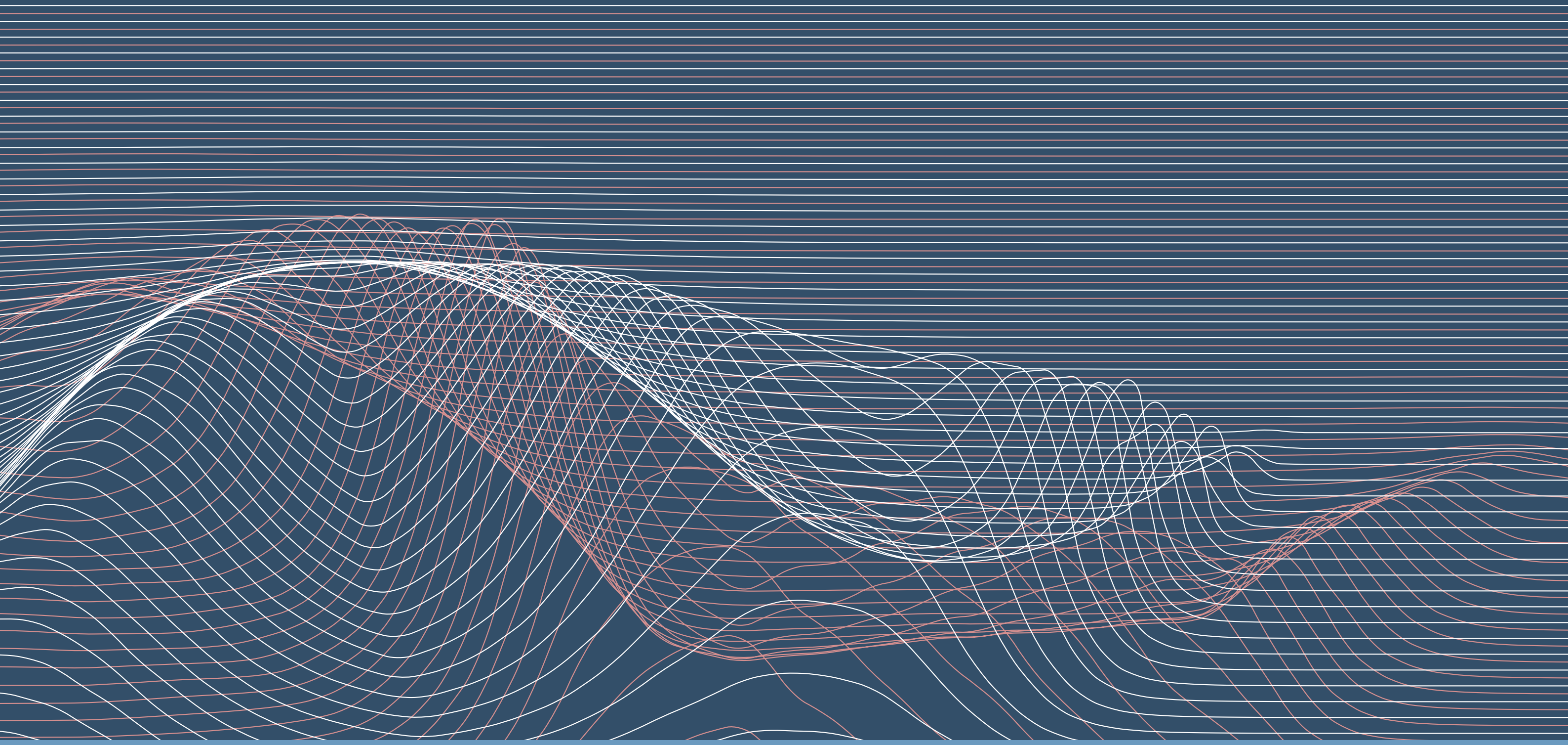

Quarterly Bulletin
3/2020 September

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

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Volume 38

SNB BNS

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2020

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 24 September 2020') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 24 September 2020. 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 24 September 2020

Swiss National Bank maintains expansionary monetary policy

The coronavirus pandemic continues to exert a strong influence on economic developments. The SNB is therefore maintaining its expansionary monetary policy. In so doing, it aims to cushion the negative impact of the pandemic on economic activity and inflation.

The SNB is keeping the SNB policy rate and interest on sight deposits at the SNB at –0.75%. In view of the fact that the Swiss franc is still highly valued, the SNB remains willing to intervene more strongly in the foreign exchange market, while taking the overall exchange rate situation into consideration. The SNB continues to supply the banking system with generous amounts of liquidity via the SNB COVID-19 refinancing facility (CRF). It is also active on the repo market as needed.

The SNB's expansionary monetary policy is necessary to ensure appropriate monetary conditions in Switzerland and to stabilise economic activity and price developments. The low interest rates provide favourable financing conditions and, coupled with the SNB's willingness to intervene, counter upward pressure on the Swiss franc. The CRF and the loans guaranteed by the federal government have together contributed significantly towards ensuring the supply of credit and liquidity to the economy.

In the current situation, the inflation outlook is subject to unusually high uncertainty. In the short term, the new conditional inflation forecast is higher than in June (cf. chart 1.1), mainly due to a rise in oil prices. The longer-term inflation forecast is unchanged. However, the forecast for the current year remains negative (–0.6%). The inflation rate is likely to edge back into positive territory in 2021 (0.1%) and increase slightly further in 2022 (0.2%). The conditional inflation forecast is based on the assumption that the SNB policy rate remains at –0.75% over the entire forecast horizon (cf. table 1.1).

The coronavirus pandemic and the measures implemented to contain it have led to a historic downturn in the global economy. In the second quarter of 2020, gross domestic product was approximately 10–20% below its end-2019 level in most countries. Unemployment has increased around the world, although short-time work schemes in various countries have so far prevented a stronger rise.

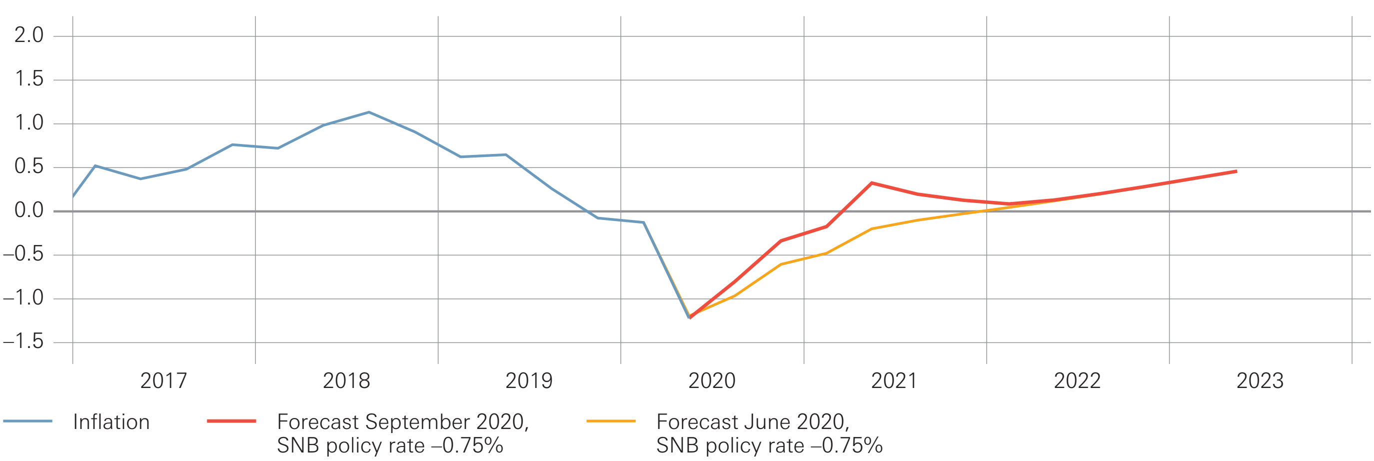
Following the easing of containment measures by numerous states, there has been a significant pick-up in economic activity in recent months. The global economy is expected to experience a robust recovery in the third quarter. Global GDP is nonetheless likely to remain below its pre-crisis level.

In its baseline scenario for the global economy, the SNB anticipates that it will be possible to keep the pandemic under control without a renewed serious impairment of economic activity. The economic recovery should thus continue. The monetary and fiscal policy measures adopted worldwide are providing important support for the economy. However, it is likely that global production capacity will be underutilised for some time to come and inflation will remain modest in most countries.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2020

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



Sources: SFSO, SNB

This baseline scenario is subject to a high degree of uncertainty. On the one hand, a rapid increase in infections could necessitate renewed containment measures, which would once again weigh heavily on the economy. Trade tensions could also hamper economic activity. On the other hand, the economic policy measures introduced in many countries could support the recovery more strongly than expected.

Switzerland too experienced a sharp recession as a result of the coronavirus pandemic. In the second quarter, GDP was more than 10% below its pre-crisis level. In contrast to previous recessions, many service industries in particular were hit hard by the downturn.

Economic activity in Switzerland has picked up significantly since May due to the relaxation of health policy measures and to fiscal and monetary policy support. This should be reflected in a strong rise in GDP in the third quarter. The positive development is likely to continue in 2021.

However, the SNB anticipates that, as abroad, the recovery will only be partial for the time being. Production capacity will probably remain underutilised for an extended period of time and unemployment is likely to increase further.

This year, GDP is set to shrink by around 5%. This would be the strongest decline since the crisis in the mid-1970s. At its last monetary policy assessment, the SNB had expected an even stronger decline. The forecast revision is mainly due to the fact that the downturn in the first half of the year was somewhat less strong than feared. The forecast for Switzerland, as for the global economy, is subject to high uncertainty.

While GDP declined strongly in the second quarter, mortgage lending and residential property prices continued to rise. Imbalances thus persist on these markets and continue to present risks for financial stability.

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. As the third element in implementing its monetary policy the SNB sets the SNB policy rate, and seeks to keep the secured short-term Swiss franc money market rates close to this rate.

Table 1.1

OBSERVED INFLATION IN SEPTEMBER 2020

	2017				2018				2019				2020				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.5	0.4	0.5	0.8	0.7	1.0	1.1	0.9	0.6	0.6	0.3	–0.1	–0.1	–1.2			0.5	0.9	0.4

Source: SFSO

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2020

	2020				2021				2022				2023				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2020, SNB policy rate –0.75%		–1.2	–1.0	–0.6	–0.5	–0.2	–0.1	0.0	0.0	0.1	0.2	0.3	0.4				–0.7	–0.2	0.2
Forecast September 2020, SNB policy rate –0.75%			–0.8	–0.3	–0.2	0.3	0.2	0.1	0.1	0.1	0.2	0.3	0.4	0.5			–0.6	0.1	0.2

Source: SNB

2 Global economic environment

The coronavirus pandemic and the measures implemented to contain it have led to a historic downturn in the global economy. In the second quarter of 2020, GDP was approximately 10–20% below its end-2019 level in most countries. Unemployment has increased around the world, although short-time work schemes in various countries have so far prevented a stronger rise.

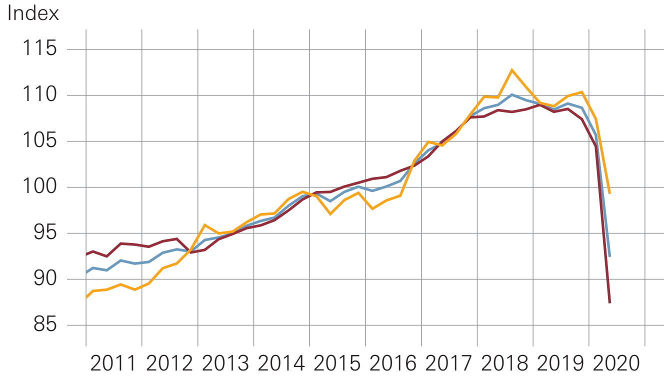
Following the easing of containment measures by numerous governments, there has been a significant pick-up in economic activity in recent months. The global economy is expected to experience a robust recovery in the third quarter. Global GDP is nonetheless likely to remain below its pre-crisis level.

In its baseline scenario for the global economy, the SNB anticipates that it will be possible to keep the pandemic under control without a renewed serious impairment of economic activity. The economic recovery should thus continue. The monetary and fiscal policy measures adopted worldwide are providing important support for the economy. However, it is likely that global production capacity will be underutilised for some time to come and inflation will remain modest in most countries.

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



Sources: CPB Netherlands Bureau for Economic Policy Analysis, Refinitiv Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2016	2017	2018	2019	Scenario 2020	Scenario 2021
GDP, year-on-year change in percent						
Global [1]	3.5	4.0	4.0	3.3	–3.3	6.9
US	1.7	2.3	3.0	2.2	–4.7	3.5
Euro area	1.8	2.8	1.8	1.3	–7.6	5.0
Japan	0.5	2.2	0.3	0.7	–5.9	2.2
Oil price in USD per barrel	43.8	54.3	71.0	64.3	42.3	45.0

1 PPP-weighted (US, euro area, UK, Japan, China, India, Brazil and Russia).

Sources: Refinitiv Datastream, SNB

Chart 2.2

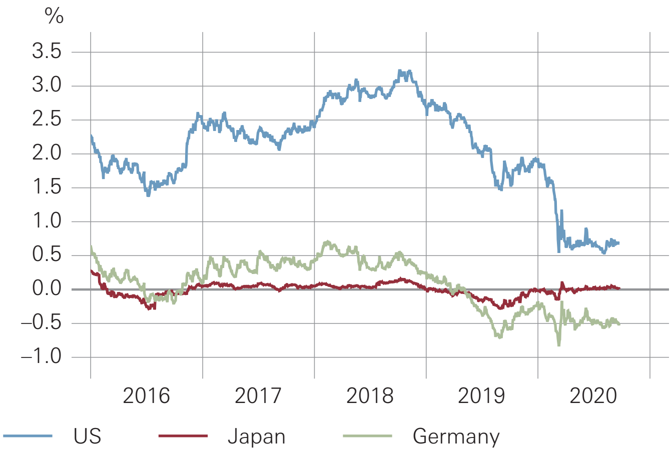
STOCK MARKETS

Source: Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

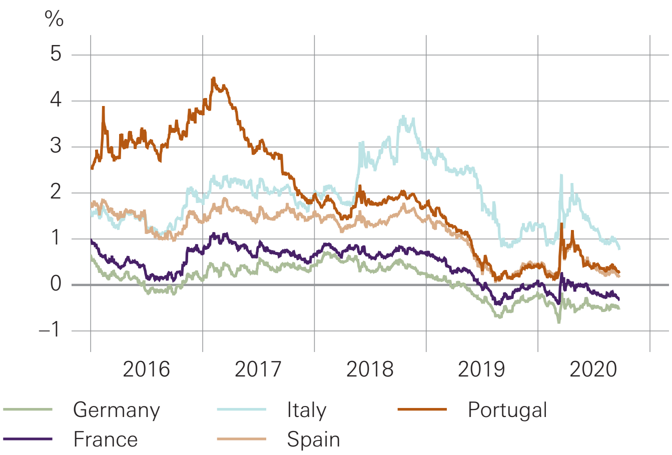


Source: Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments



Source: Refinitiv Datastream

This baseline scenario is subject to a high degree of uncertainty. On the one hand, a rapid increase in infections could necessitate renewed containment measures, which would once again weigh heavily on the economy. Trade tensions could also hamper economic activity. On the other hand, the economic policy measures introduced in many countries could support the recovery more strongly than expected.

