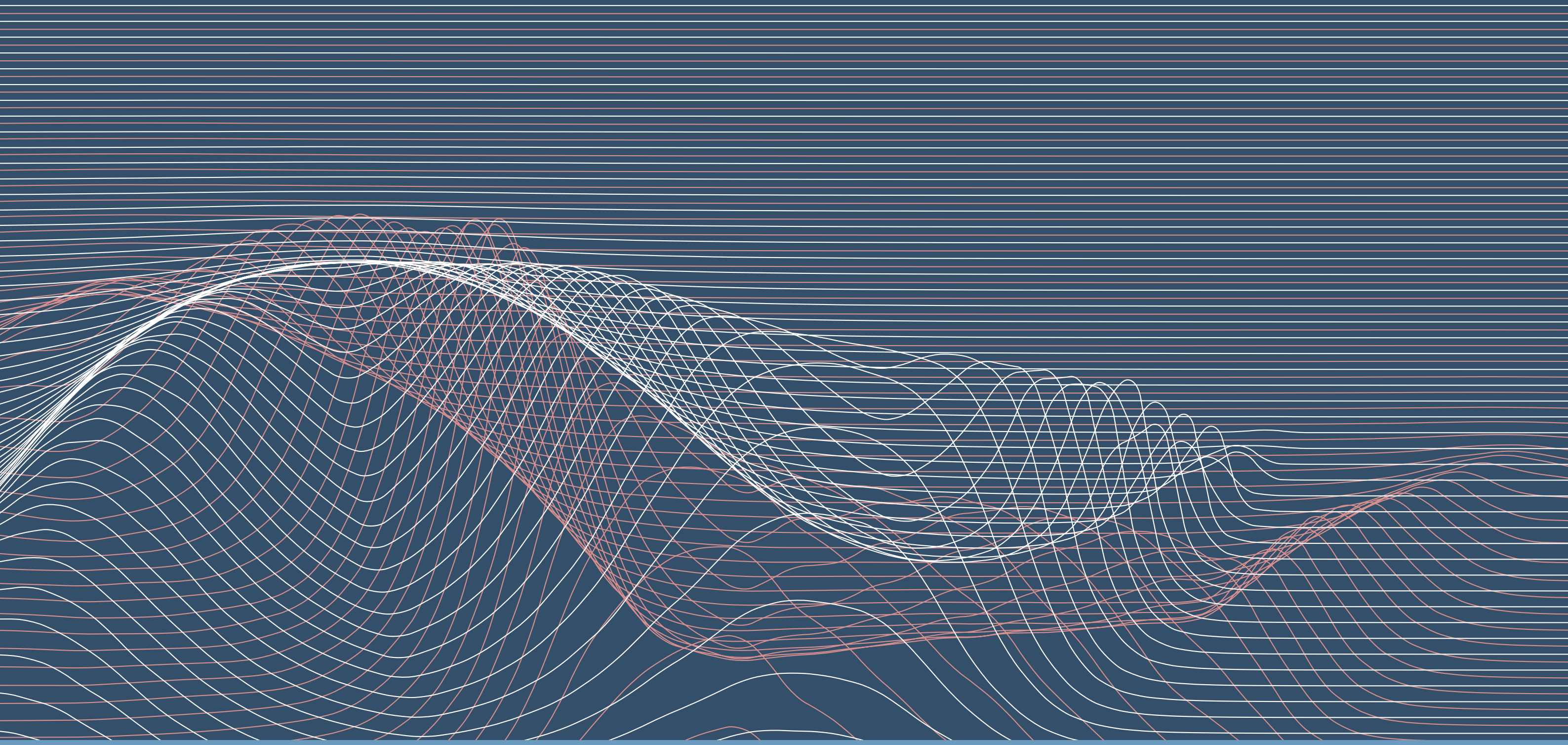

Quarterly Bulletin
3/2022 September

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
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 September 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 22 September 2022') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 22 September 2022. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 22 September 2022, the SNB decided to further tighten monetary policy. It raised the SNB policy rate to 0.5% in order to counter the rise in inflationary pressure and the spread of inflation to goods and services that have so far been less affected. The conditional inflation forecast was above that of June, and would have been significantly higher without the increase in the SNB policy rate.

- Global economic growth has slowed considerably in recent months. At the same time, inflation in many countries is markedly above central banks' targets. In its baseline scenario for the global economy, the SNB expects weak economic growth in the coming quarters. Inflation will remain elevated for the time being.

- In Switzerland, too, economic momentum slowed. The SNB still expects GDP growth of around 2% for 2022. The level of uncertainty associated with the forecast remains high.

- Annual CPI inflation continued to rise, and stood at 3.5% in August. The short-term inflation expectations derived from surveys presented a mixed picture. The longer-term inflation expectations remained within the range consistent with price stability.

- The Swiss franc appreciated slightly more strongly in nominal than in real terms. High global uncertainty about economic and inflation developments as well as the outlook for monetary policy caused bond yields to fluctuate strongly. Real estate prices rose. Growth in monetary aggregates slowed further. Lending growth remained robust.

1
Monetary policy decision of 22 September 2022

Swiss National Bank tightens monetary policy further and raises SNB policy rate to 0.5%
The SNB is tightening its monetary policy further and is raising the SNB policy rate by 0.75 percentage points to 0.5%. In doing so, it is countering the renewed rise in inflationary pressure and the spread of inflation to goods and services that have so far been less affected. It cannot be ruled out that further increases in the SNB policy rate will be necessary to ensure price stability over the medium term. To provide 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 23 September 2022. Moreover, the SNB is adjusting the implementation of its monetary policy to the positive interest rate environment. This ensures that the secured short-term Swiss franc money market rates remain close to the SNB policy rate. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of zero percent. The SNB will also use liquidity-absorbing measures.

Inflation rose to 3.5% in August and is likely to remain at an elevated level for the time being. The latest rise in inflation is principally due to higher prices for goods, especially energy and food. The SNB's new conditional inflation forecast is based on the assumption that the SNB policy rate is 0.5% over the entire forecast horizon (cf. chart 1.1). Up to mid-2024, the forecast is above that of June. After that, it is lower due to the now tighter monetary policy. At the end of the forecast horizon, inflation stands at 2%. The new forecast puts average annual inflation at 3% for 2022, 2.4% for 2023 and 1.7% for 2024 (cf. table 1.1). Without the SNB policy rate increase to 0.5%, the inflation forecast would be significantly higher.

Global economic growth has slowed considerably in recent months. At the same time, inflation in many countries is markedly above central banks' targets. In response, numerous central banks have further tightened their monetary policy.

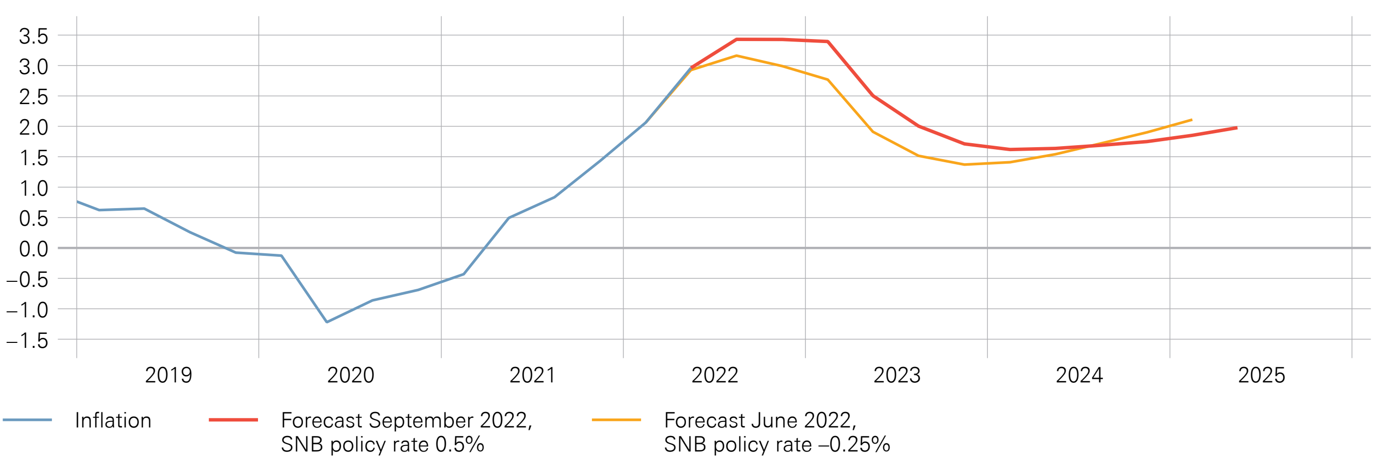
In its baseline scenario for the global economy, the SNB expects only weak economic growth. In particular, the energy situation in Europe, the loss of purchasing power due to inflation, and tighter financing conditions are having a dampening effect. Inflation will remain elevated for the time being. However, the importance of temporary factors such as supply bottlenecks is likely to diminish over the medium term. The increasingly tighter monetary policy in many countries should also help inflation gradually return to more moderate levels.

This scenario for the global economy is subject to significant risks. For example, the energy situation could worsen again. At the same time, high inflation could become embedded and require stronger monetary policy responses abroad. Finally, the course of the coronavirus pandemic remains an important source of risk.

In Switzerland, GDP growth in the second quarter was lower than expected, at 1.1%. This was mainly due to weaker performance in manufacturing. The short-term outlook has deteriorated. By contrast, the situation on the labour market has remained positive.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2022
Year-on-year change in Swiss consumer price index in percent



Source(s): SFSO, SNB

The further development of the economy is likely to be shaped by the economic slowdown abroad and the availability of energy in Switzerland. To date, the prices of natural gas and electricity in particular have risen sharply.

For this year, the SNB anticipates GDP growth of around 2%. This is roughly half a percentage point lower than at the last monetary policy assessment. The level of uncertainty associated with the forecast remains high. The biggest risks are a global economic downturn, a worsening of the gas shortage in Europe and a power shortage in Switzerland. Furthermore, a resurgence of the coronavirus pandemic cannot be ruled out.

Both mortgage lending and prices for single-family houses and privately owned apartments have continued to rise in recent quarters, while the latest data show signs of a slowdown in the residential investment property segment. 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 SEPTEMBER 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	3.0			0.4	−0.7	0.6

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2022

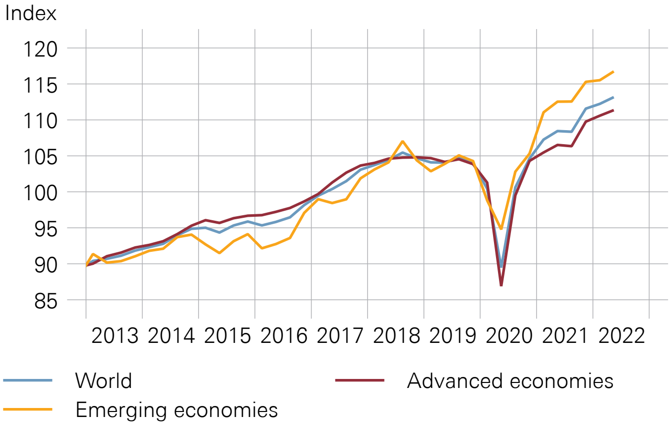
	2022				2023				2024				2025				2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2022, SNB policy rate −0.25%		2.9	3.2	3.0	2.8	1.9	1.5	1.4	1.4	1.5	1.7	1.9	2.1				2.8	1.9	1.6
Forecast September 2022, SNB policy rate 0.5%			3.4	3.4	3.4	2.5	2.0	1.7	1.6	1.6	1.7	1.7	1.9	2.0			3.0	2.4	1.7

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

Global economic growth has slowed considerably in recent months. Global trade nevertheless continued to expand strongly in the second quarter (cf. chart 2.1), and unemployment in the advanced economies has remained at roughly the same low level in recent months as before the coronavirus pandemic (cf. chart 2.9).

