Quarterly Bulletin
2/2019 June

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

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2/2019 June

Volume 37

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 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 13 June 2019') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 13 June 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 13 June 2019

Swiss National Bank leaves expansionary monetary policy unchanged and introduces SNB policy rate
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 is unchanged at –0.75%. The SNB will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

The Swiss National Bank is introducing the SNB policy rate. From now on, it will use this rate in taking and communicating its monetary policy decisions. The SNB policy rate replaces the target range for the three-month Libor used previously, and currently stands at –0.75%. The SNB's monetary policy thus remains as expansionary as before. Interest on sight deposits held by banks at the SNB currently corresponds to the SNB policy rate and remains at –0.75%. The SNB will seek to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. SARON is the most representative short-term money market rate today, and is also establishing itself as the reference rate for financial products.

The reason for introducing the SNB policy rate is that the future of the Libor is not guaranteed. The UK's Financial Conduct Authority will only ensure that the Libor is maintained through to the end of 2021. The SNB's conditional inflation forecast is based on the assumption that a given interest rate remains unchanged over the entire forecast horizon of three years. The three-month Libor has been used for this purpose to date. Given that the current forecast for the first time extends beyond the end of 2021, the introduction of the SNB policy rate ensures that it will be based on the same interest rate over the entire horizon.

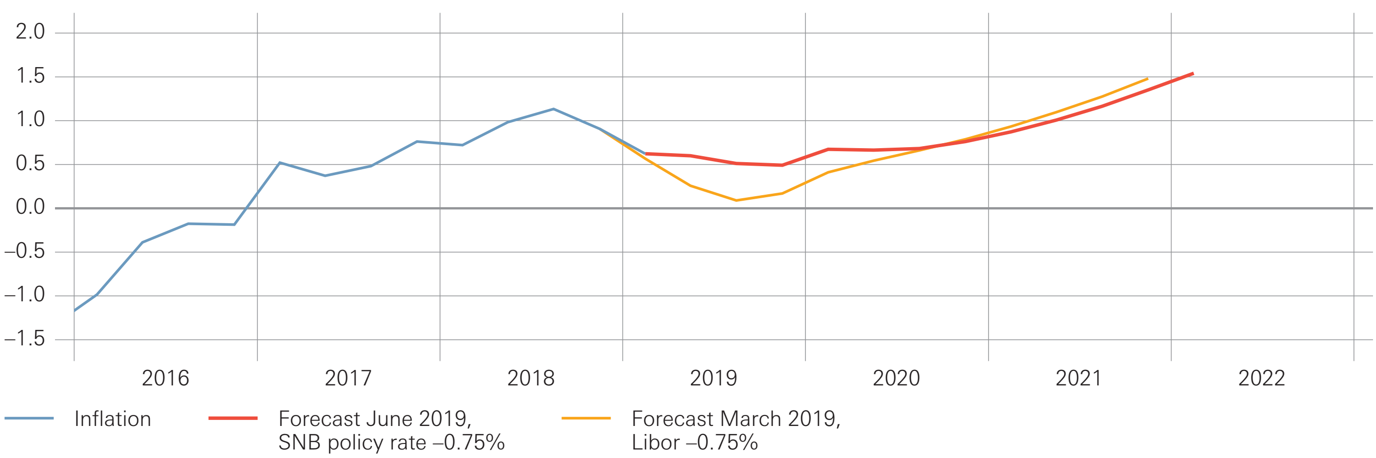
The SNB's expansionary monetary policy remains necessary against the backdrop of the current price and economic developments. On a trade-weighted basis, the Swiss franc is somewhat stronger than in March and is still highly valued. The situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential in order to keep the attractiveness of Swiss franc investments low and thus ease pressure on the currency.

The new conditional inflation forecast for the coming quarters is slightly higher than in March (cf. chart 1.1). This is primarily attributable to a rise in the prices of imported goods. The longer-term inflation forecast is virtually unchanged. For 2019 it stands at 0.6%, up from the figure of 0.3% last quarter (cf. table 1.1). For 2020, the SNB anticipates an inflation rate of 0.7%, compared to 0.6% last quarter. The forecast for 2021 is 1.1%, 0.1 of a percentage point lower than last quarter. The conditional inflation forecast is based on the assumption that the SNB policy rate remains at –0.75% over the entire forecast horizon.

The signs from the global economy remain mixed. GDP growth picked up in the first quarter, with all large economies recording above-average expansion. However, manufacturing output again tended to weaken in a number of countries. In its baseline scenario for the global economy, the SNB expects growth in the coming quarters to remain in line with potential. In the advanced economies, expansionary monetary policy is lending support, as is

Chart 1.1

CONDITIONAL INFLATION FORECAST OF JUNE 2019
Year-on-year change in Swiss consumer price index in percent



Sources: SFSO, SNB

fiscal policy in some countries. Inflationary pressure is likely to remain moderate. The risks to this baseline scenario are still to the downside. However, they are more pronounced than at the SNB's previous monetary policy assessment. Chief among them are political uncertainty and trade tensions, which could lead to renewed turbulence on the financial markets and a further dampening of economic sentiment.

The Swiss economy also gathered momentum at the beginning of the year. According to the initial estimate, GDP grew by 2.3% in the first quarter. Labour market developments were also positive. Production capacity in Switzerland was well utilised overall. The economic indicators point towards momentum remaining favourable. Against this backdrop, the SNB continues to expect the economy to grow by around 1.5% in 2019. As is the case with the global economy, the risks for this scenario remain to the downside.

In particular, an unexpectedly sharp slowdown internationally would quickly spread to Switzerland. 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 the SNB policy rate, which in June 2019 replaced the previously used target range for the three-month Libor. The SNB seeks to keep the secured short-term Swiss franc money market rates close to this rate.

Table 1.1

OBSERVED INFLATION IN JUNE 2019

	2016				2017				2018				2019				2016	2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	–1.0	–0.4	–0.2	–0.2	0.5	0.4	0.5	0.8	0.7	1.0	1.1	0.9	0.6				–0.4	0.5	0.9

Source: SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2019

	2019				2020				2021				2022				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2019, Libor –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
Forecast June 2019, SNB policy rate –0.75%		0.6	0.5	0.5	0.7	0.7	0.7	0.8	0.9	1.0	1.2	1.4	1.5				0.6	0.7	1.1

Source: SNB

2 Global economic environment

Global economic signals continue to be mixed. In the first quarter, GDP growth picked up worldwide as expected, with all large economies recording above-average expansion. However, manufacturing output again tended to weaken in many countries, accompanied by subdued investment spending and a reduction in global goods trade (cf. chart 2.1). Signals from the labour markets remained positive overall. Employment figures in the advanced economies rose again and unemployment continued to decline.

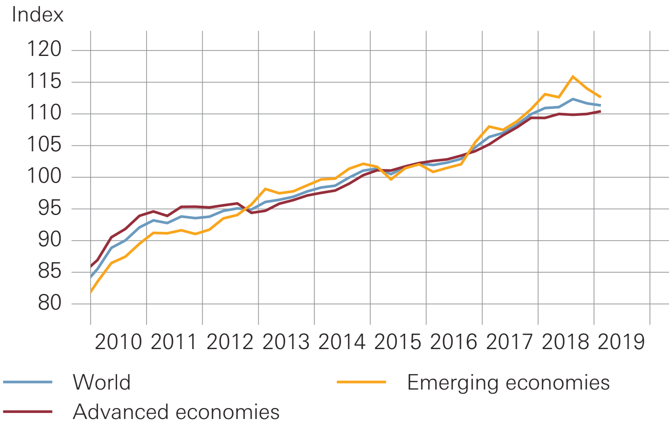
In its baseline scenario for the global economy, the SNB expects that growth will be in line with potential over the coming quarters. In the advanced economies, expansionary monetary policy and the robust situation on the labour market are lending support, as is fiscal policy in some countries. Inflationary pressure is likely to remain moderate.

Risks to this baseline scenario remain to the downside. However, they are more pronounced than at the SNB's previous monetary policy assessment. Chief among them are political uncertainty and trade tensions, which could lead to renewed turbulence on the financial markets and a further dampening of economic sentiment.

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

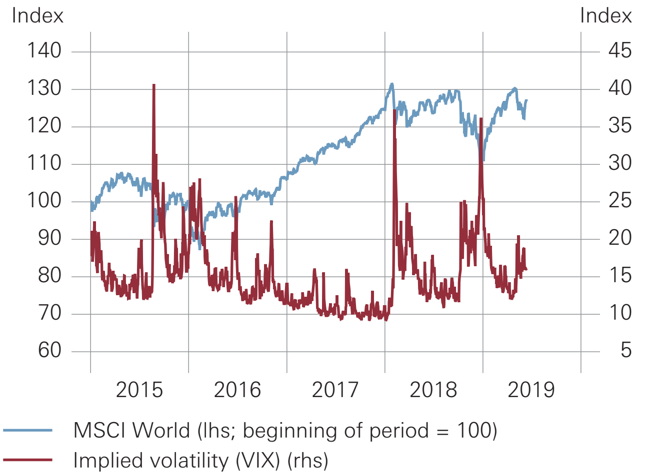
	2015	2016	2017	2018	Scenario 2019	2020
GDP, year-on-year change in percent						
Global [1]	3.5	3.4	3.9	3.9	3.7	3.7
US	2.9	1.6	2.2	2.9	2.6	2.1
Euro area	2.0	1.9	2.5	1.9	1.2	1.4
Japan	1.3	0.6	1.9	0.8	0.8	0.4
Oil price in USD per barrel	52.5	43.8	54.3	71.0	69.7	72.0

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

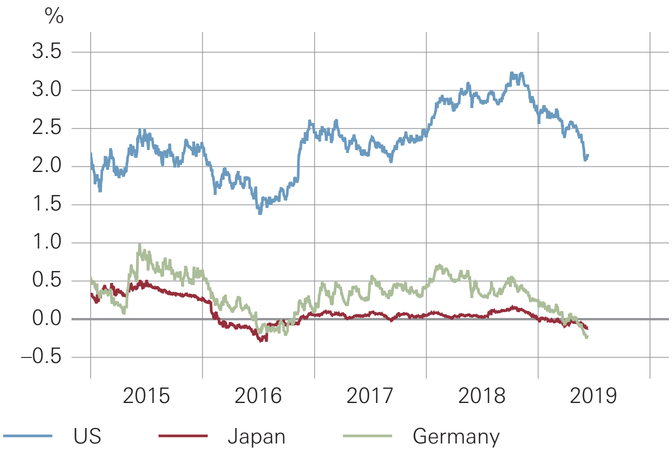


Source: Thomson Reuters Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

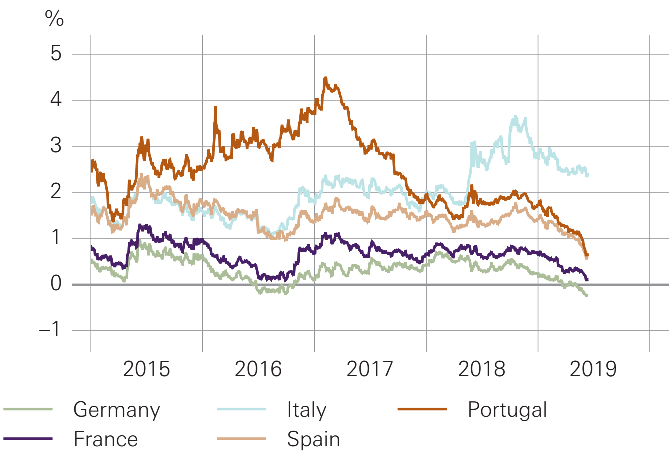


Source: Thomson Reuters Datastream

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 72 per barrel, which is USD 10 above the March baseline scenario, and anticipates a somewhat stronger dollar with an exchange rate of USD 1.12 to the euro. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

The recent escalation in the trade dispute between the US and China has been dominating developments on the financial markets since mid-March, which has weighed on sentiment since the beginning of May. Uncertainty increased too. The implied volatility of US stocks as measured by option prices (VIX) rose accordingly, but was still lower than at the end of last year (cf. chart 2.2).

