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Quarterly Bulletin  
2/2017 June

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





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2/2017 June

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# Contents

	Page
<b>Monetary policy report</b>	<b>4</b>
1 Monetary policy decision of 15 June 2017	5
Monetary policy strategy at the SNB	6
2 Global economic environment	7
3 Economic developments in Switzerland	13
4 Prices and inflation expectations	18
5 Monetary developments	21
<b>Business cycle signals</b>	<b>28</b>
<b>Chronicle of monetary events</b>	<b>34</b>

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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 June 2017.

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 15 June 2017') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 15 June 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 15 June 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. 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 pressure on the currency. The Swiss franc is still significantly overvalued.

The new conditional inflation forecast differs little from that of March (cf. chart 1.1). The SNB continues to anticipate an inflation rate of  $0.3\%$  for the current year. For 2018, the forecast has fallen slightly to  $0.3\%$ , from  $0.4\%$  in the

previous quarter. For 2019, it now expects inflation of  $1.0\%$ , compared to  $1.1\%$  last quarter. The conditional inflation forecast is based on the assumption that the three-month Libor remains at  $-0.75\%$  over the entire forecast horizon.

In line with the SNB's expectations, the global economy has strengthened further. Owing to the economic growth, the labour market situation in advanced economies has improved in recent quarters. Despite positive developments in the real economy, inflation remains modest in most advanced economies. Against this background, monetary policy in Japan and the euro area, in particular, is likely to remain very expansionary. In the US, monetary conditions are expected to gradually normalise.

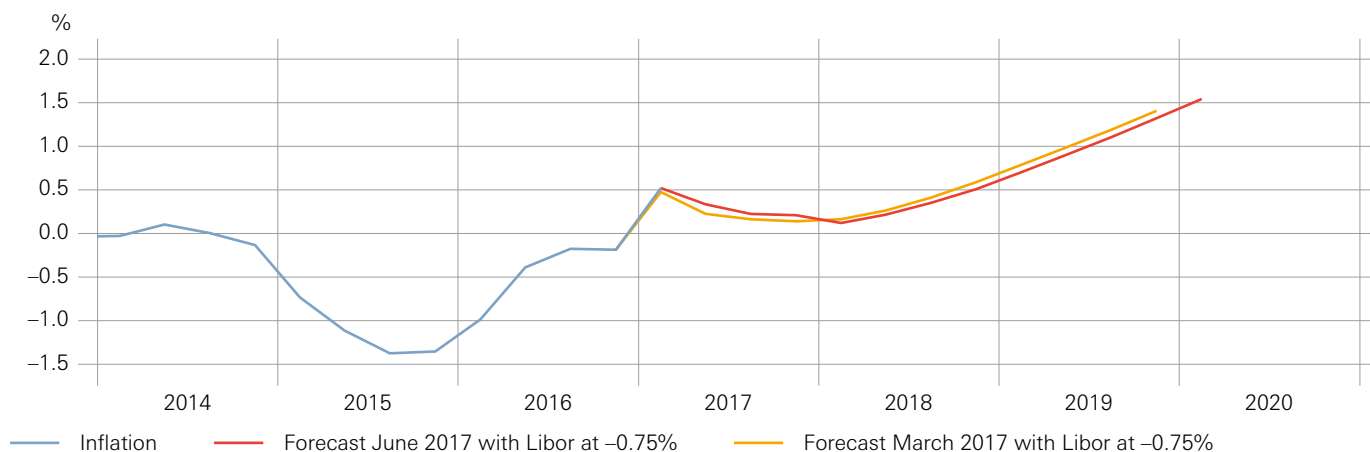
In its new baseline scenario for the global economy, the SNB anticipates that economic developments will remain favourable. The cautiously optimistic baseline scenario continues to be subject to considerable downside risks; this is due to political uncertainty and structural problems in a number of advanced economies.

According to initial quarterly estimates of the national accounts, positive stimuli from abroad were again only partially transmitted to the Swiss economy in the first quarter of 2017. Although GDP growth firmed somewhat, it still remained subdued at an annualised  $1.1\%$ , having already been weak in the second half of 2016. However, available economic indicators point to slightly more robust economic momentum. For 2017, the SNB continues to expect growth of roughly  $1.5\%$ .

Chart 1.1

### CONDITIONAL INFLATION FORECAST OF JUNE 2017

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



Source: SNB

In the first quarter, growth in mortgage lending remained constant at a relatively low level, and momentum in residential real estate prices continued at a measured pace. At the same time, owing to developments in fundamentals and the generally subdued activity on the mortgage and residential real estate markets, imbalances have fallen

slightly in recent quarters. Nevertheless, they are still just as pronounced as they were in 2014, when the sectoral countercyclical capital buffer was set at 2%. 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 JUNE 2017

	2014				2015				2016				2017				2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.0	0.1	0.0	-0.1	-0.7	-1.1	-1.4	-1.4	-1.0	-0.4	-0.2	-0.2	0.5				0.0	-1.1	-0.4

#### CONDITIONAL INFLATION FORECAST OF JUNE 2017

	2017				2018				2019				2020				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2017, with Libor at -0.75%	0.5	0.2	0.2	0.1	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.4					0.3	0.4	1.1
Forecast June 2017, with Libor at -0.75%		0.3	0.2	0.2	0.1	0.2	0.4	0.5	0.7	0.9	1.1	1.3	1.5				0.3	0.3	1.0

Source: SNB



## 2 Global economic environment

As expected, the global economy has strengthened further in recent months. Global GDP growth in the first quarter was more robust than in previous quarters, due in large part to an upturn in the emerging economies. In the euro area, too, economic recovery gained strength.

Owing to the stronger economic growth, the labour market situation in advanced economies has continued to improve, with the US, Japan, the UK and Germany close to achieving full employment. Moreover, in almost all euro area member states, unemployment once again declined.

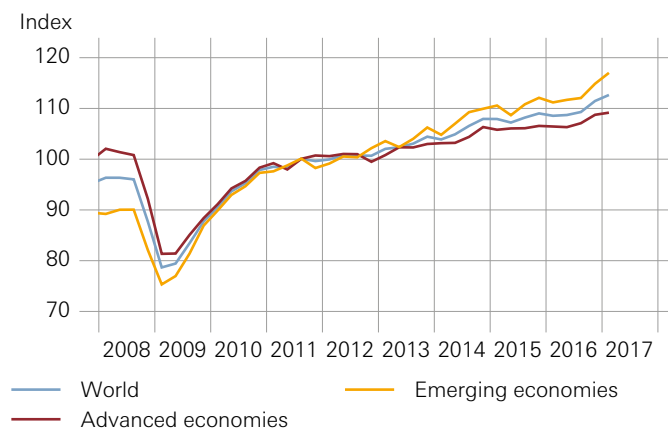
Inflation remained modest in most advanced economies. Against this background, monetary policy in Japan and the euro area, in particular, is likely to remain very expansionary. In the US, monetary conditions are expected to gradually normalise.

In its new baseline scenario for the global economy, the SNB anticipates that economic developments will remain favourable. For 2017, economic growth looks set to be its strongest in six years. The improved economic conditions are expected to gradually translate into higher inflation only in the course of 2018, especially in the euro area. The baseline scenario continues to be subject to considerable risks due to political uncertainty and structural problems in a number of countries.

Chart 2.1

### GLOBAL EXPORTS

Reporting period average = 100



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

Table 2.1

### BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

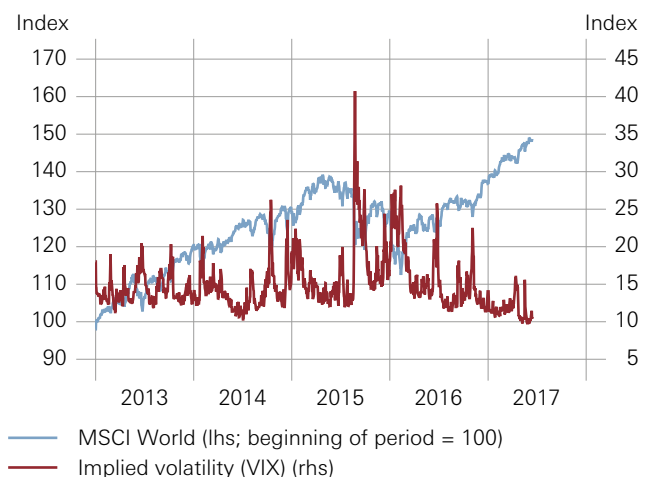
	2013	2014	2015	2016	Scenario	
					2017	2018
<b>GDP, year-on-year change in percent</b>						
Global <sup>1</sup>	3.3	3.5	3.4	3.3	3.7	3.7
US	1.7	2.4	2.6	1.6	2.1	2.3
Euro area	-0.3	1.2	2.0	1.8	1.9	1.7
Japan	2.0	0.2	1.1	1.0	1.4	0.9
<b>Oil price in USD per barrel</b>						
	108.7	99.0	52.5	43.8	51.7	51.0

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

Sources: SNB, Thomson Reuters Datastream

Chart 2.2

**STOCK MARKETS**

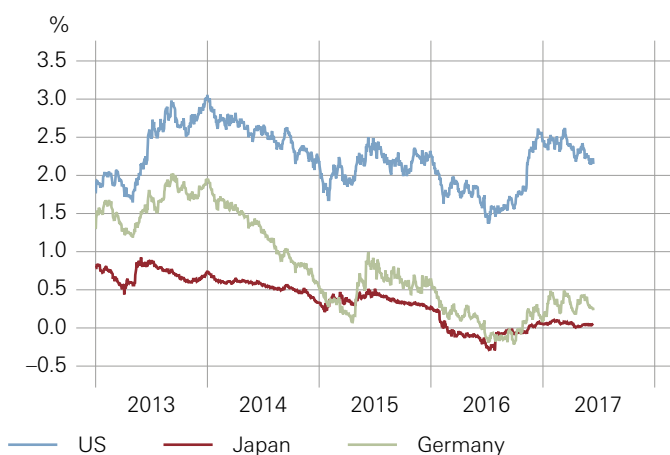


Source: Thomson Reuters Datastream

Chart 2.3

**INTERNATIONAL LONG-TERM INTEREST RATES**

10-year government instruments

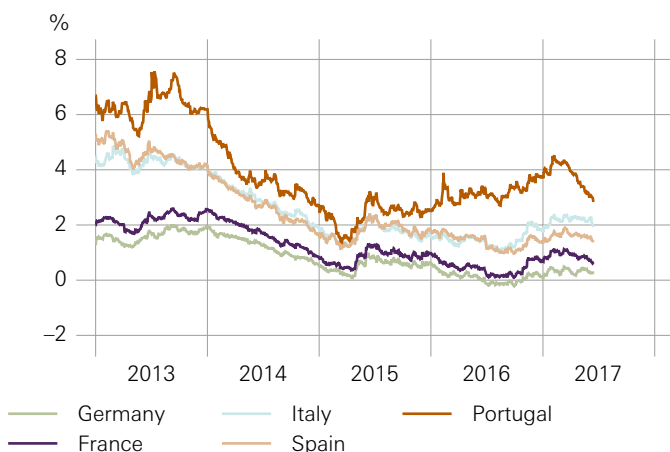


Source: Thomson Reuters Datastream

Chart 2.4

**EUROPEAN LONG-TERM INTEREST RATES**

10-year government instruments



Source: Thomson Reuters Datastream

The SNB's forecasts for the global economy are based on assumptions about the oil price and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 51 per barrel and an exchange rate of USD 1.09 to the euro, compared to USD 56 per barrel and USD 1.07 to the euro in March's baseline scenario (cf. table 2.1). Both correspond to the 20-day average when the current baseline scenario was drawn up.

**INTERNATIONAL FINANCIAL AND COMMODITY MARKETS**

Overall, sentiment on the international financial markets has remained benign since the March monetary policy assessment. Favourable economic news and declining political risk in the euro area following the French elections have proved particularly supportive. Driven by robust corporate earnings in the major advanced economies, the MSCI World Index as well as the S&P 500 in the US and the DAX in Germany recorded new highs. In May, the volatility of US stocks as measured by option prices (VIX), which serves as an indicator of market uncertainty, fell to its lowest point since 1993. With the exception of one brief spike, it then settled at this level (cf. chart 2.2).

Despite the favourable economic environment, yields on the majority of long-term government bonds fell slightly (cf. chart 2.3); this is likely due, at least in part, to the moderate development of inflation in recent months. In the US, the yield on ten-year government bonds has fallen by around 0.3 percentage points since the mid-March quarterly assessment. In some euro area countries where yields had risen sharply (e.g. Greece and Portugal), yields fell considerably, narrowing the spread to German government bonds (cf. chart 2.4).

The US dollar lost a little value on a trade-weighted basis, while the euro and the yen appreciated somewhat (cf. chart 2.5).

Overall, after last year's rise, commodity prices have declined again slightly since February. Notwithstanding this, in mid-June prices for industrial metals were still around 20% higher year-on-year. Brent crude was trading at just below USD 50 per barrel in mid-June (cf. chart 2.6). This was influenced partly by an extension of the agreement among oil-producing countries – both OPEC members and non-members – at the end of 2016 to limit production, and partly by an increase in oil production in the US.

## US

The US economy grew 1.2% in the first quarter of 2017, significantly less than in the previous quarter (2.1%) (cf. chart 2.7). This slowdown was principally due to a temporary dip in private consumption and a reduction in inventories. Corporate investment, by contrast, continued to increase, suggesting ongoing sound economic momentum. Employment growth also continued and the unemployment rate fell further, coming in at 4.3% in May (cf. chart 2.10).

