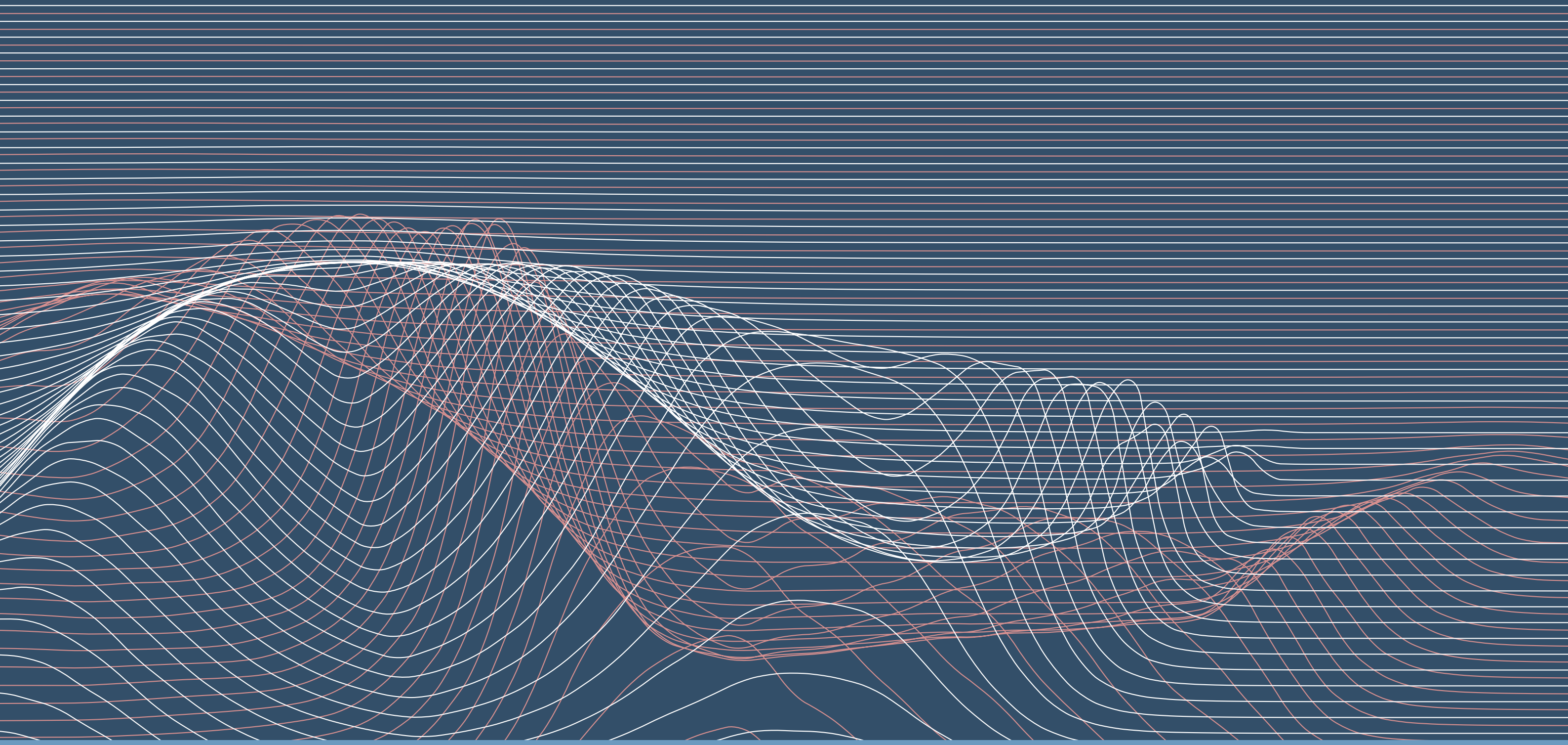


# Quarterly Bulletin
1/2019 March

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

# Quarterly Bulletin
# 1/2019 March

Volume 37

# Contents

# Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2019

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 21 March 2019') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 21 March 2019. 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 21 March 2019

**Swiss National Bank leaves expansionary monetary policy unchanged**

The Swiss National Bank 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 December 2018, the Swiss franc has depreciated slightly on a trade-weighted basis. Overall, however, it 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 therefore remain essential. These measures keep the attractiveness of Swiss franc investments low and reduce upward pressure on the currency.

The new conditional inflation forecast is lower than in December (cf. chart 1.1). This is primarily attributable to weaker outlooks for growth and inflation abroad, and the resulting reduction in expectations regarding policy rates in the major currency areas going forward. The forecast for the current year has been reduced marginally to 0.3%, from 0.5% (cf. table 1.1) in the previous quarter. For 2020, the SNB now expects inflation of 0.6%, compared to 1.0% last quarter. For 2021, it anticipates an inflation rate 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 economic activity has weakened more than expected in recent months. Growth was curbed in part by temporary factors. However, the underlying momentum in many advanced economies also slowed. Production in the manufacturing industry, in particular, was sluggish in a number of countries.

Economic and political uncertainty increased volatility and risk premia on the financial markets at the end of 2018. In addition, growth and inflation in some countries was again weaker than generally anticipated. Both led to lower expectations regarding policy rates in the major currency areas.

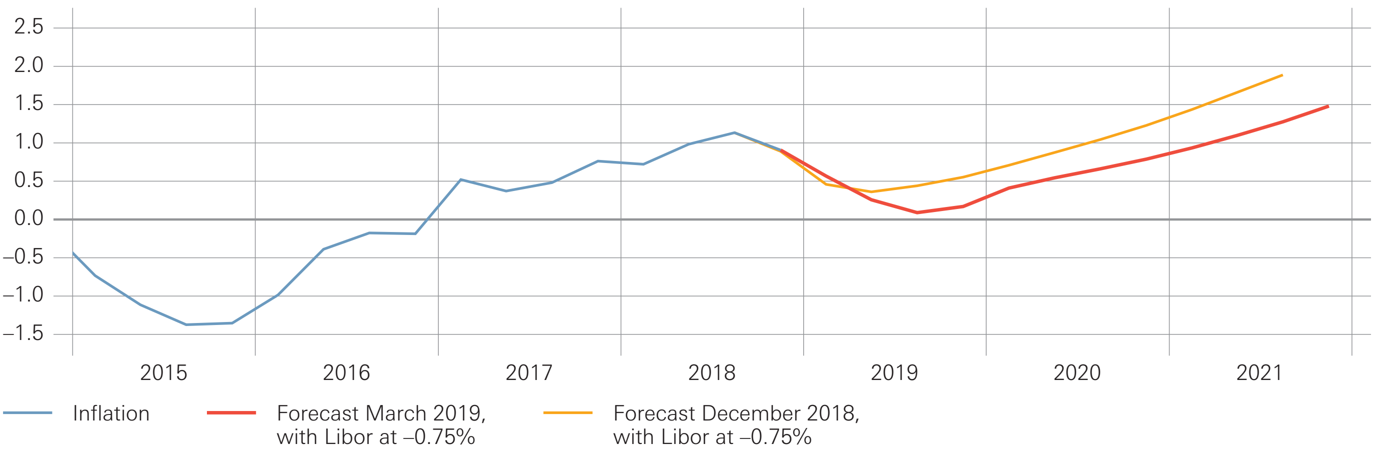
Against this backdrop, in its new baseline scenario for the global economy the SNB has made a downward revision to its growth outlook for the advanced economies for the first half of 2019. Nevertheless, the global economy is still likely to grow in line with its potential in the coming quarters. In the advanced economies, expansionary monetary policy and the robust situation on the labour market are lending support, as is fiscal policy in some countries. However, the risks are still to the downside.

Following strong expansion in the preceding quarters, GDP stagnated in Switzerland in the second half of 2018. However, growth for the year as a whole was robust at 2.5%. Companies' production capacities were well utilised and the labour market situation improved continuously. Jobless figures fell further, and in February the unemployment rate stood at 2.4%.

Chart 1.1

**CONDITIONAL INFLATION FORECAST OF MARCH 2019**

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




Sources: SFSO, SNB

Economic indicators are currently pointing to moderately positive momentum. After stagnating in the second half of 2018, GDP growth is thus likely to pick up again somewhat. For 2019 as a whole, the SNB continues to expect GDP to expand by around 1.5%.

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

**Monetary policy strategy at the SNB**
The SNB has a statutory mandate to ensure price stability while taking due account of economic developments.

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

Table 1.1

## OBSERVED INFLATION IN MARCH 2019

| | 2015 | | | | 2016 | | | | 2017 | | | | 2018 | | | | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 0.9 | –0.4 | 0.5 | 0.9 |

Source: SFSO

## CONDITIONAL INFLATION FORECAST OF MARCH 2019

| | 2018 | | | | 2019 | | | | 2020 | | | | 2021 | | | | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| 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 | | 0.5 | 1.0 | |
| Forecast March 2019, with Libor at –0.75% | | | | | 0.6 | 0.3 | 0.1 | 0.2 | 0.4 | 0.5 | 0.7 | 0.8 | 0.9 | 1.1 | 1.3 | 1.5 | 0.3 | 0.6 | 1.2 |

Source: SNB

# 2 Global economic environment

Global economic activity has weakened more than expected in recent months. Growth was curbed in part by temporary factors. However, the underlying momentum in many advanced economies also slowed. Production in the manufacturing industry, in particular, was sluggish in a number of countries.

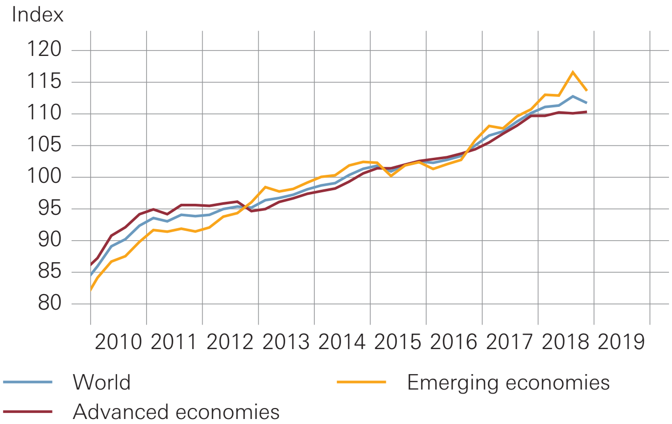
Economic and political uncertainty increased volatility and risk premia on the financial markets at the end of 2018. In addition, growth and inflation in some countries – particularly the euro area and Japan – was again weaker than generally anticipated. Both led to lower expectations regarding policy rates in the major currency areas. Signals on the labour market remain positive overall. Employment figures in the advanced economies rose again and unemployment continued to decline in the main.

In its new baseline scenario for the global economy, the SNB has revised growth in the advanced economies downwards for the first half of 2019. Nonetheless, it continues to expect that growth will be close to potential in the coming quarters. In the advanced economies, expansionary monetary policy and the robust situation on the labour market are lending support, as is fiscal policy in some countries.