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 45 per barrel, compared with USD 30 in the last baseline scenario, and an exchange rate of USD 1.18 to the euro, in contrast to USD 1.09 three months ago. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Financial market sentiment remained largely stable in recent months. The implied volatility of US stocks as measured by option prices (VIX) receded again slightly, but remained somewhat elevated compared with levels recorded in recent years (cf. chart 2.2). Risk premia on corporate bonds narrowed somewhat, too.

Driven largely by substantial gains both in technology stocks and on the Chinese equity market, the MSCI World Index continued to rise and temporarily reached a new all-time high. Yields on ten-year government bonds in the advanced economies trended sideways (cf. charts 2.3 and 2.4).

The US dollar weakened further on a trade-weighted basis. The pound sterling also depreciated somewhat, while the yen trended sideways. The euro, by contrast, gained in value (cf. chart 2.5).

The price of oil continued to recover on the back of the renewed pick-up in economic activity worldwide and oil output cuts. By mid-September, however, the price per barrel was back around the mid-June level at about USD 40, partly due to weakening expectations regarding global oil consumption going forward. Demand from China as well as temporary bottlenecks in supply saw prices for industrial metals exceed the levels recorded at the beginning of the year (cf. chart 2.6).

UNITED STATES

In the wake of containment measures to halt the spread of coronavirus, GDP in the US declined as expected in the second quarter, falling by 31.7% (cf. chart 2.7). However, monthly indicators suggest that economic activity had already bottomed out in April. Unemployment fell from its high of 14.7% in April back to 8.4% in August (cf. chart 2.10). In addition, retail sales figures and manufacturing output saw a marked improvement.

Although signs of a strong recovery are emerging for the third quarter, economic activity is nevertheless likely to remain lower than before the outbreak of the pandemic. Containment measures were gradually eased from May onwards. The number of coronavirus infections rose again significantly in June, which prompted a number of states to initially suspend further relaxation of containment measures or to temporarily tighten them. The number of new infections began to drop again from the end of July. In order to mitigate the economic after-effects of the coronavirus crisis, the government adopted a range of fiscal stimulus packages. These include forgivable loans to small and medium-sized enterprises, tax rebates for households and companies, a temporary extension of unemployment benefits and additional funds for the healthcare system. For 2020, the SNB expects a decline in GDP of around 4.7%, while it anticipates growth of 3.5% for 2021 (cf. table 2.1).

Annual inflation as measured by the CPI increased in recent months and stood at 1.3% in August, compared with 0.1% in May (cf. chart 2.11). Energy prices climbed once again on the back of higher oil prices. Core inflation also rose somewhat, to 1.7% (cf. chart 2.12). However, this uptick is likely to be temporary. In July, core inflation as measured by the personal consumption expenditure deflator index stood at 1.0%, thereby remaining significantly below the US Federal Reserve's target.

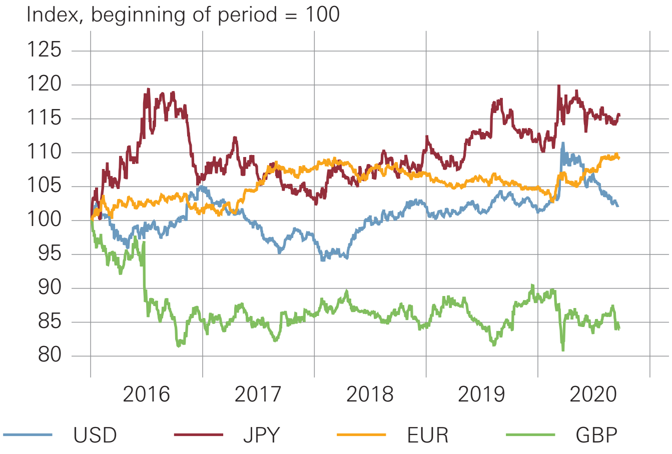
The Fed has kept the target range for its policy rate unchanged at 0.0–0.25% since lowering it in March (cf. chart 2.13). In August, it announced key changes to its monetary policy strategy: In future, it will seek to achieve inflation that averages 2% over time. If inflation runs persistently below 2%, a higher rate of inflation would be permitted for some time to compensate (Flexible Average Inflation Targeting). In addition, with regard to its employment mandate, the Fed will allow situations where employment can run above its maximum level, provided this does not cause an unwanted rise in inflation.

Against this backdrop, the Fed intends to leave interest rates at the current level until the labour market has recovered and inflation is at 2% and tending higher. It will continue its bond-buying programme in the amounts needed to support smooth market functioning and loose financial conditions. It also extended the lending facilities it introduced in spring through to the end of 2020.

Chart 2.5

EXCHANGE RATES

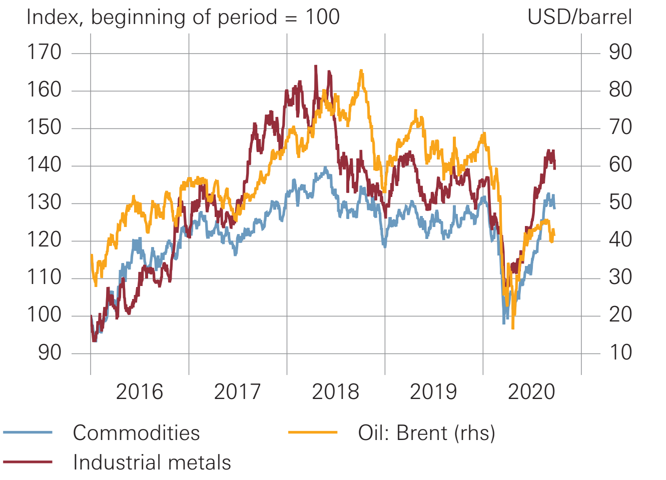
Trade-weighted



Source: Refinitiv Datastream

Chart 2.6

COMMODITY PRICES

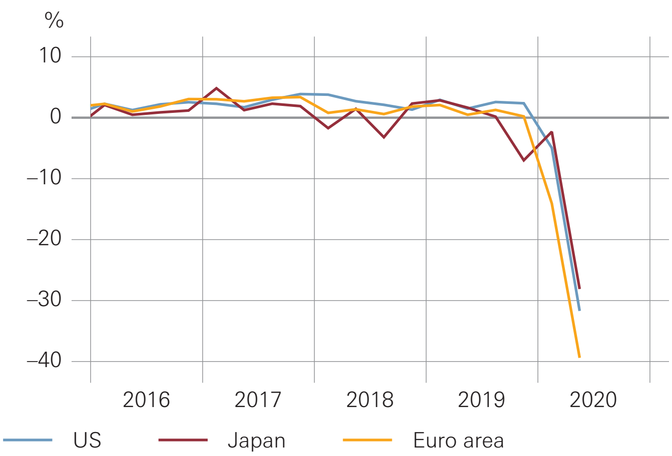


Source: Refinitiv Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

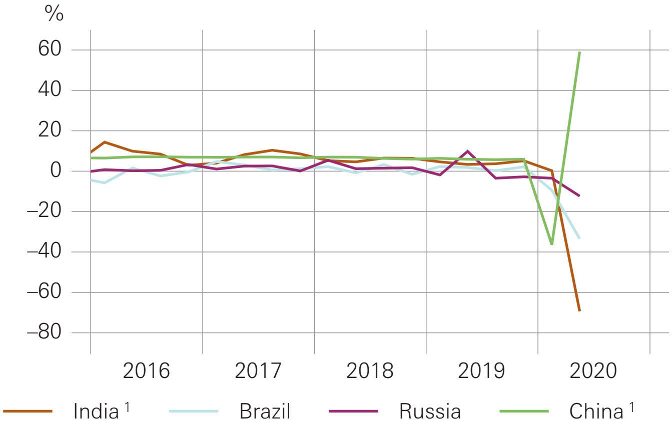


Source: Refinitiv Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

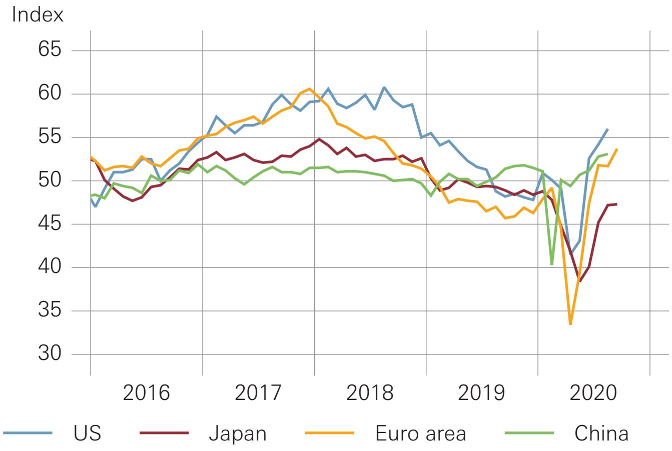
Change from previous period



1 Seasonal adjustment: SNB
Sources: CEIC, Refinitiv Datastream

Chart 2.9

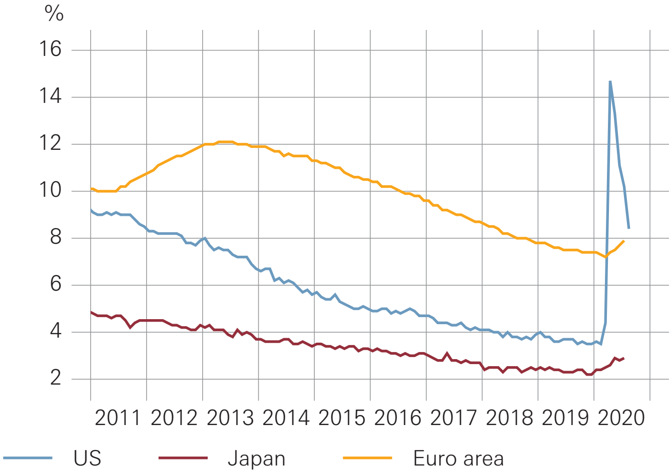
PURCHASING MANAGERS' INDICES (MANUFACTURING)



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

Chart 2.10

UNEMPLOYMENT RATES



Source: Refinitiv Datastream

EURO AREA

In the euro area, GDP dropped by 39.4% in the second quarter (cf. chart 2.7). Economic activity reached its low point in April, before picking up again considerably after measures to contain the spread of coronavirus were eased.

The decline in GDP was particularly pronounced in France and Italy, where containment measures were comparatively strict and remained in place for longer. The decline in Germany's GDP was somewhat less severe, partly because construction was not directly affected by the measures. Unemployment in the euro area increased in July to 7.9%, having recorded a low of 7.2% in March (cf. chart 2.10). The rapid extension of short-time work schemes since the beginning of the pandemic initially prevented a more substantial rise in unemployment in most euro area member states. Furthermore, comprehensive fiscal policy measures were introduced at national level from March in an effort to mitigate the impact of the crisis. These include liquidity support and loan guarantees for businesses, tax relief, and investment in infrastructure. Due to their inherent differences, however, these instruments will support the recovery to varying degrees in the individual member states. In addition, the EU approved a recovery fund that will disburse medium-term grants and loans to member states. Countries with limited room for manoeuvre in fiscal policy matters will be the main beneficiaries.

As the after-effects of the containment measures are likely to subside gradually, economic output in the euro area should start to recover from the third quarter. The SNB expects GDP to decline by 7.6% in 2020 and then to grow by 5.0% next year (cf. table 2.1).

Consumer price inflation continued its downward trend in recent months and stood at –0.2% in August, while core inflation fell to 0.4%, its lowest level in the euro area's history (cf. charts 2.11 and 2.12). By contrast, energy price inflation rose again latterly.

The European Central Bank left its key interest rates unchanged (cf. chart 2.13) and extended its pandemic emergency purchase programme (PEPP) as planned. At the end of June, the ECB allotted around EUR 1,300 billion worth of liquidity to banks (11% of GDP) as part of its targeted longer-term refinancing operations (TLTROs). This was the highest amount ever assigned in a single Eurosystem refinancing operation. The attractive interest rate is likely to have contributed to the high take-up of funds.

JAPAN

In Japan, GDP contracted by 28.1% in the second quarter (cf. chart 2.7). The decline was due to the measures taken between April and May to contain the spread of coronavirus. The two previous quarters had already seen a decrease in GDP, with the drop in the fourth quarter of 2019 due largely to the consumption tax hike. Unemployment has increased by roughly half a percentage point since the beginning of the year, reaching 2.9% in July (cf. chart 2.10). Temporary staff, whose contracts were no longer renewed, were particularly affected. The government is granting companies employment subsidies until the end of the year to keep employees in work.

Economic activity has been gradually picking up since June. The recovery is being driven by the easing of containment measures as well as an extensive stimulus package, which includes immediate financial aid to households and small businesses, a moratorium on tax and social security payments, and zero-interest loans to smaller companies. The SNB expects a decrease in GDP of 5.9% for 2020 and an expansion of 2.2% for 2021 (cf. table 2.1). Thereafter, the economy looks set to recover further.