Stock markets initially continued to move higher; however, trade tensions prompted a correction in May. By mid-June, the MSCI World Index was back near its mid-March level.

Yields on ten-year government bonds in advanced economies declined for the most part. In Italy they trended sideways, however, resulting in a further slight widening of the yield differential to other EU member states (cf. charts 2.3 and 2.4).

The yen appreciated on a trade-weighted basis. The US dollar also gained somewhat in value, again in trade-weighted terms, while the euro trended sideways and the pound sterling depreciated (cf. chart 2.5). Owing to the trade tensions, the renminbi recently lost ground against the US dollar, having gradually recovered from its low at the end of last year.

Oil prices initially increased further during the period under review. Factors instrumental in bolstering prices were the continued reduction in oil production by OPEC as well as heightened threats of sanctions by the US on countries importing Iranian oil. From mid-May, however, the escalation in trade tensions saw oil prices drop sharply. Prices for industrial metals were also lower in mid-June than three months previously (cf. chart 2.6).

UNITED STATES

At 3.1%, economic growth in the US was considerably stronger in the first quarter than in the previous period (cf. chart 2.7). This was primarily attributable to volatile components such as inventories, however. Domestic final demand temporarily lost momentum, partly as a result of uncertainty in connection with the increased volatility on the financial markets. The situation on the labour market remains favourable. Employment continued to grow and the unemployment rate receded to 3.6% in May.

Growth prospects for the US remain positive. Indicators point to domestic demand picking up overall. Nevertheless, manufacturing activity is still muted. The SNB anticipates growth of 2.6% for 2019 and 2.1% for 2020 (cf. table 2.1).

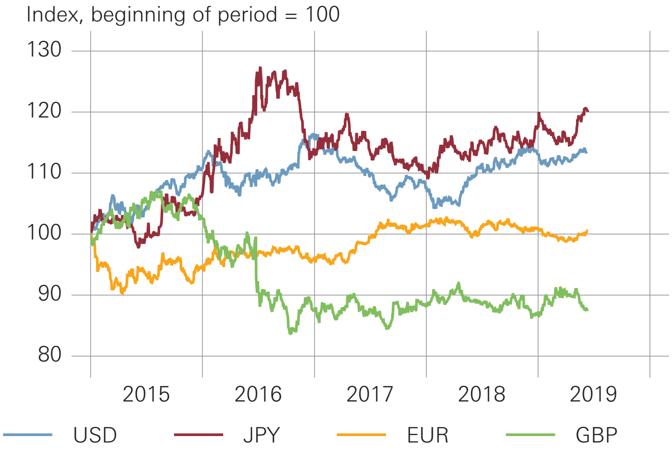
Owing to the recovery in energy prices, annual inflation as measured by the consumer price index climbed to 1.8% in May (cf. chart 2.11), while core inflation declined slightly to 2.0% (cf. chart 2.12). In April, core inflation as measured by the personal consumption expenditure (PCE) deflator index stood below the US Federal Reserve's target value, at 1.6%. This was due in part to temporary factors. Medium-term inflation expectations of households remained stable, however.

The Federal Reserve left the target range for its policy rate unchanged at 2.25–2.5% in May (cf. chart 2.13). It signalled that it would continue to pause rate hikes for the time being.

Chart 2.5

EXCHANGE RATES

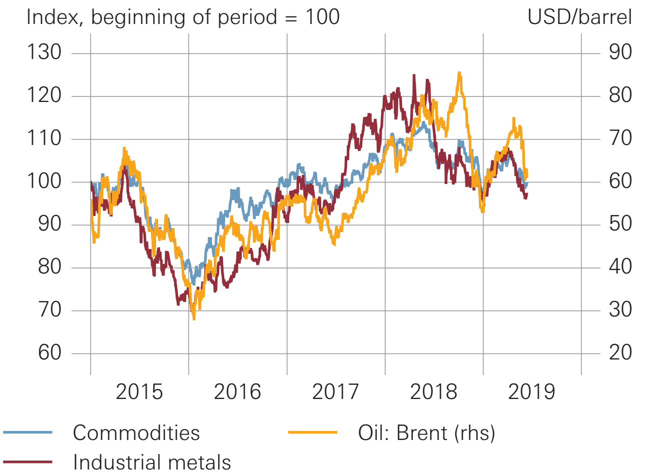
Trade-weighted



Source: Thomson Reuters Datastream

Chart 2.6

COMMODITY PRICES

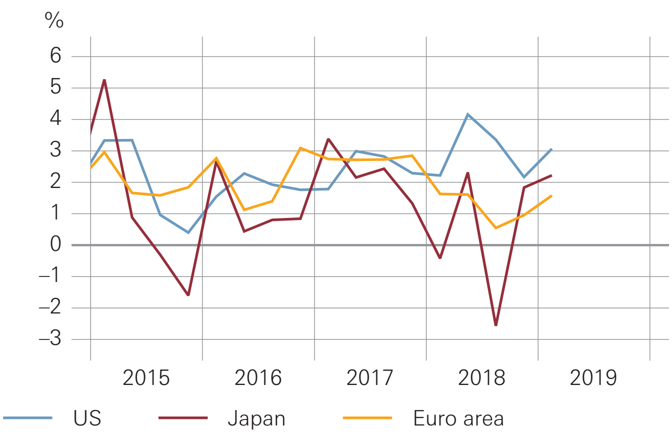


Source: Thomson Reuters Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

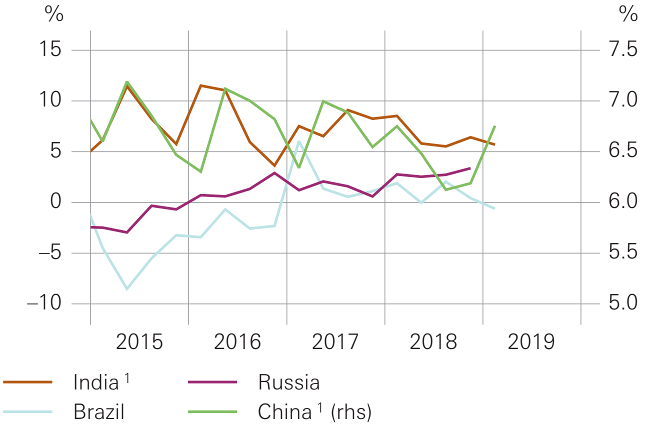


Source: Thomson Reuters Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

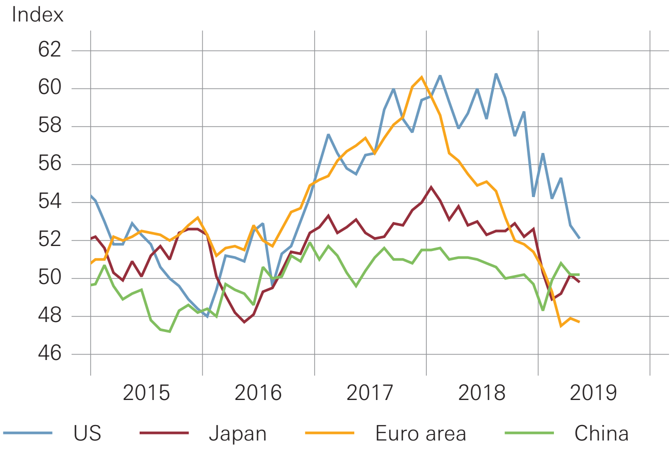
Change from previous period



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

Chart 2.9

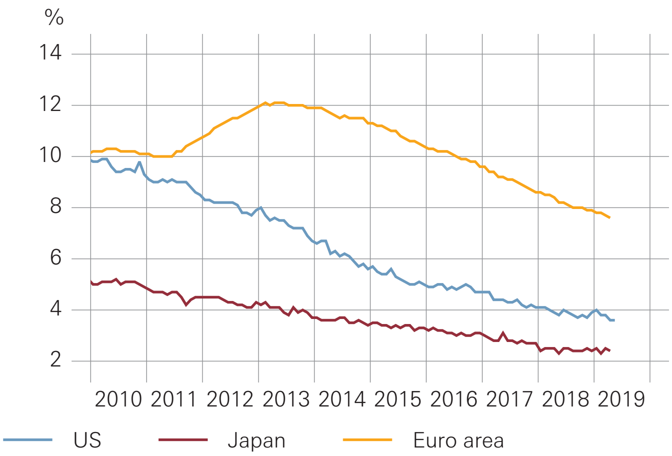
PURCHASING MANAGERS' INDICES (MANUFACTURING)



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 growth picked up in the first quarter and, at 1.6%, was slightly higher than estimated potential (cf. chart 2.7). The upturn was above all driven by Germany, while Italy reported a rise in GDP for the first time in a year. The special factors that had weighed on growth in the second half of 2018 – in particular, production losses in German manufacturing and protests in France – dissipated and led to a trend reversal in the first quarter. In addition, there was a robust increase in construction activity owing to weather conditions. Private consumption and gross fixed capital formation remained strong overall. The unemployment rate continued to decline and, by April, had fallen to 7.6%, close to its lowest level since the inception of the euro area in 1999 (7.3%).

Signals from the company surveys show that the economy is likely to advance at a modest pace for the time being, following the somewhat stronger growth in the first quarter. In manufacturing, in particular, expectations with regard to exports remain muted. The SNB assumes, however, that growth will gradually firm in the further course of the year, underpinned by favourable financing conditions and robust growth in household income. It is leaving its forecast for the euro area virtually unchanged at 1.2% for 2019 and 1.4% for 2020 (cf. table 2.1). The outlook remains subject to various risks, including political imponderables in Italy and uncertainty surrounding international trade conflicts, as well as the shape of future relations between the EU and the UK.

Apart from short-term fluctuations around the Easter period, consumer price inflation in the euro area has changed little in recent months. In May, annual inflation stood at 1.2% (cf. chart 2.11). Core inflation hovered around 1.0%, as it has done for some years (cf. chart 2.12).

The European Central Bank made no adjustment to its key interest rates, but now intends to leave them at their present levels at least through the first half of 2020, rather than at least the end of 2019 as was previously the case. It plans to continue reinvesting maturing bonds purchased as part of the asset purchase programme for an extended period of time.

JAPAN

In Japan, GDP expanded by 2.2% in the first quarter (cf. chart 2.7). While this growth largely reflected the positive contribution made by foreign trade, it concealed sluggish performance in manufacturing and an associated decline in exports, particularly to Asia. Domestic demand also temporarily lost some momentum.

Manufacturing activity is likely to pick up gradually again, given the somewhat more positive signals from the export industry of late. Favourable financing conditions, solid income growth as well as investment in infrastructure and tourism in the run-up to the 2020 Olympic Games in Tokyo are likely to continue to support the Japanese economy. Moreover, stimulus measures in the amount of 1% of GDP – including infrastructure investment and a free education programme – should cushion the negative impact of the sales tax increase planned for October 2019. The SNB expects GDP growth of 0.8% for 2019. Owing to the VAT hike, growth for 2020 is likely to be slightly below potential, at 0.4% (cf. table 2.1).