Inflation in many countries is markedly above central banks' targets. In response, numerous central banks have further tightened their monetary policy.

In its baseline scenario, the SNB expects this challenging situation to persist for now. Global economic growth is likely to remain weak in the coming quarters. In particular, the energy situation in Europe, the loss of purchasing power due to inflation, and tighter financing conditions are having a dampening effect. Inflation will remain elevated for the time being. However, the importance of temporary factors such as supply bottlenecks, which are currently contributing to price increases for various goods, is likely to diminish over the medium term. The increasingly tighter monetary policy in many countries should also help inflation gradually return to more moderate levels.

This scenario for the global economy is subject to significant risks. For example, the energy situation could worsen again. At the same time, high inflation could become embedded and require stronger monetary policy responses abroad. Finally, the coronavirus pandemic continues to pose important downside risks to growth.

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

					Scenario	
	2018	2019	2020	2021	2022	2023
GDP, year-on-year change in percent						
Global [1]	3.6	2.9	−3.1	6.1	1.7	1.8
US	2.9	2.3	−3.4	5.7	1.7	0.7
Euro area	1.8	1.6	−6.2	5.2	2.9	0.7
Japan	0.6	−0.4	−4.6	1.7	1.4	1.9
China [2]	6.7	6.1	1.8	8.6	3.0	5.8
Oil price in USD per barrel	71.0	64.3	41.8	70.7	104.0	98.0

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

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 98 per barrel, compared with USD 108 in the last baseline scenario, and an exchange rate of USD 1.02 to the euro compared with USD 1.06 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Since the monetary policy assessment in June, international financial markets have been caught between rising inflation and mounting concerns about the economy. Financial market sentiment has remained volatile as a result.

Having suffered significant losses in the first half of the year, global stock markets fluctuated. After an initial recovery, the MSCI World Index declined again from mid-August and was recently only slightly higher than its mid-June level. In addition, the implied volatility of stocks as measured by option prices – e.g. the VIX index in the US – increased latterly once again (cf. chart 2.2). Developments were initially influenced by weaker economic signals, which were interpreted by the market to mean that monetary policy in the advanced economies could be relaxed again faster than expected in the medium term. However, risk appetite was recently dampened somewhat by reaffirmations of central banks in advanced economies that inflation is to be combated decisively, even if this has the effect of curbing economic activity.

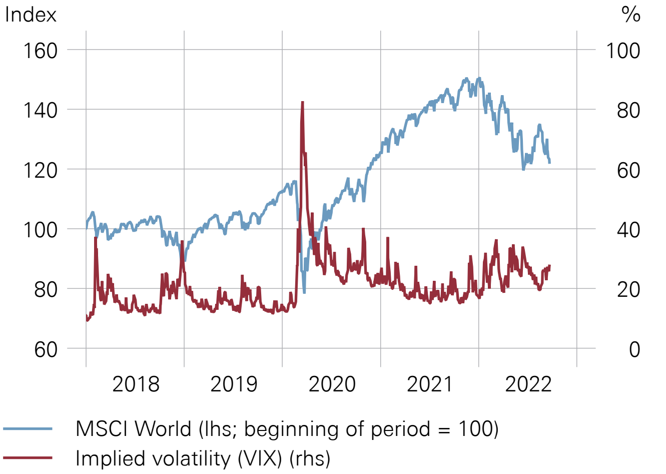
Yields on ten-year government bonds in advanced economies showed considerable movement and were recently just above their mid-June levels. Economic concerns initially led to a significant decline in yields. Yields increased again, however, towards the end of the period under review, as the inflation trend in advanced economies suggested a more substantial tightening of monetary policy in the short term (cf. charts 2.3 and 2.4). Yield curves flattened markedly.

Activity on the foreign exchange markets continued to be dominated by the divergence in monetary policy expectations. Concerns over the energy supply in Europe and global economic developments also played a key role. Against this backdrop, the US dollar gained considerable ground on a trade-weighted basis, while the euro, pound sterling and yen depreciated (cf. chart 2.5). The euro fell below parity against the dollar for the first time in 20 years.

Commodity prices have been on the decline since mid-year. The price of Brent crude recently returned to below USD 100 per barrel, but was still higher than at the beginning of the year (cf. chart 2.6).

Chart 2.2

STOCK MARKETS

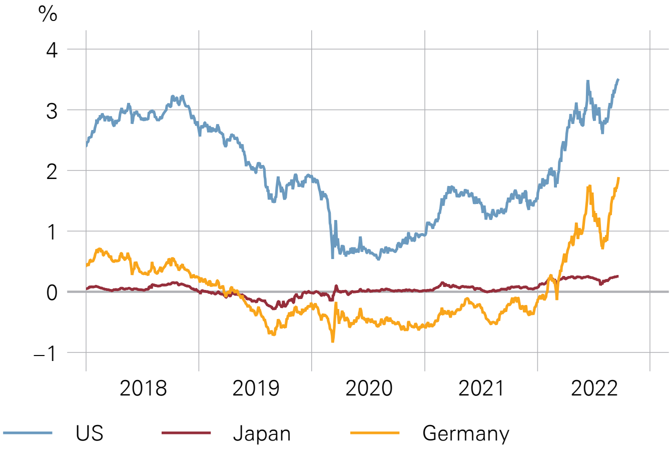


Source(s): Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

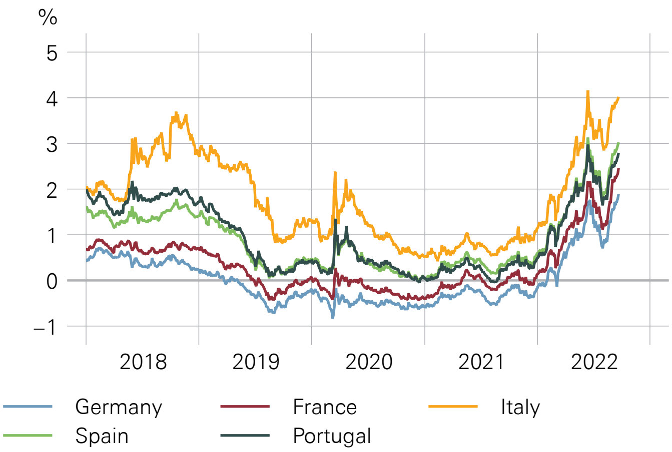


Source(s): Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments

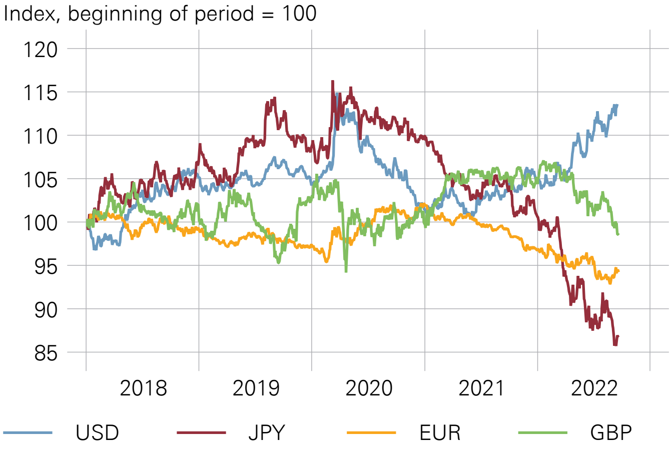


Source(s): Refinitiv Datastream

Chart 2.5

EXCHANGE RATES

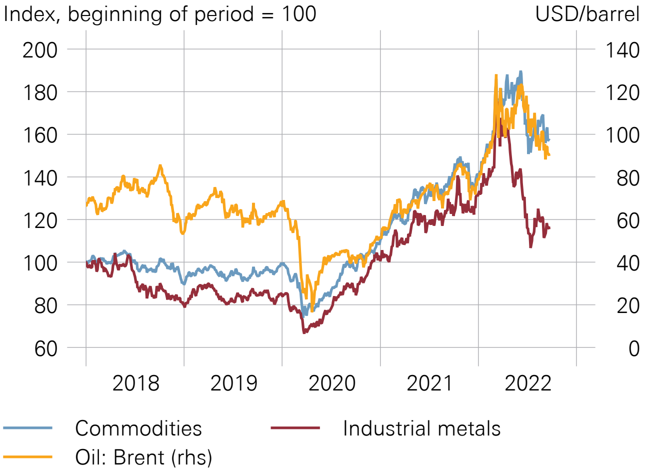
Trade-weighted



Source(s): Refinitiv Datastream

Chart 2.6

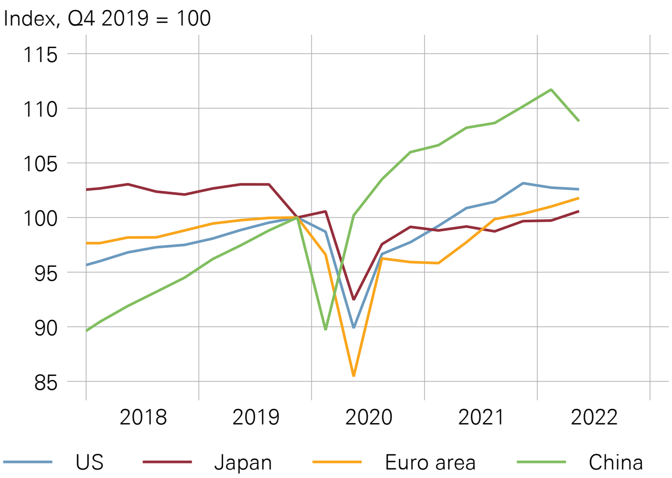
COMMODITY PRICES



Source(s): Refinitiv Datastream

Chart 2.7

REAL GDP



Source(s): Refinitiv Datastream

UNITED STATES

In the US, GDP fell by 0.6% in the second quarter, having dropped 1.6% in the previous quarter (cf. chart 2.7). Private consumption and investment both lost momentum. A reduced increase in inventories also contributed to the weak GDP growth.

Labour market developments, by contrast, were robust. Employment figures once again rose substantially, exceeding their levels from before the coronavirus pandemic for the first time in August, while the unemployment rate remained relatively low at 3.7% (cf. chart 2.9). Overall, the situation on the labour market suggests that production capacity is well utilised. This is also reflected in above-average wage growth.

In the second half of the year, GDP will likely only experience below-average growth, primarily because the high level of inflation is putting pressure on households' real incomes and weighing on consumption. In addition, investment is also being held back by financing conditions having worsened. Added to this are a less expansionary fiscal policy and further tightening of monetary policy. Overall, the SNB is revising its growth forecast for the US downwards, to 1.7% for 2022 and 0.7% for 2023 (cf. table 2.1).

Consumer price inflation stabilised in recent months at a high level and stood at 8.3% in August (cf. chart 2.10). Inflation is currently broadly based, partly reflecting higher energy and food prices. However, core inflation was also exceptionally high in August, at 6.3% (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 July.

Against the background of strong inflation, the Fed increased its target range for the federal funds rate by 75 basis points in July, and again in September, to 3.0–3.25% (cf. chart 2.12). It also signalled additional interest rate hikes for the current year.

EURO AREA

In the euro area, GDP expanded by 3.1% in the second quarter (cf. chart 2.7). The services sector exhibited a strong recovery following the lifting of coronavirus measures towards the end of the first quarter. Manufacturing, by contrast, virtually stagnated, as a number of industries were affected by supply bottlenecks. Labour market developments were positive. Employment figures climbed further, while unemployment, at 6.6% in July, was considerably lower than shortly before the pandemic (cf. chart 2.9). Overall capacity utilisation was recently good.