The outlook for the US economy has not changed significantly since the March monetary policy assessment. After modest GDP growth in the first quarter, a catch-up effect is expected in the next few quarters. Private consumption strengthened again in March and April and industrial output expanded considerably. The SNB anticipates GDP growth of 2.1% for 2017. It continues to expect tax cuts towards the end of 2017, which are likely to support growth in the years ahead. GDP is therefore set to expand slightly more strongly in 2018 – at a rate of 2.3% (cf. table 2.1). However, the growth outlook remains very uncertain, as key planks of US economic policy have yet to be clearly defined.

Inflation, as measured by the consumer price index, weakened unexpectedly in recent months, and stood at 1.9% in May (cf. chart 2.11). This decline was partly due to energy prices. However, various measures of core inflation have also slackened – as a result of temporary factors. The personal consumption expenditure (PCE) deflator index, the Federal Reserve's (Fed) preferred price inflation measure, stood at 1.5% in April. Inflation is expected to gradually move closer to the Fed's target again in the coming months. In June, the Fed raised the target range for its policy rate by 0.25 percentage points, to between 1.00% and 1.25% (cf. chart 2.13). It maintained its growth outlook and reiterated that it 'expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate'.

## EURO AREA

In the euro area, the economic recovery continued to strengthen. GDP expanded by 2.3% in the first quarter (cf. chart 2.7). Domestic demand firmed and favourable weather conditions in particular contributed to a strong increase in construction investment. Company surveys also clearly point to a consolidation of economic activity (cf. chart 2.9).

Employment growth, which has been ongoing since mid-2013, continued in the first quarter of 2017, with employment returning to its 2008 pre-crisis level. Meanwhile, the unemployment rate fell to 9.3% (cf. chart 2.10).

Chart 2.5

### EXCHANGE RATES

Trade-weighted, beginning of period = 100

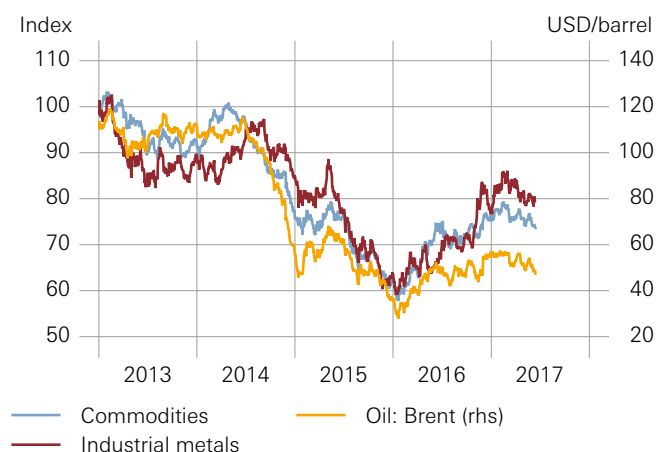


Source: Thomson Reuters Datastream

Chart 2.6

### COMMODITY PRICES

Beginning of period = 100

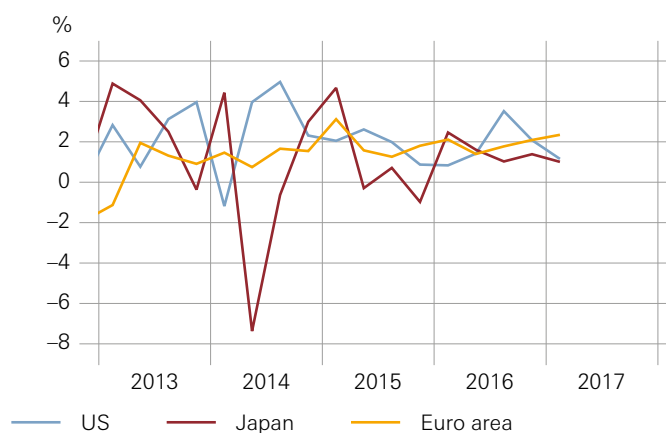


Source: Thomson Reuters Datastream

Chart 2.7

### REAL GDP: ADVANCED ECONOMIES

Change from previous period

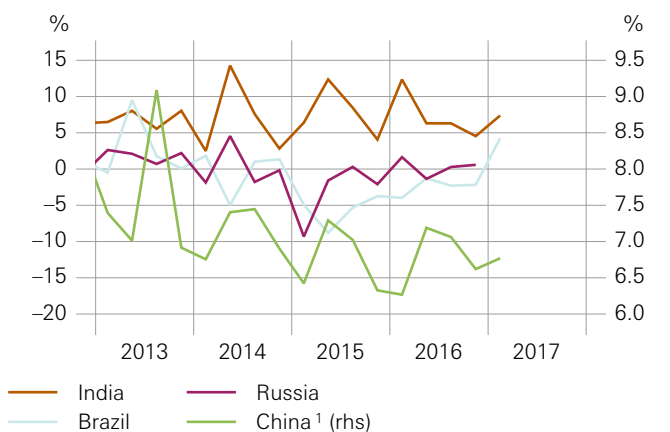


Source: Thomson Reuters Datastream

Chart 2.8

**REAL GDP: EMERGING ECONOMIES**

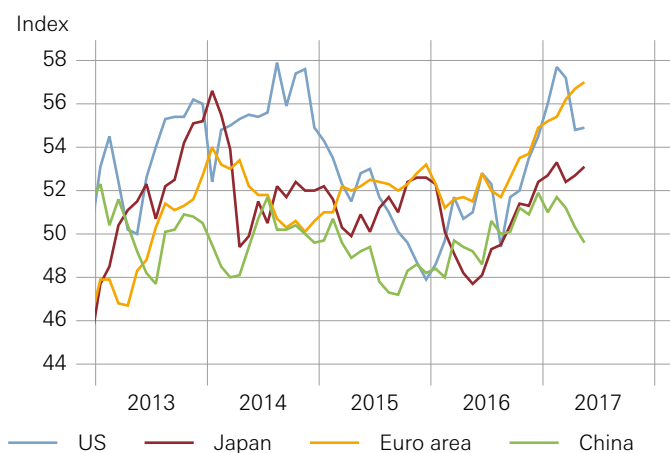
Change from previous period



1 Estimate: SNB.  
Source: Thomson Reuters Datastream

Chart 2.9

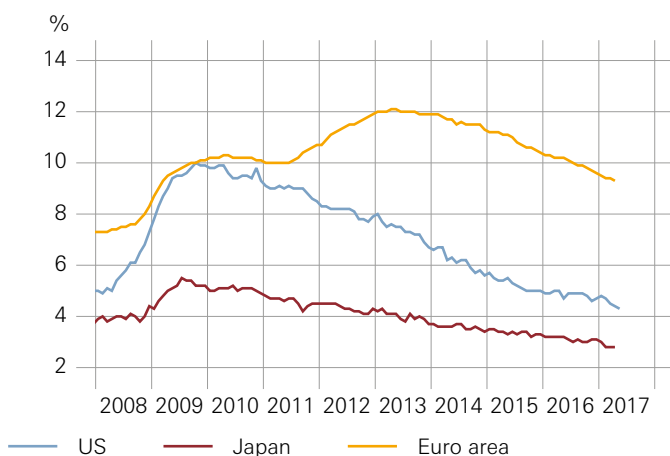
**PURCHASING MANAGERS' INDICES (MANUFACTURING)**



Source: Markit Economics Ltd 2009; all rights reserved

Chart 2.10

**UNEMPLOYMENT RATES**



Source: Thomson Reuters Datastream

Economic momentum in the euro area is expected to remain robust thanks to favourable financing conditions, the further recovery in lending to the private sector, and healthy consumer and business confidence. The positive growth outlook is nevertheless still subject to various risks. While political uncertainty has declined since the elections in France, risks – notably with respect to future economic arrangements between the EU and the UK as well as the fragility of Italy’s banking sector – remain. The SNB anticipates growth in the euro area of 1.9% for 2017 and 1.7% for 2018 – slightly higher than it had predicted three months ago.

Consumer price inflation has receded following its multi-year high of 2.0% in February and stood at 1.4% in May (cf. chart 2.11). The decline was principally attributable to developments in energy and food prices. Core inflation fluctuated due to a calendar effect around Easter, but was unchanged in May versus February, at 0.9% (cf. chart 2.12). Medium-term inflation expectations derived from financial market indicators were virtually unchanged and thus remained well short of the ECB’s inflation target. As per its December 2016 announcement, the ECB reduced its monthly asset purchases in April to EUR 60 billion. As inflation momentum remains insufficient, it intends to continue purchasing assets at least until the end of 2017.

**JAPAN**

Japan’s real economy is in good shape. GDP expanded by 1.0% in the first quarter (cf. chart 2.7). Goods exports benefited from robust demand from Asia, and domestic final demand gained some strength. Thanks to the favourable economic conditions that have prevailed since the beginning of 2016, the output gap has now closed. The unemployment rate continued to decline and by April, it had fallen to 2.8%, its lowest level since December 1994 (cf. chart 2.10). Japan thus enjoys full employment.

In 2017, the economy will be buttressed by favourable developments in global manufacturing, infrastructure investment made in connection with the stimulus package adopted in the summer of 2016, and advantageous labour market conditions. GDP is likely to grow by 1.4% in 2017, and in 2018, too, the economy is set to grow slightly above potential (cf. table 2.1).

In contrast to developments in the real economy, inflation remains unsatisfactorily weak. In the last few months to April, consumer price inflation was only just in positive territory due to rising energy prices (cf. chart 2.11). Core inflation, on the other hand, moved into negative territory for the first time since mid-2013 (cf. chart 2.12). However, against a backdrop of improving overall capacity utilisation and a weaker yen, core inflation is likely to gradually pick up again. Longer-term inflation expectations derived from company surveys trended sideways in recent months and remained significantly below the Japanese central bank's inflation target of 2%. Furthermore, annual wage negotiations, which take place in the spring, point to ongoing very modest wage growth for this year. Under these conditions, the Bank of Japan is maintaining its expansionary monetary policy.

## EMERGING ECONOMIES

Economic activity strengthened in the emerging economies at the beginning of the year (cf. chart 2.8). In China, GDP continued to expand strongly in the first quarter (6.8%). Chinese exports benefited from improved global trade momentum and were boosted by government investment in infrastructure projects. The domestically focused services sector weakened somewhat, however. India's economy recovered unexpectedly fast from the growth downturn following the government's currency reform in the fourth quarter of 2016. At 7.4%, first-quarter GDP growth was once again within the range of potential. In Russia and Brazil, economic activity likewise recovered markedly.

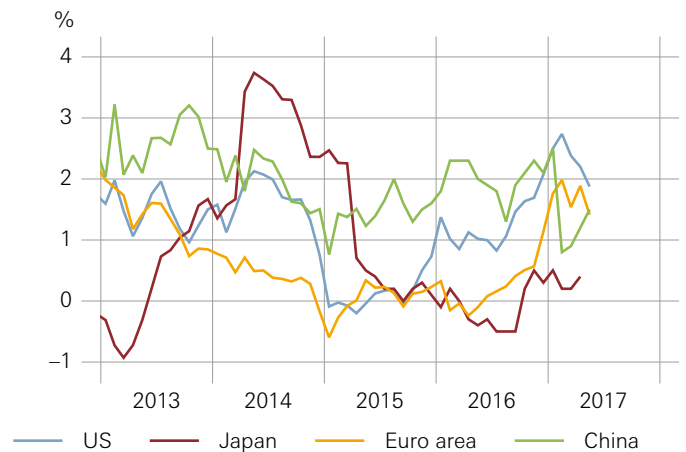
The outlook for China remains unchanged. Growth momentum is likely to slow gradually in the coming quarters. Investment is set to expand only moderately due to high levels of corporate debt and overcapacity in heavy industry. Moreover, new orders from abroad suggest that exports will grow less strongly in the months ahead. For 2017, the SNB is predicting GDP growth of 6.6% in China, which is in line with the government's growth target.

India's recovery is likely to continue strengthening as the year progresses. The dampening effect of the currency reform is gradually tailing off as the amount of cash in circulation increases appreciably. This is likely to result in households making consumer purchases they had put on hold.

Chart 2.11

### CONSUMER PRICES

Year-on-year change

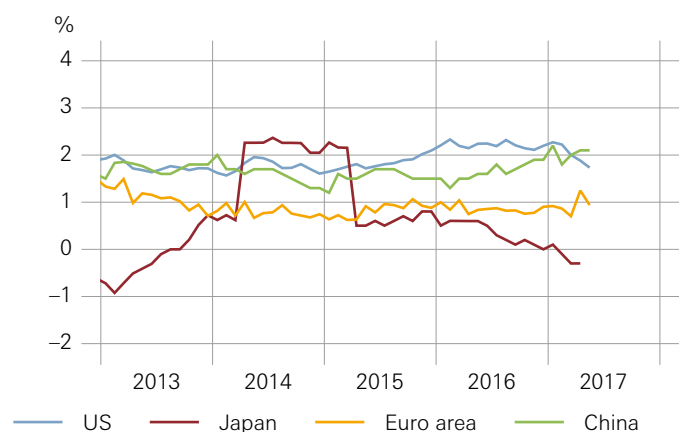


Source: Thomson Reuters Datastream

Chart 2.12

### CORE INFLATION RATES <sup>1</sup>

Year-on-year change

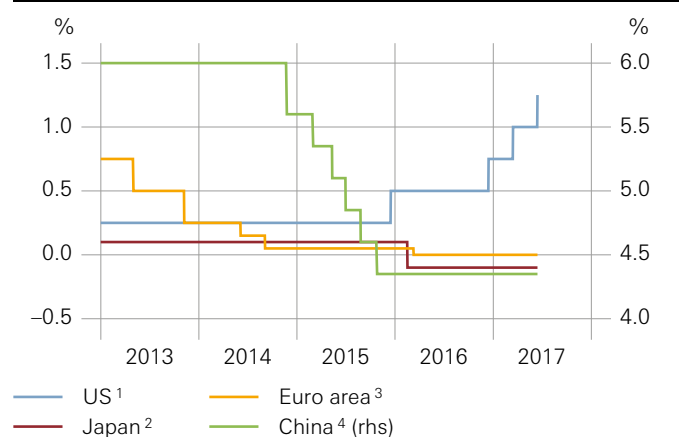


<sup>1</sup> Excluding food and energy.

