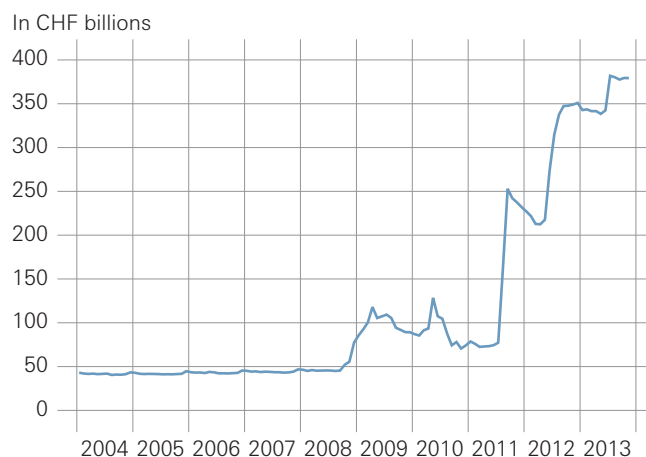
Unlike in other countries, lending in Switzerland did not slow in recent years. The transmission of expansive monetary policy by the banking sector did not come to a halt as a result of the financial and economic crisis and remained effective. Low interest rates saw a strong increase in the money and credit aggregates.

Movements in the monetary aggregates M1, M2 and M3 flattened in the second half of 2013 (cf. chart 5.10). Annual growth rates receded from around 10% in the first half of the year to less than 5%. This decrease can be partially ascribed to the considerable rise in long-term interest rates recorded in June. Statistical base effects continued to play a role. Between June and September 2012, the monetary aggregates rose steeply in the course of the SNB's foreign exchange market interventions.

In November, M1 (currency in circulation, sight deposits and transaction accounts) was 4.7% higher than one year earlier. In the same time period, M2 (M1 plus savings deposits) rose by 4.3% and M3 (M2 plus time deposits) was up by 4.2% (cf. table 5.1). These rates of growth are based on the time series for M1, M2 and M3, which were adjusted to include PostFinance in the period before it was granted a banking licence.

Chart 5.9

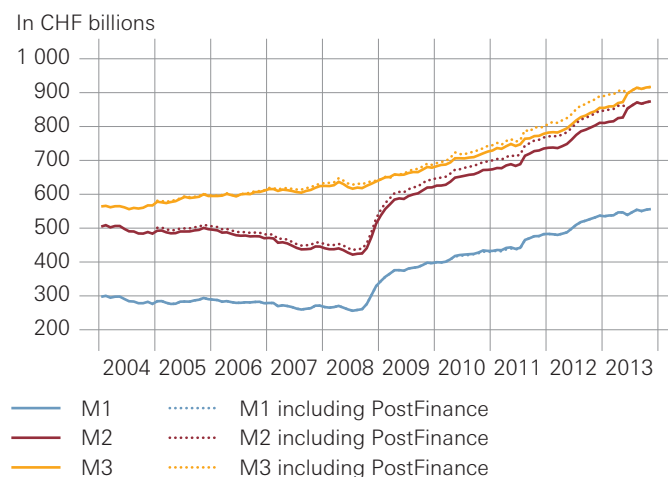
MONETARY BASE



Source: SNB

Chart 5.10

MONETARY AGGREGATES

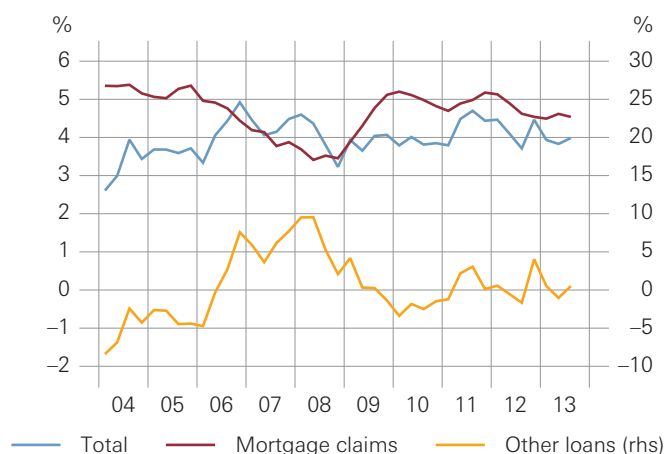


Source: SNB

Chart 5.11

BANK LOANS, IN SWISS FRANCS

Year-on-year change



Source: SNB

Robust growth in mortgage lending

In the third quarter, bank loans were 3.5% above the year-back level. The increase in bank loans remained largely unchanged (cf. table 5.1).