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**

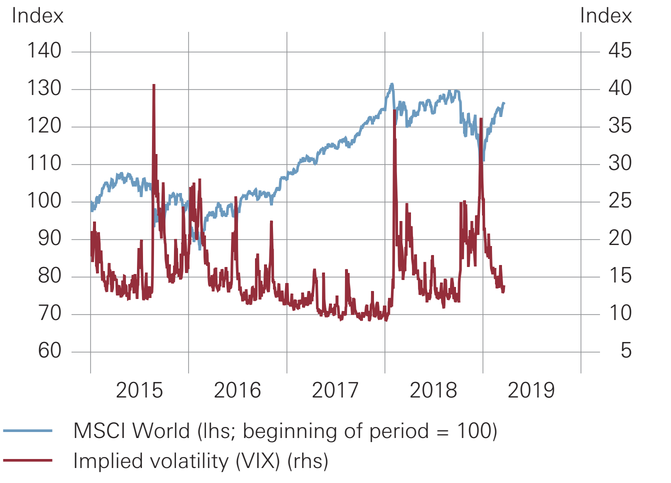
| | 2015 | 2016 | 2017 | 2018 | Scenario 2019 | 2020 |
|---|---|---|---|---|---|---|
| **GDP, year-on-year change in percent** | | | | | | |
| Global [1] | 3.5 | 3.3 | 3.8 | 3.9 | 3.6 | 3.7 |
| US | 2.9 | 1.6 | 2.2 | 2.9 | 2.3 | 2.0 |
| Euro area | 2.0 | 1.9 | 2.5 | 1.8 | 1.1 | 1.4 |
| Japan | 1.3 | 0.6 | 1.9 | 0.8 | 0.6 | 0.5 |
| **Oil price in USD per barrel** | 52.5 | 43.8 | 54.3 | 71.0 | 61.7 | 62.0 |

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**

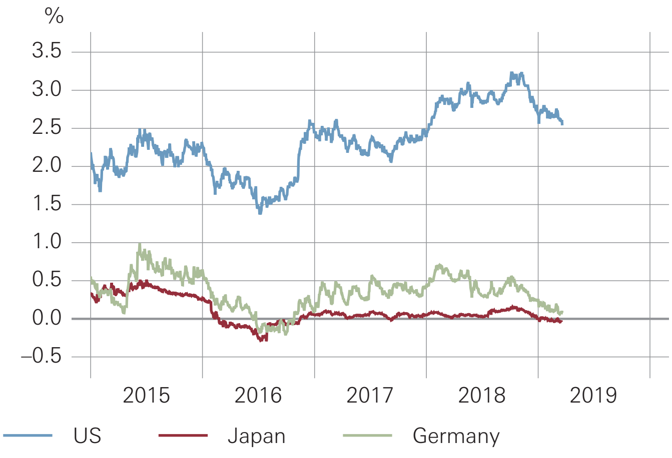



Source: Thomson Reuters Datastream

Chart 2.3

**INTERNATIONAL LONG-TERM INTEREST RATES**

10-year government instruments

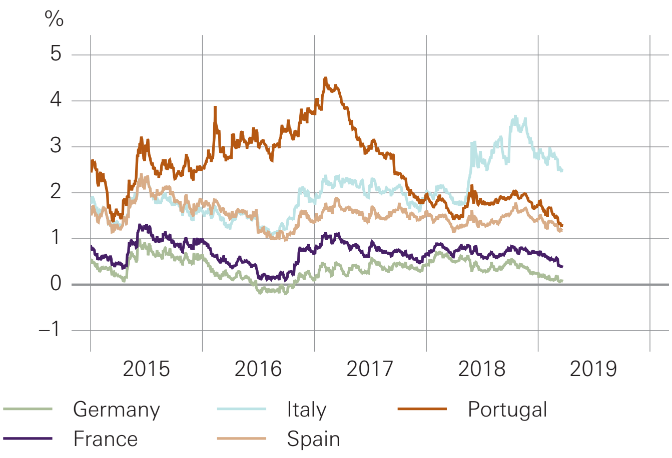



Source: Thomson Reuters Datastream

Chart 2.4

**EUROPEAN LONG-TERM INTEREST RATES**

10-year government instruments




Source: Thomson Reuters Datastream

Risks remain to the downside, however. These concern – first and foremost – political uncertainties and protectionist tendencies, which create further turmoil in financial markets and can pose a threat to global economic growth.

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 62 per barrel, which is USD 12 lower than in the December baseline scenario, and an exchange rate of USD 1.14 to the euro, as in December. Both correspond to the 20-day average when the current baseline scenario was drawn up.

## INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

A sharp increase in volatility dominated the international financial markets in the last few weeks of 2018. Uncertainty in the financial markets receded again at the beginning of the new year. This was reflected in the implied volatility of US stocks as measured by option prices (VIX), which essentially returned to a normal level having risen abruptly in December (cf. chart 2.2). Reassurance was provided, in particular, by a change in the communication of the US Federal Reserve, which stated that it would be patient in determining future interest rate hikes. However, resumed trade talks between the US and China in January also contributed somewhat to easing tensions in the financial markets.

Stock markets recovered losses sustained in November and December, but still remained below the level achieved at the end of September. Uncertainty with regard to the outcome of Brexit as well as ongoing trade tensions continued to have a dampening effect.

Signals from the Federal Reserve and the European Central Bank (ECB) about progressing more slowly with monetary policy tightening contributed to the fall in yields on ten-year government bonds in advanced economies (cf. chart 2.3). Italian yields also declined, but owing to political uncertainty, the yield differential to other EU member states remained high (cf. chart 2.4).

The US dollar and euro weakened slightly on a trade-weighted basis. The pound sterling gained in value, while the Japanese yen trended sideways (cf. chart 2.5). The renminbi has appreciated against the US dollar since the beginning of the year.

Oil prices have recovered slightly since the start of the first quarter, having reached a low at the end of December (cf. chart 2.6). On the one hand, a reduction in oil production by OPEC proved supportive. On the other, concerns over a marked global economic downturn and a resultant oversupply of oil abated somewhat. Prices for precious metals also recovered at the beginning of the year.

## UNITED STATES

At 2.6%, economic growth in the US remained robust in the fourth quarter, albeit no longer as strong as in the previous quarter (cf. chart 2.7). Private consumption remained one of the main drivers. For the year as a whole, GDP growth amounted to 2.9%. Employment figures once again rose sharply in recent months. However, because the participation rate increased slightly, the unemployment rate remained unchanged in February at 3.8% (cf. chart 2.10).

The growth outlook continues to be favourable. Economic activity in the US is likely to have been dampened somewhat in the first quarter of 2019 by the temporary rise in financial market volatility in December, by the uncertainty in connection with the budget dispute in December and January, and by concerns over a global economic downturn. Nonetheless, surveys in manufacturing and services point to continued robust growth (cf. chart 2.9). Against this background, the SNB has revised its 2019 GDP forecast for the US slightly downwards to 2.3%. For 2020, it predicts growth of 2.0% (cf. table 2.1).

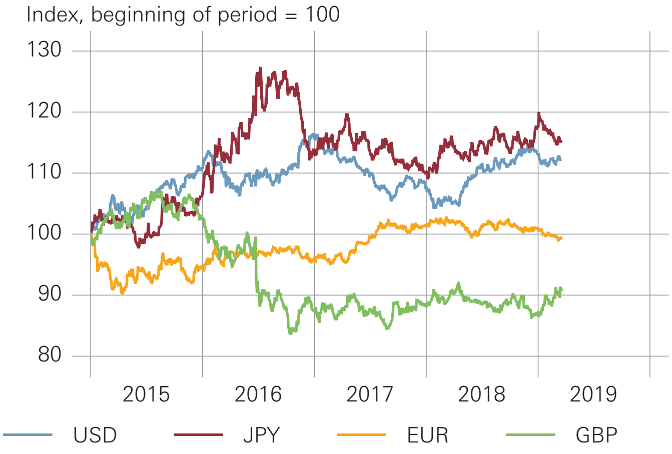
Annual inflation as measured by the consumer price index declined considerably in recent months, and stood at 1.5% in February (cf. chart 2.11). This was due to lower energy prices. Core inflation remained unchanged at slightly over 2% (cf. chart 2.12). In December, annual inflation as measured by the personal consumption expenditure (PCE) deflator index – excluding volatile food and energy prices – stood slightly below the Federal Reserve's target value, at 1.9%.

The Fed raised the target range for its policy rate to 2.25–2.5% in December (cf. chart 2.13). In January, however, it emphasised it would be patient and pause rate hikes for the time being. It added that the threat of inflation was muted, while the growth outlook had become more uncertain. Furthermore, it signalled that it did not want to reduce its balance sheet to pre-crisis levels, and planned to end the runoff this year. In March, the Fed confirmed its earlier decisions, announcing its aim to conclude the balance sheet runoff by the end of September.

Chart 2.5

### EXCHANGE RATES

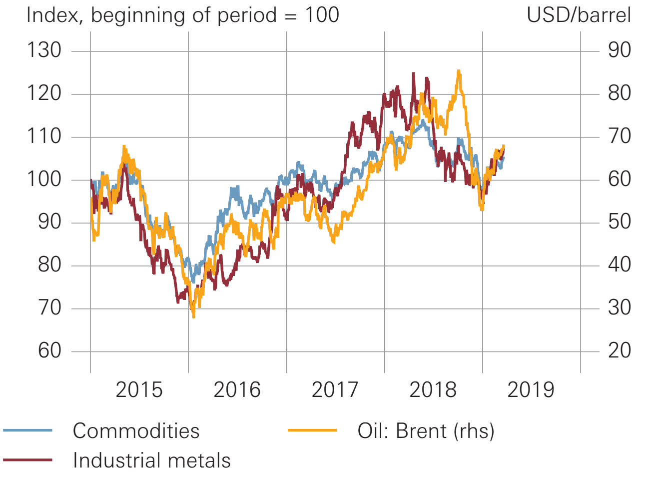
Trade-weighted




Source: Thomson Reuters Datastream

Chart 2.6

### COMMODITY PRICES

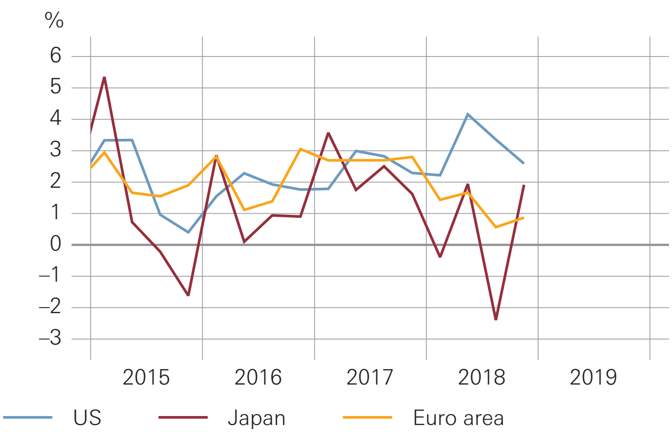



Source: Thomson Reuters Datastream

Chart 2.7

### REAL GDP: ADVANCED ECONOMIES

Change from previous period

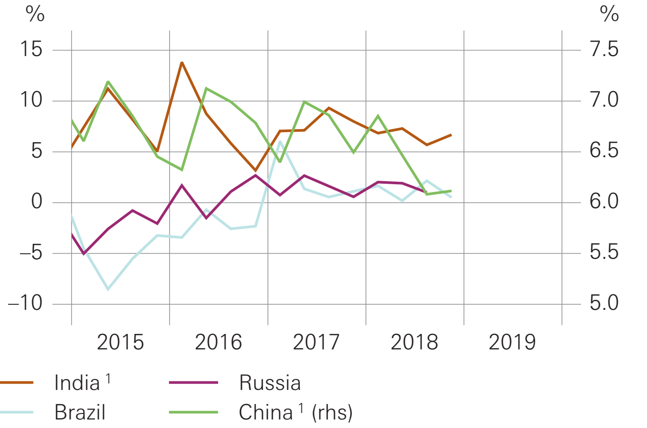



Source: Thomson Reuters Datastream

Chart 2.8

**REAL GDP: EMERGING ECONOMIES**

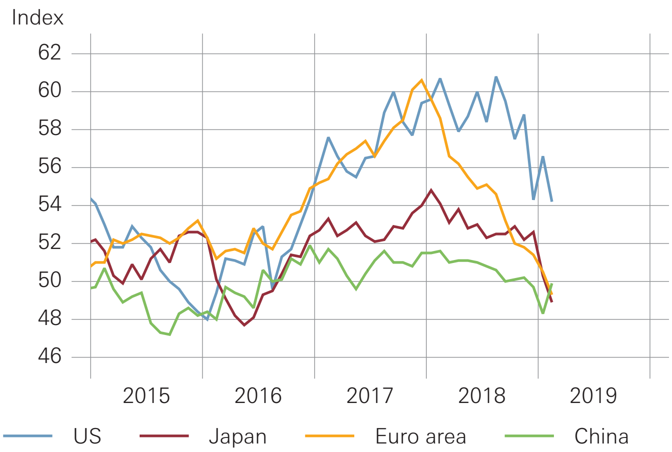
Change from previous period




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

Chart 2.9

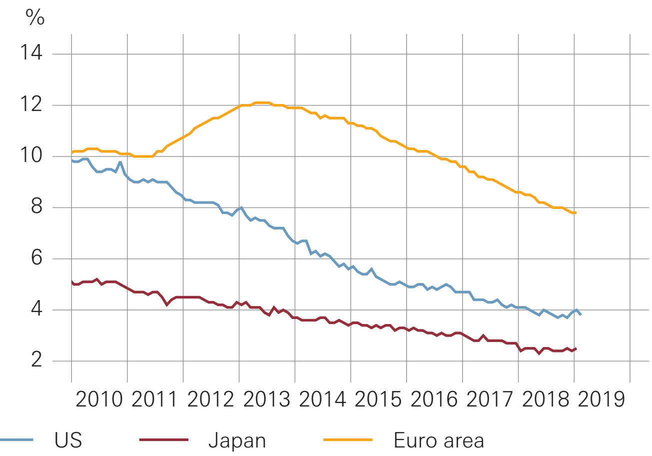
**PURCHASING MANAGERS' INDICES (MANUFACTURING)**




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 continued to expand moderately, at 0.9% in the fourth quarter (cf. chart 2.7). At the same time, a number of special factors weighed on growth. For instance, the low water level in the Rhine led to transport problems and production losses in manufacturing in Germany. In France, protests in many cities temporarily affected tourism and the retail trade. Added to this, business confidence in the euro area deteriorated in recent months, indicating a general economic downturn. In Italy, economic output contracted again. Meanwhile, the labour market situation in the euro area continued to improve; employment figures climbed further.