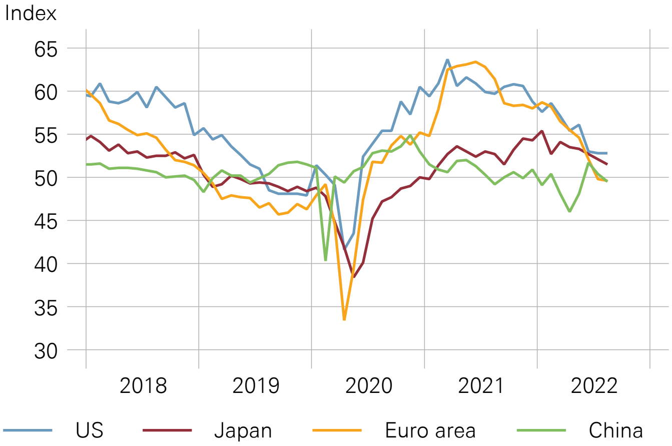
The growth outlook has deteriorated significantly, however, with higher inflation putting pressure on households' real income and thus weighing on consumer expenditure. Furthermore, companies are having to restrict their gas consumption because of reduced gas supplies from Russia, which in turn will curb production. The economy is therefore likely to stagnate in the quarters ahead. Nevertheless, owing to robust growth in the first half of the year, GDP expansion for 2022 is expected to be 2.9%. For 2023, the SNB has lowered its forecast significantly, to 0.7% (cf. table 2.1).

Consumer price inflation advanced further in recent months and stood at 9.1% in August (cf. chart 2.10). This was primarily driven by energy and food prices, which increased substantially with the war in Ukraine. Core inflation recently stood at 4.3% (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 and high energy costs.

The ECB raised its key interest rates in July by 50 basis points and in September by a further 75. The relevant interest rate in the money market for the deposit facility thus stands at 0.75% (cf. chart 2.12). It signalled additional interest rate hikes in the quarters ahead. Furthermore, it decided to suspend the two-tier remuneration system, so that all excess reserves will, from now on, be remunerated at the applicable deposit facility rate. In July, it also approved the Transmission Protection Instrument (TPI). Under this programme, the ECB may purchase securities issued in individual countries in order to combat a deterioration in financing conditions not warranted by fundamentals and affecting the transmission of monetary policy. Eligibility for the programme depends on whether the country in question pursues sound fiscal and macroeconomic policies.

Chart 2.8

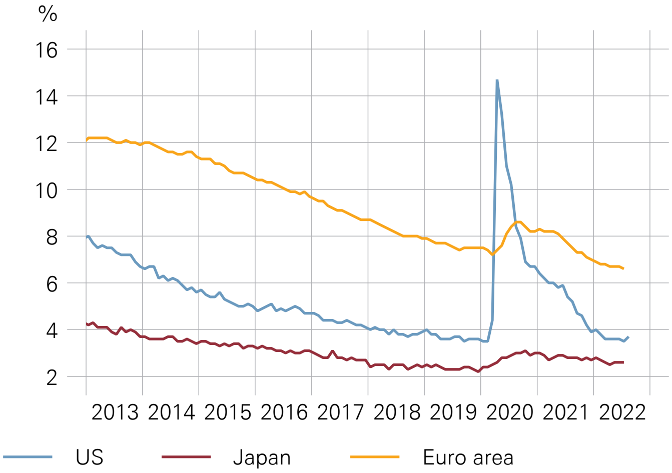
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source(s): Institute for Supply Management (ISM), S&P Global

Chart 2.9

UNEMPLOYMENT RATES

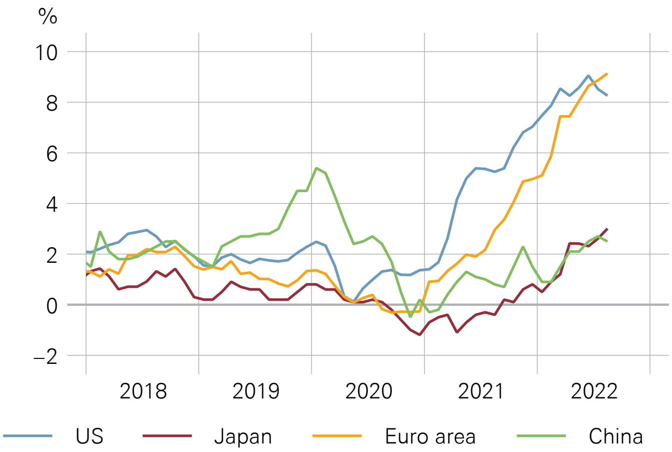


Source(s): Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

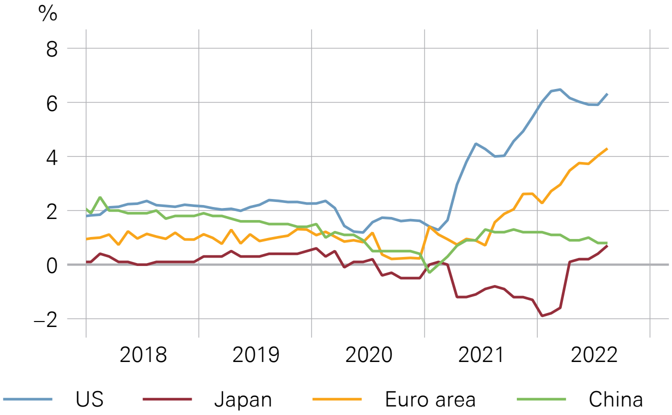


Source(s): Refinitiv Datastream

Chart 2.11

CORE INFLATION RATES [1]

Year-on-year change

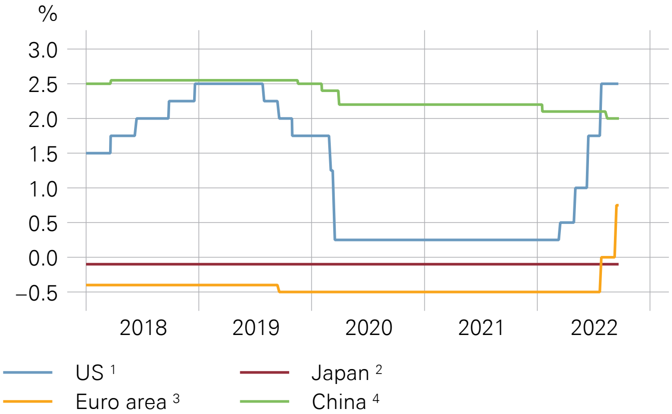


1 Excluding food and energy

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 expanded by 3.5% in the second quarter, thus reaching its pre-crisis level (cf. chart 2.7). Domestic final demand and activity in the services sector recovered from the adverse effects of the coronavirus state of emergency in the first quarter. Manufacturing, on the other hand, was affected by the lockdowns in China and the associated supply bottlenecks. Employment figures remained lower than before the pandemic, while the unemployment rate was still slightly above its pre-crisis level, at 2.6% in July (cf. chart 2.9).

In view of the sluggish recovery, overall capacity utilisation remains below average. Accordingly, there is still potential for the economy to recover lost ground. However, since mid-July, a further coronavirus wave is once again weighing on the consumption outlook. The increased cost of commodity imports as well as procurement problems in the automotive industry also continue to pose a challenge for companies. Moreover, the outlook for foreign demand has deteriorated. The SNB has therefore lowered its GDP forecast to 1.4% for 2022 and 1.9% for 2023 (cf. table 2.1).

Driven by higher energy and food prices, consumer price inflation continued to rise. It has now been above the Bank of Japan's long-term target since April and, in August, stood at 3.0% (cf. chart 2.10). Core inflation remained modest at 0.7%, however, with last year's cuts in mobile communication charges still weighing somewhat on annual inflation (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 below 2% next year. Against this backdrop, it left its targets under the yield curve control programme unchanged.

CHINA

In China, GDP contracted by 10.0% in the second quarter (cf. chart 2.7). This was due to lockdowns in numerous cities in response to the worst wave of infections since the beginning of the pandemic. The associated mobility restrictions hampered activity in the services and manufacturing sectors.

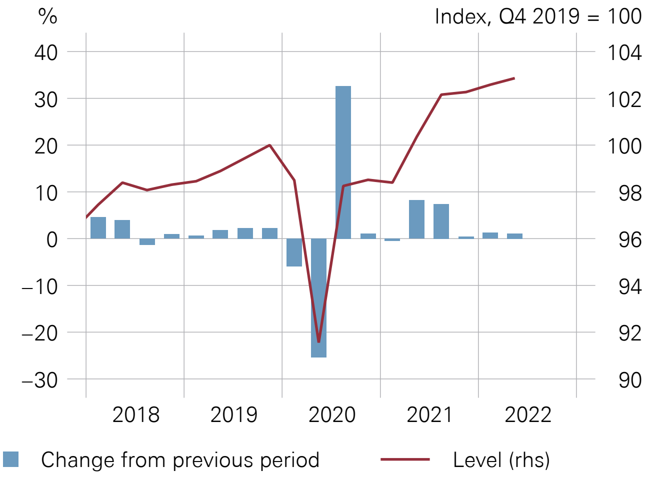
The economy looks set to recover again from the third quarter on. For one thing, the pandemic situation has eased somewhat overall, while a number of government stimulus measures – in particular infrastructure investment – are likely to begin taking effect. By contrast, the crisis in the residential real estate market continues to weigh on economic activity. In addition, the government's zero-COVID strategy is still having a negative impact on the economy, as repeated localised waves of infection lead to renewed lockdowns. Against this background, the SNB has lowered its 2022 growth forecast for China to 3.0%. For 2023, it expects GDP growth of 5.8% (cf. table 2.1).

Consumer price inflation rose to 2.5% in August, while core inflation remained virtually unchanged at 0.8% (cf. charts 2.10 and 2.11).

In view of the challenging economic situation, the People's Bank of China again lowered official interest rates slightly in August (cf. chart 2.12). In addition, authorities decided to implement further measures aimed at supporting the real estate market, including the provision of financial market guarantees to sound property developers.

Chart 3.1

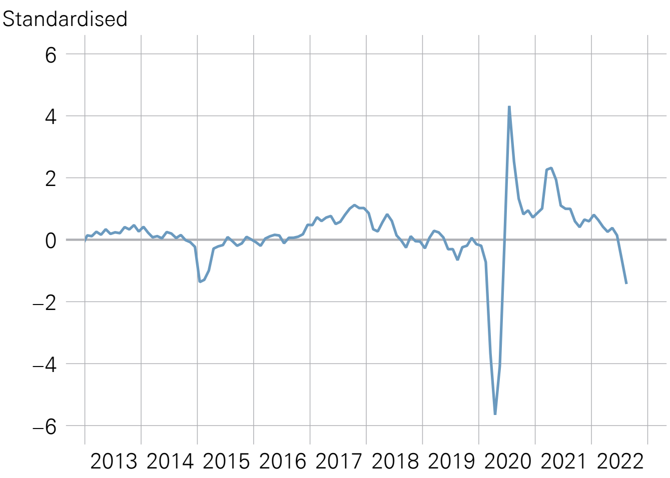
REAL GDP



Source(s): SECO

Chart 3.2

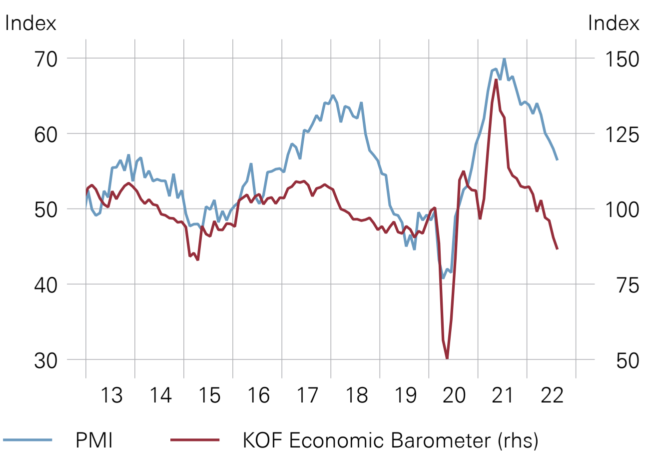
SNB BUSINESS CYCLE INDEX



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

In Switzerland, GDP growth in the second quarter was lower than expected, at 1.1%. This was mainly due to weaker performance in manufacturing.

On the labour market, on the other hand, the situation remained positive; employment increased significantly and unemployment declined further. Until recently, total production capacity was being well utilised.