Consumer price inflation rose somewhat in recent months and stood at 0.9% in April (cf. chart 2.11). Core inflation, too, edged up to 0.4% (cf. chart 2.12). Meanwhile, the longer-term inflation expectations derived from company surveys trended sideways and remained significantly below the Japanese central bank's inflation target of 2%. Cuts in mobile phone charges as well as the government's planned free education programme will temporarily weigh on inflation. In light of the muted inflation momentum, the Bank of Japan intends to maintain the low level of interest rates for an extended period of time, at the very least until spring 2020.

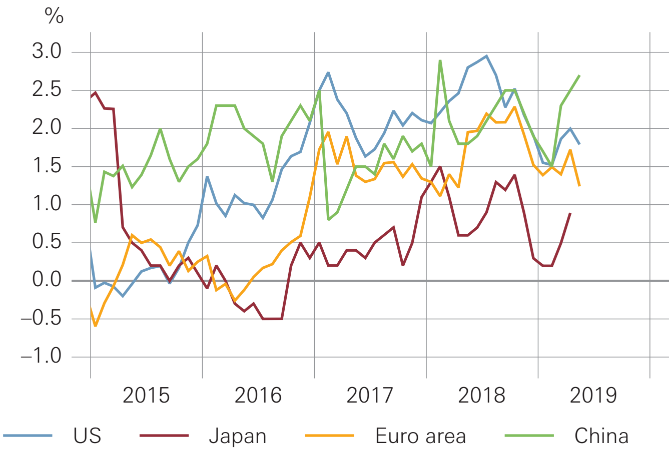
CHINA

In China, GDP advanced considerably (6.8%) in the first quarter (cf. chart 2.8). This was, however, largely attributable to special factors, which triggered a strong increase in manufacturing activity. In services, by contrast, growth lost some momentum.

Chart 2.11

CONSUMER PRICES

Year-on-year change

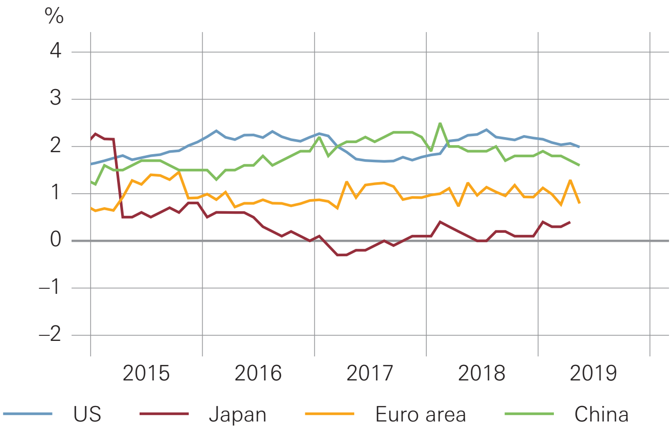


Source: Thomson Reuters Datastream

Chart 2.12

CORE INFLATION RATES [1]

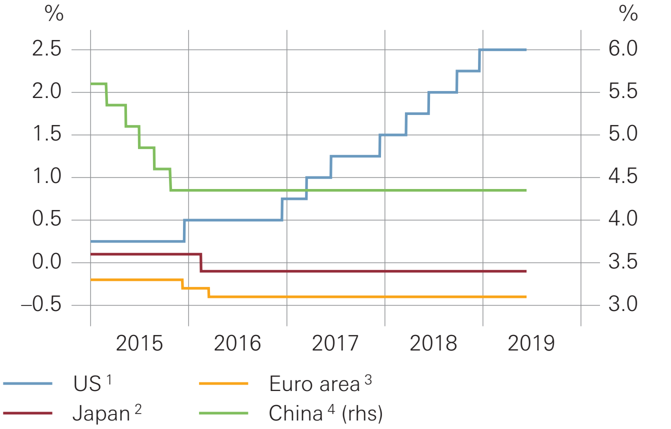
Year-on-year change



1 Excluding food and energy.
Source: Thomson Reuters Datastream

Chart 2.13

OFFICIAL INTEREST RATES

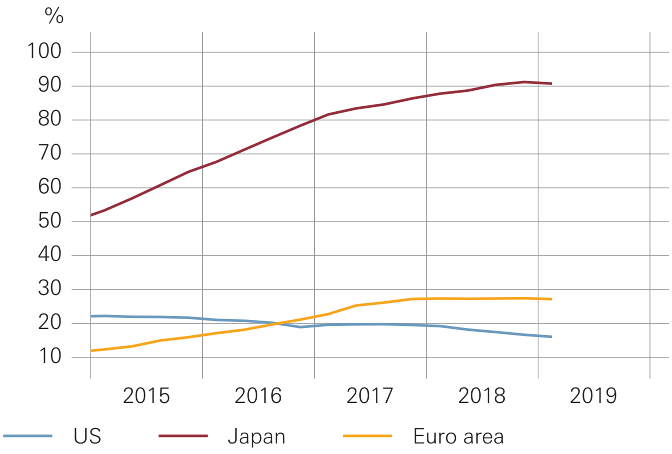


1 Federal funds rate (upper limit of target range)
2 Call money target rate
3 Deposit facility rate
4 One-year lending rate
Source: Thomson Reuters Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Thomson Reuters Datastream

Economic expansion is set to weaken again in the coming quarters. 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 in particular. Added to this is the escalation of trade tensions with the US. In May, the additional tariff being imposed on a list of Chinese exports to the US – with an annual trade value of around USD 200 billion – was raised from 10% to 25%.

Economic policy measures are expected to have a positive impact on growth. For instance, the government intends to substantially increase infrastructure spending in the current year. Furthermore, taxes for companies and individuals have been lowered and monetary policy has been eased slightly. The SNB continues to anticipate 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. First-quarter GDP growth in India was below potential at 5.7%. Both exports and investment declined, having risen sharply in 2018. According to the available indicators, expansion in Russia is likely to have been robust. In Brazil, meanwhile, GDP receded slightly (cf. chart 2.8). Investment, in particular, remained very weak.

In India, growth is expected to pick up again in the course of 2019. The recapitalisation of quasi-governmental credit institutions and public infrastructure spending are likely to provide impetus. In Russia, growth is likely to be in line with potential (around 1.5%). Uncertainty about economic reforms as well as subdued foreign demand are dampening the short-term outlook in Brazil.

3

Economic developments in Switzerland

In Switzerland, the pace of growth picked up as expected at the beginning of the year. According to the initial estimate, GDP grew by 2.3% in the first quarter. Growth was broad-based across the different sectors of the economy. Labour market developments were also positive. Employment figures continued to rise across a broad front, and the unemployment rate remained at a low level.

Although leading indicators and surveys currently paint a mixed picture, they still point on the whole to favourable economic momentum in Switzerland. Against this background, the SNB still expects GDP growth of around 1.5% for 2019. It is therefore likely that capacity in the Swiss economy will remain well utilised.

OUTPUT AND DEMAND

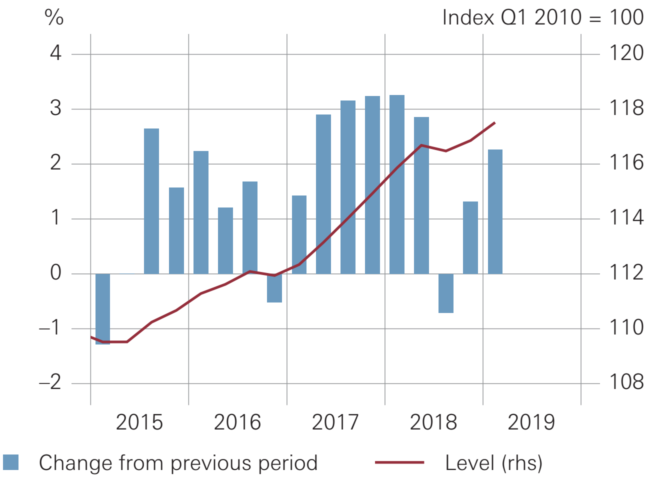
The SNB takes a wide range of information into account when assessing the economic situation. As expected, GDP growth picked up considerably in the first quarter of 2019, having been surprisingly weak in the second half of 2018. Nevertheless, the latest economic indicators are giving mixed signals.

Robust GDP growth in first quarter of 2019
Following weak expansion in the second half of 2018, GDP grew robustly in the first quarter of 2019. According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP was up 2.3%, having receded by 0.7% in the third quarter and risen by 1.3% in the fourth quarter of 2018 (cf. chart 3.1). Once again, the main driver was manufacturing; however, value added also rose considerably in many of the services industries.

Developments on the expenditure side, too, were favourable in the first quarter. Final demand exhibited broad-based growth. Exports and equipment investment expanded particularly strongly. Consumer spending also advanced at an above-average rate.

Chart 3.1

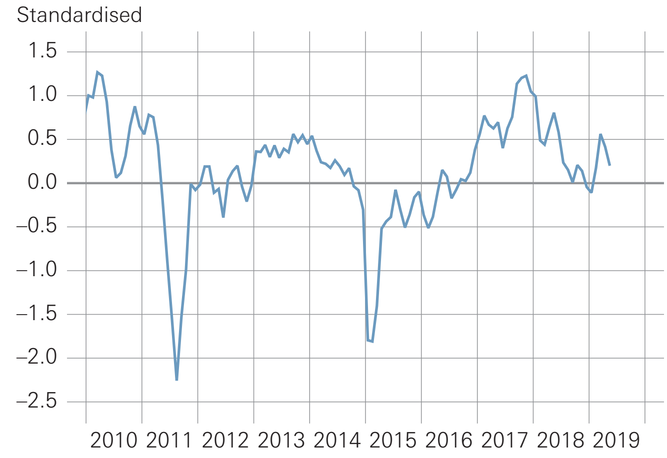
REAL GDP



Source: SECO

Chart 3.2

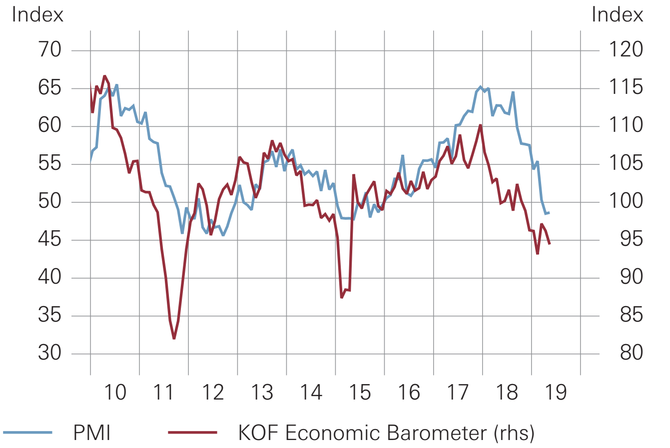
SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Sources: Credit Suisse, KOF Swiss Economic Institute

Mixed signals from economic indicators

A wide range of information shows that economic activity has picked up again somewhat since the beginning of the year. According to the SNB's Business Cycle Index (BCI), which offers a comprehensive overview of economic momentum, the pace of growth has been at an above-average level again since February (cf. chart 3.2). The talks held by the SNB's delegates for regional economic relations with companies also suggest favourable developments in the second quarter (cf. 'Business cycle signals', pp. 28 et seq.).

By contrast, signals from both the KOF Economic Barometer and the manufacturing purchasing managers' index (PMI) are considerably weaker (cf. chart 3.3). Through to May, the KOF Economic Barometer remained persistently below 100, i.e. the level that corresponds to average growth over the long term. The manufacturing PMI calculated by Credit Suisse dropped substantially in recent months. In April and May, it was below the growth threshold of 50 for the first time since 2015.

One possible explanation for the mixed signals is that the KOF Economic Barometer and the PMI both give a stronger weighting to the weak global manufacturing indicators than the SNB's BCI.