Although core inflation fluctuated in recent months, it has exhibited a declining trend since the beginning of the year and, was back in negative territory in August at –0.4% (cf. chart 2.12). The longer-term inflation expectations derived from company surveys remained significantly below the Bank of Japan's inflation target of 2%. The latter left its monetary policy unchanged (cf. chart 2.13).

CHINA

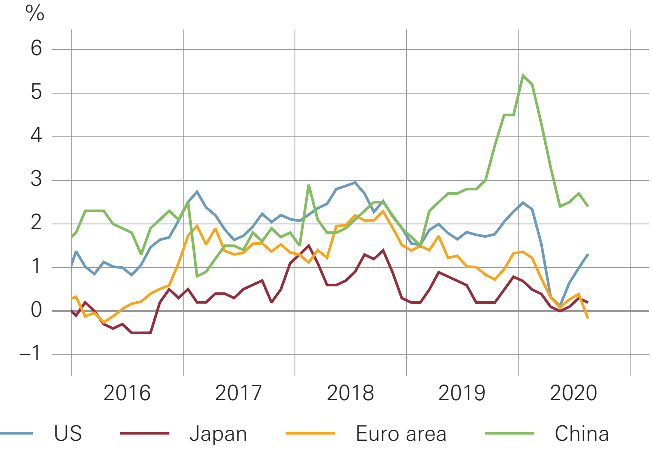
In China, coronavirus containment measures have been eased since March. After a historical slump in the first quarter, GDP expanded by 59.1% in the second quarter (cf. chart 2.8). It thus exceeded its pre-crisis level once again, but remained below the trend forecasts from the end of last year. Economic activity picked up across a broad front.

There are signs of a continued recovery for the third quarter. In July and August, activity in manufacturing and services rose further overall. The monetary and fiscal policy measures introduced in the first half of 2020 continued to have a positive impact on the economy. Key rates have remained unchanged since being lowered in April (cf. chart 2.13).

Chart 2.11

CONSUMER PRICES

Year-on-year change

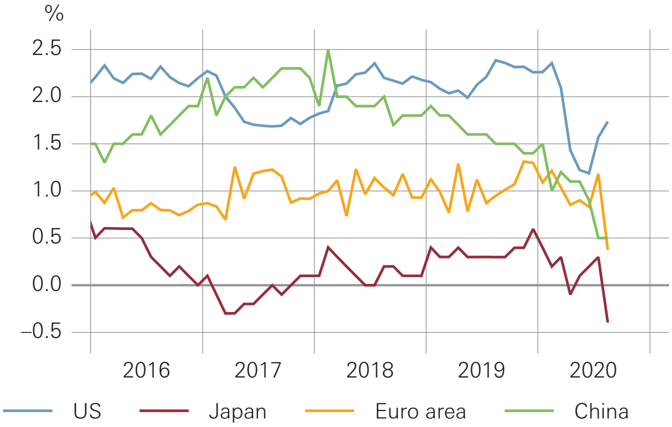


Source: Refinitiv Datastream

Chart 2.12

CORE INFLATION RATES [1]

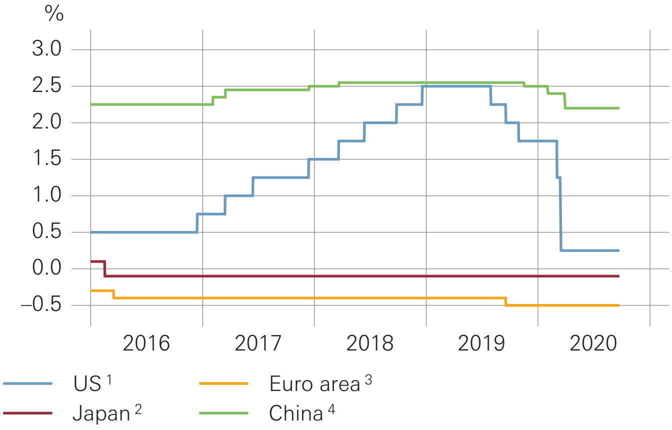
Year-on-year change



1 Excluding food and energy
Source: Refinitiv Datastream

Chart 2.13

OFFICIAL INTEREST RATES

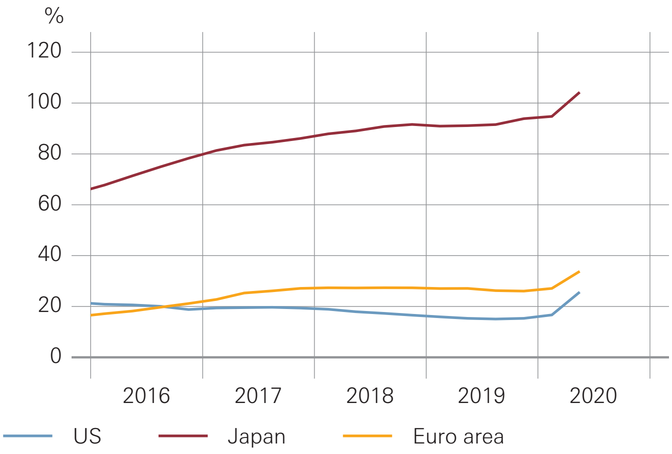


1 Federal funds rate (upper limit of target range)
2 Call money target rate
3 Deposit facility rate
4 Reverse repo rate (7-day)
Source: Refinitiv Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Refinitiv Datastream

In August, consumer price inflation stood at the same level as in May (2.4%), having fallen considerably in the first half of the year (cf. chart 2.11). Meanwhile, owing to weak growth in services, core inflation declined further to 0.5%, the lowest level in the last ten years (cf. chart 2.12).

BRAZIL, INDIA AND RUSSIA

In Brazil, India and Russia, GDP contracted sharply in the second quarter as a result of the containment measures adopted in March (cf. chart 2.8). The decline was particularly pronounced in India, where measures were strict. Political uncertainty also had a dampening effect in Brazil in addition to the impact of the lockdown, while Russia suffered from the low oil prices.

Containment measures were gradually lifted in all three countries from June. In the case of India, this was despite the fact that new infections were on the rise. As in the rest of the world, following a significant upturn in the third quarter, further recovery in these economies is likely to continue at a more moderate pace.

3
Economic developments in Switzerland

Switzerland too experienced a sharp recession as a result of the coronavirus pandemic. As a result of the severe downturn, in the second quarter, GDP was more than 10% below its pre-crisis level. In contrast to previous recessions, many service industries in particular were hit hard by the downturn.

Economic activity in Switzerland has picked up significantly since May due to the relaxation of health policy measures and to fiscal and monetary policy support. This should be reflected in a strong rise in GDP in the third quarter. The positive development is likely to continue in 2021.

However, the SNB anticipates that, as abroad, the recovery will only be partial for the time being. Production capacity will probably remain underutilised for an extended period of time and unemployment is likely to increase further.

This year, GDP is set to shrink by around 5%. This would be the strongest decline since the crisis in the mid-1970s. At its last monetary policy assessment, the SNB had expected an even stronger decline. The forecast revision is mainly due to the fact that the downturn in the first half of the year was somewhat less strong than feared. The forecast for Switzerland, as for the global economy, is subject to high uncertainty.

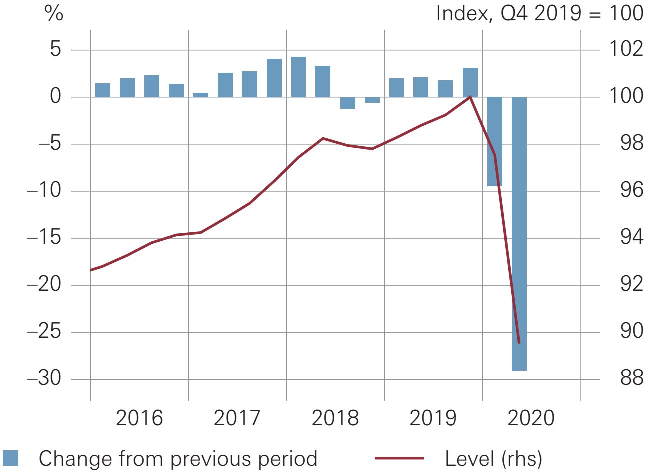
OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. This information reveals that although activity has revived considerably since May, it remains well below its pre-crisis level.

Record decline in GDP in first half of year
As expected, GDP contracted further in the second quarter. According to the initial estimate of the State Secretariat for Economic Affairs (SECO), it fell by 29.1%, having dropped 9.5% in the first quarter (cf. chart 3.1). These constitute the sharpest declines since SECO first started recording quarterly estimates in 1980. Second-quarter GDP was thus more than 10% below its pre-crisis level.

Chart 3.1

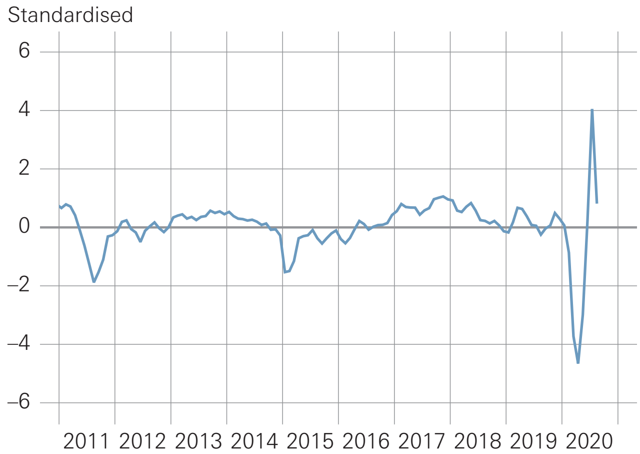
REAL GDP



Source: SECO

Chart 3.2

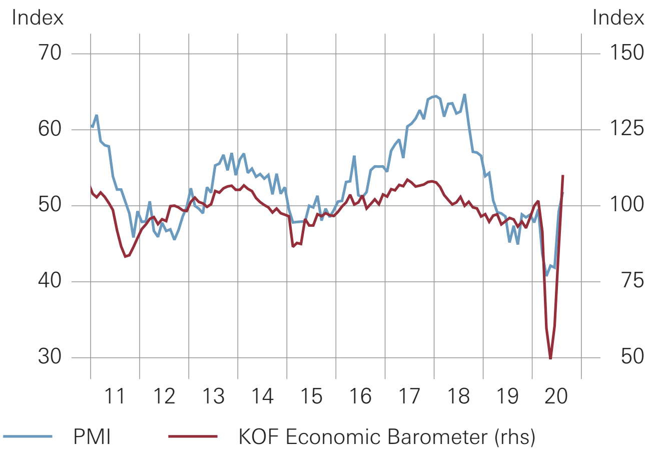
SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Sources: Credit Suisse, KOF Swiss Economic Institute

As in the previous quarter, value added decreased in almost every industry. The worst hit were those services particularly affected by the pandemic (hospitality, transport and communications, entertainment). Value added also declined sharply in manufacturing and construction. The only industries to see an increase in value added were insurance and public administration.

Domestic final demand also dropped on a broad basis (cf. table 3.1), with an especially marked decline reported in foreign trade. Private consumption and capital investment also decreased significantly. Government consumption was the only component to record a slight expansion.

Economic indicators brighten

Most economic indicators have recovered in recent months. Consumption-oriented indicators, such as the retail trade and consumer confidence, saw a marked improvement from May onwards, as did foreign trade. The SNB's Business Cycle Index, which offers a comprehensive overview of economic momentum, has been back in positive territory since June, indicating above-average growth (cf. chart 3.2). Similarly, the KOF Economic Barometer and the manufacturing purchasing managers' index (PMI) have also recovered considerably (cf. chart 3.3). The talks held by the SNB's delegates for regional economic relations with companies paint a similar picture (cf. 'Business cycle signals', pp. 28 et seq.); they suggest a distinct improvement in the third quarter.

Activity still below pre-crisis level

An analysis of the currently available information indicates that economic activity reached its low point in April. Activity has seen a resurgence since containment measures were eased, with the result that GDP should exhibit strong growth in the third quarter. However, economic activity looks set to remain considerably below its pre-crisis level for some time to come, as the impact of the pandemic will continue to weigh on output and demand.

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2016	2017	2018	2019	2018		2019				2020	
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	1.4	1.2	1.0	1.2	0.0	1.3	2.0	1.4	0.9	0.9	–17.4	–30.3
Government consumption	1.3	1.2	0.3	1.2	–0.4	1.3	1.2	0.6	2.7	2.9	3.3	0.9
Investment in fixed assets	2.5	3.4	1.1	0.9	–5.7	–2.2	7.3	–2.7	0.8	15.6	–10.8	–30.8
Construction	–0.2	1.5	1.2	–0.1	–0.3	–0.8	0.2	0.0	1.4	2.6	1.8	–14.9
Equipment	4.3	4.6	1.1	1.5	–8.7	–3.0	11.8	–4.3	0.5	23.9	–17.5	–39.2
Domestic final demand	1.7	1.8	0.9	1.1	–1.6	0.4	3.3	0.2	1.1	5.0	–13.1	–26.6
Change in inventories [1]	–1.4	0.0	0.6	–0.4	–0.1	–11.1	3.1	1.3	2.5	–3.7	4.4	–8.1
Total exports [2]	6.5	3.8	4.5	2.7	–8.4	21.3	1.3	–0.6	1.3	2.1	–5.9	–38.3
Goods [2]	5.9	5.2	5.9	4.8	–13.3	40.6	–1.9	3.8	2.2	–0.7	6.2	–32.6
Goods excluding merchanting [2]	5.8	5.8	4.4	4.7	–11.8	31.1	0.3	3.2	3.5	–4.6	9.6	–46.2
Services	7.6	1.1	1.6	–1.6	2.0	–10.2	8.4	–9.5	–0.8	8.6	–28.0	–50.1
Total imports [2]	4.4	4.4	2.4	1.9	–11.2	3.4	11.2	–2.2	5.5	–2.1	–1.8	–52.6
Goods [2]	3.8	5.2	6.2	2.0	–14.0	6.1	16.4	–6.4	4.9	–5.8	–3.3	–46.0
Services	5.5	2.8	–4.3	1.6	–5.3	–1.8	1.4	6.8	6.8	5.5	1.1	–63.3
Net exports [3]	1.6	0.2	1.4	0.7	0.3	10.1	–4.1	0.6	–1.7	2.1	–2.5	1.9
GDP	**1.7**	**1.8**	**2.8**	**1.2**	**–1.2**	**–0.6**	**2.0**	**2.1**	**1.8**	**3.1**	**–9.5**	**–29.1**

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

Source: SECO

LABOUR MARKET

The coronavirus crisis has had a pronounced impact on the labour market. Following the outbreak of virus in Switzerland, the employment situation deteriorated significantly. The unemployment rate increased rapidly, short-time work shot up and employment saw a sharp decline. The rise in unemployment has slowed and the number of applications for short-time work has decreased in recent months.