Mortgage claims, which account for four-fifths of total bank lending, increased by 4.5% compared to the year-back quarter. Despite the slight increase in mortgage rates, the level of interest rates remained very low in historical terms and thus continued to boost the rise in mortgage lending. The breakdown by borrower shows that the rates of growth for mortgage lending to households are down and those for private companies have advanced.

The volume of other loans has shown a flat trend since the beginning of the financial and economic crisis. Since other loans are usually highly cyclical, this development is in line with subdued economic activity. Other lending decreased by 1.8% year-on-year in the third quarter. This decline can be attributed to other loans denominated in foreign currencies. Other loans denominated in Swiss francs, depicted in chart 5.11, slightly surpassed the year-back level.

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2012	2012	2013	2013	2013	2013	2013	2013
		Q4	Q1	Q2	Q3	September	October	November
M1 (incl. PostFinance)¹	11.8	11.2	11.5	11.0	6.6	5.5	5.2	4.7
M2 (incl. PostFinance)¹	10.3	10.0	10.1	9.4	5.9	5.1	4.8	4.3
M3 (incl. PostFinance)¹	9.6	10.5	10.2	9.3	5.9	5.2	4.6	4.2
Bank loans total^{2, 4}	3.9	4.0	3.8	3.5	3.5	3.1	3.0	
Mortgage claims ^{2, 4}	4.8	4.5	4.5	4.6	4.5	4.5	4.5	
Households ^{3, 4}	4.9	4.5	4.2	4.1	3.9	3.9	3.9	
Private companies ^{3, 4}	4.9	4.9	5.5	6.4	6.5	6.4	6.3	
Other loans ^{2, 4}	-0.1	1.6	0.4	-1.5	-1.8	-3.6	-4.1	
Secured ^{2, 4}	3.0	7.9	5.1	2.2	-1.5	-4.8	-5.8	
Unsecured ^{2, 4}	-2.0	-2.3	-2.6	-3.9	-2.0	-2.8	-2.9	

1 On 26 June 2013, PostFinance was granted a banking licence. The growth rates are based on monetary aggregate figures adjusted retroactively for the period January 2005 to May 2013 (cf. *Monthly Statistical Bulletin*, table B2a online, and 'Information on SNB statistics', August 2013, p.III).

2 Monthly balance sheets.

3 Credit volume statistics.

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

Source: SNB

Higher ratio of bank lending to GDP

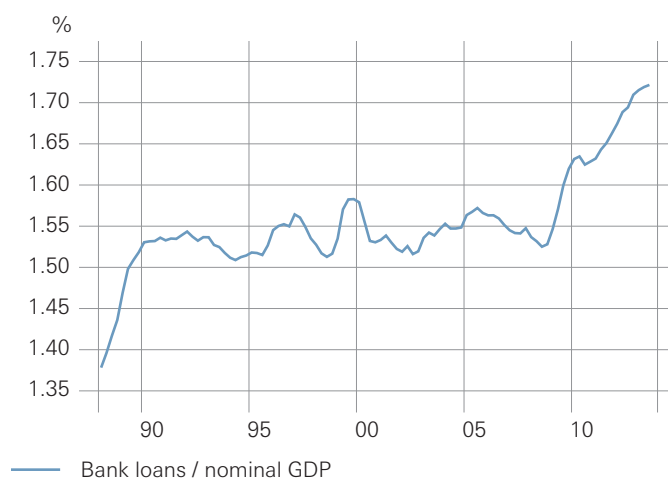
The strong growth in bank loans recorded in recent years is reflected in the ratio of bank loans to nominal GDP (cf. chart 5.12). After a sharp rise at the end of the 1980s, this ratio had remained largely unchanged until mid-2008. Since the onset of the financial and economic crisis, it has increased again substantially. This increase suggests that banks' lending activities have supported aggregate demand. However, strong lending growth also entails risks for financial stability. In the past, excessive growth in lending has often been the cause of later difficulties in the banking sector.

