Quarterly Bulletin
2/2022 June

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
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SWISS NATIONAL BANK

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SNB BNS

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2022

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 16 June 2022') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 16 June 2022. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 16 June 2022, the SNB decided to tighten its monetary policy. It raised the SNB policy rate by half a percentage point to –0.25% to counter increased inflationary pressure. The conditional inflation forecast was above that of March, and would have been even higher without the rise in the policy rate.

- Global economic growth slowed from the beginning of 2022 onwards, and inflation rose further in many countries. In its baseline scenario, the SNB anticipates the positive economic development continuing overall. Inflation is likely to remain high for some time, but the SNB's assumption is that it will return to more moderate levels over the medium term.

- The Swiss economy continued its favourable development. The SNB still expects GDP growth of around 2.5% for 2022. The level of uncertainty associated with the forecast remains high.

- Annual CPI inflation continued to rise, and stood at 2.9% in May. The longer-term inflation expectations derived from the surveys were somewhat higher than in the previous quarter, but still within the range compatible with price stability.

- The Swiss franc depreciated in trade-weighted terms. There was an increase in long-term interest rates, whereas share prices fell. Real estate prices rose. Growth in monetary aggregates slowed further. There was scarcely any change in lending growth.

1

Monetary policy decision of 16 June 2022

Swiss National Bank tightens monetary policy and raises SNB policy rate to –0.25%

The SNB is tightening its monetary policy and is raising the SNB policy rate and the interest rate on sight deposits at the SNB by half a percentage point to –0.25% to counter increased inflationary pressure. The tighter monetary policy is aimed at preventing inflation from spreading more broadly to goods and services in Switzerland. It cannot be ruled out that further increases in the SNB policy rate will be necessary in the foreseeable future to stabilise inflation in the range consistent with price stability over the medium term. To ensure appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary.

The SNB policy rate change applies from 17 June 2022. With effect from 1 July 2022, the SNB is also adjusting the threshold factor used to calculate the level of banks' sight deposits at the SNB exempt from negative interest. The factor will be lowered from 30 to 28. This will ensure that the secured short-term Swiss franc money market rates are close to the SNB policy rate.

Inflation reached 2.9% in May and is likely to remain at an elevated level for the time being. The SNB's new conditional inflation forecast is based on the assumption that the SNB policy rate is –0.25% over the entire forecast horizon. The new forecast for the next three years is above that of March (cf. chart 1.1), and stands at 2.8% for 2022, 1.9% for 2023, and 1.6% for 2024 (cf. table 1.1). Without today's SNB policy rate increase, the inflation forecast would be significantly higher.

Global economic growth has slowed markedly recently. This slowdown is on the one hand attributable to the high level of inflation, which is weighing on purchasing power and thus reducing demand. On the other hand, the uncertainty stemming from the war in Ukraine as well as the coronavirus lockdowns in China are curbing the development of the global economy.

Since March, there has been a further considerable and broad-based increase in inflation in many countries. The war in Ukraine has been a significant factor here, too, in that the prices of many commodities have risen as a result. In addition, persisting supply bottlenecks have led to further price increases for various goods.

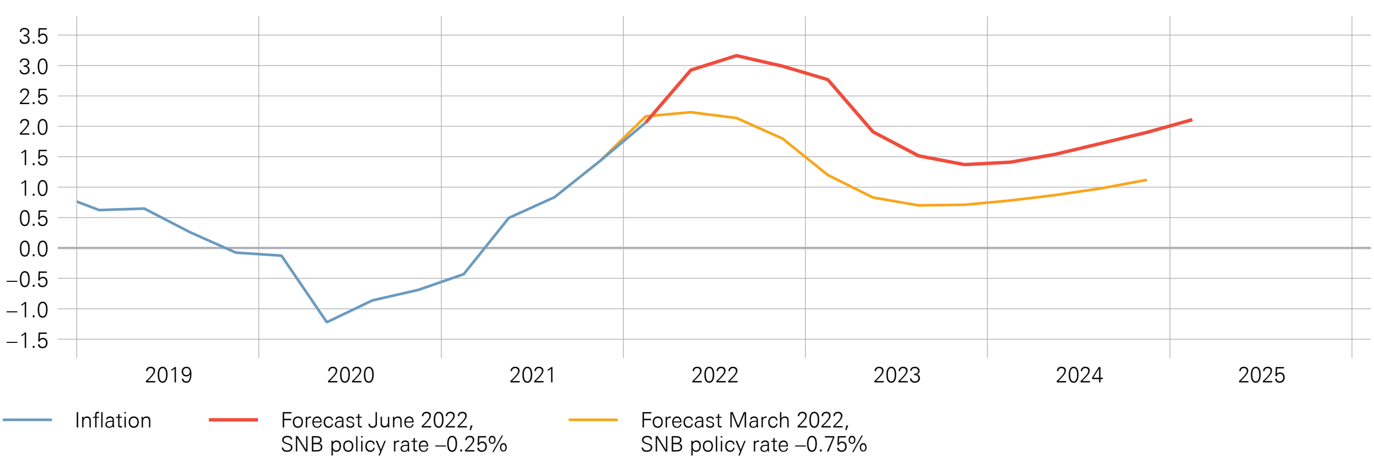
In its baseline scenario for the global economy, the SNB assumes that energy prices will remain high for the time being, but that there will not be an acute energy shortage in the major economic areas. The positive development of the economy should thus continue overall. Owing to the increased prices for energy and food, coupled with the supply bottlenecks, inflation is likely to remain high for some time. However, the importance of these factors should diminish over the medium term. With monetary policy also becoming increasingly tighter in many countries, inflation is likely to gradually return to more moderate levels.

This scenario for the global economy is subject to significant risks. For example, inflation could rise further and thus weigh even more heavily on real incomes and consumer demand. At the same time, high inflation could become entrenched as a result of increased second-round effects, requiring stronger monetary policy responses in other countries. Finally, there are still important downside risks to growth from the war in Ukraine and the pandemic.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF JUNE 2022

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



Source(s): SFSO, SNB

The Swiss economy has continued the favourable development it has shown since the beginning of the year. After modest growth in the fourth quarter of 2021, GDP increased by just under 2% in the first quarter of this year. The signals remain positive for the current quarter. The situation on the labour market has also continued to improve.

The war in Ukraine has thus far had comparatively little adverse impact on economic activity in Switzerland. The effect has been most clearly felt in the higher energy prices and in the supply bottlenecks.

For 2022, the SNB still anticipates GDP growth of around 2.5%. Unemployment is likely to remain low. This favourable forecast is based, among other things, on the assumption that the global economy continues to grow and that the war in Ukraine does not escalate further.

The forecast for Switzerland, as for the global economy, is subject to large risks. If the energy supply in Europe were to be adversely affected, this could have a serious impact on the Swiss economy. The global supply bottlenecks and further increases in commodity prices could also slow growth. Furthermore, a resurgence of the coronavirus pandemic cannot be ruled out.

Mortgage lending and residential property prices have risen further in recent quarters. The SNB will continue to monitor developments on the mortgage and real estate markets closely.

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 JUNE 2022

	2019				2020				2021				2022				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.6	0.6	0.3	−0.1	−0.1	−1.2	−0.9	−0.7	−0.4	0.5	0.8	1.4	2.1				0.4	−0.7	0.6

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2022

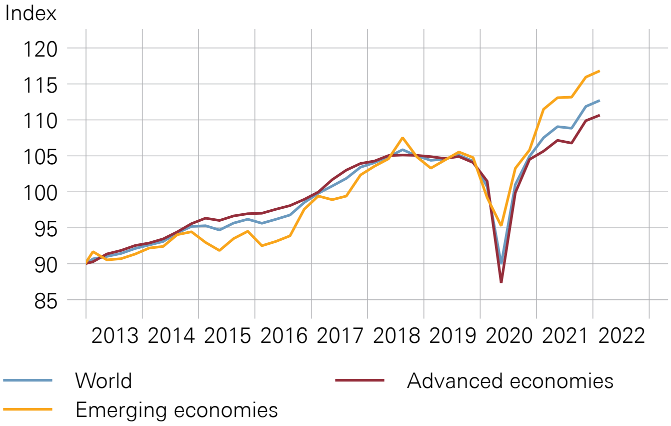
	2022				2023				2024				2025				2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2022, SNB policy rate −0.75%	2.2	2.2	2.1	1.8	1.2	0.8	0.7	0.7	0.8	0.9	1.0	1.1					2.1	0.9	0.9
Forecast June 2022, SNB policy rate −0.25%		2.9	3.2	3.0	2.8	1.9	1.5	1.4	1.4	1.5	1.7	1.9	2.1				2.8	1.9	1.6

Source(s): SNB

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



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

2 Global economic environment

Growth in the global economy has slowed markedly since the beginning of the year. Its development was initially adversely affected by a further wave of the coronavirus pandemic and the temporary tightening of containment measures in some countries. The high level of inflation also had a curbing effect, weighing on purchasing power and reducing demand, and so, too, did the uncertainty among households and companies stemming from the war in Ukraine. Global trade expanded further in the first quarter nonetheless (cf. chart 2.1). Furthermore, unemployment continued to decline in many countries, and in the advanced economies is now back around the low levels seen prior to the pandemic (cf. chart 2.9).

There was a broad-based increase in inflation in many countries. The war in Ukraine was a significant factor here, too, in that the prices of many commodities rose as a result. In addition, persisting supply bottlenecks led to further price increases for various goods.

In its baseline scenario for the global economy, the SNB assumes that energy prices will remain high for the time being, but that there will not be an acute energy shortage in the major economic areas. The positive development of the economy should thus continue overall. Owing to the increased prices for energy and food, coupled with the supply bottlenecks, inflation is likely to remain high for some time. However, the importance of these factors should diminish over the medium term. With monetary

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2018	2019	2020	2021	Scenario 2022	Scenario 2023
GDP, year-on-year change in percent						
Global [1]	3.6	2.9	−3.1	6.1	2.5	2.6
US	2.9	2.3	−3.4	5.7	2.6	1.4
Euro area	1.8	1.6	−6.5	5.3	2.8	1.9
Japan	0.6	−0.2	−4.6	1.7	2.0	2.4
China [2]	6.7	5.9	1.7	8.5	4.1	6.2
Oil price in USD per barrel	71.0	64.3	41.8	70.7	106.0	108.0

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

policy also becoming increasingly tighter in many countries, inflation is likely to gradually return to more moderate levels.

This scenario for the global economy is subject to significant risks. For example, inflation could rise further and thus weigh even more heavily on real incomes and consumer demand. At the same time, high inflation could become entrenched as a result of increased second-round effects, requiring stronger monetary policy responses in other countries. Finally, there are still important downside risks to growth from the war in Ukraine and the pandemic.

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 108 per barrel, compared with USD 98 in the last baseline scenario, and an exchange rate of USD 1.06 to the euro compared with USD 1.13 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Financial market sentiment has remained volatile since the monetary policy assessment in March. Key influencing factors were the war in Ukraine as well as mounting fears of inflation, which fuelled expectations of a faster tightening of monetary policy and, in turn, concerns about the economy.

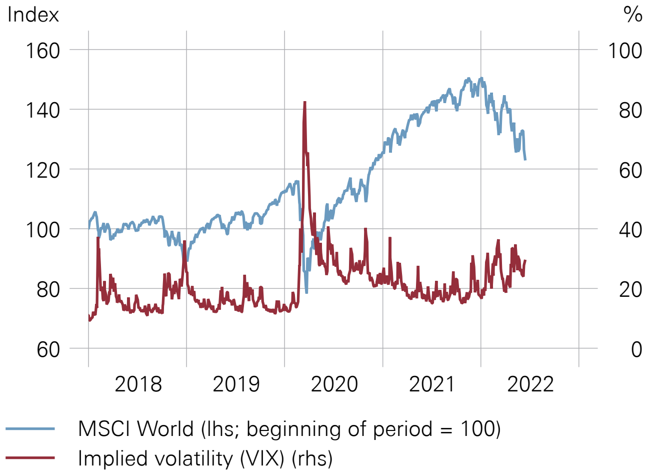
Global stock markets declined further. In mid-June, the MSCI World Index was back near the level recorded at the beginning of last year. This was primarily due to a rise in long-term interest rates in many countries as well as to weaker expectations for the global economy, but was to some extent also a result of the lockdowns imposed in China as part of its zero-COVID strategy. At the same time, the implied volatility of stocks as measured by option prices – e.g. the VIX index in the US – saw a renewed increase (cf. chart 2.2).

Yields on ten-year government bonds in most advanced economies continued to climb strongly (cf. charts 2.3 and 2.4). This was in response to rising inflation and the associated – or prospective – tightening of monetary policy.

Activity on the foreign exchange markets was dominated by concerns over the economic impact of the war in Ukraine as well as the growing divergence of monetary policy stances in advanced economies. Highly sought after, the US dollar appreciated on a trade-weighted basis. The euro trended sideways in trade-weighted terms, falling to a five-year low against the dollar. The yen and pound sterling weakened in trade-weighted terms, with the yen dropping to a twenty-year low against the US dollar (cf. chart 2.5).

