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3/2021 September

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Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2021

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 23 September 2021') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 23 September 2021. 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 23 September 2021

Swiss National Bank maintains expansionary monetary policy

The SNB is maintaining its expansionary monetary policy with a view to ensuring price stability and providing ongoing support to the Swiss economy in its recovery from the impact of the coronavirus pandemic. It is keeping the SNB policy rate and interest on sight deposits at the SNB at -0.75% , and remains willing to intervene in the foreign exchange market as necessary, in order to counter upward pressure on the Swiss franc. In so doing, it takes the overall currency situation into consideration. The Swiss franc remains highly valued.

The new conditional inflation forecast for 2021 and 2022 is slightly higher than in June (cf. chart 1.1). This is again primarily due to somewhat higher prices for oil products as well as for goods affected by supply bottlenecks. In the longer term, the inflation forecast is virtually unchanged compared with June. The new forecast stands at 0.5% for 2021, 0.7% for 2022, and 0.6% for 2023 (cf. table 1.1). The conditional inflation forecast is based on the assumption that the SNB policy rate remains at -0.75% over the entire forecast horizon.

The coronavirus pandemic, which is now in its second year, is continuing to shape the global economy. Although many countries have once again eased their containment measures since the spring, which contributed to strong

global economic growth in the second quarter, infections have risen significantly again in numerous countries – including Switzerland – over the summer.

In its baseline scenario for the global economy, the SNB assumes that rigorous containment measures will no longer be necessary thanks to progress on the vaccination front. The current solid growth momentum is thus expected to continue in the coming quarters. Nonetheless, in many countries it will take some time for utilisation of production capacity to return to normal.

This scenario for the global economy is subject to high uncertainty, with risks on the upside and downside alike. On the one hand, the situation surrounding the pandemic could deteriorate, adversely affecting the economy once again. On the other hand, the economic policy measures introduced since the outbreak of the pandemic could support the recovery more strongly than anticipated in the baseline scenario.

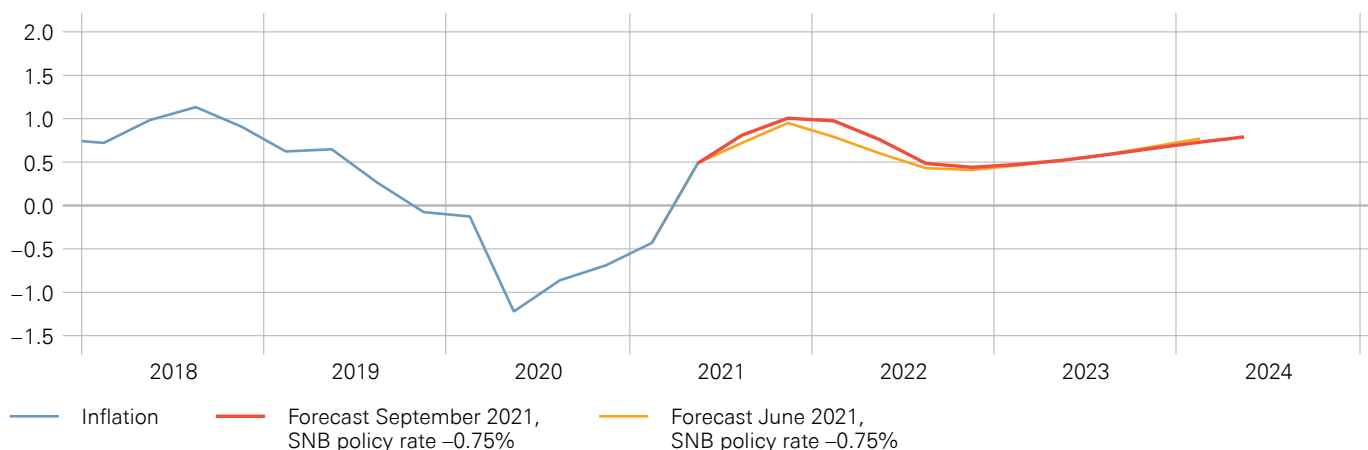
In Switzerland, having declined slightly in the fourth quarter of 2020 and the first quarter of 2021, GDP increased strongly in the second quarter to just below its pre-crisis level. The situation on the labour market also continued to improve. Recently, however, economic momentum has slowed somewhat.

In its baseline scenario for Switzerland, the SNB anticipates a continuation of the economic recovery. This is also based on the assumption that the pandemic containment measures will not need to be tightened significantly again. Against this backdrop, the SNB expects GDP growth of around 3% for 2021. In June, the SNB had still been assuming higher growth. The downward revision is primarily attributable to the development of consumer-related industries such as the trade industry and hospitality, which performed less dynamically than expected.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2021

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



Source(s): SFSO, SNB

GDP is likely to return to its pre-crisis level in the second half of the year. However, overall production capacity will remain underutilised for some time yet. Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

Mortgage lending and residential property prices have risen strongly in recent quarters. Overall, the vulnerability of the mortgage and real estate markets has increased further. The SNB regularly reassesses the need for the countercyclical capital buffer to be reactivated.

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 2021

	2018				2019				2020				2021				2018	2019	2020	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Inflation	0.7	1.0	1.1	0.9	0.6	0.6	0.3	-0.1	-0.1	-1.2	-0.9	-0.7	-0.4	0.5				0.9	0.4	-0.7

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2021

	2021				2022				2023				2024				2021	2022	2023	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Forecast June 2021, SNB policy rate -0.75%		0.5	0.7	1.0	0.8	0.6	0.4	0.4	0.5	0.5	0.6	0.7	0.8					0.4	0.6	0.6
Forecast September 2021, SNB policy rate -0.75%			0.8	1.0	1.0	0.8	0.5	0.4	0.5	0.5	0.6	0.7	0.7	0.8				0.5	0.7	0.6

Source(s): SNB

2 Global economic environment

The coronavirus pandemic, which is now in its second year, is continuing to shape the global economy. Many countries have once again eased their containment measures since the spring, which contributed to strong global economic growth in the second quarter. Global trade also developed favourably (cf. chart 2.1). However, GDP was still below its pre-pandemic level in many countries, as was employment, indicating that the pandemic continues to weigh on economic activity.

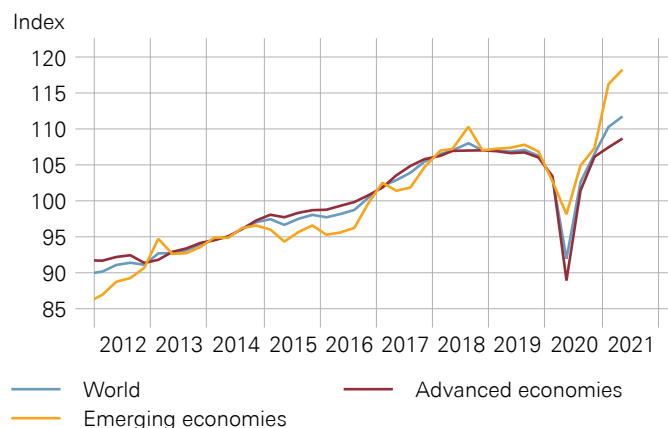
Although coronavirus infections have risen significantly again in numerous countries over the summer, there has been no widespread overloading of health systems, and containment measures have been re-imposed only in some cases.

In its baseline scenario for the global economy, the SNB assumes that rigorous containment measures will no longer be necessary thanks to progress on the vaccination front. The current solid growth momentum is thus expected to continue in the coming quarters. Nonetheless, in many countries it will take some time for utilisation of production capacity to return to normal. Inflation is thus expected to be only moderate in many countries over the medium term. In the short term, however, the higher oil price and various special effects will temporarily lift inflation.

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



Source(s): CPB Netherlands Bureau for Economic Policy Analysis, Refinitiv Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2017	2018	2019	2020	Scenario	
					2021	2022
GDP, year-on-year change in percent						
Global ¹	3.8	3.6	2.8	-3.2	6.4	4.5
US	2.3	2.9	2.3	-3.4	6.1	4.4
Euro area	2.8	1.8	1.5	-6.5	4.7	3.9
Japan	1.7	0.6	0.0	-4.7	2.6	3.6
China ²	7.0	6.8	6.0	2.0	8.4	6.1
Oil price in USD per barrel						
	54.3	71.0	64.3	41.8	68.7	72.0

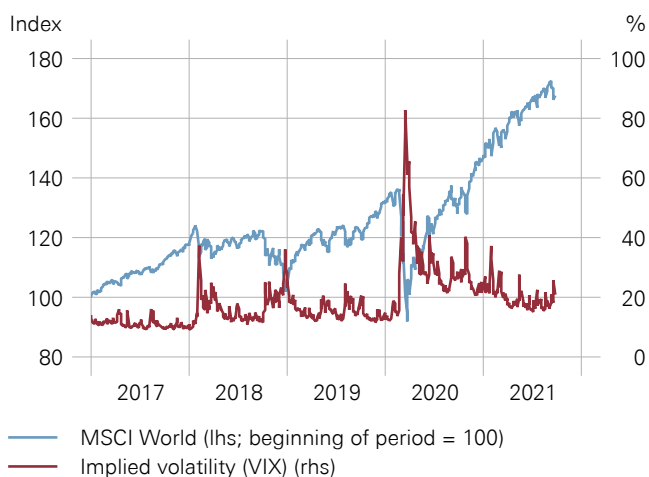
¹ World aggregate as defined by the IMF, PPP-weighted.

² The annual figures are based on seasonally adjusted data and can therefore differ slightly from the official annual figures.

Source(s): Refinitiv Datastream, SNB

Chart 2.2

STOCK MARKETS



Source(s): Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

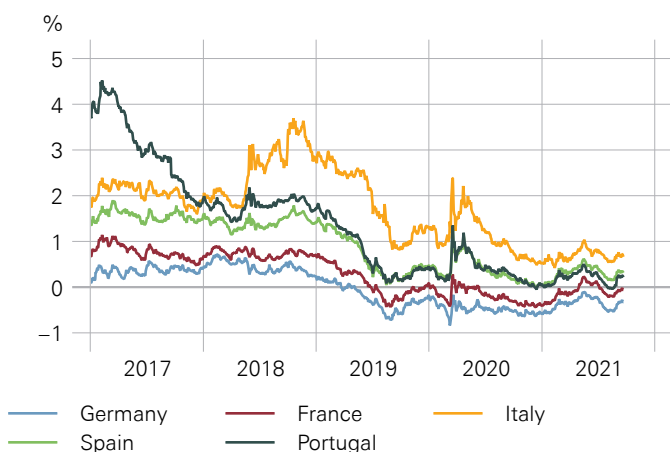


Source(s): Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments



Source(s): Refinitiv Datastream

This scenario for the global economy is subject to high uncertainty, with risks on the upside and downside alike. On the one hand, the situation surrounding the pandemic could deteriorate, adversely affecting the economy once again. On the other hand, the economic policy measures introduced since the outbreak of the pandemic could support the recovery more strongly than anticipated in the baseline scenario.

The SNB’s forecasts for the global economy are based on assumptions about oil prices and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 72 per barrel, compared with USD 67 in the last baseline scenario, and an exchange rate of USD 1.18 to the euro compared with USD 1.21 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

International market conditions remained stable overall despite the uncertain economic outlook and adverse developments in the pandemic situation. Indeed, owing to good corporate results, the MSCI World Index even attained new all-time highs. Nevertheless, concerns about systemic risks arising from the Chinese real estate sector has caused the implied volatility of stocks as measured by option prices – e.g. the VIX in the US – to rise again somewhat recently (cf. chart 2.2).

Following renewed concerns about the economy, yields on ten-year government bonds initially declined further from mid-June. However, the predominant discussions since mid-August concerning an imminent reduction in bond purchases by the major central banks, as well as rising market-based inflation expectations, have recently contributed to a slight recovery in yields (cf. charts 2.3 and 2.4).

The US dollar and yen were sought after as safe-haven currencies and appreciated on a trade-weighted basis. After the ECB’s announcement in July of an adjustment to its monetary policy strategy, market participants assumed that monetary policy in the euro area would remain expansionary for some time, which initially weighed on the euro. The currency subsequently appreciated again somewhat with the prospect of a forthcoming reduction in the ECB’s bond buying. The pound sterling remained virtually unchanged compared to its mid-June level (cf. chart 2.5).

Having increased across a broad front in the first half of the year, commodity prices continued to move slightly upward overall. Industrial metal prices have latterly been higher than three months ago, while oil prices remain virtually unchanged, at USD 75 per barrel (cf. chart 2.6).

UNITED STATES

Economic activity in the US remained dynamic in the second quarter. After expanding by 6.6%, GDP exceeded its pre-pandemic level for the first time (cf. chart 2.7). This was attributable to the continued decline in coronavirus infection rates in the spring as well as to the expansionary fiscal policy. Despite these positive developments, the economy was still unable to make a complete recovery. Overall production capacity was still underutilised in the second quarter, and, in contrast to GDP, employment figures persisted well below their pre-crisis levels. In August, unemployment stood at 5.2%, compared with 3.5% before the pandemic (cf. chart 2.9).

Favourable financing conditions and positive fiscal policy stimuli will likely continue to support economic activity in the second half of the year. However, the renewed rise in infection rates since July is likely to have a temporary dampening effect on demand in services. The SNB therefore expects GDP expansion for 2021 to be slightly lower, but to remain strong, at 6.1%. Its forecast for 2022 is 4.4% (cf. table 2.1).

Annual inflation as measured by the CPI increased further in recent months and stood at 5.3% in August (cf. chart 2.10). Core inflation was latterly 4.0% (cf. chart 2.11). The high level of core inflation is due in large part to price increases for used cars and transport services, and is likely to be short lived. Core inflation as measured by the personal consumption expenditure deflator likewise rose and, at 4.2% in July, significantly exceeded the Federal Reserve's target.

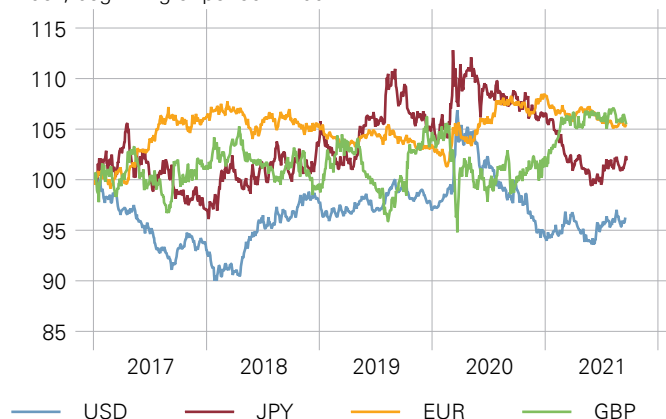
Given that the Fed considers the rise in inflation to be temporary, a monetary policy adjustment was not deemed necessary. It thus kept its target range for the federal funds rate unchanged at 0.0–0.25% (cf. chart 2.12). It plans to leave interest rates at their current level until the labour market has recovered from the crisis, and until inflation has risen to 2% and is on track to moderately exceed 2% for some time. In so doing, the Fed is seeking to achieve a rate that averages 2%. It will continue its bond-buying programme until substantial further progress has been made with regard to its employment mandate and inflation target. In July and September, it signalled that this may soon be the case.