Slower rise in unemployment
In the last three months, the number of people registered as unemployed at the regional employment offices has risen at a considerably slower pace than at the beginning of the crisis. Excluding seasonal fluctuations, around 156,000 people were recorded as unemployed at the end of August, while the seasonally adjusted unemployment rate published by SECO stood at 3.4% (cf. chart 3.4), the highest level since 2010.

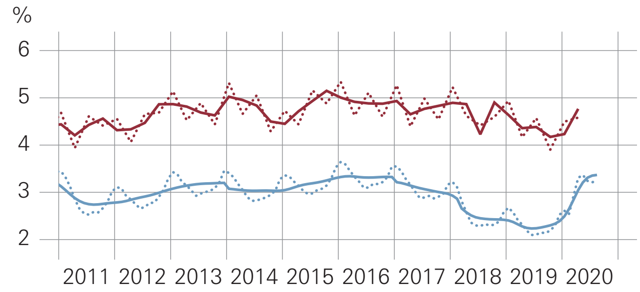
In addition to the SECO unemployment rate, the Swiss Federal Statistical Office (SFSO) also calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. This 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 seasonally adjusted terms, it rose from 4.2% in the first quarter to 4.8% in the second quarter.

Sharp decline in employment in second quarter
According to the Employment Statistics (ES), the seasonally adjusted number of persons employed decreased in the second quarter by 2.5%, representing the sharpest decline since 1976 (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 (JOBSTAT), by contrast, measure employment on the company side and are based on a survey of firms. According to these statistics, the seasonally adjusted number of full-time equivalent positions declined significantly in the second quarter. Job losses were recorded in services and construction as well as in manufacturing (cf. chart 3.6).

Chart 3.4

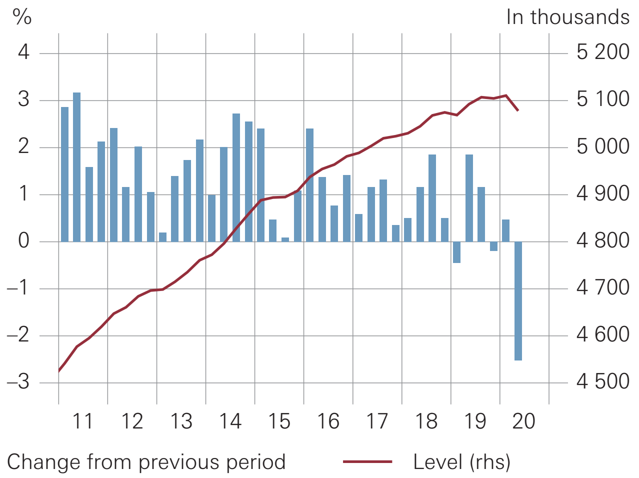
UNEMPLOYMENT RATE



SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons). The number of economically active persons is based on the 2000 and 2010 censuses and the three-year averages of the 2012–2014 and 2015–2017 structural surveys.
ILO: Unemployment rate based on International Labour Organization definition.
Sources: SECO, SFSO

Chart 3.5

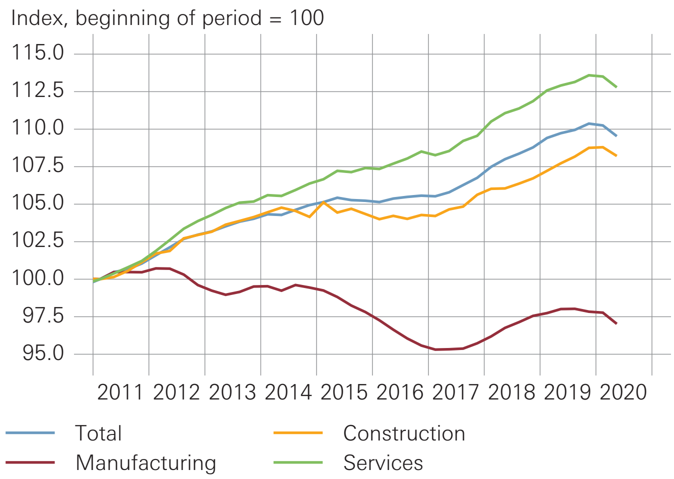
EMPLOYED PERSONS



Source: SFSO; seasonal adjustment: SNB

Chart 3.6

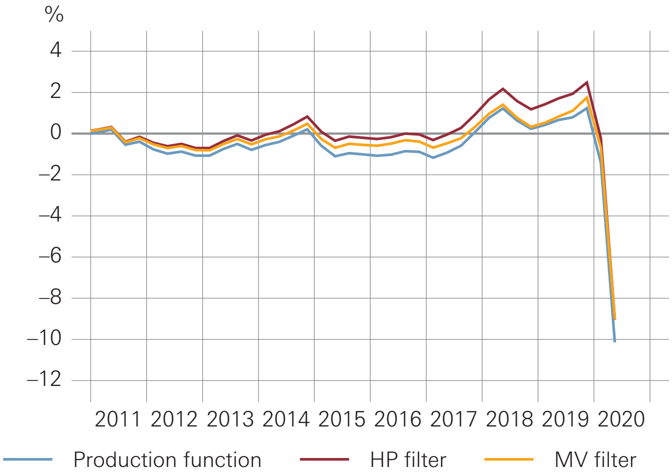
FULL-TIME EQUIVALENT JOBS



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

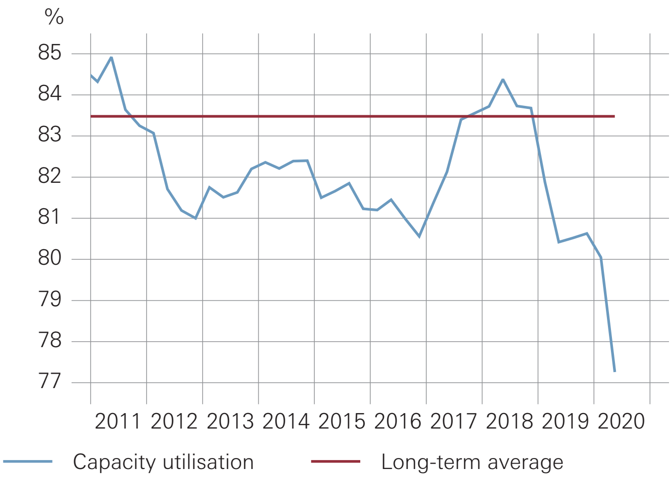
OUTPUT GAP



Source: SNB

Chart 3.8

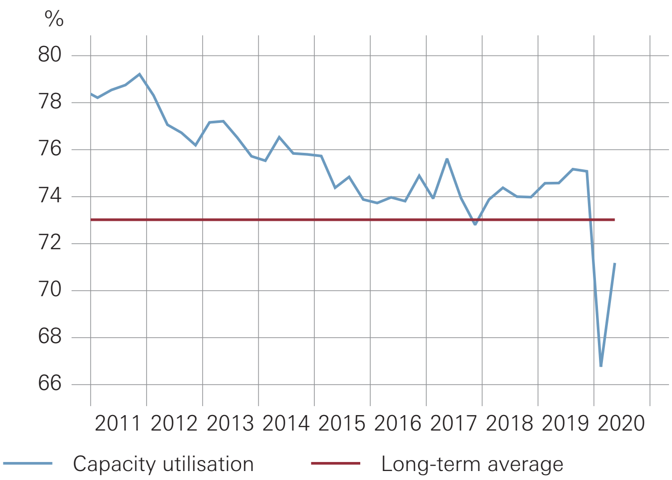
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

High level of short-time work

According to SECO, short-time work peaked in April, with around 1.3 million employees affected. In June, provisional figures still put the number of people in short-time work at almost 490,000, which is more than 10% of all persons in employment. By way of comparison, at the height of the financial crisis, 92,000 persons – around 2% of all employed persons – were affected by short-time work.

CAPACITY UTILISATION

Very negative output gap in second quarter

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. In the case of overutilisation the gap is positive, and in the case of underutilisation it is negative.

While economic activity fell sharply in the first half of the year, estimated potential output remained predominantly stable. A large negative output gap developed as a result. Potential output as estimated by means of a production function shows an output gap of –10.1% for the second quarter of 2020. Estimates using other methods to establish potential output indicate a similarly negative gap in the second quarter (cf. chart 3.7). However, the third quarter is likely to see the gap narrow again substantially on the back of strong GDP growth.

Significant underutilisation in many industries

The surveys conducted among companies confirm that the utilisation of production factors declined significantly in the first half of the year as a result of the coronavirus crisis. According to the KOF survey, utilisation of technical capacity in manufacturing fell well below its long-term average (cf. chart 3.8). Although utilisation in construction recovered somewhat from the slump in the first quarter, it remained below average (cf. chart 3.9). In services, too, capacity utilisation saw a sharp decline – particularly in the hotel industry, where occupancy rates decreased to a historically low level.

As regards the labour situation, the majority of companies indicated that their staffing levels are now too high after having experienced shortages in the preceding years. This development is consistent with the high level of short-time work.

OUTLOOK

The economic situation improved again considerably amid the easing of coronavirus containment measures. However, the effects of the crisis will likely be felt for some time to come. On the one hand, infections have risen again in recent months. Certain restrictions therefore remain in place, such as in the entertainment industry and with regard to international travel. On the other hand, in light of the heightened uncertainty, the loss of income and the lack of demand stimuli from abroad, consumption and investment look set to remain muted for a while longer.

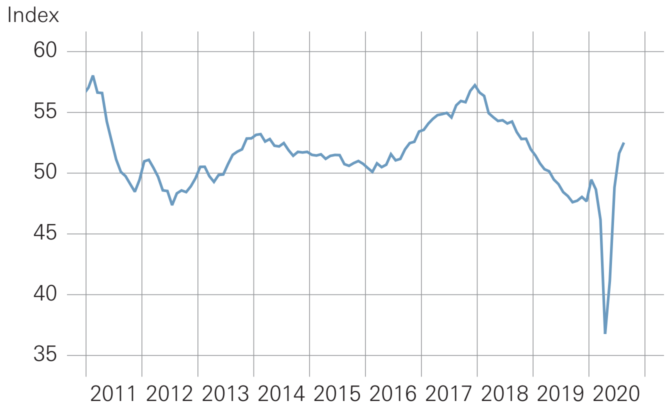
The SNB assumes that the upturn in activity since lockdown restrictions were lifted will result in strong growth in the third quarter and that the output gap will narrow again accordingly. Thereafter, the recovery should continue at a slower pace. GDP will likely persist below its pre-crisis level for a prolonged period of time. This means that output factors will remain underutilised for a while yet. Unemployment is expected to reach its peak by the middle of next year.

The SNB anticipates a decline in GDP of around 5% for this year – the sharpest drop since the crisis in the mid-1970s. This forecast is subject to considerable uncertainty. In particular, the SNB assumes that Switzerland will not have to implement strict containment measures again and that the global economy will recover gradually in line with the baseline scenario (cf. chapter 2). Furthermore, the forecast has not taken into account the national accounts revision of 28 September.

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries



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

Chart 3.11

BUSINESS SITUATION

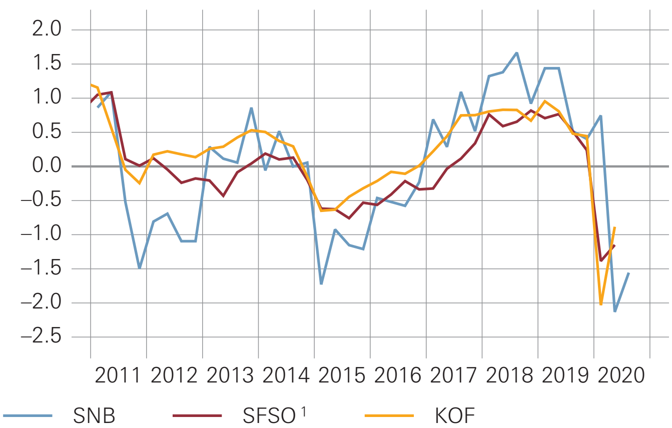
Average across all KOF surveys

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

Inflation stabilised in recent months after having declined considerably in the second quarter in the wake of the economic impact of the coronavirus pandemic and the slump in oil prices in spring. However, at –0.9%, the inflation rate as measured by the CPI was still clearly in negative territory in August. Core inflation rates hardly changed and stayed – as in previous quarters – above CPI inflation.

Both short and longer-term inflation expectations were virtually unchanged. Short-term expectations suggested that inflation will remain negative in the months ahead, while medium and longer-term expectations are still 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

Higher annual inflation rate

The annual CPI inflation rate recovered slightly in the last three months. In August, it stood at –0.9%, compared to –1.3% in May (cf. chart 4.1, table 4.1). Inflation both for domestic goods and services and for imported products registered a slight increase.

Negative inflation for imported products ...

At –3.4% in August, inflation for imported goods and services was still clearly negative. Although prices for both oil products and other imported products rose slightly, they continued to make a negative contribution to the annual CPI inflation rate (cf. chart 4.1).

... and stable inflation for domestic products

Inflation for domestic goods and services stood at around 0% in August 2020 (cf. chart 4.2). While the contribution made by domestic goods remained close to zero, services excluding housing rents once again made a negative contribution to CPI annual inflation. Inflation for private services, however, recovered significantly from –1.2% in June to –0.4% in August.