Chart 2.2

STOCK MARKETS

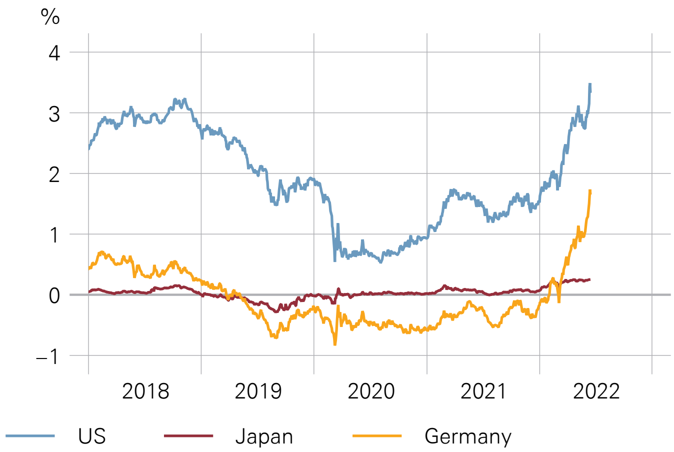


Source(s): Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

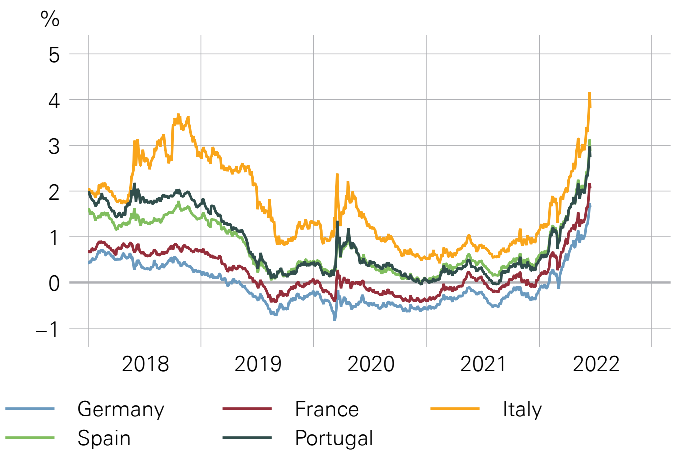


Source(s): Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments

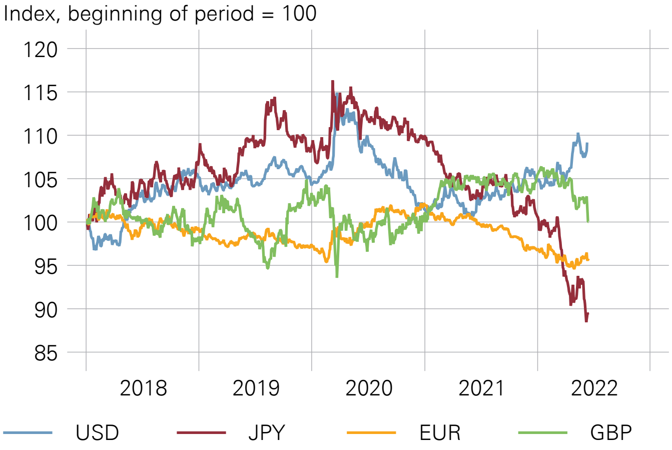


Source(s): Refinitiv Datastream

Chart 2.5

EXCHANGE RATES

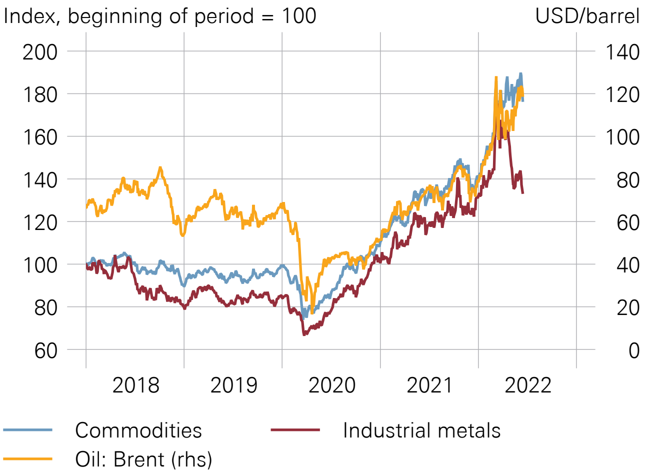
Trade-weighted



Source(s): Refinitiv Datastream

Chart 2.6

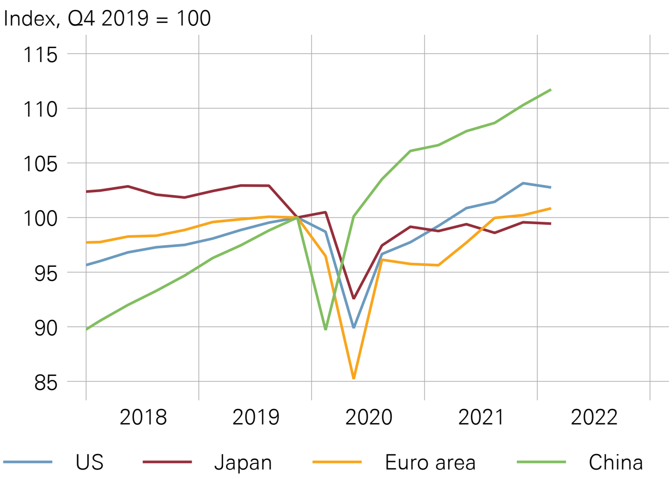
COMMODITY PRICES



Source(s): Refinitiv Datastream

Chart 2.7

REAL GDP



Source(s): Refinitiv Datastream

Commodity prices were affected by the war in Ukraine and the sanctions imposed. In the period under review, the price of Brent crude hovered around USD 110 per barrel, thus remaining considerably higher than at the beginning of the year (cf. chart 2.6).

UNITED STATES

In the US, GDP fell by 1.5% in the first quarter, following robust growth in the previous quarter (cf. chart 2.7). The decline primarily reflected weak growth in exports. Furthermore, economic activity was again impaired somewhat by a further pandemic wave. The employment market continues to suggest that production capacity is well utilised. However, employment figures were still below pre-pandemic levels, which can be attributed to lower labour market participation. At 3.6% in May, the unemployment rate was back near its pre-crisis level (cf. chart 2.9). The good capacity utilisation is also reflected in above-average wage growth.

In the quarters ahead, the US economy is likely to recover further from the pandemic and grow at an above-average rate. However, with the current high inflation putting pressure on real incomes and dampening consumer confidence, the outlook for consumption has deteriorated somewhat. This is compounded by a less expansionary monetary and fiscal policy. The SNB is therefore revising its growth forecast for the US downwards, to 2.6% for 2022 and 1.4% for 2023 (cf. table 2.1).

Consumer price inflation increased further and stood at 8.6% in May (cf. chart 2.10). Comparable inflation rates were last seen in the 1980s. The current elevated level of inflation is partly attributable to higher prices for energy and food, which were pushed up further as a result of the war in Ukraine. Supply chain issues and good capacity utilisation levels also contributed to recent inflation developments. Core inflation stood at 6.0% in May (cf. chart 2.11). Inflation as measured by the personal consumption expenditure deflator – the index used by the US Federal Reserve to set its 2% inflation target – stood at 6.3% in April.

Against this background, the Fed increased its target range for the federal funds rate in May by 50 basis points and in June by a further 75, to 1.5–1.75% (cf. chart 2.12). It also signalled additional interest rate hikes this year in order to curb inflation. Furthermore, in June, it commenced the gradual reduction of its balance sheet.

EURO AREA

In the euro area, GDP expanded by 2.5% in the first quarter (cf. chart 2.7). Exports continued to recover and inventory levels increased substantially. Private consumption, by contrast, declined again as a result of the tightening of containment measures at the beginning of the year. Employment figures in the euro area climbed further; unemployment, at 6.8% in April, was lower than its pre-pandemic level (cf. chart 2.9).

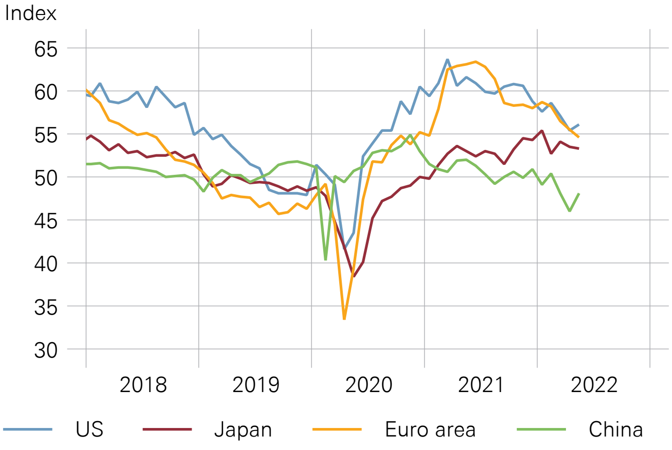
Activity in the services sector picked up appreciably following the lifting of containment measures. However, the war in Ukraine is likely to have a lasting impact on future economic development. Consumer sentiment has deteriorated considerably since the war began, particularly also as higher energy and food prices are weighing on households' real incomes. Furthermore, the war has led to additional supply bottlenecks in manufacturing. Overall, therefore, economic development in the quarters ahead is likely to be less vigorous than previously assumed. The SNB now expects growth in the euro area of 2.8% for 2022 and 1.9% for 2023 (cf. table 2.1).

Consumer price inflation in the euro area advanced further in recent months and stood at 8.1% in May (cf. chart 2.10). This was primarily driven by energy and food prices, which increased substantially with the outbreak of the war in Ukraine. Core inflation also rose and latterly stood at 3.8% (cf. chart 2.11), reflecting both higher prices for services and price increases for various goods on the back of ongoing supply bottlenecks in manufacturing.

In June, the European Central Bank decided to end net asset purchases under its asset purchase programme (APP) as of 1 July. It announced its intention to raise its key interest rates by 25 basis points in mid-July and held out the prospect of a further, possibly larger rate rise in September. Furthermore, it signalled that additional measures could follow.

Chart 2.8

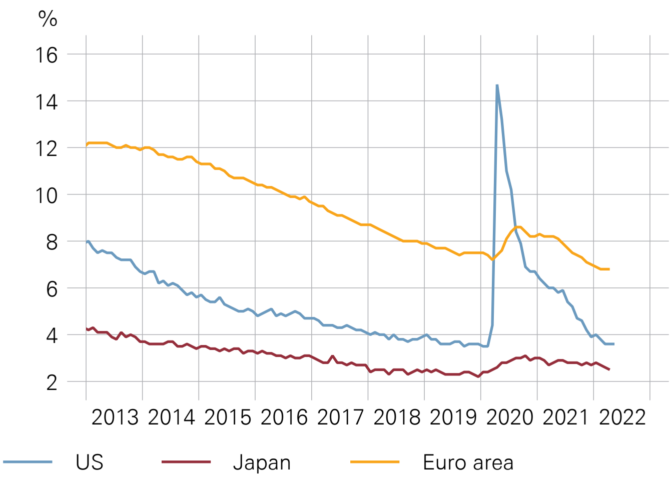
PURCHASING MANAGERS' INDICES (MANUFACTURING)



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

Chart 2.9

UNEMPLOYMENT RATES

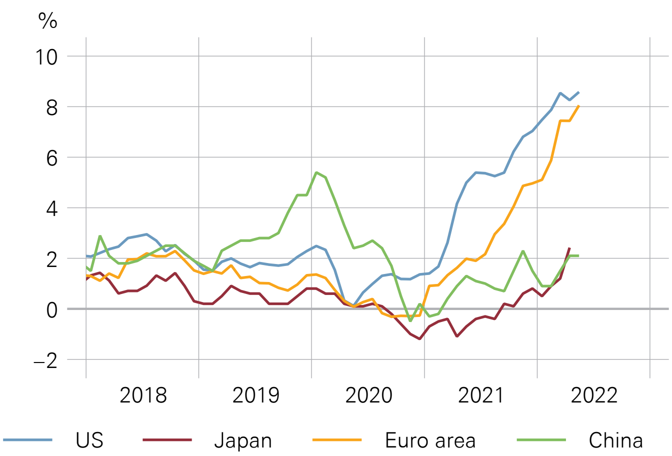


Source(s): Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

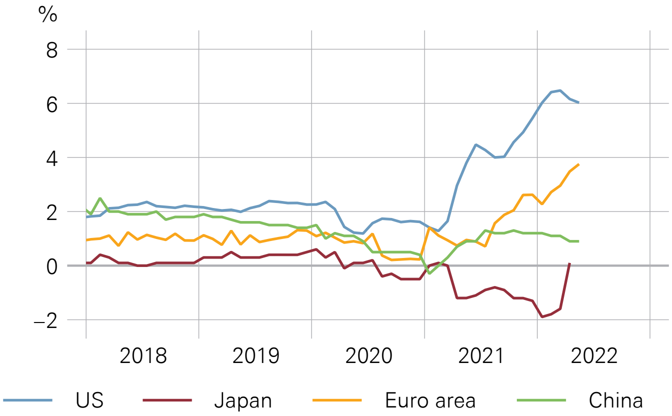


Source(s): Refinitiv Datastream

Chart 2.11

CORE INFLATION RATES [1]

Year-on-year change

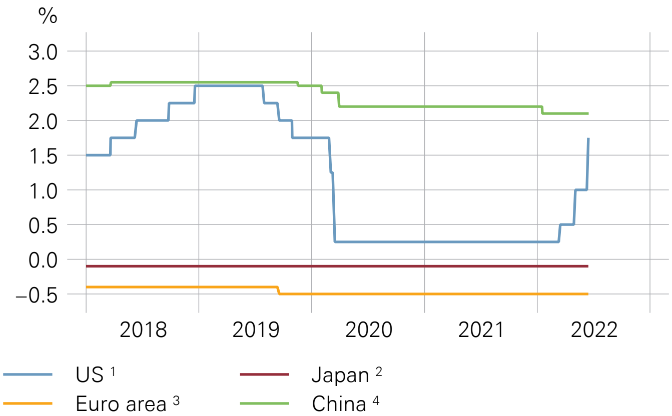


1 Excluding food and energy

Source(s): Refinitiv Datastream

Chart 2.12

OFFICIAL INTEREST RATES



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

Source(s): Refinitiv Datastream

JAPAN

GDP in Japan contracted by 0.5% in the first quarter, thus remaining below its pre-crisis level (cf. chart 2.7). A further pandemic wave as well as the state of emergency declared in numerous prefectures at the beginning of the year again hampered private consumption and activity in the services sector. Manufacturing activity, by contrast, gained some strength, benefiting from robust demand from abroad. To date, employment figures and labour market participation have remained lower than before the pandemic, and the unemployment rate stood at 2.5% in April, still slightly above its pre-crisis level (cf. chart 2.9).