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2015	2016	2017	2018	2017			2018				2019
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	1.7	1.5	1.1	1.1	0.4	2.0	0.6	1.5	0.9	0.2	1.0	1.8
Government consumption	1.1	1.2	0.9	1.0	0.8	1.9	2.3	0.0	0.8	0.1	1.2	1.3
Investment in fixed assets	2.3	3.4	3.3	2.1	0.9	4.3	4.1	4.0	1.9	–4.7	–0.5	4.6
Construction	1.6	0.5	1.4	0.7	0.8	2.1	3.7	–1.8	2.1	–0.3	–0.7	2.2
Equipment	2.7	5.4	4.5	2.9	1.0	5.5	4.3	7.6	1.8	–7.2	–0.4	6.0
Domestic final demand	1.8	2.0	1.7	1.3	0.6	2.6	1.8	2.0	1.2	–1.2	0.6	2.5
Change in inventories [1]	–0.4	–1.9	–0.1	–0.2	7.8	–10.6	11.1	–5.3	0.2	2.0	–7.8	–1.1
Total exports [2]	2.6	7.0	3.6	3.8	2.2	20.0	–6.7	12.1	0.3	–9.7	17.0	8.4
Goods [2]	2.6	6.7	5.1	5.3	6.4	21.6	–8.5	21.7	–1.4	–15.4	24.4	9.9
Goods excluding merchanting [2]	0.7	6.6	6.0	5.0	8.3	10.5	4.5	6.6	3.5	–12.0	28.0	4.8
Services	2.4	7.6	0.7	1.0	–5.5	16.3	–3.9	–3.3	3.8	1.6	2.3	7.1
Total imports [2]	3.0	4.7	4.1	1.2	16.0	–1.9	13.1	–0.4	–3.2	–8.6	1.7	8.3
Goods [2]	0.0	4.4	5.5	4.8	25.5	–2.3	24.9	6.4	–4.5	–11.0	3.4	9.7
Services	8.8	5.3	1.6	–5.4	0.6	–1.2	–6.6	–12.8	–0.4	–3.6	–1.6	5.4
Net exports [3]	0.1	1.7	0.2	1.6	–5.4	11.5	–9.4	6.7	1.6	–1.6	8.5	1.2
GDP	**1.3**	**1.6**	**1.6**	**2.6**	**2.9**	**3.2**	**3.2**	**3.3**	**2.9**	**–0.7**	**1.3**	**2.3**

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 were positive overall. While unemployment remained low, the number of employed persons continued to rise, and even more so the number of jobs.

Unemployment stabilising
The number of people registered as unemployed at the regional employment offices stagnated in recent months. Excluding seasonal fluctuations, 109,000 people were recorded as unemployed at the end of May, while the seasonally adjusted unemployment rate published by SECO stood at 2.4% (cf. chart 3.4).

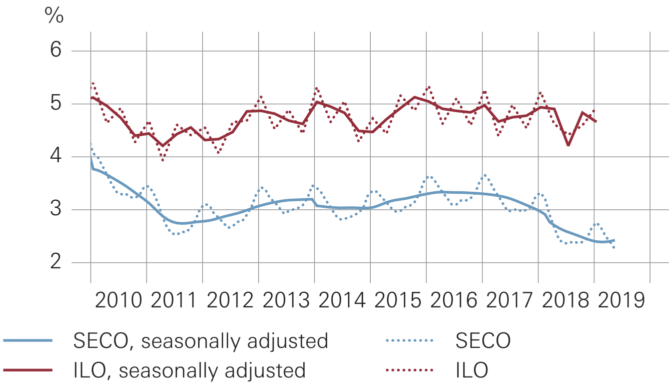
In addition, the Swiss Federal Statistical Office (SFSO) calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. This survey includes people who are looking for work but are not registered, or are no longer registered, as unemployed 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 first quarter of 2019, the seasonally adjusted unemployment rate fell to 4.7%.

Continued growth in employment and jobs
According to the Employment Statistics (ES), the seasonally adjusted number of persons employed rose further in the first quarter; however, at 0.5%, growth was weaker than the long-term average of 1.1% (cf. chart 3.5). The ES measure the number of employed persons on the household side and are 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 strong growth in the first quarter (cf. chart 3.6). Employment rose in services, manufacturing and construction.

Chart 3.4

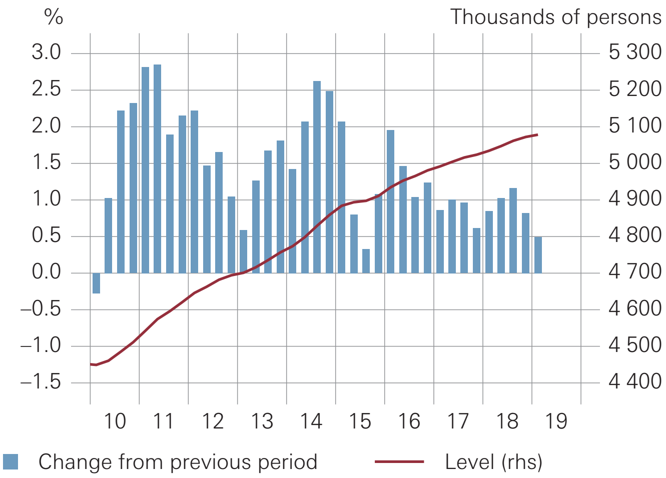
UNEMPLOYMENT RATE



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

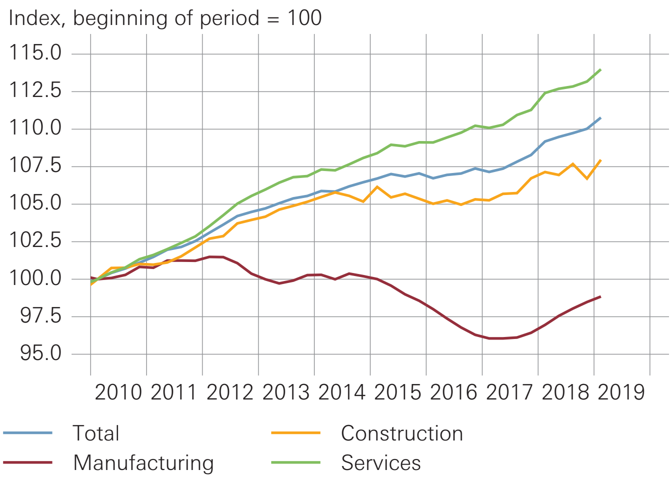
EMPLOYED PERSONS



Source: SFSO; seasonal adjustment: SNB

Chart 3.6

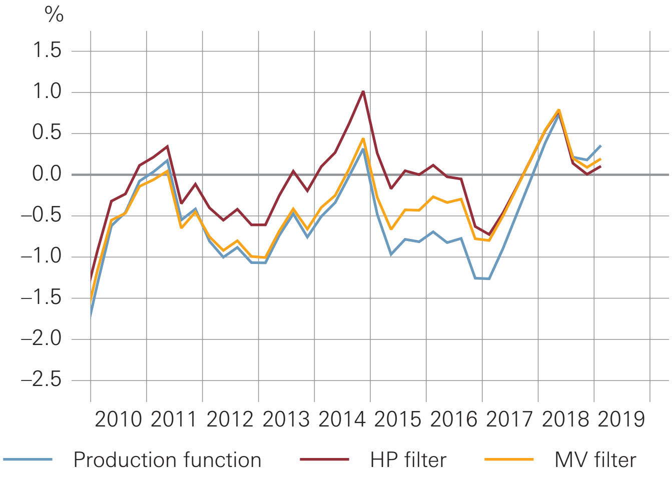
FULL-TIME EQUIVALENT JOBS



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

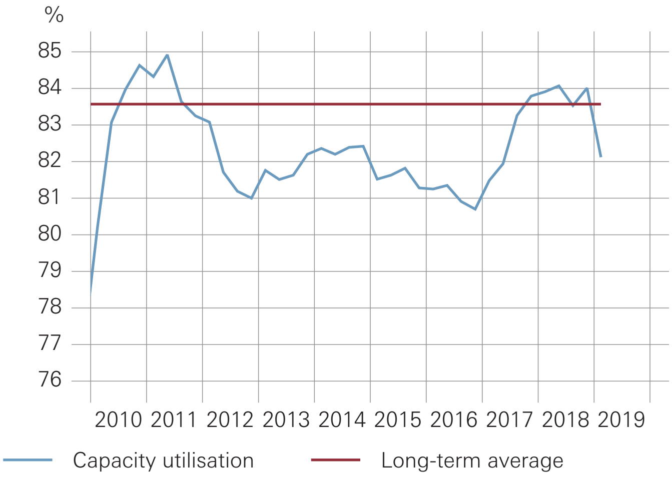
OUTPUT GAP



Source: SNB

Chart 3.8

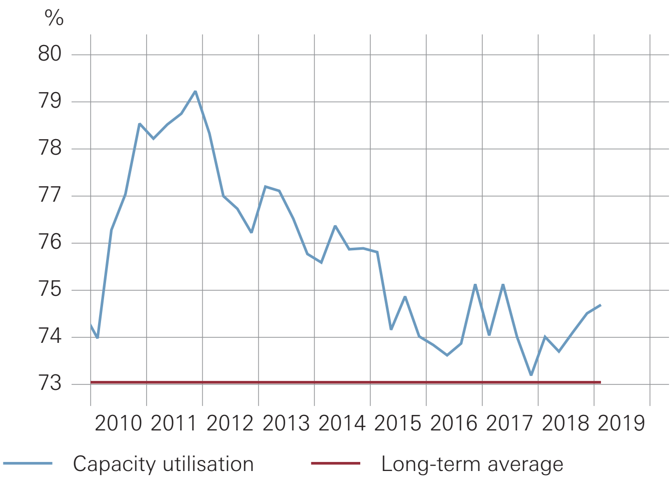
CAPACITY UTILISATION IN MANUFACTURING



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 0.4% for the first quarter of 2019 (Q4 2018: 0.2%). 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 paint mixed picture
The various surveys on the utilisation of production factors presented a mixed picture for the first quarter. Overall, however, they suggested that capacity in the Swiss economy continued to be well utilised.

According to the KOF survey, utilisation of technical capacity in manufacturing dropped to 82.1% in the first quarter, which is considerably below the long-term average (cf. chart 3.8). However, the KOF survey also asks for an assessment of current technical capacity, and respondents tended to state that their companies had too little. The talks conducted by the SNB's delegates for regional economic relations also point to normal levels of utilisation.

Machine utilisation in construction remained above the long-term average in the first quarter (cf. chart 3.9). As for services, the surveys also point to a slightly above-average level of technical capacity utilisation.

With regard to personnel, staff shortages persist. Surveys on the labour situation carried out in the various industries indicate that filling vacant positions continues to be somewhat of a challenge for companies.

OUTLOOK

The outlook for the Swiss economy remains favourable overall. The SNB continues to anticipate sound economic growth in the medium term. First, according to the baseline scenario for the world economy(cf. chapter 2), global economic developments are expected to continue to stimulate demand in the Swiss economy. In particular, the scenario assumes that the situation in manufacturing will stabilise and international trade will pick up. Second, population growth is likely to boost demand. Third, low interest rates are still supporting growth.

Against this backdrop, the downturn signalled by some of the economic indicators should prove temporary. A broad analysis of the indicators continues to point to solid momentum. Even in manufacturing, which is likely to be affected most directly by weaker industrial activity worldwide (cf. chart 3.10), expectations are that the business situation will continue to improve (cf. chart 3.11). The continued positive employment outlook also offers grounds for confidence (cf. chart 3.12).