Source: Thomson Reuters Datastream

Chart 2.13

### OFFICIAL INTEREST RATES



<sup>1</sup> Federal funds rate.

<sup>2</sup> Call money target rate.

Source: Thomson Reuters Datastream

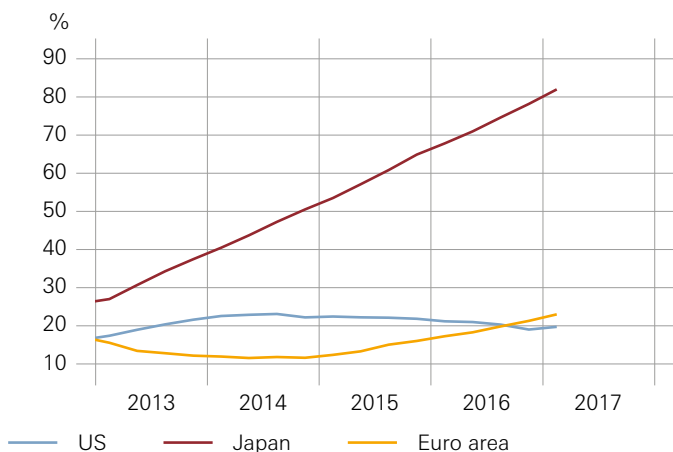
<sup>3</sup> Main refinancing rate.

<sup>4</sup> One-year lending rate.

Chart 2.14

**MONETARY BASE**

Relative to GDP



Source: Thomson Reuters Datastream

The moderate – and largely consumption-driven – expansionary course of Russia’s economy is expected to continue. Despite favourable monetary conditions and rising real incomes, growth in Brazil is likely to recover slowly, as unemployment is only falling at a sluggish pace and the investment environment remains challenging. In addition, given recent political turbulence, there is considerable uncertainty surrounding the outlook for Brazil.

Inflation in the emerging economies has been substantially influenced by food prices in recent months. While inflation in China accelerated to 1.5%, it slowed noticeably in Russia and Brazil, to 4.1% and 3.6% respectively. In India, inflation fell to 2.2%, thereby remaining below the target of 4%.

The central banks of both China and India left their key rates unchanged. In Russia and Brazil, however, the central banks each cut their key rates significantly to support economic activity.

# 3 Economic developments in Switzerland

According to the initial quarterly estimate of the national accounts, GDP growth firmed somewhat in the first quarter of 2017, but still remained subdued at an annualised 1.1%. The positive momentum from abroad thus again seems to have made itself only partly felt in the Swiss economy.

An extensive analysis of the available economic indicators shows that the Swiss economy is on the road to recovery. However, certain indicators also suggest that the upturn has not yet taken hold in all parts of the economy. In various industries, production capacities remain underutilised and profit margins tight.

Improvement in the labour market situation remains very gradual. Seasonally adjusted unemployment continued to recede slightly in the past three months, while growth in employment virtually came to a standstill in the first quarter.

Overall, the latest economic indicators suggest that the moderate recovery will continue. The SNB's economic growth forecast of roughly 1.5% for 2017 remains unchanged.

## AGGREGATE DEMAND AND OUTPUT

### Subdued GDP growth in the first quarter of 2017

After a halt in growth in the third quarter of 2016, GDP again picked up somewhat in the past two quarters. According to provisional estimates by the State Secretariat for Economic Affairs (SECO), GDP advanced by 1.1% in the first quarter of 2017, following a 0.7% increase in the quarter before. Growth momentum thus remained subdued at the beginning of the year, too (cf. chart 3.1).

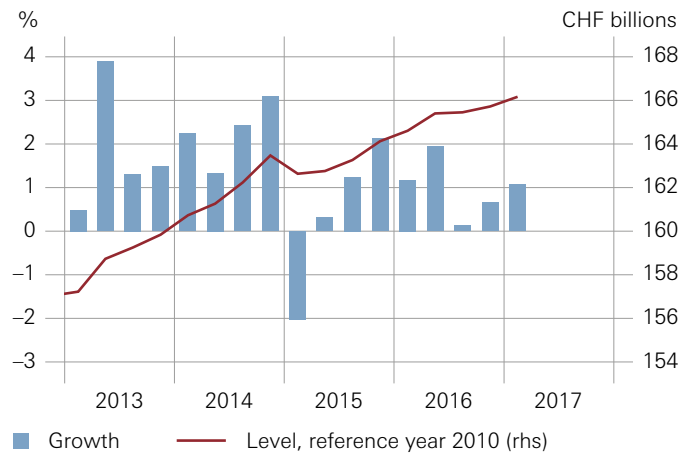
Value added varied significantly from one industry to another. Strong growth was recorded in manufacturing, and value added was also well up in the healthcare industry. In many other sections of the services sector, however, value added declined, which had a dampening effect on the overall result (cf. chart 3.2).

On the expenditure side, growth proved broadly based. Exports and equipment investment, in particular, increased significantly.

Chart 3.1

### REAL GDP

Change from previous period

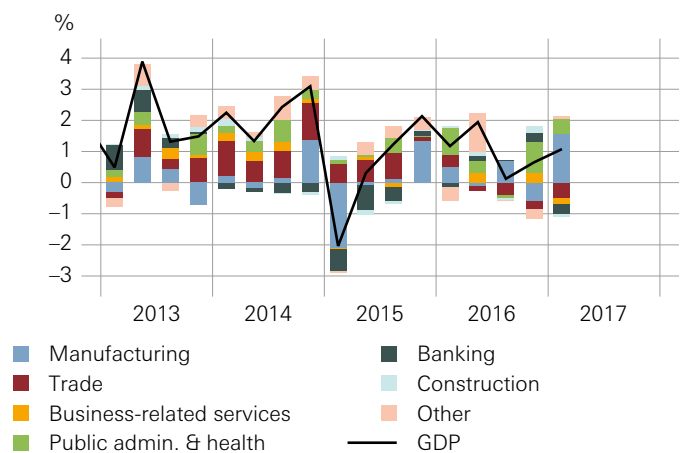


Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

### CONTRIBUTIONS TO GROWTH, BY SECTOR

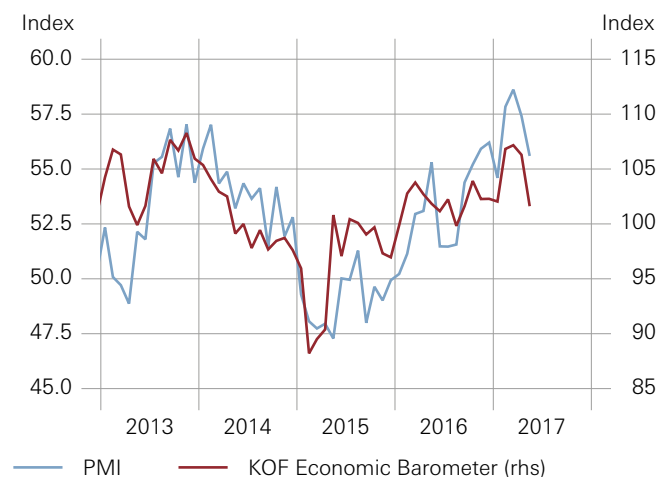
Change from previous period



Source: SECO

Chart 3.3

### INDICATORS OF ECONOMIC MOMENTUM



Sources: Credit Suisse, KOF Swiss Economic Institute

## Positive economic indicators

Taking into account a broad range of information leads to a more positive picture of economic developments since mid-2016 than if only the provisional quarterly estimates of the national accounts are considered.

Indications of a favourable economic trend can, for example, be found in the results of various surveys. The purchasing managers' index (PMI) and the KOF Economic Barometer declined somewhat in April and May after registering very high values previously in April and May, but are still above the long-term average. Both indicators therefore point to sound economic growth (cf. chart 3.3).

Discussions with representatives of companies conducted by the SNB's delegates for regional economic relations in the past few quarters also suggest a steady improvement in the economic situation since mid-2016 (cf. Business cycle signals, from page 28).

## Different industries, different trajectories

Many companies have seen a noticeable increase in business volume and utilisation of production capacity over the past few quarters. Margins of the companies concerned have also improved.

Not all industries, however, have benefited equally from the economic upturn. This can be explained by a number of factors. First, demand has not picked up in equal measure in all industries. Second, the strength of the Swiss franc has not affected all industries in the same way. Third, several industries are currently in a restructuring process for technological or regulatory reasons.

## LABOUR MARKET

Recovery on the labour market is tentative. Although unemployment has receded again slightly in the past few months, the number of employed persons came to an almost complete standstill in the first quarter, while employment expressed in full-time equivalents even receded marginally.

## Ongoing decrease in unemployment

Excluding seasonal fluctuations, the number of people registered as unemployed with regional employment offices peaked at 150,000 in August 2016. Since then, the figure has gone down slowly, reaching 145,000 by the end of May 2017. The seasonally adjusted unemployment rate published by SECO stood at 3.2% at the end of May (cf. chart 3.4).

Table 3.1

## REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2013	2014	2015	2016	2015			2016				2017
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	2.2	1.2	1.1	1.2	1.5	1.5	-0.1	2.3	0.4	0.6	3.6	0.5
Government consumption	2.3	1.5	2.2	1.9	2.9	0.2	2.3	2.3	2.1	0.5	3.5	1.7
Investment in fixed assets	1.1	2.8	1.6	2.4	6.6	-1.5	2.8	6.7	0.2	1.2	-1.6	4.8
Construction	3.1	3.2	2.2	-0.1	2.4	-1.9	2.2	-1.5	-0.9	1.9	-1.1	1.4
Equipment	-0.2	2.6	1.3	4.0	9.4	-1.2	3.1	12.3	0.8	0.7	-1.9	7.1
Domestic final demand	1.9	1.7	1.3	1.6	3.0	0.5	0.9	3.5	0.5	0.7	2.2	1.8
Change in inventories <sup>1</sup>	0.6	-0.8	-0.3	-1.5	-7.1	-0.4	8.0	-9.6	-0.5	-1.1	1.7	-7.1
Total exports <sup>2</sup>	0.0	5.2	2.2	4.4	7.2	2.8	5.4	10.7	3.1	1.7	-10.2	15.5
Goods <sup>2</sup>	-2.3	5.8	2.5	5.5	10.2	1.5	0.9	21.9	0.5	3.0	-13.3	16.7
Goods excluding merchanting <sup>2</sup>	-1.0	4.0	0.7	5.6	4.0	4.9	15.8	5.8	3.1	4.8	-8.4	16.0
Services	4.7	4.0	1.6	2.2	1.6	5.3	14.6	-8.3	8.3	-0.7	-3.8	13.3
Total imports <sup>2</sup>	1.4	3.2	3.0	2.2	-2.3	0.8	24.4	-4.9	-0.9	0.8	-5.9	3.7
Goods <sup>2</sup>	0.7	1.7	0.0	4.0	-11.5	3.1	19.9	2.7	2.1	-1.0	0.7	-5.7
Services	2.9	6.4	9.0	-1.2	17.6	-3.4	32.9	-17.5	-6.5	4.3	-17.6	24.9
Net exports <sup>3</sup>	-0.6	1.3	-0.1	1.4	4.6	1.1	-6.7	7.6	2.0	0.6	-3.0	6.6
<b>GDP</b>	<b>1.8</b>	<b>2.0</b>	<b>0.8</b>	<b>1.3</b>	<b>0.3</b>	<b>1.2</b>	<b>2.1</b>	<b>1.2</b>	<b>1.9</b>	<b>0.1</b>	<b>0.7</b>	<b>1.1</b>

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



In addition to this, 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 (SAKE), a quarterly survey of households. This survey includes unemployed people who are 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. This seasonally adjusted unemployment rate amounted to 5.0% in the first quarter of 2017.