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2019	2019		2020		2020		
		Q3	Q4	Q1	Q2	June	July	August
Overall CPI	**0.4**	**0.3**	**–0.1**	**–0.1**	**–1.2**	**–1.3**	**–0.9**	**–0.9**
Domestic goods and services	0.5	0.4	0.3	0.2	–0.2	–0.3	–0.1	0.0
Goods	0.6	0.5	0.0	–0.2	0.1	0.2	0.0	0.0
Services	0.5	0.4	0.4	0.3	–0.3	–0.4	–0.1	–0.1
Private services excluding housing rents	0.7	0.5	0.5	0.2	–1.0	–1.2	–0.7	–0.4
Housing rents	0.5	0.5	0.8	1.1	1.1	1.1	1.1	0.7
Public services	–0.3	–0.4	–0.6	–0.9	–0.8	–0.8	–0.9	–0.7
Imported goods and services	0.0	–0.1	–1.2	–1.1	–4.2	–4.2	–3.4	–3.4
Excluding oil products	0.4	0.4	–0.3	–0.8	–2.3	–2.4	–1.6	–1.5
Oil products	–2.7	–4.0	–7.4	–3.8	–18.6	–17.8	–17.1	–16.7

Sources: SFSO, SNB

Lower rent inflation
Housing rent inflation stood at 0.7% in August, down 0.4 percentage points on the preceding months. The decline is attributable to the lower reference interest rate (calculated as a volume-weighted, average interest rate on domestic mortgage loans in Swiss francs at banks in Switzerland), which receded in March to 1.25%. In general, there is a lag of several months before a decrease in the mortgage reference rate causes housing rent inflation to decrease (cf. chart 4.3).

Core inflation still above annual CPI inflation
Following the sharp decline in core inflation rates at the beginning of the year, the SFSO core inflation rate 1 (SFSO1) rose marginally in the last few months, and stood in August at –0.4%, compared to –0.6% in May. Core inflation as measured by the SNB's trimmed mean (TM15) changed little in recent months, remaining just under 0.1% in August. The two rates thus continued to track above CPI inflation (cf. chart 4.4).

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).

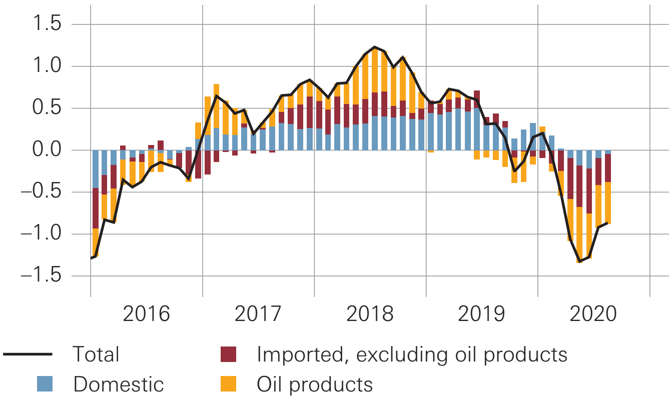
PRODUCER AND IMPORT PRICES

Higher inflation for producer and import prices
Annual inflation for producer and import prices rose slightly and stood at –3.5% in August 2020, compared with –4.5% in May (cf. chart 4.5). The change in import prices was more pronounced than that in producer prices.

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.

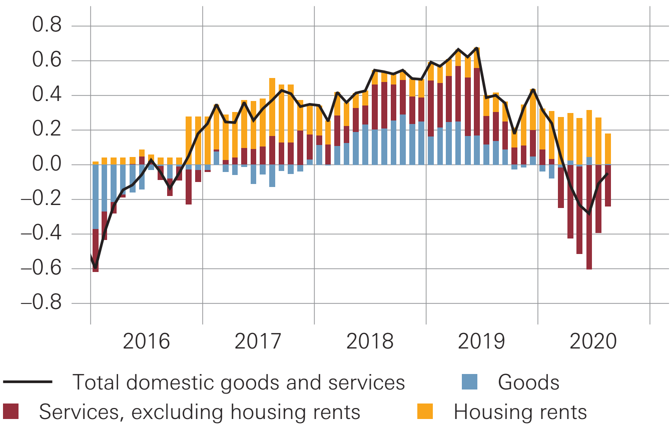


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

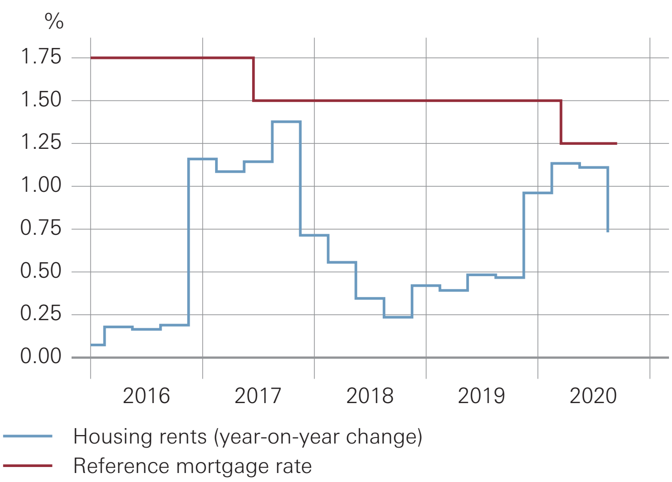
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

HOUSING RENTS

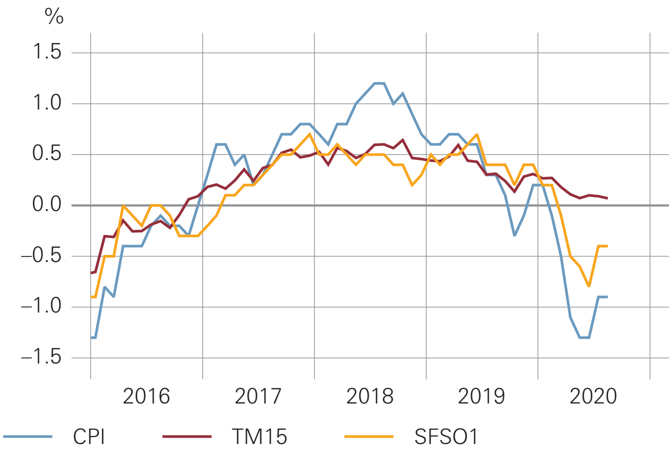


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

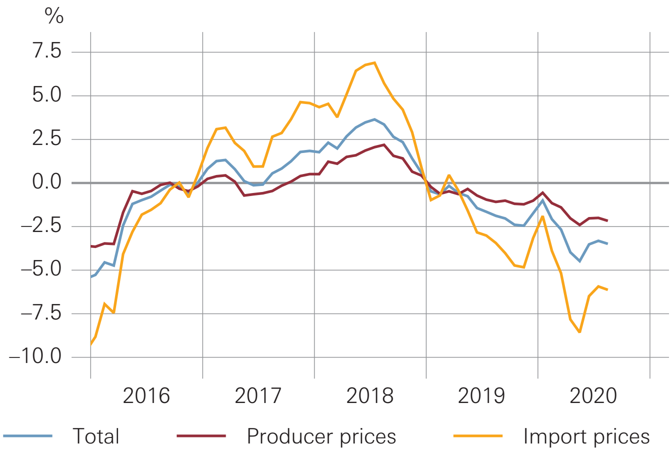


Sources: SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

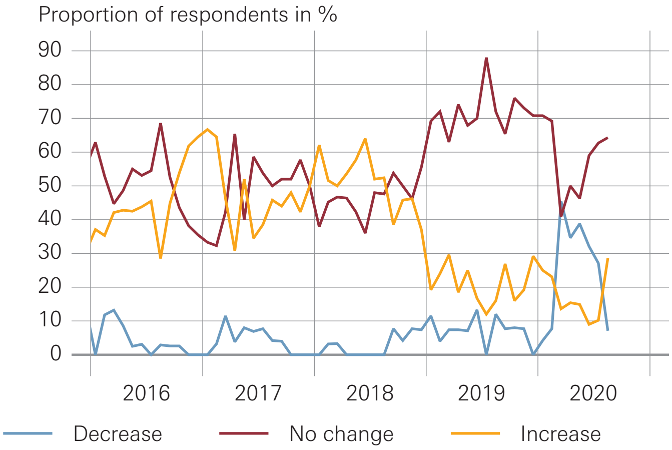
Year-on-year change



Source: SFSO

Chart 4.6

CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS



Sources: CFA Society Switzerland, Credit Suisse

INFLATION EXPECTATIONS

Inflation expectations practically unchanged

Having fallen significantly in March and April as a result of the economic impact of the coronavirus pandemic and the slump in oil prices, inflation expectations for the current year have since stabilised again.

According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, 64% of analysts questioned in August 2020 expected inflation rates to remain unchanged in the next six months (cf. chart 4.6). Meanwhile, 29% anticipated a rise in inflation, and just 7% thought rates would fall. Annual CPI inflation stood at –0.9% in July, and this was known to the survey participants. The survey results thus suggest that respondents expect annual inflation rates to be negative in the months ahead.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors also pointed to low inflation expectations (cf. chart 10 in 'Business cycle signals'). In the third quarter of 2020, company representatives put the annual inflation rate at 0% for the next six to twelve months (Q2 2020: –0.2%).

Surveys of Swiss households indicate that inflation is expected to tend back to positive territory in the next twelve months. The quarterly survey of households conducted by SECO shows that, in July 2020, around half of the respondents anticipated a rise in prices over the next twelve months, while 37% thought they would remain unchanged. The proportion of respondents expecting prices to fall was down somewhat on the previous quarter.

Longer-term expectations consistent with price stability

Medium and longer-term inflation expectations remain within the range consistent with price stability, which the SNB equates to a rise in CPI of less than 2% per year. Company representatives interviewed by the SNB's delegates in the third quarter of 2020 thus put the inflation rate in three to five years at 0.9% on average (Q2 2020: 1.0%).

5 Monetary developments

At its quarterly assessment of 18 June 2020, the SNB reaffirmed its expansionary monetary policy. It kept the SNB policy rate and interest on sight deposits at the SNB at −0.75%, and in light of the highly valued Swiss franc it remained willing to intervene more strongly in the foreign exchange market. Furthermore, under the SNB COVID-19 refinancing facility, it provided the banking system with additional liquidity and thus supported the supply of credit to the economy at favourable terms.

In the period following the June monetary policy assessment, the Swiss franc appreciated significantly against the US dollar, but in mid-September was somewhat weaker against the euro. Both money market interest rates and Confederation bond yields fell slightly. The recovery in share prices continued, albeit at a slower pace than in the previous quarter.

Growth rates for the broad monetary aggregates moved back closer to the growth rates in lending over the course of the past quarter. Growth in bank lending showed a year-on-year increase, influenced in part by the joint and several guarantees programme introduced by the federal government.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged
At its quarterly assessment of 18 June 2020, the SNB confirmed its expansionary monetary policy stance. The environment was dominated by the considerable rise in uncertainty associated with the coronavirus pandemic and the marked deterioration in the economic outlook. Against this backdrop, the SNB left unchanged, at −0.75%, the SNB policy rate and 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 confirmed its willingness to intervene more strongly in the foreign exchange market to contribute to the stabilisation of the situation. In so doing, it continued to take the overall exchange rate situation into account. Moreover, under the CRF, it provided the banking system with additional liquidity and thus supported the supply of credit to the economy at favourable terms.

Selective provision of liquidity via open market operations
Since November 2019, the SNB has been making use of fine-tuning operations to provide liquidity on a bilateral basis via the secured money market. At the end of June, it further announced that, from 1 July 2020, it would be conducting additional open market operations as required. These would be in the form of repo auctions and would be used to selectively provide the money market with additional liquidity, thereby ensuring that the secured short-term money market rates remain close to the SNB policy rate.

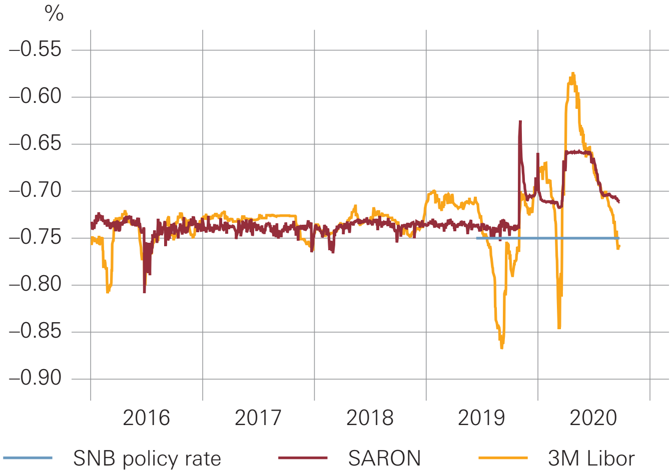
Reduction in frequency of US dollar liquidity-providing operations
In view of the continuing improvements in US dollar funding conditions and low demand at recently conducted US dollar liquidity-providing operations via standing swap arrangements, the SNB, together with the Bank of England, the Bank of Japan and the European Central Bank, and in consultation with the Federal Reserve, jointly announced on 19 June 2020 that the frequency of their seven-day operations would be reduced from daily to three times a week as of 1 July 2020. Then, on 20 August, it was announced that the frequency of these operations would be further reduced to once a week as of 1 September 2020. Operations with an 84-day maturity will continue to be held on a weekly basis.

Higher sight deposits at the SNB
Total sight deposits held at the SNB have increased since the monetary policy assessment of June 2020. In the week ending 18 September 2020 (last calendar week before the assessment of September 2020), they amounted to CHF 703.9 billion. This was higher than in the last calendar week preceding the assessment of mid-June 2020 (CHF 679.5 billion). Between the assessments of June and September 2020, sight deposits at the SNB averaged CHF 695.9 billion. Of this amount, CHF 625.0 billion were sight deposits of domestic banks and the remaining CHF 70.8 billion were other sight deposits.

Between 20 May and 19 August 2020, statutory minimum reserves averaged CHF 19.1 billion. Overall, banks exceeded the minimum reserve requirement by CHF 599.4 billion (previous period: CHF 533.3 billion). Banks' surplus reserves thus remain very high.

