



Quarterly Bulletin
4/2018 December

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



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4/2018 December

Volume 36

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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 2018

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 13 December 2018') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 13 December 2018. 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 13 December 2018

Swiss National Bank leaves expansionary monetary policy unchanged

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

Since the monetary policy assessment of September 2018, the Swiss franc has depreciated slightly on a trade-weighted basis. This development is primarily due to the strengthening of the US dollar. The franc is virtually unchanged against the euro. Overall, the Swiss franc is still highly valued, and the situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential. These measures keep the attractiveness of Swiss franc investments low and reduce upward pressure on the currency.

The new conditional inflation forecast for the coming quarters is lower than it was in September (cf. chart 1.1). This is mainly due to the drop in oil prices. The medium-term inflation forecast is also slightly lower owing to more moderate growth prospects. For the current year, the SNB continues to anticipate inflation of 0.9% . The forecast for 2019 has been revised down from 0.8% to 0.5% . For 2020, the SNB expects inflation of 1.0% , compared with its previous forecast of 1.2% . The conditional inflation forecast is based on the assumption that the three-month Libor remains at -0.75% over the entire forecast horizon.

Global growth lost momentum somewhat in the third quarter. However, this was largely attributable to special factors in the euro area and Japan. Economic expansion in the US and China remained robust. Employment figures in the advanced economies rose again and unemployment continued to decline. The growth in international trade in goods also continued.

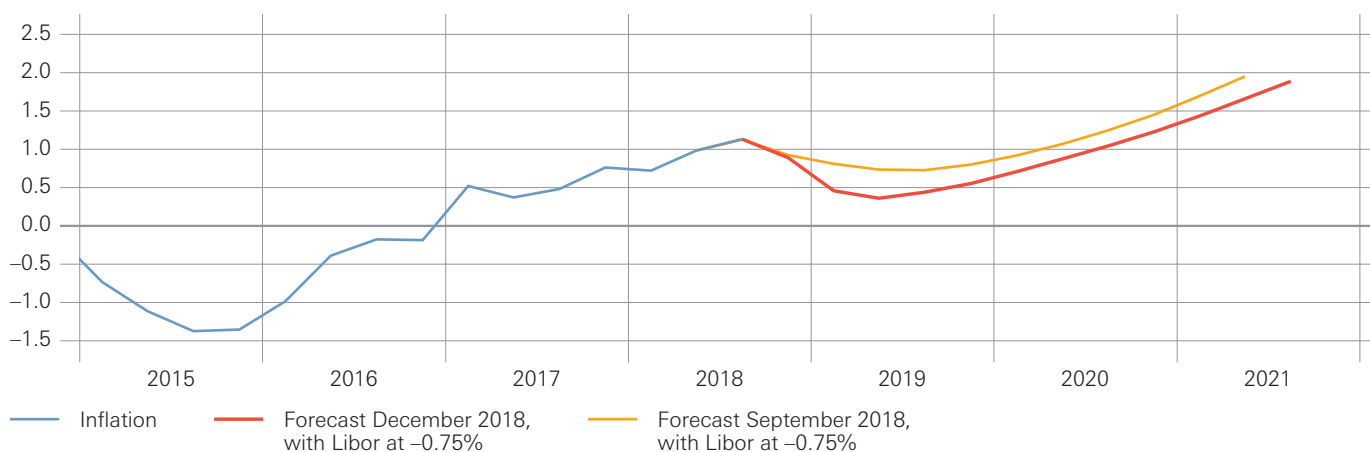
In its baseline scenario for global economic developments, the SNB anticipates solid growth in the coming quarters. In the short term, the world economy is set to continue to expand somewhat above potential, benefiting from the clear improvement in the labour market situation and the ongoing expansionary monetary policy in the advanced economies. However, a gradual slowdown is likely in the medium term.

Nevertheless, there are significant risks to this positive baseline scenario, primarily in connection with political uncertainties and protectionist tendencies. These factors have had an increasingly negative effect on both business and financial market sentiment in recent months. Stronger turbulence could jeopardise global economic growth and have an impact on monetary policy.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF DECEMBER 2018

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



Sources: SFSO, SNB

In Switzerland, GDP fell by an annualised rate of 0.9%. Despite this decline, GDP was still 2.4% higher year-on-year thanks to the strong expansion in the previous quarters. A slowdown in GDP momentum was to be expected after several very strong quarters. Furthermore, the decline in GDP is also attributable to temporary factors. An analysis of all the available economic indicators points to momentum weakening slightly but remaining positive. The favourable development on the labour market also continued. Employment increased strongly in the third quarter. The unemployment rate declined again through to November to stand at 2.4%.

The SNB now anticipates slightly lower GDP growth of around 2.5% for 2018 as a whole. As in other countries, economic momentum in Switzerland is likely to weaken somewhat in 2019. The SNB expects a rise of around 1.5% in GDP for the coming year.

Risks are to the downside, as is the case with the global economy. In particular, a sharp slowdown internationally would quickly spread to Switzerland.

Imbalances on the mortgage and real estate markets persist. Both mortgage lending and prices for single-family homes and privately owned apartments continued to rise at a moderate rate over recent quarters. Although prices in the residential investment property segment have stabilised, there is the particular risk of a correction due to strong price increases in recent years and growing vacancy rates. The SNB will continue to monitor developments on the mortgage and real estate markets closely, and will regularly reassess the need for an adjustment of the countercyclical capital buffer.

Monetary policy strategy at the SNB

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

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

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

Table 1.1

OBSERVED INFLATION IN DECEMBER 2018

	2015				2016				2017				2018				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-0.7	-1.1	-1.4	-1.4	-1.0	-0.4	-0.2	-0.2	0.5	0.4	0.5	0.8	0.7	1.0	1.1		-1.1	-0.4	0.5

Source: SFSO

CONDITIONAL INFLATION FORECAST OF DECEMBER 2018

	2018				2019				2020				2021				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast September 2018, with Libor at -0.75%			1.1	0.9	0.8	0.7	0.7	0.8	0.9	1.1	1.2	1.5	1.7	2.0			0.9	0.8	1.2
Forecast December 2018, with Libor at -0.75%			0.9	0.5	0.4	0.4	0.6	0.7	0.9	1.0	1.2	1.4	1.7	1.9			0.9	0.5	1.0

Source: SNB

2 Global economic environment

The global economic situation remains favourable overall. However, economic indicators are more mixed than they were three months ago.

Global growth lost momentum somewhat in the third quarter, this being largely attributable to temporary factors in the euro area and Japan. Economic expansion in the US and China remained robust. Employment figures in the advanced economies rose again and unemployment continued to decline. The growth in international trade in goods also continued (cf. chart 2.1).

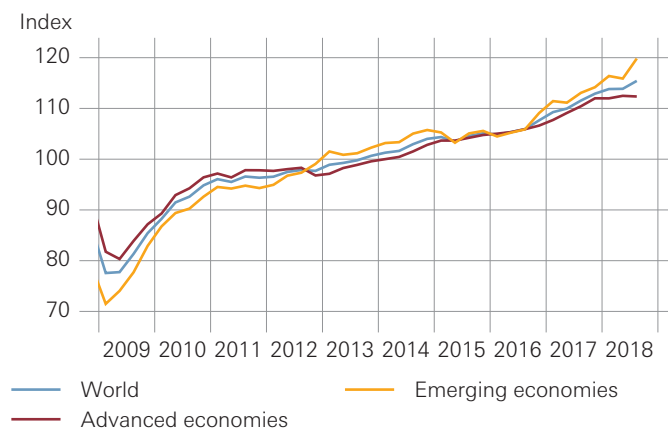
In its baseline scenario for global economic developments, the SNB continues to expect that growth will be somewhat above potential in the quarters ahead. The ongoing expansionary monetary policies in the advanced economies and the robust labour market situation are serving to underpin economic activity. In the medium term, growth is likely to slow gradually.

Nevertheless, there are significant risks to this positive baseline scenario, primarily in connection with political uncertainties and protectionist tendencies. These risks have considerable potential for damage. They could lead to turbulence on the financial markets, which could in turn jeopardise global economic growth and have an impact on monetary policy.

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



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

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

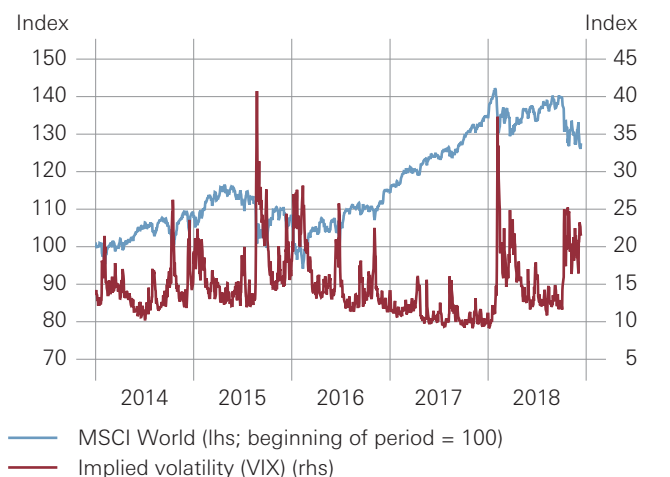
	2014	2015	2016	2017	Scenario	
					2018	2019
GDP, year-on-year change in percent						
Global ¹	3.6	3.5	3.3	3.9	4.0	3.9
US	2.5	2.9	1.6	2.2	2.9	2.5
Euro area	1.4	2.0	1.9	2.5	1.9	1.5
Japan	0.3	1.3	0.6	1.9	0.9	1.1
Oil price in USD per barrel						
	99.0	52.5	43.8	54.3	73.1	74.0

¹ 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

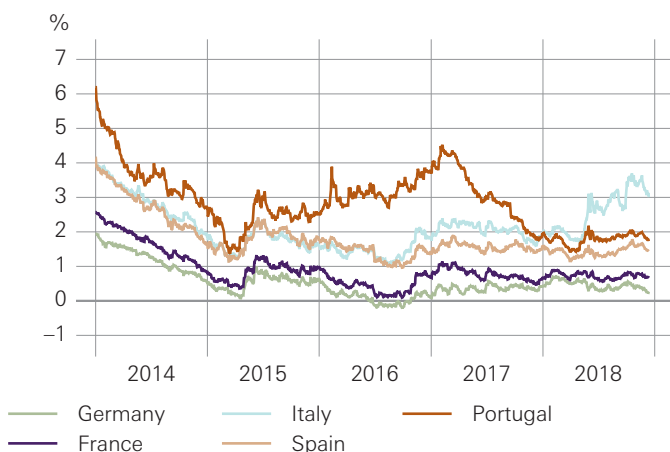


Source: Thomson Reuters Datastream

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 oil prices and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 74 per barrel, which is USD 1 higher than the September baseline scenario (cf. table 2.1), and an exchange rate of USD 1.14 to the euro, compared with USD 1.16 in September. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Developments in international financial markets have been dominated by increased volatility since the monetary policy assessment in September. Concerns over a global slowdown in growth, continuing uncertainty with regard to Brexit and to Italy’s fiscal policy, as well as the United States’ ongoing trade tensions, particularly with China, weighed on stock markets. Moreover, long-term interest rates in the US rose in early October. The MSCI World Index subsequently corrected, and the volatility of US stocks as measured by option prices (VIX) – which serves as a gauge of market uncertainty – increased sharply. The VIX remained high until mid-December (cf. chart 2.2).

Yields on ten-year government bonds in the advanced economies presented a mixed picture. In the US, they gradually declined again after the rise in early October, while in most other advanced economies, they trended sideways (cf. chart 2.3). In Italy, meanwhile, they again rose slightly in response to political uncertainty (cf. chart 2.4).

The US dollar appreciated on a trade-weighted basis. The yen trended sideways, while the euro and pound sterling weakened slightly (cf. chart 2.5).

The oil market, too, was dominated by a high level of uncertainty, which was indicated by oil price fluctuations and increased volatility as measured by option prices. US sanctions on Iran, for instance, initially contributed to a rise in the price of oil. Prices subsequently trended downwards again, driven by concerns over a global economic downturn coupled with growing oil production. The uncertainty caused by trade tensions continued to weigh on industrial metal prices (cf. chart 2.6).

UNITED STATES

At 3.5%, third-quarter GDP growth in the US was still well above potential (cf. chart 2.7). Private consumption remained one of the main drivers. Employment figures continued to rise over recent months and unemployment receded to 3.7% in November (cf. chart 2.10).

Key economic indicators such as retail sales and manufacturing production suggest solid growth in the fourth quarter, too. With the gradual tightening of monetary policy, economic activity is likely to slow steadily in the quarters ahead. The positive fiscal policy stimuli are also set to taper off in the medium term. The SNB is leaving its GDP forecast for the US almost unchanged, with growth at 2.9% for 2018 and 2.5% for 2019 (cf. table 2.1).

Inflation fluctuations in the US between August and November were primarily driven by food and energy prices (cf. chart 2.11). Core inflation remained virtually unchanged at 2.2% (cf. chart 2.12). The Federal Reserve's preferred price inflation measure, the personal consumption expenditure (PCE) deflator index, remains in line with its own target value of 2%. In light of the current inflation momentum and the strengthening of the labour market, it raised the target range for its policy rate to 2.0–2.25% in September and plans to continue tightening its monetary policy (cf. chart 2.13).