However, the short-term outlook has deteriorated. The further development of the economy is likely to be shaped by the economic slowdown abroad and the availability of energy in Switzerland. To date, the prices of natural gas and electricity in particular have risen sharply. If there were to be rationing of gas or electricity, this would place a heavy burden on the Swiss economy.

For this year, the SNB anticipates GDP growth of around 2%. The level of uncertainty associated with the forecast remains high.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. Many economic indicators have weakened and point to a slowdown in economic activity in the third quarter.

Muted GDP growth in second quarter

According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP grew by 1.1% in the second quarter of 2022. Economic activity thus remained lacklustre (cf. chart 3.1).

Activity in manufacturing was subdued overall. This was largely attributable to a marked decline in value added in the pharmaceutical industry, while value added in other manufacturing industries increased further. In construction, value added registered a renewed decline. The services sector, by contrast, exhibited strong growth momentum, due in particular to the continued recovery of transport services and hospitality from the pandemic-induced downturn.

Although domestic demand performed favourably, foreign trade made a negative contribution to GDP in the wake of a marked decline in goods exports, especially in connection with merchanting (cf. table 3.1).

Faster recovery in 2021
According to the annual figures of the System of National Accounts, which are published by the Swiss Federal Statistical Office (SFSO), GDP grew by 4.2% in 2021. The economy thus recovered somewhat faster in the last year than estimated in SECO's provisional figures from May 2022 (3.8%).

Weakening in third quarter
Many economic indicators point to a slowdown in overall economic growth. Consumer sentiment deteriorated again on the back of rising inflation to reach an all-time low. Although companies still assess their business situation as positive, their outlook has also clouded somewhat.

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. Both indicators recently declined considerably and point to a drop in economic activity for the third quarter (cf. charts 3.2 and 3.3).

According to the purchasing managers' index (PMI) survey, however, signals in both manufacturing and services remained positive through to August. Nevertheless, a slowdown is also in evidence in the manufacturing PMI (cf. chart 3.3).

The talks held by the SNB's delegates for regional economic relations with companies also signal a weakening of economic growth in the third quarter. At the same time, procurement and recruitment problems continue to be a source of concern for companies, and uncertainty remains considerably high as a result of geopolitical risks and the possibility of an energy shortage in winter (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

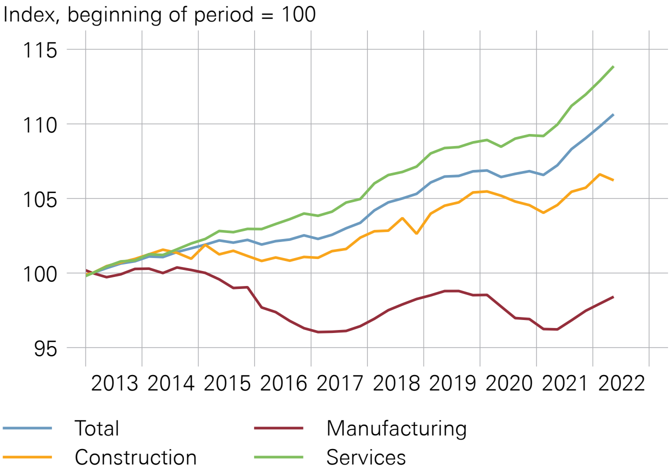
	2018	2019	2020	2021	2020		2021				2022	
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Private consumption	0.7	1.2	−4.1	1.6	45.0	−7.1	−13.6	16.5	9.9	0.6	1.5	5.6
Government consumption	0.8	0.8	3.5	3.5	2.6	4.3	5.2	2.2	3.1	1.4	0.7	−0.1
Investment in fixed assets	0.8	0.9	−3.1	4.2	37.2	0.4	1.2	6.1	0.1	11.1	−12.6	6.8
Construction	0.0	−0.9	−1.0	−3.0	14.2	−4.8	−4.8	−3.8	−3.6	−2.6	−2.9	−0.7
Equipment	1.2	1.9	−4.3	8.1	52.1	3.3	4.5	11.6	2.1	18.4	−16.8	10.7
Domestic final demand	0.7	1.1	−2.9	2.6	36.1	−3.5	−7.0	11.3	6.0	3.7	−3.0	5.1
Change in inventories [1]	1.1	0.6	−0.1	−1.9	3.7	−2.7	2.1	−5.5	−4.4	−3.5	−0.7	16.3
Total exports [2]	5.0	1.6	−4.6	11.1	29.0	17.8	2.6	15.6	22.0	8.5	4.5	−24.6
Goods [2]	4.5	3.4	−0.6	11.0	39.9	2.2	14.4	9.7	23.6	−8.0	24.3	−38.7
Goods excluding merchanting [2]	4.4	4.9	−2.9	12.9	43.2	14.1	20.3	10.2	14.0	10.2	6.5	−4.9
Services	5.9	−2.0	−12.5	11.5	6.7	62.6	−19.7	30.6	18.5	54.6	−28.8	21.7
Total imports [2]	3.5	2.7	−6.2	5.1	45.4	5.6	−4.4	11.4	13.7	10.1	−3.5	8.5
Goods [2]	6.2	2.8	−6.2	4.5	54.2	−1.3	4.8	−1.3	15.3	3.0	21.7	−2.3
Services	−0.2	2.7	−6.1	5.9	33.2	16.7	−16.2	32.6	11.6	20.8	−31.3	27.4
Net exports [3]	1.1	−0.4	0.3	3.7	−4.5	6.9	3.4	3.6	6.4	0.4	4.4	−19.7
GDP	**2.9**	**1.1**	**−2.4**	**4.2**	**32.6**	**1.1**	**−0.5**	**8.2**	**7.4**	**0.4**	**1.2**	**1.1**

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

Source(s): SECO

Chart 3.4

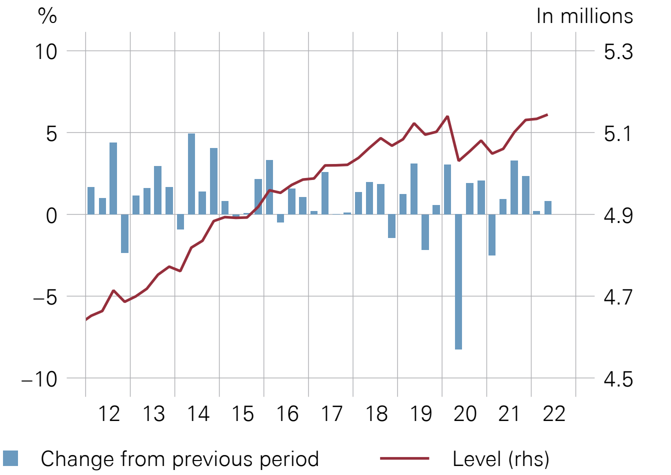
FULL-TIME EQUIVALENT JOBS



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.5

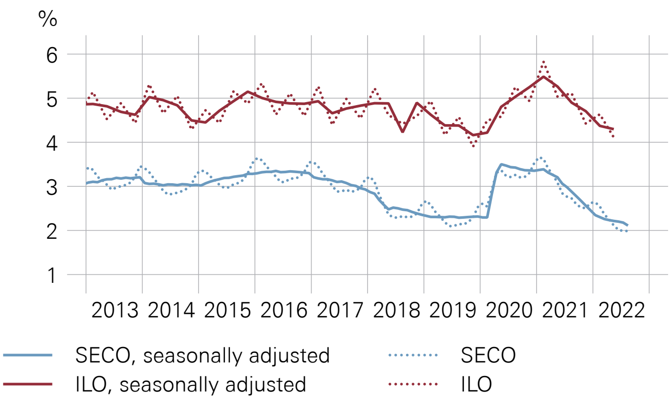
EMPLOYED PERSONS



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.6

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

LABOUR MARKET

The positive development in the labour market continued. Employment saw an increase, while unemployment receded further.

Employment growth in second quarter
According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose further in the second quarter. New jobs were created in both services and manufacturing. By contrast, employment levels declined in construction (cf. chart 3.4). The Employment Statistics (ES) confirmed the overall positive trend; the seasonally adjusted number of persons employed also increased (cf. chart 3.5).

Further decline in unemployment …
In recent months, the unemployment rate published by SECO decreased further. Excluding seasonal fluctuations, 97,000 people were registered as unemployed at the end of August, 5,000 fewer than at the end of May. The seasonally adjusted unemployment rate stood at 2.1% at the end of August, similar to the pre-pandemic level in February 2020. The unemployment figures calculated by the SFSO in line with the definition of the International Labour Organization (ILO) also receded. The seasonally adjusted rate stood at 4.3% in the second quarter, just marginally above its level before the outbreak of the pandemic (cf. chart 3.6).

… 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 32,000 to 3,000 between March and June. Thus, in June, just 0.1% of all economically active persons were still in short-time work.

CAPACITY UTILISATION

Positive output gap
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.

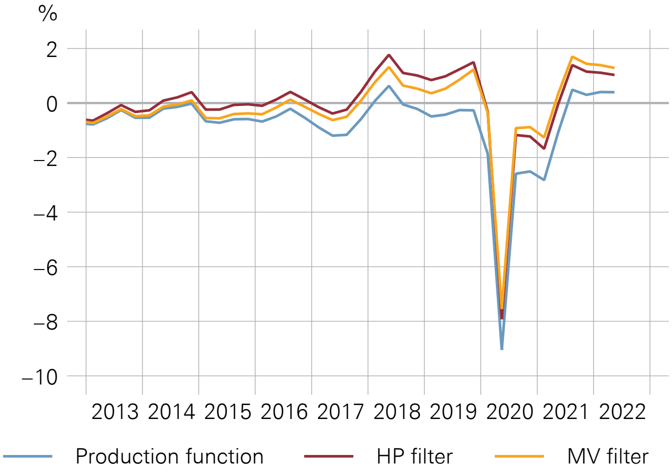
Overall utilisation of production capacity was higher than average in the second quarter. Potential output as estimated by means of a production function shows an output gap of 0.4% for the second quarter. Other estimation methods indicate a somewhat more positive gap (cf. chart 3.7).

Higher utilisation
In addition to estimating the aggregate output gap, surveys also play an important role in assessing utilisation levels. The surveys conducted by KOF show that technical capacity was well utilised overall in the second quarter. Although utilisation declined slightly in manufacturing and construction, it remained at an above-average level (cf. charts 3.8 and 3.9). Many areas of the services sector registered an increase in utilisation. In the hotel industry, for instance, average occupancy rates improved further. Utilisation was up in transport services as well, an area that had also been hard hit by the pandemic. Overall, in the second quarter, capacity utilisation in services was close to its long-term average.

As regards the labour situation, all surveys indicate that companies again found it more difficult to fill vacant positions in the second quarter. In many industries, staff levels were considered to be on the low side.