Chart 2.5

EXCHANGE RATES

Trade-weighted

Index, beginning of period = 100



Source(s): Refinitiv Datastream

Chart 2.6

COMMODITY PRICES

Index, beginning of period = 100

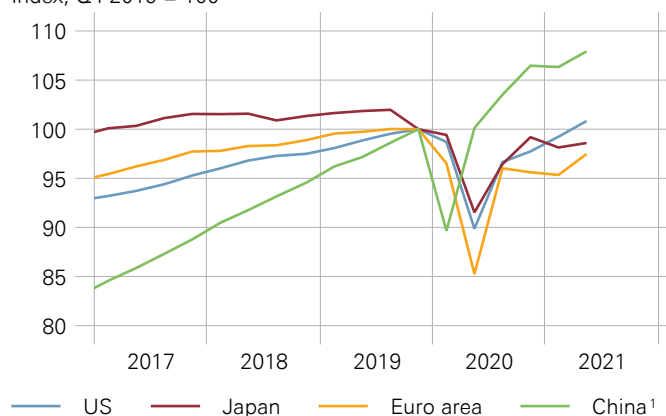


Source(s): Refinitiv Datastream

Chart 2.7

REAL GDP

Index, Q4 2019 = 100

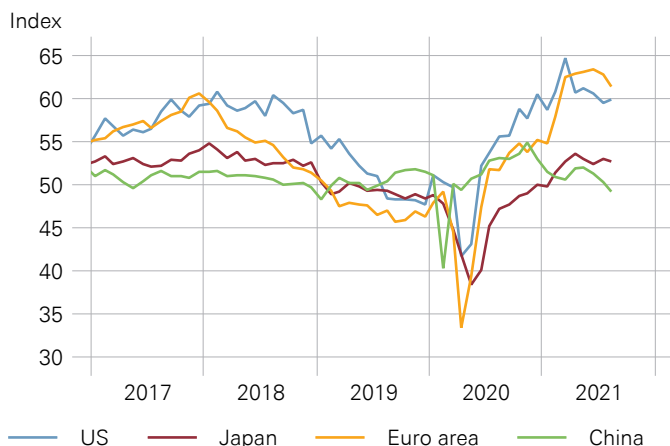


1 Seasonal adjustment: SNB

Source(s): Refinitiv Datastream

Chart 2.8

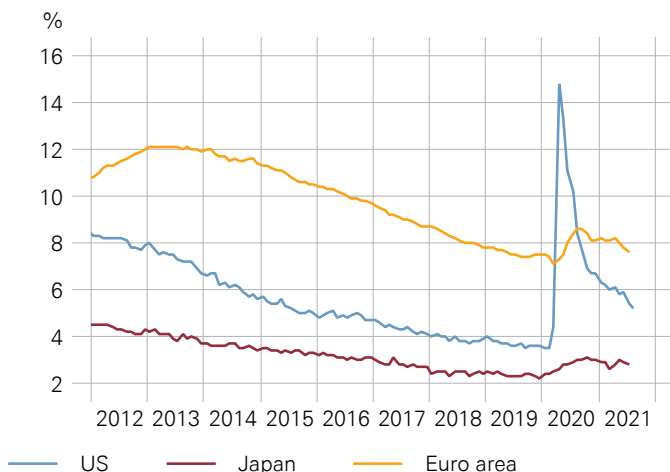
PURCHASING MANAGERS' INDICES (MANUFACTURING)



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

Chart 2.9

UNEMPLOYMENT RATES

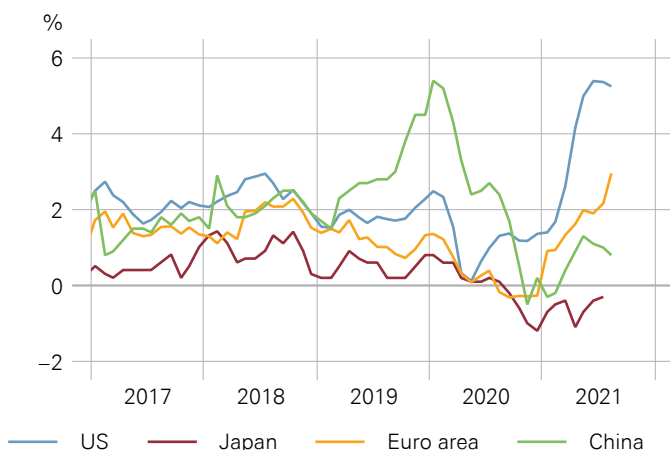


Source(s): Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change



Source(s): Refinitiv Datastream

EURO AREA

GDP in the euro area expanded by 9.2% in the second quarter, but remained below its pre-crisis level (cf. chart 2.7). The easing of containment measures in many member states supported the recovery in the services sector. On the other hand, the global shortage of intermediate products continued to slow industrial output. While GDP grew in all the major member states, it exhibited particularly strong growth in Italy following a period of weak expansion in the preceding quarters. Employment figures in the euro area increased slightly in the second quarter amid positive economic growth, but remained lower than before the pandemic. The unemployment rate continued to fall and, at 7.6% in July, was just slightly above its pre-crisis level (cf. chart 2.9).

At the beginning of the third quarter, infection rates rose again temporarily in all the major euro area member states, but given the progress in vaccination programmes, healthcare systems were no longer under as much strain. As a result, no strict containment measures that would have significantly affected growth have so far been necessary in the third quarter. It is thus likely that the economy will continue its strong recovery over the further course of the year. The SNB expects GDP growth of 4.7% for 2021 and 3.9% for 2022 (cf. table 2.1).

Driven by rising energy prices, consumer price inflation in the euro area picked up further in recent months and stood at 3.0% in August (cf. chart 2.10). Core inflation has fluctuated considerably since the beginning of the year and latterly stood at 1.6% (cf. chart 2.11).

In July, the ECB presented the results of its strategy review, which comprised three key elements: First, the ECB will now aim for an increase in consumer prices of 2% in the medium term. The previous inflation target had stood below, but close to, 2%. In addition, it intends to allow a transitory period in which inflation is moderately above target. Second, it plans to include the costs related to owner-occupied housing in its assessment of price developments in the future. Third, it published an action plan that takes climate objectives into consideration.

The ECB left its key interest rates unchanged (cf. chart 2.12). It intends not to raise them at least until the inflation forecast reaches 2% well ahead of the end of its projection horizon and durably. It still plans to continue with its asset purchase programme (APP) until shortly before it starts raising the key interest rates. Furthermore, the pandemic emergency purchase programme (PEPP), introduced during the coronavirus crisis, is set to run until at least the end of March 2022. However, in September, the ECB announced its intention to purchase assets at a moderately lower pace in the fourth quarter of 2021.

JAPAN

GDP in Japan grew by 1.9% in the second quarter, recouping only some of the losses sustained in the previous quarter (cf. chart 2.7). Activity in the services sector remained subdued as a result of tightened containment measures. Meanwhile, manufacturing benefited on the whole from a brisk export trade, despite the fact that the automotive industry was dealing with a shortage of intermediate products. In the second quarter, GDP was still below its pre-crisis level. Although employment figures recently saw a renewed increase, they too remained lower than before the pandemic. The unemployment rate stood at 2.8% in July (cf. chart 2.9).

Following the easing of coronavirus containment measures in June, the number of new infections started to rise again and reached a new record level in the third quarter. As a result, a state of emergency was once again declared in many prefectures over the course of the quarter. The attendant restrictions are likely to further delay the economic recovery. The SNB now expects GDP expansion to be somewhat lower for 2021, at 2.6%, but anticipates stronger growth of 3.6% for 2022 (cf. table 2.1).

The switch to a new base year for the CPI – which entailed a revision of weightings and calculation methods – has resulted in inflation being revised downwards considerably from January 2021. In July, annual inflation was thus back in negative territory, at –0.3% (cf. chart 2.10). Core inflation stood at –0.9% (cf. chart 2.11).

The Bank of Japan left its key rate and its target for the yield on ten-year government bonds unchanged (cf. chart 2.12).

Chart 2.11

CORE INFLATION RATES ¹

Year-on-year change

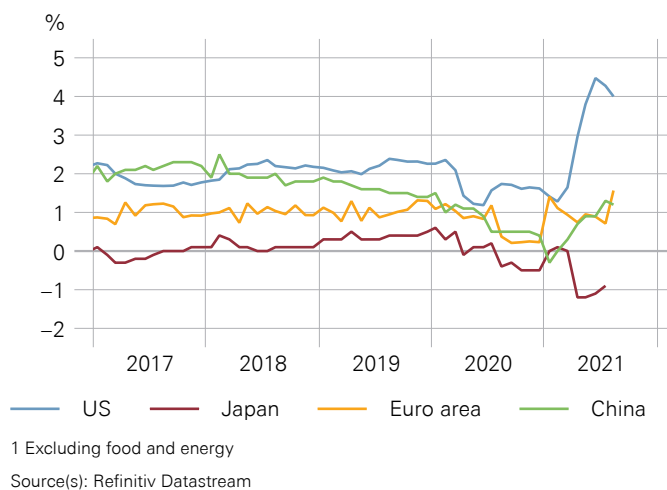
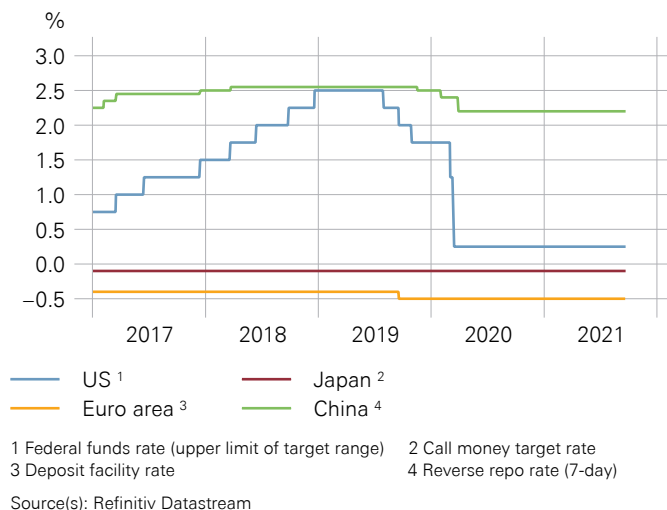


Chart 2.12

OFFICIAL INTEREST RATES



CHINA

China's economy regained momentum in the second quarter. GDP expanded in line with potential. Activity in the services sector staged a recovery after the government's containment measures had held back growth at the beginning of the year. Exports remained dynamic.

A number of factors are likely to weigh temporarily on economic activity in the third quarter. For instance, the emergence of new virus hotspots in many parts of the country at the beginning of the quarter necessitated the reintroduction of containment measures. The situation was compounded by severe flooding in economically important regions, which further aggravated existing supply bottlenecks in manufacturing. The SNB expects

economic momentum to pick back up in the fourth quarter and therefore anticipates GDP growth of 8.4% for 2021 (cf. table 2.1). The outlook is nevertheless again somewhat more uncertain due to the risk of upheaval on the real estate market.

Consumer price inflation decreased amid falling food prices, and stood at 0.8% in August (cf. chart 2.10). Core inflation, by contrast, rose further to 1.2% (cf. chart 2.11).

The People's Bank of China left key rates unchanged (cf. chart 2.12). However, in July, it lowered the reserve requirement ratio for banks and, since September, has been granting small and medium-sized enterprises additional financial assistance.

3 Economic developments in Switzerland

In Switzerland, the economic recovery has resumed. GDP grew strongly in the second quarter and was only slightly below its pre-crisis level. The situation on the labour market also continued to improve. Recently, however, economic momentum has slowed somewhat.

In its baseline scenario for Switzerland, the SNB anticipates a continuation of the economic recovery. This is also based on the assumption that the pandemic containment measures will not need to be tightened again.

Against this backdrop, the SNB expects GDP growth of around 3% for 2021. In June, the SNB had still been assuming higher growth. The downward revision is primarily attributable to the development of consumer-related industries such as the trade industry and hospitality, which performed less dynamically than expected.

GDP is likely to return to its pre-crisis level in the second half of the year. However, overall production capacity will remain underutilised for some time yet. Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

OUTPUT AND DEMAND

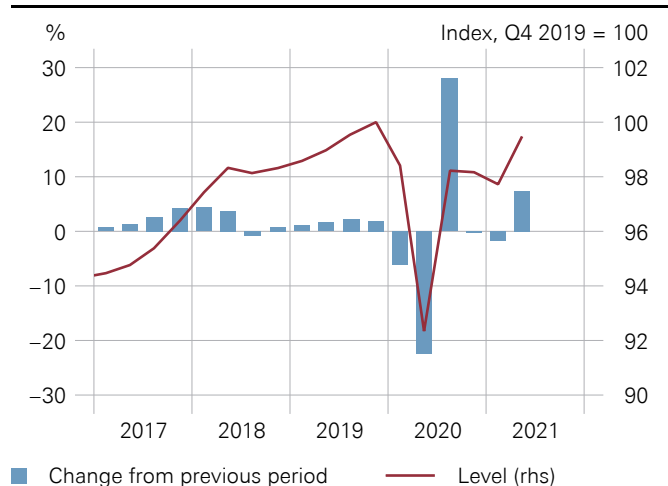
The SNB takes a wide range of information into account when assessing the economic situation. While there are signs of a pronounced upswing in economic activity in the second quarter, many indicators suggest that momentum has slowed of late.

Strong GDP growth in second quarter

In line with expectations, GDP expanded significantly in the second quarter of 2021 following the easing of containment measures. According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP grew by 7.4%, having contracted slightly in the two previous quarters. As a result, second-quarter GDP was just 0.5% below its pre-crisis level at the end of 2019 (cf. chart 3.1).

Chart 3.1

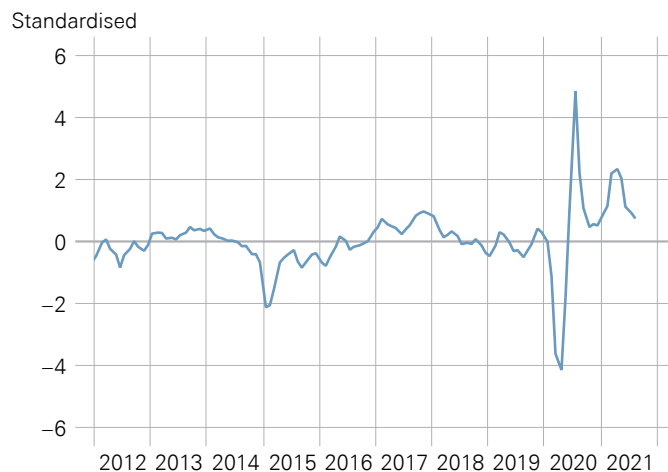
REAL GDP



Source(s): SECO

Chart 3.2

SNB BUSINESS CYCLE INDEX



Source(s): SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Source(s): Credit Suisse, KOF Swiss Economic Institute

Value added rose in many industries. The increase was particularly strong in the services sector, which had been hard hit by the pandemic at the beginning of the year (retail trade, hospitality and entertainment). While a rise was also evident in manufacturing, a decrease in value added was recorded in construction and financial services.