Chart 2.5

EXCHANGE RATES

Trade-weighted, beginning of period = 100

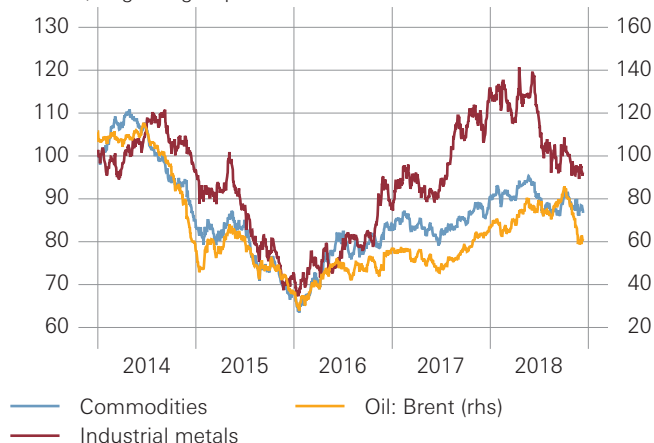


Source: Thomson Reuters Datastream

Chart 2.6

COMMODITY PRICES

Index, beginning of period = 100 USD/barrel

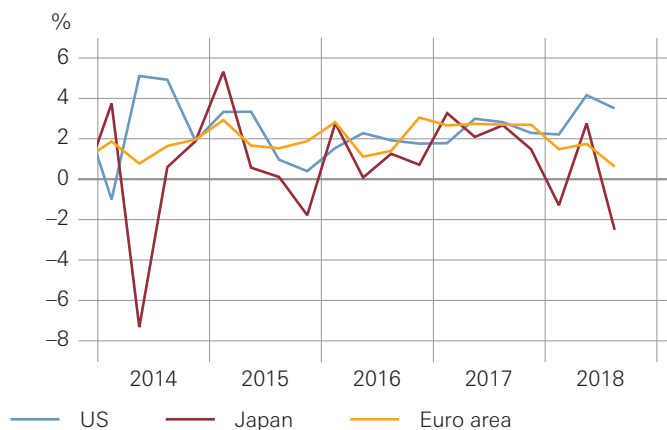


Source: Thomson Reuters Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

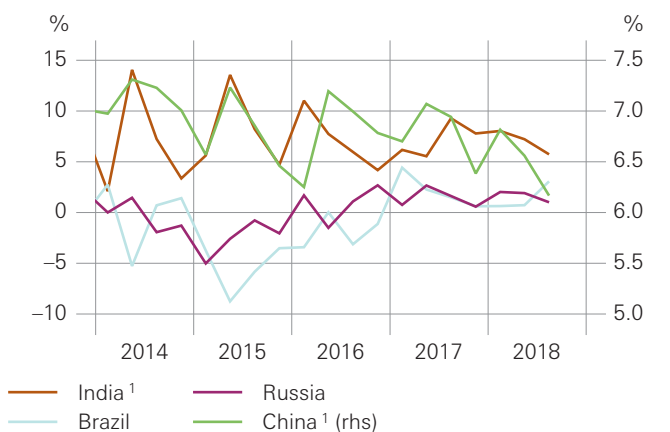


Source: Thomson Reuters Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

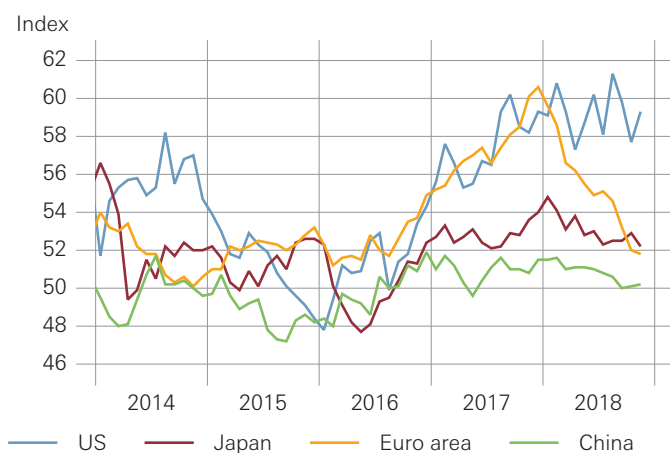
Change from previous period



1 Seasonal adjustment: SNB
Sources: CEIC, Thomson Reuters Datastream

Chart 2.9

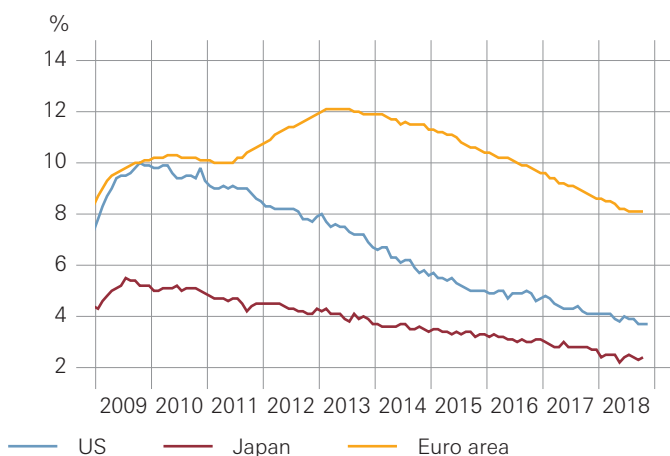
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Sources: Institute for Supply Management (ISM), Markit Economics Limited

Chart 2.10

UNEMPLOYMENT RATES



Source: Thomson Reuters Datastream

EURO AREA

In the euro area, GDP growth slowed in the third quarter to 0.6%, having risen 1.7% in the previous quarter (cf. chart 2.7). This weakening was largely due to a temporary reduction in vehicle production in connection with new emission standards. In Germany, GDP receded as a result by 0.8%. Employment figures in the euro area climbed further, however, and unemployment in October was at its lowest level in a decade (cf. chart 2.10).

The slowdown in growth in the third quarter is likely to have been temporary. Household and business survey results point to economic activity remaining solid, and this is likely to continue to be underpinned by favourable financing conditions and robust growth in household income. Overall, the SNB has left its growth forecasts for the euro area essentially unchanged at 1.9% for 2018 and 1.5% for 2019 (cf. table 2.1). The positive outlook nevertheless remains subject to various risks, including political imponderables in Italy, uncertainty surrounding international trade conflicts as well as the shape of future relations between the EU and the UK.

Consumer price inflation in the euro area changed little in the last few months. In November, it was at 2.0%, while core inflation hovered around 1.0%, as it has for some years now (cf. charts 2.11 and 2.12). Medium-term inflation expectations derived from financial market indicators stagnated below the target level of just under 2% set by the European Central Bank (ECB). Meanwhile, wage growth in the euro area has been on the rise since the beginning of the year.

The ECB left its key rates unchanged in December and intends to keep them at their present levels at least through the summer of 2019. As planned, the ECB halved its asset purchases in October to EUR 15 billion; it will stop the programme at the end of the year and intends to continue reinvesting maturing bonds for an extended period of time.

JAPAN

In Japan, GDP contracted by 2.5% in the third quarter, having registered average growth of 0.7% in the first half of the year (cf. chart 2.7). The decline was mainly attributable to a series of natural disasters, which had a negative effect on supply chains and private consumption in particular. The number of tourists from abroad also decreased in the summer months. Buoyed by public funding to help with reconstruction work, the economy is likely to recover quickly, however.

The outlook for the coming year remains positive. Favourable financing conditions, solid global manufacturing as well as investment in infrastructure and tourism in the run-up to the 2020 Olympic Games in Tokyo will support the Japanese economy. Moreover, economic measures should ease the negative impact of the sales tax increase planned for October 2019. The SNB's GDP growth forecasts remain unchanged at 0.9% for 2018 and 1.1% for 2019 (cf. table 2.1). During the course of next year, Japan's current economic expansion is set to become the longest since World War II.

Amid rising energy and food prices, consumer price inflation increased again in recent months, and stood at 1.4% in October (cf. chart 2.11). Meanwhile, core inflation continued to fluctuate around 0% (cf. chart 2.12). The longer-term inflation expectations derived from company surveys also trended sideways and remained significantly below the Japanese central bank's inflation target of 2%. In the year ahead, price cuts are planned in mobile communications, which will noticeably curb inflation in the short term. In light of the weak inflation momentum, the Bank of Japan intends to maintain the low level of interest rates for an extended period of time.

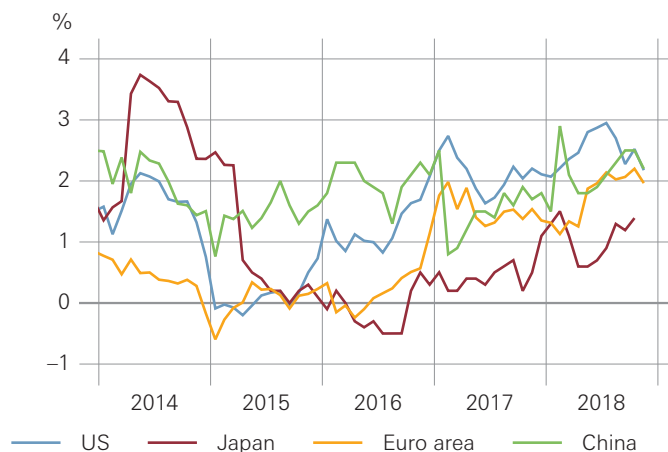
CHINA

In China, GDP growth receded slightly further in the third quarter to 6.2% (cf. chart 2.8). Both manufacturing and construction had a dampening effect on growth. In the services sector, by contrast, value added rose substantially.

Chart 2.11

CONSUMER PRICES

Year-on-year change

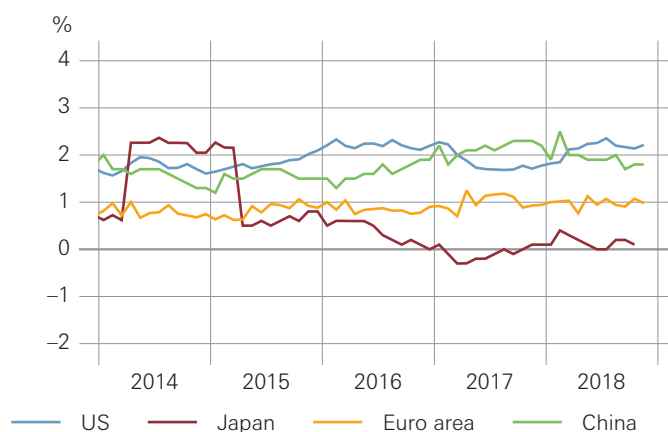


Source: Thomson Reuters Datastream

Chart 2.12

CORE INFLATION RATES ¹

Year-on-year change

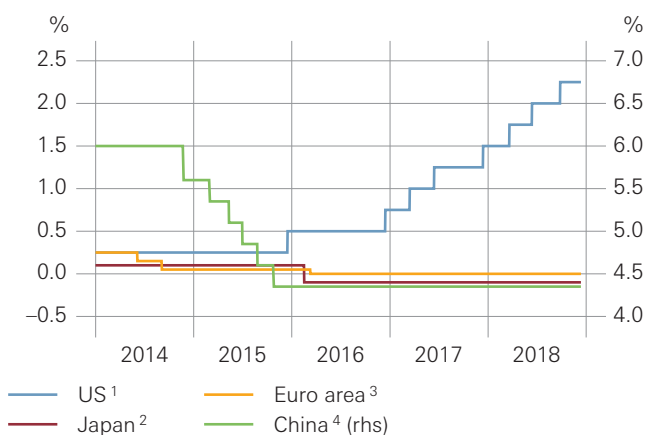


¹ Excluding food and energy.

Source: Thomson Reuters Datastream

Chart 2.13

OFFICIAL INTEREST RATES

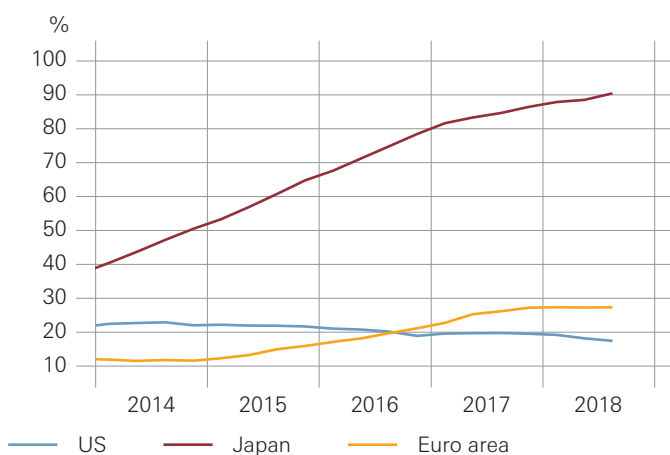


1 Federal funds rate (upper limit of target range). 2 Call money target rate. 3 Main refinancing rate. 4 One-year lending rate.
Source: Thomson Reuters Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Thomson Reuters Datastream

The outlook for China remains unchanged. GDP expansion is likely to remain robust in the quarters ahead, albeit somewhat slower than at the beginning of 2018. The gradual softening in growth observed over the last number of years is thus continuing in step with a decline in growth potential. The phased tightening of financial market regulations since the end of 2016 and the rise in long-term interest rates over the course of 2017 have led to a further slowdown in credit growth, which is likely to curb activity in real estate and construction in particular. Added to this are the negative effects of the trade tensions with the US. Since September, a list of Chinese exports to the US – with an annual trade value of USD 200 billion – has been subject to an additional 10% tariff. To ward off the threat of a sudden loss of economic momentum, China’s government now plans to push through infrastructure projects more quickly than previously intended, while lowering taxes.

In July, the People’s Bank of China had already eased its monetary policy slightly, which had led to a decline in money market interest rates. In recent months, money market rates have stabilised. The central bank again lowered the reserve requirement ratio in October.

The SNB anticipates GDP growth of 6.6% for 2018, and expects the government to achieve its medium-term target of an average of 6.3% per annum through to 2020.

BRAZIL, INDIA AND RUSSIA

The third quarter saw mixed developments in the other major emerging economies. In India, GDP growth was disappointing (5.7%), however the slowdown is expected to be temporary. The Russian economy also performed slightly below potential, but Brazil continued its recovery with strong GDP growth (cf. chart 2.8).

The outlook for these countries is positive. GDP growth in India is likely to be considerably more robust this year than in 2017. In the year ahead, positive impetus will continue to come from the recapitalisation of quasi-governmental credit institutions and public infrastructure spending. In Russia, private consumption is likely to benefit from low unemployment and rising real incomes. An expansionary monetary policy, low inflation and solid foreign demand are likely to drive the economic recovery in Brazil.

3 Economic developments in Switzerland

According to an initial estimate, GDP in Switzerland contracted by 0.9% in the third quarter. The slowdown in growth was thus more pronounced than expected. A more extensive analysis of the available economic indicators confirms a somewhat slower pace of expansion, although the majority of indicators continued to suggest robust economic momentum.

Overall capacity utilisation deteriorated somewhat as a result of the decline in GDP. However, the estimated output gap remains positive. The favourable development in the labour market continued. Unemployment has receded further in the past few months.