Chart 3.7

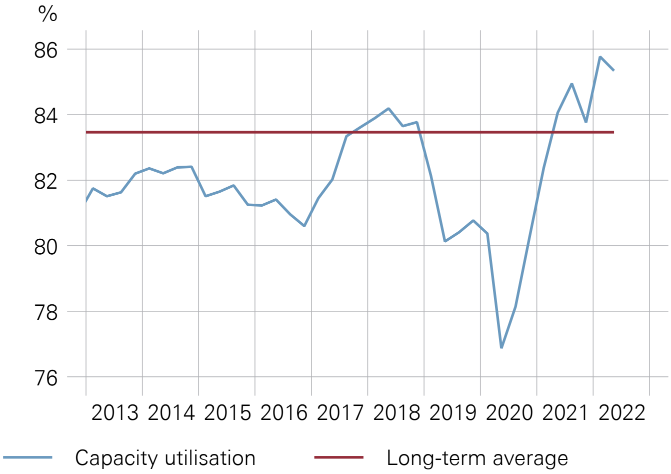
OUTPUT GAP



Source(s): SNB

Chart 3.8

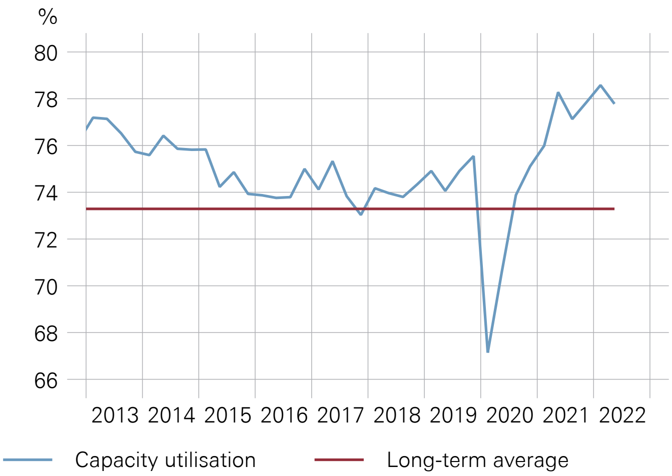
CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION

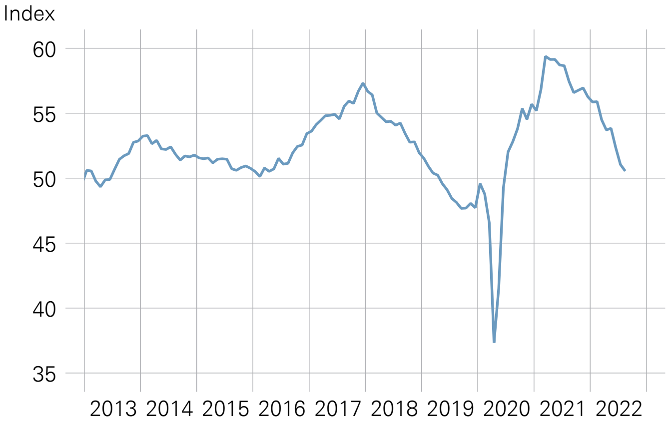


Source(s): KOF Swiss Economic Institute

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

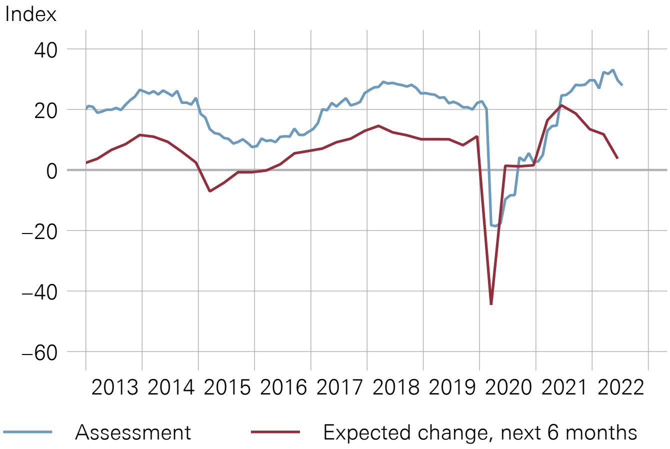


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

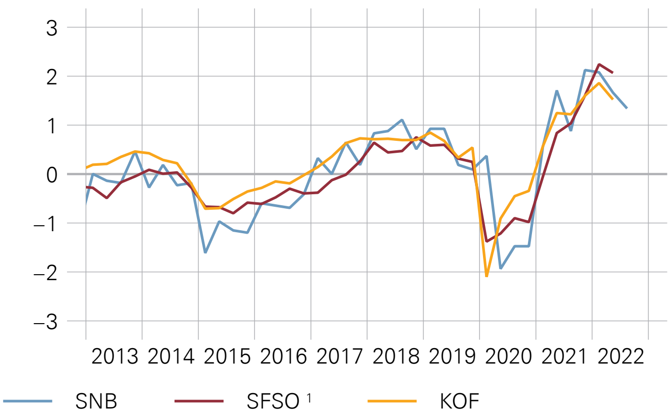


Source(s): KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

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

OUTLOOK

The economic outlook has worsened. There are clear signs of weakening growth abroad, as shown by the export-weighted manufacturing PMI (cf. chart 3.10). In addition, Swiss companies expect the business situation to deteriorate further in the months ahead (cf. chart 3.11). Growth in manufacturing is likely to remain weak. The services sector is also expected to lose some momentum. A further weakening of GDP growth is thus to be expected in the third quarter. The labour market, meanwhile, has not yet shown any signs of a trend reversal; the employment outlook remains positive (cf. chart 3.12).

The further course of the economy is likely to be influenced first and foremost by the extent of the economic slowdown abroad (cf. chapter 2). A second important factor is the availability of energy in Switzerland. Up to now, a shortage of natural gas, in particular, has led to a significant increase in the price of gas. If the energy shortage gets worse in Europe, Switzerland could also face rationing, which would put additional strain on the economy. However, it is difficult to gauge at this stage how the situation with the supply of gas and electricity in Switzerland will unfold and to what extent a shortage would affect the economy.

For this year, the SNB anticipates GDP growth of around 2%. Unemployment is likely to remain low for now. This forecast is based on the assumption that moderate cutbacks in gas consumption will be necessary in Switzerland, but that it will not come to an acute power outage. It also assumes that there will be no recession in Europe.

The level of uncertainty associated with the forecast is very high. A global economic downturn, an escalation in the energy situation in Europe and an energy shortage in Switzerland pose the greatest risks. A worsening in global supply bottlenecks and further price increases for commodities could also slow economic 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 3.5% in August, while core inflation reached 2.0% (SFSO1) and 1.7% (TM15).

Short-term inflation expectations presented a mixed picture. Longer-term inflation expectations changed little and 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

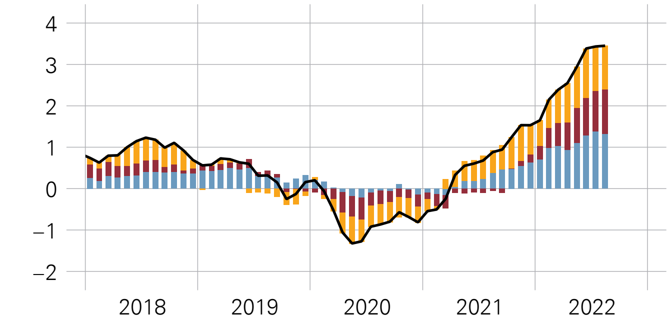
Continued rise in annual inflation rate
Annual CPI inflation has climbed further since May 2022. In August 2022, it stood at 3.5%, compared with 2.9% in May – an increase of 2 percentage points since the beginning of the year (cf. chart 4.1, table 4.1).

Higher inflation for imported products
The rise in annual CPI inflation was once again driven by the increase in inflation for imported goods and services, which climbed to 8.6% in August and was thus another 1.2 percentage points higher than in May.

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.

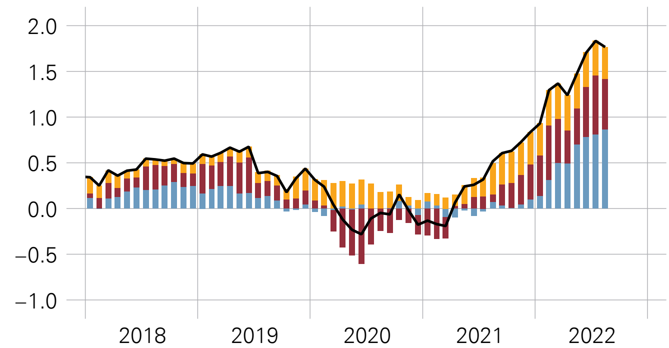


Source(s): SFSO, SNB

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

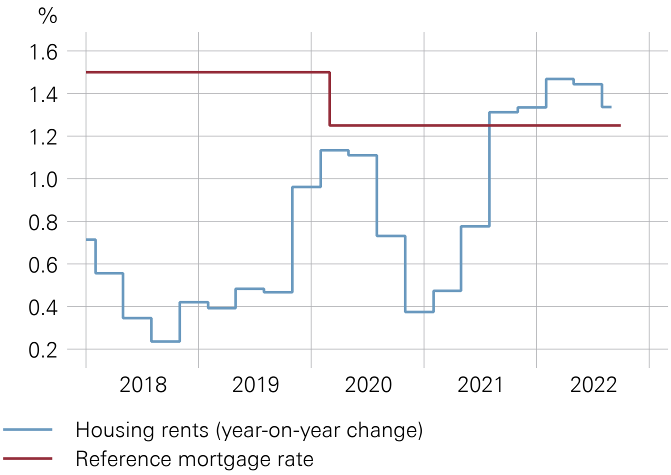
Year-on-year change in percent

	2021	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Jun	2022 Jul	2022 Aug
Overall CPI	**0.6**	**0.8**	**1.4**	**2.1**	**3.0**	**3.4**	**3.4**	**3.5**
Domestic goods and services	0.3	0.5	0.7	1.2	1.5	1.7	1.8	1.8
Goods	0.0	0.0	0.2	1.2	2.5	3.0	3.1	3.3
Services	0.4	0.6	0.9	1.2	1.1	1.2	1.4	1.2
Private services excluding housing rents	0.3	0.5	0.9	1.4	1.3	1.6	1.9	1.1
Housing rents	0.9	1.1	1.3	1.4	1.5	1.4	1.4	1.3
Public services	–0.1	0.1	0.0	0.0	0.0	–0.1	–0.1	1.1
Imported goods and services	1.5	2.0	3.7	4.8	7.5	8.5	8.4	8.6
Excluding oil products	–0.4	–0.4	0.5	2.1	3.6	4.1	4.5	4.8
Oil products	17.9	23.7	32.3	28.1	42.5	48.4	42.8	42.3

Source(s): SFSO, SNB

Chart 4.3

HOUSING RENTS

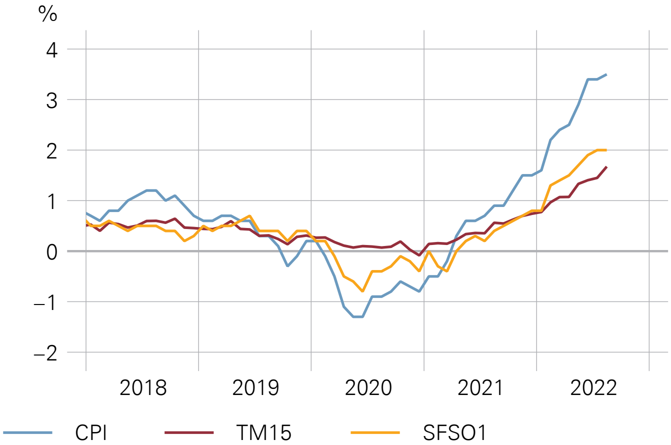


Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

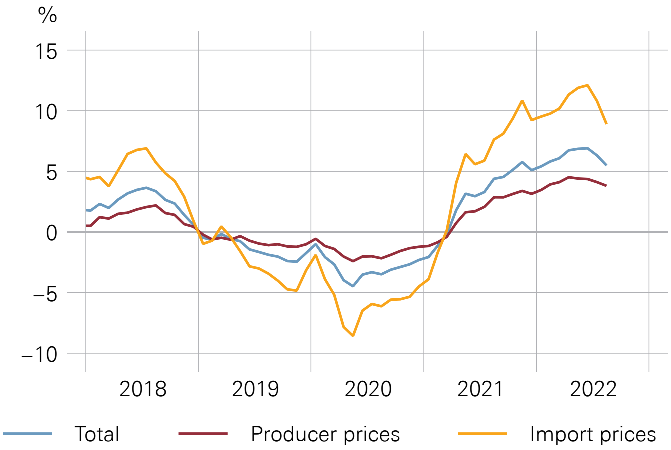


Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change



Source(s): SFSO

Inflation for oil products as well as for other imported goods and services rose further.

In August, inflation for oil products stood at 42.3%, compared with 40.6% in May (cf. table 4.1). Inflation for imported goods and services excluding oil products amounted to 4.8% in August and was therefore up 1.1 percentage points on May, putting it at its highest level since the beginning of the 1980s.