After emergency measures were lifted in March, private consumption picked up again and the business situation in the services sector improved. In manufacturing, on the other hand, growth recently lost momentum amid a weakening of foreign demand. Moreover, higher commodity prices and ongoing procurement problems in the automotive industry have also been having a dampening effect. Nevertheless, with the anticipated recovery in private consumption, economic activity is likely to grow again above potential in the further course of the year. The SNB expects GDP growth for Japan of 2.0% for 2022 and 2.4% for 2023 (cf. table 2.1).

Driven by higher energy and food prices, consumer price inflation continued to rise in recent months and, at 2.4% in April, exceeded the Bank of Japan's long-term target (cf. chart 2.10). With the fading effect of last year's cuts in mobile communication charges, core inflation moved back into positive territory; however, at 0.1%, it remained very modest (cf. chart 2.11).

The Bank of Japan considers the inflation trend resulting from higher import prices to be temporary and expects inflation to return to well below 2% next year. Against this backdrop, it left its targets under the yield curve control programme unchanged.

CHINA

In China, first-quarter economic activity remained solid overall (cf. chart 2.7). Manufacturing recorded robust growth, while services lost momentum amid a pandemic wave that began to spread in March.

Major cities such as Shanghai entered into renewed lockdowns in the wake of the zero-COVID strategy pursued by Chinese authorities. Associated supply bottlenecks and mobility constraints led to a broad-based decline in economic activity in March and April, as well as to an increase in the urban unemployment rate. The economy recovered again slightly in May, as the pandemic situation eased and lockdowns were partially relaxed.

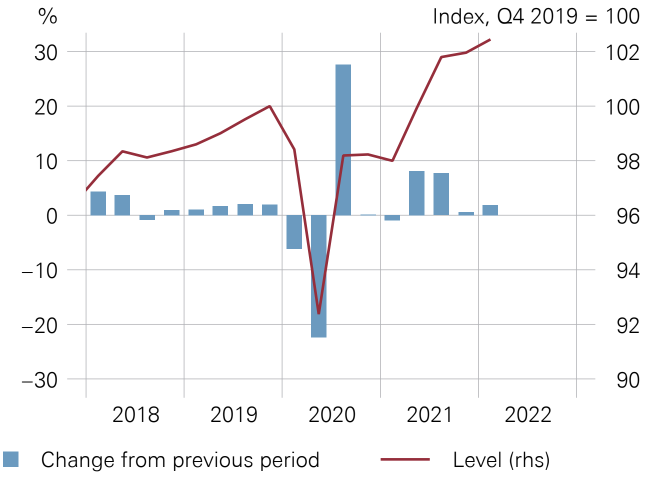
GDP is likely to contract in the second quarter due to the lockdowns, but should pick up again thereafter. However, foreign demand is expected to provide less support than in previous quarters, and the deleveraging in the real estate sector is likely to weigh on economic activity for some time yet. To boost the economy, the government intends to continue prioritising infrastructure investment and providing financial relief to companies and households. It also decided to grant targeted tax relief, particularly to businesses. The SNB has lowered its 2022 growth forecast for China to 4.1%. For 2023, it expects GDP growth of 6.2% (cf. table 2.1).

Consumer price inflation rose to 2.1% in May, while core inflation remained virtually unchanged at 0.9% (cf. charts 2.10 and 2.11).

Although the People's Bank of China left official interest rates unchanged (cf. chart 2.12), it lowered the minimum reserve rates for banks in April. Furthermore, authorities decided in recent months to implement further measures aimed at supporting the real estate market.

Chart 3.1

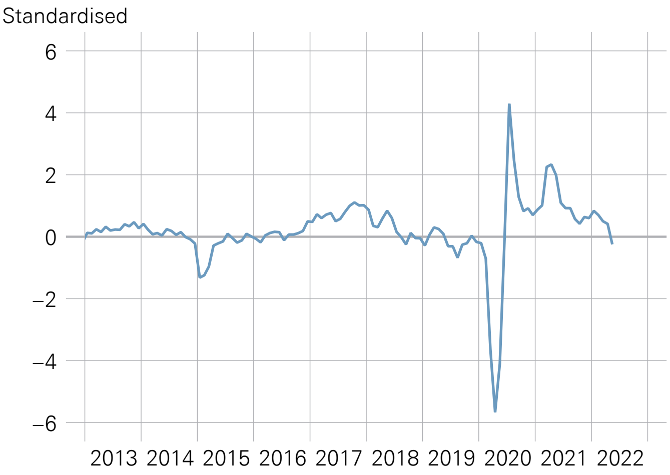
REAL GDP



Source(s): SECO

Chart 3.2

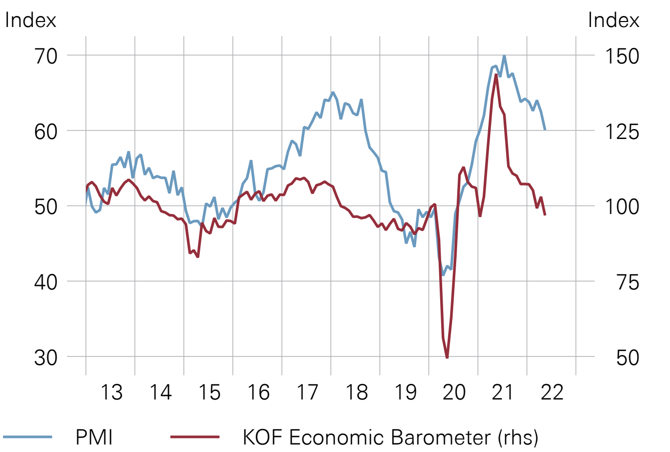
SNB BUSINESS CYCLE INDEX



Source(s): SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



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

3 Economic developments in Switzerland

The Swiss economy has continued the favourable development it has shown since the beginning of the year. After modest growth in the fourth quarter of 2021, GDP increased by just under 2% in the first quarter of this year. The signals remain positive for the current quarter. The situation on the labour market has also continued to improve.

The war in Ukraine has thus far had comparatively little adverse impact on economic activity in Switzerland. That said, energy prices have risen significantly as a result of the war, and supply bottlenecks persist.

For 2022, the SNB still anticipates GDP growth of around 2.5%. Unemployment is likely to remain low. This favourable forecast is based, among other things, on the assumption that the global economy continues to grow and that the war in Ukraine does not escalate further.

The forecast for Switzerland, as for the global economy, is subject to large risks. If the energy supply in Europe were to be adversely affected, this could have a serious impact on the Swiss economy. The global supply bottlenecks and further increases in commodity prices could also slow growth. Furthermore, a resurgence of the coronavirus pandemic cannot be ruled out.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. The information indicates that economic activity was robust at the beginning of the year, with GDP growing at a slightly above-average rate in the first quarter. Although some economic indicators have weakened since the outbreak of the war in Ukraine, the signals have remained positive overall up to now.

Solid GDP growth in first quarter

According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP grew by 1.9% in the first quarter of 2022. Economic activity thus regained some momentum, compared with the fourth quarter of last year (cf. chart 3.1).

Manufacturing continued to develop very favourably. Value added in non-pharmaceutical manufacturing recorded particularly robust growth, benefiting from strong foreign demand. In services, by contrast, activity was lacklustre, and in construction, value added declined.

On the demand side, growth in private consumption and trade in goods remained positive, while trade in services and investment, on the other hand, declined (cf. table 3.1).

Economic growth continues

Economic sentiment has deteriorated somewhat since the outbreak of the war in Ukraine, particularly among households. Overall, however, economic indicators suggest that developments will remain positive for the economy as a whole.

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. Both indicators declined recently and point to slightly below-average growth for the second quarter (cf. charts 3.2 and 3.3).

Economic signals in both manufacturing and services, however, continue to be positive. The manufacturing purchasing managers' index (PMI) and the KOF business tendency survey for manufacturing indicated robust growth up to May (cf. chart 3.3). Similarly, the services PMI suggests that developments will remain favourable in the services sector.

The talks held by the SNB's delegates for regional economic relations with companies also signal positive economic growth in the second quarter. Nevertheless, procurement and recruitment problems continue to be a source of concern for companies, and uncertainty remains considerably high as a result of the war in Ukraine and the lockdowns in China (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

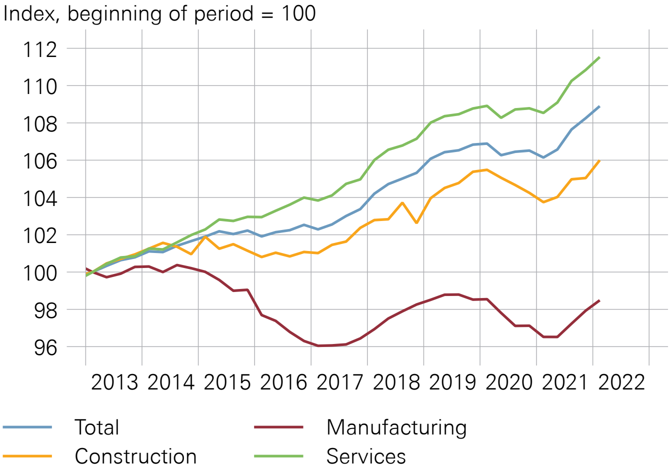
	2018	2019	2020	2021	2020			2021				2022
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	0.7	1.4	−3.7	2.6	−25.8	42.6	−6.6	−11.3	17.2	11.0	1.1	1.5
Government consumption	1.0	0.7	3.5	4.0	4.0	0.4	11.1	0.8	8.5	−2.6	5.1	5.6
Investment in fixed assets	1.3	0.6	−1.8	3.5	−26.0	36.7	3.2	−3.2	7.6	−4.1	11.7	−8.7
Construction	0.0	−0.9	−0.4	1.3	−19.0	22.9	−0.6	1.0	−0.3	−0.8	−1.4	−2.6
Equipment	2.1	1.4	−2.5	4.7	−29.7	45.3	5.3	−5.4	12.3	−5.9	19.7	−11.8
Domestic final demand	0.9	1.1	−2.2	3.0	−22.4	34.3	−1.7	−7.4	13.1	4.5	4.6	−1.0
Change in inventories [1]	1.0	0.5	−0.9	−2.6	−7.3	−0.1	−2.0	−0.4	−7.6	−1.1	−4.6	10.6
Total exports [2]	4.9	1.5	−5.6	11.8	−33.9	30.4	16.0	9.4	14.9	20.4	5.2	−2.7
Goods [2]	4.4	3.4	−1.1	11.7	−25.9	40.4	1.6	19.3	8.1	25.8	−8.3	5.9
Goods excluding merchanting [2]	4.4	4.9	−2.9	13.3	−44.8	45.0	15.4	20.9	8.8	15.3	11.3	8.5
Services	5.9	−2.3	−14.5	12.1	−48.6	9.0	58.6	−10.5	32.7	8.8	43.1	−19.1
Total imports [2]	3.6	2.3	−8.0	5.9	−50.6	47.1	11.6	−2.2	9.8	16.4	4.6	14.2
Goods [2]	6.2	2.8	−6.2	4.8	−45.2	54.3	0.9	4.2	−0.8	14.2	4.3	26.9
Services	−0.7	1.4	−11.0	8.0	−58.9	34.5	33.9	−12.6	30.7	20.1	5.3	−4.7
Net exports [3]	1.1	−0.2	0.4	3.7	4.2	−3.1	3.5	5.9	4.2	4.7	1.1	−7.9
GDP	**2.9**	**1.2**	**−2.4**	**3.8**	**−22.4**	**27.7**	**0.2**	**−0.9**	**8.1**	**7.7**	**0.6**	**1.9**

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

Source(s): SECO

Chart 3.4

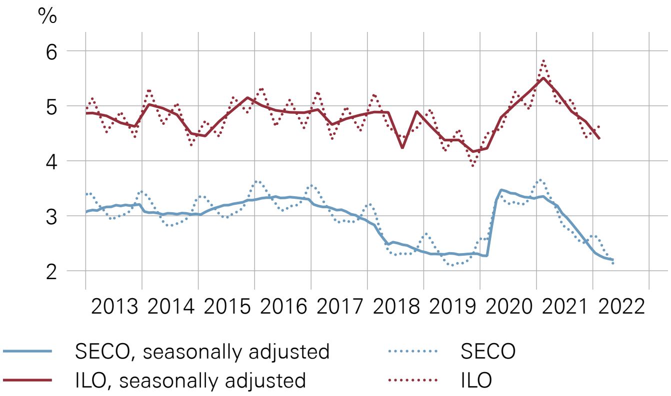
FULL-TIME EQUIVALENT JOBS



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.5

UNEMPLOYMENT RATE



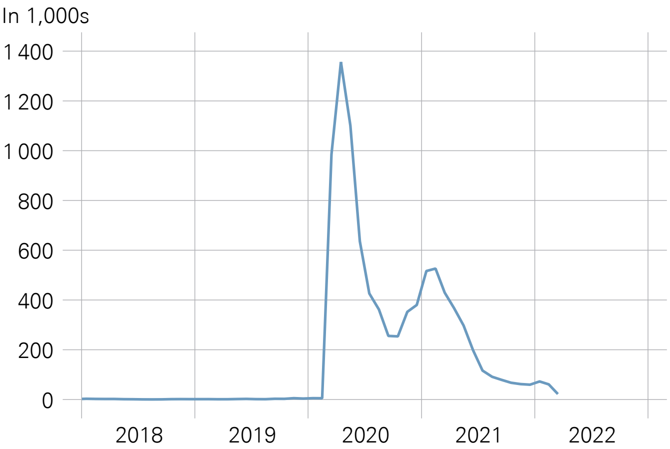
SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons).
ILO: Unemployment rate based on International Labour Organization definition.