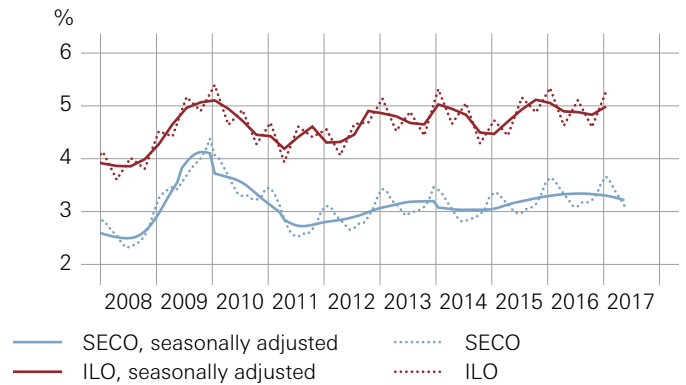
### Stagnating employment

The Employment Statistics (ES), which are also based on SAKE data, measure the number of employed persons on the household side. The seasonally adjusted number of employed persons virtually stagnated in the first quarter after registering a noticeable increase in 2016 (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, the number of full-time equivalent positions declined somewhat in the first quarter, albeit after a strong increase in the previous three months. Job losses were recorded particularly in the services sector, where employment had recently picked up significantly. In construction, job cuts – ongoing for nearly three years – continued. Employment in manufacturing was also down again, although the decline was somewhat less marked than before (cf. chart 3.6).

Chart 3.4

### UNEMPLOYMENT RATE

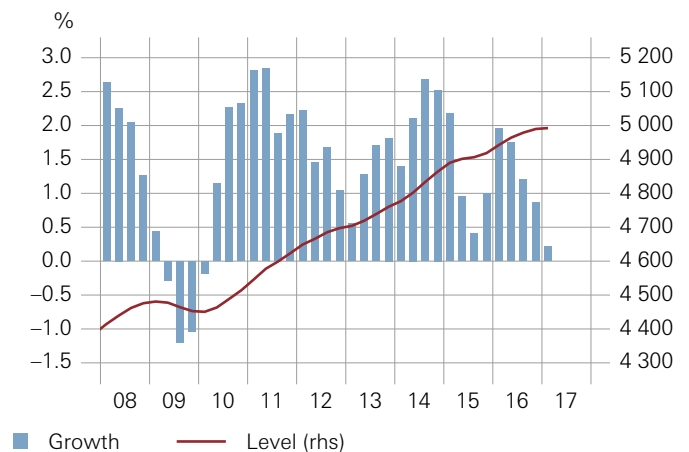


SECO: Unemployed registered with the regional employment offices, as a percentage of the labour force according to the 2000 and 2010 censuses and the 2012 to 2014 structural surveys.  
ILO: Unemployment rate based on International Labour Organization definition.  
Sources: Swiss Federal Statistical Office (SFSO), SECO

Chart 3.5

### EMPLOYED PERSONS

Change from previous period

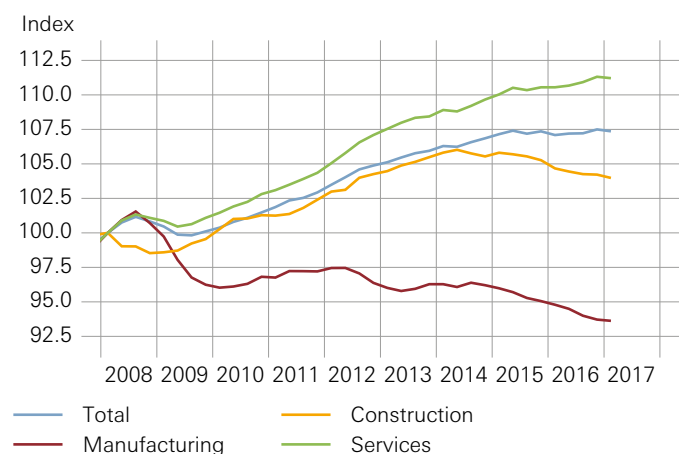


Source: SFSO; seasonal adjustment: SNB

Chart 3.6

### FULL-TIME EQUIVALENT JOBS

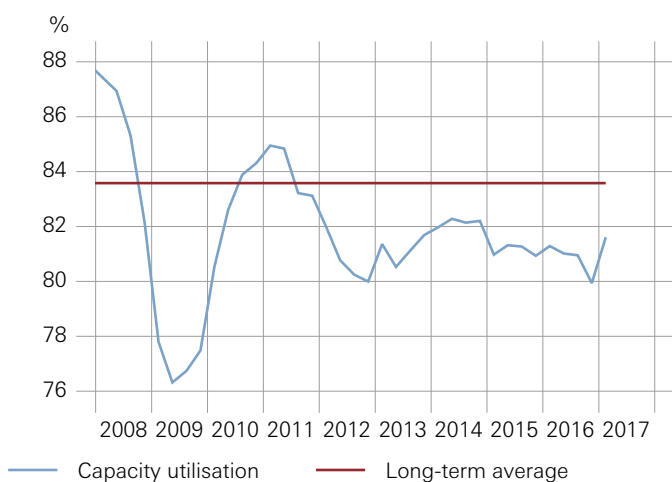
Beginning of period = 100



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

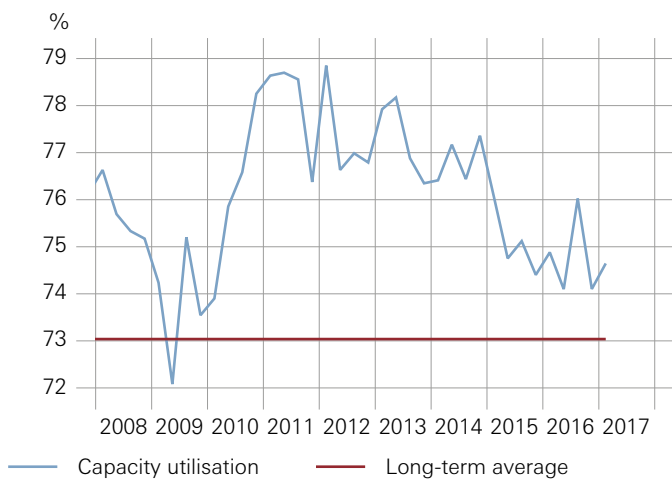
**CAPACITY UTILISATION IN MANUFACTURING**



Source: KOF Swiss Economic Institute

Chart 3.8

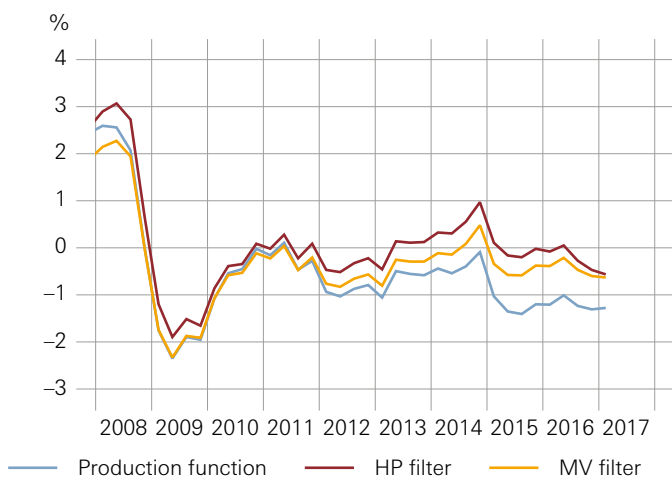
**CAPACITY UTILISATION IN CONSTRUCTION**



Source: KOF Swiss Economic Institute

Chart 3.9

**OUTPUT GAP**



Source: SNB

**CAPACITY UTILISATION**

**Underutilisation in manufacturing**

According to the KOF survey, utilisation of technical capacity in manufacturing advanced to 81.6% in the first quarter. Despite the clear increase, it still remains below the long-term average (cf. chart 3.7). As to the services sector, surveys available continue to suggest average utilisation overall. In individual industries, however, particularly in retailing, underutilisation of capacity persists. By contrast, capacity utilisation in construction was still above its long-term average in the first quarter (cf. chart 3.8).

**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. It remained negative in the first quarter. Estimated potential, calculated by means of a production function, shows an output gap of -1.3%, thus almost unchanged compared to the previous quarter. Other methods for estimating potential output, the Hodrick-Prescott filter in particular, suggest a less negative output gap (cf. chart 3.9).

The different estimates reflect the various ways of calculating potential output. The production function approach explicitly takes into account developments in the supply of labour 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 the Hodrick-Prescott filter, which is based solely on the development of GDP. The multivariate filter also suggests a slightly more negative output gap for the first quarter than the Hodrick-Prescott filter. In addition to GDP, the multivariate filter also factors in developments in inflation, unemployment and capacity utilisation in manufacturing.

## OUTLOOK FOR THE REAL ECONOMY

The leading indicators suggest that the recovery will continue to gain momentum in the second quarter. Since the beginning of the year, the export-weighted PMI abroad has been at its highest level since 2011 (cf. chart 3.10). Export-oriented industries are likely to benefit from the stimulus from abroad. Surveys among manufacturing companies thus show a further upturn in business expectations (cf. chart 3.11). Services industries, too, are likely to pick up momentum on the back of the recovery in manufacturing.

The leading indicators also suggest an improvement on the labour market (cf. chart 3.12). Employment therefore looks set to return to moderate growth.

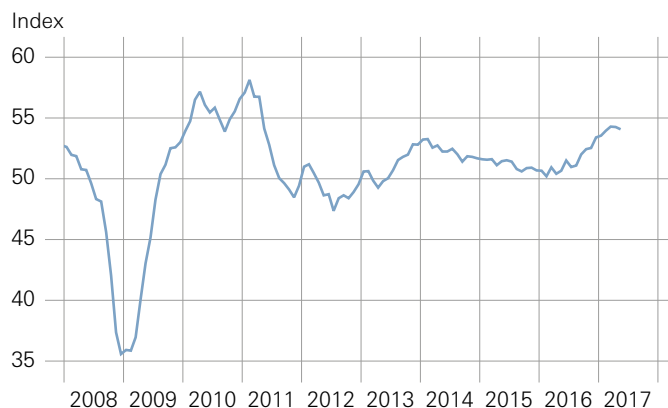
The SNB expects the economic recovery to continue in the medium term, too. This positive outlook is based on a number of factors. First, according to the baseline scenario (cf. chapter 2), global economic developments should benefit the Swiss economy by stimulating demand from abroad. Second, the solid population growth is likely to persist in the medium term. Third, the low interest rate environment continues to support economic recovery.

The pace of growth, however, is likely to remain moderate. The SNB is continuing to forecast GDP growth of around 1.5% for 2017. Major uncertainties are attached to this forecast, mostly in connection with developments abroad (cf. chapter 2).

Chart 3.10

### PMI ABROAD

Export-weighted, 27 countries

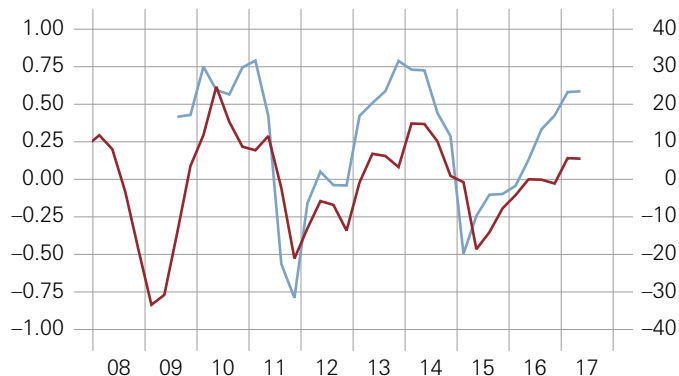


Sources: International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), SNB, Thomson Reuters Datastream

Chart 3.11

### ECONOMIC OUTLOOK

Next 6 (KOF) and 12 (Deloitte) months



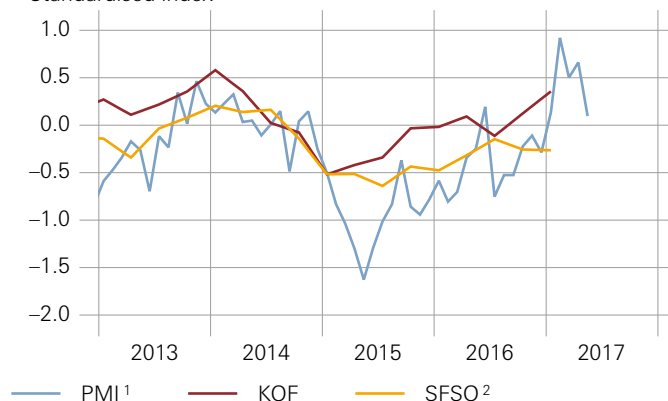
— Deloitte CFO survey  
— KOF, business situation in industry (rhs)

Sources: Deloitte, KOF Swiss Economic Institute

Chart 3.12

### EMPLOYMENT LEADING INDICATORS

Standardised index



<sup>1</sup> Monthly figures.

<sup>2</sup> Seasonal adjustment: SNB.

Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

Since the beginning of 2017, consumer prices have been slightly higher than a year earlier, following negative inflation rates in 2015 and 2016. However, the upward pressure on prices continues to be subdued and has not extended to all product groups. In the case of consumer prices, the key factors pushing the annual inflation rate into positive territory are prices for oil products and rents. Meanwhile, import prices are above their year-back level, whereas producer prices are slightly lower year-on-year.

Inflation expectations have remained largely unchanged in recent months. They are in the low positive range and are thus consistent with price stability, which the SNB equates to a rise in consumer prices of less than 2% per year.

## CONSUMER PRICES

### Annual CPI inflation rate above zero

The annual inflation rate as measured by the national consumer price index (CPI) has been positive since January 2017. It stood at 0.5% in May, after having increased rather significantly from –0.3% in November 2016 to 0.6% in February 2017. The annual inflation rate has thus remained broadly stable since February (cf. table 4.1 and chart 4.1).