Growth is likely to recover gradually over the course of this year, following a sluggish second half of 2018. Domestic demand is set to benefit from favourable financing conditions and robust growth in household income. In light of the weaker momentum, the SNB has revised its growth forecasts for the euro area downwards, to 1.1% for 2019 and 1.4% for 2020 (cf. table 2.1). The growth outlook 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 declined in recent months and stood at 1.5% in February (cf. chart 2.11). This was primarily due to lower energy prices. Core inflation, too, was weaker than expected, however. It changed little and hovered around 1.0%, as it has done for some years now (cf. chart 2.12). Medium-term inflation expectations derived from financial market indicators edged downwards.

The ECB made no change to its key interest rates in March. However, contrary to its previous intention to leave them at their present levels at least through the summer of 2019, it now intends to do so until at least the end of 2019. Furthermore, the ECB again wishes to grant targeted longer-term refinancing operations (TLTROs) to banks from September onwards in order to encourage lending to the private sector. It intends to continue reinvesting maturing bonds purchased as part of the asset purchase programme for an extended period of time.

## JAPAN

In Japan, GDP expanded in the fourth quarter by 1.9%, after a series of natural disasters had had a negative effect on domestic activity in the previous quarter (cf. chart 2.7). The economic recovery was broad based, yet exports were unable to recoup the losses from the third quarter. At 0.8% in 2018, average GDP expansion was in line with potential, following strong growth the previous year (1.9%).

Favourable financing conditions, sound income growth as well as investment in infrastructure and tourism in the run-up to the 2020 Olympic Games in Tokyo will continue to support the Japanese economy. Moreover, economic measures should ease the negative impact of the sales tax increase planned for October 2019. Manufacturing activity recently lost some momentum, however, and the outlook for the current year has become more uncertain as a result of mixed signals coming from the export industry. Against this background, the SNB made a slight downward revision to its growth forecast. It expects GDP growth of 0.6% for 2019 and 0.5% for 2020 (cf. table 2.1).

Amid falling energy and food prices, consumer price inflation decreased in recent months, and stood at 0.2% in January (cf. chart 2.11). Core inflation increased only slightly to 0.3% (cf. chart 2.12). The longer-term inflation expectations derived from company surveys trended sideways and remained significantly below the Japanese central bank's inflation target of 2%. Lower oil prices, price cuts in mobile communication charges and the government's planned free education programme will temporarily weigh on inflation. 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.

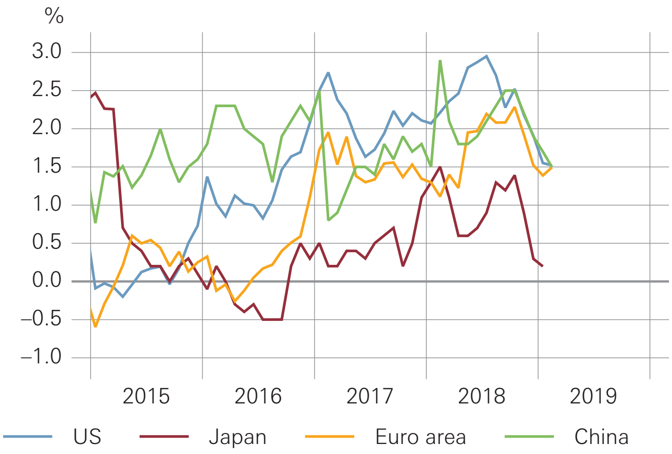
## CHINA

In China, GDP growth stabilised in the fourth quarter at 6.1%, having weakened steadily over the course of the year (cf. chart 2.8). In both manufacturing and construction, value added advanced more strongly than in the previous quarter. Annual GDP growth averaged 6.6%, compared with 6.8% a year earlier.

Chart 2.11

### CONSUMER PRICES

Year-on-year change

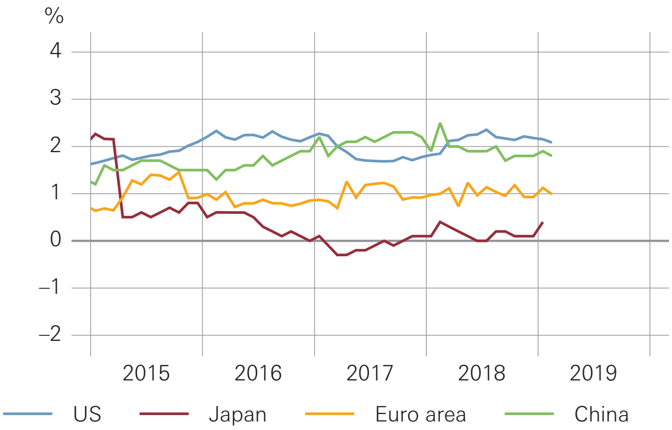



Source: Thomson Reuters Datastream

Chart 2.12

### CORE INFLATION RATES [1]

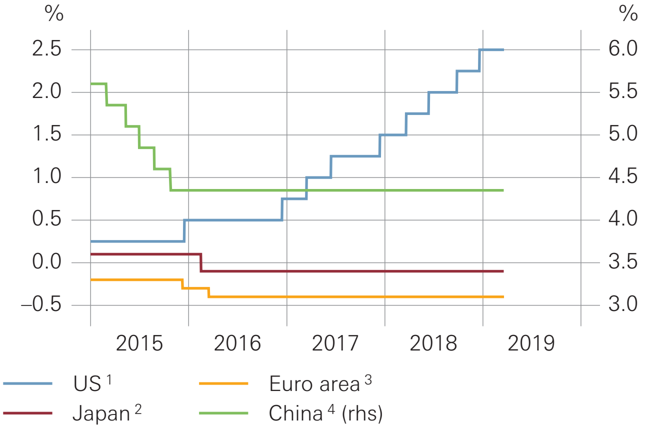
Year-on-year change




1 Excluding food and energy.
Source: Thomson Reuters Datastream

Chart 2.13

**OFFICIAL INTEREST RATES**

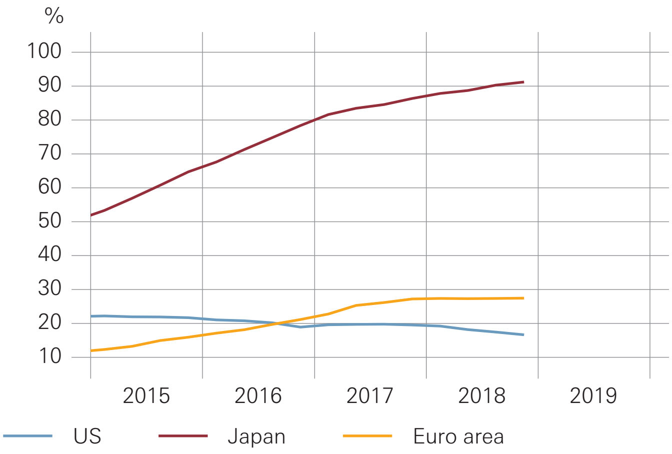



1 Federal funds rate (upper limit of target range)
2 Call money target rate
3 Deposit facility rate
4 One-year lending rate
Source: Thomson Reuters Datastream

Chart 2.14

**MONETARY BASE**

Relative to GDP




Source: Thomson Reuters Datastream

Economic expansion is likely to slow slightly further in the current year. This reflects the gradual softening in growth potential, on the one hand, and the phased tightening of financial market regulations since the end of 2016, on the other. As a result, credit growth has slowed further, which is likely to curb activity in real estate and construction in particular. Added to this are the negative effects of the unresolved trade tensions with the US.

In order to avoid an abrupt slowdown in growth, the government already took a number of economic policy measures over the course of last year. These include an expansion of infrastructure as well as tax cuts for companies and individuals. In addition, monetary policy was eased slightly. The SNB expects GDP growth in China of 6.2% for 2019 and 6.0% for 2020.

## BRAZIL, INDIA AND RUSSIA

The picture in the other major emerging economies remained mixed. At 6.7%, GDP in India advanced in the fourth quarter in line with potential. According to the available indicators, growth is likely to be robust in Russia as well. GDP expansion in Brazil, by contrast, remained muted (cf. chart 2.8).

The outlook for these countries is favourable. In India, capacity utilisation is likely to increase further in 2019. Purchasing managers' index (PMI) surveys point to very positive signals both for manufacturing and for services. Investment activity should continue to benefit from robust lending. In addition, the recapitalisation of quasi-governmental credit institutions and public infrastructure spending will provide ongoing impetus. An expansionary monetary policy, low inflation and improved business confidence are likely to underpin the recovery in Brazil. Although lower oil prices will slow the economy in Russia in 2019, growth is nonetheless set to remain slightly above potential.

# 3
# Economic developments in Switzerland

According to an initial estimate, GDP in Switzerland grew by 0.7% in the fourth quarter. Overall, GDP thus stagnated in the second half of 2018, having grown strongly to mid-year.

Leading indicators and surveys for Switzerland point to moderately positive momentum at the beginning of 2019. Furthermore, in its baseline scenario, the SNB expects the global economy to strengthen again over the course of the year.

Against this background, the SNB anticipates that GDP growth in Switzerland will recover from the first quarter. For 2019, the SNB still expects growth of around 1.5%. Capacity in the Swiss economy is likely to remain well utilised.

## OUTPUT AND DEMAND

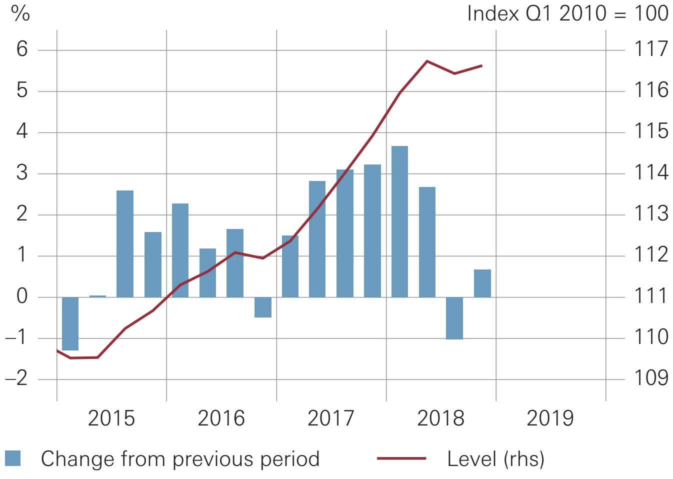
The SNB takes a wide range of information into account when assessing the economic situation. Although GDP advanced slowly again in the fourth quarter of 2018, the second half of the year exhibited very weak growth overall. By comparison, most economic indicators suggested more positive momentum by the end of the year.

**Weak GDP growth in second half of 2018**
Following robust growth up to mid-year, GDP growth slowed considerably thereafter. According to the initial estimates of the State Secretariat for Economic Affairs (SECO), GDP was up by 0.7% in the fourth quarter, having contracted by 1.0% in the third quarter (cf. chart 3.1). Manufacturing benefited from strong export growth in the last three months of the year. By contrast, growth remained weak in many areas of the services sector.