Source(s): SECO, SFSO

Chart 3.6

SHORT-TIME WORKING

Employees affected



Source(s): SECO

LABOUR MARKET

The sound economic growth was also reflected in the labour market.

Employment growth continues in first quarter

The employment trend remained positive in the first quarter. According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose further. New jobs were created in services as well as in manufacturing and construction (cf. chart 3.4). According to the Employment Statistics (ES), the seasonally adjusted number of persons employed virtually stagnated, having risen substantially in the previous quarter.

Further decline in unemployment ...

In recent months, the unemployment rate published by SECO decreased further. Excluding seasonal fluctuations, 102,000 people were registered as unemployed at the end of May, 4,000 fewer than at the end of February. The seasonally adjusted unemployment rate stood at 2.2% at the end of May, similar to the pre-pandemic level in February 2020. The unemployment figures calculated by the Swiss Federal Statistical Office (SFSO) in line with the definition of the International Labour Organization (ILO) also receded. This seasonally adjusted rate decreased in the first quarter to 4.4%, just 0.2 percentage points higher than before the outbreak of the pandemic (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 from 60,000 to 22,000 between December 2021 and March 2022 (cf. chart 3.6). Thus, in March, 0.5% of all economically active persons were still in short-time work.

CAPACITY UTILISATION

Output gap closed
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.

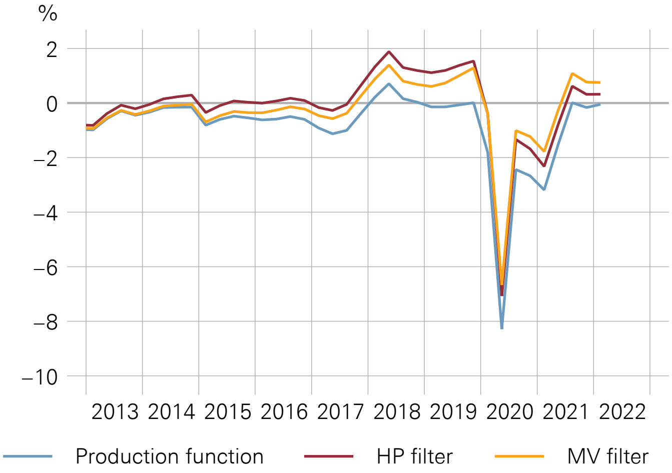
Overall utilisation of production capacity was average in the first quarter. Potential output as estimated by means of a production function shows a closed output gap for the first quarter. Other estimation methods indicate a slightly positive gap (cf. chart 3.7).

Higher utilisation
The surveys conducted by KOF show that, overall, utilisation increased in the first quarter. Utilisation of technical capacity rose in manufacturing and construction to an above-average level (cf. charts 3.8 and 3.9). It also increased in most areas of the services sector. In the hotel industry, average occupancy rates improved further; other service industries that had been particularly hard hit during the pandemic, such as entertainment and transport, also saw a rise in utilisation. Overall, in the first quarter, capacity utilisation in services was back near its long-term average.

As regards the labour situation, all surveys indicate that companies are finding it increasingly difficult to fill vacant positions. In many industries, staff levels are considered to be on the low side.

Chart 3.7

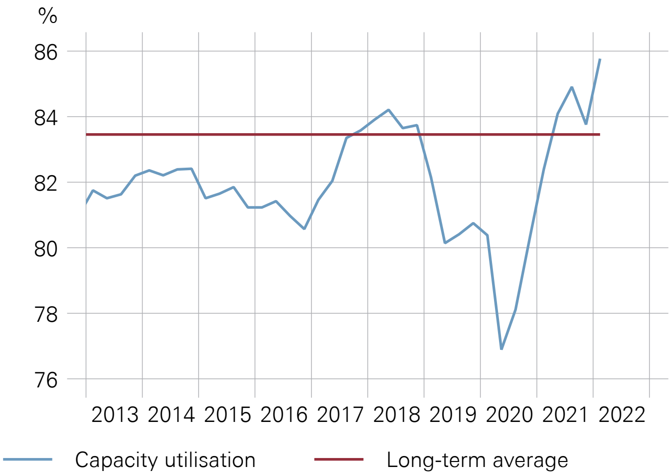
OUTPUT GAP



Source(s): SNB

Chart 3.8

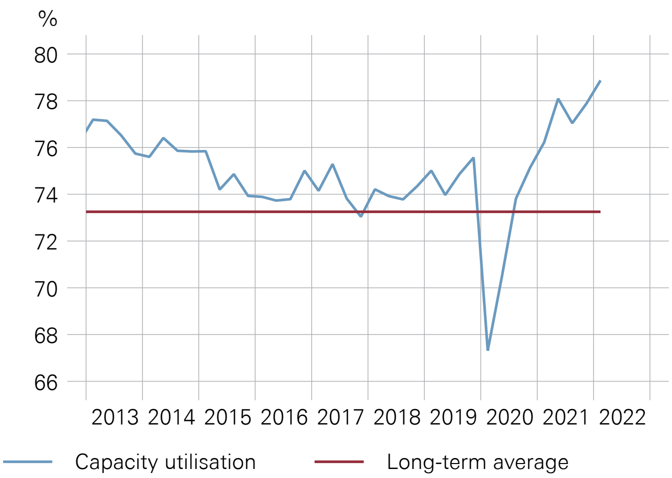
CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION

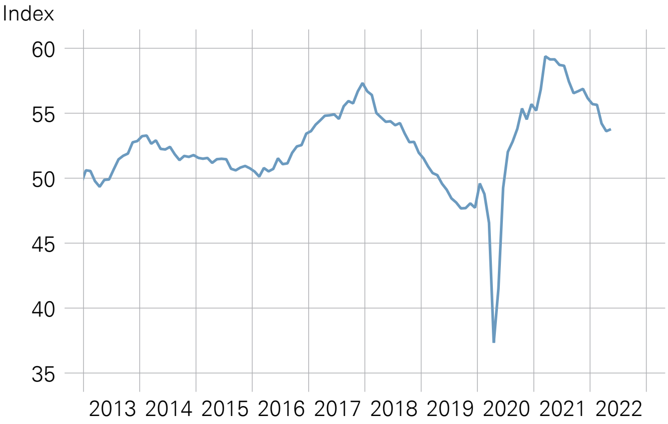


Source(s): KOF Swiss Economic Institute

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

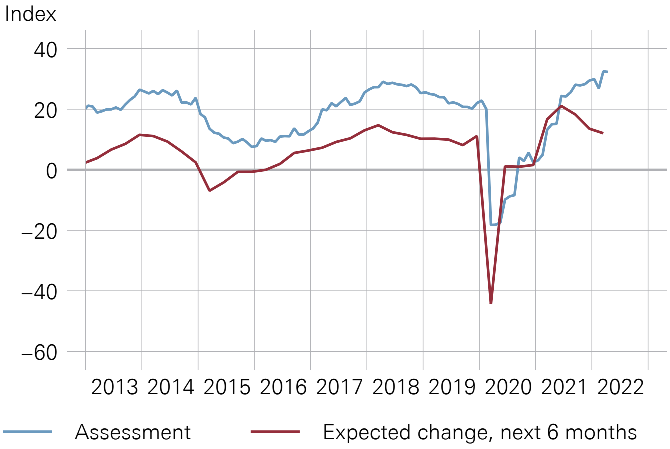


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

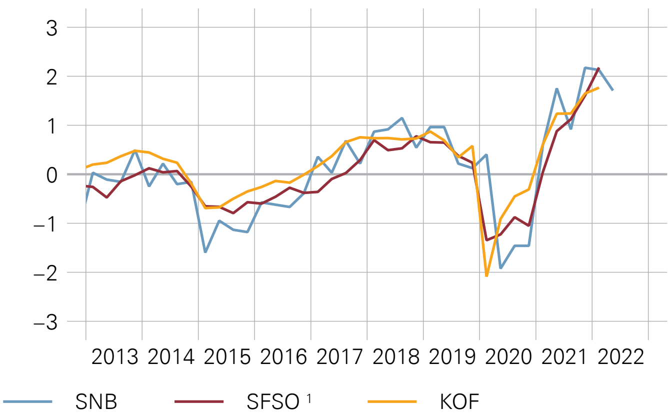


Source(s): KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

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

OUTLOOK

The short-term economic outlook for Switzerland remains favourable. Despite the war in Ukraine, companies still assess their current business situation as very positive (cf. chart 3.11). While there are signs of a certain slowdown in manufacturing, developments in services are likely to continue to be dominated by the return to normal that began after pandemic measures were lifted. This applies in particular to transport and hospitality. Thus, for the second quarter, there are signs that GDP growth will remain strong.

For developments beyond that, leading indicators show a mixed picture. Although companies' business expectations for the coming months have weakened, the outlook is still very positive (cf. chart 3.11). Surveys indicate that the employment outlook also remains very positive (cf. chart 3.12), which suggests that companies continue to view their growth prospects as favourable. Households, by contrast, are considerably more pessimistic about future developments, with sentiment down significantly as a result of the war.

For 2022, the SNB still anticipates GDP growth of around 2.5%. Unemployment is likely to remain low. This favourable forecast is based, among other things, on the assumption that the global economy continues to grow and that the war in Ukraine does not escalate further.

The level of uncertainty associated with the forecast remains high. If the energy supply in Europe were to be adversely affected, this could have a serious impact on the Swiss economy. The global supply bottlenecks and further increases in commodity prices could also slow growth. Furthermore, a resurgence of the coronavirus pandemic cannot be ruled out.

4
Prices and inflation expectations

The inflation rate as measured by the CPI has risen further in recent months. It stood at 2.9% in May, while core inflation reached 1.7% (SFSO1) and 1.3% (TM15).

Short-term expectations also continued to increase. Longer-term expectations rose somewhat at times, too; however, they remained within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

CONSUMER PRICES

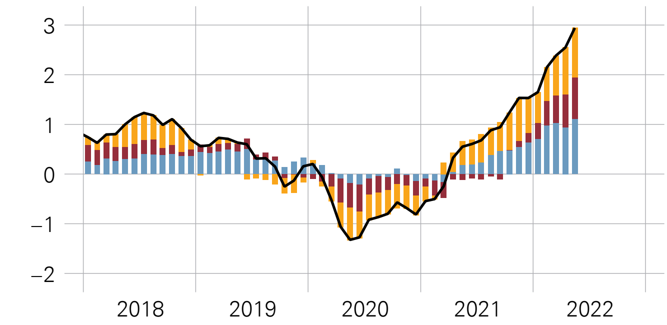
Continued rise in annual inflation rate
Annual CPI inflation has climbed further since February 2022. In May 2022, it stood at 2.9%, compared with 2.2% in February – an increase of 1.4 percentage points since the beginning of the year (cf. chart 4.1, table 4.1).

Significantly higher inflation for imported products
The renewed rise in annual CPI inflation was primarily attributable to the increase in inflation for imported goods and services to 7.4% in May. Inflation for imported products was therefore up 2.5 percentage points on February, putting it at its highest level in over 40 years.

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.