### Lower inflation for oil products

While oil product prices in May still exceeded their year-back level, their contribution to the annual CPI inflation rate has fallen by 0.4 percentage points since February. The inflation contribution of imported goods excluding oil products turned positive in May, thus partly offsetting part of the declining inflation contribution of oil products.

Table 4.1

### SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2016	2016			2017	2017		
		Q2	Q3	Q4	Q1	March	April	May
<b>Overall CPI</b>	<b>-0.4</b>	<b>-0.4</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.5</b>
Domestic goods and services	-0.1	-0.1	-0.1	0.1	0.3	0.2	0.2	0.4
Goods	-0.6	-0.7	-0.2	-0.1	0.0	-0.2	-0.3	-0.1
Services	0.0	0.1	0.0	0.1	0.4	0.4	0.4	0.5
Private services excluding housing rents	0.0	0.2	0.1	-0.1	0.2	0.2	0.3	0.4
Housing rents	0.3	0.2	0.2	0.8	1.1	1.1	1.1	1.1
Public services	-0.5	-0.4	-0.6	-0.6	-0.4	-0.4	-0.4	-0.4
Imported goods and services	-1.4	-1.2	-0.6	-0.9	1.3	1.6	1.0	0.9
Excluding oil products	-0.7	-0.1	0.2	-1.2	-0.7	-0.1	-0.3	0.2
Oil products	-6.1	-8.5	-5.7	1.4	17.3	15.1	11.6	5.7

Sources: SFSO, SNB

### Domestic goods inflation largely unchanged

The annual inflation for domestic goods remained largely unchanged between February and May. Essentially, it reflected the year-on-year rise in rents. The inflation contribution of domestic goods and services excluding housing rents persisted near zero (cf. chart 4.2).

### Reference interest rate declined in June

The reference interest rate, which is published each quarter by the Federal Department of Economic Affairs, is decisive for the adjustment of rents based on mortgage rate changes. In June, the reference interest rate declined from 1.75% to 1.5% (cf. chart 4.3). The inflation rate for rents, which carry a weighting of almost 20% in the CPI, is thus expected to decrease in the quarters ahead.

### Core inflation rates slightly below annual CPI inflation rate

The SNB's trimmed mean (TM15) stood at 0.4% in May 2017, while the SFSO core inflation rate 1 (SFSO1) came in at 0.2%. Both core inflation rates were thus slightly below the annual CPI inflation rate (cf. chart 4.4). This is primarily due to the fact that the increase in the annual CPI inflation rate recorded between November and February was driven by volatile goods prices, which are not included in the calculation of the core inflation rates. Oil product prices, in particular, were a significant factor.

### PRODUCER AND IMPORT PRICES

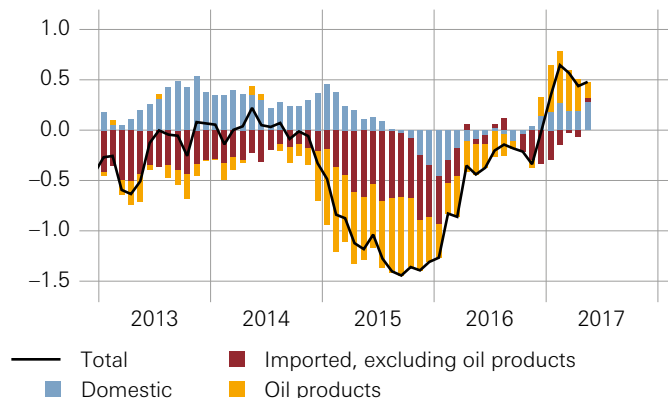
#### Producer and import price inflation close to zero

Both in April and May, the index of producer and import prices fell slightly month-on-month. In May, producer and import prices were thus only 0.1% above their year-back level (cf. chart 4.5). While import prices rose year-on-year, producer prices edged lower over the same period.

Chart 4.1

### CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

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

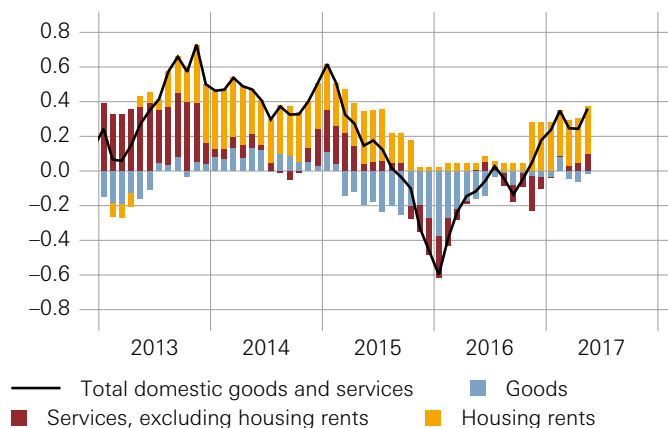


Sources: SFSO, SNB

Chart 4.2

### CPI: DOMESTIC GOODS AND SERVICES

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

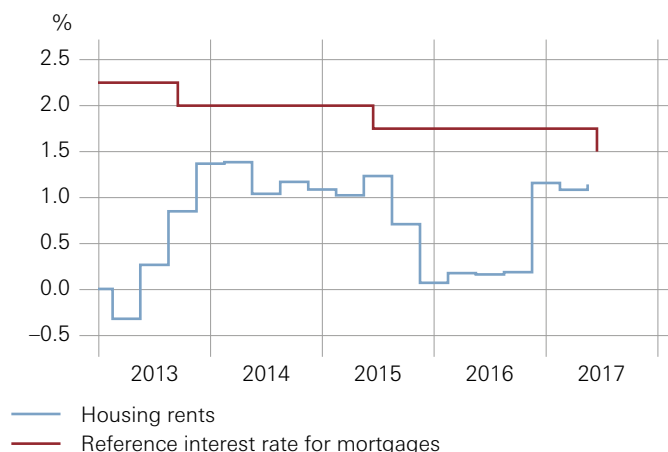


Sources: SFSO, SNB

Chart 4.3

### HOUSING RENTS

Year-on-year change

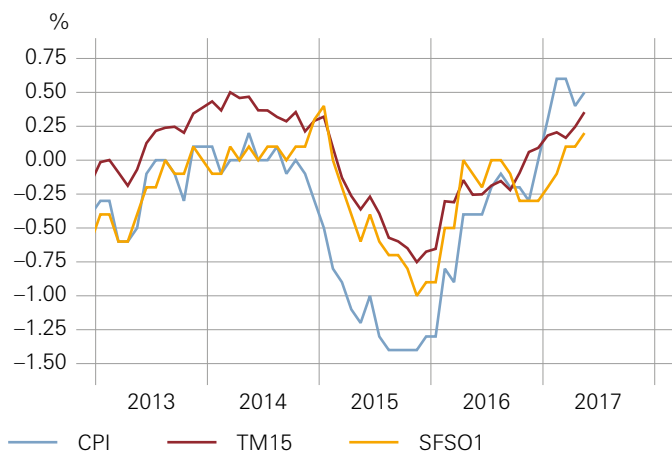


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

**CORE INFLATION RATES**

Year-on-year change

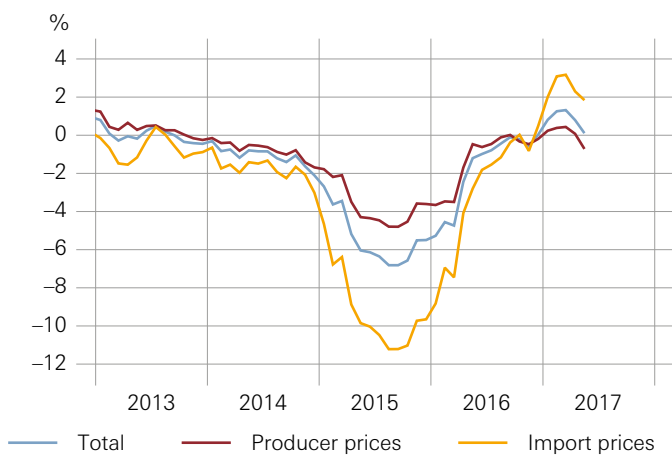


Sources: SFSO, SNB

Chart 4.5

**PRODUCER AND IMPORT PRICES**

Year-on-year change

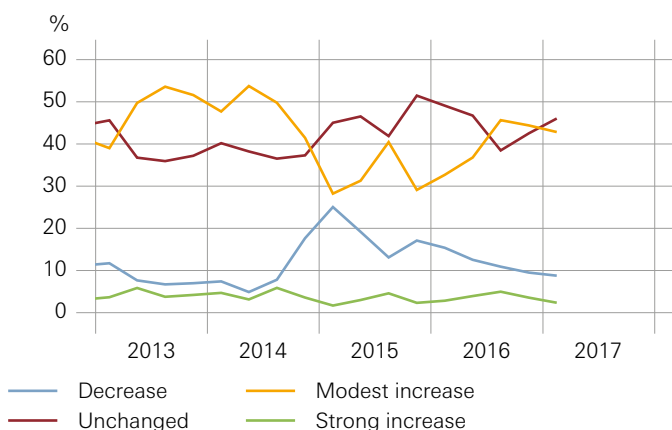


Source: SFSO

Chart 4.6

**PRICE EXPECTATIONS**

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



Sources: SECO, SNB

**INFLATION EXPECTATIONS**

**Inflation expectations consistent with price stability**

Surveys show that inflation expectations remained virtually unchanged for the most part. They continue to be consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

**Short-term expectations largely stable**

According to the quarterly survey of households conducted by SECO, price expectations were stable between January and April 2017. The shares of respondents expecting prices to either rise or fall over the next 12 months declined somewhat, whereas slightly more households anticipated no change in prices (cf. chart 4.6).

According to the joint monthly financial market survey by CFA Society Switzerland and Credit Suisse, roughly half of the analysts questioned in May expected inflation rates to increase in the following six months, while 40% expected them to remain unchanged. The share of survey participants anticipating declining inflation rates thus remained low.

Talks held in the second quarter by the SNB's delegates for regional economic relations with companies from all sectors of the economy provided a picture of low and stable short-term inflation expectations. The company representatives expected the annual inflation rate to come in at 0.3% in six to twelve months, compared to 0.2% in the previous quarter.

**Longer-term inflation expectations slightly above short-term expectations**

Longer-term inflation expectations continue to exceed short-term inflation expectations slightly. Participants in the CFO survey by Deloitte, which was conducted in the first quarter of 2017, predicted an inflation rate of 1.1% in two years' time, compared to 0.9% in the previous quarter. In the second quarter of 2017, company representatives interviewed by the SNB's delegates put the annual rate of inflation in three to five years at 1.0%, as against 0.9% in the previous quarter.

# 5

## Monetary developments

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At its monetary policy assessment of mid-March 2017, the SNB left its monetary policy unchanged. This means that, over the last three months, monetary policy has been 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.

Since the March assessment, money market interest rates have remained at the level of the SNB's negative interest rate, while long-term rates have declined slightly. On the foreign exchange market, the Swiss franc has weakened slightly against the euro but has strengthened against the US dollar, so that the trade-weighted external value of the Swiss currency has remained more or less the same. Thus, the Swiss franc is still significantly overvalued.

As in the previous quarter, growth rates of bank loans have been in low positive territory.

### SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

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#### **Expansionary monetary policy remains unchanged**

The SNB confirmed its monetary policy stance at its assessment on 16 March 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.

The SNB reaffirmed its willingness to remain active in the foreign exchange market in order to influence exchange rate developments where necessary, while taking the overall exchange rate situation into account. The negative interest rate and the SNB's readiness 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.

#### **Higher sight deposits at the SNB**

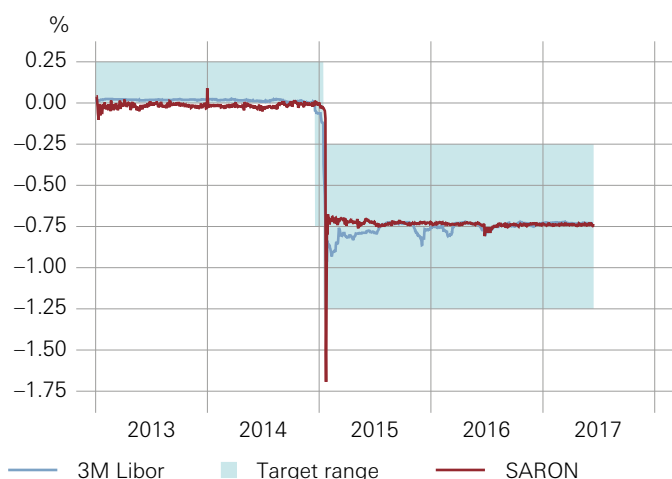
Since the monetary policy assessment of March 2017, total sight deposits held at the SNB have increased further. In the week ending 9 June 2017 (last calendar week before the mid-June assessment), they amounted to CHF 576.4 billion, or CHF 21 billion more than in the last calendar week preceding the mid-March 2017 assessment (CHF 555.4 billion). Between the assessments in mid-March and mid-June 2017, sight deposits at the SNB averaged CHF 570.6 billion. Of this amount, CHF 480.4 billion was accounted for by the sight deposits of domestic banks and the remaining CHF 90.2 billion by other sight deposits.

#### **High level of banks' surplus reserves**

Between 20 February and 19 May 2017, statutory minimum reserves averaged CHF 15.7 billion. Overall, banks exceeded the requirement by some CHF 466.7 billion on average (previous period: CHF 453.7 billion). Banks' surplus reserves have thus increased further.