The SNB still anticipates growth of around 1.5% for 2019. Unemployment is likely to change only slightly and the output gap is set to remain closed.

As with the basis scenario for the global economy, the risks for Switzerland also remain to the downside. Any unexpectedly sharp economic downturn abroad would quickly spread to Switzerland. In particular, persisting geopolitical tensions could impact on global trade, and the weakness in manufacturing could take a heavier toll on Switzerland.

Chart 3.10

MANUFACTURING PMI ABROAD

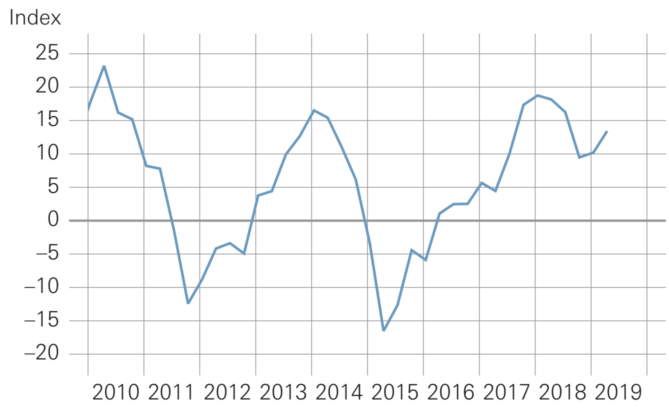
Export-weighted, 27 countries

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

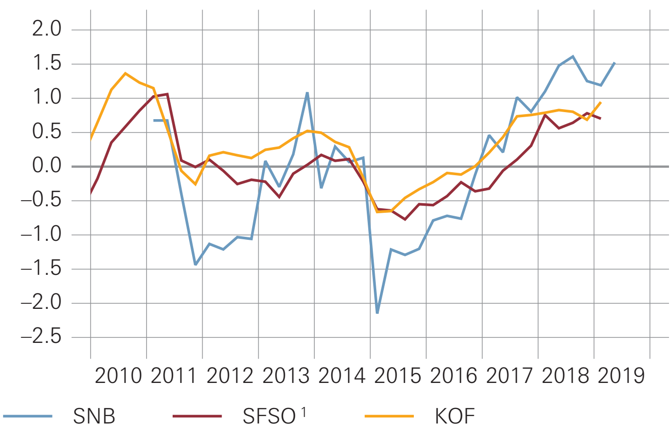


Source: KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB
Sources: KOF Swiss Economic Institute, SFSO, SNB regional network

4 Prices and inflation expectations

The annual inflation rate as measured by the CPI remained largely unchanged in recent months, staying at a low level and differing only very slightly from the core inflation rates.

Inflation expectations also saw virtually no change, and like the annual CPI inflation and core inflation rates remained 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

Annual inflation rate stable

After falling in the second half of 2018, the annual CPI inflation rate has remained largely unchanged since early 2019. In May, it stood at 0.6% (cf. table 4.1.) In contrast to 2018, it is now being primarily driven by inflation for domestic goods and services (cf. chart 4.1).

Largely unchanged inflation for imported products …

Inflation for imported goods and services has been essentially stable since the beginning of the year, but is still considerably lower than last year. Having averaged 2.4% for 2018, it stood at 0.7% in May 2019. The contribution of imported goods to annual CPI inflation has thus fallen substantially, reflecting in particular the development of oil product prices (cf. chart 4.1).

… and for domestic products

The inflation rate for domestic goods and services remained virtually static in the first five months of 2019, having recorded a moderate but steady rise in 2018. In May 2019, it stood at 0.6%, the same level as the annual CPI inflation rate (cf. chart 4.2). Although prices for domestic goods rose somewhat more strongly year-on-year than those for domestic services, the contribution of domestic services was greater, owing to their higher weighting (cf. chart 4.2).

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2018	2018			2019	2019		
		Q2	Q3	Q4	Q1	March	April	May
Overall CPI	**0.9**	**1.0**	**1.1**	**0.9**	**0.6**	**0.7**	**0.7**	**0.6**
Domestic goods and services	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.6
Goods	0.8	0.8	1.0	1.2	0.9	1.1	1.1	0.7
Services	0.3	0.3	0.4	0.3	0.5	0.5	0.5	0.6
Private services excluding housing rents	0.7	0.6	0.9	0.7	0.7	0.7	0.8	0.8
Housing rents	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.5
Public services	–0.8	–0.9	–0.8	–0.7	0.1	0.0	0.0	–0.1
Imported goods and services	2.4	2.7	3.0	2.1	0.7	1.1	0.8	0.7
Excluding oil products	1.1	1.2	1.1	0.6	0.6	0.6	0.6	0.6
Oil products	11.9	13.9	16.6	12.5	1.1	3.8	2.5	1.1

Sources: SFSO, SNB

Stable rent inflation
Inflation for rents as measured by the quarterly rental price index was 0.5% in May 2019, almost the same level as three months and six 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 close to annual CPI inflation
Core inflation rates have remained largely stable since autumn 2017 (cf. chart 4.4). With the decline in inflation for oil products, the difference between the annual CPI inflation rate and core inflation rates has narrowed considerably. In May, the trimmed mean calculated by the SNB (TM15) stood at 0.4%, while the SFSO's core inflation rate (SFSO1) came to 0.6%, the same as the annual CPI inflation rate.

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).

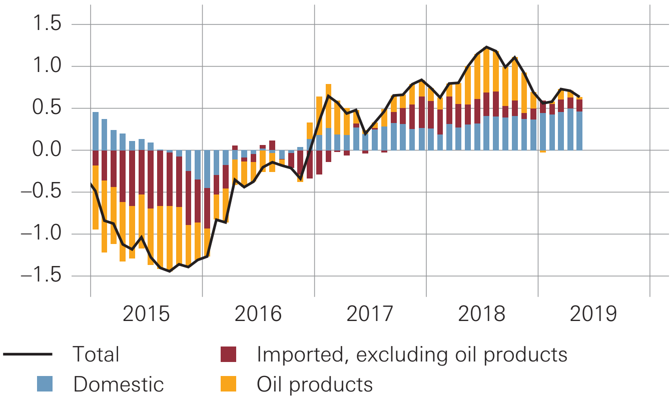
PRODUCER AND IMPORT PRICES

Stable producer and import prices
Annual inflation rates for producer and import prices have been largely stable since the beginning of 2019. They had dropped sharply in the second half of 2018, primarily owing to energy price developments. In May 2019, annual inflation for producer and import prices, which is a weighted average of the inflation rates as measured by the respective indices, stood at –0.3%.

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.

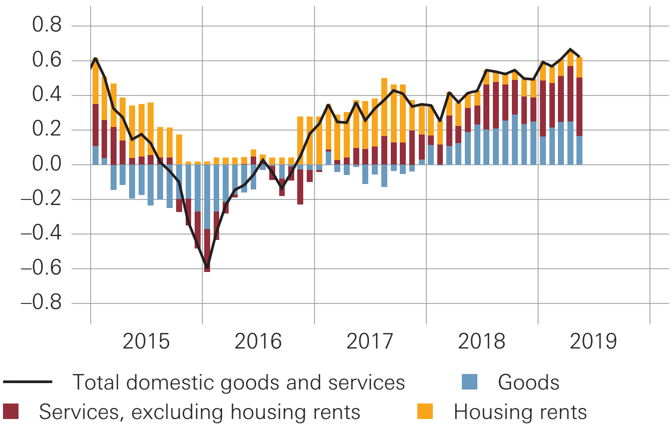


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

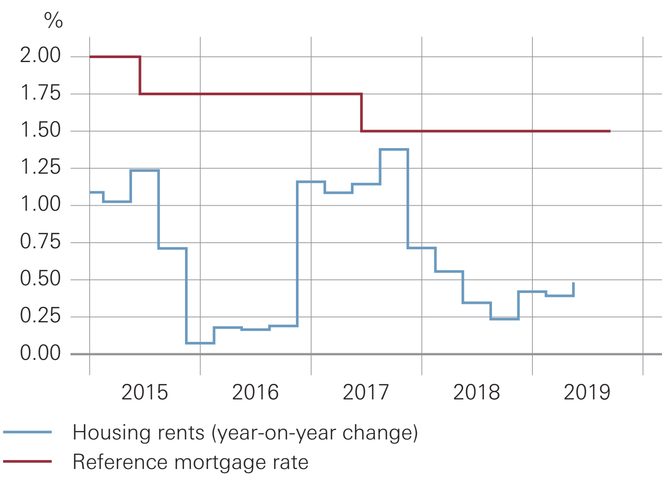
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

HOUSING RENTS

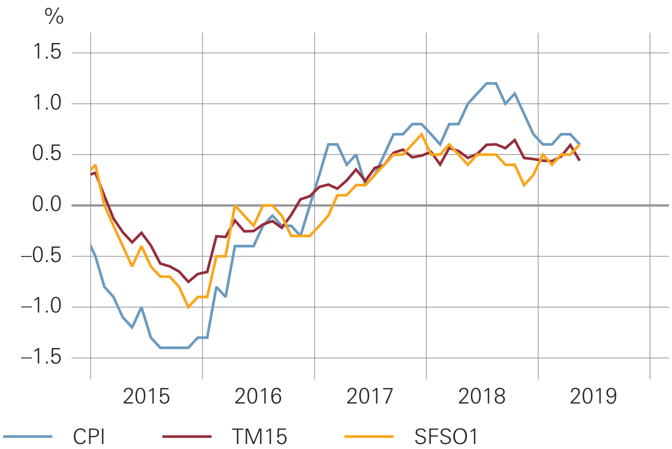


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

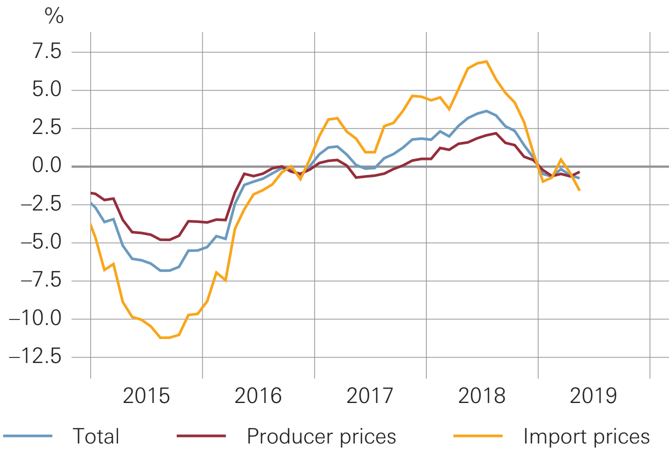


Sources: SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

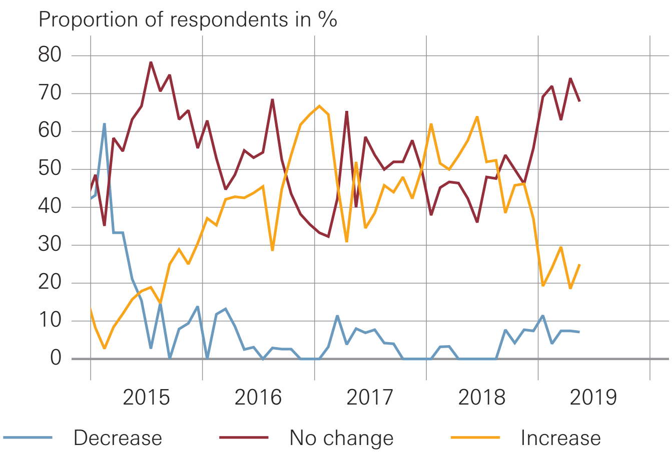
Year-on-year change



Source: SFSO

Chart 4.6

CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS



Sources: CFA Society Switzerland, Credit Suisse

INFLATION EXPECTATIONS

Inflation expectations consistent with price stability
Surveys show that inflation expectations have changed very little in the past few months, Both short and long-term expectations remain consistent with the objective of price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Short-term inflation expectations still low
According to the joint monthly financial market survey by the CFA Society Switzerland and Credit Suisse, 68% of the analysts questioned in May 2019 expected inflation rates to remain unchanged in the next six months (cf. chart 4.6). The majority of the remaining respondents anticipated a rise in inflation.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors also indicate low short-term inflation expectations. In the second quarter of 2019, respondents expected an average annual inflation rate of 0.4% for the next six to twelve months (Q1 2019: 0.5%).