Domestic final demand picked up across a broad front. Private and government consumption rose substantially (cf. table 3.1).

Decline in GDP less pronounced in 2020

According to the annual figures of the System of National Accounts, which are published by the Swiss Federal Statistical Office (SFSO), GDP contracted by 2.4% in 2020. This is a slight upward revision compared with the provisional estimate by SECO from May 2021 (-2.6%) and also has an impact on SECO's quarterly estimates. As a result, the decline in the first half of 2020 was somewhat less pronounced than previously assumed (-7.7% instead of -8.4%).

Slowdown in economic recovery

Various indicators suggest that the economic recovery has again lost some momentum in recent months, after the easing of restrictions in spring had led to a strong upswing.

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. Although both indicators have receded in the last few months, they continue to point to above-average expansion (cf. charts 3.2 and 3.3). In manufacturing, too, signals remain positive overall, with the purchasing managers' index (PMI) still indicating strong growth (cf. chart 3.3). At the same time, goods exports have recently slowed somewhat, and concerns over supply bottlenecks have continued to mount, although there have been no signs that the bottlenecks have had a tangible impact on production.

Despite the growing difficulties in connection with the procurement of intermediate products, the talks held by the SNB's delegates for regional economic relations with companies suggest that developments will remain favourable in the third quarter (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2017	2018	2019	2020	2019		2020				2021	
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	1.2	0.7	1.4	-3.7	0.2	1.8	-10.7	-25.7	42.6	-6.3	-12.0	17.3
Government consumption	0.6	1.0	0.7	3.5	2.4	2.9	4.6	4.0	0.4	11.0	10.0	23.8
Investment in fixed assets	3.6	1.3	0.6	-1.8	1.0	18.8	-13.7	-25.4	38.0	2.7	-1.8	4.4
Construction	1.5	0.0	-0.9	-0.4	1.0	2.5	0.7	-17.5	22.1	-0.4	1.3	0.6
Equipment	4.9	2.1	1.4	-2.5	1.0	28.8	-20.8	-29.6	48.1	4.4	-3.4	6.6
Domestic final demand	1.8	0.9	1.1	-2.2	0.7	6.6	-9.8	-22.1	34.7	-1.6	-6.3	14.2
Change in inventories ¹	-0.3	1.0	0.5	-0.9	4.0	-5.2	7.3	-7.8	-0.5	-1.6	1.6	-7.0
Total exports ²	3.4	4.9	1.5	-5.6	0.6	-1.7	-10.5	-33.5	31.6	13.9	1.0	4.7
Goods ²	5.3	4.4	3.4	-1.1	3.9	-3.4	-4.0	-25.4	42.2	-1.0	10.7	1.3
Goods excluding merchanting ²	5.8	4.4	4.9	-2.9	6.9	-2.6	5.2	-45.4	47.9	15.1	20.8	10.9
Services	0.1	5.9	-2.3	-14.5	-6.0	2.0	-22.6	-48.6	9.0	58.6	-18.3	13.4
Total imports ²	3.8	3.6	2.3	-8.0	5.7	-4.4	-1.9	-50.7	47.8	10.9	-3.4	2.0
Goods ²	4.6	6.2	2.8	-6.2	5.3	-7.3	0.7	-45.3	55.4	0.0	5.0	0.7
Services	2.4	-0.7	1.4	-11.0	6.5	0.7	-6.0	-58.9	34.5	33.9	-16.6	4.3
Net exports ³	0.3	1.1	-0.2	0.4	-2.2	1.0	-5.0	4.4	-2.8	2.7	1.9	1.8
GDP	1.6	2.9	1.2	-2.4	2.3	1.9	-6.2	-22.5	28.0	-0.2	-1.8	7.4

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(s): SECO

LABOUR MARKET

The recovery in economic activity was also reflected in the labour market.

Employment growth in second quarter

According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose in the second quarter. New jobs were created in services, in particular, but also in construction. By contrast, job cuts continued in manufacturing, albeit to a lesser degree than in previous quarters (cf. chart 3.4). These statistics measure employment on the company side and are based on a survey of firms. The Employment Statistics (ES), on the other hand, measure the number of employed persons on the household side. They are based mainly on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. According to the ES, the seasonally adjusted number of persons employed remained stable in the second quarter.

Further decline in unemployment ...

The number of people registered as unemployed at the regional employment offices decreased further in recent months. Excluding seasonal fluctuations, 134,000 people were registered as unemployed at the end of August, 14,000 fewer than at the end of May. Meanwhile, the seasonally adjusted unemployment rate published by SECO stood at 2.9% at the end of August, which was still around half a percentage point above its pre-crisis level in February 2020. In addition to the SECO unemployment rate, the SFSO also calculates unemployment figures in line with the International Labour Organization (ILO) definition. These figures include people who are looking for work but are not registered, or are no longer registered, as unemployed with the regional employment offices, and are thus higher than the unemployment rate published by SECO. The seasonally adjusted unemployment rate decreased slightly in the second quarter, to 5.4%, and thus remained above the pre-crisis level of 4.1% (cf. chart 3.5).

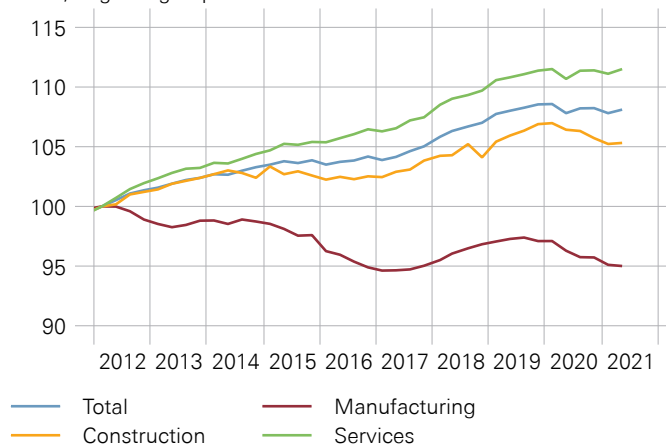
... and in short-time working

Short-time working also declined further. Provisional figures from SECO suggest that the number of people in short-time work fell by 262,000 to 162,000 between March and June (cf. chart 3.6). Thus, in June, around 4% of all economically active persons were still in short-time work.

Chart 3.4

FULL-TIME EQUIVALENT JOBS

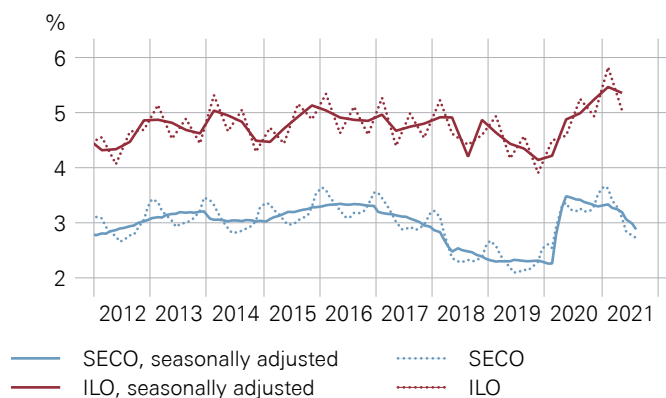
Index, beginning of period = 100



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.5

UNEMPLOYMENT RATE

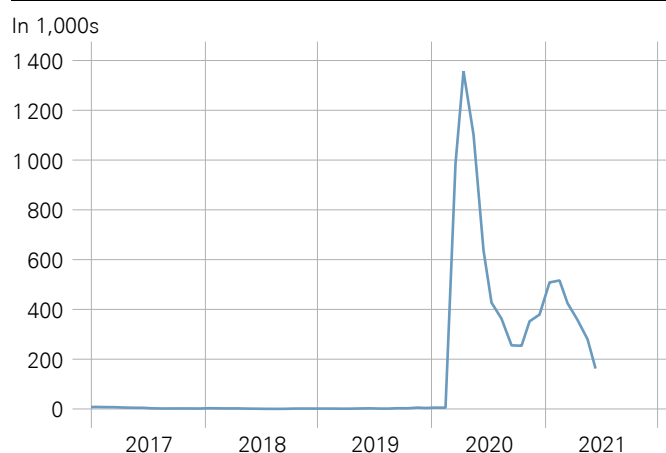


SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons).
ILO: Unemployment rate based on International Labour Organization definition.
Source(s): SECO, SFSO

Chart 3.6

SHORT-TIME WORKING

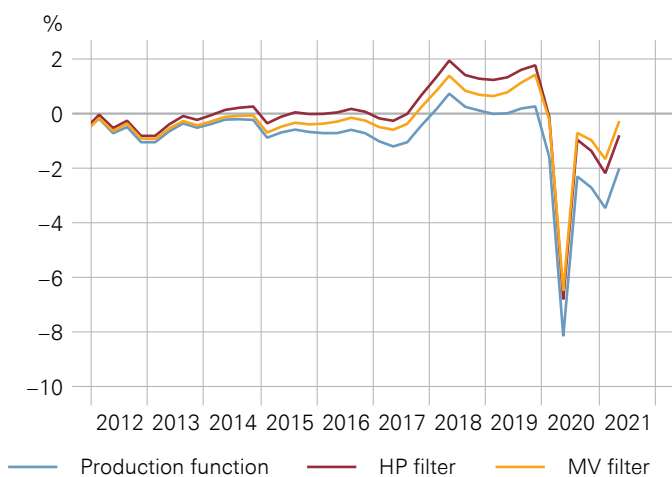
Employees affected



Source(s): SECO

Chart 3.7

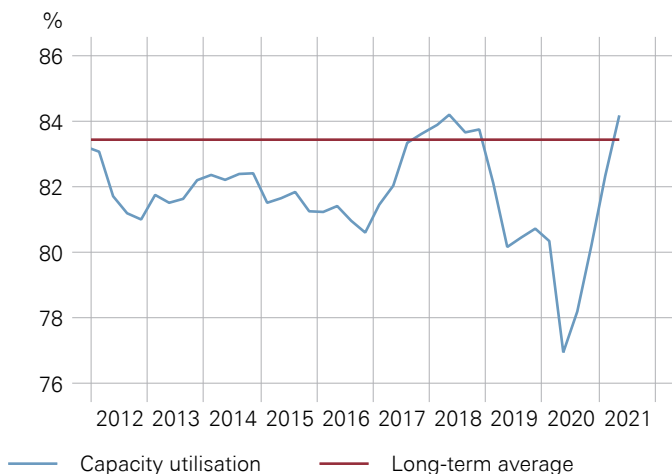
OUTPUT GAP



Source(s): SNB

Chart 3.8

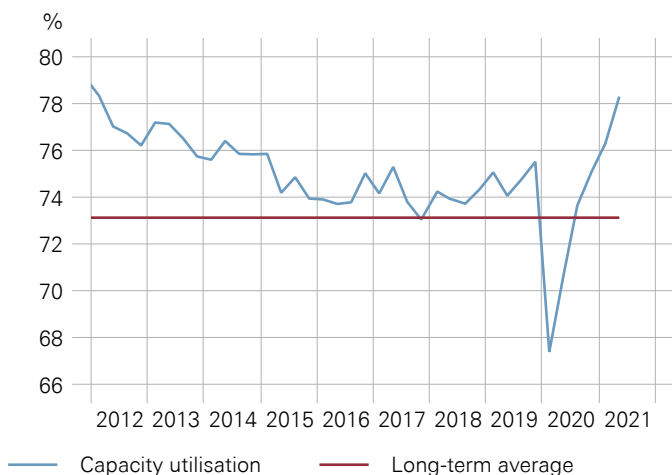
CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION



Source(s): KOF Swiss Economic Institute

CAPACITY UTILISATION

Negative output gap in second quarter

The output gap, defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well production capacity in an economy is being utilised. In the case of overutilisation the gap is positive, and in the case of underutilisation it is negative.

Utilisation of production capacity rose again on the back of the recovery in economic activity in the second quarter. The output gap narrowed, but remained negative. Potential output as estimated by means of a production function shows an output gap of -2.0% for the second quarter. Other estimation methods indicate a narrower gap (cf. chart 3.7).

Underutilisation in services

The surveys conducted by KOF among companies show that utilisation varied from one industry to another in the second quarter. According to the KOF survey, utilisation of technical capacity improved significantly in manufacturing and construction. In both sectors, utilisation was above its pre-crisis level in the second quarter (cf. charts 3.8 and 3.9). In many services industries, by contrast, technical capacity remained underutilised. The hotel industry was particularly affected, with average occupancy rates still very low.

As regards the labour situation, the majority of companies indicated that staff utilisation improved further in the second quarter. However, companies in certain industries still deemed staff levels to be too high.

OUTLOOK

The economic outlook for Switzerland continues to be positive. Although global manufacturing has weakened somewhat, foreign demand is likely to remain robust (cf. chart 3.10). As the KOF surveys show, companies in most industries expect the business situation to improve further over the course of the next six months (cf. chart 3.11). Surveys indicate that the employment outlook has also brightened further (cf. chart 3.12).

In its baseline scenario for Switzerland, the SNB anticipates a continuation of the economic recovery in the second half of the year. This is also based on the assumption that no additional containment measures will be introduced that would curb economic activity.

The pandemic situation remains tense, however. In an international comparison, the proportion of the Swiss population who have now received their coronavirus vaccinations is low. Against this background, there was a renewed rise in infections and hospital admissions in the summer.

For 2021, the SNB anticipates GDP growth of around 3%. The downward revision compared with the June forecast is primarily attributable to the development of consumer-related industries such as the trade industry and hospitality, which performed less dynamically than expected.