Chart 5.1

SNB POLICY RATE AND MONEY MARKET RATES



Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

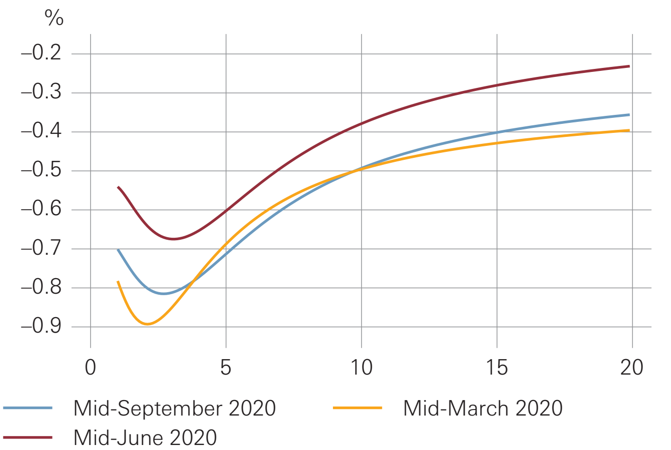
10-YEAR SWISS CONFEDERATION BOND YIELD

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

Lower money market rates

In mid-September 2020, short-term money market rates were somewhat lower compared to the June assessment. On the secured money market, SARON stood at –0.71%, close to the SNB policy rate of –0.75%. Unsecured interest rates were also down in the quarter under review. The three-month Libor stood at just under –0.76% in mid-September (cf. chart 5.1).

Little change to capital market rates

Long-term capital market rates fluctuated within a relatively narrow range in the quarter under review. Yields on ten-year Confederation bonds stood at around –0.5% in mid-September 2020, thus somewhat lower than at the time of the June assessment (cf. chart 5.2).

Fluctuations in Confederation bond yields primarily reflected global factors and were largely consistent with movements in long-term interest rates in other currency areas.

Lower yield curve

Estimated interest rates were slightly lower across all maturities compared to the June assessment (cf. chart 5.3). In mid-September, Confederation bond yields across all maturities remained in negative territory.

Real interest rates still low

Real interest rates are an important factor in the saving and investment decisions of companies and households. These rates persisted at a low level in the quarter under review, as nominal yields on Confederation bonds were in negative territory, while survey measures of medium and longer-term inflation expectations remained positive.

EXCHANGE RATES

Swiss franc appreciates significantly against US dollar, weakens slightly against euro
The Swiss franc has strengthened by around 3% against the US dollar since the monetary policy assessment in June (cf. chart 5.4). This was attributable to a pronounced weakening of the dollar, which lost value against most other currencies. Much of the dollar's depreciation occurred in the second half of July, driven to a significant extent by the expansionary monetary policy in the US. In mid-September, one dollar was worth CHF 0.92.

The volatility of the EUR/CHF exchange rate was low in the period under review. In mid-July, the euro appreciated against the franc and other currencies when agreement was reached on the EU recovery fund. In mid-September, the euro was trading at just under 1.08 to the franc, thus around 0.5% higher than at the time of the June assessment.

Nominal external value of Swiss franc reaches new high
The nominal trade-weighted external value of the franc reached a new high in August (cf. chart 5.5). This development was primarily driven in recent months by the Swiss franc's strong appreciation against the US dollar since the June monetary policy assessment. In nominal trade-weighted terms, the Swiss franc was around 1.0% stronger in mid-September than it was in mid-June.

Real external value still high
In line with the nominal trade-weighted external value of the Swiss franc, its real trade-weighted external value also increased further (cf. chart 5.6). However, while the nominal external value reached a new high, the value of the franc in real terms was still weaker than in 2015 after the discontinuation of the minimum exchange rate. Given that inflation was lower in Switzerland than in other countries, real appreciation was lower than nominal appreciation. 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

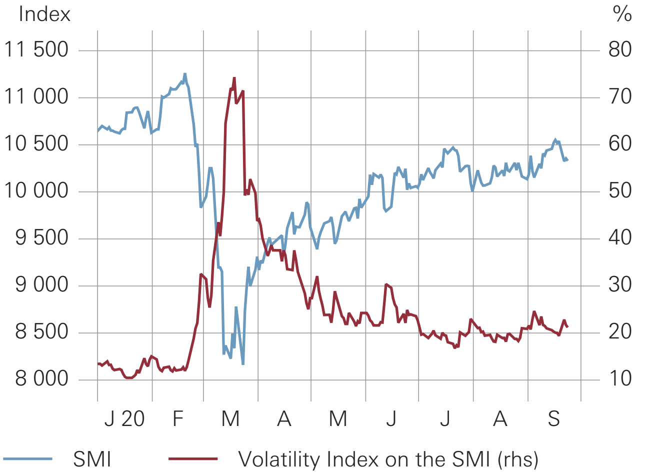
Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Source: SNB

Chart 5.7

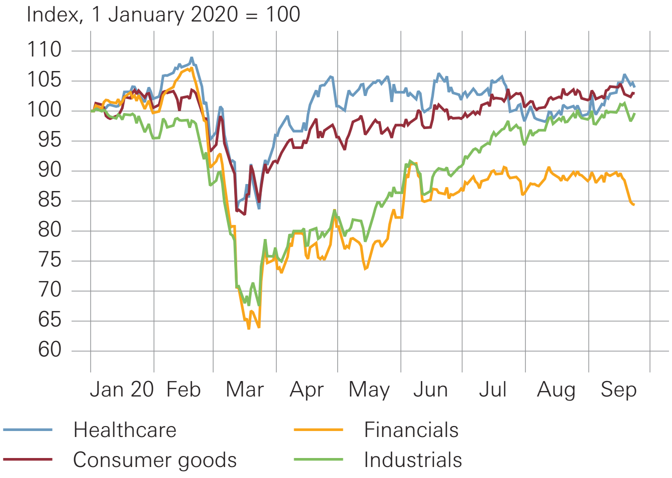
SHARE PRICES AND VOLATILITY



Sources: Bloomberg, Refinitiv Datastream

Chart 5.8

SELECTED SPI SECTORS

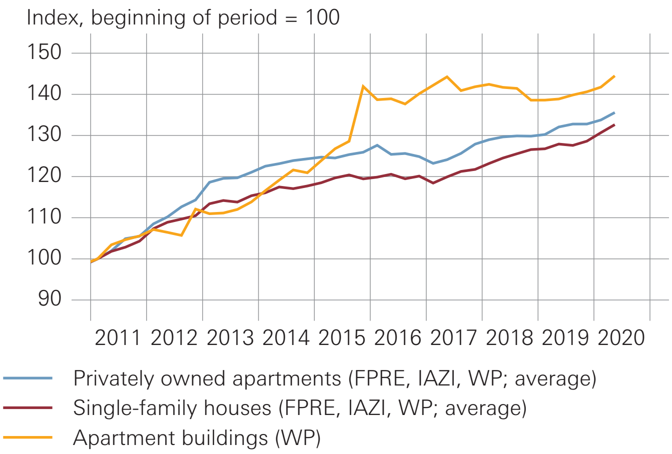


Source: Refinitiv Datastream

Chart 5.9

HOUSING TRANSACTION PRICES

Nominal (hedonic)



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

SHARE AND REAL ESTATE PRICES

Recovery in share prices slows

In the quarter under review, the share price performance of major technology companies pushed the key share indices in the US to new all-time highs. Since the last monetary policy assessment, European share indices have advanced more slowly than those in the US. In mid-September, the Swiss Market Index (SMI) was slightly higher than at the time of the June assessment (cf. chart 5.7) and was thus still roughly 8% below its all-time high in February 2020.

Little change to 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). The index has fluctuated only very little since the last monetary policy assessment, remaining on a par with mid-June.

Significant recovery in cyclical sectoral indices

Chart 5.8 shows the movements of important sub-indices in the broad-based Swiss Performance Index (SPI). Share prices of industrials have staged a marked recovery since the June assessment, while those of healthcare companies stagnated in the same period. In contrast to other sub-indices, the index for financial services companies was still considerably down on the beginning of the year.

Continued growth in residential real estate prices

In the second quarter of 2020, transaction prices for residential real estate climbed further (cf. chart 5.9). With the number of transactions still roughly on a par with previous years, it would appear that the residential real estate market has so far been largely unaffected by the coronavirus pandemic. It is currently not possible to rule out future effects of the pandemic on this market, however, as growth in household income, among other things, may be impacted by the further course of the pandemic.

MONETARY AND CREDIT AGGREGATES

Rise in monetary base
The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, averaged CHF 717.9 billion in August 2020 (cf. chart 5.10). The monetary base has continued to grow since March. A large part of this increase is attributable to the SNB's interventions in the foreign exchange market. The use of the CRF by banks as well as repo operations by the SNB also contributed to the recent growth in the monetary base.

Other sight deposits held at the SNB fell slightly in the last few months.

Broad monetary aggregates rise further
Having slowed in the second half of 2019, growth rates for the broad monetary aggregates began to increase in March 2020. By August, they were once again close to lending growth rates, at times even exceeding them. In August, M1 (currency in circulation, sight deposits and transaction accounts) was 5.2% above its year-back level (cf. table 5.1). In the same period, M2 (M1 plus savings deposits) grew by 2.8% and M3 (M2 plus time deposits) was up by 4.0%.

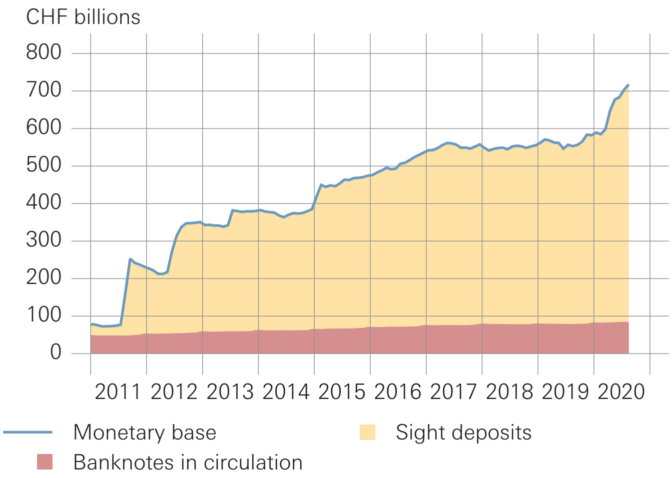
Stronger growth in bank lending
Bank lending (domestic bank offices, all currencies) was up 4.0% year-on-year in the second quarter of 2020, compared to a rise of 3.5% in the previous quarter (cf. table 5.1). While growth in mortgage lending slowed marginally, growth in other loans rose sharply, particularly due to the joint and several guarantees programme introduced by the federal government. This programme, which grants loans with terms of five years, has enabled around 135,000 companies – most of them small firms – to access liquidity (credit lines) totalling almost CHF 17 billion.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.0% year-on-year in the second quarter of 2020 (Q1 2020: 3.1%). Demand for mortgages continued to be supported by low mortgage interest rates. The ten-year mortgage interest rate stood at 1.2% in July, close to its all-time low.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.11). They grew substantially from 3.8% in the fourth quarter of 2019 to 5.7% in the first quarter of 2020, and to 9.4% in the second quarter. This increase in growth is primarily due to secured other loans, which include the COVID-19 bridging loans guaranteed by the federal government. Following a sharp rise in March, the volume of unsecured other loans declined in June and July. Their current level is similar to what it was before the coronavirus pandemic.

Chart 5.10

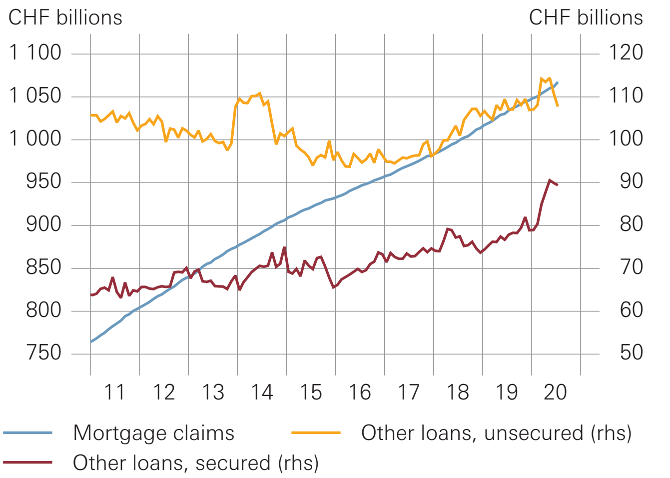
MONETARY BASE



Source: SNB

Chart 5.11

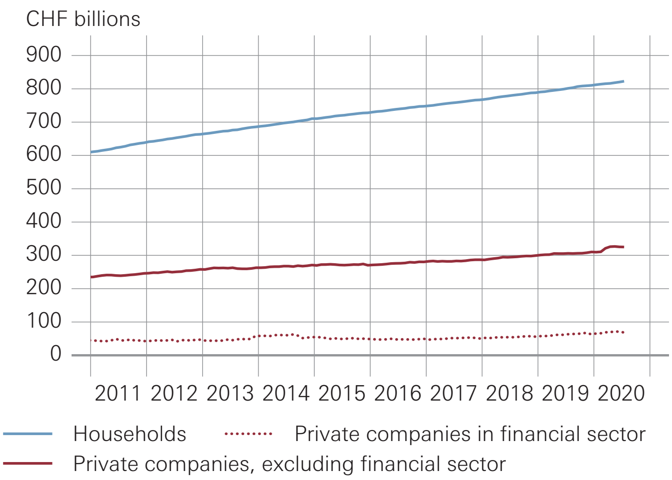
MORTGAGE CLAIMS AND OTHER LOANS



Source: SNB

Chart 5.12

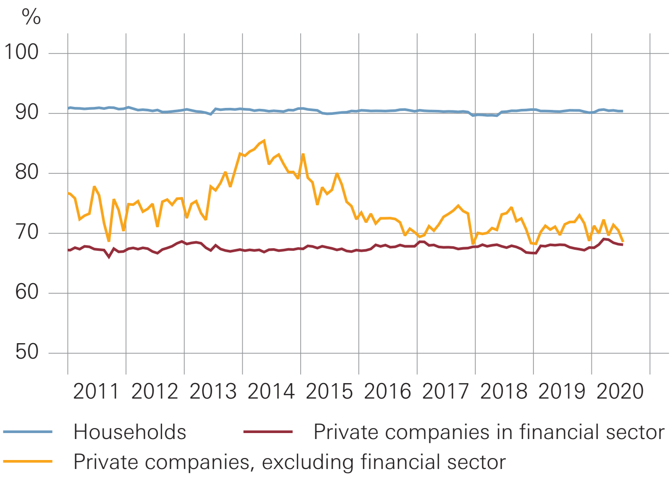
LOANS TO HOUSEHOLDS AND COMPANIES



Source: SNB

Chart 5.13

UTILISATION OF CREDIT LIMITS BY SECTOR



Source: SNB

Lending growth and credit line utilisation by sector

Both households and non-financial companies have continued to benefit from favourable financing conditions. This was reflected in the ongoing steady rise in bank loans extended to these two important customer groups (cf. chart 5.12).