The quarterly survey of households' price expectations for the next twelve months, conducted by SECO, likewise yielded similar results in April 2019 to those in the previous quarter. Just over half of the respondents anticipated a rise in prices, while around 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. Participants in the CFO survey by Deloitte, which was conducted in the first half of 2019, anticipate an inflation rate of 1.1% in two years' time, marginally lower than in the second half of 2018. In the second quarter, company representatives interviewed by the SNB's delegates put the rate of inflation in three to five years at 0.8% (Q1 2019: 0.9%).

5
Monetary developments

At its quarterly assessment of 21 March 2019, the SNB left its monetary policy unchanged and reaffirmed its policy stance. The SNB's monetary policy thus continued to be based on the negative interest rate and its willingness to intervene in the foreign exchange market as necessary.

Money market rates have remained essentially constant in the three months since the March assessment. By contrast, capital market rates have continued to decline, as they have been doing since autumn 2018. On the foreign exchange market, the Swiss franc remained highly valued. It appreciated in May when the trade dispute between the US and China escalated.

The M3 monetary aggregate and bank loans again showed a slight increase in growth, but remained at moderate levels.

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 21 March 2019. 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.

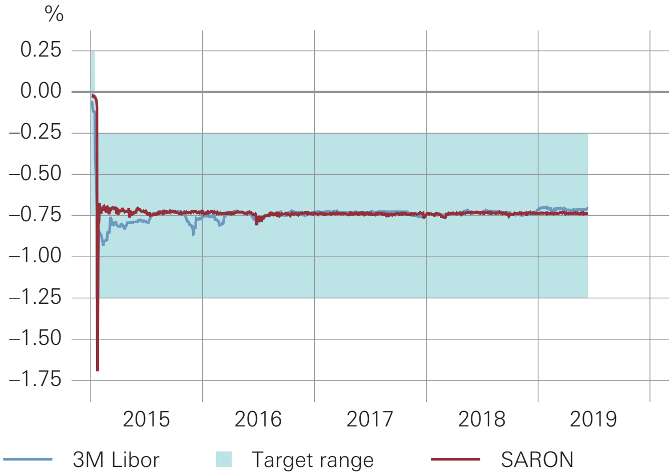
The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to keep the attractiveness of Swiss franc investments low and reduce pressure on the currency. The SNB's monetary policy thus helps to stabilise price developments and to support economic activity.

Sight deposits at the SNB virtually unchanged
Since the monetary policy assessment of March 2019, total sight deposits held at the SNB have increased slightly. In the week ending 7 June 2019 (last calendar week before the June assessment), they amounted to CHF 578.1 billion, somewhat higher than in the last calendar week preceding the mid-March 2019 assessment (CHF 576.0 billion). Between the assessments in March and June 2019, sight deposits at the SNB averaged CHF 577.5 billion. Of this amount, CHF 481.2 billion were sight deposits of domestic banks and the remaining CHF 96.3 billion were other sight deposits.

Statutory minimum reserves averaged CHF 17.1 billion between 20 February and 19 May 2019. Overall, banks exceeded the minimum reserve requirement by CHF 471.7 billion (previous period: CHF 465.6 billion). Banks' surplus reserves thus remain very high.

Chart 5.1

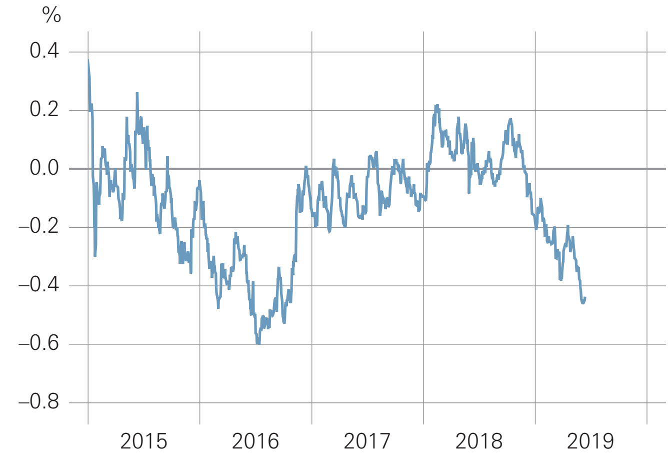
MONEY MARKET RATES



Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

10-YEAR SWISS CONFEDERATION BOND YIELD

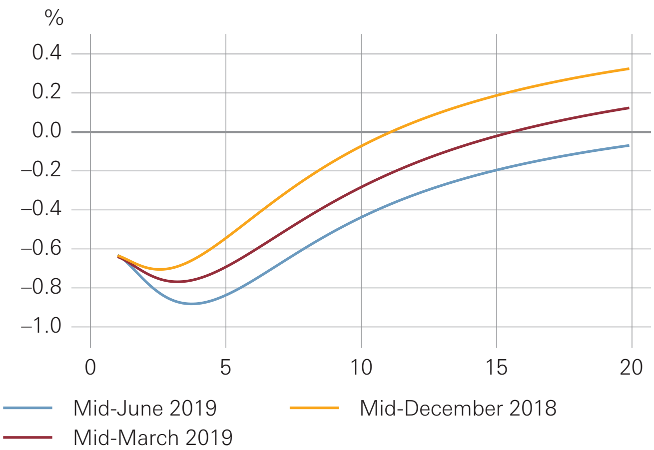


Source: SNB

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 largely unchanged

In the last three months, money market rates have remained largely unchanged and 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 SARON and the three-month Libor (cf. chart 5.1).

Further decline in capital market rates

Capital market rates decreased, reaching new lows for the year. At the end of May, yields on ten-year Confederation bonds dipped below –0.4% for the first time since 2016. In mid-June, they stood at –0.45% (cf. chart 5.2).

The movements in Confederation bond yields primarily reflected global factors. The decline in yields since the beginning of May was first and foremost due to heightened trade tensions, particularly between the US and China. This resulted in a more pessimistic assessment of the global economic outlook and bolstered demand for secure investments, which in turn exerted downward pressure on yields.

Flatter yield curve

Owing to the lower long-term interest rates, the yield curve for Confederation bonds flattened slightly in the last three months (cf. chart 5.3). In mid-June 2019, yields across all maturities covered were in negative territory.

Real interest rates still 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.

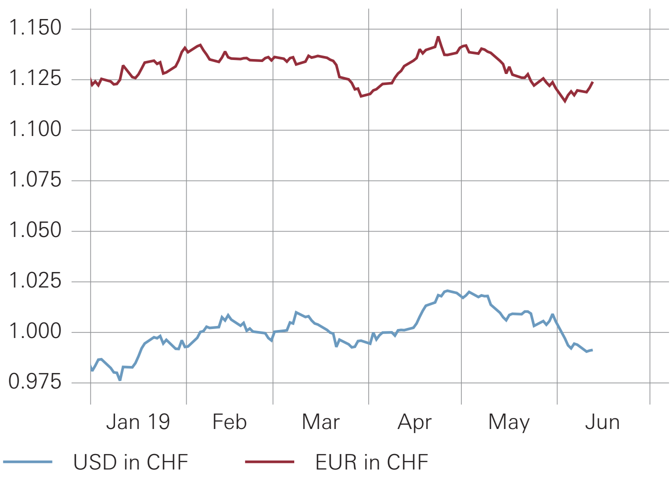
Swiss franc movements reflect changing risk sentiment
Over the past few months, movements in Swiss franc exchange rates mainly reflected the changes in risk sentiment. Following the quarterly assessment in March 2019, the Swiss franc initially appreciated against the euro, only to lose value again on a broad basis in April, against a backdrop of positive risk sentiment coupled with globally rising share prices. In the same period, the franc also dropped considerably in value against the yen, which is likewise often considered a safe-haven currency. Against the backdrop of the escalation in the trade dispute between the US and China, in May the Swiss franc recouped the previous month's losses against the euro and the US dollar (cf. chart 5.4).

Increase in Swiss franc's nominal trade-weighted external value
In the wake of the movements in recent months, the nominal trade-weighted external value of the Swiss franc stood at around 1.3% in mid-June, higher than at the time of the March assessment (cf. chart 5.5). In this period, the franc posted gains versus the euro (0.7%) and the US dollar (0.2%), these two currencies accounting for an index weighting of 55%. Against the pound sterling and the renminbi, which each have an index weighting of 9%, it appreciated much more strongly, gaining 3.5%.

Real external value of Swiss franc still high
With the Swiss franc appreciating in nominal terms, its real trade-weighted external value also increased slightly (cf. chart 5.6). In a longer-term comparison, the franc remains highly valued.

Chart 5.4

EXCHANGE RATES



Source: SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Source: SNB

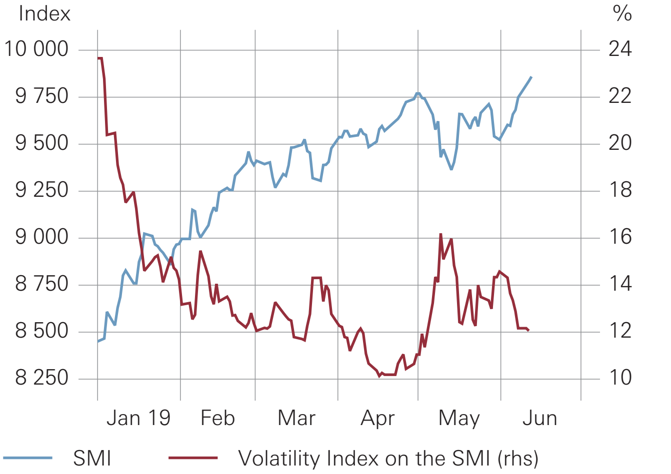
Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Source: SNB

Chart 5.7

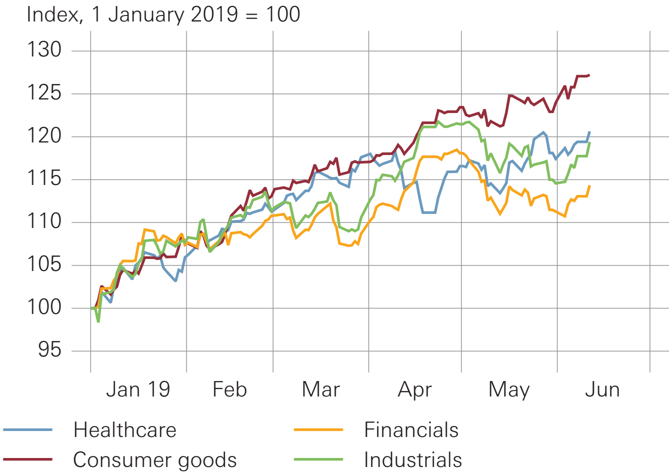
SHARE PRICES AND VOLATILITY



Sources: Bloomberg, Thomson Reuters Datastream

Chart 5.8

SELECTED SPI SECTORS

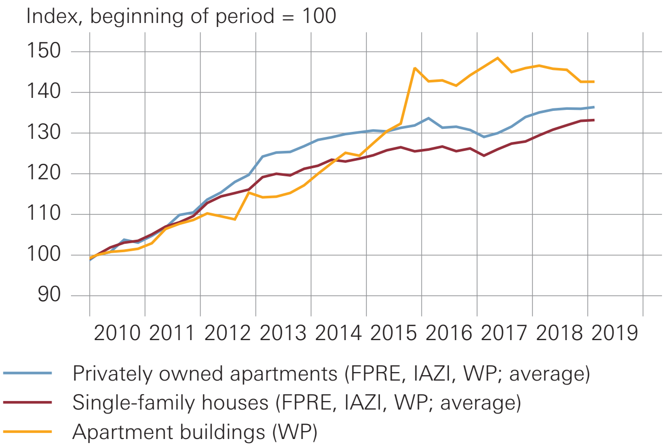


Source: Thomson Reuters Datastream

Chart 5.9

HOUSING TRANSACTION PRICES

Nominal (hedonic)



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

SHARE AND REAL ESTATE PRICES

Weakened uptrend for Swiss share prices

After posting substantial gains at the beginning of the year, the rise in Swiss share prices lost momentum somewhat in the second quarter of 2019 (cf. chart 5.7). This was due in large part to the renewed trade dispute between the US and China, which impacted negatively on stock markets around the world. In mid-June, the Swiss Market Index (SMI) was just over 4% higher than at the March quarterly assessment.