GDP is likely to return to its pre-crisis level in the second half of the year. However, overall production capacity will remain underutilised for some time yet. Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

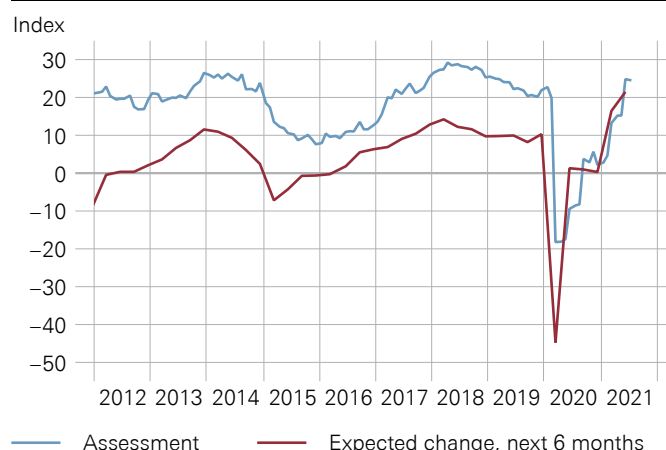


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

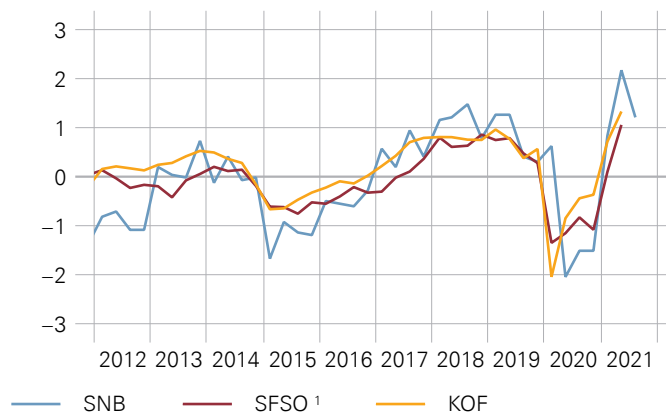


Source(s): KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

Source(s): KOF Swiss Economic Institute, SFSO, SNB regional network

4

Prices and inflation expectations

The inflation rate as measured by the CPI climbed steadily in the first half of the year. Inflation stood at 0.9% in August, while core inflation reached 0.6%.

The short and longer-term inflation expectations derived from surveys presented a mixed picture. Overall, all survey results for both the short and the longer-term expectations were 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

Annual CPI inflation has been climbing steadily since the beginning of the year. At 0.3% in April, it was in positive territory for the first time since before the pandemic, and stood at 0.9% in August (cf. chart 4.1, table 4.1).

Higher inflation for imported products

Inflation for imported goods and services has also seen a steady rise since the beginning of the year. Having remained negative through to the end of March, it reached 2.1% in August.

The increase was largely due to the rise in inflation for oil products, which climbed from –2.3% year-on-year in February to 23.0% year-on-year in August. This increase reflects a return of oil prices to roughly the levels recorded at the end of 2019, having declined sharply at the beginning of the coronavirus pandemic.

Inflation for other imported goods and services remained negative, but rose over the course of the year from its low of –1.4% in February to –0.2% in August (cf. table 4.1). This increase was primarily attributable to higher prices for tourism-related services.

Slightly higher inflation for domestic products

Inflation for domestic goods and services has been back in positive territory since April, and stood at 0.5% in August (cf. chart 4.2). Much of this increase can be attributed to inflation for domestic services excluding housing rents, which went up from –0.5% at the beginning of the year to 0.2% in August. The rise in the first half of the year was largely due to higher prices for tourism-related services. Inflation for domestic goods stood at 0.2% in August, having still been slightly negative in the preceding months.

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2020	2020		2021		2021		
		Q3	Q4	Q1	Q2	June	July	August
Overall CPI	-0.7	-0.9	-0.7	-0.4	0.5	0.6	0.7	0.9
Domestic goods and services	0.0	-0.1	0.0	-0.2	0.2	0.3	0.3	0.5
Goods	0.0	0.0	0.1	0.0	-0.3	-0.4	-0.2	0.2
Services	0.0	-0.1	0.0	-0.2	0.3	0.4	0.4	0.6
Private services excluding housing rents	-0.4	-0.5	-0.2	-0.6	0.3	0.4	0.4	0.3
Housing rents	0.9	0.9	0.5	0.4	0.7	0.8	0.8	1.3
Public services	-0.8	-0.8	-0.6	-0.3	-0.3	-0.1	0.0	0.1
Imported goods and services	-2.9	-3.3	-2.8	-1.3	1.5	1.7	1.9	2.1
Excluding oil products	-1.4	-1.4	-1.1	-1.2	-0.5	-0.4	-0.5	-0.2
Oil products	-13.7	-16.8	-15.3	-1.3	19.2	21.1	23.6	23.0

Source(s): SFSO, SNB

Further rise in rent inflation

Housing rent inflation has risen since the beginning of the year from 0.4% to 1.3% in August (cf. chart 4.3). The reference mortgage rate has remained unchanged since the beginning of 2020.

Core inflation slightly higher

The SFSO core inflation rate 1 (SFSO1) increased from 0.2% in May to 0.4% in August. Core inflation, as measured by the SNB's trimmed mean (TM15), rose in the same period from 0.3% to 0.6% (cf. chart 4.4).

Both core inflation rates exclude goods and services with particularly volatile prices. When calculating SFSO1, energy and fuel as well as unprocessed food and seasonal goods and services are not included. TM15 excludes the goods and services with the most extreme price changes every month (i.e. the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest).

PRODUCER AND IMPORT PRICES

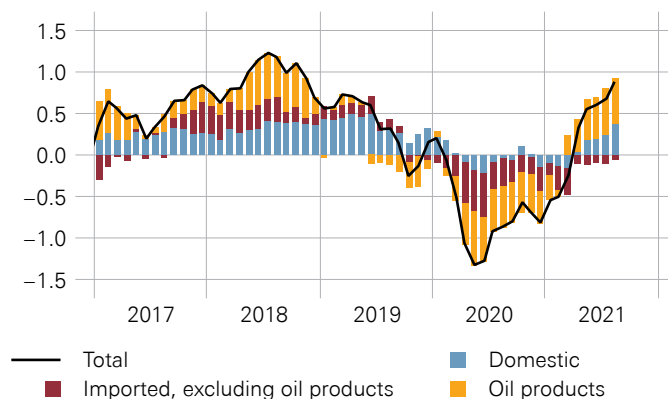
Higher inflation for producer and import prices

Inflation for producer and import prices rose substantially in the first half of 2021, and stood at 4.4% in August, compared to -1.1% in February (cf. chart 4.5). This increase is primarily a reflection of the considerably higher import prices, which were up 7.6% year-on-year in August. Producer prices also recorded an increase. However, at 2.9% in August, the rise was less pronounced than its counterpart. The rise in inflation for producer and import prices was broad based. The biggest contribution to this increase came from oil products and intermediate inputs (e.g. metal, timber, plastic). With regards to intermediate inputs, supply bottlenecks are likely to have played an important role in the rise in 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.

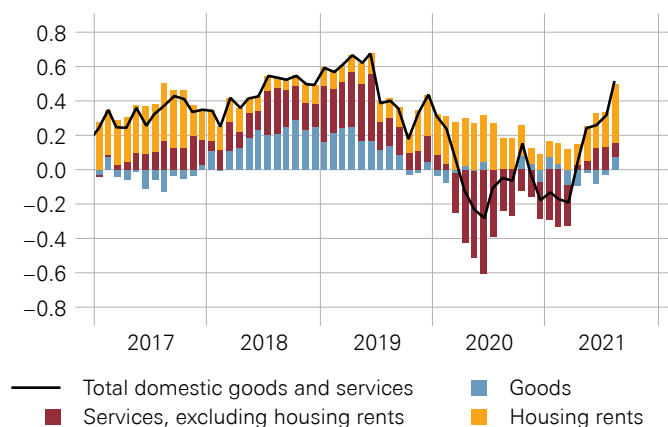


Source(s): SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

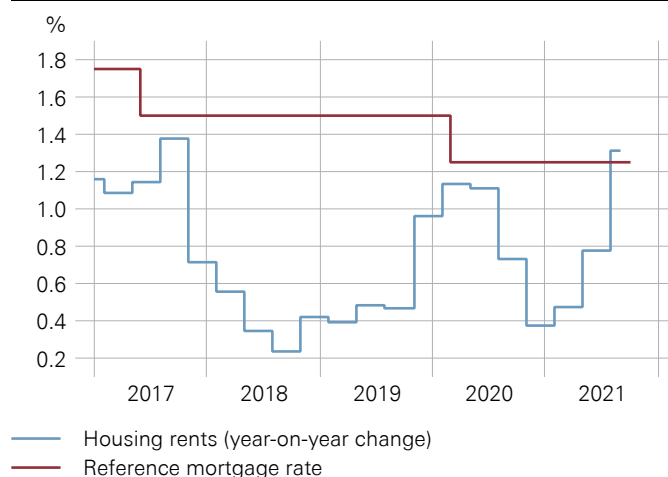
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Source(s): SFSO, SNB

Chart 4.3

HOUSING RENTS

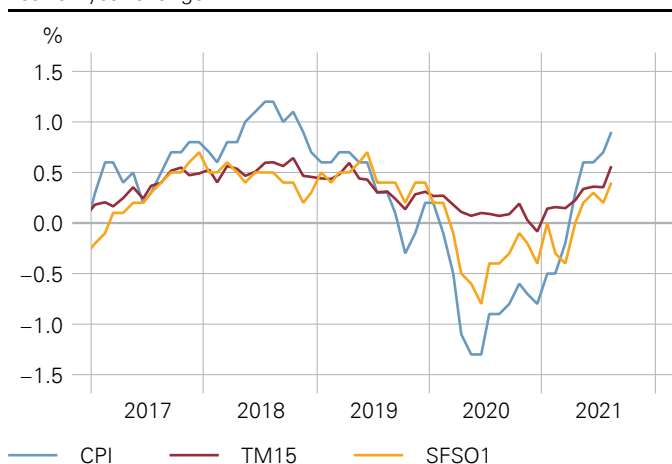


Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

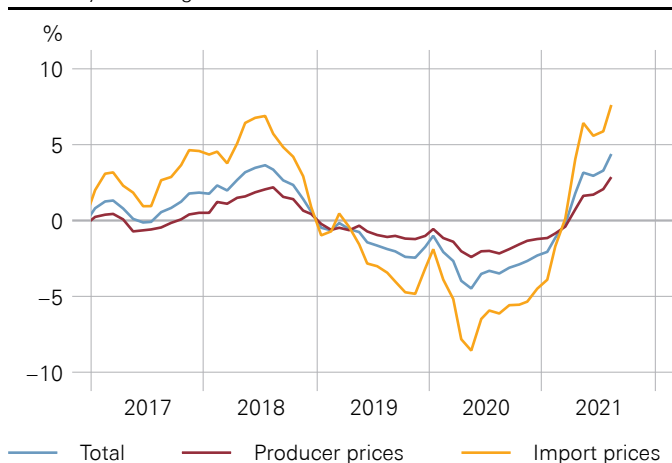


Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change

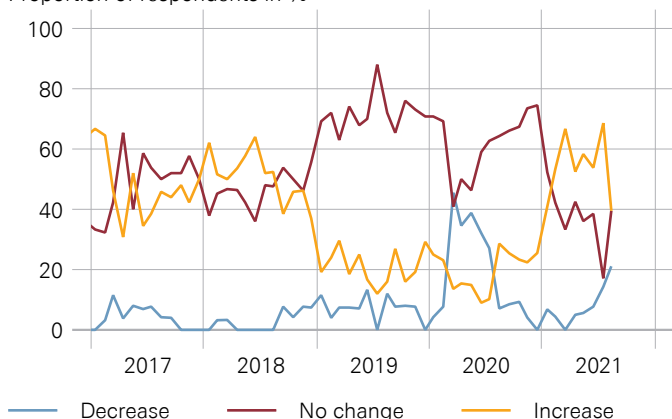


Source(s): SFSO

Chart 4.6

CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS

Proportion of respondents in %



Source(s): CFA Society Switzerland, Credit Suisse

INFLATION EXPECTATIONS

Short-term inflation expectations consistent with price stability despite varied development

While a number of indicators for short-term inflation expectations declined marginally compared with the previous quarter, others rose again slightly. This meant that the variations between the available indicators increased somewhat.

According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, opinions were divided among the analysts questioned in August 2021 as to how inflation rates would develop in the next six months. Whereas in the last few months, the majority of survey participants were still anticipating a rise in inflation, more recently the proportion of those expecting inflation to rise was on a par with those expecting unchanged rates, at 40% each. The share of respondents anticipating a fall in inflation rates, by contrast, increased considerably to 20% (cf. chart 4.6).

The survey of households conducted by SECO in July shows that, in comparison to April, an even larger proportion of households (67%) were expecting prices to rise in the next twelve months. Just 29% of households still felt that prices would remain unchanged. The share of respondents anticipating a fall in prices stood at 4%, as in April.

Similarly, in the talks conducted by the SNB’s delegates for regional economic relations, companies again expected higher inflation in the short term (cf. chart 11 in ‘Business cycle signals’). In the third quarter of 2021, company representatives anticipated an annual inflation rate of just under 1.5% for the next six to twelve months. In the preceding quarter, they had put the rate at 1.1%.

Longer-term inflation expectations also consistent with price stability

Medium and longer-term inflation expectations also presented a mixed picture. Company representatives interviewed by the SNB’s delegates in the third quarter of 2021 thus put the average inflation rate in three to five years at approximately 1.5% (Q2 2021: 1.2%). The assessments of forecasting experts at banks and economic institutions, however, indicate that medium and longer-term inflation expectations look set to stabilise or decline slightly.

Overall, all available survey results on medium and longer-term expectations were still within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

5

Monetary developments

At its quarterly assessment of 17 June 2021, the SNB reaffirmed its expansionary monetary policy. It kept the SNB policy rate and interest on sight deposits at the SNB at -0.75% . Taking the overall currency situation into consideration, and in light of the highly valued Swiss franc, the SNB remained willing to intervene in the foreign exchange market as necessary. It also continued to supply the banking system with liquidity on generous terms.

In the period following the June monetary policy assessment, share prices and yields on long-term Confederation bonds fluctuated significantly. In mid-September, they were at levels similar to those at the time of the June assessment. The Swiss franc remained stable against the US dollar and appreciated slightly against the euro.

The broad monetary aggregates grew less rapidly than in the previous quarters. Their growth rates approached the robust annual growth rates in bank lending. There were still no discernible signs of credit rationing.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged

At its quarterly assessment of 17 June 2021, the SNB confirmed its expansionary monetary policy stance with a view to ensuring price stability and providing ongoing support to the Swiss economy in its recovery from the impact of the coronavirus pandemic. 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 as necessary in the foreign exchange market to contribute to the stabilisation of the situation. In so doing, it continued to take the overall currency situation into account.

No liquidity provision in CHF, reduction in USD auctions

In the last quarter, the secured short-term money market rates remained consistently close to the SNB policy rate. It was therefore not necessary to provide the money market with Swiss franc liquidity through open market operations.

In view of the sustained improvements in US dollar funding conditions, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the US Federal Reserve, ceased offering dollar liquidity at the 84-day maturity from 1 July 2021. Operations with a 7-day maturity continue to be held on a weekly basis.

Slightly higher sight deposits at the SNB

Since the monetary policy assessment of June 2021, total sight deposits held at the SNB have increased slightly. In the week ending 17 September 2021 (last calendar week before the assessment of September 2021), they amounted to CHF 714.7 billion. This was slightly higher than in the last calendar week preceding the mid-June assessment (CHF 711.0 billion). Between the assessments of June and September 2021, sight deposits at the SNB averaged CHF 713.5 billion. Of this amount, CHF 636.3 billion were sight deposits of domestic banks and the remaining CHF 77.2 billion were other sight deposits.