Inflation for domestic products also increased further
Inflation for domestic goods and services also advanced, from 1.5% in May to 1.8% in August (cf. chart 4.2).

The increase was due to a rise in inflation for both domestic goods and domestic services.

In the case of domestic goods, inflation stood at 3.3% in August, compared with 2.7% in May. Inflation for domestic services increased from 1.0% in May to 1.2% in August.

Marginally lower rent inflation
Housing rent inflation decreased slightly, from 1.4% in May to 1.3% in August (cf. chart 4.3). The reference mortgage rate has remained unchanged since the beginning of 2020.

Higher core inflation
Core inflation, as measured by the SNB's trimmed mean (TM15), increased from 1.3% in May to 1.7% in August. In the same period, the SFSO core inflation rate 1 (SFSO1), which has been measured since 2000, rose from 1.7% to 2.0% (cf. chart 4.4), thus exceeding its previous highest peak from 2008.

PRODUCER AND IMPORT PRICES

Slightly lower inflation for producer and import prices
Inflation for total producer and import prices fell from 6.9% in May to 5.5% in August (cf. chart 4.5). Inflation rates for the two individual components declined recently. In August, inflation for import prices came to 8.9%, while for producer prices it was 3.8%. The continued 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

Short-term inflation expectations mixed

Having risen for the most part in recent quarters, the indicators for short-term inflation expectations presented a mixed picture this 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, trended sideways (cf. chart 4.6). As in the previous quarter, the survey conducted in July indicated that just under 90% of households anticipated a continued rise in prices in the short term.

By contrast, the index based on the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland was recently at a lower level than the previous quarter (cf. chart 4.6). According to the August survey, for the first time since July 2020, slightly more respondents expected inflation to fall rather than rise in the next six months.

Meanwhile, the banks and economic institutions participating in the monthly survey conducted by Consensus Economics adjusted their forecast for expected inflation in 2022 upwards; in September, they put inflation at 2.9% (cf. chart 4.7). For 2023, however, they anticipated a fall in inflation, to 2.0%.

In the talks conducted by the SNB's delegates for regional economic relations, companies once again expected a considerably higher level of inflation in the short term (cf. chart 10 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months increased from 3.1% in the previous quarter to 3.6%.

Longer-term inflation expectations still consistent with price stability

The indicators for medium-term inflation expectations saw little change. For CS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years increased at end-June and stood at 1.9%, compared with 1.7% in March 2022 (cf. chart 4.8). By contrast, company representatives interviewed by the SNB's delegates once again put inflation for the same time frame at around 1.9%, as in the previous quarter.

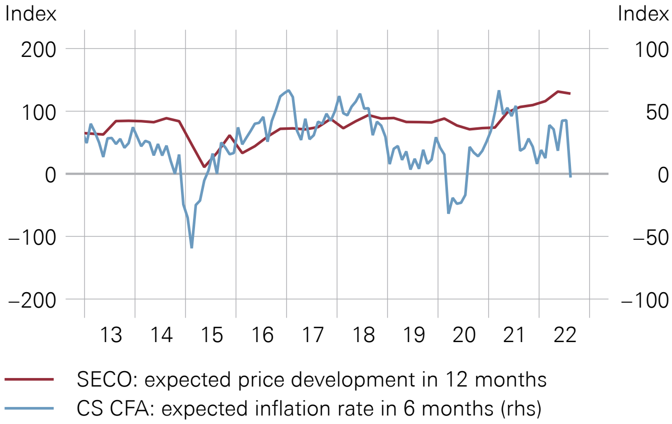
According to the Consensus Economics survey conducted at end-June, the long-term inflation expectations of participating banks and economic institutions also remained unchanged at 1.1%.

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

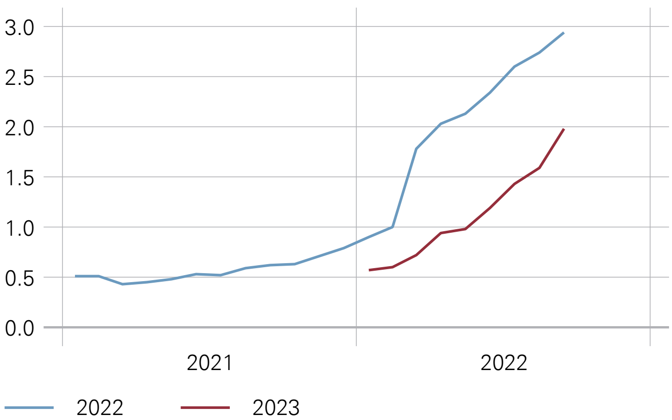


Source(s): CFA Society Switzerland, Credit Suisse, SECO

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

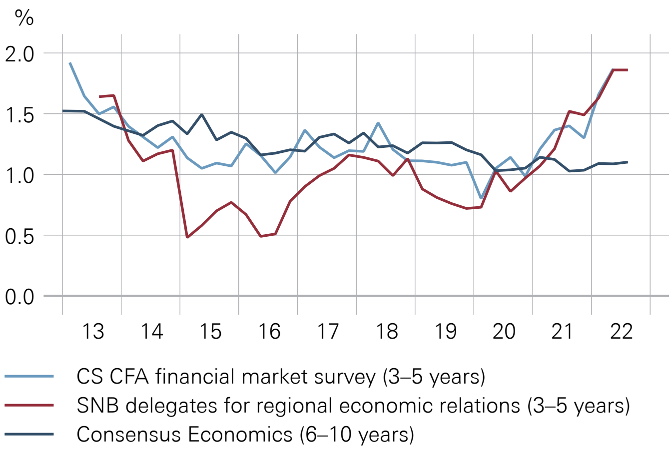
Monthly forecasts for annual inflation



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 June monetary policy assessment, yields on long-term Confederation bonds fluctuated strongly due to uncertainty about global economic and inflation developments. After a volatile performance, share prices in mid-September were slightly lower than after the monetary policy decision in June. The Swiss franc appreciated significantly in nominal terms, while gaining somewhat less in real terms.

Growth in the broad monetary aggregates remained low. Growth in bank lending continued to be robust.

MONETARY POLICY MEASURES SINCE LAST ASSESSMENT

Monetary policy tightening

At its monetary policy assessment of 16 June 2022, the SNB decided to tighten its monetary policy in order 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 raised, by half a percentage point to –0.25%, the SNB policy rate and the interest rate on sight deposits held by banks and other financial market participants which exceed the exemption threshold. Furthermore, the SNB confirmed its willingness to be active in the foreign exchange market as necessary so as to ensure appropriate monetary conditions.

Repo transactions in money market

Since the monetary policy assessment in June 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 towards the end of June and July. These operations countered upward pressure on short-term secured money market rates.

Adjustment of threshold factor

With effect from 1 July 2022, the SNB adjusted the threshold factor used to calculate the level of banks' sight deposits at the SNB exempt from negative interest. The factor was lowered from 30 to 28. This ensured that the secured short-term Swiss franc money market rates are close to the SNB policy rate.

Sight deposits at the SNB virtually unchanged

Sight deposits held at the SNB have hardly changed since the monetary policy assessment in June. In the week ending 16 September 2022 (last calendar week before the assessment of September 2022), they amounted on average to CHF 754.5 billion. This was roughly the same level as in the week ending 10 June 2022, i.e. the last calendar week preceding the June assessment (CHF 753.1 billion). Between these two assessments, they averaged CHF 750.2 billion. Of this amount, CHF 641.1 billion were sight deposits of domestic banks and the remaining CHF 108.8 billion were other sight deposits. Statutory minimum reserves averaged CHF 23.1 billion between 20 May 2022 and 19 August 2022. Overall, banks exceeded the minimum reserve requirement by CHF 631.0 billion (previous period: CHF 645.9 billion). Banks' excess reserves thus remain very high.

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate
At its quarterly assessment in June, the SNB decided to tighten its monetary policy. It raised the SNB policy rate by half a percentage point to –0.25%. SARON, the average overnight interest rate on the secured money market, increased as a result to –0.21% and subsequently fluctuated marginally between –0.19% and –0.21% (cf. chart 5.1).

Capital market interest rates slightly lower
The yield on ten-year Confederation bonds fell from 1.4% at the time of the last monetary policy assessment to 0.5% in mid-August. It then climbed again and, in mid-September, stood at 1.2% (cf. chart 5.2). This volatility of Confederation bond yields was largely in line with developments of long-term government bonds in the US and the euro area. The increased volatility reflects the high level of global uncertainty about the future path of the economy and inflation, and about the monetary policy outlook.

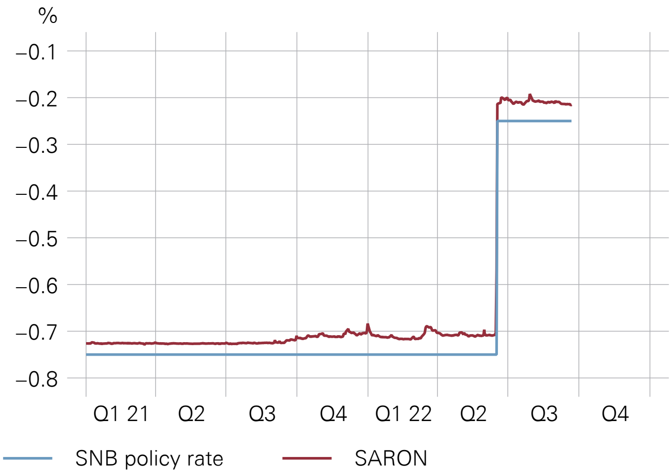
Flatter yield curve
The yield curve for Confederation bonds flattened considerably compared to the last monetary policy assessment. While yields on short-term bonds have risen substantially since June in response to the tightening of monetary policy, long-term yields have declined slightly (cf. chart 5.3).

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

With long-term inflation expectations virtually unchanged (cf. chapter 4), the decrease in long-term nominal yields since the last monetary policy assessment led to a slight drop in long-term real interest rates. By historical standards, the estimated long-term real interest rate thus remained at a low level.

Chart 5.1

SNB POLICY RATE AND MONEY MARKET RATES



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

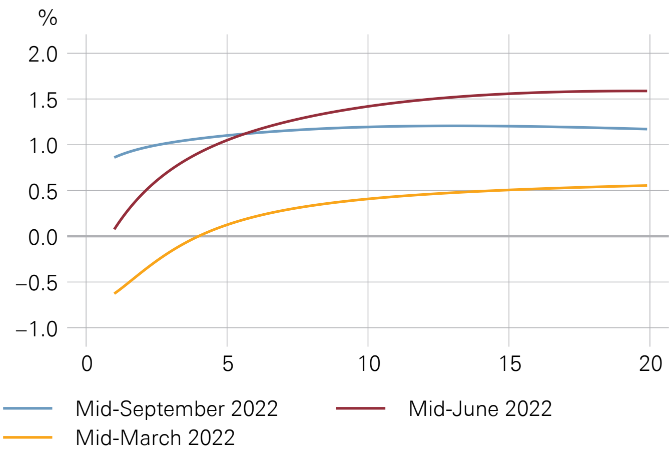
Chart 5.2

10-YEAR SWISS CONFEDERATION BOND YIELD

Source(s): SNB

Chart 5.3

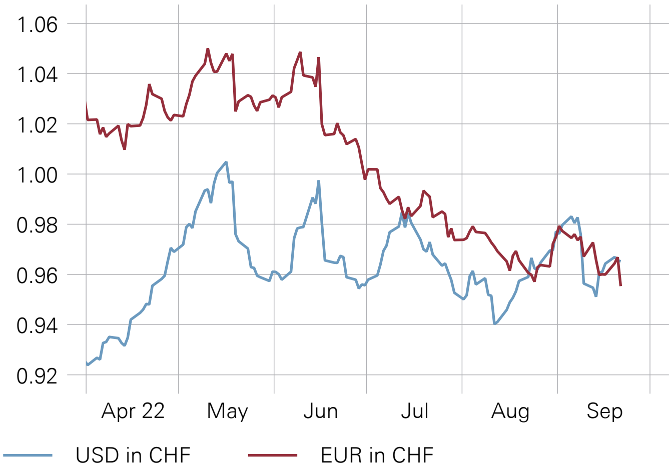
TERM STRUCTURE OF CONFEDERATION BONDS
Years to maturity (horizontal axis); Nelson-Siegel-Svensson method



Source(s): SNB

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, June 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

Significant appreciation of Swiss franc
The monetary policy tightening at the June assessment was stronger than the market had expected. Thus, immediately after the SNB's decision, the Swiss franc appreciated against the euro and US dollar by around 2% (cf. chart 5.4).