Countercyclical capital buffer activated

On 13 February 2013, for the first time, the Federal Council made use of the possibility foreseen in the Capital Adequacy Ordinance (CAO) and activated the countercyclical capital buffer (CCB) on the proposal of the SNB. The CCB obliges banks to hold additional capital to the value of 1% of the relevant risk-weighted positions for mortgages on domestic residential real estate. The CCB is to be held from 30 September 2013 and applies in addition to other capital requirements for banks.

Chart 5.12

BANK LOANS AS A PERCENTAGE OF GDP



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 December 2013

Fourth quarter of 2013

The Swiss National Bank's delegates for regional economic development are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted in October and November 2013 with 239 managers and entrepreneurs on the current and future situation of their companies and 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 breakdown of the GDP (excluding agriculture and public services).

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

Delegates

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Jean-Pierre Jetzer
Jean-Marc Falter
Fabio Bossi
Martin Wyss
Daniel Hanimann
Aline Chabloz
Markus Zimmerli

SUMMARY

According to this survey, growth in Switzerland was again robust in the fourth quarter of 2013. Moreover, the outlook for business activity is considerably brighter.

Growth was broad-based in terms of sector. Momentum in manufacturing was, however, not quite as strong as in the previous quarter. The continued favourable economic situation in Switzerland had a stimulating effect. Exports were driven mainly by the US, Asia and the Middle East. Demand from Europe – primarily Germany but also the UK – was marginally higher, while it was generally lacking from southern Europe. The minimum exchange rate against the euro, as a stabilising factor for business planning, continued to be appreciated.

While margins remained lower than usual in manufacturing and services, they were within the normal range in construction. Demand for labour was unchanged from the previous quarter.

The outlook for real growth in turnover over the next few months has become clearly more optimistic in all industries. Furthermore, stocks of finished products are being rated as adequate, following a protracted trend towards reducing a modest surplus. Companies are signalling that they plan to create a small number of new jobs. Investment, by contrast, is expected to stagnate.

Entrepreneurs believe that various political initiatives in Switzerland, as well as an increase in regulation, could negatively impact future conditions. However, the uncertainty caused by economic and financial risks in Europe has declined further.

BUSINESS ACTIVITY

Manufacturing: Sustained upward trend

Compared with the last survey of companies, manufacturing witnessed a further improvement in business activity both quarter-on-quarter and year-on-year. However, turnover did not increase as substantially as in the previous quarter.

A significant upturn in business was reported by the machinery and the metal products and processing industries. Food producers and textile processors also posted quarter-on-quarter increases in turnover. The chemical, plastics and precision instrument industries reported that business was flat.

Domestic demand remained high. Whereas demand from Europe (other than Germany and the UK) was subdued, demand from the US, Asia and Russia acted as a stimulus. Some industries also profited from high demand from the Middle East.

Construction: Continued momentum

In real terms, turnover in construction rose compared with the previous quarter. A good 40% of the companies surveyed reported a quarter-on-quarter increase in seasonally adjusted turnover, while half the companies stated that turnover was unchanged from the previous quarter.

The momentum of business activities in the finishing trade was very lively. Structural engineering recorded a fall-off in growth, whereas civil engineering reported that turnover was somewhat flat.

Services: Moderate growth

The services sector continued to report moderate growth spanning a wide range of industries. A total of 45% of the companies surveyed recorded a quarter-on-quarter rise in turnover, with another 40% posting no change.

Telecom companies, legal advisory firms, tour operators and facility management services reported a relatively good level of business momentum. The situation improved for banks and other financial services, thanks primarily to an increase in the volume of interest differential business. However, various industries – IT, hospitality, advertising – are still feeling the impact of the banks' cost saving efforts on their business.