Statutory minimum reserves averaged CHF 21.9 billion between 20 May and 19 August 2021. Overall, banks exceeded the minimum reserve requirement by CHF 619.0 billion (previous period: CHF 616.9 billion). Banks' excess reserves thus remain very high.

Chart 5.1

SNB POLICY RATE AND MONEY MARKET RATES



Source(s): Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

10-YEAR SWISS CONFEDERATION BOND YIELD

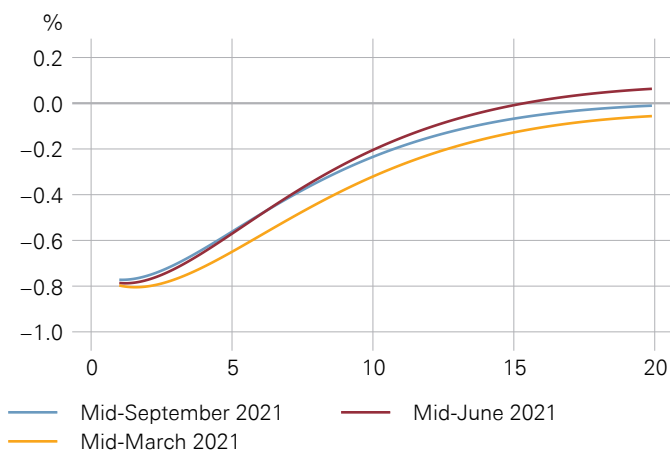


Source(s): SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

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



Source(s): SNB

MONEY AND CAPITAL MARKET INTEREST RATES

Money market rates largely unchanged

Money market interest rates have consistently tracked close to the SNB policy rate of -0.75% in the three months since the last monetary policy assessment. SARON remained practically unchanged at -0.72% , while the three-month Libor, which had served as the SNB's monetary policy reference rate up until June 2019, stood at -0.75% in mid-September (cf. chart 5.1). The setting of CHF Libor rates will cease as per end-2021.

Capital market interest rates volatile

Having risen considerably in the first half of the year, long-term capital market rates initially decreased again after the last monetary policy assessment in June. However, in recent weeks they have seen a renewed increase. Interest rate movements in the third quarter of 2021 were similar to developments abroad. The initial decline coincided with the renewed rise in coronavirus case numbers, which suggests that it reflected, at least in part, concern that the pandemic might hold back the economic recovery for longer than had been assumed in the first half of the year. The subsequent interest rate rise is possibly associated with the anticipated adjustments to bond-buying programmes abroad.

The yield on ten-year Confederation bonds stood at -0.23% in mid-September and was thus somewhat lower than at the time of the last monetary policy assessment in June (cf. chart 5.2).

Flatter yield curve

Following the decline in long-term interest rates compared to mid-June, the yield curve for Confederation bonds flattened somewhat and was thus back in negative territory across all maturities (cf. chart 5.3).

Real interest rates low

Real interest rates – the difference between nominal interest rates and inflation expectations – are an important factor in the saving and investment decisions of companies and households.

Nominal interest rates have changed little since the last monetary policy assessment and are still in the negative range. Inflation expectations stayed in positive territory. Real interest rates thus remain at a low level by historical standards.

EXCHANGE RATES

Swiss franc marginally stronger against euro, stable against US dollar

Since the monetary policy assessment in June, the Swiss franc initially gained somewhat in value against the euro (cf. chart 5.4). One reason for this is likely to have been a demand for safe havens that has grown in the interim, driven by the renewed rise in coronavirus case numbers. Beginning in August, the Swiss franc weakened again slightly against the euro. In mid-September, one euro was worth around CHF 1.08, marginally less than in mid-June.

Following the Fed's monetary policy decision in mid-June, the franc weakened against the US dollar. Its value against the dollar has changed little in the meantime. In mid-September, one dollar was worth CHF 0.92.

Little change in Swiss franc's trade-weighted external value

Up to the end of August, the nominal trade-weighted external value of the Swiss franc had risen slightly since the monetary policy assessment in June. This increase primarily reflected the appreciation of the Swiss franc against the euro (index weighting 43%) and the pound sterling (index weighting 8%). Since the end of August, the franc has depreciated again somewhat (cf. chart 5.5). In mid-September, the franc stood at around the same level as in mid-June, in trade-weighted terms. Overall, the franc has fluctuated relatively little against the major currencies.

Real external value still high

In the first quarter, the Swiss franc initially weakened on a trade-weighted basis (cf. chart 5.6). Since March, its real external value has increased again. Because inflation has been higher abroad than in Switzerland in recent months, the franc has appreciated less substantially in real terms since March than in nominal terms. In a longer-term comparison, the Swiss franc remains highly valued.

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, June 2021 monetary policy assessment = 100



Source(s): SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

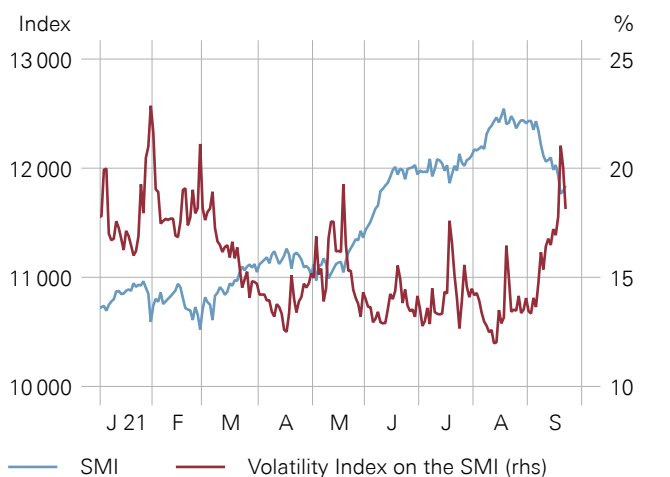
Index, December 2000 = 100



Source(s): SNB

Chart 5.7

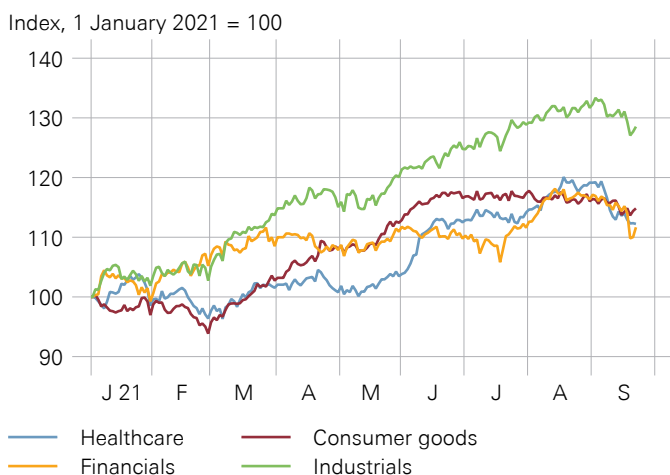
SHARE PRICES AND VOLATILITY



Source(s): Bloomberg, Refinitiv Datastream

Chart 5.8

SELECTED SPI SECTORS

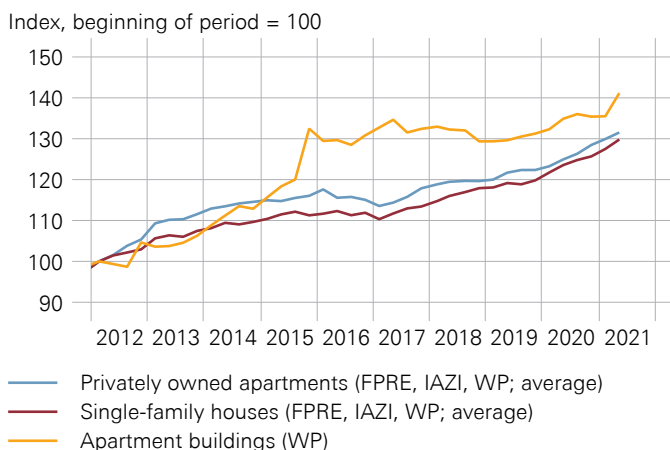


Source(s): Refinitiv Datastream

Chart 5.9

HOUSING TRANSACTION PRICES

Nominal (hedonic)



Source(s): Fährländer Partner Raumentwicklung (FPRE), IAZI, Wüest Partner (WP)

SHARE AND REAL ESTATE PRICES

Uptrend in share prices slows

As the economy recovered, share prices in the major economies initially continued their upward trend in the third quarter. However, uncertainty about the further course of the pandemic and the associated measures resulted in a decline in prices. Moreover, in September, the expected adjustments to the bond-buying programmes of central banks in the major currency areas and concerns about the stability of the Chinese real estate market weighed on global equity prices.

In mid-September, the Swiss Market Index (SMI) was about 1% below the mid-June level (cf. chart 5.7), but still just under 11% higher than at the beginning of the year.

Higher 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). Since the last monetary policy assessment in June, the index initially remained close to the levels recorded during most of the previous quarter. It rose sharply in September, given the uncertainty surrounding the international implications of financial difficulties on the part of Chinese real estate developers. In mid-September, the volatility index stood at roughly the same level as at the beginning of the year.

Further gains for manufacturing companies

Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). While the share prices of manufacturing companies rose further since the last monetary policy assessment in June, other sector indices stagnated. Up to mid-September, however, all sector indices had registered price gains of more than 11% compared to the beginning of the year.

Continued growth in residential real estate prices

In the second quarter of 2021, transaction prices for residential real estate increased further (cf. chart 5.9). Prices in the apartment buildings segment also rose substantially, having stagnated since mid-2020. All in all, the coronavirus pandemic seems to have strengthened the price growth in residential real estate. Demand for housing has thus risen since the beginning of the pandemic, among other things due to the increasing importance of working from home.

MONETARY AND CREDIT AGGREGATES

Stable monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has changed little in the last three months, remaining roughly at the level recorded since August 2020. In August 2021, it averaged CHF 726.4 billion (cf. chart 5.10), and was thus up CHF 4.0 billion on May.

Slower growth in broad monetary aggregates

Annual growth rates for broad monetary aggregates have continued to slow in recent months (cf. table 5.1). In August, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) grew 5.6% year-on-year, somewhat slower than in May 2021 (6.5%). Similarly, annual growth rates for the M2 and M3 aggregates also declined further in the last few months. In the same period, M2 (M1 plus savings deposits) grew by 2.9% and M3 (M2 plus time deposits) was up by 3.1%, compared with 4.5% and 4.2% respectively in May. The fall in annual growth rates since the beginning of the year is primarily due to the fact that no new COVID-19 loans were granted in 2021. In the previous year, money creation had increased noticeably with the granting of these loans.

Lending growth slows slightly

Bank lending (by domestic bank offices, in all currencies) was up 3.3% year-on-year in the second quarter of 2021, having risen by 4.0% in the first quarter (cf. table 5.1). While growth in mortgage lending increased marginally, annual growth in other loans declined significantly, owing to the base effect resulting from the granting of COVID-19 loans last year.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.4% in the second quarter of 2021 compared with Q2 2020. Demand for mortgages continued to be supported by low mortgage interest rates. The ten-year mortgage interest rate stood at around 1.3% in July 2021, which was only slightly above the all-time low of approximately 1.2% recorded in August 2019.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.11). While unsecured other loans have changed little since the beginning of the pandemic, the volume of secured other loans saw a substantial increase. The rise in these loans in the first half of 2020 was primarily due to the COVID-19 loans guaranteed by the federal government, while the increase in the first few months of 2021 reflects in particular the growth of foreign currency lending.

Chart 5.10

MONETARY BASE

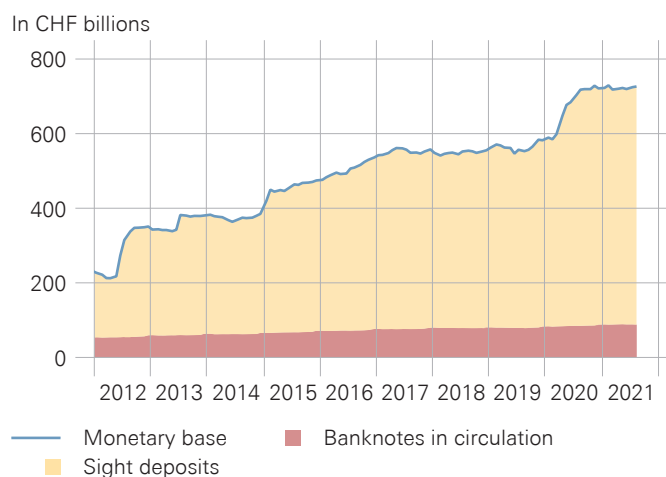


Chart 5.11

MORTGAGE CLAIMS AND OTHER LOANS

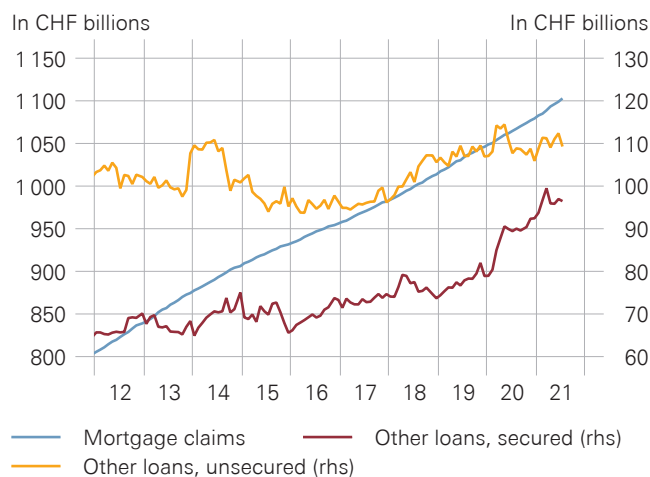
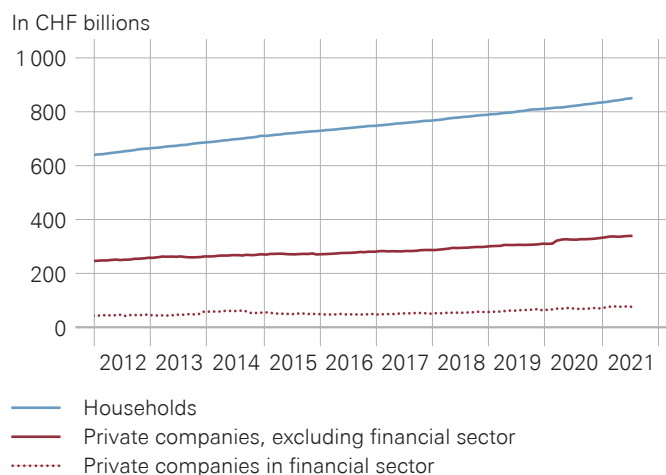


Chart 5.12

LOANS TO HOUSEHOLDS AND COMPANIES



Lending growth and credit line utilisation by sector

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

At the end of June 2021, loans to households recorded a year-on-year increase of CHF 27.8 billion (3.4%) and loans to non-financial companies a rise of CHF 13.1 billion (4.0%). Loans to financial companies rose in the same period by CHF 6.8 billion (9.6%).