Market uncertainty low

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 May, when share prices were falling, the volatility index temporarily rose considerably. This aside, in the second quarter, the index largely remained close to the relatively low values observed in February and March.

Movements in sectoral indices

Chart 5.8 shows the movements of important sub-indices in the broader-based Swiss Performance Index (SPI). Share prices of consumer goods companies continued to recover almost unabated, as shown by the corresponding sectoral index. By contrast, the other three sectoral indices lost some momentum in the second quarter. However, all four of these indices have registered price gains of more than 10% since the beginning of the year.

Prices for single-family houses and privately owned apartments up year-on-year

Prices for single-family houses and privately owned apartments continued to rise slightly in the last few quarters, while prices for apartment buildings receded somewhat. However, owing to the strong increase in prices in recent years and growing vacancy rates, this segment in particular is subject to the risk of a price correction.

MONETARY AND CREDIT AGGREGATES

Monetary base largely stable
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 562.3 billion in May 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.

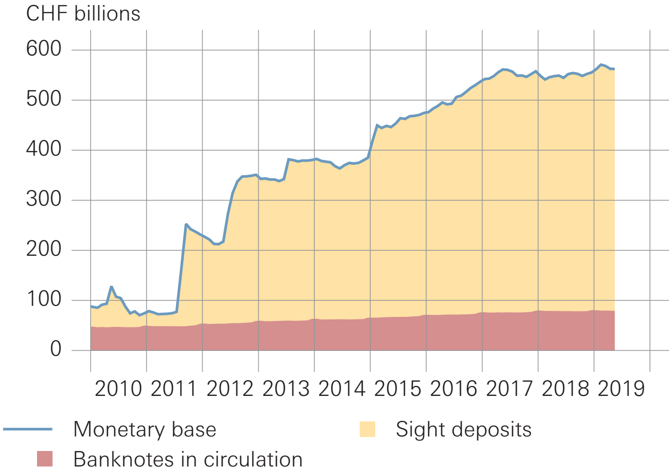
Slightly higher growth in broad monetary aggregates
Growth rates for the broad monetary aggregates (M2 and M3) increased further. This may be due to the decline in long-term interest rates that has been observed since October 2018. In May 2019, M1 (currency in circulation, sight deposits and transaction accounts) was 5.1% above its year-back level, while M2 (M1 plus savings deposits) was up by 3.7%, and M3 (M2 plus time deposits) rose by 3.4% in the same period (cf. table 5.1).

The M3 monetary aggregate is essentially growing in step with Swiss franc-denominated bank loans at present (cf. chart 5.11). Between 2009 and 2013, M3 grew considerably faster than bank loans, which was attributable to the SNB's interventions in the foreign exchange market. Whenever the SNB purchases foreign currency against Swiss francs from domestic customers, the Swiss franc deposits held at banks by domestic customers rise and thus too the monetary aggregates, irrespective of loans.

Stronger growth in mortgage claims
Bank lending (domestic bank offices, all currencies) was up 3.6% year-on-year in the first quarter of 2019 compared to 3.4% in the previous quarter (cf. table 5.1). While growth in mortgage lending increased slightly, growth in other loans – which exhibits greater volatility – saw a decrease.

Chart 5.10

MONETARY BASE

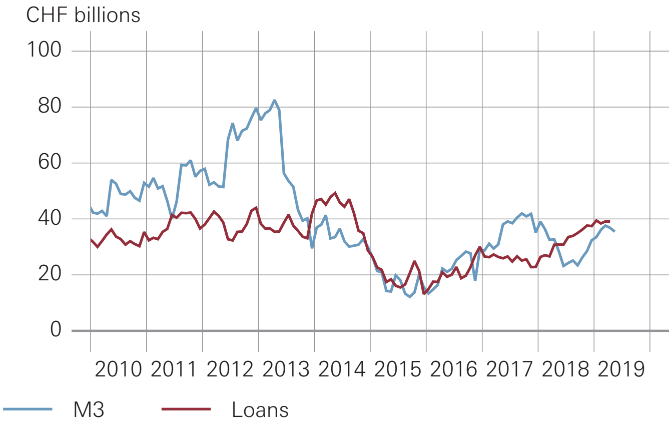


Source: SNB

Chart 5.11

M3 MONETARY AGGREGATE AND BANK LOANS IN SWISS FRANCS

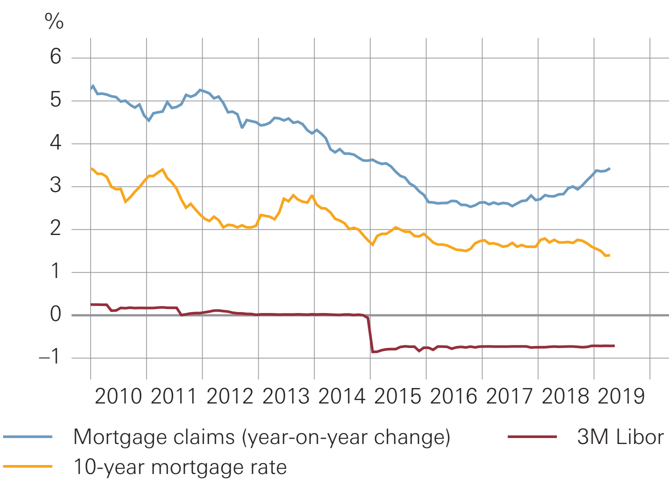
Year-on-year change



Source: SNB

Chart 5.12

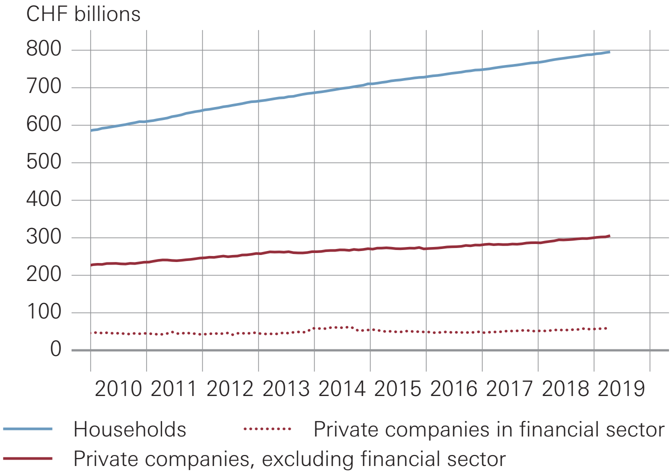
MORTGAGE CLAIMS AND INTEREST RATES



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 3.4% above their year-back level in the first quarter. Growth in mortgage lending thus rose again slightly, having decreased by half between 2012 and 2015 and having stabilised thereafter (cf. chart 5.12). Demand for mortgages continues to be supported by low mortgage interest rates. The ten-year mortgage interest rate stood at a new low of 1.4% in March.

Other loans (i.e. loans not secured by mortgages) grew 4.6% year-on-year in the first quarter of 2019 (Q4 2018: 5.1%).

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 March 2019, loans to households – 95% of which are mortgage loans – recorded a year-on-year increase of 2.7%. Over the same period, loans to non-financial companies (share of mortgage loans: 77%) rose by 4.2%, while loans to financial companies (share of mortgage loans: 36%) were up 11.1%.

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2018	2018			2019	2019		
		Q2	Q3	Q4	Q1	March	April	May
M1	**5.8**	**5.9**	**5.0**	**5.1**	**5.1**	**5.2**	**5.1**	**5.1**
M2	**3.2**	**3.1**	**2.6**	**3.1**	**3.3**	**3.6**	**3.6**	**3.7**
M3	**2.9**	**2.8**	**2.4**	**2.8**	**3.4**	**3.6**	**3.5**	**3.4**
Bank loans, total [1, 3]	**3.3**	**3.4**	**3.4**	**3.4**	**3.6**	**3.3**	**3.3**	
Mortgage claims [1, 3]	2.9	2.8	3.0	3.1	3.4	3.4	3.4	
Households [2, 3]	2.6	2.6	2.7	2.7	2.8	2.8	2.8	
Private companies [2, 3]	3.8	3.4	3.8	4.4	5.2	5.3	5.6	
Other loans [1, 3]	5.4	7.0	6.2	5.1	4.6	2.8	2.9	
Secured [1, 3]	3.9	8.0	3.9	0.6	0.8	0.0	–3.8	
Unsecured [1, 3]	6.6	6.3	7.9	8.6	7.6	4.9	8.2	

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

Second 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-April and the end of May.

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 grew solidly in the second quarter with normal utilisation of production capacity. The tendency towards a slowdown observed in the second half of 2018 did not continue.
- Personnel shortages are ongoing and difficulties persist in recruiting specialist staff.
- Overall, profit margins are at comfortable levels.
- For the next two quarters, company representatives expect further growth, albeit somewhat more moderate. This applies to services, manufacturing and construction.
- Companies are planning to hire new staff and intend to spend more on equipment investment and buildings.
- The main risks come from the effects of trade barriers. Many company representatives voiced concerns about the situation on the real estate market.

CURRENT SITUATION

Robust economic growth

The robust expansion of the Swiss economy continued in the second quarter. Company representatives reported growth in real turnover, i.e. turnover adjusted for changes in sales prices, as being similar to the previous quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). The decline in momentum observed during the second half of 2018 in particular is thus confirmed to have halted. However, the heterogeneity in company performance appears to have become somewhat larger.

The favourable economic developments relate to both domestically focused and export-oriented business. In the case of the US and Asia (including Japan) business is dynamic, whereas China in particular is sending out very mixed signals. Trade with Europe is largely positive, but the picture is more varied with regard to Germany. Sales of medtech and biotech goods, chemical and pharmaceutical products, parts for the aviation industry as well as luxury goods remain dynamic.

Utilisation of production capacity normal

Utilisation of technical production capacity remains at a normal level (cf. chart 2). Just under half of the companies interviewed rated their technical capacity utilisation as normal, with the remainder being spread evenly between reporting underutilisation and overutilisation. In manufacturing, the problems cited in recent quarters with occasional supply bottlenecks and long delivery times have eased.

Staff shortages persist

Company representatives continue to view their staff numbers as being somewhat on the low side. Staff levels were described by 33% of representatives as being slightly or much too low at present. In manufacturing, this proportion was 41%.