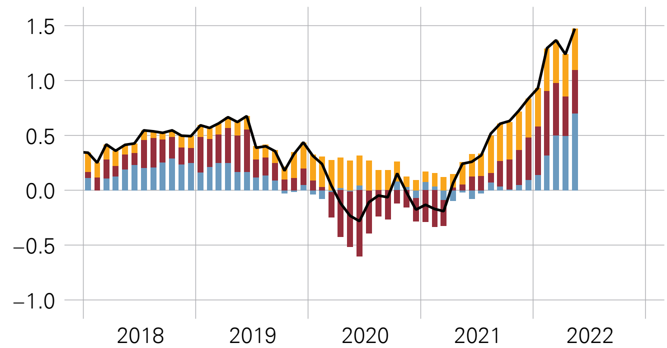


Source(s): SFSO, SNB

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

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

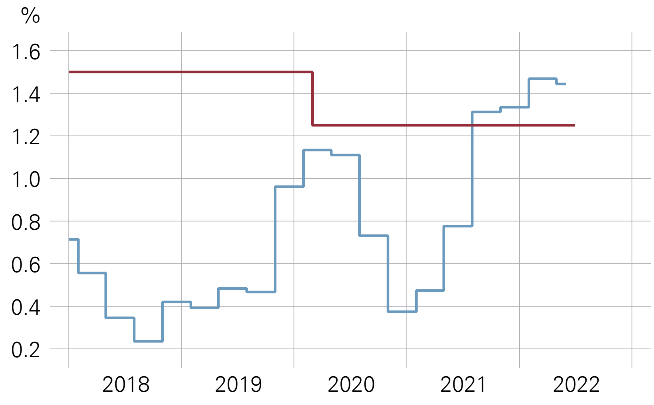
Year-on-year change in percent

	2021	2021 Q2	Q3	Q4	2022 Q1	2022 Mar	Apr	May
Overall CPI	**0.6**	**0.5**	**0.8**	**1.4**	**2.1**	**2.4**	**2.5**	**2.9**
Domestic goods and services	0.3	0.2	0.5	0.7	1.2	1.4	1.2	1.5
Goods	0.0	−0.3	0.0	0.2	1.2	2.0	1.9	2.7
Services	0.4	0.3	0.6	0.9	1.2	1.1	1.0	1.0
Private services excluding housing rents	0.3	0.3	0.5	0.9	1.4	1.4	1.0	1.1
Housing rents	0.9	0.7	1.1	1.3	1.4	1.5	1.5	1.4
Public services	−0.1	−0.3	0.1	0.0	0.0	0.0	0.0	0.0
Imported goods and services	1.5	1.5	2.0	3.7	4.8	5.5	6.6	7.4
Excluding oil products	−0.4	−0.5	−0.4	0.5	2.1	2.5	3.0	3.7
Oil products	17.9	19.2	23.7	32.3	28.1	32.1	38.5	40.6

Source(s): SFSO, SNB

Chart 4.3

HOUSING RENTS



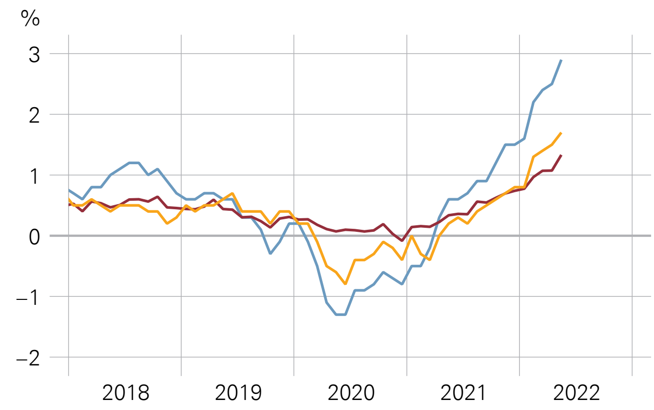
Housing rents (year-on-year change)
Reference mortgage rate

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

Chart 4.4

CORE INFLATION RATES

Year-on-year change



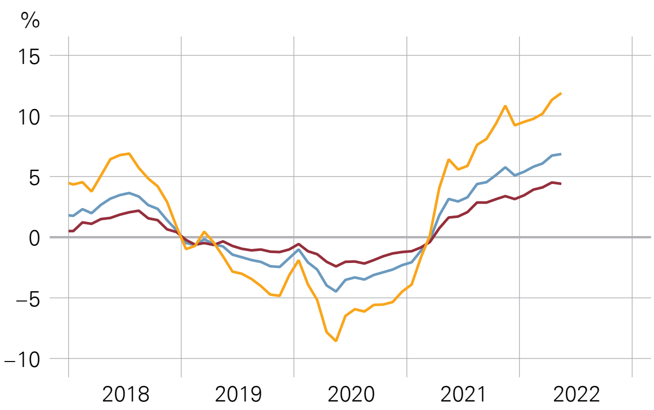
CPI TM15 SFSO1

Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change



Total Producer prices Import prices

Source(s): SFSO

The increase was due both to a rise in inflation for oil products and to higher prices for other imported goods and services.

Oil products saw inflation climb from 27.2% in February to 40.6% in May (cf. table 4.1). Inflation for imported goods and services excluding oil products also grew at a faster rate, amounting to 3.7% in May, compared with 2.3% in February.

Inflation for domestic products also slightly higher
Inflation for domestic goods and services advanced slightly, from 1.3% in February to 1.5% in May (cf. chart 4.2).

This increase reflected the rise in inflation for domestic goods, which stood at 2.7% in May, compared with 1.2% in February.

Inflation for domestic services excluding housing rents, by contrast, declined from 1.2% in February to 0.8% in May.

Marginally lower rent inflation
Housing rent inflation decreased slightly, from 1.5% in February to 1.4% in May (cf. chart 4.3). The reference mortgage rate has remained unchanged since the beginning of 2020.

Higher core inflation
The SFSO core inflation rate 1 (SFSO1) increased from 1.3% in February to 1.7% in May. Core inflation, as measured by the SNB's trimmed mean (TM15), rose in the same period from 1.0% to 1.3% (cf. chart 4.4). Both core inflation rates thus reached their highest levels since 2008.

PRODUCER AND IMPORT PRICES

Higher inflation for producer and import prices
Inflation for total producer and import prices again rose more strongly than in the previous quarter. In May, it stood at 6.9%, compared with 5.8% in February (cf. chart 4.5). Inflation rates for the two individual components followed a similar pattern. In May, inflation for import prices came to 11.9%, while for producer prices it was 4.4%. The high inflation levels in both producer prices and import prices were mainly attributable to oil products and intermediate inputs (e.g. metal, timber and plastic).

INFLATION EXPECTATIONS

Rise in short-term inflation expectations
The majority of indicators for short-term inflation expectations rose further in comparison with the previous quarter.

The index on the expected development of prices over the next twelve months, which is based on the survey of consumer sentiment conducted by SECO, climbed to its highest level since 2008 (cf. chart 4.6). According to the April survey, just under 90% of households anticipated a continued rise in prices in the short term.

The index based on the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland recently returned to a level similar to that of the previous quarter (cf. chart 4.6). In the May survey, around a half of respondents felt that inflation would increase further in the next six months. At the same time, the share of those who were anticipating a decline in inflation rates stood at roughly one-third.

The banks and economic institutions participating in the monthly survey conducted by Consensus Economics adjusted their forecast for expected inflation in 2022 upwards; in May, they put inflation at 2.1% (cf. chart 4.7). Meanwhile, for 2023, the panel of experts anticipated a fall in inflation, to 1.0%.

In the talks conducted by the SNB's delegates for regional economic relations, companies expected a considerably higher level of inflation in the short term (cf. chart 9 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months increased from 2.3% in the previous quarter to 3.1%.

Medium-term inflation expectations also up slightly
The indicators for medium-term inflation expectations also rose somewhat. For CS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years increased at end-March and stood at 1.7%, compared with 1.3% in December 2021 (cf. chart 4.8). Company representatives interviewed by the SNB's delegates put inflation for the same time frame at around 1.9%, compared with 1.6% in the previous quarter.

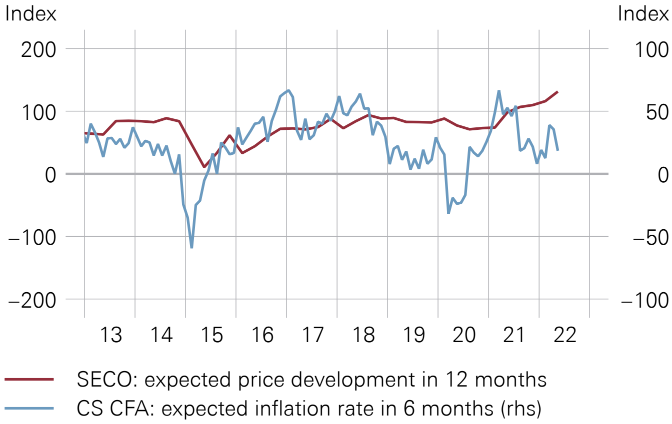
By contrast, according to the Consensus Economics survey conducted at end-March, the long-term inflation expectations of participating banks and economic institutions remained unchanged at 1.1%.

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

Chart 4.6

SHORT-TERM PRICE AND INFLATION EXPECTATIONS

Aggregate responses from SECO survey on consumer sentiment and CS CFA financial market survey

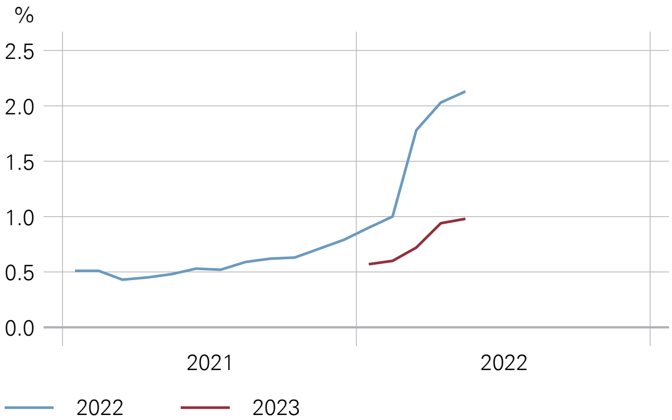


Source(s): CFA Society Switzerland, Credit Suisse, SECO

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

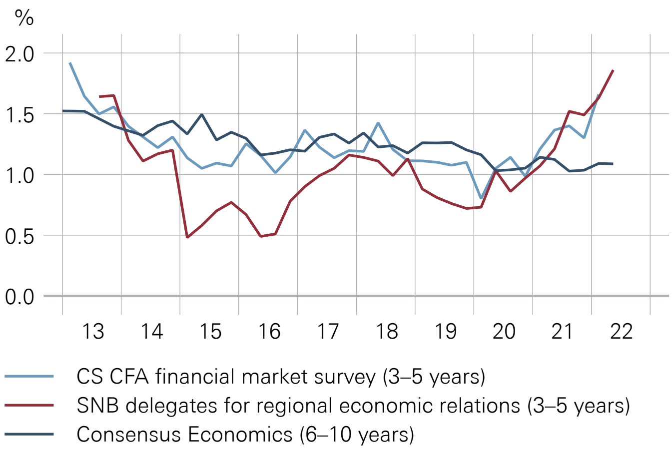
Monthly forecasts for annual inflation



Source(s): Consensus Economics Inc.

Chart 4.8

MEDIUM AND LONG-TERM INFLATION EXPECTATIONS



Source(s): CFA Society Switzerland, Consensus Economics Inc., Credit Suisse, SNB

5 Monetary developments

In the period following the March monetary policy assessment, share prices temporarily recovered but thereafter fell markedly again. The yields on long-term Confederation bonds rose significantly over the same period. The Swiss franc depreciated noticeably against the US dollar, and was somewhat weaker against the euro than at the end of March.

There was a further decrease in the growth rates of the broad monetary aggregates, this being attributable to the higher interest rates. Growth in bank lending declined slightly, but remained robust.

MONETARY POLICY MEASURES SINCE LAST ASSESSMENT

Monetary policy remains expansionary

At its monetary policy assessment of 24 March 2022, the SNB confirmed its expansionary monetary policy stance with a view to ensuring price stability and providing support to the Swiss economy. It also emphasised the heightened uncertainty worldwide as a result of the war in Ukraine. It 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, in order to counter upward pressure on the Swiss franc. In so doing, it took the overall currency situation and the inflation rate differential with other countries into consideration.

Repo transactions in money market

Since the monetary policy assessment in March 2022, the SNB has been conducting repo auctions to provide liquidity via the secured Swiss franc money market. It also provided the market with liquidity via bilateral repo transactions at the end of May. The aim of these operations was to counter upward pressure on short-term secured money market rates. The upward pressure was partly due to the fact that, because of their dynamic calculation, exemption thresholds had risen more strongly than the sight deposits held at the SNB. The result was a decrease in the volume of those sight deposits, which are subject to negative interest.

Higher sight deposits at the SNB

Sight deposits held at the SNB have increased since the monetary policy assessment in March. In the week ending 10 June 2022 (last calendar week before the assessment of June 2022), they amounted on average to CHF 753.1 billion. This was higher than in the last calendar week preceding the 24 March 2022 assessment (CHF 728.9 billion). Between these two assessments, they averaged CHF 747.6 billion. Of this amount, CHF 664.9 billion were sight deposits of domestic banks and the remaining CHF 82.7 billion were other sight deposits. Statutory minimum reserves averaged CHF 23.1 billion between 20 February 2022 and 19 May 2022. Overall, banks exceeded the minimum reserve requirement by CHF 645.9 billion (previous period: CHF 636.4 billion). Banks' excess reserves thus remained very high.

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate
SARON, the average overnight interest rate on the secured money market, stood at –0.70% in mid-June. Since the monetary policy assessment in March, SARON has fluctuated between around –0.69% and –0.72%. It thus remained consistently close to the SNB policy rate of –0.75% (cf. chart 5.1).