With the fourth-quarter estimate released, initial provisional annual figures for 2018 are available. These figures suggest that annual GDP advanced by 2.5% on average. This marked the fastest growth rate since 2010 and considerably exceeded the previous year's figure (1.6%). Manufacturing was the main growth driver, with its value added increasing strongly for the second year running. Value added also rose in most other industries. Only in wholesale and retail trade did developments remain lacklustre. On the expenditure side, annual growth was also broad based with goods trade in particular strengthening considerably.

Chart 3.1

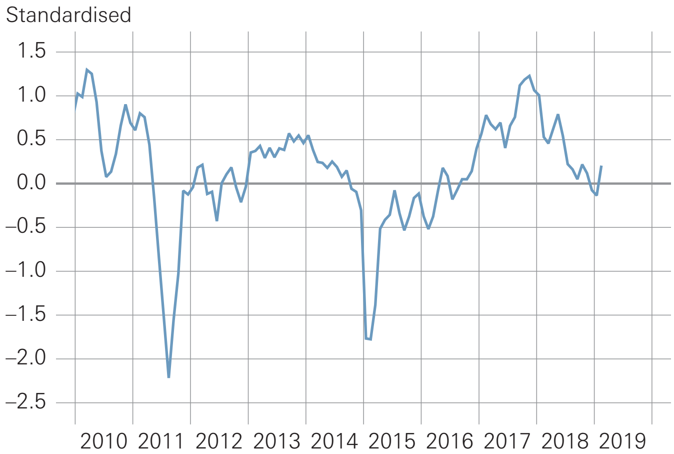
**REAL GDP**




Source: SECO

Chart 3.2

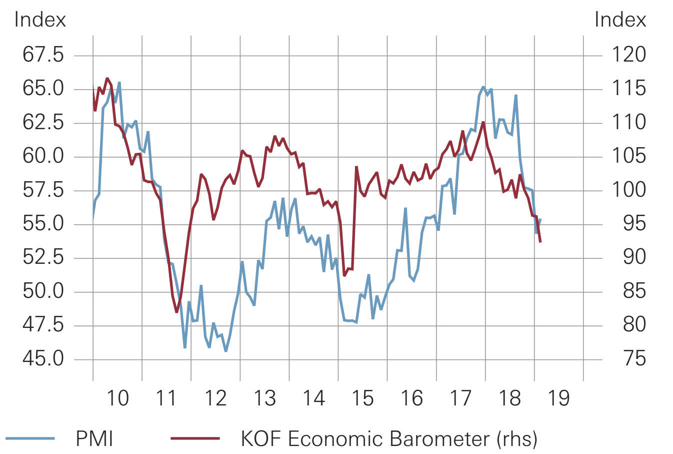
**SNB BUSINESS CYCLE INDEX**




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 suggests that economic momentum decreased over the course of the year. Nevertheless, it paints a more positive picture of the second half of 2018 than the GDP quarterly estimates. Neither the Business Cycle Index calculated by the SNB nor the KOF Economic Barometer nor the PMI points to stagnating economic activity in the second half of the year (cf. charts 3.2 and 3.3).

Where the first few months of 2019 are concerned, leading indicators and surveys present a more mixed picture. The SNB's Business Cycle Index was close to zero until February, which, by definition, corresponds to average historical growth. The index thus pointed to economic momentum in the region of potential growth in recent months. The talks held by the SNB's delegates for regional economic relations with companies also suggest positive momentum in the first quarter (cf. 'Business cycle signals', pp. 28 et seq.). One exception was the KOF Economic Barometer, which showed a clear decline again in February, pointing to a more pronounced slowdown in growth than the other indicators.

Table 3.1

**REAL GDP AND COMPONENTS**

Growth rates on previous period in percent, annualised

| | 2015 | 2016 | 2017 | 2018 | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Private consumption | 1.7 | 1.5 | 1.1 | 1.0 | 0.0 | 0.4 | 2.0 | 0.6 | 1.5 | 0.8 | 0.2 | 1.1 |
| Government consumption | 1.1 | 1.2 | 0.9 | 1.0 | 0.2 | 0.7 | 2.0 | 2.5 | 0.5 | 0.7 | –0.4 | 0.2 |
| Investment in fixed assets | 2.3 | 3.4 | 3.3 | 1.8 | 8.2 | 0.6 | 4.2 | 4.5 | 3.9 | 1.2 | –5.0 | –3.2 |
| Construction | 1.6 | 0.5 | 1.4 | 0.7 | 2.7 | 0.8 | 2.1 | 3.6 | –0.9 | 1.5 | –0.9 | –1.5 |
| Equipment | 2.7 | 5.4 | 4.5 | 2.4 | 11.7 | 0.6 | 5.5 | 5.1 | 6.9 | 1.0 | –7.3 | –4.3 |
| Domestic final demand | 1.8 | 2.0 | 1.7 | 1.2 | 2.2 | 0.5 | 2.6 | 1.9 | 2.0 | 0.9 | –1.3 | –0.2 |
| Change in inventories [1] | –0.4 | –1.9 | –0.1 | 0.0 | –2.3 | 7.7 | –10.2 | 10.8 | –4.7 | 0.0 | 1.9 | –6.4 |
| Total exports [2] | 2.6 | 7.0 | 3.6 | 3.4 | –1.1 | 1.8 | 19.3 | –6.2 | 12.4 | –0.3 | –10.5 | 11.8 |
| Goods [2] | 2.6 | 6.7 | 5.1 | 5.3 | 17.0 | 6.4 | 21.6 | –8.5 | 21.7 | –1.4 | –15.4 | 24.4 |
| Goods excluding merchanting [2] | 0.7 | 6.6 | 6.0 | 5.0 | 15.9 | 8.2 | 10.1 | 4.1 | 7.7 | 3.4 | –12.5 | 27.1 |
| Services | 2.4 | 7.6 | 0.7 | –0.3 | –26.9 | –6.4 | 14.9 | –1.4 | –4.1 | 2.2 | 0.1 | –10.1 |
| Total imports [2] | 3.0 | 4.7 | 4.1 | 1.0 | –5.5 | 15.2 | –1.7 | 13.7 | 0.6 | –4.4 | –9.2 | –1.9 |
| Goods [2] | 0.0 | 4.4 | 5.5 | 5.0 | –2.0 | 24.6 | –1.4 | 24.2 | 7.9 | –5.1 | –10.6 | 2.4 |
| Services | 8.8 | 5.3 | 1.6 | –6.4 | –11.4 | –0.1 | –2.2 | –4.2 | –12.5 | –3.0 | –6.4 | –10.3 |
| Net exports [3] | 0.1 | 1.7 | 0.2 | 1.4 | 1.7 | –5.3 | 11.0 | –9.4 | 6.5 | 1.9 | –1.8 | 7.3 |
| **GDP** | **1.3** | **1.6** | **1.6** | **2.5** | **1.5** | **2.8** | **3.1** | **3.2** | **3.7** | **2.7** | **–1.0** | **0.7** |

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

Source: SECO

## LABOUR MARKET

Labour market developments continued to be positive. Growth in employment, however, lost some momentum.

**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, 106,600 people were recorded as unemployed at the end of February, 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.

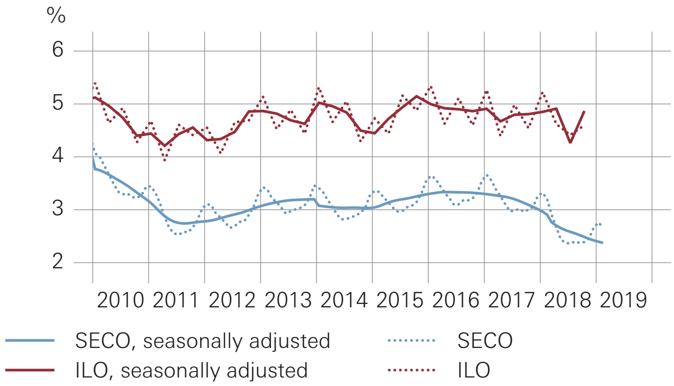
In addition, the Swiss Federal Statistical Office (SFSO) calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. This survey also includes people who are looking for work but 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 fourth quarter of 2018, the seasonally adjusted unemployment rate climbed to 4.9%, having declined in the previous quarter to 4.3%. These two statistics on unemployment do not always develop in parallel and have again showed strongly differing trends over the last few quarters. In general, the short-term dynamics of unemployment can be more reliably estimated using SECO's unemployment rate rather than the SFSO rate.

**Employment growth slightly below average**
In the fourth quarter, the seasonally adjusted number of persons employed increased somewhat more slowly than the long-term average (cf. chart 3.5). The Employment Statistics (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 only moderate growth in the fourth quarter (cf. chart 3.6). New jobs were created in both services and manufacturing, while construction saw a slight decline in employment.

Chart 3.4

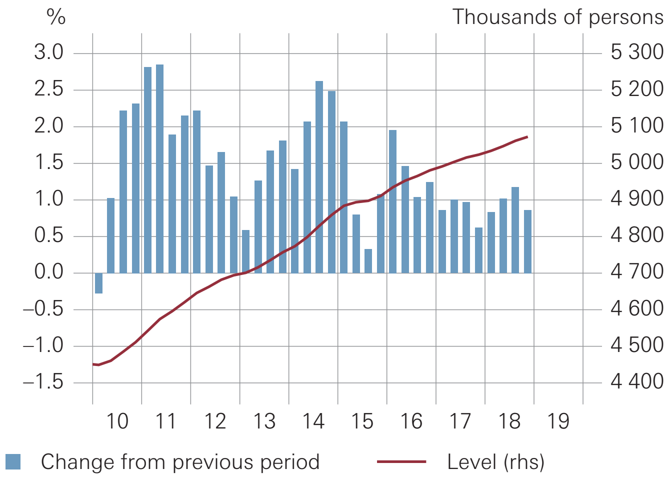
### UNEMPLOYMENT RATE




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

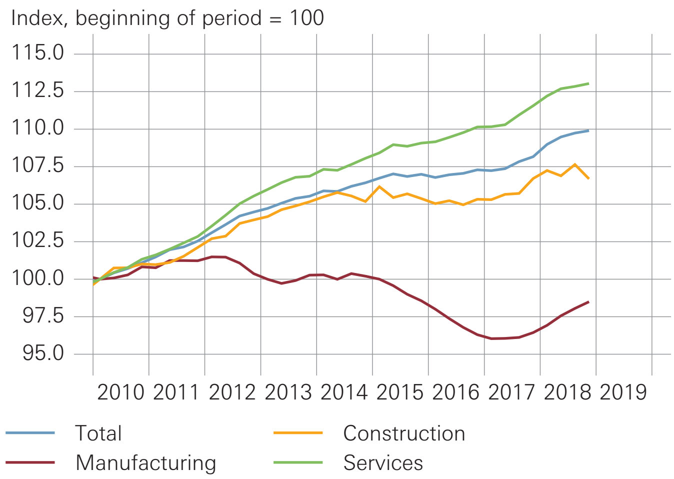
### EMPLOYED PERSONS




Source: SFSO; seasonal adjustment: SNB

Chart 3.6

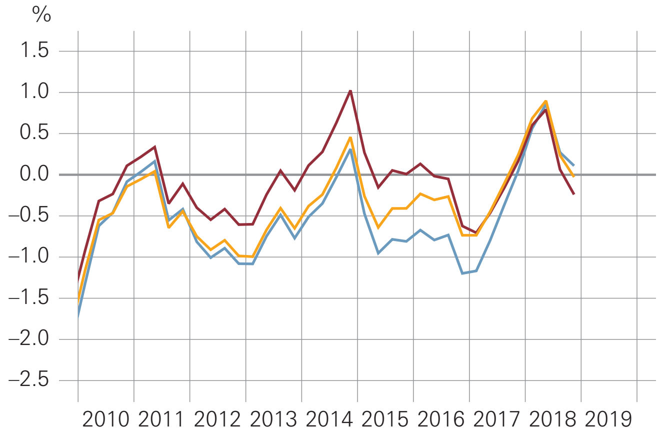
### FULL-TIME EQUIVALENT JOBS




Source: SFSO; seasonal adjustment: SNB

Chart 3.7

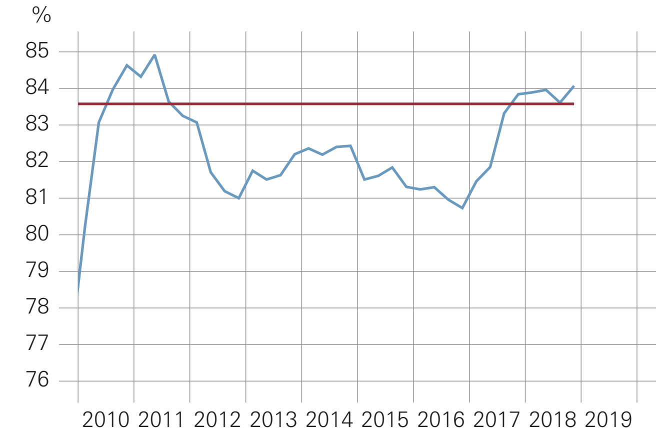
## OUTPUT GAP




Source: SNB

Chart 3.8

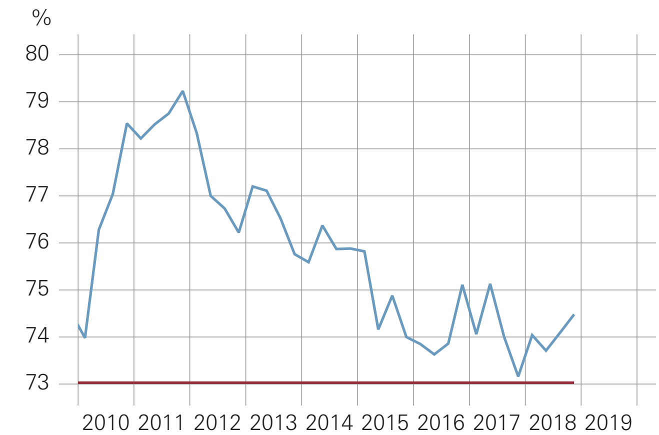
## CAPACITY UTILISATION IN MANUFACTURING