Wholesalers and retailers also reported higher turnover. Little reference was made to cross-border shopping. In individual border regions there are signs that Swiss residents are increasingly shopping in Switzerland again and that customers from abroad are also purchasing goods more frequently on the Swiss side. Numerous retailers mentioned the increase in the proportion of online purchases. Real estate companies, staff recruitment agencies and restaurants reported little change in business activity compared with the previous quarter. A number of the car dealers surveyed

reported a moderate quarter-on-quarter decrease in turnover.

Overall, the hotel industry was unable to maintain the slight improvement in business activity seen in the previous quarter. Hoteliers described business as very volatile. Resorts in mountainous regions that are highly dependent on day trippers were relatively badly hit by the adverse weather conditions. The demand from Swiss residents and tour groups from Asia and the Arab countries remained buoyant. There was a tentative increase in the number of guests from Europe, in particular the UK. Seminar and event business remained muted.

While the majority of respondents from all three sectors did not consider the banks' lending policies to be a limiting factor, a number mentioned slightly more reticence with regard to business lending.

CAPACITY UTILISATION

Capacity utilisation remained rather uneven from one sector and industry to another.

Manufacturing companies rated their overall capacity utilisation as somewhat lower than normal. The pharmaceutical industry and some chemical companies continued to report a slightly higher than normal level. By contrast, other industries, namely metals and plastic processing, precision instruments and machinery, indicated a slight underutilisation.

In construction, utilisation of technical capacity was generally a little higher than is usual for this time of year. This applied mainly to companies in the finishing trade and in structural engineering.

In the services sector, utilisation of infrastructure (i.e. primarily office and retail space as well as transport capacity) was still reported to be at a normal level. Tour operators, as well as architectural and engineering firms, indicated fairly high capacity utilisation. Hotels, on the other hand, reported that utilisation levels were on the low side.

DEMAND FOR LABOUR

Steady demand for staff

Demand for labour remained virtually unchanged quarter-on-quarter. Changes in staffing policy (e.g. short-time working) were only mentioned in individual cases, especially by export-oriented companies in a restructuring phase or catering to specific foreign markets currently in recession. The primary response to a change in demand is still to increase or decrease the number of temporary staff. There remain marked differences between the various industries in their assessment as to whether their staffing level is appropriate.

The manufacturing companies surveyed felt that their headcounts corresponded almost exactly to requirements. Only producers of electrical equipment stated that their headcounts were on the low side. Companies in the metal and machinery industries continued to consider themselves slightly overstaffed.

The construction industry indicated that its headcounts were still generally rather low. Management and specialists are still highly sought-after, and a number of companies still cite this as a constraint.

In the services sector, staff levels were considered appropriate overall. Architectural and engineering firms stated that staff levels were much too low, as did IT companies. Companies in these industries are actively recruiting specialists from one another. Several wholesalers reported that headcount levels were rather sparse. The other industries in the services sector indicated that staffing levels were appropriate.

Continued high number of job applications

As in the previous quarter, the companies surveyed considered the process of recruiting staff to be roughly as challenging and time-consuming as before. Many respondents mentioned a continued high level of spontaneous job applications, notably from southern Europe. It was also observed that individual professions were finding it more difficult to recruit from Germany since the number and appeal of jobs on offer there has increased.

PRICES, MARGINS AND EARNINGS SITUATION

Margins still slightly lower than usual

Of the companies surveyed, 40% reported that margins were still slightly lower than usual overall.

In manufacturing, profit margins remained weaker than normal, in particular in the metal and machinery industries, but also at wood processing and printing firms. By contrast, margins were reported as relatively good by the pharmaceutical industry and food producers. Manufacturing companies expect purchase and sale prices to remain stable in the coming months.

In construction, the finishing trade reported higher than usual margins, while companies in civil engineering again recorded lower than average margins. The situation was described as normal by structural engineering companies. Over the next few months, the cost of construction materials is expected to remain virtually unchanged, with construction prices likewise stable.