Chart 5.1

### MONEY MARKET RATES

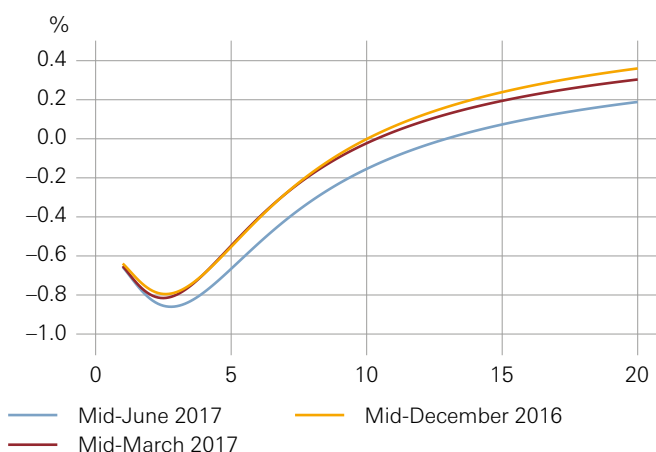


Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

### TERM STRUCTURE OF CONFEDERATION BONDS

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

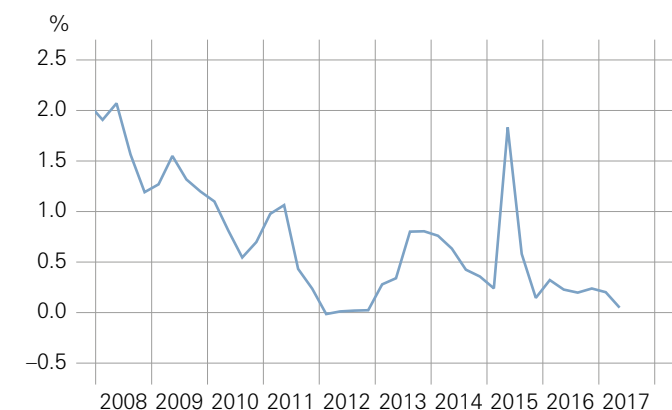


Source: SNB

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 stable

The situation on the Swiss franc money market has hardly changed since the March 2017 assessment. There has been little movement in interest rates on secured (SARON) and unsecured (three-month Libor) money market transactions, and both have been close to the interest rate on sight deposits held at the SNB, which has amounted to  $-0.75\%$  since January 2015 (cf. chart 5.1).

### Slight decline in long-term interest rates

Since mid-November 2016, the yield on ten-year Confederation bonds has fluctuated between  $-0.2\%$  and  $0.0\%$ . In mid-June it amounted to about  $-0.2\%$ , which was slightly lower than at the time of the monetary policy assessments in December 2016 and March 2017.

### Slight flattening of yield curve

Compared to the previous quarter, the yield curve for Confederation bonds has flattened marginally (cf. chart 5.2). While short-term interest rates have been almost unchanged, longer-term yields have declined slightly over a broad spectrum of terms. In mid-June, Confederation bond yields for terms under 13 years were negative (cf. chart 5.2).

### Long-term real interest rates still close to zero

The estimated long-term real interest rate was  $0\%$  in mid-June 2017; in other words, it was at a very low level, as in previous quarters (cf. chart 5.3).

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



## EXCHANGE RATES

### Swiss franc weaker against euro and stronger against US dollar

Since the monetary policy assessment in March 2017, the Swiss franc has weakened somewhat against the euro (cf. chart 5.4). This development occurred in mid-April and at the beginning of May, following the first and second rounds of the French presidential elections. Having stood at CHF 1.07 in mid-March, the euro rose temporarily to over CHF 1.09 following the French elections.

Since the March assessment, the US dollar has lost value against the Swiss franc as well as other currencies as a result of the political uncertainty in Washington and the fact that US economic data have been weaker than expected. In June, the US dollar temporarily fell to CHF 0.96, its lowest level since August 2016.

### Little change in nominal trade-weighted exchange rate index

The nominal trade-weighted external value of the Swiss franc has experienced little change overall since the monetary policy assessment in March, despite major fluctuations at times (cf. chart 5.5). The depreciation of the Swiss franc against the euro has been offset by its appreciation against the US dollar and other currencies.

### Real effective exchange rate index still very high

Chart 5.6 shows the real trade-weighted Swiss franc indices of the SNB, the BIS and the IMF. All three indices are still well above their long-term averages; thus, the Swiss franc remains significantly overvalued in historical terms. Movements in the CHF/EUR exchange rate after the French presidential elections are once again an indication of how, to some extent, the Swiss franc's strength reflects a risk premium driven by political and economic uncertainties outside our country.

Chart 5.4

### EXCHANGE RATES



Source: SNB

Chart 5.5

### NOMINAL EXTERNAL VALUE OF SWISS FRANC

December 2000 = 100

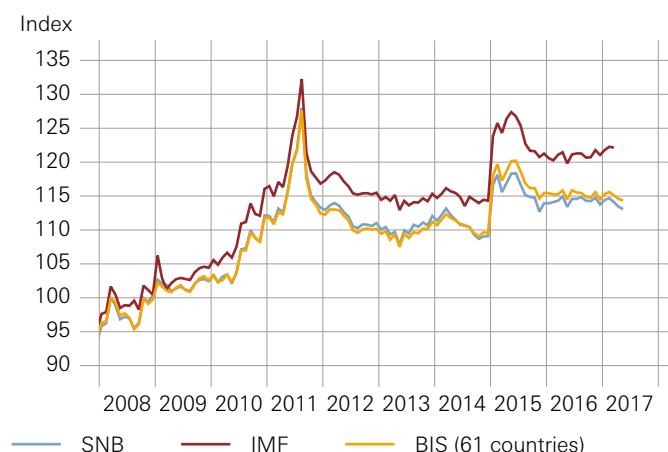


Source: SNB

Chart 5.6

### REAL EXTERNAL VALUE OF SWISS FRANC

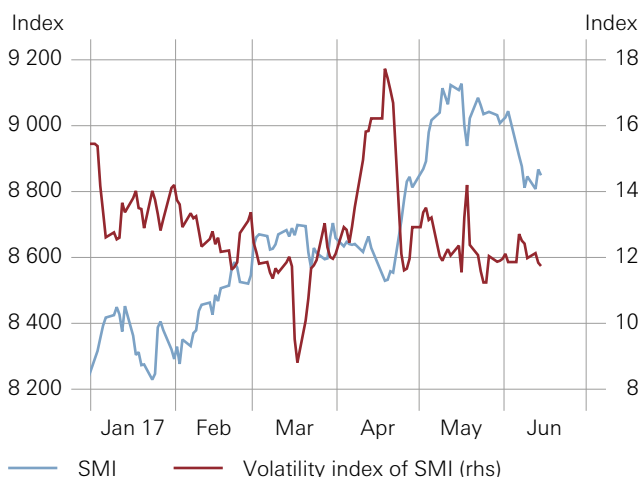
December 2000 = 100



Sources: Bank for International Settlements (BIS), IMF, SNB

Chart 5.7

### SHARE PRICES AND VOLATILITY

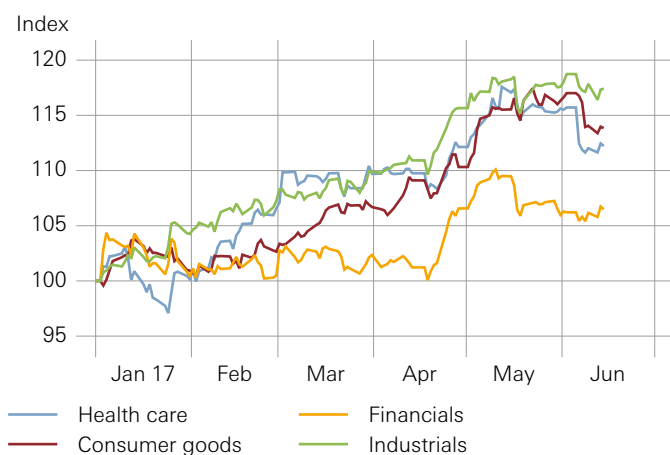


Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

### SELECTED SPI SECTORS

1 January 2017 = 100

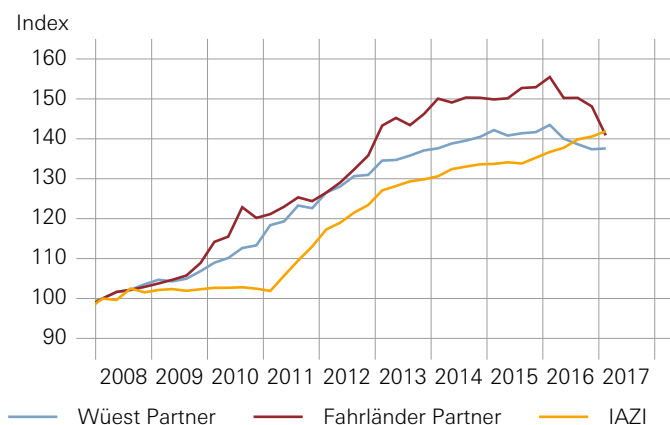


Source: Thomson Reuters Datastream

Chart 5.9

### TRANSACTION PRICES, PRIVATELY OWNED APARTMENTS

Nominal (hedonic), beginning of period = 100



Sources: Fahrländer Partner, IAZI, Wüest Partner

## SHARE AND REAL ESTATE PRICES

### Rising share prices

Since the beginning of 2017, the Swiss Market Index (SMI) has risen by around 7% (cf. chart 5.7). Nevertheless, it is still about 7% below the peak of August 2015, which was the highest since the end of the global financial crisis.

The movements in the SMI since the beginning of the year have been more or less the same as those in the major European share indices. At the end of April, share prices rose significantly with the reduction in political uncertainty following the results of the first round of the French presidential elections. The simultaneous weakening in the Swiss franc against the euro also helped to lift the mood on the Swiss stock market.

### Broad-based increase

Chart 5.8 shows that the rise in share prices since mid-April has affected all major subindices of the Swiss Performance Index (SPI). Industrials have recorded the strongest price gains, but the health care, financial services and consumer goods subindices have at times also increased sharply.

### Decline in market uncertainty

The volatility index derived from options on SMI futures contracts is used to gauge uncertainty on the stock market. Since the beginning of 2017, this index has mostly moved within a relatively narrow range of 11–14%. A level as low as this has not been recorded since mid-2014.

### Prices for residential real estate largely unchanged

Overall, the available price indices for privately owned apartments and single-family houses suggest that the level of prices for residential real estate was roughly the same in the first quarter of 2017 as it was a year ago. Price indices for single-family houses have moved somewhat more favourably than have those for privately owned apartments. In the case of privately owned apartments, two indices (Wüest Partner, Fahrländer Partner) show a decline in transaction prices against the year-back level, while one index (IAZI) shows increasing transaction prices (cf. chart 5.9).

## MONETARY AND CREDIT AGGREGATES

### Growth in the monetary base ...

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has increased further over recent months and stood at an average of CHF 561.2 billion in May 2017 (cf. chart 5.10). This increase primarily reflects movements in domestic banks' sight deposits, which grew by CHF 18.0 billion between February and May 2017. Banknotes in circulation increased by CHF 0.2 billion over the same period.

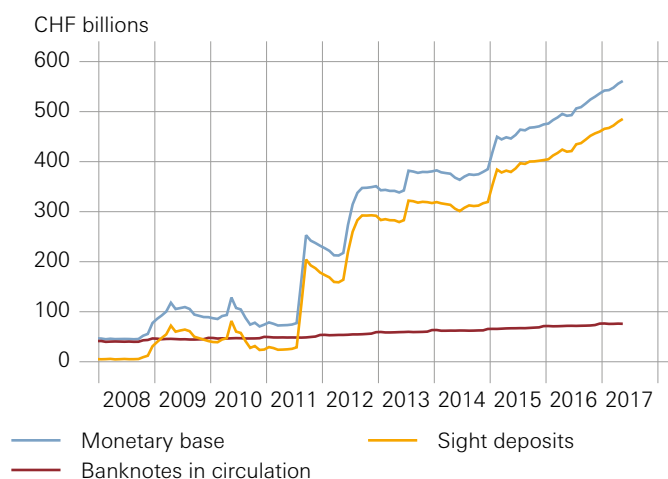
### ... and in the broad monetary aggregates

The M1, M2 and M3 monetary aggregates, which measure monetary aggregates held by the public, continued to grow moderately until April. In May, according to the first provisional assessment, sight deposits increased markedly, which was reflected in higher annual growth rates of all three monetary aggregates. Thus at the end of May, M1 (cash in circulation, sight deposits and transaction accounts) was 7.2% above its level a year earlier, while M2 (M1 plus savings deposits) rose by 4.7% and M3 (M2 plus time deposits) by 4.1% in the same period (cf. table 5.1).

Since the beginning of 2008, the M3 monetary aggregate has grown steadily by almost CHF 400 billion (cf. chart 5.11). During this period, all components with the exception of time deposits have risen. Time deposits have contracted so strongly (due to the fall in the interest rate differential to sight and savings deposits) that, over the past few years, the M3 monetary aggregate has only been slightly larger than the M2 aggregate.