Leading indicators and surveys suggest that the economic outlook remains favourable. The SNB now anticipates GDP growth of around 2.5% for 2018. As in other countries, economic momentum in Switzerland is likely to slow down somewhat in 2019. At roughly 1.5%, annual growth for 2019 is set to be weaker than in the current year. Overall, capacity utilisation in the economy should remain high, however.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. While GDP figures for the third quarter were disappointing, most economic indicators continued to point towards positive momentum.

Disappointing GDP growth in third quarter

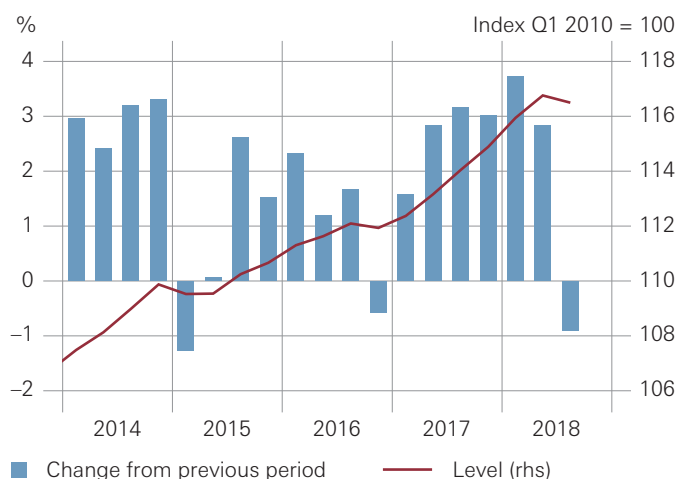
Following strong expansion in the preceding quarters, GDP growth stalled in the third quarter. According to initial estimates by the State Secretariat for Economic Affairs (SECO), GDP was down by 0.9% (cf. chart 3.1). Economic performance thus remained significantly below expectations.

Value added decreased in half of the industries in the third quarter. The GDP decline was dominated by losses in manufacturing, trade and the entertainment industry. Business-related services was the only industry to have a notable positive impact.

Growth was also weak on the expenditure side. While exports, in particular, recorded a sharp drop, domestic final demand also fell for the first time in over six years (cf. table 3.1).

Chart 3.1

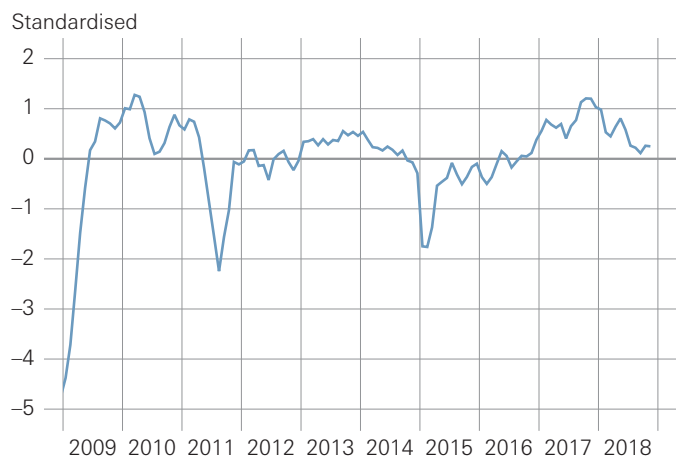
REAL GDP



Source: State Secretariat for Economic Affairs (SECO)

Chart 3.2

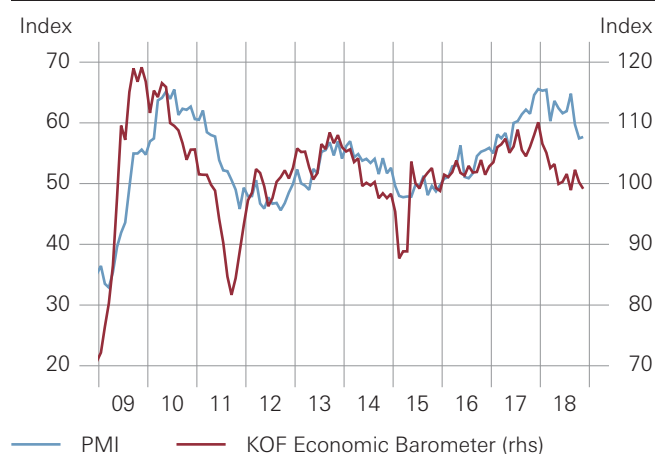
SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Sources: Credit Suisse, KOF Swiss Economic Institute

Economic indicators more positive

Taking into account a wide range of information leads to a more positive picture of economic developments in the third quarter than if only the figures of the quarterly GDP estimate are considered. The Business Cycle Index, calculated by the SNB and offering a comprehensive overview of economic momentum, suggests that although the positive trend has weakened somewhat, it still remained at an above-average level (cf. chart 3.2).

Other economic indicators also pointed towards positive momentum in the third quarter. These include the purchasing managers' index (PMI), which stayed well above the growth threshold of 50 despite declining in recent months (cf. chart 3.3). The KOF Economic Barometer also suggested at least average growth, with values close to 100.

Company representatives were also positive with regard to the second half of the year in the discussions conducted by the SNB's delegates for regional economic relations.

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2014	2015	2016	2017	2016	2017				2018		
					Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Private consumption	1.3	1.7	1.5	1.1	2.9	0.1	0.4	2.0	0.4	1.4	0.8	0.3
Government consumption	2.2	1.1	1.2	0.9	0.8	0.2	0.7	2.0	2.4	0.5	0.7	-0.4
Investment in fixed assets	3.0	2.3	3.4	3.3	0.7	8.4	1.0	4.5	3.2	4.6	2.1	-4.9
Construction	3.2	1.6	0.5	1.4	-0.5	2.7	0.8	2.3	2.3	0.0	2.3	0.1
Equipment	2.9	2.7	5.4	4.5	1.4	12.1	1.1	5.7	3.8	7.4	2.0	-7.7
Domestic final demand	1.9	1.8	2.0	1.7	2.0	2.3	0.6	2.7	1.4	2.1	1.1	-1.2
Change in inventories ¹	-0.5	-0.4	-1.9	-0.1	-6.5	-1.7	8.0	-10.8	10.2	-1.4	1.0	3.8
Total exports ²	5.2	2.6	7.0	3.6	14.0	-1.6	1.8	19.6	-5.7	7.2	-1.1	-11.6
Goods ²	5.8	2.6	6.7	5.1	-2.2	15.4	5.7	21.3	-6.0	13.0	-1.4	-15.8
Goods excluding merchanting ²	4.0	0.7	6.6	6.0	-8.2	14.2	7.3	9.8	7.3	6.4	2.9	-14.4
Services	4.0	2.4	7.6	0.7	50.2	-26.3	-5.2	16.5	-5.2	-3.4	-0.5	-2.5
Total imports ²	3.3	3.0	4.7	4.1	7.7	-4.8	16.2	-2.5	12.2	1.7	-3.1	-6.3
Goods ²	1.7	0.0	4.4	5.5	0.3	-2.4	25.6	-2.0	24.5	8.3	-4.3	-9.1
Services	6.8	8.8	5.3	1.6	22.8	-9.1	0.8	-3.4	-8.3	-10.4	-0.6	-0.2
Net exports ³	1.3	0.1	1.7	0.2	4.1	1.1	-5.8	11.5	-8.5	3.2	0.8	-3.6
GDP	2.4	1.3	1.6	1.6	-0.6	1.6	2.8	3.2	3.0	3.7	2.8	-0.9

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

2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).

3 Contribution to growth in percentage points.

Source: SECO

LABOUR MARKET

The positive development in the labour market continued. Employment saw an increase, while unemployment receded further.

Ongoing decrease in unemployment

The number of people registered as unemployed at the regional employment offices continued to decrease in recent months. Excluding seasonal fluctuations, 110,000 people were recorded as unemployed at the end of November, while the seasonally adjusted unemployment rate published by SECO stood at 2.4% (cf. chart 3.4). This was about as low as before the financial and economic crisis in 2008.

In addition, the Swiss Federal Statistical Office (SFSO) calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. This survey also includes people looking for work but who are not registered, or are no longer registered, with the regional employment offices. The SFSO unemployment rate calculated in accordance with the ILO definition is therefore higher than the one published by SECO. In the third quarter of 2018, the seasonally adjusted unemployment rate declined substantially to 4.3%, its lowest level since 2011.

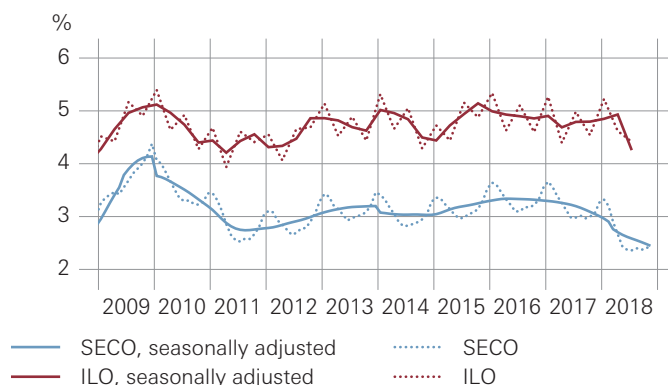
Robust employment growth

The Employment Statistics (ES) suggest that the number of gainfully employed persons rose sharply in the third quarter (cf. chart 3.5). The ES measure the number of employed persons on the household side and are also based primarily on SLFS data.

The national job statistics, by contrast, measure employment on the company side and are based on a survey of firms. According to these statistics, the number of full-time equivalent positions registered broad-based growth in the third quarter, albeit less strongly than in the previous quarter (cf. chart 3.6). Employment rose in services, manufacturing and construction alike.

Chart 3.4

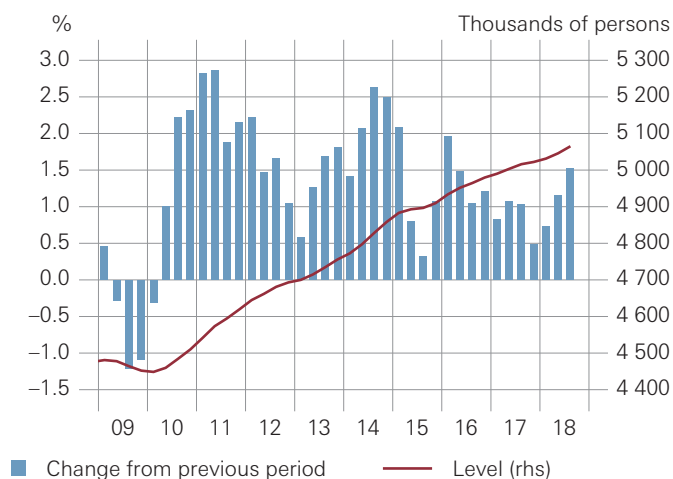
UNEMPLOYMENT RATE



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: SECO, SFSO

Chart 3.5

EMPLOYED PERSONS

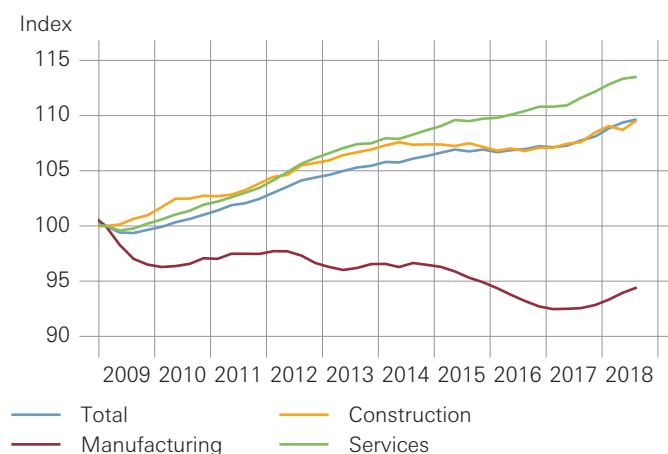


Source: SFSO; seasonal adjustment: SNB

Chart 3.6

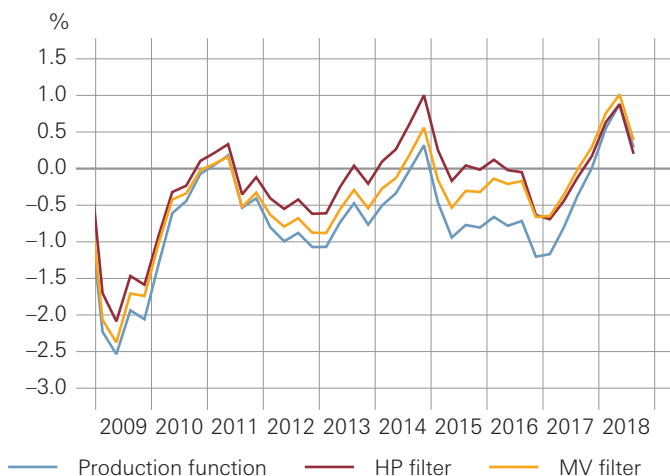
FULL-TIME EQUIVALENT JOBS

Beginning of period = 100



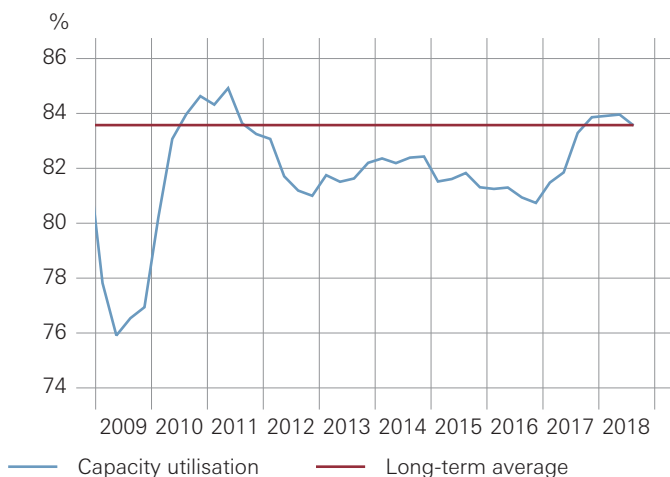
Source: SFSO; seasonal adjustment: SNB

Chart 3.7

OUTPUT GAP

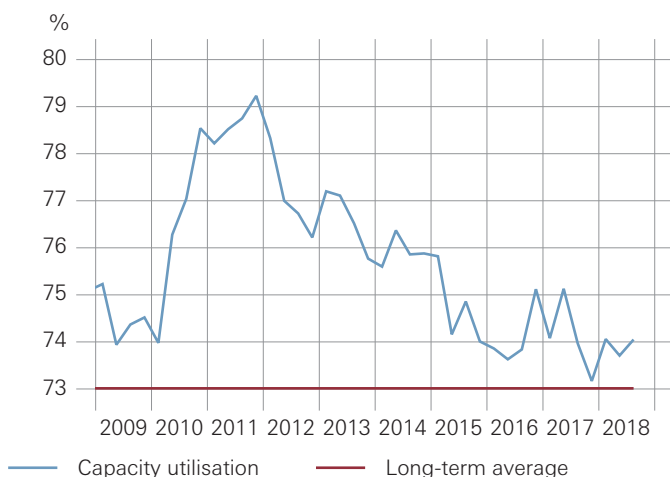
Source: SNB

Chart 3.8

CAPACITY UTILISATION IN MANUFACTURING

Source: KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION

Source: KOF Swiss Economic Institute

CAPACITY UTILISATION**Output gap closed**

The output gap, which is defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised. Based on the quarterly figures for GDP, the estimates suggest a slightly positive output gap since the beginning of the year. Potential output as estimated by means of a production function shows an output gap of 0.3% for the third quarter (Q2 2018: 0.9%). Estimates using other methods to establish potential output (Hodrick-Prescott filter and multivariate filter) confirm that the gap was in positive territory in recent quarters (cf. chart 3.7).