At the end of July 2020, loans to households recorded a year-on-year increase of CHF 21.3 billion (2.7%) and loans to non-financial companies a rise of CHF 19.1 billion (6.2%). Loans to financial companies rose in the same period by CHF 5.3 billion (8.4%).

Despite the significant growth in lending, the level of credit line utilisation has risen only marginally over the course of this year (cf. chart 5.13). Since the beginning of the year, credit line utilisation for households increased from 90.1% to 90.5%, for non-financial companies from 67.6% to 69.0%, and for financial companies from 68.7% to 69.9%. This indicates that demand for credit has largely been satisfied, and there are no signs of credit rationing.

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2019	2019		2020		2020		
		Q3	Q4	Q1	Q2	June	July	August
M1	**3.9**	**4.2**	**1.4**	**0.6**	**3.5**	**4.4**	**4.7**	**5.2**
M2	**2.7**	**3.0**	**0.9**	**–0.3**	**1.5**	**2.1**	**2.4**	**2.8**
M3	**2.9**	**3.0**	**1.4**	**0.5**	**2.5**	**3.1**	**3.8**	**4.0**
Bank loans, total [1, 3]	**3.4**	**3.4**	**3.3**	**3.5**	**4.0**	**3.8**	**3.7**	
Mortgage claims [1, 3]	3.4	3.5	3.3	3.1	3.0	3.1	3.2	
Households [2, 3]	2.8	2.8	2.8	2.7	2.6	2.7	2.6	
Private companies [2, 3]	5.3	5.5	4.8	4.3	4.4	4.4	4.1	
Other loans [1, 3]	3.6	3.4	3.8	5.7	9.4	7.8	6.6	
Secured [1, 3]	2.0	2.8	7.1	8.1	16.5	17.3	14.8	
Unsecured [1, 3]	4.8	3.8	1.4	3.9	4.4	1.2	0.6	

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

Third quarter of 2020

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 throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 212 company talks were conducted in the period from 21 July to 8 September.

In light of current events, the delegates addressed several additional issues, including specific questions on the liquidity situation and credit demand (for more details, cf. page 32).

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	Fabian Schnell

Key points

- After a severe economic downturn in the previous quarter, the third quarter saw a marked but only partial recovery.
- According to the information from the talks, real turnover is substantially higher quarter-on-quarter. Particularly in manufacturing, however, turnover is still significantly lower year-on-year. There are very big differences between industries and from company to company.
- In the services and manufacturing sectors, production capacity and infrastructures remain substantially underutilised. Profit margins have improved somewhat but remain below the levels considered normal.
- Against the backdrop of the economic situation, staff numbers are still described as being too high, particularly in manufacturing. So far, however, short-time working has enabled many companies to avoid redundancies.
- The procurement bottlenecks and obstacles to the delivery of goods and services seen in the second quarter have largely disappeared. Companies' liquidity situation has also noticeably improved.
- Uncertainty about the future outlook remains exceptionally high. The focus is on the impact of a possible second wave of infections and the associated threat of persisting weakness in global growth.
- The bridging loans offered by the federal government are seen as a very helpful and effective measure.

CURRENT SITUATION

Marked counter-reaction to previous quarter's severe economic downturn
After the severe economic downturn caused by the pandemic in the second quarter, with a nationwide closure of businesses in some instances, the quarter under review saw a marked but only partial recovery.

In the third quarter, real turnover in all three sectors – services, manufacturing and construction – saw a strong increase, and was substantially higher quarter-on-quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). In manufacturing and parts of the services sector, however, turnover was still significantly lower year-on-year.

As regards exports, business with China, Japan and other Asian countries has continued to recover. Business with Europe was described as being very mixed. Signals with regard to the US and Latin America, by contrast, remain mostly negative. Medtech exporters are feeling the effects of muted demand from countries that have prohibited non-urgent surgery. The civil aviation sector continues to face major problems, which is having an impact on all suppliers. A factor lending support, on the other hand, is international defence sector demand.

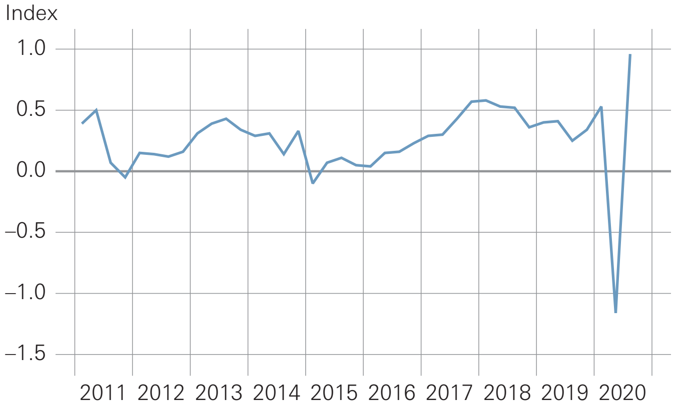
The assessment of the overall effect of the coronavirus crisis so far is somewhat less negative than it had been in Q2: in the quarter under review two-thirds of companies said that they had been negatively affected by the pandemic, most of them clearly so (cf. chart 2). Of the companies surveyed, 13% reported a positive impact, and 21% said the positive and negative effects had cancelled each other out.

Production capacity substantially underutilised
As a result of the crisis, technical capacity in manufacturing and infrastructure in the services sector remain substantially underutilised (cf. chart 3). In the services sector, this underutilisation was less pronounced than during the previous quarter. Representatives in the construction sector reported a slight overutilisation.

Few procurement bottlenecks remaining – only minor sales obstacles
Just under 80% of the companies said that they were no longer having difficulties procuring raw materials and intermediate products, which is comparable to the situation before the coronavirus crisis began. Of the companies surveyed, 17% reported that there were still bottlenecks and delays in deliveries from suppliers.

Chart 1

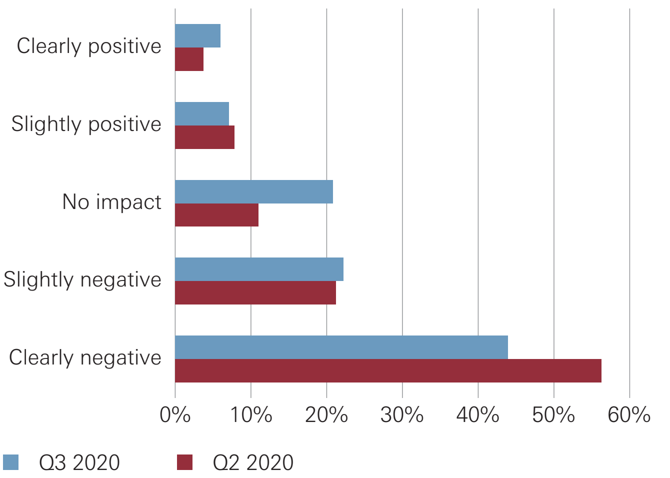
TURNOVER COMPARED TO PREVIOUS QUARTER



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

Chart 2

OVERALL EFFECT OF CORONAVIRUS CRISIS



Source: SNB

The sales situation at companies has also significantly improved. Only 18% reported difficulties in delivering their products and services as usual. The main reasons they gave were compliance with protective measures and travel restrictions. By way of comparison, in the second quarter 52% of companies were unable to deliver their products and services, either entirely or to some degree. There were a number of reasons for this (own premises or customer operations closed, deliveries refused, lack of transport capacity).

Various companies continue to report higher air freight costs.

Staff levels too high
After the outbreak of the coronavirus pandemic, representatives said their staff levels were much too high. Businesses reacted quickly with a range of measures, particularly short-time working. Thanks to the latter, larger-scale redundancies have thus far been prevented. However, in the quarter under review 37% of companies still said their staff numbers were too high. People leaving on account of natural fluctuations are in most cases not being replaced. Companies want to avoid redundancies for as long as possible, not least so as to avoid losing specialist know-how.

Companies have made the health of their employees a high priority. For this reason many continue to opt for home working and dividing teams.

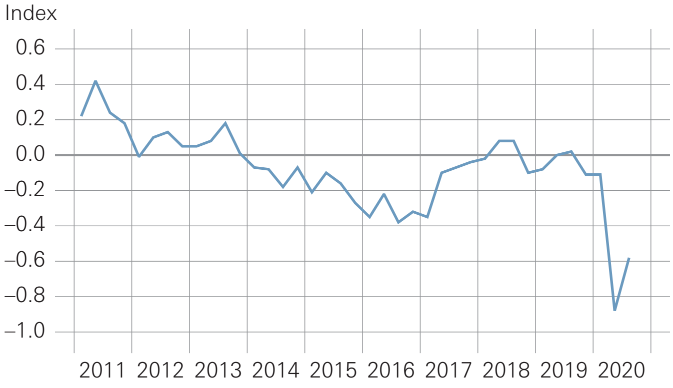
Hiring significantly easier
Companies that were looking for new staff reported a strong increase in both responses to job advertisements and unsolicited applications, and said that hiring was significantly easier than is normally the case. They also said that the quality of applicants was higher than average.

There are more specialists available again on the labour market, and a lack of specialised staff was only mentioned occasionally as a problem. There continues to be strong demand for IT experts in particular.

Improved profit margins
After the strong decline in profit margins for a large proportion of companies in the second quarter, the situation started to ease in the third quarter. While margins are still described as tighter than usual, thanks to the measures taken representatives said they were back at sustainable or comfortable levels. The availability of short-time working contributed significantly to this development. There are still very large differences between the industries and from company to company.

Chart 3

CAPACITY UTILISATION



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

Liquidity situation and demand for credit

Since the outbreak of the coronavirus crisis, securing sufficient liquidity has been among the most pressing challenges facing companies. In response, the SNB included several additional questions on this issue in its company talks.

The liquidity situation has become more relaxed by comparison with the previous quarter. Just 25% of companies view their liquidity situation as tighter than it was before the outbreak of the coronavirus pandemic, down from 40% in the second quarter (cf. chart 4). On the one hand, there has been a quarter-on-quarter improvement in the earnings situation. On the other hand, the federal government's bridging loans, the introduction of short-time working and various other measures undertaken by companies to secure liquidity have had a stabilising effect. Half of the companies consider their liquidity situation to be unchanged, and 20% say it is now even better than before the outbreak of the crisis. This is in part attributable to optimised accounts receivable management. Most companies reported that they had experienced practically no bad debt losses. Added to this, representatives said that there had hardly been any delays in payment, whether on the part of their own companies or on the part of their customers.

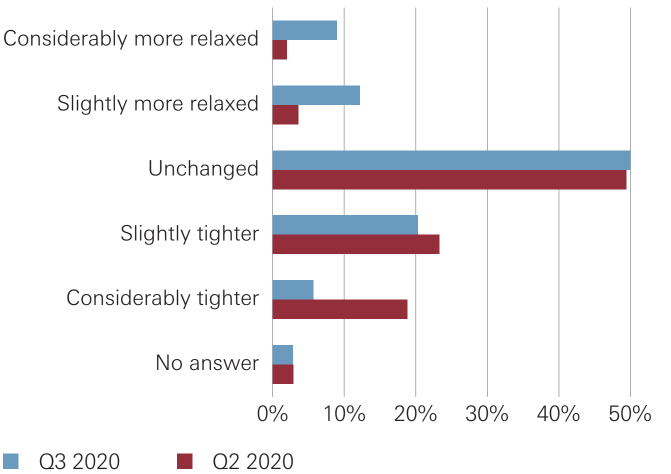
Demand for credit saw a significant quarter-on-quarter decline. While in the second quarter around one-third of the companies surveyed had applied for credit – whether bridging loans with full or partial joint and several guarantees from the federal government, or other loans – in the quarter under review only 2% of companies did so. Some companies applied for COVID-19 loans as a precautionary measure but have not yet drawn on them.

A large number of representatives (39%) who were able to answer this question had the impression that the banks' lending conditions had not changed due to the coronavirus crisis (cf. chart 5). Equal proportions of representatives characterised the banks' lending conditions as either being tighter or more relaxed than before the crisis (around 7% in each case). In some cases, the banks themselves approached their clients to offer them loans and other assistance. Companies who had been in contact with the banks found them very cooperative.

The quick and unbureaucratic implementation of the federal government's bridging loans, coupled with short-time working, have generally received a lot of praise in business circles. These measures have played a significant role in building confidence.

Chart 4

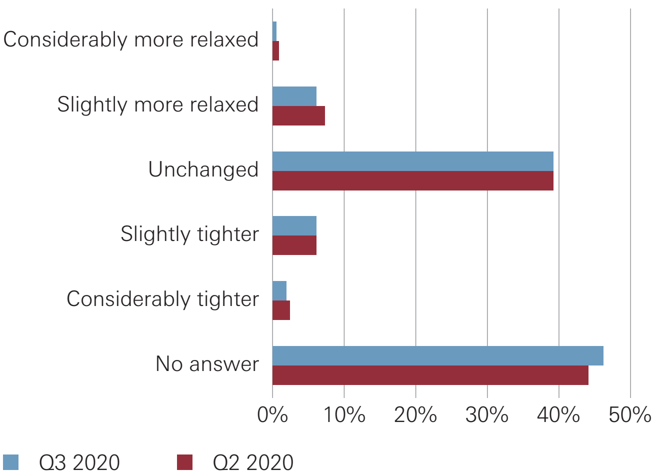
LIQUIDITY SITUATION



Source: SNB

Chart 5

LENDING CONDITIONS



Source: SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Thanks to strong 'catch-up' effects, real turnover in the trade industry saw a significant quarter-on-quarter increase overall and is now back at 2019 levels. Bricks-and-mortar retail in particular recorded dynamic business activity, but turnover in the wholesale trade and trade in motor vehicles remains lower than last year. Infrastructures are still slightly underutilised. Online distribution channels have become much more important than before coronavirus and are seeing accelerated expansion. The retail trade was also supported by the fact that cross-border shopping activity remained modest.