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2020	2020		2021		2021		
		Q3	Q4	Q1	Q2	June	July	August
M1	4.3	5.2	8.1	9.3	6.6	6.0	6.5	5.6
M2	2.3	2.8	5.2	6.6	4.5	3.8	3.5	2.9
M3	3.2	4.0	5.9	6.5	4.3	3.7	3.3	3.1
Bank loans, total ^{1,3}	3.6	3.5	3.5	4.0	3.3	3.6	3.7	
Mortgage claims ^{1,3}	3.1	2.9	3.1	3.3	3.4	3.5	3.6	
Households ^{2,3}	2.7	2.6	2.7	2.7	3.0	3.0	3.1	
Private companies ^{2,3}	4.4	4.1	4.6	5.3	5.4	5.4	5.6	
Other loans ^{1,3}	6.8	6.5	5.7	8.3	2.3	4.3	4.4	
Secured ^{1,3}	13.5	14.8	14.5	18.7	7.6	7.8	7.9	
Unsecured ^{1,3}	2.0	0.6	-0.8	0.6	-1.9	1.4	1.5	

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(s): SNB

Business cycle signals

Results of the SNB company talks

Third quarter of 2021

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 210 company talks were conducted between 20 July and 7 September.

Regions

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

Delegates

Astrid Frey
Urs Schönholzer
Aline Chabloz
Jean-Marc Falter
Fabio Bossi
Roland Scheurer
Daniel Hanimann
Fabian Schnell

Key points

- The Swiss economy continued to recover in the third quarter. Turnover increased both in the services sector and in manufacturing and construction.
- Despite the positive development, infrastructure utilisation remains low, especially in the services sector. The fact that international travel is still subject to major restrictions is having a hindering effect. Utilisation in manufacturing, on the other hand, is slightly higher than average, underpinned by robust global economic demand. Utilisation in the construction sector is described as normal.
- Procurement bottlenecks, already seen as a major challenge last quarter, have continued to become more pronounced, becoming more widespread and increasingly leading to restrictions and delays in production.
- The margin situation remains unchanged overall. While the impact of increasing turnover is positive, profitability is being curbed by higher purchase prices and less efficient production processes owing to delivery delays.
- Companies report staff numbers as being on the low side, and intend to take on more personnel in the coming quarters. Growing demand for labour is reflected in increasing difficulties when it comes to hiring.
- Companies anticipate continued improvement in business activity in the coming two quarters. The further course of the pandemic remains a major source of uncertainty.

CURRENT SITUATION

Further recovery of Swiss economy

The Swiss economy continued to recover in the third quarter. Real turnover in all three sectors – services, manufacturing and construction – increased significantly compared with Q2 2021 and Q3 2020, both of which had been affected even more seriously by the pandemic (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report).

In the services sector, the additional easing of measures to manage the pandemic is facilitating further recovery, particularly at companies affected directly. This is supporting growth overall. Added to this is the sustained positive development in many industries less affected by the pandemic.

Manufacturing is profiting from what continues to be dynamic export business. Demand from European countries is picking up, with positive signals from Germany and Scandinavia in particular. Most notably, there are signs of lively demand from the public sector, for example from the defence, transport and energy industries. Companies are also seeing an increase in sales to the US. The signals they register from Asia, by contrast, are mixed. In particular, companies feel that the development of demand from China is no longer quite as dynamic as in previous quarters. Sporadic outbreaks of coronavirus and strong countermeasures appear to have slowed momentum there.

Procurement bottlenecks are having a curbing effect in manufacturing, in some cases leading to delays in production. However, there is support from construction sector demand, which remains robust.

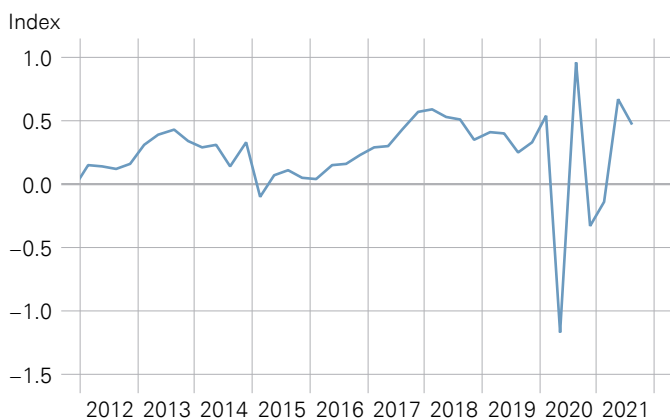
Despite the continued recovery, the majority of representatives still say the overall impact of the coronavirus pandemic on their business has been negative. Just under 60% of the companies take this view (cf. chart 2). Around 20% of the companies surveyed reported that the effect had been supportive of business activity, with a further 20% saying the positive and negative effects had cancelled each other out or that the pandemic had had no tangible impact.

Production capacity underutilised

Despite rising turnover, the level of technical capacity utilisation is below average overall (cf. chart 3). This underutilisation is primarily due to the situation in the services sector. In particular, the lack of international travel is still having a hindering effect. In addition to this, many companies expect the proportion of people working from home to remain higher, meaning that overcapacity is increasingly likely in the case of office space. By contrast, capacity utilisation in manufacturing is slightly above average overall, and thus markedly higher than pre-coronavirus levels. Capacity utilisation in the construction sector is described as normal.

Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER

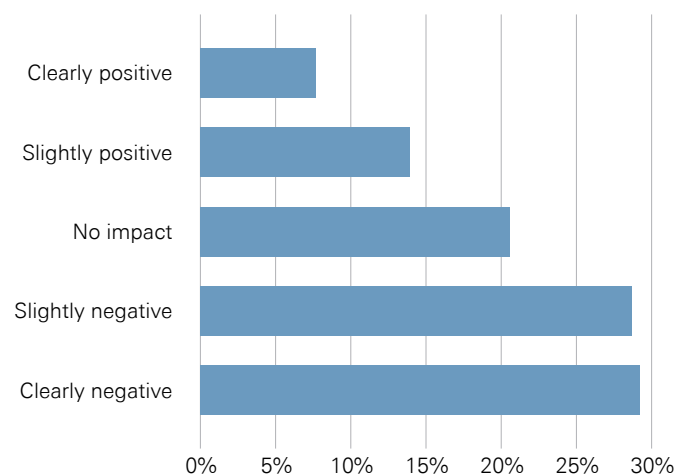


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

OVERALL EFFECT OF CORONAVIRUS CRISIS



Source(s): SNB

Procurement bottlenecks more pronounced

Difficulties in the procurement of intermediate products were already widely observed last quarter, and this has become increasingly pronounced. More than half of the companies had already been affected by supply difficulties in Q2 2021. There has been a further increase since, and the figure now stands at around two thirds (cf. chart 4). A frequently mentioned reason was reduced capacity at production facilities in Asia, exacerbated further by limits on the availability of freight capacity. The attendant delays, particularly in the case of raw materials, and in electronic components especially, are in some instances interrupting entire value chains and are delaying the production of a wide range of goods. The prices have risen as a result, in some cases significantly so. Added to this, the efficiency of production processes is often being impaired by delays, in some cases reducing or even halting production.

International travel restrictions remain an obstacle

There is now hardly any mention of delivery problems within Switzerland. In the hospitality and hotel industries, the regulations are now only described as slightly restrictive, although the implications of the extended certificate requirement were not yet at the forefront of discussions at the time of the talks. International travel restrictions are continuing to have a substantial impact, however, dampening demand in the hotel trade, and also preventing exporting companies from delivering their products and spare parts as usual since on-site presence is often required for installation and training. Acquiring new customers is also still proving difficult.

Staff levels somewhat too low

For the first time since the beginning of the coronavirus crisis, companies see personnel resources as being somewhat too low. This also applies to the services sector, which in previous quarters had still reported that staff levels were rather too high. Significant increases in demand for personnel in the healthcare, auditing and hotel industries are contributing to this. Demand for staff is also rising substantially in the hospitality industry, but levels are still viewed as being somewhat too high. Staff levels in the ICT industry are described as persistently too low.

Hiring more challenging

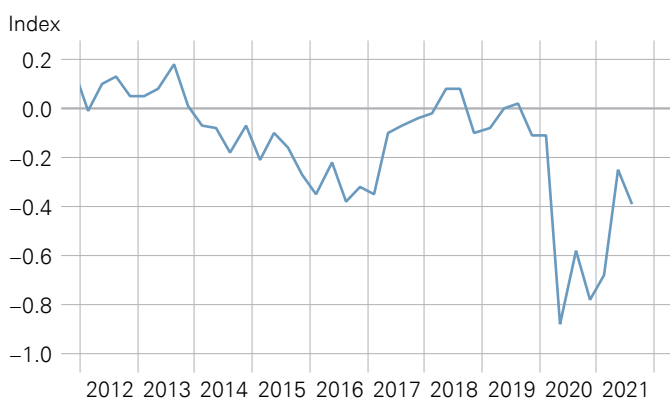
Increasing demand for staff has once more posed greater difficulties for companies when it comes to hiring. They are again describing the situation as similar to before the outbreak of the pandemic. Accelerated digital transformation has further exacerbated the shortage of IT specialists in particular. Restaurants and hotels are also experiencing noticeable difficulties, and are having to make considerable efforts and offer significantly higher pay to find staff. The reasons cited are the reorientation of skilled workers to other industries during the pandemic, greater difficulty in recruiting from abroad, and in certain cases short-time working, which is said to reduce people's willingness to change jobs.

Little change in profit margins

Profit margins remain at a similar level to the previous quarter. In manufacturing, larger production volumes are having a positive impact, while higher purchase prices and less efficient production processes resulting from delivery

Chart 3

CAPACITY UTILISATION



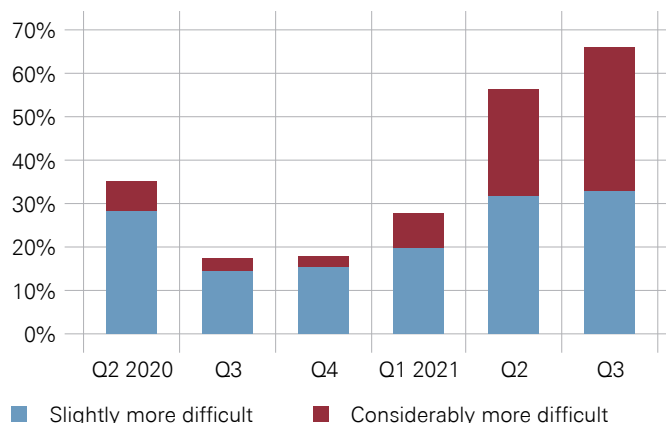
Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

Chart 4

PROCUREMENT SITUATION

Share of companies facing a more difficult procurement situation as compared to pre-COVID 19



Source(s): SNB

delays are increasing production costs and eroding margins. In the services sector, despite the easing of measures and the resulting recovery in demand, the margin situation remains very unfavourable, particularly in industries directly affected by pandemic-related restrictions. The margin situation in the construction sector improved versus the previous quarter. The higher prices of intermediate products can increasingly be passed through to sales prices.

Liquidity situation largely stable

The liquidity situation remains stable at the majority of the companies, with just under half describing it as currently being the same as before the coronavirus crisis (cf. chart 5). Around 30% of the companies even say their liquidity situation is more relaxed. Besides the improvement in business activity, government support mechanisms are continuing to have a positive effect on the liquidity situation. So, too, are the measures taken by companies especially in the past year (specifically, conservative dividend payments and reduced capital expenditure).

At 17% of the companies the situation is tighter than before the coronavirus crisis; this marks a slight increase versus the previous quarter. In some cases the liquidity concerns have been triggered by delays in payment on the part of customers. Some companies report that government support mechanisms are no longer sufficient to cover the ongoing losses.

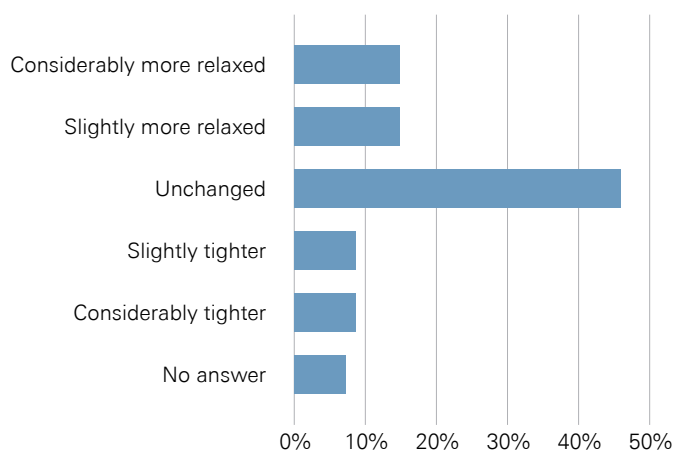
Little change in lending conditions for most companies

Most representatives assess the banks' lending conditions as similar to previous quarters. 90% of the companies surveyed have not noticed any problems with lending – either because they see lending conditions as being normal or even relaxed, or because they do not require bank loans (cf. chart 6). On the other hand, just under 10% regard conditions as being more restrictive. Representatives of industries that have been hard hit by the pandemic and whose prospects remain uncertain are still experiencing greater restraint on the part of the banks when it comes to matters of financing. Some manufacturing companies report a lower appetite for risk with regard to project financing.

Chart 5

LIQUIDITY SITUATION

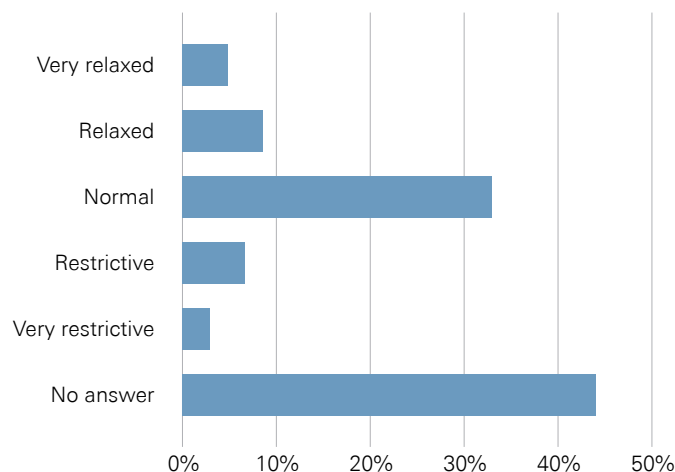
As compared to pre-COVID 19



Source(s): SNB

Chart 6

LENDING CONDITIONS



Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business activity in the trade industry was lacklustre in the third quarter. Overall, real turnover was at around the same level as the previous quarter. On the one hand, some wholesale operations are profiting from the upswing in manufacturing or continued robust demand from construction. On the other hand, motor vehicle dealers are having to contend with delivery problems, which are being directly reflected in lower turnover. Added to this, retailers that profited from changes in demand during the closures are reporting declines in turnover, saying they are unable to maintain the strong levels recorded in Q3 2020 now that shopping trips abroad are picking up, hospitality establishments are reopening, and the volume of foreign holidays increased this summer.