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 the gap has closed. Potential output as estimated by means of a production function shows an output gap of 0.1% for the fourth quarter (Q3 2018: 0.3%). Estimates using other methods to establish potential output (Hodrick-Prescott filter and multivariate filter) confirm that the gap is currently closed (cf. chart 3.7).

**Surveys suggest good utilisation**

Surveys also indicate that production factors are being well utilised. According to the KOF survey, utilisation of technical capacity in manufacturing increased marginally to 84.1% in the fourth 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 (cf. chart 3.9). As for services, the surveys point to a slightly above-average level of technical capacity utilisation.

With regard to personnel, there is a growing staff shortage. 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 measure of the output gap.

## OUTLOOK

Despite the recent slowdown, the outlook for the Swiss economy remains positive overall. Although many domestic and foreign indicators weakened further at the beginning of the year (cf. chart 3.10), most leading indicators for Switzerland still suggest at least average growth momentum. Business activity in manufacturing is expected to improve and the employment outlook remains positive (cf. charts 3.11 and 3.12).

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.

Following a temporary slowdown in the previous two quarters, GDP growth looks set to pick up again in the first quarter. The SNB continues to expect growth of around 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**

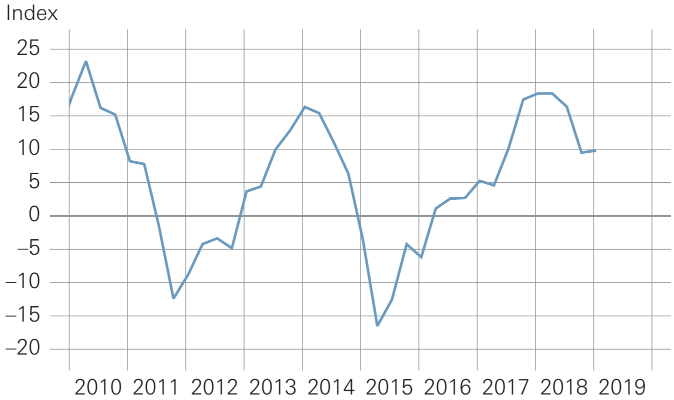
Export-weighted, 27 countries


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

Chart 3.11

**EXPECTED BUSINESS SITUATION IN MANUFACTURING**

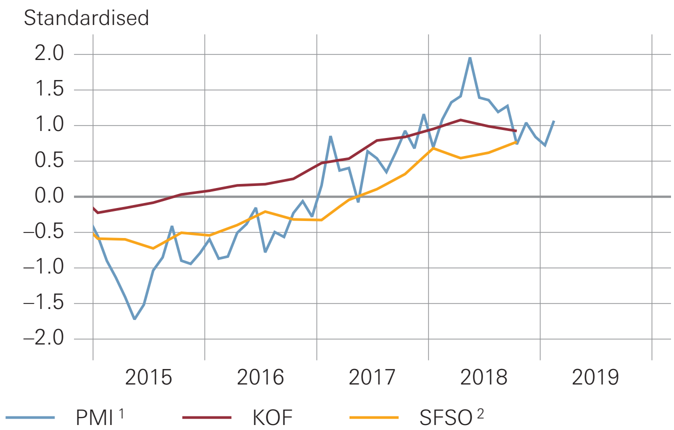
Change in expectations for next six months




Source: KOF Swiss Economic Institute

Chart 3.12

**EMPLOYMENT – LEADING INDICATORS**




1 Monthly figures
2 Seasonal adjustment: SNB
Sources: Credit Suisse, KOF Swiss Economic Institute, SFSO

# 4 Prices and inflation expectations

Inflation as measured by the Swiss consumer price index (CPI) has dropped since summer 2018 by over half a percentage point, largely owing to price developments for oil products. Nevertheless, core inflation rates are still somewhat lower than the annual CPI inflation rate.

Inflation expectations have fallen slightly in recent months. As with annual and core inflation rates, they remain within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

## CONSUMER PRICES

**Decline in annual inflation rate**
Having fallen considerably since summer 2018, the annual CPI inflation rate stood at 0.6% in January and February 2019 (cf. table 4.1). This decrease is particularly reflected in the declining inflation contribution from imported products. The contribution from domestic goods and services, by contrast, remained largely stable (cf. chart 4.1).

**Lower inflation for imported products**
Annual inflation for imported goods and services decreased substantially in recent months. This was mainly attributable to developments in prices for oil products, which surged between mid-2017 and November 2018 and have since dropped again; in January and February 2019, they were practically at the same level year-on-year.

**Stable inflation for domestic products**
Inflation for domestic goods and services remained mostly stable in recent months. In February 2019, it was on a par with the annual CPI rate at 0.6%. Although domestic goods prices rose more strongly than those of services, the former made less of a contribution to inflation owing to their lower index weighting (cf. chart 4.2).

Table 4.1

**SWISS CONSUMER PRICE INDEX AND COMPONENTS**
Year-on-year change in percent

| | 2018 | 2018 | | | | 2018 | 2019 | |
|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | December | January | February |
| **Overall CPI** | **0.9** | **0.7** | **1.0** | **1.1** | **0.9** | **0.7** | **0.6** | **0.6** |
| Domestic goods and services | 0.4 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| Goods | 0.8 | 0.3 | 0.8 | 1.0 | 1.2 | 1.1 | 0.7 | 1.0 |
| Services | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.6 | 0.5 |
| Private services excluding housing rents | 0.7 | 0.6 | 0.6 | 0.9 | 0.7 | 0.6 | 0.8 | 0.6 |
| Housing rents | 0.4 | 0.6 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Public services | –0.8 | –0.9 | –0.9 | –0.8 | –0.7 | –0.7 | 0.1 | 0.0 |
| Imported goods and services | 2.4 | 1.9 | 2.7 | 3.0 | 2.1 | 1.3 | 0.5 | 0.6 |
| Excluding oil products | 1.1 | 1.5 | 1.2 | 1.1 | 0.6 | 0.6 | 0.7 | 0.6 |
| Oil products | 11.9 | 4.9 | 13.9 | 16.6 | 12.5 | 6.1 | –1.2 | 0.8 |

Sources: SFSO, SNB

**Stable rent inflation**

Inflation for rents as measured by the quarterly rental price index was 0.4% in February 2019, the same level as three months previously. 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 slightly below annual inflation rate**

Core inflation rates remain below the unadjusted annual CPI inflation rate (cf. chart 4.4). In February 2019, both the trimmed mean calculated by the SNB (TM15) and the SFSO's core inflation rate 1 (SFSO1) stood at 0.4%. The narrowing of the gap between these two rates and the annual CPI inflation rate was primarily attributable to a decrease in inflation for oil products, which had little or no impact on core inflation rates.

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

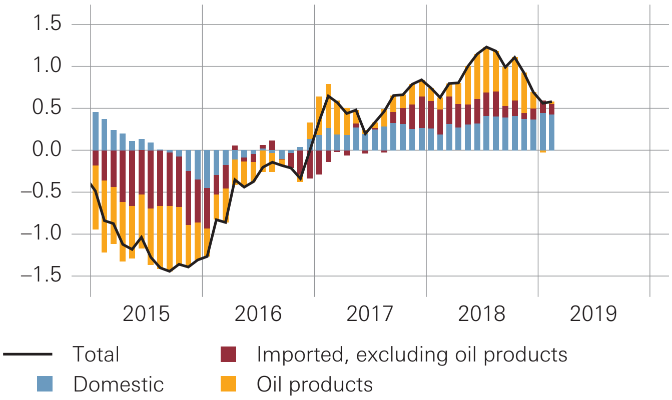
**Decline in producer and import price inflation**

Annual inflation for producer and import prices taken together was −0.7% in February 2019 (cf. chart 4.5), with the two individual indices both slightly down on their year-back level. Influenced by oil prices, inflation for imported products has declined much more markedly since summer 2018 than inflation for domestically produced products.

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.

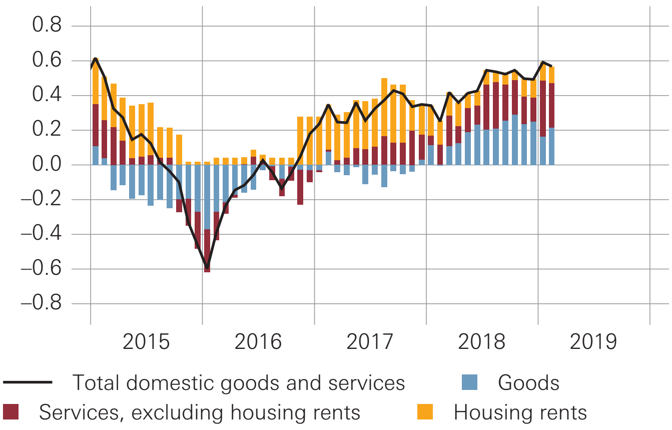



Sources: SFSO, SNB

Chart 4.2

### CPI: DOMESTIC GOODS AND SERVICES

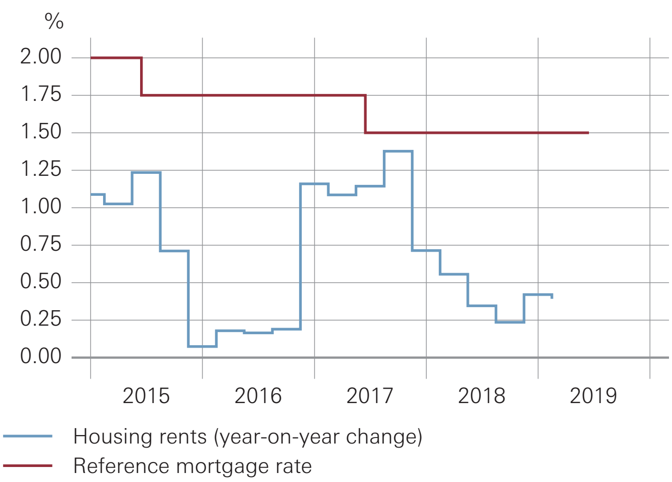
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.