Rise in capital market interest rates
In Switzerland, the yield on ten-year Confederation bonds climbed from 0.4% at the time of the last monetary policy assessment to around 1.4% in mid-June (cf. chart 5.2), thus reaching its highest level since 2014. The rise in yields was largely in line with that of long-term government bonds in the US and the euro area. The main reason for the increase both domestically and internationally was revised expectations surrounding the monetary policy response to high inflation levels.

Yield curve shifts upwards
The yield curve for Confederation bonds shifted upwards compared to the last monetary policy assessment. At the same time, it steepened somewhat, as short-term interest rates rose less strongly than long-term rates. In mid-June, yields for all maturities in excess of one year were in positive territory for the first time since 2014 (cf. chart 5.3).

Slightly higher real interest rates
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.

With a moderate increase in longer-term inflation expectations (cf. chapter 4), the considerable increase in long-term nominal yields since the last monetary policy assessment led to a slight rise in real interest rates. By historical standards, however, the estimated long-term real interest rate remained at a low level.

Chart 5.1

SNB POLICY RATE AND MONEY MARKET RATES

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

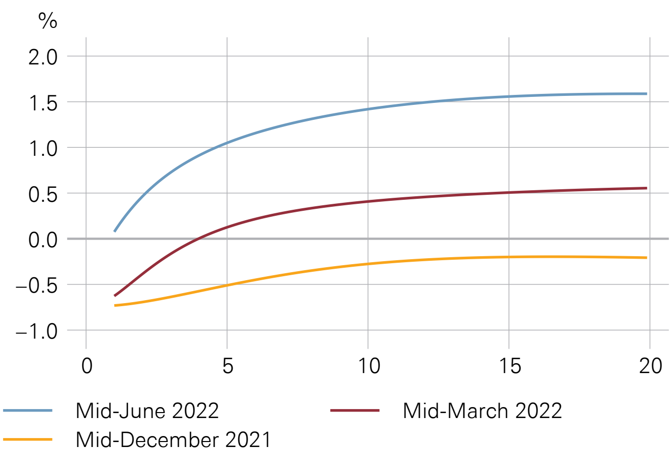
Chart 5.2

10-YEAR SWISS CONFEDERATION BOND YIELD

Source(s): SNB

Chart 5.3

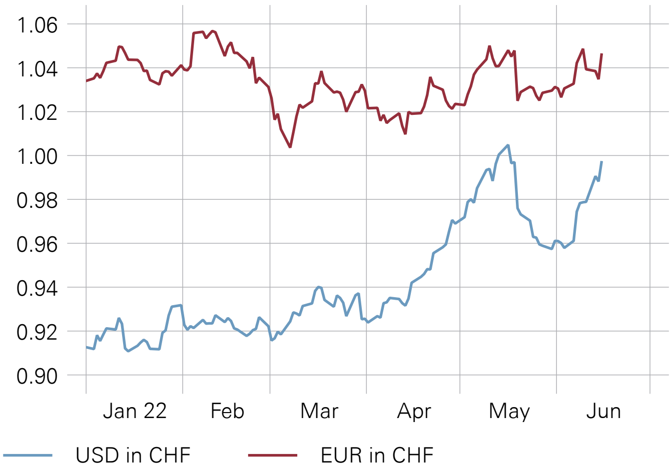
TERM STRUCTURE OF CONFEDERATION BONDS
Years to maturity (horizontal axis); Nelson-Siegel-Svensson method



Source(s): SNB

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, March 2022 monetary policy assessment = 100

Source(s): SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100

Source(s): SNB

EXCHANGE RATES

Exchange rates driven by market expectations of monetary policy tightening

Since the monetary policy assessment in March, the Swiss franc has weakened primarily against the US dollar (cf. chart 5.4). Between early April and mid-May, the dollar appreciated across a broad front, and thus also against the franc. In mid-May, one dollar was briefly worth more than a franc, the highest it has been since 2019. The dollar's appreciation primarily reflected the expected tightening of monetary policy in the US.

Having initially been stable from the end of March, the EUR/CHF exchange rate began to rise in early May. Key drivers of this momentum were again market expectations that the ECB could raise policy rates as early as July.

The Swiss franc started to strengthen again in mid-May on the back of expectations that monetary policy in Switzerland could also be tightened sooner than previously assumed. The franc weakened again noticeably in June, however. In mid-June, it stood at just under 1.05 to the euro, and one dollar was worth roughly one Swiss franc.

Nominal trade-weighted external value of Swiss franc weaker

Since the last monetary policy assessment, the Swiss franc has weakened by around 3% in nominal trade-weighted terms (cf. chart 5.5). This was largely driven by the franc's depreciation against the US dollar (down 7%, index weighting 15%).

Real depreciation

In previous quarters, the nominal appreciation of the Swiss franc had roughly corresponded to the inflation rate differential between Switzerland and other countries, so that the franc's real valuation had hardly changed (cf. chart 5.6).

This differential has widened over the last few months, while the franc has weakened somewhat on a nominal basis since the March assessment. As a result, the franc has depreciated in real terms.

SHARE AND REAL ESTATE PRICES

Further decline in global share prices
The recovery of global stock markets that began in early March came to a halt in April. The combined effect of the war in Ukraine and uncertainty about monetary policy responses to the rise in inflation drove share prices down worldwide. Corporate earnings remained solid, however, thus helping to stabilise share prices somewhat.

Nevertheless, in the period since the last monetary policy assessment, share prices of Swiss companies have recorded a considerable decline. In mid-June, the Swiss Market Index (SMI) was down around 11% on its end-March level (cf. chart 5.7).

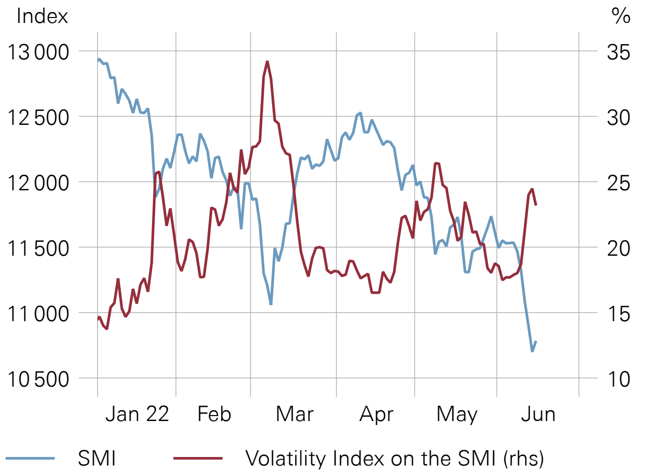
Rise in stock market volatility
The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). Since the monetary policy assessment in March, the risk aversion and uncertainty of stock market participants had initially increased slightly. The situation on stock markets eased somewhat in May. Nevertheless, due in part to uncertainty surrounding the pace of monetary policy tightening in the US and euro area, in mid-June the level of the volatility index was significantly higher than it had been at the end of March.

Movements in sector indices mixed
Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). All sector indices have fallen since the beginning of the year, although the scale of price losses differs significantly from one industry category to another. While in mid-June shares of financials stood roughly 7% below the levels at the beginning of the year, the other sectors recorded more substantial losses in the same period. The price declines were most pronounced for shares of industrials, which lost around 25% of their value up to mid-June.

Continued rise in residential real estate prices
Transaction prices for privately owned apartments and single-family houses increased further in the first quarter of 2022 (cf. chart 5.9). The apartment buildings segment – which includes residential investment property of private and institutional investors – also saw prices rise tangibly, after they had stagnated in the fourth quarter of 2021.

Chart 5.7

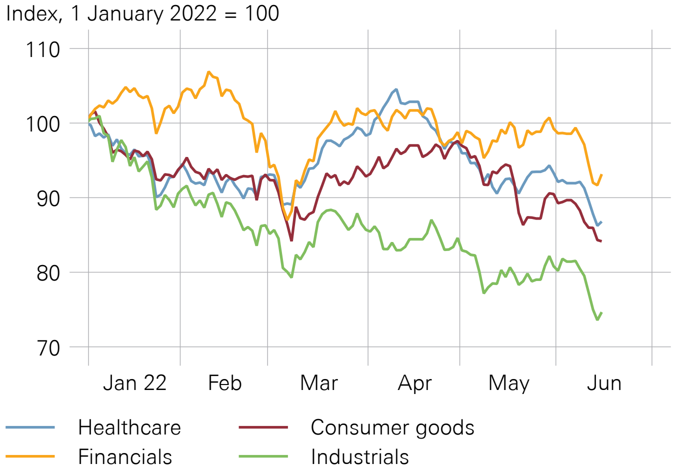
SHARE PRICES AND VOLATILITY



Source(s): SIX Swiss Exchange Ltd

Chart 5.8

SELECTED SPI SECTORS

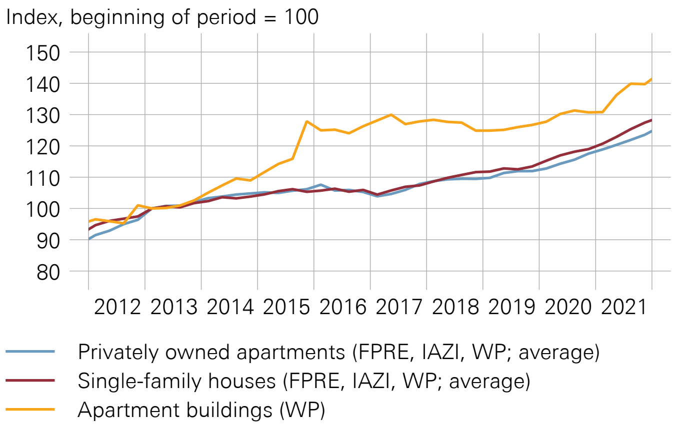


Source(s): SIX Swiss Exchange Ltd

Chart 5.9

TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE

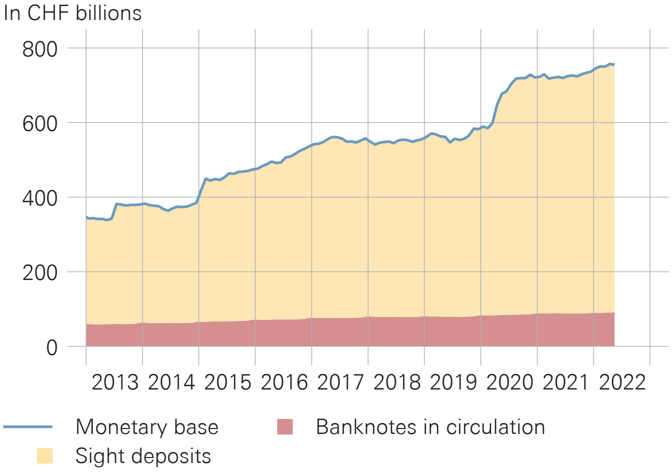
Nominal (hedonic)



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

Chart 5.10

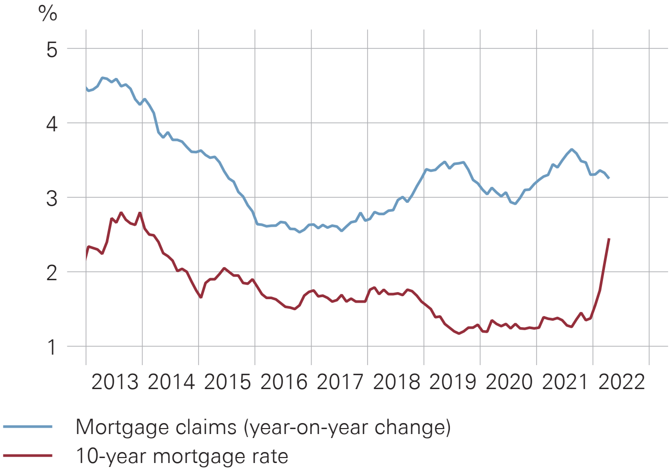
MONETARY BASE



Source(s): SNB

Chart 5.11

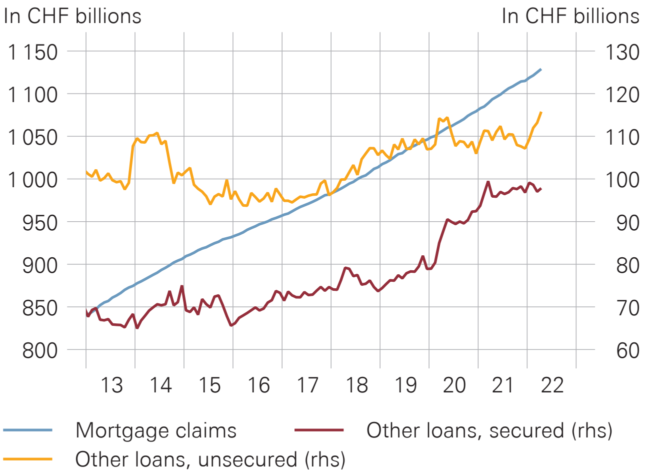
MORTGAGE CLAIMS AND INTEREST RATES



Source(s): SNB

Chart 5.12

MORTGAGE CLAIMS AND OTHER LOANS



Source(s): SNB

MONETARY AND CREDIT AGGREGATES

Rise in monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has increased further since February. This rise primarily reflects the growth in sight deposits of domestic banks, and can largely be attributed to repo auctions conducted by the SNB to steer SARON. In May, the monetary base averaged CHF 755.4 billion (cf. chart 5.10), and was thus up around CHF 4.7 billion on February.