Tourism and hospitality, as well as the entertainment and leisure industry, are still particularly hard hit by the effects of the pandemic, although the situation is improving as measures are eased. Turnover in the affected industries is thus up significantly overall quarter-on-quarter, this despite unfavourable weather conditions with July having been particularly affected by rain. Owing to the distancing rules, however, in many cases it is impossible to make adequate use of the available capacity. Another factor holding back development is the persistently low level of demand for seminars and conferences. In addition, business travel and international tourism are largely absent, which is having a particularly serious impact on city hotels, but also means that transport services geared to this type of business are poorly utilised.

The financial industry continued the positive development seen in previous quarters, with all business areas faring well. Contributory factors are sustained growth in the mortgage business, dynamic stock market developments, and, increasingly, the resumption of face-to-face client contact in branch offices. The representatives are optimistic in their expectations regarding these developments continuing in the coming quarters. They see the recruitment of specialist financial staff as a challenge.

The positive development of turnover in the ICT industry has continued. The most important driver is digitalisation, with persisting growth in demand for fast, secure IT infrastructure and a sustained trend towards online commerce.

Business in the manufacturing industries is developing very positively. Manufacturing is profiting from robust demand from the domestic construction sector, and in particular from the continued positive development of foreign demand. The development of turnover has been especially dynamic for food producers, the mechanical engineering, electrical engineering and metals industries, and manufacturers of precision instruments. Demand has picked up particularly in parts of the watchmaking industry and among suppliers to the automotive industry. Purchases of goods from the automotive industry were dampened in some instances owing to production difficulties triggered by supply bottlenecks, especially at European car manufacturers. However, these difficulties are unlikely to result in a lasting interruption in the upward trend. Companies in the chemicals and pharmaceuticals industry also fared well.

Thanks to the positive development in previous quarters, utilisation of technical capacity in manufacturing is appreciably higher than pre-pandemic levels overall. However, international travel restrictions are having a hindering effect, hampering the delivery of machines and spare parts, the provision of services, and customer acquisition.

Business activity has continued to develop positively in the construction sector. Seasonally adjusted turnover rose again quarter-on-quarter, and is significantly higher than in the same period in 2020. Order books are well filled in most places. Construction companies, as well as architecture, engineering and planning firms, are profiting from lively demand in public infrastructure construction and a high level of residential investment. Additions, extensions and renovations in particular are providing support. In connection with this, landscaping companies are also reporting steady levels of high demand. However, owing to continued increases in the prices of raw materials, supply bottlenecks, challenges in logistics and what is still described as intense competition, construction companies' margins remain slightly below what is considered normal.

OUTLOOK

Companies remain confident

Companies in all three sectors expect real turnover to increase significantly in the next two quarters (cf. chart 7). This confidence is based on good global economic demand and the fact that domestic demand remains robust, especially from the construction sector.

The majority of the companies expect to see turnover reach pre-coronavirus levels by the end of this year at the latest. Just over 50% of the companies did not suffer a decline in turnover or already returned to pre-coronavirus levels in the course of 2020 (cf. chart 8). Around 20% of the companies say they will reach this level in the course of this year. On the other hand, nearly 30% of the companies do not expect to see turnover return to pre-coronavirus levels until next year at the earliest.

The representatives anticipate an appreciable increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 9). Against this backdrop, companies' appetite for investment also continues to grow. Compared with the past twelve months – which admittedly were characterised in part by a strong decline in investment activity – companies are planning higher capital expenditure on both equipment and construction in the coming twelve months.

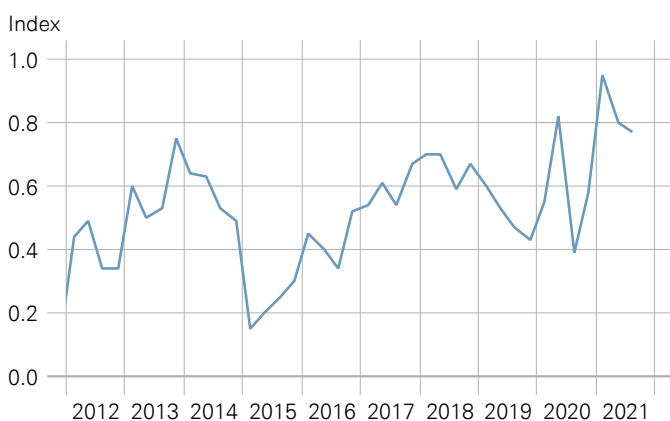
At the same time, they also intend to substantially increase staff numbers in the next two quarters (cf. chart 10). This is due on the one hand to more favourable business prospects and on the other to the fact that, owing to staff reductions in the last few quarters, many companies consider staffing levels to be too low. The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, healthcare, personnel recruitment, auditing and management consulting. There is also relatively high demand for personnel in the construction sector, and in particular in the finishing trade.

Purchase and sales prices rising significantly

Given the continuing supply bottlenecks and the fact that capacity bottlenecks have increased transport costs, the increase in expected purchase and sales prices will continue. Although most representatives expect the development of prices to normalise in the coming year, they still anticipate significantly higher prices for a broad range of commodities and products in the coming two quarters. The exception is companies in the construction sector, which after substantial increases in prior quarters do not expect any further increases in purchase prices overall. However, in the construction sector too, sales prices – which until now could not be adjusted owing to contractual agreements – are increasingly being made to reflect high purchase prices.

Chart 7

EXPECTED TURNOVER

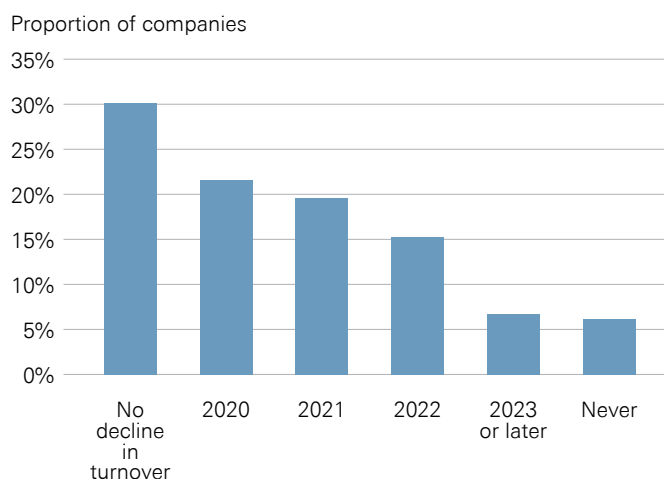


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 8

RETURN TO PRE-CRISIS TURNOVER LEVELS



Source(s): SNB

ENVIRONMENT AND RISKS

In the current quarter, two issues dominate companies' perception of risks: procurement bottlenecks and the further course of the coronavirus pandemic.

Somewhat contrary to expectations, the procurement problems have become more pronounced this quarter. Against this backdrop, companies are less confident that the situation will return to normal soon. These problems are likely to persist well into next year, and when it comes to electronic components in particular the situation is expected to ease only gradually. While price increases caused by shortages can usually be passed through to sales prices with a slight lag, inefficiencies resulting from delays in delivery put an immediate strain on the margin situation.

In addition, the optimism that was still widespread in the last quarter regarding a sustained calming of the coronavirus pandemic has been somewhat dampened in view of the rising number of cases. Although the majority of the companies do not expect to see renewed, severe restrictions on economic and social activity, uncertainty has increased noticeably again.

In addition to these challenges, which dominated many of the discussions, representatives again increasingly see a shortage of specialist staff as curbing the economic upturn.

Thus far, companies in the medical technology, pharmaceutical and energy trading industries have noticed immediate effects of the breakdown in negotiations on the framework agreement between Switzerland and the EU. In the medium term, other companies exporting to the EU also fear increasing costs in the form of administrative expenses.

Companies are increasingly talking about the structural consequences of the pandemic, including in particular a growing trend toward digitalisation. This is widely seen as an opportunity, but the associated investment costs and operational risks, some of which are difficult to quantify, also represent a challenge.

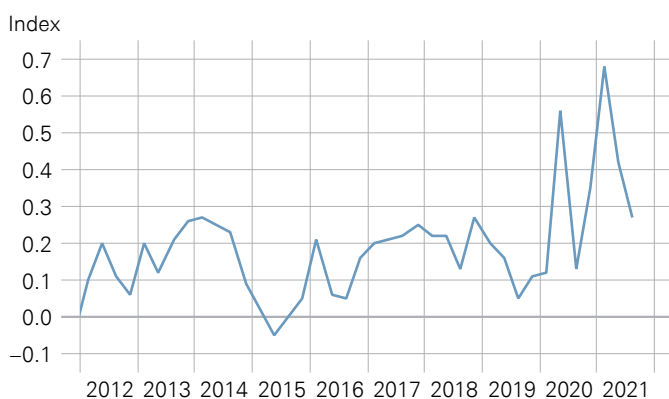
With a somewhat longer forecast horizon, climate change and the trend to sustainability are also seen as opportunities for new business models – particularly in the broad field of energy efficiency. Providers of products perceived as being less sustainable view the same trend as a risk, however.

The companies appreciate the stability of the Swiss franc; at the same time they mention a strong appreciation of the franc as a risk.

Given higher inflation rates and the situation on the real estate market, representatives are also increasingly talking about the interest rate outlook.

Chart 9

EXPECTED CAPACITY UTILISATION

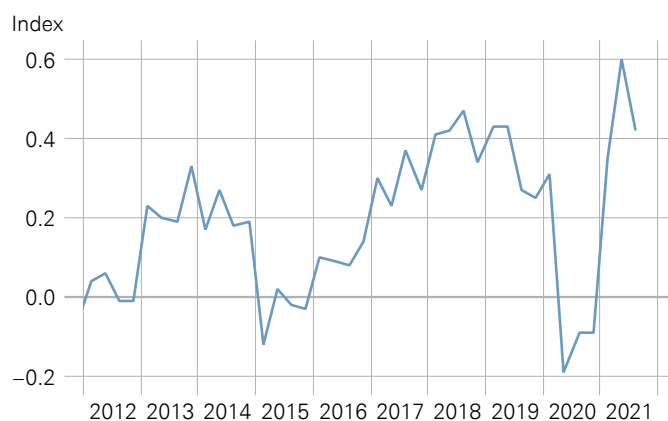


Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).

Source(s): SNB

Chart 10

EXPECTED EMPLOYMENT



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

Source(s): SNB

EXPECTED INFLATION

Source(s): SNB

INFLATION EXPECTATIONS

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

There has been an increase in short-term inflation expectations as measured by the CPI: The average for the next six to twelve months is 1.5%, compared to 1.1% in the previous quarter (cf. chart 11). A reason frequently given for this is widely observed increases in producer prices, which, according to representatives, will gradually be reflected in consumer prices.

There is growing expectation that after rising in the short term, inflation will not immediately level off again and that it will remain slightly higher. Inflation expectations over a three to five year horizon have thus risen from 1.2% to around 1.5%.

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.

Over 200 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 administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. 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*.

Glossary

Annualised	Data are said to be annualised when they are converted to an annual value. When → GDP increases by 1% from one quarter to the next, the annualised growth is 4.06%.
Baseline scenario	The SNB's baseline scenario comprises forecasts for what it considers to be the most likely global economic development for the coming three years. It serves as an important basis for the domestic economic and → inflation forecasts.
Basket of goods	The basket of goods represents an average household's expenditure on goods and services. It is determined on the basis of a household survey and is used to calculate the → Swiss consumer price index.
Bond	A bond is a → security. The buyer of a bond (creditor) makes a specific amount of money available to the bond issuer for a specific period. The issuer repays this amount to the creditor at the end of the term, and in most cases also pays → interest.
Business cycle, business cycle conditions	Business cycle refers to deviations in economic activity from the long-term trend. In addition to → real → GDP, the business cycle is also reflected in a variety of other economic → indicators (e.g. unemployment and consumer confidence indices). A business cycle lasts from the beginning of an upturn and all the way through the economic downturn to its end (→ recession).
Capacity utilisation	Capacity utilisation measures the degree of utilisation of the technical capacities (e.g. machines and equipment) of a company or an industry.
Capital	Capital refers on the one hand to financing resources (→ equity and → debt capital) and on the other to a → factor of production (e.g. machinery).
Capital market	The capital market supplements the → money market, and is a market for raising and investing funds with a term of more than one year. A distinction is made between the market for → equity capital (→ shares), and the market for → debt capital (→ bonds).
Collateral	In credit transactions, the debtor can provide the creditor with collateral (→ secured loan) in order to reduce the risk for the creditor and thus the → interest. The creditor can take possession of the collateral if the debtor is unable to pay the agreed interest or make the repayment.
Consumer price index	→ Swiss consumer price index
Core inflation	Core inflation is a measure of → inflation that excludes goods and services with particularly volatile prices (e.g. energy and food). Core inflation thus captures the underlying price trend.
Corporate bond	A corporate bond is a → bond issued by a company.
Countercyclical capital buffer	The countercyclical capital buffer is a → macroprudential measure which contributes towards → financial stability. If the capital buffer is activated, banks are required to hold more → capital. The capital buffer can be targeted at the entire credit market or just individual sectors, e.g. the mortgage market.
Debt capital	Debt capital refers to the borrowings and provisions of a company.
Deflation	Deflation denotes a sustained decrease in the general price level over time.
Delegates for regional economic relations	The delegates for regional economic relations represent the SNB in the various regions of Switzerland, collect information on economic development through their contacts to companies in those regions and, as ambassadors of the SNB, explain its policies. They are supported by the Regional Economic Councils. The SNB maintains representative offices in Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St Gallen and Zurich.
Equity	Equity is the difference between a company's assets and liabilities (→ debt capital).
Exchange rate	The exchange rate is the rate at which two currencies are exchanged. It is expressed as the price of one currency in units of another currency. If the exchange rate is adjusted for the price development of the countries concerned, it is referred to as the real exchange rate; if it is measured against the currencies of trading partners, it is referred to as the → trade-weighted exchange rate.
Exemption threshold, threshold factor	The exemption threshold indicates the limit below which no → negative interest is charged on a bank's → sight deposits. This threshold applies to each sight deposit account holder and is at least CHF 10 million. For a domestic bank, the exemption threshold is usually calculated as the three-year average of the → minimum reserve requirement multiplied by the threshold factor (currently 30) minus the bank's cash holdings.
Factors of production	Factors of production are the inputs (primarily labour and → capital) used in the production of goods and services.
Final demand, domestic	Domestic final demand is the sum of private and public consumption plus construction and equipment investment (e.g. new machines).