Sources: SFSO, SNB

Chart 4.3

### HOUSING RENTS

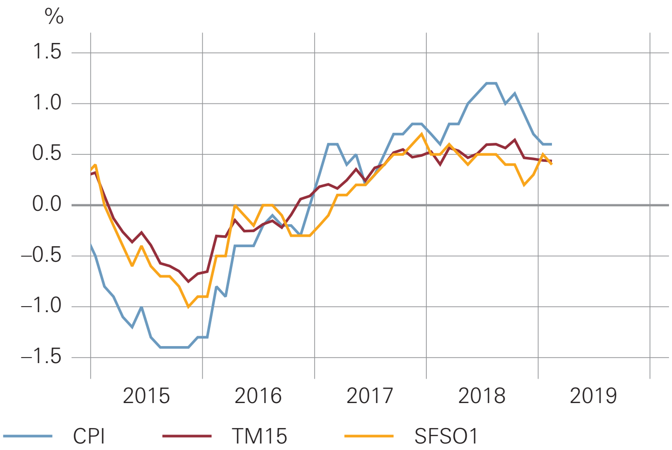



Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

**CORE INFLATION RATES**

Year-on-year change

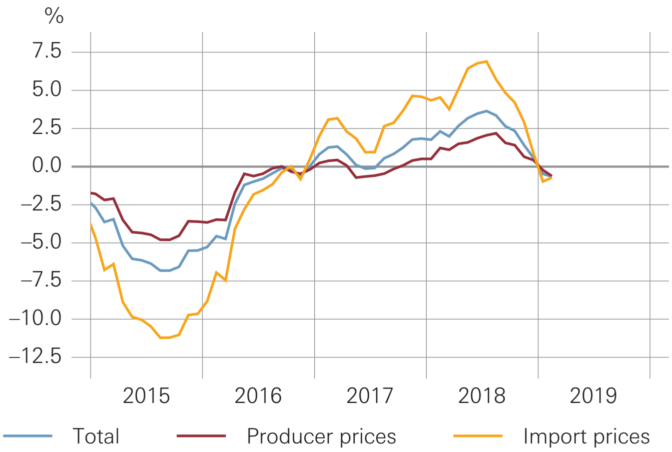



Sources: SFSO, SNB

Chart 4.5

**PRODUCER AND IMPORT PRICES**

Year-on-year change

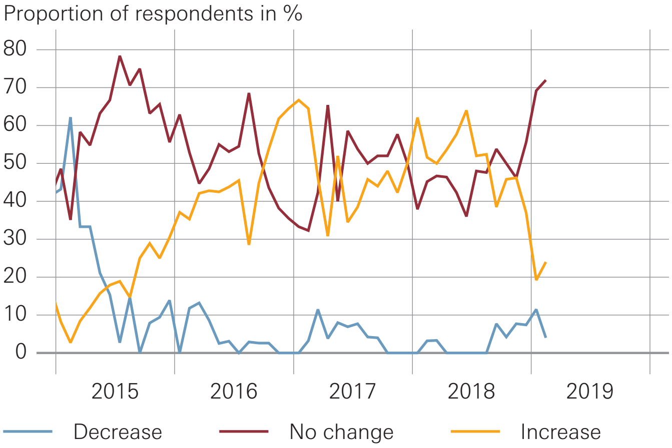



Source: SFSO

Chart 4.6

**CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS**

Proportion of respondents in %




Sources: CFA Society Switzerland, Credit Suisse

## INFLATION EXPECTATIONS

**Inflation expectations consistent with price stability**

Surveys show that short-term inflation expectations have fallen slightly in recent months, albeit remaining consistent with the objective of price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

**Lower short-term inflation expectations**

According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, the significant majority of analysts questioned in February 2019 expected inflation rates to remain unchanged (cf. chart 4.6). The number of analysts to express this view has thus increased considerably in the last few months. In November 2018, when the inflation rate was still a good half a percentage point higher than in February 2019, the number of analysts expecting rates to remain stable was roughly on a par with those anticipating a rise.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors also indicate slightly lower short-term inflation expectations. In the first quarter of 2019, respondents anticipated an annual inflation rate of 0.5% on average in the next six to twelve months, down from 0.8% in Q4 2018.

The quarterly survey of households' price expectations for the next twelve months, conducted by SECO, yielded similar results in January 2019 as in the previous quarter. Somewhat more than half of the respondents anticipated a rise in prices, while two-fifths thought they would stay the same; only very few expected prices to go down.

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

Longer-term inflation expectations are still slightly higher than short-term expectations. In the first quarter, company representatives interviewed by the SNB's delegates put the rate of inflation in three to five years at 0.9% (Q4 2018: 1.1%).

# 5 Monetary developments

At its quarterly assessment of 13 December 2018, the SNB left its monetary policy unchanged and reaffirmed its policy stance. Its monetary policy 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 again remained unchanged in the first three months of the year, while long-term capital market rates fell slightly as a result of changes to expectations regarding policy rates in the major currency areas. The yield curve for Confederation bonds thus flattened somewhat further. In March 2019, the yields on bonds with maturities of below 16 years were negative.

In the foreign exchange market, the Swiss franc depreciated somewhat against most currencies, causing its trade-weighted real external value to decrease slightly as well. Nevertheless, the Swiss franc remains highly valued.

As in the previous quarter, the M3 monetary aggregate and bank loans grew 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 13 December 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.

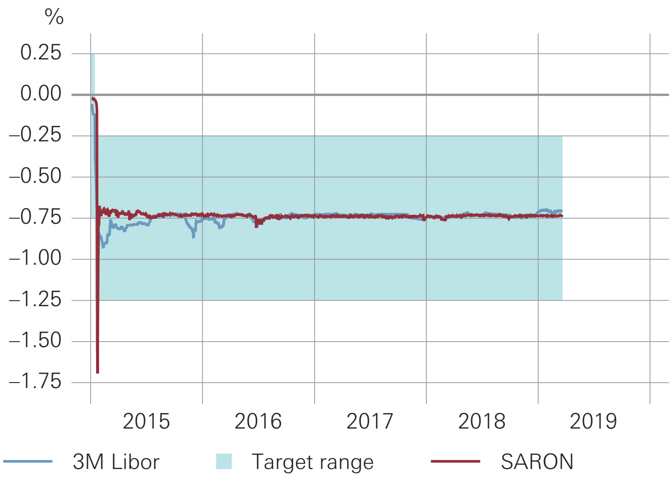
The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to keep upward pressure on the Swiss franc low. The SNB's monetary policy thus helps to stabilise price developments and to support economic activity.

**Sight deposits at the SNB virtually unchanged**
Since the monetary policy assessment of December 2018, total sight deposits held at the SNB have remained virtually unchanged. In the week ending 15 March 2019 (last calendar week before the March assessment), they amounted to CHF 576.0 billion, practically the same as the figure recorded in the last calendar week preceding the mid-December 2018 assessment (CHF 576.4 billion). Between the assessments in December 2018 and March 2019, sight deposits at the SNB averaged CHF 575.8 billion. Of this amount, CHF 484.9 billion were sight deposits of domestic banks and the remaining CHF 90.9 billion were other sight deposits.

**Banks' surplus reserves high**
Statutory minimum reserves averaged CHF 17.0 billion between 20 November 2018 and 19 February 2019. Overall, banks exceeded the minimum reserve requirement by CHF 465.6 billion (previous period: CHF 459.2 billion). Banks' surplus reserves thus remain very high.

Chart 5.1

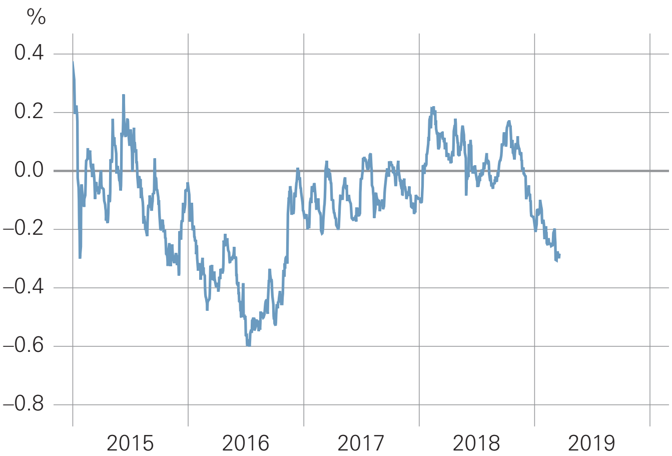
**MONEY MARKET RATES**




Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

**10-YEAR SWISS CONFEDERATION BOND YIELD**

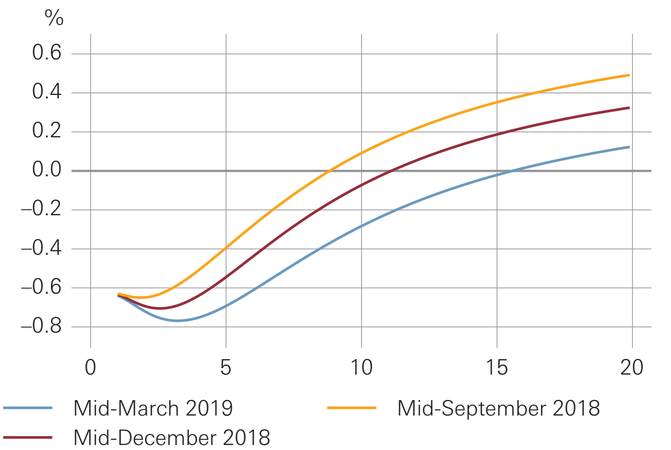



Source: SNB

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 unchanged**

In the last three months, money market rates again 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).

**Decline in capital market rates**

In contrast to money market rates, long-term capital market rates have decreased. Yields on ten-year Confederation bonds dropped to −0.3%, having fluctuated for nearly two years within a range of between −0.2% and 0.2% (cf. chart 5.2).

The decline in Confederation bond yields was accompanied by a decrease in long-term interest rates in other currency areas. A key factor in this regard were announcements by the US Federal Reserve that prompted market participants to make a downward correction to their expectations regarding the future course of the Fed's policy rate. These revisions led to a correction in long-term US interest rates. Long-term rates in other currency areas followed suit.

**Flattening yield curve**

The decline in long-term interest rates coupled with the unchanged short-term rates resulted in a flattening of the yield curve for Confederation bonds (cf. chart 5.3). In mid-March, yields for maturities below 16 years were in negative territory.

**Real interest rates low**

Real interest rates are key determinants for saving and investment decisions of companies and households. The development of the yield curve for Confederation bonds in combination with the survey measures of inflation expectations indicate that real interest rates remain at historically low levels.

## EXCHANGE RATES

**Swiss franc changes little against euro and US dollar**
Between the monetary policy assessment in December 2018 and the first few days of January 2019, the Swiss franc initially appreciated somewhat against most currencies. This took place amid growing uncertainties on global financial markets. As the situation began to ease in early January, the franc weakened again.

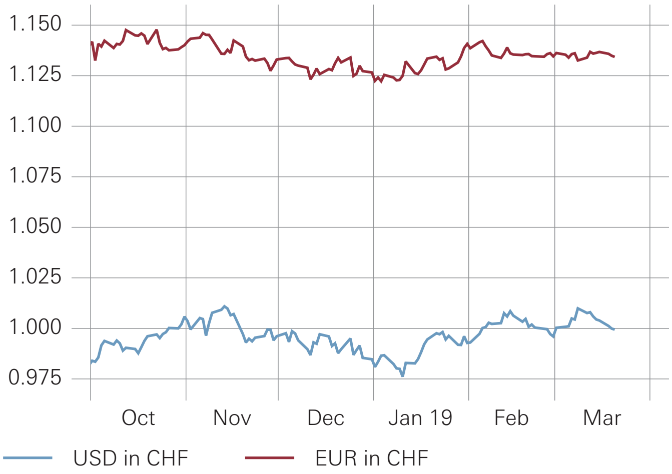
Overall, movements of the Swiss franc against the euro and the US dollar remained modest. Between the December 2018 and March 2019 monetary policy assessments, the Swiss franc depreciated by 0.5% against the euro and 0.7% against the US dollar (cf. chart 5.4).

**Swiss franc slightly weaker in trade-weighted terms**
In the three months between the monetary policy assessments of December 2018 and March 2019, the nominal trade-weighted external value of the Swiss franc fell by 1.5% overall. This decline reflects, in part, the slight depreciation against the euro and US dollar, which together have an index weighting of 55%, but also the stronger depreciation against the pound sterling (5%, index weighting 9%) and renminbi (3%, index weighting 9%). In mid-March, the nominal external value of the franc was at roughly the same level as in early November 2018 (cf. chart 5.5).

**Real external value of Swiss franc still high**
The nominal weakening of the franc led to a decrease in its real trade-weighted external value. Chart 5.6 shows the development of three different indices. All three are currently more or less at the same level as they were between 2012 and 2014, in other words when the minimum exchange rate against the euro was in place. In a longer-term comparison, the Swiss franc remains highly valued.