Slower growth in broad monetary aggregates

Growth in the broad monetary aggregates continued to slow in the last three months (cf. table 5.1). In May 2022, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) was up 3.3% year-on-year (February: 3.8%). Annual growth rates for the M2 and M3 monetary aggregates also declined. In May, M2 (M1 plus savings deposits) grew by 0.2% (February: 0.8%), while M3 (M2 plus time deposits) recorded year-on-year growth of 0.1% (February: 1.0%). The decrease in these growth rates is primarily attributable to higher long-term interest rates. Higher capital market interest rates reduce the incentive to hold bank deposits at relatively low rates of interest.

Little change in lending growth

Bank lending by domestic bank offices in all currencies was up 3.0% year-on-year in the first quarter of 2022, having risen by 3.4% in the fourth quarter of 2021 (cf. table 5.1). Both mortgage lending and other lending contributed to the slight decline in the growth rate.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.3% year-on-year in the first quarter of 2022 (cf. chart 5.11).

In line with interest rate movements on the capital market, interest rates for fixed-rate mortgages also rose in recent months. The ten-year mortgage interest rate climbed from 1.4% in December 2021 to almost 2.5% in April 2022, thus reaching its highest level in eight years. From a long-term perspective, however, mortgage rates remain relatively low. So far, demand for mortgage loans does not appear to have been affected by this rise in interest rates.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.12). The volume of unsecured other loans corresponded approximately to the previous year's level. The same applies to secured other loans, despite the first repayments of COVID-19 loans in the amount of CHF 6 billion.

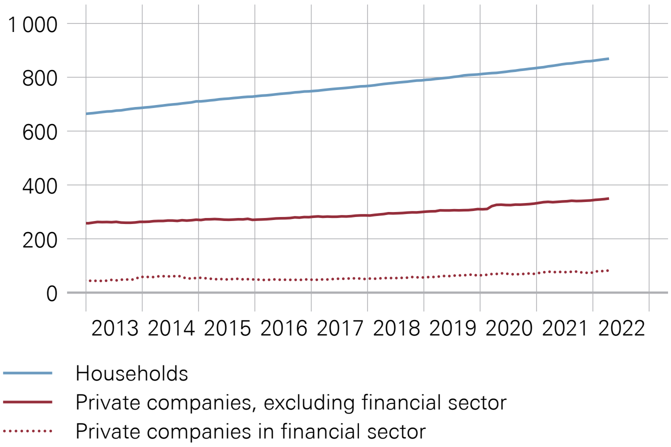
Lending growth by sector

Bank loans to households as well as to financial and non-financial companies continued to grow in recent quarters at a steady rate (cf. chart 5.13). At the end of April 2022, loans to households recorded a year-on-year increase of CHF 26.4 billion (3.1%) and loans to non-financial companies a rise of CHF 13.8 billion (4.1%). Loans to financial companies rose in the same period by CHF 6.2 billion (8.2%).

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES

In CHF billions



Source(s): SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2021	2021 Q2	Q3	Q4	2022 Q1	2022 Mar	Apr	May
M1	**6.7**	**6.6**	**6.2**	**4.8**	**4.2**	**4.2**	**3.6**	**3.3**
M2	**4.1**	**4.5**	**3.3**	**2.0**	**0.9**	**0.7**	**0.3**	**0.2**
M3	**4.0**	**4.3**	**3.3**	**1.9**	**0.9**	**0.7**	**0.1**	**0.1**
Bank loans, total [1,3]	**3.6**	**3.3**	**3.8**	**3.4**	**3.0**	**2.7**	**3.4**	
Mortgage claims [1,3]	3.4	3.4	3.6	3.4	3.3	3.3	3.3	
Households [2,3]	3.0	3.0	3.1	3.1	3.1	3.1	3.1	
Private companies [2,3]	5.3	5.4	5.7	4.9	4.0	3.9	3.8	
Other loans [1,3]	4.5	2.3	4.6	3.1	1.3	−0.2	4.2	
Secured [1,3]	10.0	7.6	8.3	6.4	1.7	−2.5	2.0	
Unsecured [1,3]	0.1	−1.9	1.5	0.2	0.9	1.8	6.2	

1 Monthly balance sheets (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).
2 Credit volume statistics (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).
3 Growth rates for the bank loans item and its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published on the SNB's data portal, data.snb.ch.

Source(s): SNB

Business cycle signals

Results of the SNB company talks

Second quarter of 2022

Report submitted to the Governing Board of the Swiss National Bank for its quarterly monetary policy 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 241 company talks were conducted between 12 April and 30 May.

Regions	Delegates
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Fabian Schnell

Key points

- Companies saw continued turnover growth in the second quarter. Growth is increasing in the services sector now that the measures to contain the pandemic have ended. In manufacturing, by contrast, the strong pace of growth has slowed somewhat. Overall, companies expect further increases in turnover though much higher levels of uncertainty for the coming quarters.

- As in the last quarter, only a few companies are seeing their business directly affected by the war in Ukraine. Company representatives primarily talked about the impact on the energy and raw materials markets.

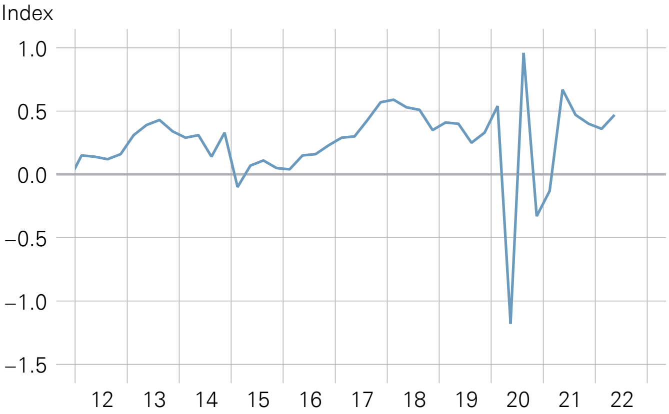
- The additionally tight supply situation, primarily due to China's zero-COVID strategy, higher energy prices resulting from the war in Ukraine, and higher inflation internationally, are leading to significant increases in purchase prices. In the majority of cases companies are able to pass rising costs on to their customers.

- Staff shortages worsened in the second quarter. Companies want to employ significantly more staff in the coming quarters. Against this backdrop, many companies see recruitment difficulties as a considerable risk.

- As a result of higher inflation, staff shortages and the generally robust development of the economy, wage growth is stronger but remains moderate overall. Companies expect wages to increase further in the coming year.

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

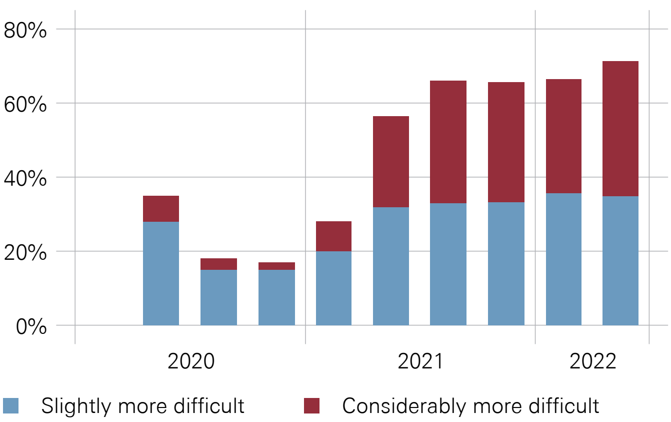
CAPACITY UTILISATION

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 3

PROCUREMENT SITUATION



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

Source(s): SNB

CURRENT SITUATION

Sustained growth in turnover

Turnover continued to increase in the second quarter at slightly higher pace (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). So far the uncertainty resulting from the war in Ukraine has slowed the development of turnover only slightly overall.

Increased sales momentum can be observed in the services sector in particular. Following the lifting of measures to contain the coronavirus pandemic, companies in the hospitality industry in particular, and to a certain extent also in trade, have benefited from strong demand, which can now be satisfied locally again without restriction.

In manufacturing, by contrast, sales momentum has weakened somewhat after two quarters of very strong growth. China's zero-COVID strategy is exacerbating the procurement problems. There are also signs of a weakening in demand from China. Demand from Europe and the US, however, remains robust.

In construction, the positive development seen in the previous quarter continued. The order situation is underpinned by a combination of robust public sector demand and a sustained high level of demand for residential space.

Production capacity slightly underutilised

There was a further improvement in technical capacity utilisation (cf. chart 2). However, it remains below the usual levels, in the services sector in particular. Many companies expect the proportion of homeworking to remain higher than before the pandemic and therefore report overcapacity in their current office space. Utilisation in manufacturing, on the other hand, is at normal levels. Given that building projects postponed during the pandemic can now be realised, technical capacity in the construction sector is even slightly overutilised.

Procurement bottlenecks continue

The challenges of procuring intermediate products have further worsened. The proportion of companies affected by supply difficulties has grown to more than two-thirds (cf. chart 3). It has become even more difficult to procure IT and electronic components especially, but also other intermediate and semi-finished products. This particularly affects products procured from the Asian region. In addition to increasing pressure on prices, this is also impairing the efficiency of production processes. Whenever possible, companies are endeavouring to increase their inventories to improve their resilience to supply chain delays. Some companies suspect that this precautionary increase in inventories is responsible for part of the demand and is thus exacerbating supply bottlenecks. In addition, some companies report that because of the uncertain global supply situation, orders are increasingly being shifted back to Switzerland and the surrounding areas, a situation from which these companies are profiting.

Continued tight staffing levels and more challenging recruitment

Difficulties related to recruitment and staff shortages continue to worsen (cf. chart 4). In general, companies are seeing an additional deterioration in the availability of personnel with a medium to high degree of specialisation. This is increasingly extending to less specialised occupations as well. The search for IT specialists remains persistently difficult. Recruitment of personnel in logistics, and particularly in the hotel and food services industries, also remains a challenge: Finding staff is only possible with great effort and in some cases high starting wages.

Sustainable profit margins and stable liquidity situation

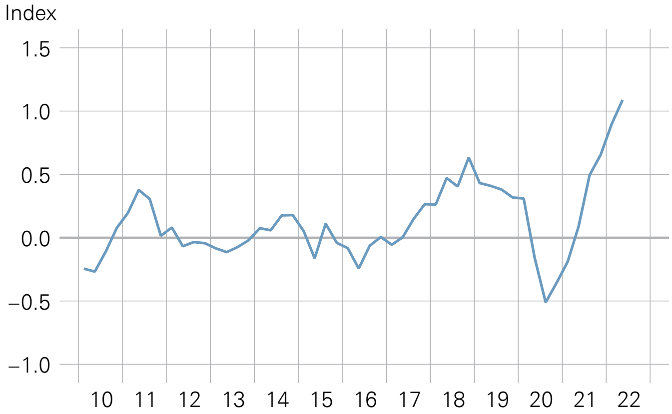
In most cases profit margins are at a solid level. Thanks to the lifting of coronavirus measures, for the first time since the outbreak of the pandemic the majority of companies in the services sector are reporting sustainable margins again. In manufacturing, by contrast, margins are tightening slightly. On the one hand, margins are underpinned by the positive order situation, and companies that are having to limit production because of supply bottlenecks are tending to turn down low-margin orders in favour of lucrative business. On the other hand, these developments are outweighed by cost increases due to more inefficient production processes as a result of supply chain delays.

Companies report that given the general price dynamics, higher sales prices are easier to push through. However, this room for manoeuvre is only being used to increase margins in isolated cases. Furthermore, higher purchase prices are having a curbing effect at companies that cannot fully or immediately pass the increases through to sales prices. Reasons for this can be intense competition, contractual agreements or the preservation of long-term customer relationships.

The liquidity situation remains unproblematic for the vast majority of companies (cf. chart 5). Around two-thirds describe the current liquidity situation as comfortable to very comfortable. Around one-fifth describe it as sufficient. Fewer than 5% of companies report a slightly or significantly tight liquidity situation.

Chart 4

RECRUITMENT DIFFICULTIES

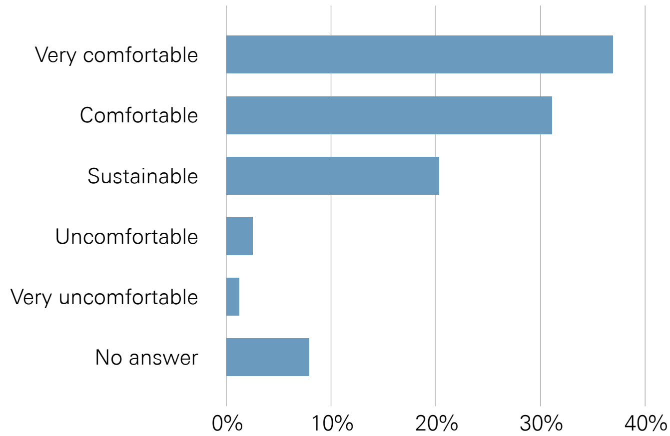


A positive (negative) index value signals more (less) pronounced recruitment difficulties than normal.