Chart 5.10

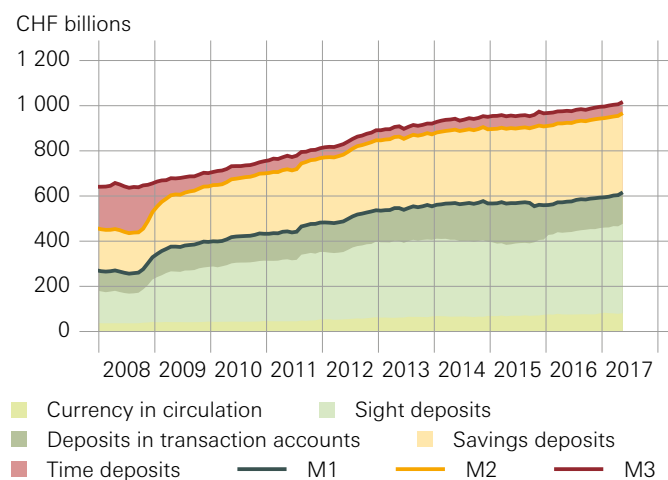
### MONETARY BASE



Source: SNB

Chart 5.11

### MONETARY AGGREGATES

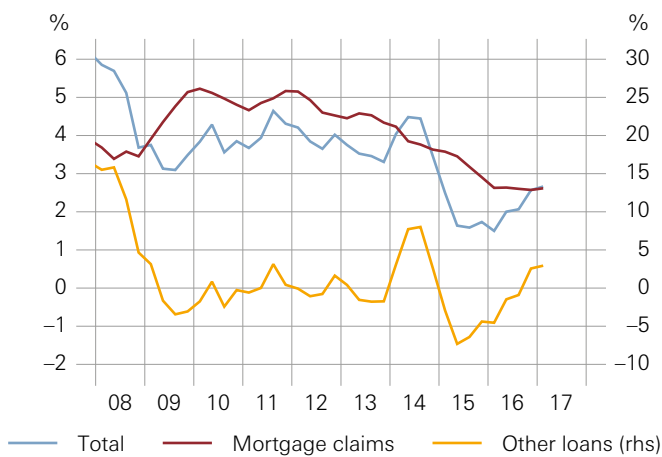


Source: SNB

Chart 5.12

**BANK LOANS**

Year-on-year change



Source: SNB

**Moderate 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 first quarter of 2017 (cf. table 5.1). Between 2012 and 2015, growth in this area halved, and since then has remained more or less stable (cf. chart 5.12). Since the beginning of 2008, mortgage claims in Swiss francs have risen by some CHF 300 billion (cf. chart 5.13).

**Other loans also increase at a moderate pace**

Other loans increased by 2.9% year-on-year in the first quarter (cf. table 5.1). In recent years, their growth rate has, while fluctuating considerably, hovered at around zero overall; they are currently at practically the same level as at the beginning of 2008. Although unsecured other loans have receded slightly during this period, this decrease has been largely offset by the rise in secured other loans (cf. chart 5.13).

Table 5.1

**MONETARY AGGREGATES AND BANK LOANS**

Year-on-year change in percent

	2016	2016	2016	2016	2017	2017	2017	2017
		Q2	Q3	Q4	Q1	March	April	May
<b>M1</b>	<b>2.1</b>	<b>1.2</b>	<b>2.4</b>	<b>5.8</b>	<b>5.8</b>	<b>5.3</b>	<b>5.6</b>	<b>7.2</b>
<b>M2</b>	<b>2.8</b>	<b>2.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.6</b>	<b>3.3</b>	<b>3.6</b>	<b>4.7</b>
<b>M3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.8</b>	<b>2.6</b>	<b>3.0</b>	<b>3.0</b>	<b>3.2</b>	<b>4.1</b>
<b>Bank loans, total</b> <sup>1, 3</sup>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.7</b>	
Mortgage claims <sup>1, 3</sup>	2.6	2.6	2.6	2.6	2.6	2.6	2.6	
Households <sup>2, 3</sup>	2.8	2.8	2.7	2.7	2.6	2.7	2.6	
Private companies <sup>2, 3</sup>	2.6	2.8	2.7	2.7	3.2	3.1	3.1	
Other loans <sup>1, 3</sup>	-1.1	-1.5	-0.9	2.5	2.9	3.4	3.2	
Secured <sup>1, 3</sup>	0.0	-1.4	-2.4	7.3	8.0	6.9	5.4	
Unsecured <sup>1, 3</sup>	-2.0	-1.5	0.2	-0.8	-0.7	0.8	1.6	

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

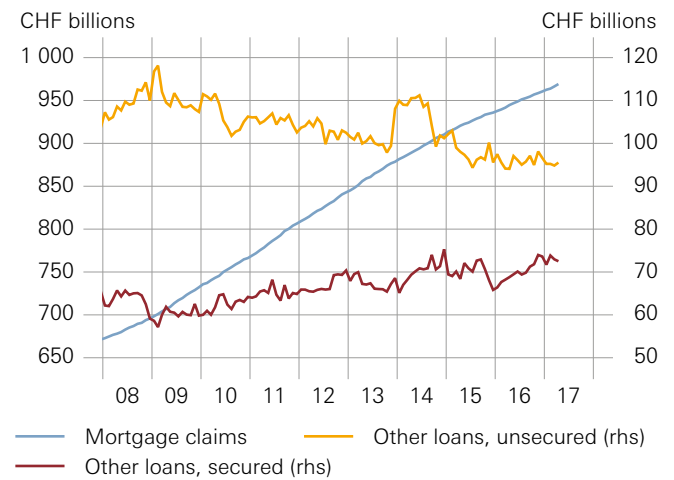
### Lending growth by sector

Both households and non-financial companies have benefited from favourable financing conditions since the beginning of the financial and economic crisis, as shown by a continuous rise in bank loans extended to these two important customer groups (cf. chart 5.14).

At the end of April 2017, loans to households recorded a year-on-year increase of CHF 19.8 billion (2.7%) and loans to non-financial companies a rise of CHF 8.6 billion (3.1%). Loans to financial companies, which exhibit greater volatility at a significantly lower volume, rose by CHF 0.9 billion (1.9%) compared to the previous year.

Chart 5.13

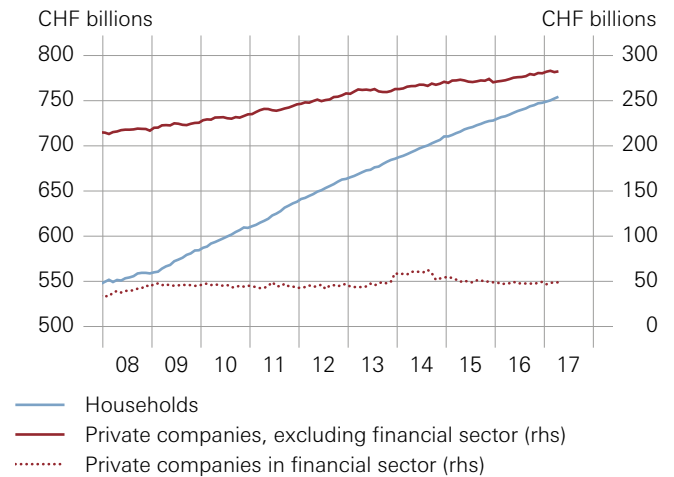
### MORTGAGE CLAIMS AND OTHER LOANS



Source: SNB

Chart 5.14

### LOANS TO HOUSEHOLDS AND COMPANIES



Source: SNB

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# Business cycle signals

## Results of the SNB company talks

### **Second 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 240 company talks were conducted between mid-April and the end of May.

#### **Regions**

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

#### **Delegates**

Walter Näf  
Urs Schönholzer  
Jean-Marc Falter  
Fabio Bossi  
Roland Scheurer  
Daniel Hanimann  
Aline Chabloz  
Rita Kobel

## Key points

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- Interviews conducted with companies in the second quarter paint the picture of a recovering Swiss economy. In addition, the outlook for the coming six months continues to improve.
- Real turnover made further moderate gains on the preceding quarter. In a year-on-year comparison, turnover growth increased. This was especially apparent in manufacturing.
- Companies' utilisation of production capacity rose, although it is still slightly below normal levels. While the margin situation has improved noticeably since the end of 2015, on the whole margins remain tighter than usual, with considerable differences being reported from one company to another.
- For the second half of the year, the company representatives expect real turnover to rise more strongly. This is largely due to the more favourable international economic situation, but also to the relatively stable exchange rate conditions.
- In the coming months, companies plan to slightly increase investment expenditure as well as staff numbers.
- The chief uncertainties reported were geopolitical risks and the possibility of burgeoning protectionism.

## CURRENT SITUATION

### Further rise in turnover

The results of the company talks conducted during the second quarter show that the gradual recovery of the Swiss economy is continuing.

Company representatives reported further moderate gains on the previous quarter in real (i.e. adjusted for changes in sale prices) turnover (cf. chart 1; for guidance on interpreting the charts, see the corresponding section at the end of this report). These gains were reflected across all three sectors, i.e. services, manufacturing and construction.

In a year-on-year comparison, growth in turnover accelerated in the second quarter. Manufacturing, in particular, recorded noticeably higher real turnover than in 2016. These results reflect the revival in manufacturing activity observed since last autumn.

The primary driver behind turnover growth was export business. Most export industries are experiencing a stronger dynamic. Europe, especially Germany and Scandinavia, is a notable sales market. Stronger demand is also being felt from Italy, France and Spain, but also from Russia. In addition, the US, Southeast Asia, China, Japan and the Arab region were reported as drivers behind this development. Business is particularly good for companies supplying goods to the automotive and healthcare industries.

### Lower underutilisation

The utilisation of technical production capacity declined from the beginning of 2014 until mid-2016, before

stabilising thereafter (cf. chart 2). This was the net result of two opposing trends in capacity utilisation, namely an improvement in the case of manufacturing (having started from a low level) and a slight deterioration in construction. The results for the second quarter indicate significantly higher utilisation now, in line with improved business performance. Overall, however, capacity utilisation remains below the level regarded as normal, with 31% of the companies visited reporting utilisation as being lower than usual (compared with 39% last quarter). Both services and manufacturing are affected.

### Staff numbers adequate

Across all three sectors, staff numbers are currently considered to be in line with demand. This confirms the assessment made in the first quarter. In the course of 2016, staff numbers were still considered rather too high.

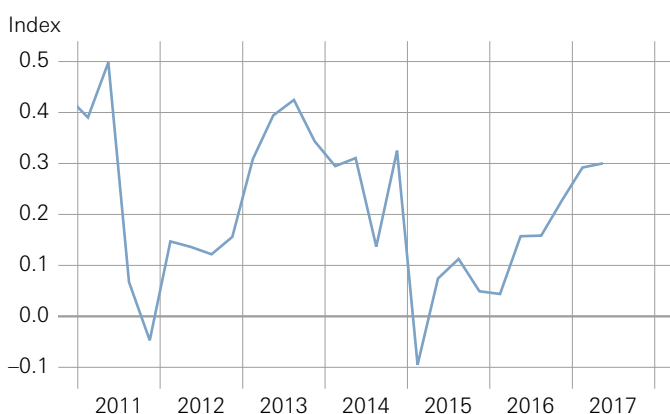
While companies are still hiring temporary staff to manage workload peaks, more permanent positions are also being offered.

### Pressure on margins persists

The assessment of the margin situation compared to the previous quarter has hardly changed. Overall, profit margins remain below what the company representatives regard as usual. This applies to all three sectors. Within the sectors, however, the margin situation varies considerably from one company to another. This can be attributed to various factors. First, certain markets are still suffering from modest demand due to cyclical factors. Second, not all companies were able to react to the same extent to the appreciation of the Swiss franc. And third, some industries and companies face specific structural challenges.

Chart 1

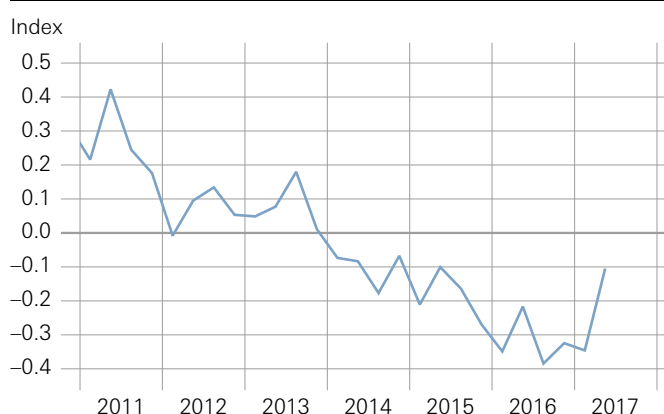
### TURNOVER COMPARED TO PREVIOUS QUARTER



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

Chart 2

### CAPACITY UTILISATION



Current utilisation of technical capacity or infrastructure compared to a normal level. A positive (negative) index value signals a higher (lower) utilisation than normal.  
Source: SNB



## **DEVELOPMENTS IN INDIVIDUAL INDUSTRIES**

Trade continues to be affected by structural phenomena such as cross-border shopping and the shift to online purchases. While the situation in retail has not greatly improved, companies in wholesale trade reported slightly higher real turnover than in the previous quarter, and improved utilisation.

The hotel and hospitality industries recorded substantial gains in real turnover compared to the previous quarter. This was partially due to Easter falling in the second quarter this year. Underutilisation of infrastructure has receded. Switzerland's reputation as a safe destination has helped demand.

In the finance sector too, business momentum has slightly picked up. However, infrastructure (office and retail space as well as IT capacity) continues to be underutilised or oversized, and margins remain under pressure. Companies in commission business have profited from favourable stock market conditions, although the low interest rate environment continues to be a challenge. Banks still consider themselves somewhat overstaffed.