Chart 5.4

### EXCHANGE RATES




Source: SNB

Chart 5.5

### NOMINAL EXTERNAL VALUE OF SWISS FRANC


Source: SNB

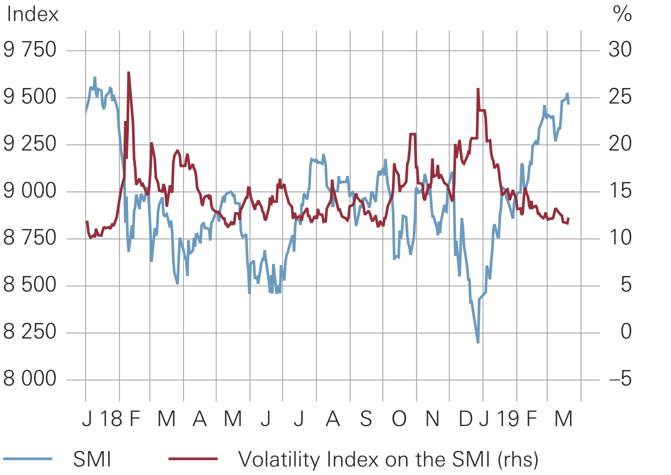
Chart 5.6

### REAL EXTERNAL VALUE OF SWISS FRANC


Sources: BIS, IMF, SNB

Chart 5.7

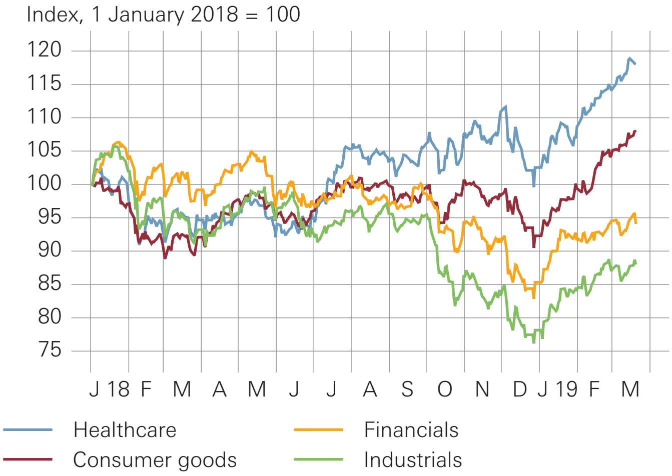
**SHARE PRICES AND VOLATILITY**




Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

**SELECTED SPI SECTORS**

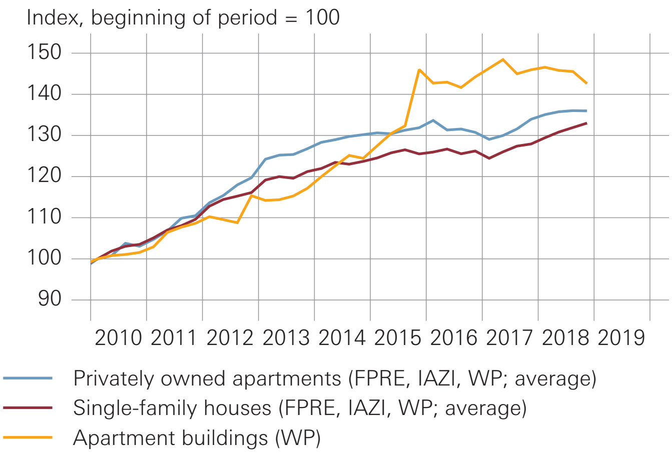



Source: Thomson Reuters Datastream

Chart 5.9

**HOUSING TRANSACTION PRICES**

Nominal (hedonic)




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

## SHARE AND REAL ESTATE PRICES

**Swiss share prices more stable**

Following significant losses in December 2018, share prices rallied globally in early 2019. A contributory factor in this recovery was the assessment that interest rates in most economies would remain low for longer than had previously been expected. The Swiss Market Index (SMI) followed the global trend, and in mid-March it was almost 8% higher than at the monetary policy assessment of mid-December 2018 (cf. chart 5.7).

**Temporary increase in market uncertainty**

The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). In December, when share prices fell, the volatility index rose sharply; when the stock markets recovered in January, the index dropped again.

**Movements in sectoral indices**

Chart 5.8 shows the movements of important sub-indices in the broader-based Swiss Performance Index (SPI). The recovery in Swiss companies' share prices was widely spread. Since the beginning of the year, all sectors have recorded rising share prices, with the recovery at its weakest among financial service providers.

**Slight decline in apartment building prices**

According to the available transaction price indices for residential real estate, prices for apartment buildings (residential investment property) fell slightly in the fourth quarter of 2018, while prices for privately owned apartments and single-family houses rose further (cf. chart 5.9).

In a longer-term comparison, the price indices for residential real estate are still at a high level.

## 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 570.9 billion in February 2019 (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 banknote circulation**
Growth in banknote circulation has slowed further in recent months (cf. chart 5.11). In February, banknote circulation was only 0.9% higher year-on-year, with demand for 1000-franc notes even at a somewhat lower level than one year ago.

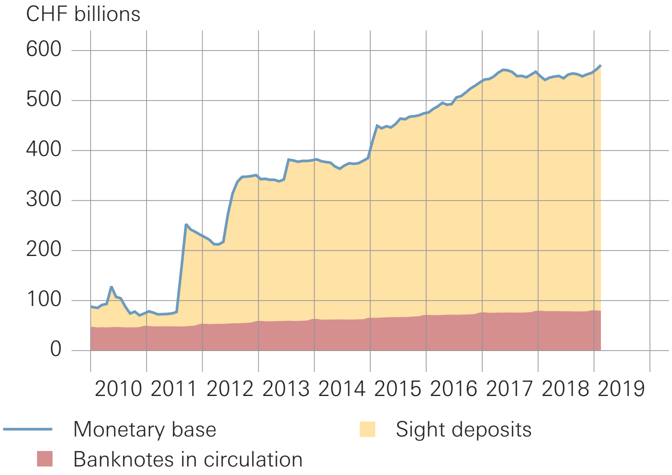
Chart 5.11 shows how the rate of growth in banknote circulation temporarily rose sharply twice in the last ten years. The rise in 2011/2012 was largely due to the strong increase in uncertainty in the wake of the European debt crisis, while in 2015, the rise was a result of the introduction of the negative interest rate.

**Stable growth in broad monetary aggregates**
Growth in the M1, M2 and M3 monetary aggregates has increased slightly since October 2018, in line with the decline in long-term interest rates. In February 2019, M1 (currency in circulation, sight deposits and transaction accounts) was 5.1% above its year-back level, while M2 (M1 plus savings deposits) was up by 3.3%, and M3 (M2 plus time deposits) rose by 3.5% in the same period (cf. table 5.1). With the exception of savings deposits, which again decreased slightly, all other deposits grew year-on-year.

**Stronger growth in mortgage claims**
As in the two previous quarters, bank lending in the fourth quarter of 2018 was 3.4% higher year-on-year (cf. table 5.1). While mortgage lending growth increased slightly, growth in other loans decreased.

Chart 5.10

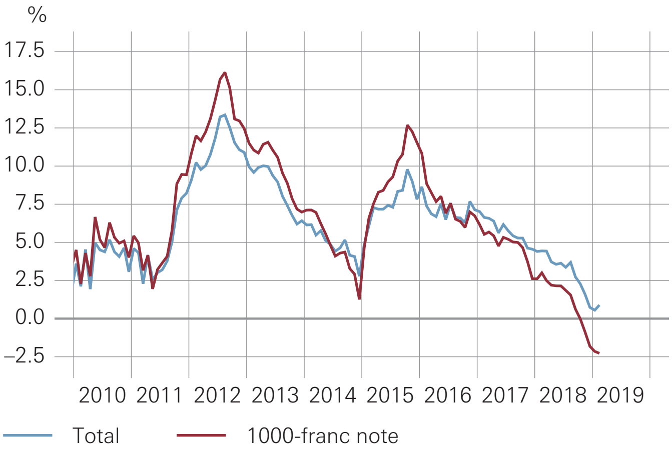
**MONETARY BASE**




Source: SNB

Chart 5.11

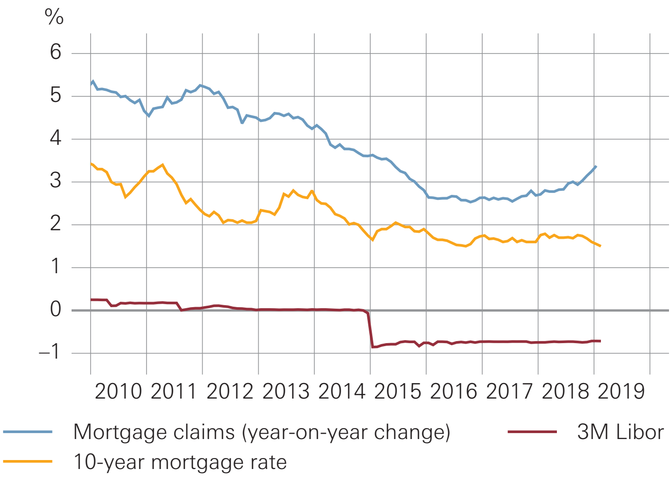
**BANKNOTES IN CIRCULATION**
Year-on-year change




Source: SNB

Chart 5.12

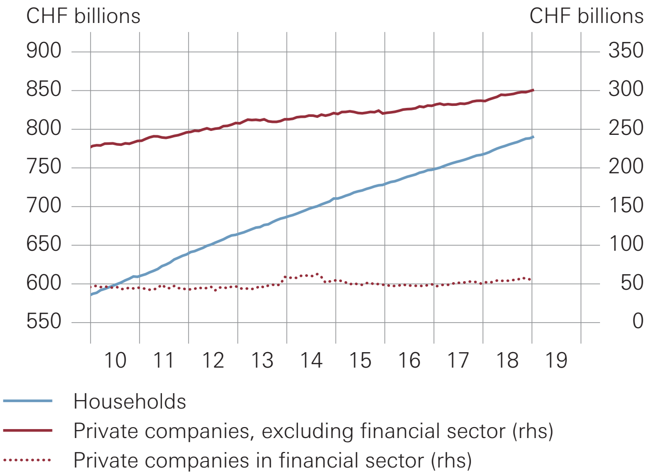
**MORTGAGE CLAIMS AND INTEREST RATES**




Sources: Bloomberg, SNB

Chart 5.13

## LOANS TO HOUSEHOLDS AND COMPANIES




Source: SNB

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.1% year-on-year in the fourth quarter. Growth in mortgage lending thus rose slightly again, having decreased by half between 2012 and 2015 and having stabilised thereafter (cf. chart 5.12). Demand for mortgages continues to be supported by the low mortgage interest rates, which still remain close to their all-time low. The ten-year mortgage interest rate stood at 1.6% in January 2019.

**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 December 2018, loans to households – 96% of which are mortgage loans – recorded a year-on-year increase of CHF 21.5 billion (2.8%). Loans to non-financial companies were CHF 12.5 billion (4.3%) higher over the same period. Meanwhile, loans to financial companies, which exhibit greater volatility at a significantly lower volume, decreased by CHF 5.4 billion (10.7%).