Following the SNB's monetary policy decision, the franc strengthened further against the euro. Besides changed expectations about the monetary policy reactions to inflation in Switzerland and the euro zone, this development was mainly driven by a broad-based temporary weakness of the euro, which also led to the currency's depreciation against the US dollar. This is turn was due to mounting concerns about economic growth in Europe due to the sharp rise in energy prices across the continent.

Since mid-June, the price of the US dollar in Swiss francs has been fluctuating between CHF 0.94 and CHF 1.00. These movements primarily reflected changes in market expectations regarding a further tightening of monetary policy in the US.

In mid-September, the franc stood at 0.96 to the euro and at 0.97 to the dollar.

Nominal trade-weighted appreciation
The Swiss franc has strengthened by just under 8% in nominal trade-weighted terms since the monetary policy assessment in June (cf. chart 5.5). It has appreciated not only against the euro (just under 9%) and the US dollar (around 3%), but has also gained in value against other major currencies such as the pound sterling and yen (around 9% each).

Real external value of Swiss franc slightly stronger
With the Swiss franc appreciating in nominal terms since May, it has also strengthened on a real, trade-weighted basis (cf. chart 5.6). However, given that inflation in Switzerland is considerably lower than abroad, the real appreciation of the franc was lower than the nominal appreciation.

SHARE AND REAL ESTATE PRICES

Share prices slightly lower
Since the last monetary policy assessment, global share prices have been primarily driven by changes in expectations regarding the scale and pace of monetary policy tightening in the major currency areas. In June and July, share prices initially recovered somewhat, after weaker economic data raised expectations of a less restrictive monetary policy in the medium-term. In August, indications of a tighter global monetary policy reversed this trend and share prices fell again. In mid-September, the Swiss Market Index (SMI) was somewhat lower than following the monetary policy decision in June (cf. chart 5.7).

Stock market volatility close to previous quarter
The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). The risk aversion and uncertainty of stock market participants initially declined following the monetary policy assessment in June. Then, in August, the volatility index began to rally slightly amid falling share prices. In mid-September, it stood more or less at its mid-June level.

Sector indices reflect overall market momentum
Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). In the first half of 2022, sector indices were drifting apart. Since the last monetary policy assessment, however, they have been largely following parallel paths. Shares have lost value in all sectors compared to the beginning of the year. Share prices of financials have registered the smallest decline compared to the other main sectors. In mid-September, they stood roughly 10% below their level at the beginning of the year. Shares of industrials, meanwhile, lost about 30% of their value during this period.

Continued rise in residential real estate prices
Transaction prices for privately owned apartments and single-family houses increased further in the second quarter of 2022 (cf. chart 5.9). The apartment buildings segment – which includes residential investment property of private and institutional investors – was the only segment to see prices fall slightly, after they had risen in the first quarter of 2022.

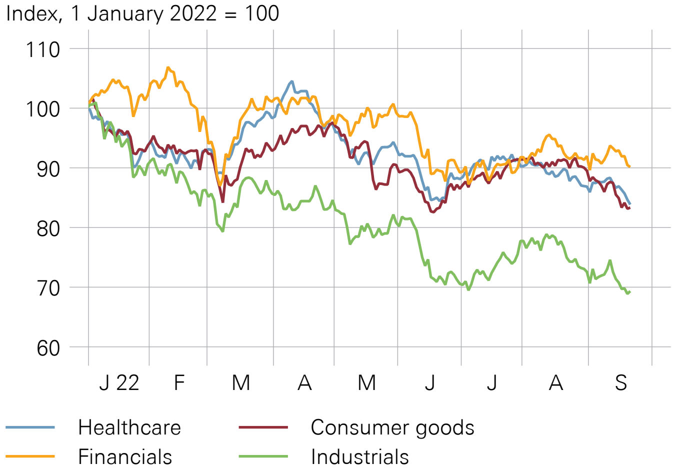
Chart 5.7

SHARE PRICES AND VOLATILITY

Source(s): SIX Swiss Exchange Ltd

Chart 5.8

SELECTED SPI SECTORS

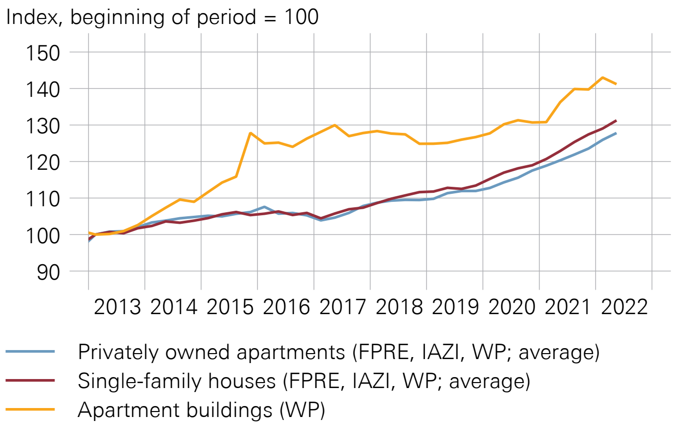


Source(s): SIX Swiss Exchange Ltd

Chart 5.9

TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE

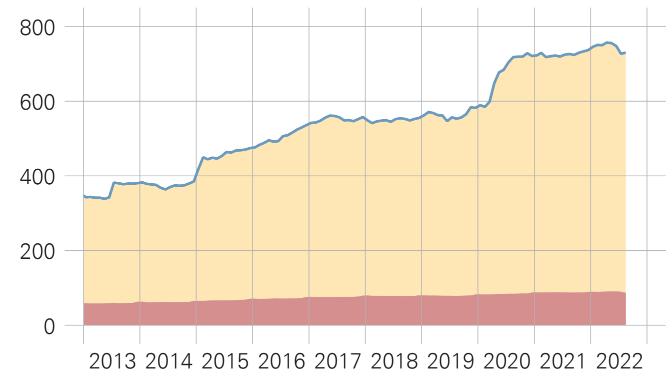
Nominal (hedonic)



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

Chart 5.10

MONETARY BASE

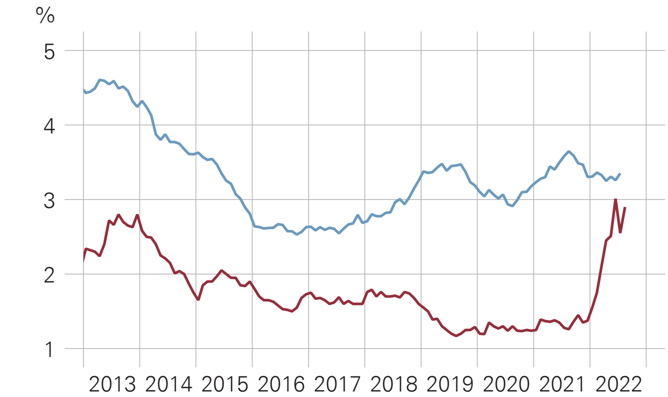


Monetary base
Banknotes in circulation
Sight deposits

Source(s): SNB

Chart 5.11

MORTGAGE CLAIMS AND INTEREST RATES

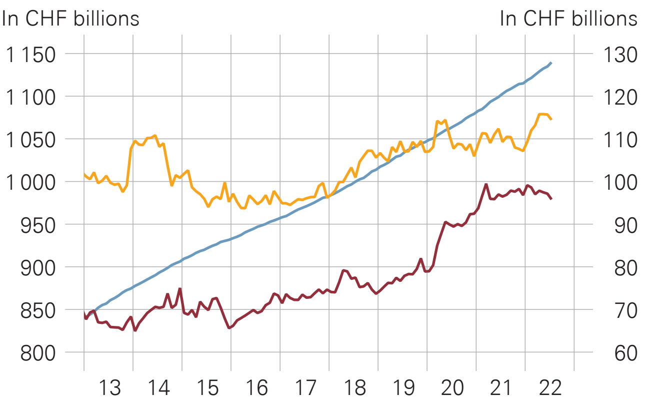


Mortgage claims (year-on-year change)
10-year mortgage rate

Source(s): SNB

Chart 5.12

MORTGAGE CLAIMS AND OTHER LOANS



Mortgage claims
Other loans, secured (rhs)
Other loans, unsecured (rhs)

Source(s): SNB

MONETARY AND CREDIT AGGREGATES

Monetary base declined

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has decreased significantly since May. While this change primarily reflects the decline in sight deposits of domestic banks, banknotes in circulation have also fallen considerably in the last three months. This is largely due to the decrease in the number of high denomination notes in circulation, which are less sought after in an environment of rising interest rates, particularly as a store of value. In August, the monetary base averaged CHF 730.3 billion (cf. chart 5.10), and was thus down by around CHF 25.1 billion on May.

Slow growth in broad monetary aggregates

Growth in the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) continued to slow in the last three months (cf. table 5.1). In August 2022, M1 was up 2.7% year-on-year (May: 3.3%). Annual growth rates for the M2 and M3 aggregates changed little in the recent months. In August, M2 (M1 plus savings deposits) was 0.3% above its year-back level (May: 0.2%). Meanwhile, M3 (M2 plus time deposits) contracted in August by 0.1% compared to the previous year, having risen in May by 0.1%. The low growth rates are primarily due to the fact that 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 3.2% year-on-year in the second quarter of 2022, having risen by 3.0% in the first quarter of 2022 (cf. table 5.1). This slight increase in lending is not attributable to mortgage claims but to other loans.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.3% year-on-year in the second quarter of 2022 (cf. chart 5.11). As a result, growth in mortgage claims was at a similar level to the previous quarter.

In line with interest rate movements on the capital market, interest rates for fixed-rate mortgages also rose in recent months (cf. chart 5.11). The ten-year mortgage interest rate climbed from 1.4% in December 2021 to 3.0% in June 2022, thus reaching its highest level in eleven years. After a marked decline in July, it rose again to 2.9% in August.

From a long-term perspective, mortgage rates remain relatively low despite the increase in recent months. So far, demand for mortgage loans does not appear to have been affected by the rise in interest rates. However, there was increased demand for mortgage loans with relatively short maturities.