Financial stability	A financial system is stable if its individual components – banks, financial markets and financial market infrastructures (e.g. stock exchanges) – fulfil their individual functions and are resilient to potential disruptions.
Fine-tuning operations	Fine-tuning operations refer to measures taken by a central bank to curb excessive volatility in short-term → interest rates on the → money market. This can be carried out using → repo transactions, for example.
Fiscal policy	Measures (receipts and expenditure) that aim to influence → business cycle conditions.
Foreign exchange	Foreign exchange comprises credit balances and claims denominated in a foreign currency.
Foreign exchange market interventions	When a central bank intervenes in the foreign exchange market, it buys or sells its domestic currency against a foreign currency with the aim of influencing the → exchange rate.
Full-time equivalent (FTE)	The full-time equivalent is the unit of measure for the number of full-time employees that would be needed to complete the working hours of full-time and part-time employees.
Futures contract	A futures contract governs a transaction that has to be performed at a future point in time specified in the contract.
Government bond	A government bond is a → bond issued by a public-law institution.
Government consumption	Government consumption measures government consumption expenditure, i.e. current spending on goods and services provided by the government to the citizens of a country (e.g. schools, healthcare, defence).
Gross domestic product (GDP)	Gross domestic product indicates the total value of all final goods and services produced in a country during a period, after subtracting the cost of intermediate inputs. → Real GDP is the most important measure of an economy's → value added.
Hodrick-Prescott filter (HP filter)	The Hodrick-Prescott filter is a tool for calculating a trend in a data series. For example, deviations of → real → GDP from trend are used in business cycle analysis.
ICT industry	The ICT industry comprises those companies active in information and communications technology.
Indicator	An indicator is a statistical metric or data series that, for example, provides information on → business cycle conditions.
Inflation forecast, conditional	The SNB publishes a forecast of movements in the → inflation rate over the coming three years every quarter at its → monetary policy assessment. The forecast is conditional because it is based on the assumption that the SNB will not change the → SNB policy rate over the forecast horizon. The SNB bases its monetary policy decisions on the inflation forecast.
Inflation, inflation rate	Inflation is a sustained increase in the general price level over time. Inflation reduces the → purchasing power of money. In Switzerland, inflation is measured using the → Swiss consumer price index (CPI). The inflation rate denotes the percentage change in the index compared to the previous year.
Interest differential, interest margin transaction	The difference between → interest rates on investments which vary, for example, according to currency or risk, is called the interest rate differential. An interest margin transaction uses the interest differential between various financial products to generate profit.
Interest, interest rate	Interest is the price a borrower pays to the creditor in return for the latter making a sum of money available for a certain period. Its level is influenced by the term and the financial standing (creditworthiness and solvency) of the debtor as well as the quality of any → collateral. Interest is expressed as a percentage of the loan (interest rate) and usually refers to a time period of one year.
Joint and several guarantee	A joint and several guarantee is a form of guarantee in which the guarantor may already be held liable after one unsuccessful reminder to the debtor.
KOF Economic Barometer	The KOF Economic Barometer is an → indicator that shows how the Swiss → business cycle is likely to develop in the near future. It has been published by the KOF Swiss Economic Institute at ETH Zurich since the 1970s.
Libor	The Libor (London Interbank Offered Rate) corresponds to the average → interest rate at which banks report being able to borrow on the → money market in a given currency and for a certain term without depositing → collateral. The Swiss franc Libor is being discontinued at the end of 2021.
Liquidity	Liquidity has three meanings in economics. First, being liquid refers to the ability to make due payments at any time and without restriction. Second, liquidity describes the funds required for this purpose. Banks exchange liquidity via the → money market, and the SNB can influence liquidity with → repo transactions, among other things. Third, a market is considered liquid if transactions can be effected without triggering significant price movements.
Macroprudential measure	Regulatory requirement for banks, for example, which contributes to → financial stability.
Mandate	Mandate refers to the SNB's statutory tasks. Article 99 of the Federal Constitution entrusts the Swiss National Bank, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The National Bank Act sets this out in detail, explaining that the SNB is required to ensure → price stability and, in so doing, to take due account of economic developments (art. 5 para. 1 NBA).

MEM industries	MEM industries refers to the companies in the mechanical engineering, electrical engineering and metals industries.
Minimum reserves, minimum reserve requirement	In order to facilitate the smooth functioning of the → money market, banks are required to hold minimum reserves against a certain percentage of their Swiss franc short-term liabilities (e.g. customer deposits). The minimum reserves are composed of cash in Swiss francs and → sight deposits held at the SNB. The minimum reserves form the basis for calculating the → exemption thresholds for → negative interest.
Monetary aggregate, broad	The broad monetary aggregate, in contrast to the → monetary base, is the stock of money held by households and companies outside the banking sector. It comprises money held on bank accounts and cash.
Monetary base	The monetary base is composed of the sum of banknotes in circulation plus the → sight deposits of domestic commercial banks held at the SNB. The monetary base is also referred to as the M0 monetary aggregate.
Monetary conditions	The interest rate level and the → exchange rate determine monetary conditions. The SNB uses → monetary policy instruments to influence monetary conditions in order to fulfil its → mandate.
Monetary policy	Monetary policy is the implementation of → monetary policy instruments by the central bank to set appropriate → monetary conditions and thereby fulfil its statutory → mandate.
Monetary policy assessment	As a rule, the SNB conducts a monetary policy assessment every quarter. Based on economic developments both domestically and abroad as well as → monetary conditions in Switzerland, the SNB Governing Board decides whether → monetary policy is to remain unchanged, or be tightened or eased.
Monetary policy instruments	In order to set appropriate → monetary conditions, the SNB uses monetary policy instruments such as → repo transactions and → foreign exchange market interventions.
Monetary policy strategy	The SNB's monetary policy strategy sets out how it operationalises its statutory → mandate. The strategy, which has been in place since December 1999, consists of three elements: the definition of → price stability, the conditional → inflation forecast over the subsequent three years, and the → SNB policy rate.
Money market	The money market is the market for raising and investing short-term → liquidity. Here, banks in particular grant short-term loans to each other, either secured against → collateral (→ repo transactions) or unsecured. Short-term liquidity is defined as liquidity with a term of up to one year.
Mortgage loan	A → secured loan for which real estate serves as the collateral.
Multivariate filter (MV filter)	Multivariate filters are used, for example, in business cycle analysis. In contrast to the → HP filter, MV filters use multiple → indicators to calculate a trend in a data series.
Negative interest	Negative interest is the → interest which the SNB charges on → sight deposits held by banks and other financial market participants at the SNB above a certain → exemption threshold. It is a → monetary policy instrument and currently corresponds to the → SNB policy rate.
Nominal	Nominal is the term used when an economic variable is not adjusted to reflect price development (→ nominal interest rate).
Nominal interest rate	→ Interest rates are usually stated in nominal terms, i.e. they do not take into account that, during → inflation, the → purchasing power of money is lower after the credit transaction expires than before the credit transaction.
Open market operations	Open market operations are a type of → monetary policy instrument. In contrast to → standing facilities, the use of open market operations is initiated by the SNB, rather than a commercial bank.
Option	An option is the right to either buy (call option) or sell (put option) a → share, for example, at a fixed price on a specific date. This right can be securitised and traded on exchanges.
Other loans	According to the SNB's definition, the other loans category comprises all loans granted to households and companies that are not → mortgage loans. They can be secured or unsecured (→ secured loan).
Output gap	The output gap is defined as the percentage deviation of → real → GDP from the estimated → potential output. If actual economic output falls below potential output, the output gap is negative and the economy is thus underutilised.
Personal consumption expenditure (PCE) deflator	The personal consumption expenditure (PCE) deflator measures the development of prices for domestic and foreign goods and services in demand by households in Switzerland. Unlike the → Swiss consumer price index, it is not based on a specific → basket of goods, rather it takes all current consumer spending into account.
PMI manufacturing	The Purchasing Managers' Index is based on surveys and is an important → indicator of activity in the manufacturing sector. The Swiss index is composed of sub-indices covering production, order volume, delivery times, inventory, purchases and number of employees. A value above 50 points is considered a growth signal.
Potential growth	Potential growth refers to the change in → potential output.

Potential output, production potential	Potential output or production potential is the level of → real → GDP at normal utilisation of the → factors of production. Potential output is estimated using tools such as the → HP filter.
Price stability	According to the SNB's definition, price stability is considered to prevail when → inflation, as measured by the → Swiss consumer price index, is below 2%, and there is also no → deflation.
Production function	A production function describes the relationship between inputs (→ factors of production) and the resulting output (goods and services).
Purchasing power	The purchasing power of money indicates how many goods and services in a fixed → basket of goods can be bought with one unit of money. If → inflation prevails, purchasing power decreases over time.
Real	Real is the term used when an economic variable is adjusted to reflect price development (→ real rate of interest).
Real rate of interest	Adjusting the → nominal interest rate for the loss of → purchasing power due to → inflation over the duration of a credit transaction gives the real interest rate. The real rate of interest is thus calculated as the difference between the → nominal interest rate and the → inflation rate.
Recession	A recession is an economic downturn. There is no uniform definition, but a recession is often said to occur when → real → GDP falls for at least two consecutive quarters.
Refinancing	Refinancing has two meanings in economics. First, refinancing is when commercial banks raise funds on the → money market or → capital market. Second, it refers to the replacement of maturing debt by means of new debt.
Repo transactions, repo rate	In a repo transaction, the cash taker sells → securities to the cash provider and simultaneously agrees to repurchase securities of the same type and quantity at a later date. Economically, a repo transaction is a → secured loan. The → interest rate used in a repo transaction is called the repo rate. The SNB can use repo transactions to steer → liquidity in the → money market.
Risk premium	A risk premium reflects the valuation of the risk associated with a financial instrument.
SARON	SARON (Swiss Average Rate Overnight) is the interest rate for → repo transactions in Swiss francs with overnight maturity. It is based on → transaction prices and trade quotes. The SNB has been focusing on SARON in seeking to keep the short-term Swiss franc money market rates close to the → SNB policy rate.
Seasonal adjustment	Seasonal adjustment is a statistical method to remove regular seasonal effects (such as the rise in unemployment in the winter months) from time series so that → business cycle conditions, for example, can be more easily identified.
Secured money market rate	The secured money market rate is the → interest for → secured loans on the → money market which are usually concluded as → repo transactions (→ SARON).
Secured/covered loan	A secured or covered loan, in contrast to an unsecured (uncovered) loan, is a loan where the debtor provides → collateral. The main type of secured loan is a → mortgage loan.
Security	A security certifies a property right (e.g. the right to receive an interest payment). The most important securities traded on a market are → shares and → bonds.
Share	A share or → stock is a → security with which the buyer acquires a participation in a company.
Sight deposits at the SNB	Banks use their sight deposits held at the SNB to carry out transactions (e.g. payments) for their customers. In addition to sight deposits held by domestic banks, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities.
SNB COVID-19 refinancing facility (CRF)	The CRF is a → standing facility established as part of the measures to cushion the economic impact of the coronavirus pandemic. The CRF allows banks to obtain liquidity from the SNB. The corporate loans, for which the Confederation and cantons have provided guarantees, serve as → collateral. The SNB can also accept other collateral for the CRF.
SNB policy rate	The Swiss National Bank implements its → monetary policy by setting the SNB policy rate. The SNB seeks to keep short-term Swiss franc → money market rates close to the SNB policy rate. → SARON is the most representative of these rates today. The → negative interest rate currently corresponds to the SNB policy rate.
Standing facilities	Standing facilities are a type of → monetary policy instrument. In contrast to → open market operations, the use of standing facilities is initiated not by the SNB, but by a commercial bank.
Stock	→ share
Swap, interest rate swap	A swap is a financial transaction in which the contracting parties exchange payment flows. In an interest rate swap, one contracting party pays the other a variable → interest rate linked to a market interest rate and in return receives fixed interest payments contractually determined in advance.
Swiss consumer price index (CPI)	The Swiss consumer price index (CPI), which is compiled by the Swiss Federal Statistical Office (SFSO), measures the average development of prices for goods and services in demand by households in Switzerland. The CPI is calculated every month based on a → basket of goods representative of household consumption.

Trade-weighted exchange rate	The trade-weighted or effective → exchange rate is the value of an economy's currency vis-à-vis the currencies of its trading partners. It is calculated using bilateral exchange rates with trading partners, with weightings dependent on trading activity.
Transaction price	The price at which a transaction is actually executed, as opposed to a bid or ask price.
Unemployment rate	The rate of unemployment is the ratio of the number of unemployed people to the number of people in the labour force (i.e. those employed and unemployed), expressed as a percentage.
Utilisation of credit lines	Depending on the type of loan, a borrower can decide whether to use the maximum amount granted by the bank or just some of it. Utilisation refers to the amount drawn down.
Value added	Value added measures the economic output of a sector or industry. It is defined as the difference between the value of goods and services produced in a given sector and the value of inputs obtained from other sectors. Total value added of all sectors, adjusted for taxes and subsidies, gives → GDP.
Volatility	Volatility describes the extent of fluctuations in given variables, e.g. share prices or → interest rates, over a certain period of time.
Yield	Yield refers to the return on financial assets or investments and is usually expressed as a percentage of the → capital invested.
Yield curve	The yield curve, also known as the term structure of interest rates, graphically represents the → yields of fixed-interest investments of the same quality with different maturities. Typically, the yields of → government bonds are used. The yield curve usually slopes upwards as investors demand a → risk premium for bonds with longer maturities.
Yield curve control	Yield curve control involves a central bank setting a target for the yield of government bonds with a specific maturity, typically longer-term, and using bond purchases to ensure that the actual yield is close to the target.

Chronicle of monetary events

The chronicle summarises the most recent monetary events. For events dating further back, please refer to SNB press releases and the Annual Report at www.snb.ch

<p>At its quarterly assessment of 23 September, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at -0.75%. In light of the highly valued Swiss franc, it remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation into account. The SNB's expansionary monetary policy serves to ensure price stability and provide support to the Swiss economy in its recovery from the impact of the coronavirus pandemic.</p>	<p>September 2021</p>
<p>At its quarterly assessment of 17 June, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at -0.75%. It remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation into account. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.</p>	<p>June 2021</p>
<p>On 23 April, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the Federal Reserve, jointly decide to discontinue offering dollar liquidity at the 84-day maturity. This decision is taken in view of sustained improvements in US dollar funding conditions. The operational change will be effective as of 1 July 2021. From 1 July 2021 onwards, these central banks will continue to hold weekly operations with a 7-day maturity.</p>	<p>April 2021</p>
<p>At its quarterly assessment of 25 March, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at -0.75%. It remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation into account. It is also continuing to supply the banking system with liquidity on generous terms. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.</p>	<p>March 2021</p>
<p>At its quarterly assessment of 17 December, 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 currency situation into account. The SNB continues to supply the banking system with liquidity on generous terms via the SNB COVID-19 refinancing facility. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.</p>	<p>December 2020</p>
<p>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 currency 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.</p>	<p>September 2020</p>

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