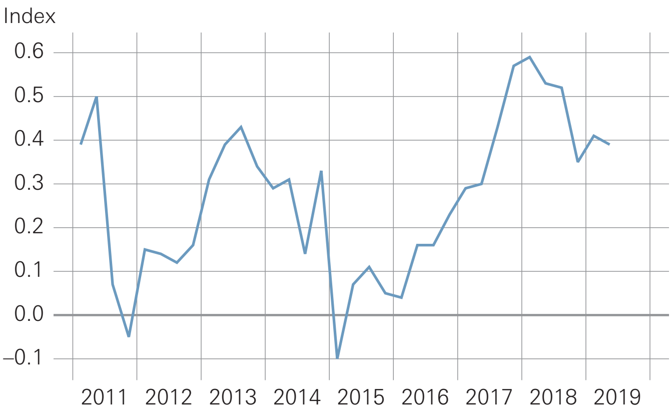
All industries considered recruiting to be more difficult than usual. This is partly due to a lack of applicants but also to higher qualification and skill requirements in job profiles. The shortage of specialists thus continues to be one of the main concerns for many companies. There is a dearth of applications for open positions. IT specialists are among the professions in greatest demand. Company representatives from a range of industries are feeling the effects of the strong demand for such specialists in the financial sector in particular. Various respondents report that IT skills are essential in an ever broader range of professions. Engineers and technical specialists are likewise highly sought after. Several companies also report difficulties in filling apprenticeships.

Margin situation generally unchanged

Although overall profit margins continue to sit just below levels company representatives consider normal, they are still well within comfortable limits. In manufacturing, margins are favourable, while construction companies continue to experience the strongest margin pressure.

Chart 1

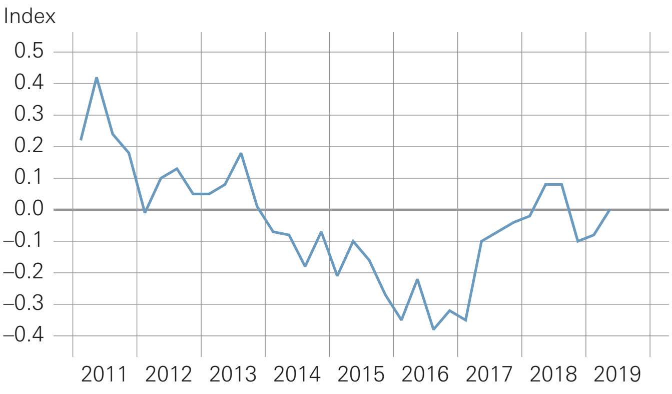
TURNOVER COMPARED TO PREVIOUS QUARTER



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

Real turnover in trade was slightly higher than in the previous quarter. This applies to wholesale, retail and vehicle trade. In the retail trade, however, infrastructure is still considerably underutilised, though there are some signs that crossborder shopping is continuing to taper off.

Sales trends and capacity utilisation at transport and logistics companies are rather less favourable.

Banks, insurance companies and asset managers report continued dynamic business performance, although margins in the financial sector are falling short of the levels considered normal. This is partially explained by the further decline in net interest margins, and also by the costs involved in implementing regulation and digitalisation. These falling margins are only partly offset by the growth in customer deposits.

Sales in the hospitality industry are higher than in the previous quarter. Capacity utilisation and margins are at normal levels in the case of both hotels and restaurants.

Companies in the ICT industry are reporting continued favourable business activity with rising turnover and margins within the normal range. Digital transformation and cyber security are important drivers. Strong demand for IT services is being observed in manufacturing, the financial sector and also the public sector.

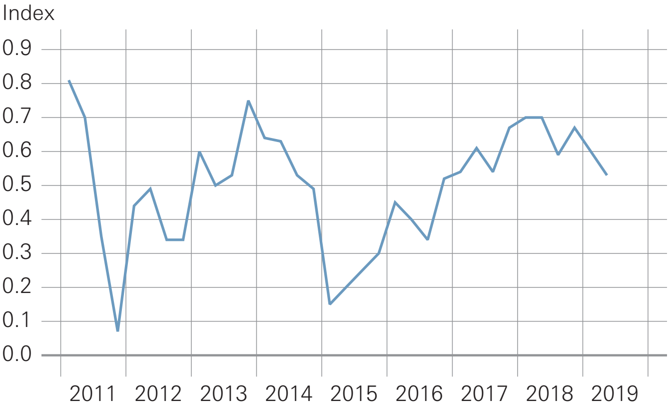
Sales momentum remains high for engineering and architecture firms, as well as facility management services providers, although the latter cite strong margin pressure caused by fierce competition.

In manufacturing, almost all industries recorded higher turnover quarter-on-quarter. Business is particularly dynamic for pharmaceutical firms, plastics manufacturers, precision instrument makers, metal-processing firms and energy suppliers. Production capacity utilisation is at a normal level in most industries, with the exception of mechanical engineering companies. Suppliers in the automotive industry are experiencing the effects of catching up on the drop-off in orders in previous quarters. The watchmaking industry is exhibiting solid business performance overall although this varies considerably between companies. Companies within the energy industry report lower than normal margins despite rising turnover.

Business performance in the construction sector is dynamic. In seasonally adjusted terms, turnover is up on the previous quarter and markedly higher year-on-year, while production capacities remain slightly overutilised. These developments apply to structural engineering, civil engineering and the finishing trade. By contrast, pressure on margins persists despite the healthy order situation. There are few signs of a significant slowdown in construction and, in some cases, the backlog is actually markedly higher than normal.

Chart 3

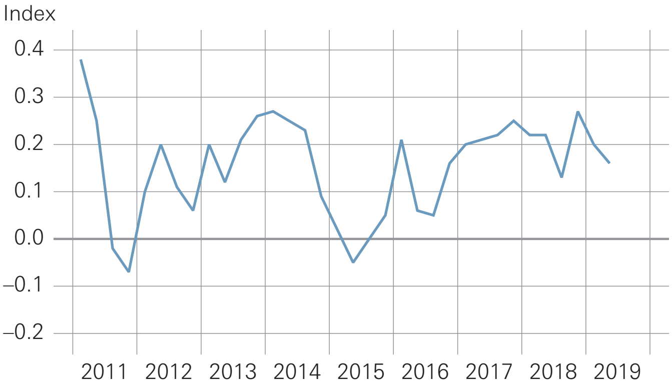
EXPECTED TURNOVER



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

Chart 4

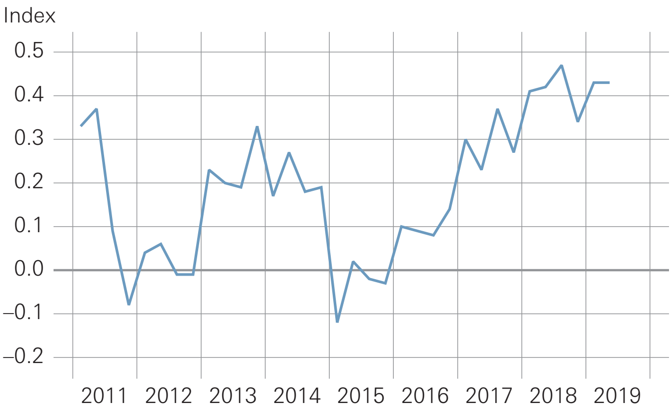
EXPECTED CAPACITY UTILISATION



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

Predominantly confident

Company representatives remain positive about their business prospects. Overall, they expect slightly higher real turnover in the next two quarters, although their expectations are somewhat more cautious than in 2018 (cf. chart 3). Potential opportunities exist in tapping into new sales markets and in the launch of new products. The outcome of the referendum on corporate tax reform is contributing to the optimistic assessment.

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

The good capacity utilisation and the persistently low interest rate environment are still having a favourable impact on investment projects. In both the services and manufacturing sectors, companies are planning to slightly increase investment expenditure for equipment and buildings over the coming 12 months. The situation in the individual industries, however, is very mixed. As in the previous quarters, just over a third of companies say equipment investment will lead to an expansion in production capacity.

Stable price expectations

Company representatives anticipate purchase and sale prices to remain more or less stable over the next two quarters. Only representatives from manufacturing are expecting a slight rise in purchase prices. The upward pressure previously observed on raw material and preliminary product prices, as well as the recent high level of capacity utilisation among suppliers, are no longer noticeable.

Further expansion in staff numbers

Company representatives are planning to increase staff numbers further in the next two quarters (cf. chart 5). This reflects, on the one hand, the current personnel shortages and, on the other, the consistently favourable business outlook. Only a few textile firms, retailers and financial institutions are planning to reduce staff numbers. Many representatives are still prioritising in-house training and maintaining their appeal as an employer in an effort to attract and retain staff.

Slight rise in aggregate wages

The average wage increase for 2019 is approximately 1.2%. Almost 90% of the companies interviewed have agreed salary increases. Companies are noticing a tendency towards higher salary demands among job applicants.

ENVIRONMENT AND RISKS

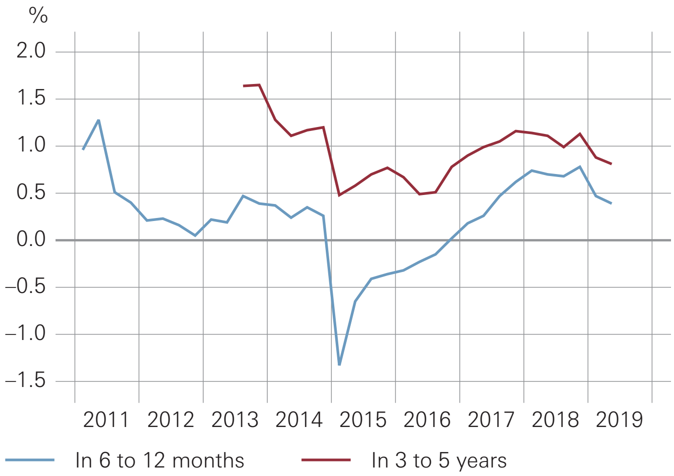
There has been little change in the perceived international risks since the previous quarter. Representatives primarily mention trade barriers and the potential impact, be it direct or indirect, on their companies. Chief concerns in this regard are the US-China trade dispute and Brexit. Other risks cited stem from high levels of public and private debt.

Domestically, the challenge most commonly referred to continues to be the shortage of specialised staff. The framework agreement between Switzerland and the EU was also addressed. Many company representatives raised the issue of the situation on the real estate market where construction activity is continuing despite high numbers of vacant apartments in some regions. They also often mention the risks for pension schemes arising from the persistently low interest rate environment. Although renewed appreciation of the Swiss franc is identified as a risk, the current exchange rate conditions are considered manageable. The extent to which regulation is weighing on a wide range of areas remains a recurring theme.

Digitalisation is being intensively explored in many industries. While the majority of projects in this area are already bearing fruit, isolated cases reveal the substantial scale of the strategic and financial risks that can arise.

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 slightly lower, in both the short and long term. The average for the next six to twelve months (blue line in chart 6) is 0.4%, compared to 0.5% 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 0.8% (Q1 2019: 0.9%). This decline, which has been an observable trend for several quarters, primarily reflects the 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.

At its quarterly assessment of 13 June, the SNB leaves the interest rate on sight deposits with the SNB at –0.75%. 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 2019

On 13 June, the SNB introduces the SNB policy rate and announces that it will use this rate in taking and communicating its monetary policy decisions going forward. The SNB policy rate replaces the target range for the three-month Libor. Interest on sight deposits held by banks at the SNB currently corresponds to the SNB policy rate and remains at –0.75%. The SNB will seek to keep the secured short-term Swiss franc money market rates close to the SNB policy rate.

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.

March 2019

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.

December 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.

September 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.

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