Companies in the ICT industry continue to report strong business activity, with high growth in turnover, solid utilisation, favourable margin situations and expansive hiring plans. Factors contributing to this situation include advances in automation, digitalisation, but also regulatory influences, as well as higher risks of cyber attacks.

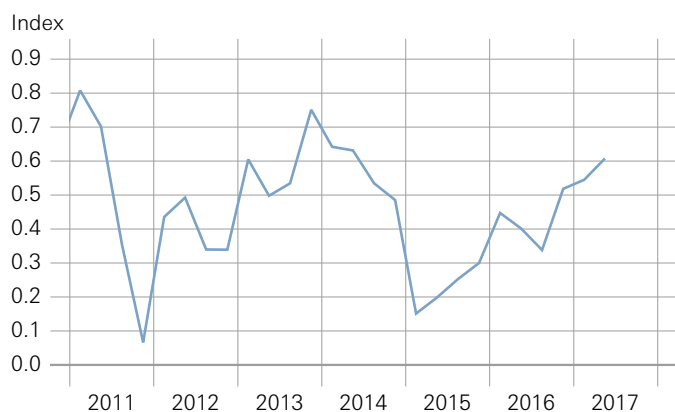
In manufacturing, the situation is brightening further. Companies in the metal processing and machinery industries and producers of precision instruments report higher turnover quarter-on-quarter. There are early signs that the situation in the watchmaking industry is bottoming out, although production capacity continues to be underutilised and pressure on margins remains high. Companies in food production as well as in metals and plastic processing have recorded tighter than usual margins.

In construction, business performance is rated as positive, both in the main construction and finishing trades, although there was talk in a number of regions of intensified predatory competition. Qualified staff are very hard to find.

Digitalisation was a topic of conversation in numerous industries, with practically all companies giving it thought. In the majority of cases, companies associate it with opportunities.

Chart 3

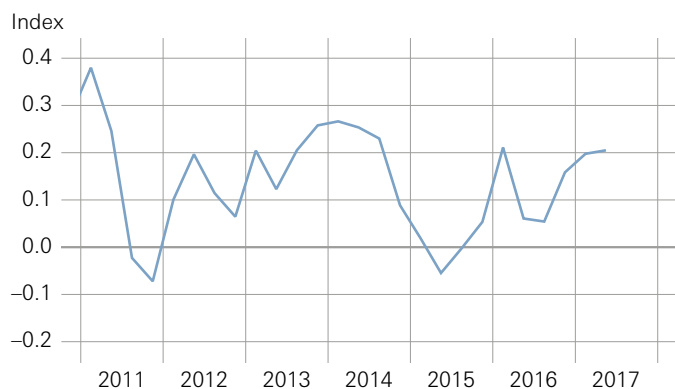
**EXPECTED TURNOVER**



Expected developments in real turnover in the coming six months. Positive (negative) index values indicate higher (lower) turnover expectations. Source: SNB

Chart 4

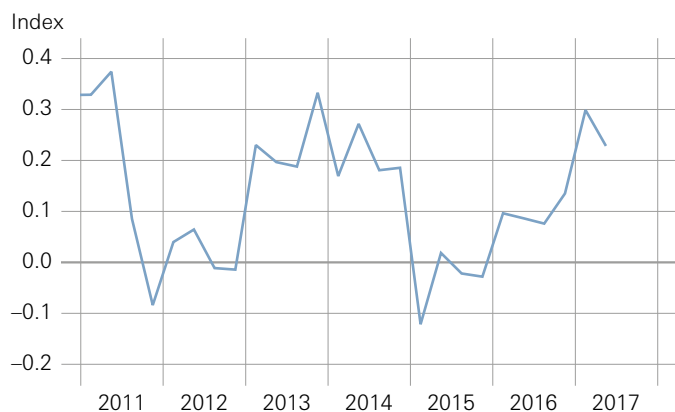
**EXPECTED CAPACITY UTILISATION**



Expected developments in utilisation of technical capacity or infrastructure in the coming six months. Positive (negative) index values indicate higher (lower) utilisation expectations. Source: SNB

Chart 5

**EXPECTED EMPLOYMENT**



Expected developments in staff numbers in the coming six months. Positive (negative) index values indicate higher (lower) expectations. Source: SNB

**OUTLOOK**

**Greater confidence**

The company representatives are generally optimistic about business prospects in the coming six months. They expect a further rise in real turnover (cf. chart 3). This applies to all three sectors. Their assessment is mainly based on the more favourable global economic outlook, although the relatively stable exchange rate conditions and the effects of measures implemented to boost efficiency have played an additional, important role.

This confidence is also evident in the anticipation of slightly higher utilisation of technical production capacity and infrastructure in the next six months (cf. chart 4), as well as in a slightly greater willingness to invest, particularly in equipment. A third of companies who invest in equipment thereby also expand their production capacity.

In the coming six months, company representatives expect few changes in purchase and sale prices. This confirms the stabilisation evident in recent quarters. In certain cases, companies are considering an increase in sale prices in the coming months, which some have justified based on higher raw material prices.

**Slight increase in staff planned**

The prospects of higher capacity utilisation are also affecting recruitment plans, with companies intending to raise staff numbers somewhat (cf. chart 5). This applies to all three sectors.

**Wages slightly up**

Based on information provided by the company representatives, the wage increases made so far for 2017 are just over 0.8% on average.

**ENVIRONMENT AND RISKS**

When asked about potential dangers, companies mainly expressed concern about geopolitical risks and protectionist tendencies. With regard to Europe, risk perceptions eased following the presidential election in France. Domestically, the increasingly complex regulatory environment was perceived as a burden. Cybercrime was frequently mentioned as a threat. Company-specific factors were discussed more often than previously. The new energy strategy of the Swiss Confederation was mostly associated with opportunities, and only occasionally with risks. With reference to growing vacancy rates in residential property, some company representatives expressed concerns about developments in the real estate market. It was noted that the considerable investment needs of institutional investors were making themselves felt.

Most companies have been able to come to terms with the current exchange rate conditions. The stability on the foreign exchange market is welcomed. At the same time, a renewed appreciation of the Swiss franc would be a source of concern.

Many company representatives consider the low interest rate environment as problematic in relation to the long-term position of pension funds.

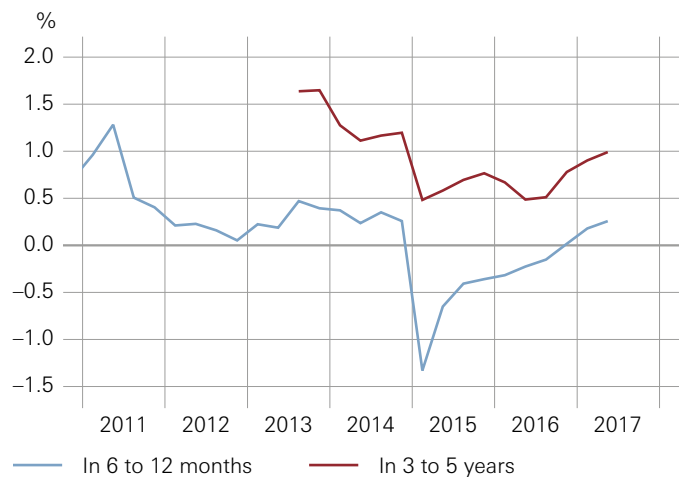
### INFLATION EXPECTATIONS

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

At the beginning of 2015, both short and medium-term inflation expectations dipped sharply in the wake of the Swiss franc's strong appreciation. In the interim, however, both have gradually risen again. Inflation expectations continue to trend upwards in the second quarter, with average expectations for the next six to twelve months increasing from 0.2% in the previous quarter to 0.3%, and those for the next three to five years from 0.9% to 1.0% (these short and medium-term expectations are represented in chart 6 by the blue and red lines, respectively). The inflation expectations are thus back at levels comparable to those at the end of 2014.

Chart 6

### EXPECTED INFLATION



Source: SNB

### About this report

#### Approach

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

Approximately 240 companies are visited every quarter. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while the public sector and agriculture are not taken into consideration. Different companies are visited from one quarter to the next.

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

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

#### Interpreting the charts

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

#### Additional information

Further information on the 'Business cycle signals' report is available at [www.snb.ch](http://www.snb.ch), *The SNB*, *SNB regional network*.

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# 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](http://www.snb.ch).

<p>At its quarterly assessment of 15 June 2017, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. 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.</p>	<p>June 2017</p>
<p>At its quarterly assessment of 16 March 2016, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. 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.</p>	<p>March 2017</p>
<p>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 <math>8\%</math> 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 <math>1.9\%</math>, the minimum rate of <math>8\%</math> will be applied for the 2016 financial year.</p>	<p>December 2016</p>
<p>At its quarterly assessment of 15 December 2016, the SNB leaves the interest rate on sight deposits with the SNB at <math>-0.75\%</math> and its target range for the three-month Libor at between <math>-1.25\%</math> and <math>-0.25\%</math>. 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.</p>	<p>December 2016</p>
<p>On 9 November 2016, the Federal Council issues a message on the popular initiative 'For crisis-resistant money: end fractional-reserve banking' (Vollgeldinitiative). It proposes that the two chambers of parliament reject the initiative without a counterproposal.</p>	<p>November 2016</p>
<p>On 10 November 2016, the Federal Department of Finance (FDF) and the SNB announce that they have signed a new agreement on the distribution of the SNB's profits for 2016 to 2020. Subject to a positive distribution reserve, the SNB will in future pay CHF 1 billion p.a. to the Confederation and the cantons, as was previously the case. In future, however, omitted distributions will be compensated for in subsequent years if the distribution reserve allows this.</p>	<p>November 2016</p>

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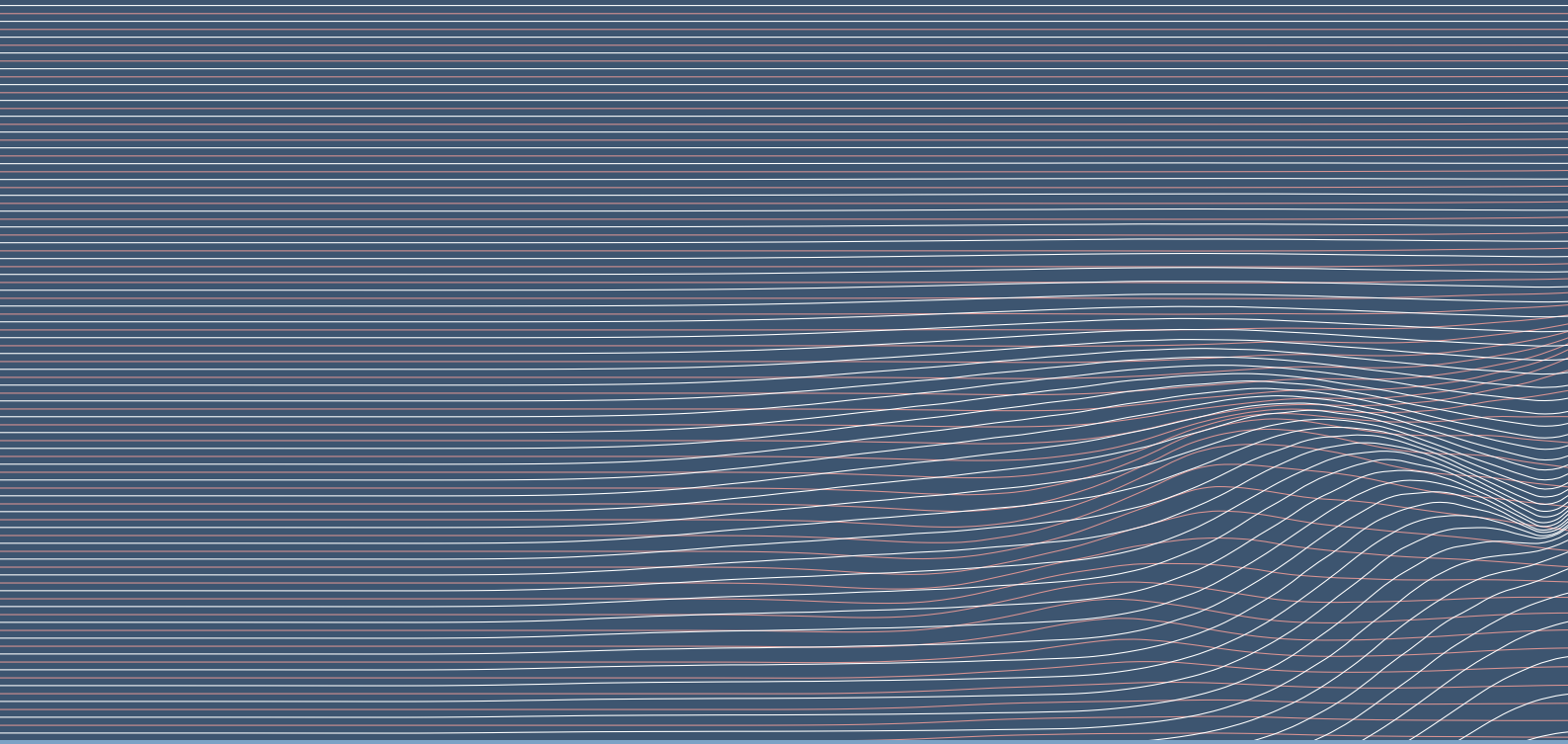
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