Surveys suggest good utilisation

Surveys also indicate that the utilisation of production factors is high. According to the KOF survey, utilisation of technical capacity in manufacturing decreased marginally to 83.6% in the third quarter, which is in line with the long-term average (cf. chart 3.8). Machine utilisation in the construction industry remained somewhat above the long-term average in the third quarter (cf. chart 3.9). As for services, the surveys point to a slightly above-average level of technical capacity utilisation. With regard to personnel, too, there is a growing staff shortage. The surveys on the labour situation carried out in the various industries indicate that it is becoming increasingly difficult for companies to fill vacant positions. Overall, the various surveys on the utilisation of production factors present a somewhat more positive picture than the GDP-based measures of the output gap.

OUTLOOK

Despite weakening to some degree, the outlook for the Swiss economy remains positive. The SNB continues to anticipate sound economic growth in the medium term. First, according to the baseline scenario (cf. chapter 2), global economic developments are expected to continue to stimulate demand in the Swiss economy. Second, population growth is likely to boost demand. Third, low interest rates are still supporting growth.

Signals also remain positive with regard to the short term. Many indicators, domestic and foreign alike, have weakened over the course of the year, and business performance expectations in manufacturing are also somewhat less optimistic (cf. chart 3.11). That said, the most recent GDP decline is likely to have overstated the economic slowdown. Overall, economic indicators continue to point to solid developments. Exports of goods, for example, regained momentum in October after the weak summer, and the employment outlook remains positive (cf. chart 3.12).

The talks conducted by the SNB's delegates for regional economic relations between the beginning of October and the end of November point in a similar direction. A slight economic downturn is anticipated, whereas business activity is expected to remain good. Company representatives are still confident about the next six months and expect staff numbers to increase further (cf. 'Business cycle signals', pp. 28 et seq.).

The SNB anticipates GDP growth of around 2.5% for 2018 and roughly 1.5% for 2019. Unemployment is likely to decline only slightly and the output gap is set to remain closed.

As with the global economy, the risks for Switzerland also remain to the downside. Any unexpectedly sharp economic downturn abroad would quickly spread to Switzerland.

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

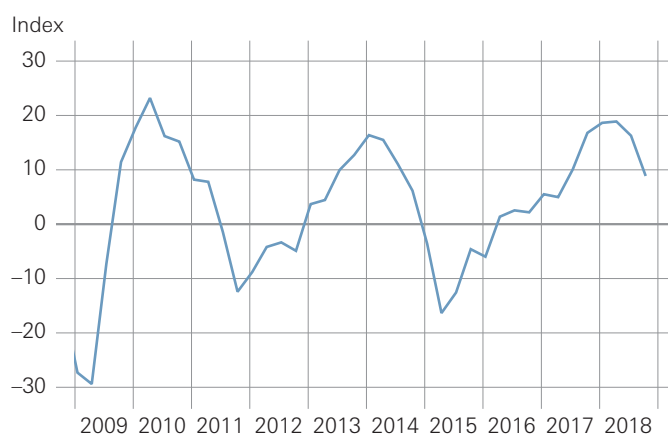


Sources: International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), SNB, Thomson Reuters Datastream

Chart 3.11

EXPECTED BUSINESS SITUATION IN INDUSTRY

Change in expectations for next six months

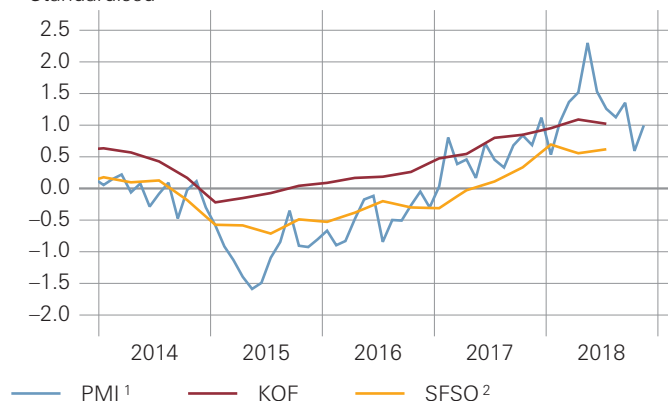


Source: KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT LEADING INDICATORS

Standardised



¹ Monthly figures.

² Seasonal adjustment: SNB.

Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

4

Prices and inflation expectations

Annual consumer price inflation has declined somewhat since the summer, but is still higher than at the beginning of the year. Both the annual and core inflation rates remain within the range consistent with price stability, which the SNB equates to a rise in the Swiss consumer price index (CPI) of less than 2% per year. Medium-term inflation expectations are also in line with the SNB's definition of price stability.

CONSUMER PRICES

Slight decline in annual inflation rate

In November 2018, the annual inflation rate as measured by the CPI was 0.9%, having reached 1.2% in the summer (cf. table 1.1, chart 4.1). Around half of the annual inflation rate is attributable to the development in prices of oil products, despite their index weighting being only slightly above 3%.

Lower price inflation for imported products

Annual inflation for imported goods and services decreased slightly in recent months and registered 2.2% in November. The inflation contribution from oil products remained largely stable, whereas that from other imported products fell.

Stable price inflation for domestic products

Inflation for domestic goods and services was unchanged in the second half of the year, and thus remained at 0.5% in November. Although prices for domestic goods rose somewhat more strongly year-on-year than those for domestic services, the contributions of both components to inflation were roughly the same, owing to the higher weighting for services (cf. chart 4.2).

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2017	2017	2018			2018		
		Q4	Q1	Q2	Q3	September	October	November
Overall CPI	0.5	0.8	0.7	1.0	1.1	1.0	1.1	0.9
Domestic goods and services	0.3	0.4	0.3	0.4	0.5	0.5	0.5	0.5
Goods	-0.2	-0.1	0.3	0.8	1.0	1.1	1.3	1.0
Services	0.5	0.5	0.3	0.3	0.4	0.3	0.3	0.3
Private services excluding housing rents	0.3	0.4	0.6	0.6	0.9	0.8	0.7	0.6
Housing rents	1.1	0.9	0.6	0.4	0.3	0.2	0.2	0.4
Public services	-0.1	0.1	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7
Imported goods and services	1.2	2.0	1.9	2.7	3.0	2.4	2.8	2.2
Excluding oil products	0.2	1.3	1.5	1.2	1.1	0.6	0.8	0.3
Oil products	8.8	6.8	4.9	13.9	16.6	15.1	16.6	15.0

Sources: SFSO, SNB

Higher rent inflation

Inflation in housing rents increased from 0.2% in August to 0.4% in November, although this was partly due to base effects (such as a fall in rents between August and November 2017). The reference interest rate used for rent adjustments based on mortgage rate fluctuations has been unchanged at 1.5% since June 2017 (cf. chart 4.3).

Core inflation below annual inflation rate

Core inflation rates remain below the unadjusted annual CPI inflation rate (cf. chart 4.4). In November 2018, the trimmed mean calculated by the SNB (TM15) stood at 0.5%, while the SFSO's core inflation rate 1 (SFSO1) amounted to 0.2%. The difference between these two rates and the annual CPI inflation rate was primarily attributable to the fact that the sharp year-on-year rise in oil product prices had little or no impact on core inflation rates. Both core inflation rates have come down since the summer, although the TM15 fell much less sharply than the SFSO1.

The SFSO1 and TM15 rates are both based on the prices of a reduced basket of goods. When calculating SFSO1, energy and fuel as well as fresh and seasonal products are excluded. TM15 excludes the products with the most extreme price changes every month (15% at either end of the distribution curve of annual rates of change in product prices).

PRODUCER AND IMPORT PRICES

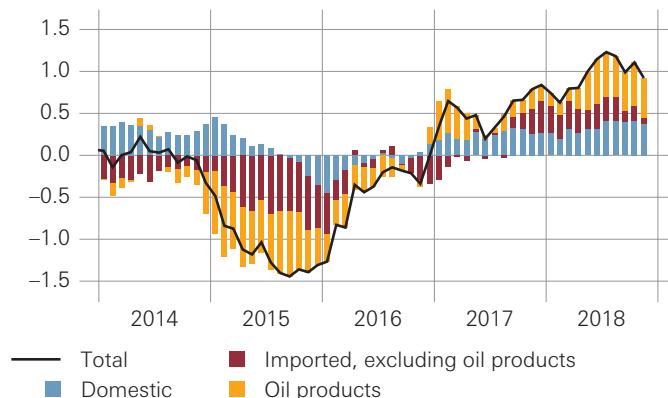
Fall in producer and import price inflation

Annual inflation for producer and import prices taken together was 1.4% in November 2018, with the two individual indices growing year-on-year by 0.7% and 2.9% respectively. Inflation for all three categories fell in recent months, impacted by base effects and the subdued development in prices. Import prices have essentially stagnated since mid-2018, while producer prices have in fact fallen somewhat 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.

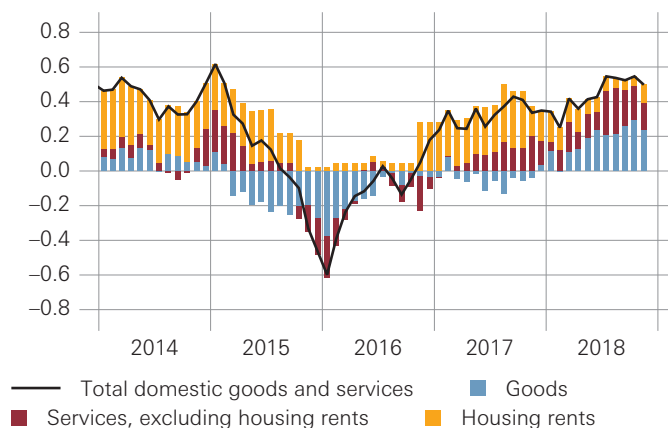


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

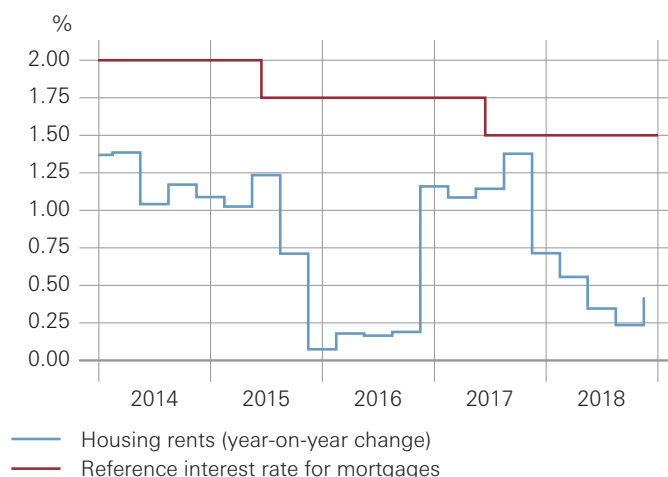
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

HOUSING RENTS

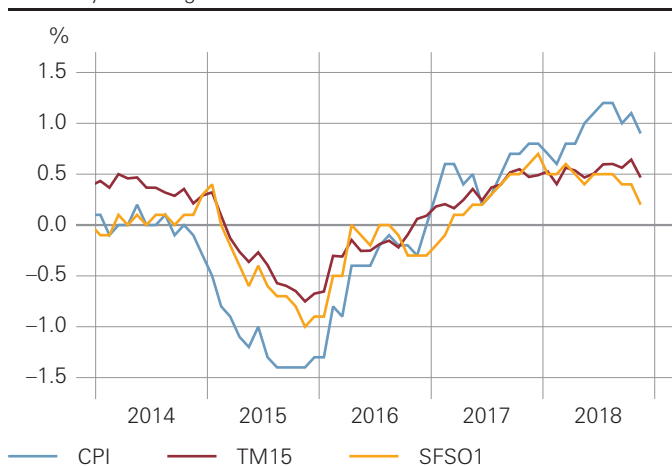


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

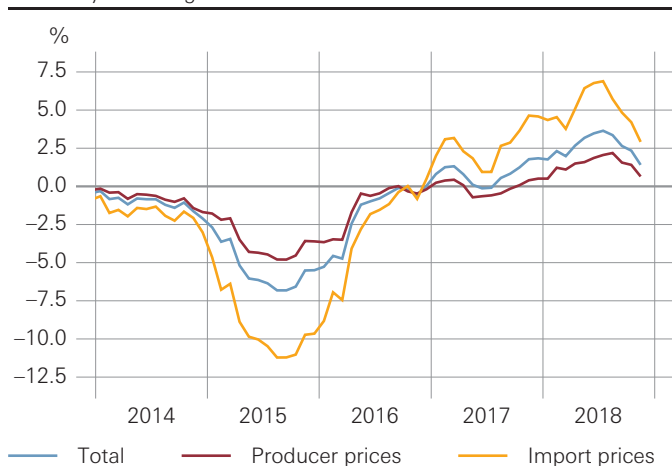


Sources: SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change

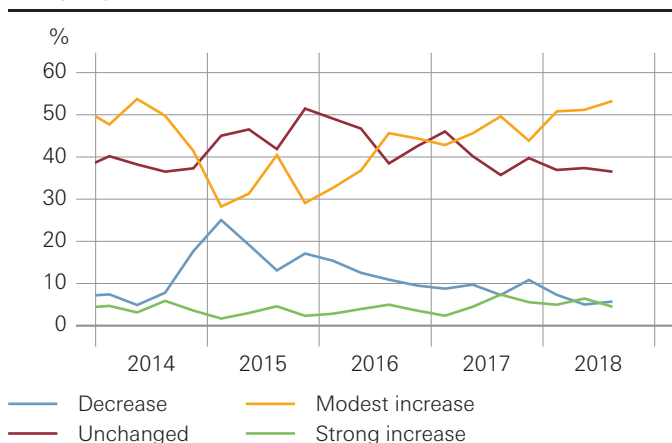


Source: SFSO

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 hardly changed in the last quarter, thus remaining consistent with the objective of price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Survey figures largely unchanged

The quarterly survey of households' price expectations for the next twelve months, conducted by SECO, yielded much the same results in October 2018 as in the previous quarter (cf. chart 4.6). Of the respondents, 58% anticipated a rise in prices, while 37% thought they would stay the same; only very few expected prices to go down.