The tourism and hospitality industries likewise recorded substantial quarter-on-quarter gains in real turnover. However, the situation varies extremely widely depending on the region and customers targeted. As regards hotels, there is a marked difference between those in tourism regions geared to Swiss guests, which often reached the limits of their capacity over the summer, and those in towns and cities that are geared to international guests, which saw a marked decline in turnover year-on-year. There continues to be hardly any business travel. Industry representatives believe there is a risk that some companies might carry on encouraging staff to work from home and use videoconferencing to some extent due to travel restrictions, and that this could result in a lasting decline in turnover.

Restaurant turnover remained lower year-on-year. The reasons for this are restrictive hygiene measures, the absence of larger events, persistently low demand for lunch catering, and a general mood of caution among consumers. Restaurateurs are looking ahead with concern to the time when they will only be able to serve guests indoors.

The entertainment and leisure industry, as well as conferences and trade fairs, are still among the segments most affected by the pandemic, this being reflected in a correspondingly pronounced decline in turnover, infrastructure utilisation and margins.

The financial industry reported higher business volume both year-on-year and quarter-on-quarter. In particular, business involving direct contact with customers returned to normal. The issuance of COVID-19 loans has become much less frequent. In the low interest rate environment, the interest margin business is still seen as a challenge. Margins are below the levels considered normal, and infrastructure utilisation remains low. For this reason, various banks intend to further reduce their branch networks.

The ICT industry saw significant increases in real turnover both on a quarter-on-quarter and year-on-year basis. Customers are gradually resuming projects that had been put on hold. Customer contact is increasingly possible again, and the need for fast, functioning and secure IT infrastructure is driving demand.

Business has returned to normal for healthcare companies, especially now that non-urgent surgery and treatments can be performed again. Turnover was significantly higher quarter-on-quarter and slightly higher year-on-year. Capacity was slightly overutilised.

In manufacturing, all industries recorded a moderate to strong quarter-on-quarter increase in real turnover. With the exception of pharmaceuticals and construction-related manufacturing, however, they all reported a year-on-year decline in turnover. Business activity at companies in the mechanical engineering, electrical engineering and metals industries was significantly lower year-on-year. Production capacity remains underutilised practically everywhere, and profit margins are below the levels that would be considered normal.

There is still a marked weakness in the watchmaking, automotive and aviation industries, which is also impacting the sectors that supply them. Various industries reported positive impetus from investments in road and rail infrastructure.

In construction, seasonally adjusted turnover was higher on both a quarter-on-quarter and year-on-year basis. All three industries in the sector – building construction, civil engineering and the finishing trade – recorded dynamic business activity. There are now essentially no regional differences, these having been particularly pronounced in the second quarter. In all areas, the hygiene and distancing rules continue to restrict productivity somewhat. Construction industry representatives expect business to slow in the coming quarters.

When asked about the situation on the real estate market, many respondents raised the issue of rising vacancy rates for rental properties. There was mention of discernible pressure on commercial property leases.

OUTLOOK

Cautious optimism amid a high level of uncertainty
Companies expect to see a continued, albeit weaker, increase in turnover in the coming two quarters (cf. chart 6).

One-fifth of companies anticipate a return to pre-crisis levels in the coming year; a further 20% do not expect this to happen until 2022 or later (cf. chart 7). Just under 60% of companies say turnover will have returned to pre-crisis levels this year already or will no longer be showing a decline. In general, however, uncertainty remains very high. The availability of a vaccine plays an important role in companies' assessment of various future scenarios.

The representatives anticipate a slight increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 8), in line with higher turnover expectations. Individual companies anticipate further 'catch-up' effects as their customers resume projects that had been postponed.

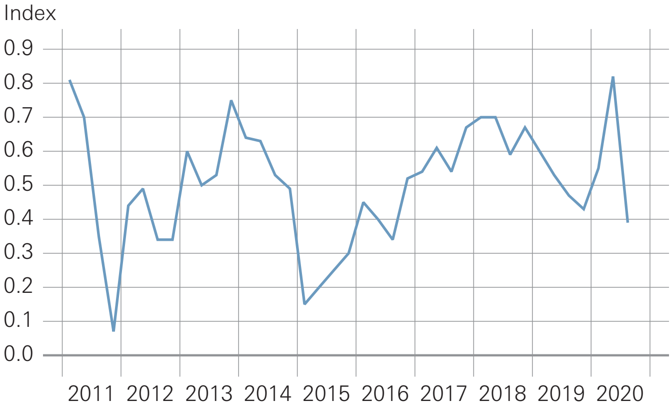
Caution regarding investment
Against the backdrop of persisting uncertainty, most companies remain cautious with regard to investment given the need to secure liquidity and in light of muted demand. Representatives from all three sectors – services, manufacturing and construction – said they intend to slightly reduce their expenditure on equipment and construction in the next twelve months.

Only 25% of the companies planning to invest said they intended to use their investment primarily to expand their production capacity. The focus is above all on projects to increase efficiency as well as the expansion and modernisation of IT. Low interest rates continue to support such investment.

Stable prices expected
Representatives anticipate stable purchase and sales prices for the next two quarters. By comparison with the second quarter, where the price-dampening effects of a weaker global economy dominated, the situation has stabilised. Relatively stable commodity prices and exchange rates are likewise contributing to this easing.

Chart 6

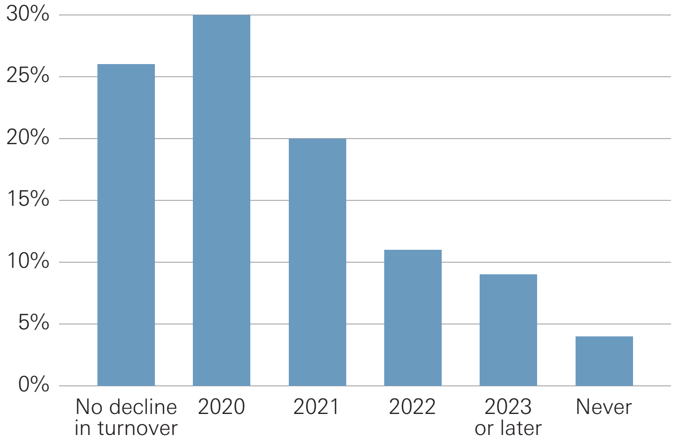
EXPECTED TURNOVER



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

Chart 7

RETURN TO PRE-CRISIS TURNOVER LEVELS



Source: SNB

Planned reduction in staff numbers

Representatives said their companies intended to slightly reduce staff numbers in the next two quarters (cf. chart 9). Unlike the previous quarter, when this was the plan in all three sectors, in the third quarter it was primarily the manufacturing sector, where 37% of companies plan to cut back their staff.

By contrast, the ICT industry, auditing, consulting and architecture firms, and healthcare companies plan to increase staff numbers.

ENVIRONMENT AND RISKS

Uncertainty remains extraordinarily high on account of coronavirus. Representatives see the biggest risk in a second wave of infections and the possibility of another lockdown. There are also fears of a continued rise in unemployment and persisting weakness in global growth.

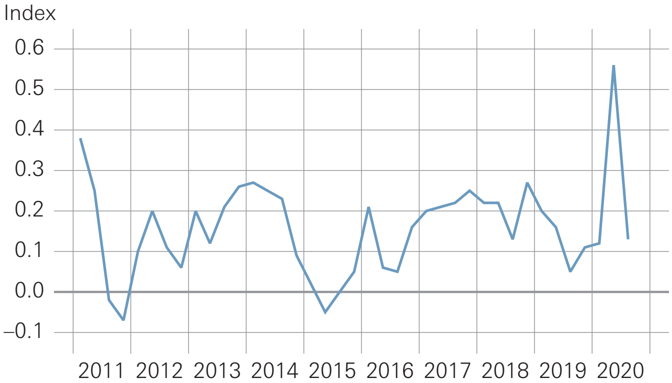
Representatives are also troubled by the increase in sovereign debt worldwide. Furthermore, they see a certain degree of risk in the longer term in the additional debt taken on by the federal government and companies alike.

In light of the potential for inflation, the representatives are keeping a critical eye on ultra-loose monetary policy around the world. The US dollar's volatile price and tendency to weakness were frequently mentioned. While concerns about the strength of the Swiss franc against the euro have faded somewhat into the background, the stability of this exchange rate is still seen as important. Against this backdrop, there is understanding for negative interest as a means of curbing Swiss franc appreciation. The independence of the SNB is important to the representatives.

The widespread use of working from home has given a significant boost to digitalisation efforts. The representatives said they also saw this development as an opportunity.

Chart 8

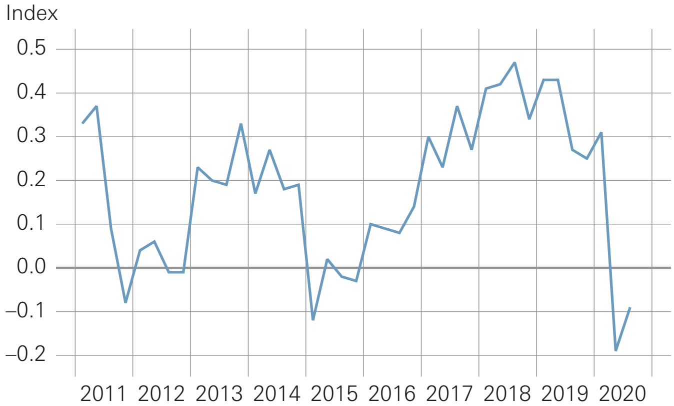
EXPECTED CAPACITY UTILISATION



Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).
Source: SNB

Chart 9

EXPECTED EMPLOYMENT



Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).
Source: SNB

INFLATION EXPECTATIONS

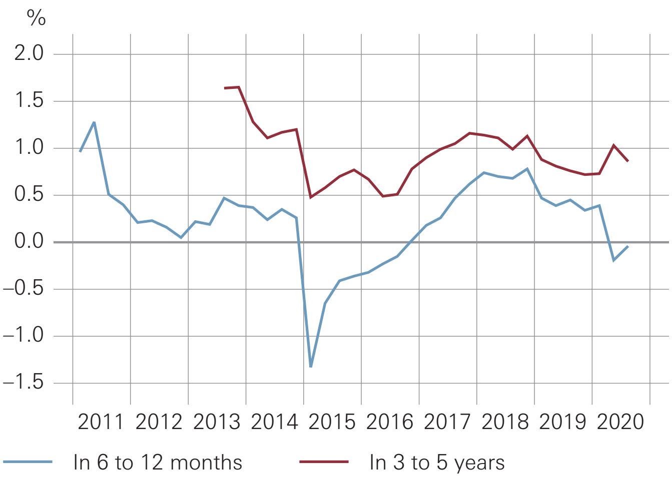
The delegates also ask company representatives about their short and long-term inflation expectations as consumers.

Short-term inflation expectations – measured in terms of the consumer price index – have increased slightly. The average for the next six to twelve months is 0% (blue line in chart 10), compared to –0.2% in the previous quarter. Over the longer term – i.e. with a time horizon of three to five years (red line in chart) – the average has declined from 1.0% to 0.9%.

The reasoning behind these expectations often lies in prices remaining stable over the short term owing to low demand and strong competition, while in the longer term the expansionary monetary policy and state support measures are more likely to lead to inflation.

Chart 10

EXPECTED INFLATION



Source: SNB

About this report

Approach

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

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

In the talks, the SNB's delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade 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

September 2020

At its quarterly assessment of 24 September, the SNB leaves its policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. The SNB continues to supply the banking system with liquidity via the SNB COVID-19 refinancing facility (CRF). The SNB's expansionary monetary policy thus helps stabilise economic activity and price developments in Switzerland.

June 2020

At its quarterly assessment of 18 June, the SNB leaves its policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc it remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. The SNB's expansionary monetary policy thus helps stabilise economic activity and price developments in Switzerland.

May 2020

On 11 May, the SNB announces that it will also accept claims secured by loan guarantees or credit default guarantees offered by cantons as collateral for the SNB COVID-19 refinancing facility, and that claims secured by joint and several guarantees provided for startups by the federal government in cooperation with the cantons will also be deemed eligible collateral.

March 2020

On 25 March, the SNB announces the introduction of the SNB COVID-19 refinancing facility. The CRF operates in conjunction with the federal government's guarantees for corporate loans. The facility allows banks to obtain liquidity from the SNB, which is secured by the federally guaranteed loans. The SNB thereby enables banks to expand their lending rapidly and on a large scale and, at the same time, to access the required liquidity. The interest rate for these refinancing transactions corresponds to the SNB policy rate. In addition, it proposes the deactivation of the countercyclical capital buffer.

At its quarterly assessment of 19 March, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. However, it increases the threshold factor from 25 to 30, thus raising the exemption threshold for the banking system. In so doing, the SNB strengthens the banks so that they can perform their key role in the economy. The SNB is intervening more strongly in the foreign exchange market. The Swiss franc is even more highly valued, and the world's financial markets are under strong pressure. Negative interest and the interventions serve to counteract the attractiveness of Swiss franc investments and thus ease pressure on the currency. In this way, the SNB stabilises price developments and supports economic activity.

December 2019

At its quarterly assessment of 12 December, the SNB leaves its policy rate and 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. Negative interest and the willingness to intervene serve to counteract the attractiveness of Swiss franc investments and thus ease pressure on the currency. In this way, the SNB stabilises price developments and supports economic activity.

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