The majority of services industries were again confronted with rather low margins. The automotive industry also faced a particularly unfavourable situation. Margins were lower than usual in banking. In addition to the current phase of low interest rates, bank representatives frequently cited the cost of implementing regulatory requirements as

a cause. The IT industry also rated margins as lower than usual, due both to a lower order volume and to price concessions. Retailers stated that their margin situation has remained normal, as did transport firms.

Where margins could be improved, this was most frequently attributed to an optimisation of the product mix, greater focus on the provision of services, and cost savings in the production process. Price increases are also proving possible more often than before, both in Switzerland and abroad. Companies from all three sectors of the economy continue to appreciate the stabilising effect the minimum exchange rate against the euro has had, whether for invoicing, budgeting, or price negotiations.

OUTLOOK

Increased optimism

Since the previous survey, companies have become more confident about the business outlook for the coming months. In all three sectors and practically all industries, respondents generally expect turnover to rise in the next six months, owing largely to the more favourable economic climate in Europe. Recruitment plans also envisage a slight increase in headcounts over this time horizon, and quite a few companies are planning pay rises of the order of 1.0%.

The subject of the debt crisis has receded further into the background. However, the numerous political initiatives within Switzerland and the increasingly complex regulatory environment remain a prime concern of our respondents. In the Lake Geneva region, the topic of the future of multinational companies in Switzerland is frequently raised.

Despite the more favourable business outlook, companies' investment plans in all three sectors for the year ahead suggest that these expenditures will increase only very slightly. The services sector's investment projects are marginally less restrictive than previously.

Acknowledgements

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A

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S

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T

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V

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W

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Y

Yendi Swiss Retail SA.

Z

Zambon Svizzera SA. Zehnder Print AG. ZFV-Unternehmungen. Ziegler AG Bauunternehmung. Ziegler Papier AG. Zingg Transporte AG. zoller & partner Immobilien-Management AG. Züger Frischkäse AG. Zuger Kantonalbank. Zünd Systemtechnik AG. Zürcher Kantonalbank. Zürich Tourismus. Zürich Versicherungsgesellschaft AG.

4

4B Holding AG.

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.

<p>At its quarterly assessment of 12 December, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro. The SNB continues to stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. The target range for the three-month Libor will stay at 0.0–0.25%. In the view of the SNB, the Swiss franc is still high. With the three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc.</p>	<p>December 2013</p>
<p>On 31 October, the SNB, together with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Federal Reserve, convert their temporary swap arrangements to standing arrangements. The arrangements allow the SNB to provide Swiss francs to these central banks when required, as well as enabling the SNB to provide liquidity to Swiss banks, should it be needed, in any of the five foreign currencies. The SNB intends to continue offering US dollar liquidity-providing repo operations at terms of one week and three months until further notice.</p>	<p>October 2013</p>
<p>At its quarterly assessment of 19 September, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro. The SNB continues to stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. In the view of the SNB, the Swiss franc is still high. The minimum exchange rate prevents an undesired tightening of monetary conditions were the upward pressure on the Swiss franc to intensify once again. The target range for the three-month Libor will stay at 0.0–0.25%.</p>	<p>September 2013</p>
<p>At its quarterly assessment of 20 June, the SNB reaffirms that it will maintain the minimum exchange rate of CHF 1.20 per euro. In the view of the SNB, the Swiss franc is still high. The minimum exchange rate remains important in order to avoid an undesirable tightening of monetary conditions in the event of sudden upward pressure on the Swiss franc. The SNB continues to stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. The target range for the three-month Libor remains unchanged at 0.0–0.25%.</p>	<p>June 2013</p>
<p>At its quarterly assessment of 14 March, the SNB reaffirms that it will continue to enforce the minimum exchange rate of CHF 1.20 per euro with the utmost determination and will, if necessary, buy foreign currency in unlimited quantities for this purpose. The minimum exchange rate is an important instrument in avoiding an undesirable tightening of monetary conditions. The Swiss franc is still high. The target range for the three-month Libor remains unchanged at 0.0–0.25%. The SNB stands ready to take further measures at any time.</p>	<p>March 2013</p>
<p>On 13 February, the Federal Council activates the countercyclical capital buffer, following the SNB's proposal. This move is in reaction to the growing imbalances on the mortgage and real estate markets. The level of the capital buffer is set at 1% of risk-weighted mortgage loans financing residential property located in Switzerland. The deadline for compliance by the relevant banks is 30 September 2013.</p>	<p>February 2013</p>