According to the joint monthly financial market survey by the CFA Society Switzerland and Credit Suisse, the share of analysts questioned in November 2018 expecting either stable or increasing inflation rates in the next six months was 46% on both counts. The remaining 8% anticipate a fall in inflation. These percentages have remained largely unchanged since the beginning of the year.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors provide an indication of the expected level of inflation. In the fourth quarter of 2018, respondents expected an annual inflation rate of 0.8% on average in the next six to twelve months (Q3 2018: 0.7%).

Longer-term expectations slightly above short-term expectations

Longer-term inflation expectations are still slightly higher than short-term expectations. According to the Deloitte CFO Survey conducted in the second half of 2018, participants again predicted an inflation rate of 1.3% in two years' time, just as in the first half of the year. In the fourth quarter, company representatives interviewed by the SNB's delegates put the rate of inflation in three to five years at 1.1% (Q3 2018: 1.0%).

5

Monetary developments

At its quarterly assessment of 20 September 2018, the SNB left its monetary policy unchanged and reaffirmed its policy stance. Its monetary policy has thus continued to be based on the negative interest rate on sight deposits held by banks at the SNB and on the SNB's willingness to intervene in the foreign exchange market as necessary.

Money market interest rates have remained unchanged over the past three months, while capital market rates have fallen slightly following a temporary rise. The yield curve for Confederation bonds is thus somewhat flatter than at the time of the assessment in September. By mid-December the yields on bonds with maturities of less than eleven years were negative.

The trade-weighted external value of the Swiss franc has decreased slightly in the past three months, primarily due to the strengthening of the US dollar. However, analysis of the exchange rate situation as a whole indicates that the Swiss franc remains highly valued. The real trade-weighted exchange rate, which is relevant for the economy, is still high.

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

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged

The SNB confirmed its expansionary monetary policy stance at its assessment on 20 September 2018. It decided to leave the target range for the three-month Libor unchanged at between -1.25% and -0.25% . It also left unchanged, at -0.75% , the interest rate on sight deposits held by banks and other financial market participants at the SNB which exceed a given threshold. Furthermore, the SNB reaffirmed that it will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

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

Sight deposits at the SNB virtually unchanged

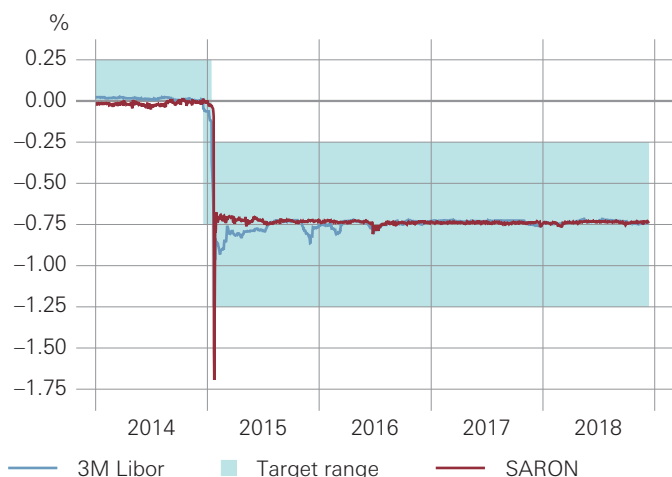
Since the September monetary policy assessment, total sight deposits held at the SNB have remained virtually unchanged. In the week ending 7 December 2018 (last calendar week before the December assessment), they amounted to CHF 576.4 billion, only marginally lower than in the last calendar week preceding the mid-September 2018 assessment (CHF 577.1 billion). Between the assessments in mid-September and mid-December 2018, sight deposits at the SNB averaged CHF 577.4 billion. Of this amount, CHF 471.9 billion were sight deposits of domestic banks and the remaining CHF 105.5 billion were other sight deposits.

Banks' surplus reserves high

Statutory minimum reserves averaged CHF 16.6 billion between 20 August and 19 November 2018. Overall, banks exceeded the minimum reserve requirement by CHF 459.2 billion (previous period: CHF 457.0 billion). Banks' surplus reserves thus remain very high.

Chart 5.1

MONEY MARKET RATES



Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

10-YEAR SWISS CONFEDERATION BOND YIELD

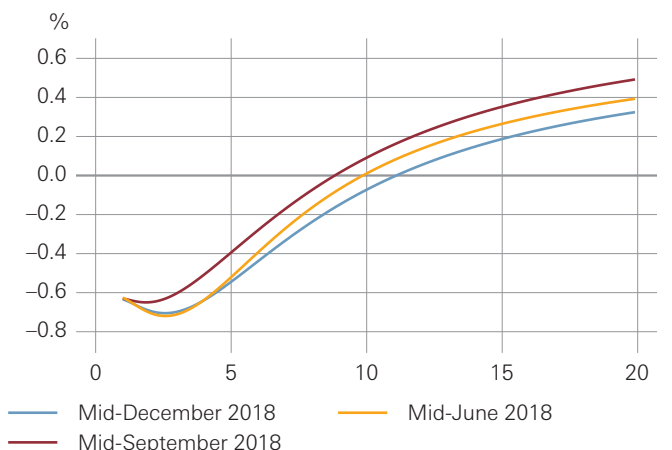


Source: SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

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



Source: SNB

MONEY AND CAPITAL MARKET INTEREST RATES

Money market rates practically unchanged

Since the September monetary policy assessment, money market rates have – as in the previous quarters – consistently tracked close to the interest rate on sight deposits held at the SNB, which has been set at –0.75% since January 2015. This applies to both secured (SARON) and unsecured (three-month Libor) money market transactions (cf. chart 5.1).

Sideways movement in capital market interest rates

Long-term interest rates have moved sideways this year amid moderate fluctuations (cf. chart 5.2). Looking back at the past three months, the yield on ten-year Confederation bonds initially rose slightly but by December was standing a few basis points below zero, as it had at times in the summer.

Flatter yield curve

At the time of the December monetary policy assessment, long-term interest rates were somewhat lower than three months previously, while short-term rates remained unchanged. The yield curve for Confederation bonds has thus flattened out slightly (cf. chart 5.3). In mid-December, yields for maturities of less than eleven years were in negative territory.

Real interest rates low

Real interest rates are more important for company and household investment decisions than nominal interest rates. The yield curve for Confederation bonds in combination with survey measures of inflation expectations suggest that real interest rates remain at a historically low level.

EXCHANGE RATES

Swiss franc weakens against US dollar

Since the September monetary policy assessment, the US dollar has appreciated against most currencies. By mid-December, the Swiss franc/US dollar exchange rate had fallen by around 3% (cf. chart 5.4). Movements of the Swiss franc against the euro remained relatively modest by comparison.

The weakening of the Swiss franc against the dollar occurred at the end of September against a backdrop of positive risk sentiment in global financial markets. The franc also depreciated slightly against the euro in this period, despite political uncertainty in individual EU member states leading to an increase in interest premia on government bonds.

In October, the Swiss franc remained largely stable against the euro, while the US dollar strengthened further still. Amid growing uncertainty in the financial markets, however, the franc appreciated again somewhat from mid-November.

Slight decline in Swiss franc's trade-weighted external value

In nominal trade-weighted terms, the Swiss franc weakened somewhat between the September and December monetary policy assessments (cf. chart 5.5). This decrease in the nominal external value reflects, in particular, the depreciation against the US dollar.

Real external value of Swiss franc still high

With the Swiss franc weakening in nominal terms, the real trade-weighted external value of the franc calculated by the SNB also fell slightly (cf. chart 5.6). However, similar to the equivalent indices calculated by the Bank for International Settlements (BIS) and the International Monetary Fund (IMF), it is trading above the year's lows reached in spring. The Swiss franc also remains highly valued in a longer-term comparison.

Chart 5.4

EXCHANGE RATES



Source: SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

December 2000 = 100

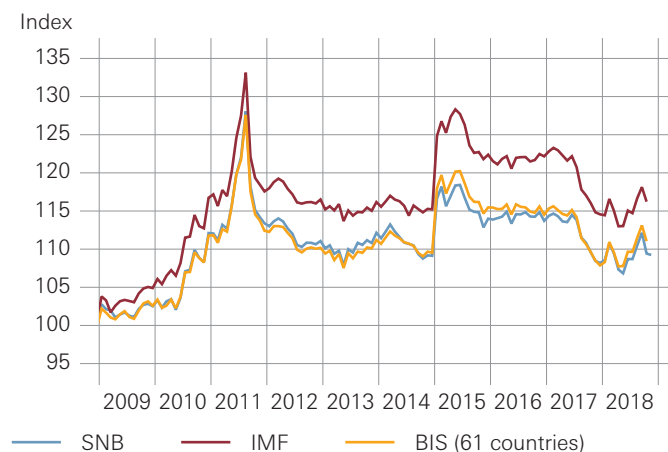


Source: SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

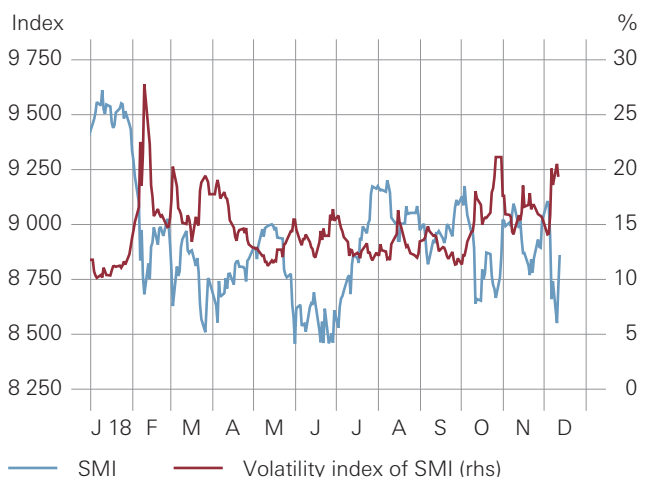
December 2000 = 100



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

Chart 5.7

SHARE PRICES AND VOLATILITY

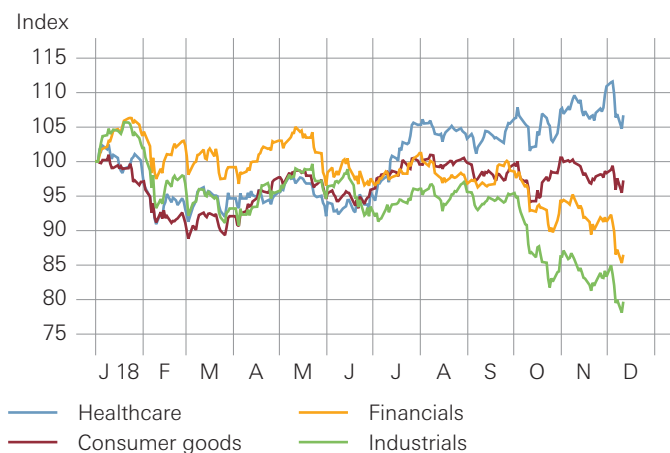


Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

SELECTED SPI SECTORS

1 January 2018 = 100

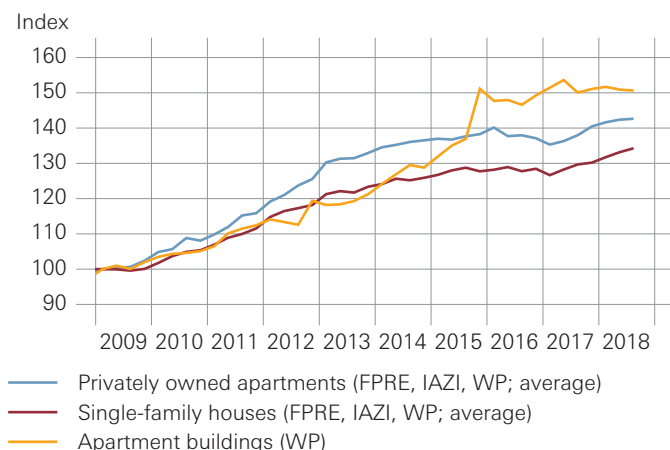


Source: Thomson Reuters Datastream

Chart 5.9

HOUSING TRANSACTION PRICES

Nominal (hedonic), beginning of period = 100



Sources: Fahländer Partner Raumentwicklung (FPRE), IAZI, Wüest Partner (WP)

SHARE AND REAL ESTATE PRICES

Swiss share prices volatile

The Swiss Market Index (SMI) has been trending sideways over the last three months, albeit with some sharp fluctuations (cf. chart 5.7). While always remaining well below the year’s highs set in January, it also consistently exceeded the lows reached in June. In mid-December, the SMI was around 7% down on the beginning of the year.

Heightened market uncertainty

The volatility index derived from options on SMI futures contracts gauges stock market investors’ assessment of uncertainty (cf. chart 5.7). The index rose significantly in October and has since mostly stayed above its May to September levels.

Movements in sectoral indices

Chart 5.8 shows the movements of important sub-indices in the Swiss Performance Index (SPI). Having been relatively close to one another in the first half of the year, the indices for the various sectors diverged considerably at times in the second half of the year. Share prices of healthcare companies emerged as relative winners, while shares in industrial companies lost considerable ground, particularly since early October.