Table 5.1

## MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

| | 2018 | 2018 Q1 | Q2 | Q3 | Q4 | 2018 December | 2019 January | February |
|---|---|---|---|---|---|---|---|---|
| **M1** | **5.8** | **7.3** | **5.9** | **5.0** | **5.1** | **5.5** | **5.0** | **5.1** |
| **M2** | **3.2** | **4.1** | **3.1** | **2.6** | **3.1** | **3.5** | **3.1** | **3.3** |
| **M3** | **2.9** | **3.6** | **2.8** | **2.4** | **2.8** | **3.1** | **3.2** | **3.5** |
| **Bank loans, total** [1, 3] | **3.3** | **2.9** | **3.4** | **3.4** | **3.4** | **3.5** | **3.8** | |
| Mortgage claims [1, 3] | 2.9 | 2.8 | 2.8 | 3.0 | 3.1 | 3.2 | 3.4 | |
| Households [2, 3] | 2.6 | 2.5 | 2.6 | 2.7 | 2.7 | 2.8 | 2.8 | |
| Private companies [2, 3] | 3.8 | 3.4 | 3.4 | 3.8 | 4.4 | 4.7 | 5.1 | |
| Other loans [1, 3] | 5.4 | 3.4 | 7.0 | 6.2 | 5.1 | 4.9 | 5.9 | |
| Secured [1, 3] | 3.9 | 3.1 | 8.0 | 3.9 | 0.6 | –1.3 | 0.4 | |
| Unsecured [1, 3] | 6.6 | 3.6 | 6.3 | 7.9 | 8.5 | 9.7 | 10.1 | |

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

**First quarter of 2019**

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 243 company talks were conducted between mid-January and the beginning of March.

| Regions | Delegates |
|---|---|
| Central Switzerland | Gregor Bäurle |
| Eastern Switzerland | Urs Schönholzer |
| Fribourg/Vaud/Valais | Aline Chabloz |
| Geneva/Jura/Neuchâtel | Jean-Marc Falter |
| Italian-speaking Switzerland | Fabio Bossi |
| Mittelland | Roland Scheurer |
| Northwestern Switzerland | Daniel Hanimann |
| Zurich | Rita Kobel |

# Key points

- The Swiss economy was stable in the first quarter, with growth broadly based across various industries and markets. The tendency towards a slowdown observed in recent quarters did not continue. Many companies can look back on 2018 as a record year.

- All in all, utilisation of technical production capacity and business infrastructure continues to be at a normal level. In manufacturing, there are slightly fewer bottlenecks discernible than has been the case, although difficulties in recruiting specialists persist.

- Overall, profit margins are just below the levels considered normal. There are, however, marked differences between the various industry segments.

- Company representatives are still confident when looking to the next two quarters, although uncertainty has increased somewhat.

- Companies are planning to hire more staff and intend to spend more on equipment investment and buildings.

## CURRENT SITUATION

### Stable economic growth

The economy was in robust shape in the first quarter. Company representatives reported growth in real turnover, i.e. turnover adjusted for changes in sales prices, as being on a par with the previous quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). Consequently, the decline in momentum seen in the second half of 2018 did not continue.

Turnover remains pleasing, both domestically and on the export front. Demand is still broadly based in geographic terms, and business with Asia (specifically China, India, Japan, South Korea and Indonesia) as well as with the US is strong. There are largely positive signals with regard to Europe, too, and they are also more heterogeneous than before in the case of Germany, France and the UK in particular. Capital goods trade remains dynamic, as do sales of medtech goods and chemical and pharmaceutical products.

### Utilisation of production capacity normal

Utilisation of technical production capacity and business infrastructure has held at around normal for two years now (cf. chart 2). This is the case for just under half of the companies interviewed, with the remainder being spread evenly between reporting underutilisation and overutilisation. In the manufacturing sector, there were certain instances of supply bottlenecks, and long delivery times continued to be problematic for some companies.

### Staff numbers still rather low

Company representatives view their staff numbers as being slightly on the low side. However, the situation has eased somewhat quarter-on-quarter, in the services sector in particular. Staff levels were described by 26% of representatives as being slightly or much too low at present, compared to 32% in the previous quarter.

Many companies continue to cite the lack of specialists as being among their primary concerns. With the exception of the financial sector, all industries considered recruiting to be more difficult than usual. In this context, it was noted that the number of unsolicited applications has dropped and staff turnover has increased. Response rates to job advertisements are extremely low. IT specialists and engineers are among those in greatest demand. IT skills are essential in an ever broader range of professions.

### No change with regard to margins

There has been scarcely any change in profit margins. They continue to sit just below levels company representatives consider normal. Hardly any differences remain in this respect between the manufacturing and services sectors. In construction, however, margins are still lower than in the other two sectors. One reason for the pressure on margins are cost increases that cannot be fully passed on to customers.

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 business infrastructure compared to a normal level. A positive (negative) index value signals a higher (lower) utilisation than normal.
Source: SNB

## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

As regards trade, real turnover was slightly higher than in the previous quarter. This is attributable to wholesale trade, and the vehicle trade in particular. In Q4 2018, delivery difficulties experienced by the German automotive industry had impacted sales for vehicle dealers. In the retail trade, the sales trend is flat and business infrastructure still clearly underutilised. Bricks-and-mortar retailers are feeling the strong competition from online rivals, which is putting pressure on margins.

Transport operators and logistics companies are showing very good business performance with high sales growth and good capacity utilisation. They have not yet observed the dip in demand that some companies in this industry usually expect in the first quarter.

Banks are profiting from the stock market recovery, although their margins are well short of the levels considered normal. This can be partially explained by the further decline in net interest margins, and also by the costs involved in implementing regulation and digitalisation.

2018 was a very good year for the hospitality industry. Thanks to particularly good weather and excellent snow conditions, turnover for the first quarter was at the same level as in the previous quarter. Margins are above the usual levels for both hotels and restaurants. Hotels and mountain railways are reporting slightly higher numbers of foreign guests. However, demand in the seminar hotel business seems to be faltering.

Companies in the ICT industry are reporting very favourable business activity with a sharp rise in turnover and margins on a par with normal. There is marked demand from manufacturing, banks and the public sector. In addition to the implementation of digitalisation, cybersecurity measures are an important driver in the IT business.

Sales momentum remains positive for engineering and architecture firms, travel companies and facility management services providers. However, the latter are facing fierce competition and their margins are well below usual levels as a result.

In manufacturing, the majority of industries recorded higher turnover quarter-on-quarter. One exception is the cardboard and packaging industry. Business is particularly dynamic among chemicals and pharmaceuticals firms as well as in the metalworking segment. With the exception of precision instrument makers and a few watch industry suppliers, the manufacturing companies visited reported normal capacity utilisation. Suppliers in the automotive industry are experiencing the effects of catching up on the decline in orders in previous quarters.

The construction sector is showing rather dynamic business performance and turnover is up on the previous quarter in seasonally adjusted terms. This is attributable to developments in structural engineering and the finishing trade. Production capacities remain slightly overutilised in civil engineering and the finishing trade, but this is no longer the case in structural engineering. Pressure on margins persists despite the healthy order situation. Some company representatives are concerned about the fact that construction activity is continuing although housing vacancy rates are already high in some regions.

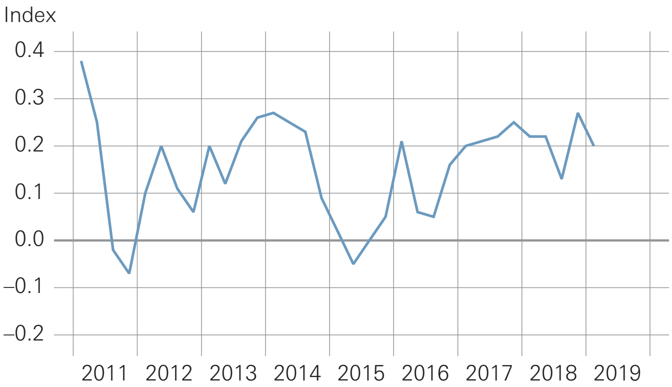
Chart 3

**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

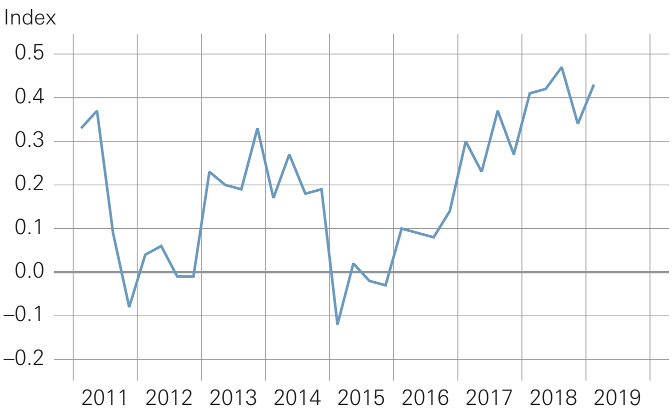
**EXPECTED CAPACITY UTILISATION**




Expected developments in utilisation of technical capacity and business 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

### Cautious optimism for 2019

Company representatives are positive about their business prospects for the next two quarters on the whole, but expectations are somewhat more cautious than in previous quarters. This is partly due to the fact that somewhat greater risks are in the offing over the medium term. Meanwhile, companies also consider their prospects of being able to maintain last year's very dynamic business performance as unrealistic. A certain degree of slowdown would therefore even be appreciated by some.

Overall, companies expect real turnover to rise (cf. chart 3). This confidence is based on the economic situation both internationally and domestically, which is still regarded as being favourable, coupled with a steady to above-average order situation and production capacities streamlined for efficiency. Potential opportunities exist in tapping into new sales markets and in the launch of new products.

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

The persistently low interest rate environment encourages investment. Companies across all industries are planning to slightly increase investment expenditure for equipment over the coming 12 months or at least to maintain the current level. As in the previous quarters, just under a third of companies say equipment investment will lead to an expansion in production capacity. Companies in the services sector in particular also intend to increase their investment in buildings.

### Slightly higher purchase prices expected

Company representatives anticipate a slight rise in purchase prices in the next two quarters, but barely any increase in sales prices. The strongest price momentum is expected in manufacturing. The rise in purchase prices is attributable to raw material prices being marginally higher as well as to good capacity utilisation among suppliers. By contrast, the retail trade expects prices to decline slightly, for purchases and sales alike.

### Further expansion in staff numbers

The prospects of business activity remaining favourable, combined with the personnel shortages, are bolstering recruitment plans – companies are planning to increase staff numbers further in the next two quarters (cf. chart 5). There is no indication of staff cuts in any of the industries surveyed. Many firms are placing greater emphasis on in-house training and maintaining their appeal as an employer in an effort to attract and retain staff.

**Notable wage demands in certain instances**
Companies are noticing a tendency towards higher salary demands among job applicants. Of the wage increases already announced for 2019, the average is some 1%.

## ENVIRONMENT AND RISKS

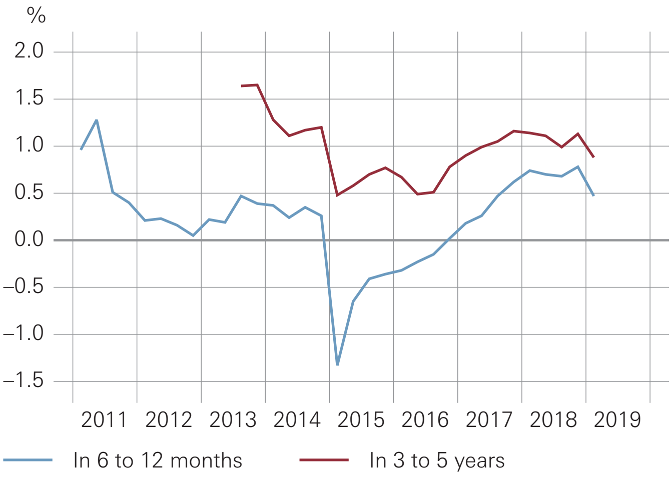
Uncertainty about future developments has increased somewhat. The risks mentioned by the company representatives primarily include threats of a geopolitical nature. Specific mention is made of trade disputes and their potential direct or indirect impact on companies. Other risks cited include Brexit, a sharp downturn in the global economy and increasing public and private debt.

Domestically, the challenge most commonly referred to was the distinct shortage of specialised staff. The institutional agreement between Switzerland and the EU, as well as the forthcoming corporate taxation reforms were also discussed. Renewed appreciation of the Swiss franc is also identified as a risk. Company representatives also raised the issue of increasing vacancy rates for apartments and the continuing high level of construction activity in this area. The extent to which regulation is weighing on a wide range of areas remains a recurring theme.

Digitalisation is a hot topic in many industries. It is now being seen more as an opportunity than a risk. The high requirements in terms of both investment and expertise remain key aspects.

Chart 6

**EXPECTED INFLATION**




Source: SNB

## INFLATION EXPECTATIONS

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

Inflation expectations are lower, in both the short and long term. The average for the next six to twelve months (blue line in chart 6) is 0.5%, compared to 0.8% 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 0.9% (Q4 2018: 1.1%) This decline is likely to reflect a somewhat more cautious assessment of the general economic outlook.

### 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.

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*.

# 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.

March 2019

At its quarterly assessment of 21 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 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.

December 2018

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.

September 2018

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.

June 2018

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.

March 2018

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.

December 2017

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.

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