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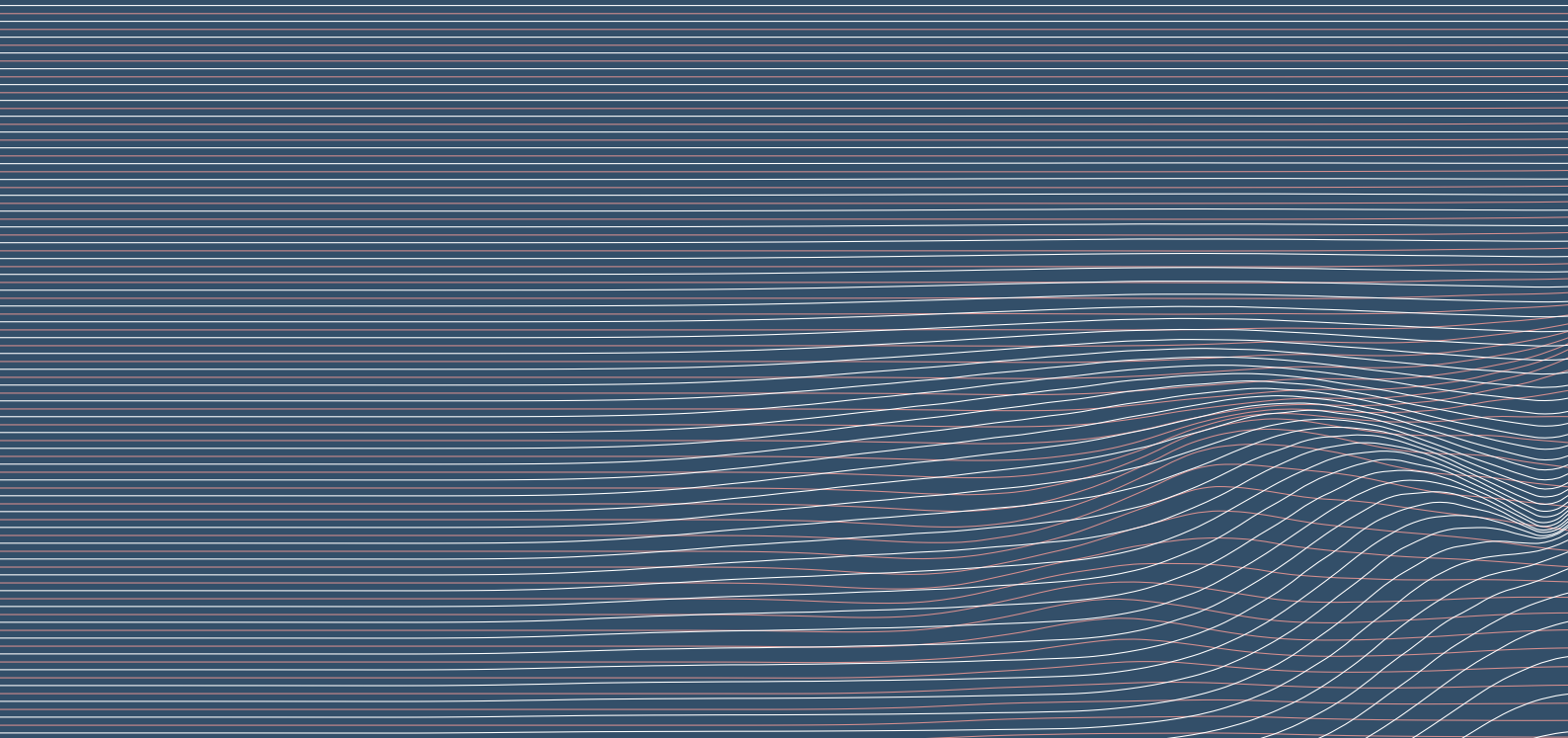
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