Residential real estate prices still high

The available transaction price indices for privately owned apartments and single-family houses rose slightly in the third quarter of 2018, while prices for apartment buildings (residential investment property) remained essentially unchanged (cf. chart 5.9), thus continuing on the trajectory seen in recent quarters. High vacancy rates are contributing to the modest price movements for apartment buildings at present. Prices for all three categories of residential real estate are still at a high level, however.

MONETARY AND CREDIT AGGREGATES

Monetary base largely unchanged

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has remained largely stable since mid-2017, averaging CHF 552.4 billion in November 2018 (cf. chart 5.10).

As with other sight deposits held at the SNB, the sight deposits of domestic banks fluctuated slightly. Total sight deposits at the SNB nevertheless remained practically unchanged.

Slower growth in broad monetary aggregates

Growth in the M1, M2 and M3 monetary aggregates stabilised from mid-2018, having slowed in the first half of the year. In November 2018, M1 (currency in circulation, sight deposits and transaction accounts) was 5.0% above its year-back level, while M2 (M1 plus savings deposits) was up by 3.0% and M3 (M2 plus time deposits) rose by 2.8% in the same period (cf. table 5.1). Whereas sight deposits and transaction accounts grew year-on-year, savings deposits and time deposits decreased slightly.

The total for sight deposits and deposits in transaction accounts continues to make up the vast majority of the M3 monetary aggregate, followed by savings deposits, currency in circulation and time deposits (cf. chart 5.11). The small share of time deposits is due to the low interest rate differential compared with sight deposits.

Unchanged lending growth in third quarter

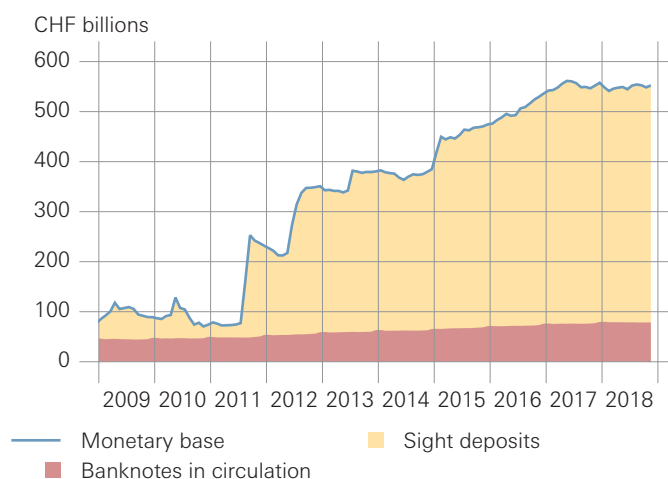
Bank lending increased 3.4% year-on-year in the third quarter of 2018. Lending growth thus remained unchanged (cf. table 5.1, chart 5.12).

Growth in banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, was up 3.0% year-on-year in the third quarter (Q2 2018: 2.8%). The growth rate for mortgage claims thus rose slightly again, having decreased by half between 2012 and 2015 and having stabilised thereafter.

Other loans (i.e. loans not secured by mortgages) grew 6.2% year-on-year in the third quarter of 2018, compared to 7.0% in the previous quarter. Growth in other loans thus remains relatively robust. The development in other loans – which are typically cyclical – is in line with the still favourable economic momentum.

Chart 5.10

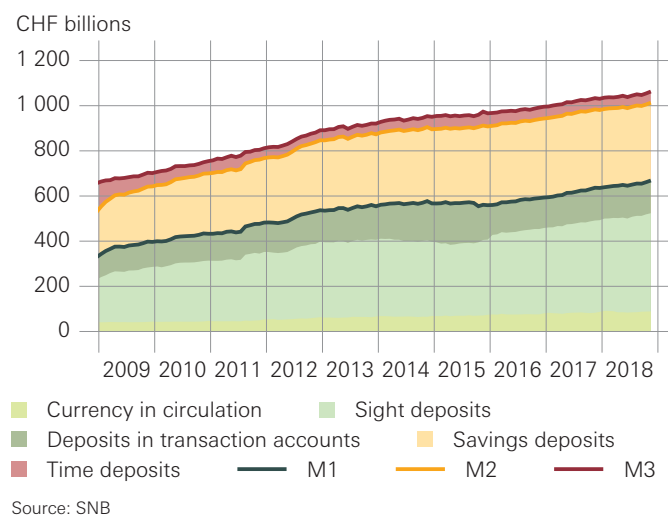
MONETARY BASE



Source: SNB

Chart 5.11

MONETARY AGGREGATES

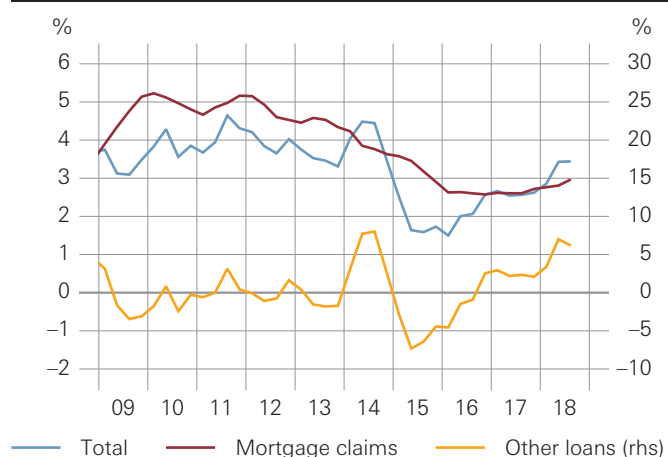


Source: SNB

Chart 5.12

BANK LOANS

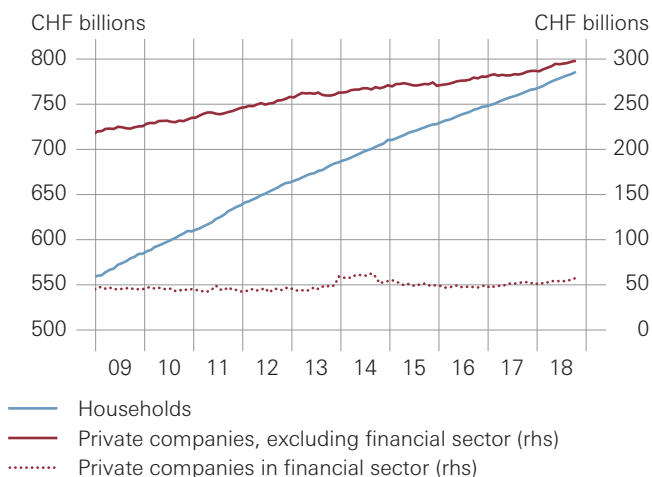
Year-on-year change



Source: SNB

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES



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 reflected by a steady rise in bank loans extended to these two important customer groups (cf. chart 5.13).

At the end of September 2018, loans to households – predominantly mortgage loans – recorded a year-on-year increase of CHF 21.3 billion (2.8%) and loans to non-financial companies a rise of CHF 13.2 billion (4.6%) over the same period. Loans to financial companies, which exhibit greater volatility at a significantly lower volume, advanced by CHF 2.4 billion (4.6%).

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2017	2017	2018			2018		
		Q4	Q1	Q2	Q3	September	October	November
M1	6.5	7.4	7.3	5.9	5.0	4.8	4.9	5.0
M2	4.1	4.3	4.1	3.1	2.6	2.6	2.8	3.0
M3	3.7	4.0	3.6	2.8	2.4	2.3	2.6	2.8
Bank loans, total ^{1,3}	2.6	2.6	2.9	3.4	3.4	3.5	3.4	
Mortgage claims ^{1,3}	2.6	2.7	2.8	2.8	3.0	2.9	3.0	
Households ^{2,3}	2.6	2.6	2.5	2.6	2.7	2.7	2.7	
Private companies ^{2,3}	3.4	3.7	3.4	3.4	3.8	3.6	4.0	
Other loans ^{1,3}	2.4	2.1	3.4	7.0	6.2	6.6	5.7	
Secured ^{1,3}	4.9	2.1	3.1	8.0	3.9	2.2	2.0	
Unsecured ^{1,3}	0.6	2.1	3.6	6.3	7.9	9.9	8.4	

1 Monthly balance sheets (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).

2 Credit volume statistics (domestic bank offices, positions vis-à-vis domestic non-banks, 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

Business cycle signals

Results of the SNB company talks

Fourth quarter of 2018

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 241 company talks were conducted between the beginning of October and the end of November.

Regions

Central Switzerland

Eastern Switzerland
Fribourg/Vaud/Valais
Geneva/Jura/Neuchâtel
Italian-speaking Switzerland
Mittelland
Northwestern Switzerland
Zurich

Delegates

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

Key points

- The Swiss economy remained robust in the fourth quarter, with growth broadly based across various industries and markets. That said, the tendency towards a slowdown that was already emerging in the third quarter persisted. Many companies are nonetheless set to post record turnover in 2018.
- Technical production capacity and infrastructure are within the range of normal utilisation. Bottlenecks are still evident in certain areas of manufacturing. Meanwhile, difficulties in recruiting specialists have heightened.
- Since the beginning of the year, profit margins in manufacturing have reached the levels regarded as normal, but they are still lagging behind slightly in a number of segments in the services sector. The construction sector's margins remain under pressure.
- Companies are still confident when looking to the first two quarters of 2019, key factors being the economic environment internationally and the positioning of their companies. However, they also see numerous risks on the horizon.
- Companies are planning to increase hiring noticeably and to step up investment, albeit no longer to quite the same extent as in the third quarter.

CURRENT SITUATION

Economic momentum slowing

Economic growth was robust in the fourth quarter. Although company representatives reported another quarter-on-quarter rise in real turnover – i.e. turnover adjusted for changes in sale prices – the gains were less pronounced than in previous quarters (cf. chart 1; for guidance on interpreting the charts, please refer to the relevant section at the end of this report). The indices are also no longer quite on a par with the high growth rates seen in the same quarter last year. Nevertheless, a good number of companies are well on track to post record turnover this year.

Turnover remains favourable, both domestically and on the export front. Demand is still broad based geographically, and business with the US is strong. There are also predominantly positive signals regarding sales to China, Japan and Europe (specifically Germany, France, the Benelux countries and the UK). Signals are mixed with respect to Turkey, and leaning towards unfavourable when it comes to Russia. Capital goods trade remains strong, as do sales of medtech goods and chemical and pharmaceutical products. Meanwhile, momentum in the automotive industry has waned noticeably.

Utilisation of production capacity at normal levels

Although utilisation of technical production capacity is somewhat less pronounced than in the third quarter, it remains around a normal level (cf. chart 2). Technical capacity utilisation is normal at 42% of companies, while 27% report slight or substantial overutilisation. Some companies in the mechanical engineering, electrical engineering and metals industries are still recording very high utilisation.

Various company representatives from the manufacturing sector mentioned problems with supply shortages and in some cases considerably longer delivery times, frequently with regard to deliveries of raw materials and technical and electronic components from China. Against this backdrop, it is of significant importance for companies to ensure their own capacity to deliver to customers. Their responses to these challenges include increasing inventory levels, adding more shifts, and employing temporary staff.

Staff numbers low – recruitment difficult

Company representatives in all three sectors view their staff numbers as being slightly on the low side. 32% of companies describe their headcount as being slightly or much too low at present, while just 11% consider their staffing levels to be too high.

The labour market is regarded as being very tight. Recruitment difficulties in manufacturing have heightened further, while the situation in the services sector has also deteriorated. Half of the companies in both sectors state that attracting staff – especially from Germany – is more difficult than usual. Certain businesses are also experiencing greater fluctuation. The recruitment of professionals and engineers remains challenging, and the same can be said of IT specialists who are in short supply in various industries. IT skills are essential in an ever broader range of professions. Companies also say that they are still struggling to find sufficient apprentices, while many cite the lack of specialists as being their primary concern.

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

No change with regard to margins

Overall, profit margins are just below the levels company representatives regard as normal, albeit with a very mixed picture between the three sectors of the economy – services, manufacturing and construction – and within the individual sectors themselves. Margins remain under pressure in certain industries in the services and construction sectors in particular.

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

As regards trade, real turnover is substantially higher quarter-on-quarter. However, infrastructure in the retail trade in particular is still underutilised.

Margins have come under considerable pressure in the vehicle trade in the fourth quarter, due to the impact on turnover of delivery issues facing Germany's automotive industry. These in turn are attributable to a new test procedure for car emissions and fuel consumption, which has proven more time consuming for manufacturers to implement than had been expected. The situation is now gradually improving. The uncertainty among customers with regard to the drive technology that will prevail going forward is being felt by car dealers.

In the transport industry, the exceptionally low level of the Rhine has led to a marked reduction in the volume of goods moved by barge on the river, resulting in sharp price hikes.

Banks and insurance companies are continuing to enjoy good business activity. However, banks' margins are slightly below the levels considered to be normal. This is partly due to the ongoing decline in net interest margins and the costs involved in implementing regulations. Infrastructure remains underutilised, one frequently cited reason for this being the ongoing decrease in customer footfall in branch networks that are seen as being excessively dense.

While many tourism businesses were able to benefit strongly from the excellent weather and the generally favourable economic conditions over the summer months, real turnover was slightly lower in October and November. Seminar hotels are reporting greater demand from companies (courses, events). Representatives of the hotel industry are very upbeat about the coming winter season, with bookings already up on last year in many places.

Companies in the ICT industry are reporting very strong business activity with a sharp rise in turnover. However, the telecommunications market is experiencing fierce competition and structural change.

The business situation of engineering and architecture companies remains positive. Auditors, fiduciaries and consultancy firms are also upbeat with regard to their business performance, although their margins are lower than would be deemed normal.

In manufacturing, the majority of industries recorded higher turnover quarter-on-quarter. Suppliers in the automotive industry are noticing a decline in orders, although this is seen as being temporary. Meanwhile, business performance is particularly strong among chemicals and pharmaceuticals firms, companies in the medtech and mechanical engineering, electrical engineering and metals industries, and the watchmaking industry.

Overall, the construction sector lacks momentum, and turnover is on a par with last quarter. There has been a marked slowdown in structural engineering, but also in the finishing trade. Margins are under pressure. However, production capacity is still slightly overutilised, as has been the case for some time. The order situation remains sound. A number of representatives are concerned about the ongoing increase in housing unit vacancies and high real estate prices.