Source(s): SNB

Chart 5

LIQUIDITY SITUATION



Assessment of current liquidity situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

The trade industry has seen strong increases in turnover. Wholesale in particular is profiting from the recovery in the hospitality industry and robust demand from construction. Retail sales figures are also developing positively overall. The fact that consumer habits are returning to normal now that the pandemic has subsided is, however, creating both winners and losers within the industry. The losers include companies that are again facing increased competition from neighbouring countries. While demand in the motor vehicle trade remains brisk, supply bottlenecks are a major challenge for these companies in particular, with the result that not all orders can be met in full.

Hospitality continues to recover, supported by the lifting of Switzerland's entire coronavirus measures. Turnover in food services is seeing a marked increase thanks to robust domestic demand. The hotel industry is seeing a steady recovery in bookings from Europe, North America and the Arab region. Guests from China, on the other hand, remain absent. Against the backdrop of a significant overall increase in demand, companies consider staff levels to be too low and see recruiting new staff as a major challenge. The reasons cited by companies are the reorientation of skilled workers to other industries during the pandemic and greater difficulty in recruiting from nearby foreign countries. Because of persistent recruitment difficulties, some companies have little confidence that they will be able to increase staff levels to the desired extent in the coming quarters.

Growth momentum has slowed slightly in the financial industry. While turnover at banks has seen a slower pace of development, insurers are recording robust increases in turnover. Negative developments on the stock markets have resulted in a decline in commissions in the trading business at some banks, although they have been partially able to offset this with additional revenues from the mortgage business and new client money. The insurance industry reports that rising interest rates have led to greater interest in pension and retirement saving solutions.

Turnover in the ICT industry has increased again. However, the shortage of IT specialists has continued to worsen this quarter, meaning that vacancies remain unfilled and growth is impaired. Nevertheless, with demand remaining high thanks to digital transformation and the increase in cybersecurity requirements, the ICT industry has great growth potential. There is heightened uncertainty about the coming quarters among telecommunications companies, which rely on electronic components and are therefore harder hit by procurement bottlenecks.

Business is developing positively in many manufacturing industries despite a slowdown in momentum due to increasing supply bottlenecks. In particular, companies in life sciences as well as in the mechanical engineering, electrical engineering and metals industries have recorded strong growth in turnover. Supply bottlenecks are a serious concern for manufacturing, particularly for manufacturers of electrical equipment and machinery requiring electronic components. Affected companies are avoiding production losses by way of stocking up inventories, long-standing customer relationships and substituting individual intermediate goods where possible. An increasing number of companies, however, are unable to fully prevent delays or even stops to production.

Construction continues to benefit from a persistently good order situation. In particular, building construction as well as completion and finishing companies are recording strong turnover growth, thanks primarily to sustained high demand for residential space. The rising need for energy-efficient renovations and robust demand from the public sector are providing additional support. Despite the good order situation, increases in the price of materials are putting growing pressure on margins. Companies are increasingly indexing prices by means of inflation clauses in order to cushion the negative effect on margins. In isolated cases, construction projects are also being postponed by clients because of the rise in costs. Staff shortages are likewise cited as a challenge in construction, although the problem is less acute here than in other industries. Despite uncertainties, construction companies expect turnover to continue to develop positively in the coming quarters.

OUTLOOK

Companies remain confident despite high level of uncertainty

Despite staff shortages and procurement difficulties, companies anticipate growing turnover in the next two quarters (cf. chart 6). Their confidence is based on the positive overall momentum of the global economy and the fact that domestic demand remains robust. Uncertainty, however, remains high (cf. chart 7). Around 60% of companies report greater uncertainty with regard to the development of their business in the next two quarters. The war in Ukraine and the fact that the procurement situation is even tighter because of China's zero-COVID strategy are particularly unsettling. Some company representatives point out that the coronavirus pandemic could flare up again. By contrast, around 25% of companies describe the level of uncertainty as normal. Around 15% perceive a lower level of uncertainty, mostly because they are profiting from committed orders to a greater extent than usual or because they deem the risks around the coronavirus pandemic to be lower.

In line with the expected turnover growth and despite the pronounced uncertainty, companies' appetite for investment continues to develop positively. A key driver seems to be the shortage of staff, which various companies are addressing by investing more in automation. They are also increasingly taking measures to reduce energy costs.

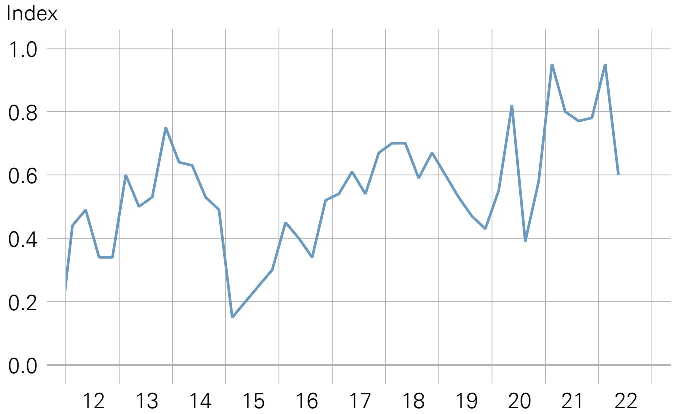
Only moderate increases in wages despite increased demand for personnel

There are plans to increase staff numbers significantly in the next two quarters (cf. chart 8). These plans are based on the one hand on the fact that business prospects remain favourable and on the other on the fact that many companies consider current staffing levels to be too low – the latter being attributable to both strong growth in orders as well as recruitment difficulties. The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, life sciences, mechanical engineering, electrical engineering and metals, as well as architecture and engineering firms. Added to this, companies in retail, logistics and food services plan to increase staff levels.

Against a backdrop of muted wage developments last year, an increasingly tight labour market and growing inflation, companies report growth in wages will pick up somewhat this year but will remain moderate. Companies are raising wages by an average of 1.6% after increases of 0.8% last year. Similar to the recent past, wages for particularly sought-after specialists are rising the most in ICT, and now also in the hotel industry. In light of higher inflation and the tight labour market situation, companies anticipate continued growth in wages for the coming year.

Chart 6

EXPECTED TURNOVER

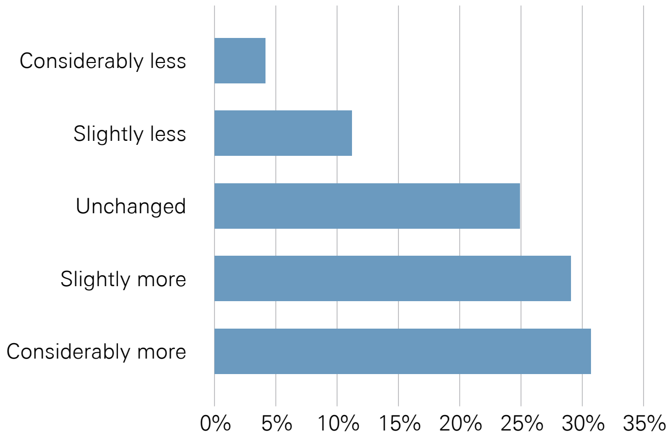


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

UNCERTAINTY

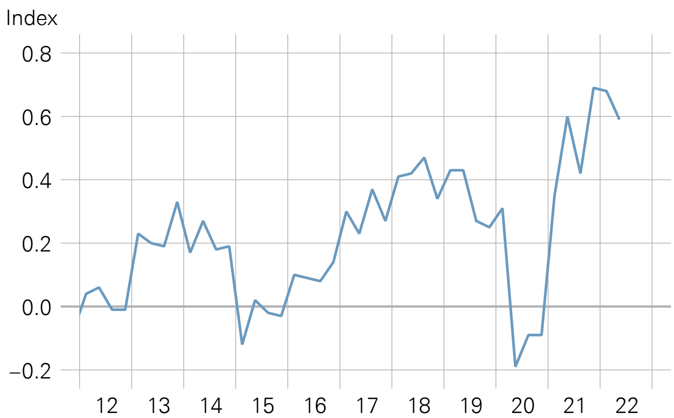


Uncertainty about development of business over the next two quarters.

Source(s): SNB

Chart 8

EXPECTED EMPLOYMENT



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

Source(s): SNB

Sustained upward pressure on purchase and sales prices
Given sustained robust demand, the continuing tight supply situation as well as higher transport and energy costs, company representatives anticipate further increases in the purchase prices of a broad range of intermediate and semi-finished products in the next two quarters. In particular, the scarcity of electronic components will result in a further rise in their prices. While there were certain signs at the beginning of the year that developments in energy and raw material prices were flattening off, the war in Ukraine put a stop to this incipient return to normal. Towards the end of the period during which the talks were conducted, however, companies were reporting that prices, especially for raw materials, have probably peaked.

Companies expect their sales prices to also increase further. In all sectors, the higher costs are continuously being passed through to sales prices. Construction companies in particular are now indexing their prices on a broad basis, enabling them to pass on price increases of their raw materials almost in full. In addition to this, prices in the hospitality industry, which has been hard hit by the pandemic, are expected to return to normal as demand recovers.

ENVIRONMENT AND RISKS

Recruitment a major challenge
The fact that recruitment difficulties continue to worsen poses a major challenge for companies. Increasingly, they report that they can no longer keep up with the high volume of orders in full and can thus not accept all work. The majority of companies do not expect the situation to ease in the coming quarters. Accordingly, a certain degree of uncertainty prevails as to whether plans to increase staff numbers at many companies will be entirely successful.

Procurement difficulties a source of concern
Many companies are also concerned about the procurement situation with a view to the coming quarters. They do not expect the situation to ease in the short term. Companies believe that further developments will depend on factors such as the duration of the coronavirus lockdowns in China and the course of the war in Ukraine. On the one hand, new lockdowns in China could, in particular, further delay the supply of electronic components and cause production losses. On the other hand, the war in Ukraine could lead to problems with energy supply or even greater difficulties in procuring raw materials.

War in Ukraine causing uncertainty
Companies describe the war in Ukraine as a substantial risk to what is in itself a positive business outlook. In addition to the turmoil on the energy and commodity markets, global economic developments, which are difficult to assess, are causing uncertainty. Companies in the tourist industry also expect enthusiasm for travel to Europe to remain low, especially among Asian tourists.

Concerns around global rise in inflation
Companies are observing with concern the significant worldwide increase in inflation. This makes pricing more difficult and generally makes it harder to plan with any certainty. There are also fears that a decline in real incomes will curb demand for consumer goods. In construction in particular, concerns are being voiced that significant increases in the costs of construction and higher interest rates will dampen demand from residential construction.

Digitalisation and sustainability trend as opportunity and risk
The majority of companies see ongoing digitalisation as an opportunity to make production processes more efficient. At the same time, closer interconnectedness – including via online sales channels – means that cybersecurity is becoming an ever-greater challenge.

With a somewhat longer forecast horizon, the trend to sustainability resulting from climate change is also seen by many companies as an opportunity for new business models. This particularly applies to the broad field of energy efficiency. However, some aspects of the trend to sustainability are viewed critically, especially when it comes to its impact on the supply of energy. Increasing regulation and the additional investment this necessitates are also perceived as a significant cost factor by some companies.

INFLATION EXPECTATIONS

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

There has been a further increase in short-term inflation expectations as measured by the consumer price index: The average for the next six to twelve months (cf. chart 9) is 3.1%, compared with 2.3% in the previous quarter. The increase is often explained in terms of rising producer prices, particularly the price of energy, which company representatives believe will be passed through to consumer prices.

Representatives still expect inflation, which has risen in the short term, to gradually decline again, although they do believe this might happen somewhat more slowly than originally anticipated. Inflation expectations over a three to five-year horizon have thus risen from 1.6% to 1.9%.

Chart 9

EXPECTED INFLATION

Source(s): SNB

About this report

Approach
Each quarter, the SNB's delegates for regional economic relations hold talks with members of management at 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, relevance should be attached to their overall development, rather than to their numeric level or individual changes.

Additional information
Further information on the 'Business cycle signals' report is available at www.snb.ch, The SNB/SNB regional network.

Chronicle of monetary events

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

June 2022

At its quarterly assessment of 16 June, the SNB tightens its monetary policy and raises the SNB policy rate by half a percentage point to –0.25%. In doing so, it seeks to counter increased inflationary pressure and prevent inflation from spreading more broadly to goods and services. To ensure appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. With effect from 1 July 2022, the SNB also adjusts the threshold factor used to calculate the level of banks' sight deposits at the SNB exempt from negative interest. The factor will be lowered from 30 to 28. This will ensure that the secured short-term Swiss franc money market rates are close to the SNB policy rate.

March 2022

At its quarterly assessment of 24 March, 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 is willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation and the inflation rate differential with other countries into consideration. Russia's invasion of Ukraine has led to a strong increase in uncertainty worldwide. Against this backdrop, the SNB with its expansive monetary policy is ensuring price stability and supporting the Swiss economy.

December 2021

At its quarterly assessment of 16 December, 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 thus ensures price stability and supports the Swiss economy in its recovery from the impact of the coronavirus pandemic.

September 2021

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.

June 2021

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.

April 2021

On 23 April, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the US 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.

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 calendar 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. The Swiss Federal Statistical Office therefore takes neither energy and fuel nor unprocessed food and seasonal goods and services into account when calculating the SFSO1 core inflation rate. The TM15, as calculated by the SNB, excludes the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest every month.
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 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, 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.
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.
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.
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.
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.
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 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.

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