Chart 3

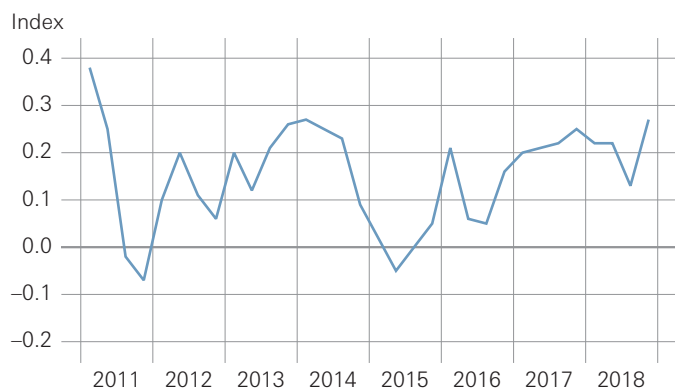
EXPECTED TURNOVER



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

Chart 4

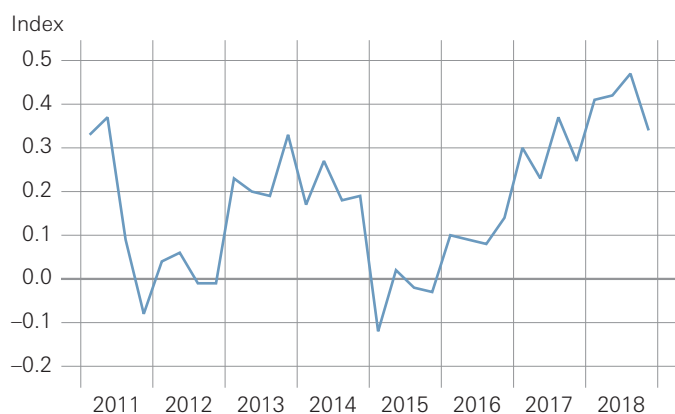
EXPECTED CAPACITY UTILISATION



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

Chart 5

EXPECTED EMPLOYMENT



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

OUTLOOK

Good prospects for 2019

Company representatives' optimism about their business prospects for the next two quarters remains intact. Overall, representatives from all three sectors expect real turnover to rise (cf. chart 3). This upbeat outlook is based on the favourable economic situation, both internationally and domestically, coupled with steady to better-than-average orders and well-developed and ever more efficient production capacity. Further price increases are also in the offing in certain areas in a number of industries. In this quarter, too, many representatives see their companies as being ideally positioned in terms of size, product range, innovation, flexibility, sales markets and social trends.

With regard to the next two quarters, company representatives expect slightly higher utilisation of technical production capacity and infrastructure (cf. chart 4).

There are still plans in many areas for increased investment in both equipment and buildings over the next twelve months, such intentions being signalled by manufacturing companies in particular. The persistently low interest rate environment encourages investment. Just under a third of companies investing in equipment are also specifically expanding their production capacity. The wholesale and hospitality industries are not planning to increase capital spending in the coming twelve months, however.

Prices continuing to rise

Expectations regarding the development of purchase and sale prices have changed only little from the previous quarter; company representatives anticipate both continuing to increase slightly in the next two quarters. Expectations of rising prices are on the high side in the case of manufacturing. In the discussions, higher purchase prices were linked to increases in raw material prices as well as good capacity utilisation among suppliers. A number of companies are planning sales price increases from the beginning of 2019, following on from the hikes some of them already made in 2018. In trade, there is more of an expectation that prices will remain stable, for purchases and sales alike. In light of fierce competition and technological change, the ICT industry expects prices to decline.

Further expansion in staff numbers

The prospects of stronger business performance, combined with the personnel shortages mentioned by many representatives, are bolstering recruitment plans. Managers in the services and manufacturing sectors are planning to increase staff numbers further in the next two quarters, although these efforts are somewhat less pronounced than was the case in the initial quarters of 2018 (cf. chart 5). Many firms are focusing on in-house training and apprenticeships in an effort to attract and retain staff. There are tendencies towards reducing

headcount in specific instances in the pharmaceuticals and telecommunications industries, as well as in trade.

Wage demands rising

Companies are noticing a certain tendency towards higher salary demands among job applicants. However, there are increasing calls for more pay from existing employees as well. Wage increases already announced for 2019 exceed 1% on average.

ENVIRONMENT AND RISKS

For all their optimism, company representatives also see a number of risks on the horizon, noting that it would not take much for sentiment to take a turn for the worse. Geopolitical risks are to the fore in this regard. Specific mention is made of the US trade disputes with China and the EU and their potential direct or indirect impact on companies. Other risks cited include a slump in the global economy, Brexit and unresolved structural problems in Europe.

Domestically, the challenges most commonly referred to were the distinct shortage of specialised staff as well as delivery bottlenecks for raw materials and semi-finished products. Renewed appreciation of the Swiss franc is also identified as a risk. There is unease with regard to developments on the real estate markets, particularly in Aargau and Ticino. Company representatives mentioned, in particular, growing vacancy rates in apartments, very low returns on investment properties, and risks being taken by investors. A recurring theme is the extent to which regulation is weighing on a wide range of areas.

Digitalisation continues to be actively debated and explored. As well as offering opportunities, it is seen as posing risks, not least due to the high level of investment required.

About this report

Approach

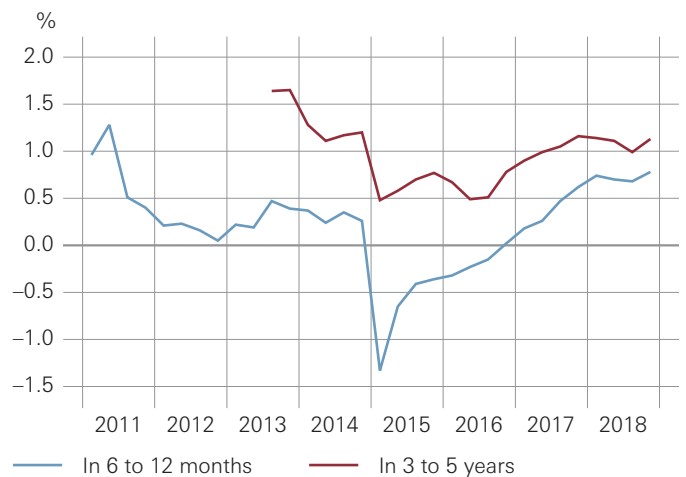
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

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 part of the qualitative information received according to a numeric scale. This enables the results to be aggregated and represented graphically.

Chart 6

EXPECTED INFLATION



Source: SNB

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, as measured by the consumer price index.

There has been a modest increase in inflation expectations, both over the short and long term. The average for the next six to twelve months (blue line in chart 6) is 0.8%, compared to 0.7% in the previous quarter. Over the medium term – i.e. with a time horizon of three to five years (red line in chart) – the average is 1.1% (previous quarter: 1%). Inflation expectations thus remain well anchored.

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, The SNB, SNB regional network.

Acknowledgements

The SNB would like to thank the representatives from around 900 companies that have consented to take part in interviews with the delegates for regional economic relations during the course of 2018. In doing so, they have made a significant contribution to the evaluation of economic developments. The companies listed below have agreed that their names may be published:

A

ab ingénieurs SA. Abacus Research AG. ABB Schweiz AG. ABC Maritime AG. ABCD Cine Dance SA, Carte Blanche SA. Accuray International Sàrl. acrevis Bank AG. Acutronic Schweiz AG. AD Hotels SA. Adcubum AG. ADV Constructions SA. AEK onyx Gruppe. Aepli Metallbau AG. Aequator AG. Aéroport International de Genève. AF Toscano AG. Affentranger Bau AG. Agathon AG. Agie Charmilles SA. Agustoni Cesare Trucks SA. Albiro AG. Alcar Ruote SA. Aldi Suisse AG. Alesa AG. Algra tec AG. ALLFI AG. Allianz Suisse. Alloboissons. Allpack Group AG. Alltitude SA. Alma-tec AG. Alpha Rheintal Bank AG. Alpnach Norm AG. ALSO Schweiz AG. Alu Menziken Extrusion AG. amag. Amaudruz SA. Ameron Hotel Flora. Ampegon AG. Amplifon AG. Angela Bruderer AG. Angst+Pfister Group. Ansoxix Systems AG. APR Applied Pharma Research SA. Aptar Mezzovico SA. Aquila AG. Arthur Bründler AG. Arthur Weber AG. ARU SA. Arvi SA. Ascenseurs Menétrey SA. Asetronics AG. Assa Abloy (Schweiz) AG. Assos of Switzerland GmbH. ATB SA. Ateliers Busch SA. AudioRent Clair AG. Auto Windlin. Autobritt Automobiles SA. Autogrill Schweiz AG. Auto-Trachsler AG. auviso - audio visual solutions ag. Avaloq Group. AVJ SA. Axa Schweiz.

B

B + T Bild + Ton AG. B. Braun Medical AG. Baker & McKenzie. Balestrafic. Balmer-Etienne AG. Banca Cler SA. Banca dello Stato del Cantone Ticino. Banca Zarattini & Co SA. Bank EKI Genossenschaft. Bank Julius Bär & Co AG. Bank Linth LLB AG. Bank Vontobel AG. Banque Cantonale de Genève. Banque Cantonale du Jura. Banque de Commerce et de Placements SA. Banque Heritage SA. Banque Syz SA. Basellandschaftliche Kantonalbank. BASF Schweiz AG. Bataillard AG. Bauhaus Fachcentren AG. Baumann & Cie, Banquiers. Baumann Koelliker Installation. Baumer Electric AG. BBC Bircher Smart Access. BDO AG. Belimo Holding AG. Benninger Guss AG. Berest AG. Bergbahnen Sörenberg AG. Bergeon SA. Berhalter AG. Bernensis Hotel AG. Berner Kantonalbank AG. Bertholet + Mathis SA. Beutler Nova AG. Bewetec AG. Biella-Neher Holding AG. Bienna Flooring AG. Big Kaiser Präzisionswerkzeuge AG. Bigla Office AG. Bindella Handwerksbetriebe AG. Bindella terra vite vita SA. Binelli Group. bio-familia AG. Bioforce AG. Biosafe SA. Birsterterminal AG. Bistrot & Pizza Argentino. Biwi SA. BlackRock Asset Management

Schweiz AG. Blanchisserie du Léman SA. Blu Restaurant & Lounge. Blu Service Star SA. Board International SA. Bolliger & Tanzi SA. bonacasa AG. Bonvin Nettoyages SA. Bordier & Cie. Bottomline Technologies Sàrl. Bouygues E&S InTec Svizzera SA. BR Bauhandel AG. Bracco Suisse SA. Brauerei Locher AG. Brico SA. Bringhen Group. Brüderli Gastronomie. Bruker BioSpin AG. Brunni-Bahnen Engelberg AG. Brunschwig Group. BSI Business Systems Integration AG. Bucher et Walt SA. Bucher Industries AG. Bucherer AG. Burckhardt Compression AG. Burkhalter Holding AG. Buschini SA.

C

CABB AG. Cabiancari SA. Café de Grancy Sàrl, Soulfood SA, Tricycle SA. Café Gschwend AG. Café Restaurant de Dorigny. Caffè Chicco d'oro SA. Calida AG. Camillo Vismara SA. Canonica Management SA. Capomondo SA. Cargill International SA. Carpentaria Alpina SA. Carthesio SA. Cäsar Bay AG. Casinotheater Winterthur. CCV Suisse. Cedes AG. Cellere Bau AG. Cencini SA. Centris AG. Ceramaret SA. Cerbios-Pharma SA. CeRFI SA. Cerutti Toitures SA. CGC Energie SA. Chocolat Alprose SA. Chocolat Bernrain AG. Chocolat Frey AG. Christen AG. Christian Jakob AG. Chromos AG. Chrono AG. CI Tech Sensors AG. CIMO Compagnie industrielle de Monthey SA. Ciolina AG. Cippà Trasporti SA. CKW AG. Clarins SA. Cleanfix Reinigungssysteme AG. Clear Channel Schweiz AG. Clientis EB Entlebucher Bank. Clientis Zürcher Regionalbank. Clinica Luganese Moncucco SA. Clinique de la Source. Clinique La Prairie SA. CLS Communication AG. Cofco International Trading SA. Comfone AG. Comlab AG. Compagnie Financière Tradition SA. Compagnie Hôtelière des Alpes Vaudoises SA. Continental Suisse SA. Coop. Corbeau AG. Corti Gruppe. Corvaglia Holding AG. Cotecna Inspection SA. Covestro International SA. CP Pump Systems. CPH Chemie + Papier Holding AG. CRB SA. Crealogix AG. Création Baumann AG. Credit Suisse AG. Crossinvest SA. Crypto Schweiz AG. CSL Behring AG. cstafing agency. CTA AG. Culturefood. CWA Constructions SA. CWS-boco Suisse SA. Cybelelec. CYCL AG.

D

Dallmayr Automaten-Service (Ticino) SA. das team ag. Dätwyler Cabling Solutions AG. Davos Klosters Bergbahnen AG. Deloitte AG. Delta Electronics (Switzerland) AG. Delta Gruppe. Deltacarb SA.

Devillard SA. Die Mobiliar. Die Schweizerische Post AG. Dine & Drink GmbH. Disch AG. Dixa AG. Dixi Polytool SA. Dolder Hotel AG. Dosim SA. Dottikon Exclusive Synthesis AG. Dr. Röthlisberger AG. Dreier AG Transporte Logistik. Druckerei Odermatt AG. DS Smith Packaging Switzerland AG. Dubois & Dépraz SA. Dufry AG. DuPont. Düring AG Ebikon. Duscholux AG. Dyconex AG.

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F

F. Borner AG. F. Hunziker + Co AG. Fabbri SA. Fanzun AG. FAS Medic SA. Fastlog AG. Faulhaber Minimotor SA. Federtechnik Gruppe. Fehr Braunwalder AG. fenaco Genossenschaft. Ferriere Cattaneo SA. fiduciariaMega SA. Filippi SA. First Industries SA. FISBA AG. FKG Dentaire SA. Flachglas (Schweiz) AG. Fleur de Pains SA. Folex AG. Forster Rohner Gruppe. Fossil Group Europe GmbH. Fostag Formenbau AG. Fr. Sauter AG. Franck Muller Watchland SA. François Brasier SA. Franke Group. Free Shop Frontiera SA. Frewitt fabrique de machines SA. Frigerio SA. Frigosuisse AG. Furrer + Frey AG. Furrer-Jacot AG. FZSoNick SA.

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H

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I

I.T. International Transmission SA. IBC Insurance Broking & Consulting Holding SA. IBM Schweiz AG. id Quantique SA. Idorsia AG. IFEC Ingegneria SA. IGP Pulvertechnik AG. Ikea AG. IM Maggia Engineering SA. IMA Medtech Switzerland SA. Implenia Schweiz AG.

Indermühle Holding AG. Innovative Sensor Technology IST AG. Inretis Gruppe. Insulæ Groupe Radicchi. Interfida Holding. Interroll Holding AG. Investas AG. ISA Sallmann AG. Isenschmid AG. Iseppi Frutta SA. Itecor Suisse SA. IWC Schaffhausen Branch of Richemont International SA.

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L

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M

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Naef Immobilier SA. Namics AG. NDW Neue Duschwelt AG. Neste (Suisse) SA. Nestlé Nespresso SA. Nestlé Suisse SA. NetGuardians. Netstream AG. nettoShop AG. Neue Aargauer Bank. New Access SA. Newrest SA. Nexans Suisse SA. Nidwaldner Kantonalbank. Nolato Treff AG. Notz Stucki & Cie SA. Novag AG. Novae Restauration SA. Novametal SA. Novartis. NRP Ingenieure AG. Nüssli (Schweiz) AG.

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Oblamatik AG. Obrist Interior AG. OBT AG. Obwaldner Kantonalbank. Officine Ghidoni SA. Officine Panerai Branch of Richemont International SA. OLF SA. OLZ AG. Opacc Software AG. OPO Oeschger AG. Optimus Placement SA. Orgapropre SA. Orolia Switzerland SA. Ortho-Team Partner AG. Orthotec AG. Oskar Rüegg AG. Osmopharm SA. Otto Hofstetter AG. OVD Kinegram AG.

P

Palexpo SA. Pamp SA. Panalpina AG. Parmaco Metal Injection Molding AG. Patric métal SA. Paul Büetiger AG. PB Swiss Tools GmbH. peka-metall AG. Periso SA. Pharmacie Principale SA. Philip Morris International Management SA. Philips AG. Phoenix Contact AG. Pibor Iso SA. Piccadilly SA. Pilet & Renaud SA. Pistor AG. PK Bau AG. PKF Fiduciaire SA. Planair SA. Porsche Zentrum Zug Risch AG. PPCmetrics AG. Preci-Dip SA. Primaform AG. Prime21 AG. PRO Entreprise sociale privée. Probst Group Holding. ProCrea. Procter & Gamble International Operations. Prosegur SA. Puliconsult SA. PwC.

Q

Qim info SA. QoQa. Qualibroker.

R

R.T.B. Corvaglia Sàrl. Raiffeisenbanken. Rainbow SA servizi di sicurezza. RDR architectes. Reglatronic SA. Regloplas AG. Reka Schweizer Reisekasse. Renggli AG. Resilux Schweiz AG. Restaurant Florida AG, Studen. Rex Articoli Tecnici SA. Reyl & Cie SA. Rheinfall Gastronomie AG. Rhyner Logistik. Richard AG Murgenthal. Ricola AG. Rigi Bahnen AG. RIMED AG. Rinco Ultrasonics AG. Ristorante Capo San Martino. Rivella AG. RKB Europe SA. Roche. Roche Diagnostics International AG. Rockwell Automation Switzerland GmbH. Rofra Bau AG. Rohr AG Reinigungen. Rolla SP Propellers SA. Rollomatic SA. Romantik Hotel Sternen. Ronin Primeurs SA. Rosset et Cie. Rötthlisberger AG, Die Schreinermanufactur. Rotronic AG. Roulin Frères SA. roviva Roth & Cie AG. Ruckstuhl AG. Rüeger SA. Rugenbräu AG. RWD Schlatter AG.

S

SA di Gestione Shopping Center Serfontana. SA Vini Bée. Safram SA. Samsic Facility SA. Sanacare AG. Sanitas Troesch AG. Säntis-Schwebbahn AG. Saphir Group. Sarix SA. Sateldranse SA. saw gruppe. SBB Cargo International AG. Scania Schweiz AG. Schaffhauser Kantonalbank. Schaltag AG. Schärli Architekten AG. Schaublin SA. Scheitlin Syfrig Architekten. Schellenberg Wittmer. Schelling AG. Schenk SA. Scherer & Bühler AG. Scherler AG. Scheuchzer SA. Schilthornbahn AG. Schlatter Industries AG. Schmid AG energy solutions. Schmocker AG. Schneider Holding AG. Schneider Sanitaires SA. Scholz & Friends Schweiz AG. Schöni Transport AG. Schott Schweiz AG. Schroder & Co Bank AG. Schulthess Klinik. Schütz Montlingen GmbH & Co KG. Schwarz Stahl AG. Schweizer Heimatwerk. Schweizerische Schiffahrtsgesellschaft Untersee und Rhein AG. Schwyzer Kantonalbank. SCS Supercomputing Systems AG. Sedelec SA, Lausanne. Seeblick Garage AG. Sefa SA. SEIC-Télédis. Seiler Hotels AG. Seilfabrik Ullmann AG. Senn Transport AG. Sensirion Holding AG. Serfrè SA. Seven-Air Gebr. Meyer AG. Shoppi Tivoli. Sieber Transport AG. Siegfried Holding AG. Siemens Building Technologies. Sierre-Energie SA. SIGA Holding AG. Signal AG. Sigvaris AG. Similor AG. Simplex AG. Sinnvoll Gastro. Sinomedica. SIP Industrial Promotion SA. Siska Heuberger Holding AG. Sitag AG. SJB.Kempter.Fitze AG. SL&C SA. Slongo AG. SMB Medical SA. Smedico AG. Société Générale Private Banking (Suisse) SA. Soplar SA. Spagyros AG. Spar- und Leihkasse Frutigen AG. Spectros AG. SPIE ICS AG. Spineart SA. Spirig HealthCare AG. Spross-Holding AG. St. Claraspital. Stadthaus Nidau AG. Stahl Gerlafingen AG. Stanzwerk AG. Stark AG. Stebler Blech AG. Steiner AG. Stella Brandenberger Transporte AG. Stihl Kettenwerk Schweiz. Storchen Zürich. Strabag AG. Straumann Holding. Streck Transport AG. Striebig AG. stürmsfs ag. Suhner Holding AG. Sulzer AG. Sunstar Hotelgruppe. Swarovski Gruppe. SWG, Grenchen. Swiss International Air Lines Ltd. Swiss Prime Site AG. Swisscom AG. SwissFlock AG. Swissôtel Basel. swissQprint AG. Swissquote Bank SA. Sycrilor Industries SA. Sylvac SA. Symalit AG. Symetis - Boston Scientific. Synaxis AG Zürich. Syngenta AG. Syntax Übersetzungen AG. Synthes Produktions GmbH.

T

T+R AG. Talus Informatik AG. TBF + Partner AG. Tcpos SA. TCS Assurances SA. Tecan Group AG. Tech Data (Schweiz) GmbH. Telecom Services SA. Téléréverbier SA. Terrani SA. The Chedi Andermatt. The Nail Company Sàrl. The Nielsen Company (Switzerland) GmbH. Thermo Fisher Scientific (Ecublens) Sàrl. Thomann Nutzfahrzeuge AG. Thurgau Travel AG. Tiba AG. Tokheim Switzerland SA. Toneatti AG. Translait SA. Trasfor SA. Treier AG. Trikora AG. TSM Compagnie d'Assurances. T-Systems Schweiz AG. Tulux Licht.Lumière.

U

u-blox Holding AG. UBS AG. Uffer AG. Univerre Pro Uva SA. Urma AG Werkzeugfabrik. Urner Kantonalbank. USM U. Schärer Söhne AG.

V

Valora Holding AG. Varin Etampage SA. Vebego AG. Veriset AG. Viktoria-Jungfrau Grand Hotel & Spa. Villars Holding SA. Virtua. Vitol SA. Volg Konsumwaren AG. Von Roll Schweiz AG. vonRoll hydro (suisse) ag. VTX Telecom SA. VZ Holding AG. V-Zug AG.

W

W. Gassmann AG. W. Thommen AG. WAB-Group. Wago Contact SA. Wälli AG Ingenieure. Walo-Gruppe. Wander AG. Wandfluh AG. Wäsche-Perle AG. Wassermann & Company AG. Weinmann-Energies SA. Weleda AG. Welti-Furrer. Wenger + Wirz AG. WIKA Schweiz AG. Willemin-Macodel SA. Winterhalter + Fenner AG. Wolfensberger AG. World Economic Forum. Wüest & Cie AG. Wullschleger Martinenghi Manzini Holding SA.

Y

Ypsomed AG.

Z

Zanini Vinattieri SA. Zehnder Group. Zenith. ZFV-Unternehmungen. Zraggen Energie Holding AG. Zingg Transporte AG. Zoo Zürich AG. Zuger Kantonalbank AG. Zur Rose Suisse AG. Zürcher Kantonalbank. Zwahlen & Mayr SA.

1

1a hunkeler holzbau AG.

2

2B Family Holding AG.

4

4B 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 13 December, the SNB leaves the interest rate on sight deposits with the SNB at -0.75% and its target range for the three-month Libor at between -1.25% and -0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>December 2018</p>
<p>At its quarterly assessment of 20 September, the SNB leaves the interest rate on sight deposits with the SNB at -0.75% and its target range for the three-month Libor at between -1.25% and -0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>September 2018</p>
<p>At its quarterly assessment of 21 June, the SNB leaves the interest rate on sight deposits with the SNB at -0.75% and its target range for the three-month Libor at between -1.25% and -0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued, and the situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>June 2018</p>
<p>At its quarterly assessment of 15 March, the SNB leaves the interest rate on sight deposits with the SNB at -0.75% and its target range for the three-month Libor at between -1.25% and -0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued, and the situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>March 2018</p>
<p>At its quarterly assessment of 14 December, the SNB leaves the interest rate on sight deposits with the SNB at -0.75% and its target range for the three-month Libor at between -1.25% and -0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. The depreciation of the Swiss franc reflects the fact that safe havens are currently less sought after. The situation on the foreign exchange market continues to be fragile. In the SNB's view, the Swiss franc remains highly valued. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential. The expansionary monetary policy aims to stabilise price developments and support economic activity.</p>	<p>December 2017</p>
<p>At its quarterly assessment of 14 September, the SNB leaves the interest rate on sight deposits with the SNB at -0.75% and its target range for the three-month Libor at between -1.25% and -0.25%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued, and the situation on the foreign exchange market is still fragile. 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>September 2017</p>

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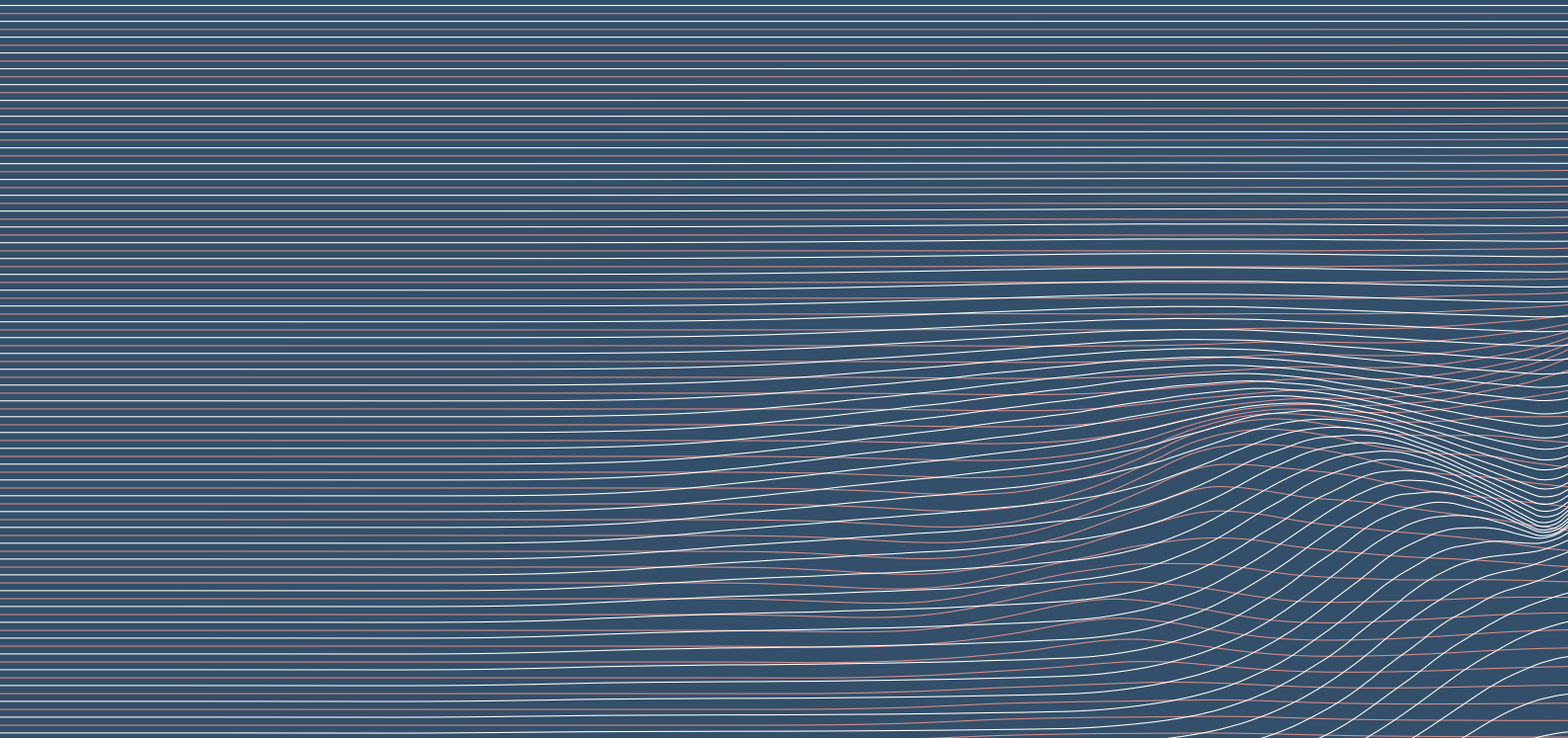
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