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

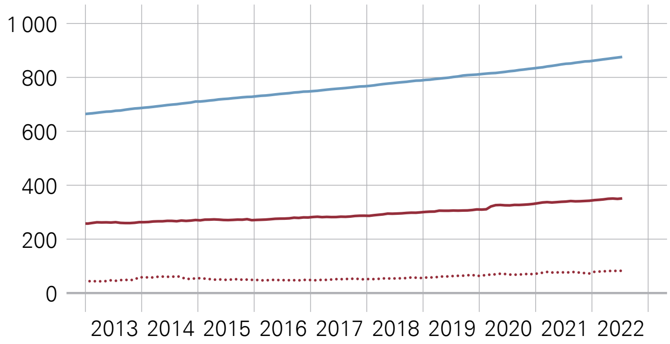
Lending growth by sector

Bank loans to households as well as to financial and non-financial companies continued to grow (cf. chart 5.13). At the end of July 2022, loans to households recorded a year-on-year increase of CHF 25.3 billion (2.9%) and loans to non-financial companies a rise of CHF 11.6 billion (3.3%). Loans to financial companies rose in the same period by CHF 6.7 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 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Jun	2022 Jul	2022 Aug
M1	**6.7**	**6.2**	**4.8**	**4.1**	**3.3**	**3.0**	**2.2**	**2.7**
M2	**4.1**	**3.3**	**2.0**	**0.9**	**0.2**	**0.0**	**0.0**	**0.3**
M3	**4.0**	**3.3**	**1.9**	**0.9**	**0.0**	**−0.2**	**−0.3**	**−0.1**
Bank loans, total [1,3]	**3.6**	**3.8**	**3.4**	**3.0**	**3.2**	**3.0**	**3.2**	
Mortgage claims [1,3]	3.4	3.6	3.4	3.3	3.3	3.3	3.4	
Households [2,3]	3.0	3.1	3.1	3.1	3.1	3.0	3.0	
Private companies [2,3]	5.3	5.7	4.9	4.0	3.9	3.9	4.2	
Other loans [1,3]	4.5	4.6	3.1	1.3	3.0	1.7	2.2	
Secured [1,3]	10.0	8.3	6.4	1.7	1.3	0.2	−0.7	
Unsecured [1,3]	0.1	1.5	0.2	0.9	4.4	3.0	4.7	

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

Source(s): SNB

Business cycle signals

Results of the SNB company talks

Third quarter of 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 209 company talks were conducted between 19 July and 6 September.

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

- Turnover growth weakened in the third quarter but remained positive. Momentum slowed primarily in the services sector, which in the previous quarter had still been benefiting from catch-up effects following the lifting of coronavirus measures. A slight weakening in growth has also been evident in the construction sector. Turnover growth in manufacturing has remained stable at an average level.

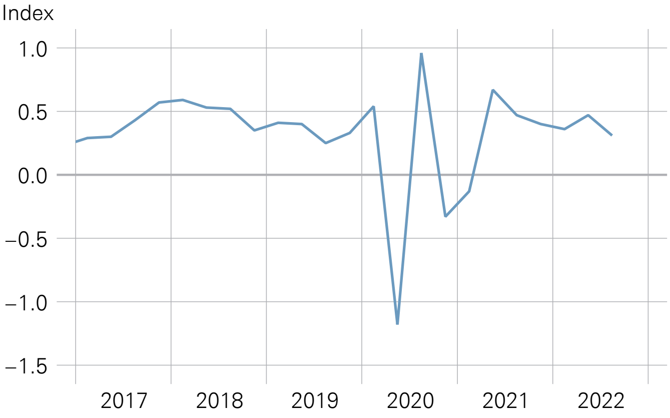
- Companies expect turnover to increase in the coming quarters as well. However, the outlook is subject to many uncertainties. Geopolitical flashpoints could affect the availability of energy and again aggravate the procurement situation. Moreover, given the recent appreciation of the Swiss franc, exchange rate developments are once again increasingly being viewed with concern.

- Despite the positive development in turnover, companies are observing a deterioration in their margin situation. Rising purchase prices, especially for energy, cannot always be fully passed through to sales prices.

- Staff shortages are intensifying and recruitment difficulties are rated as the biggest challenge by many companies. The tight labour market and elevated inflation are leading to higher wage demands

Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER

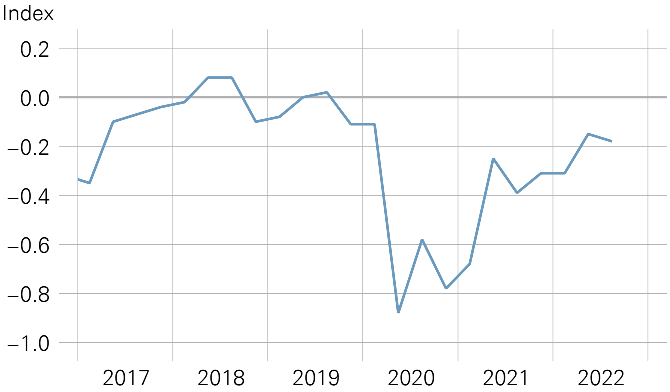


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

CAPACITY UTILISATION

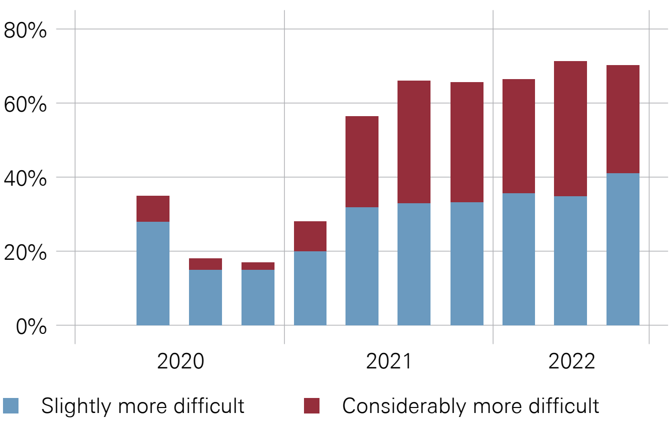


Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

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

Lower but nevertheless positive turnover growth

Real turnover growth, in other words turnover growth adjusted for price changes, weakened in the third quarter, but remained positive (cf. chart 1). This weakening in growth was primarily due to the services sector, which in the previous quarter had still been benefiting from catch-up effects following the lifting of coronavirus measures.

Turnover growth in manufacturing has remained at an average level. Demand from the US and large parts of Europe continued to develop positively, although many companies reported a significant weakening in demand from Germany and the UK. There is still little impetus from China.

Momentum in the construction sector weakened slightly in the third quarter. However, turnover remained significantly above the previous year's level. The order situation is underpinned by the sustained high level of demand for residential space. In addition to this, commercial construction is benefiting from high demand for storage and production space in certain industries.

Production capacity and infrastructure utilisation close to normal

Utilisation of technical capacity and infrastructure was close to normal levels (cf. chart 2). The proportion of homeworking means that the available office space is somewhat overgenerous at some companies in the services sector. However, firms affected have started to reduce office space to achieve a better level of utilisation. Capacity utilisation in manufacturing and construction is in most cases satisfactory.

First signs of easing in procurement

More than 70% of companies say they are still having to contend with a difficult procurement situation (cf. chart 3). Towards the end of the period during which the talks were conducted, however, there were increasing signs that the situation was easing. The proportion of companies whose production is severely limited by supply bottlenecks, for example, is declining. For one thing, measures taken by many companies, such as building up their inventories, appear to be having an impact. For another, supply bottlenecks are increasingly confined to specific products – e.g. only certain types of metal or timber – rather than the entire supply chain. As a result, the supply situation in construction has again eased. Added to this, the availability of certain electronic components seems to be improving somewhat. This means that the problems with the supply of goods whose manufacture requires these components are less pronounced. In this segment the procurement of photovoltaic systems remains difficult, as does the procurement of household appliances, for example, which are enjoying extremely robust demand thanks to the high level of extension and renovation activity.

Continued tight staffing levels and challenging recruitment

The shortage of staff and the recruitment situation remain a big challenge for many companies (cf. chart 4). In particular, companies in healthcare, logistics and large parts of the hospitality industry report pronounced difficulties. Finding staff is only possible with great effort and in some cases high starting wages. In the financial industry and parts of manufacturing, by contrast, the recruitment difficulties have diminished slightly. A few companies also report that the effort involved in recruiting IT specialists is not as great as in previous quarters.

Lower but still sustainable profit margins

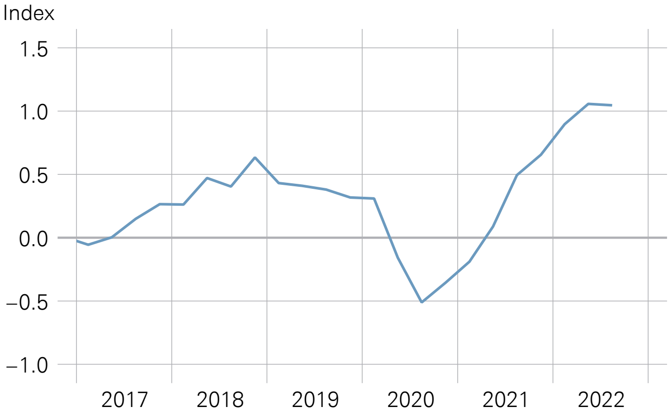
Despite the positive development in turnover, companies are observing a decline in margins (cf. chart 5). Rising purchase prices, especially for energy, higher wages and the additional time required owing to procurement difficulties cannot always be fully passed on to sales prices. Construction companies are particularly affected, reporting intense competition as well as fearing that clients will not always be able to bear the increased costs. For export-oriented companies and those exposed to strong competition from imports, the latest appreciation of the Swiss franc has also increased the pressure on margins. Despite these curbing factors, it is still only a small proportion of companies that describe the margin situation as not being sustainable.

Liquidity situation stable in the majority of cases

The liquidity situation remains unproblematic for the vast majority of companies. Just under one tenth describe the situation as tight. The reason given for this is in most instances not a decline in the inflow of liquidity, but a financially more costly increase in inventory or, in some cases, extraordinary investment requirements.

Chart 4

RECRUITMENT DIFFICULTIES

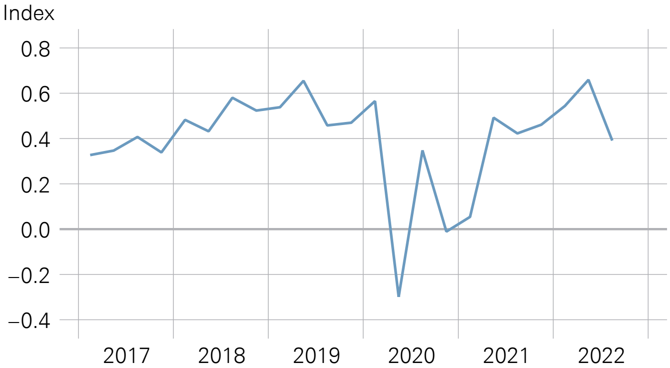


Difficulties in recruiting new staff. Positive (negative) index values signal a worsening (easing).

Source(s): SNB

Chart 5

CHARACTERISATION OF MARGINS



Characterisation of the current margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business in the trade industry is lacklustre. Although many companies are seeing increases in nominal turnover as a result of higher prices, real turnover adjusted for price developments is stagnating overall. This is due, among other things, to wholesale trade feeling the impact of waning impetus from the global economy in some cases. On the other hand, trade in goods used in domestic construction has continued to grow. In retail the reopening of restaurants and, increasingly, the reduction in purchasing power brought about by inflation are having a curbing effect on the food industry. The situation in the motor vehicle trade has not yet returned to normal. Supply problems at automakers continue to have a heavy impact on trade in new vehicles, and turnover remains low. This is partially offset by the more intensive maintenance required for existing vehicles and the sale of used vehicles.

Tourism and hospitality have seen real turnover stabilise at a solid level. This comes after previous quarters were characterised in particular by the positive impact of catch-up effects following the lifting of coronavirus measures and the recovery of business in food services and international tourism. At the same time, domestic tourism has been unable to repeat the record results of last year, when demand from Swiss residents was underpinned by limitations on travel.

Growth momentum in the financial industry remains moderate. The mortgage market is being helped by the fact that demand for residential property, despite rising interest rates, has so far been solid.

Turnover in the ICT industry has continued to increase. Thanks to digital transformation and the mounting need for cybersecurity, this industry still has high growth potential. However, the high level of demand cannot always be fully met because in some cases vacancies are still unfilled. The fact that the recruitment situation remains tight is also leading to higher wage costs and is having a dampening effect on margins.

Business in most manufacturing industries continues to develop positively. This applies in particular to the watchmaking and pharmaceutical industries, but the majority of manufacturers of machines and electronic equipment also report that the order situation remains good. Development among suppliers to the automotive industry is varied. On the one hand, these companies are particularly hard hit by the shortage of semiconductors, and the resulting uncertainty is curbing their appetite for investment. On the other hand, rapid advances in drive technologies are also creating opportunities for Swiss companies, as they benefit from investment in new production lines in the automotive industry.

Despite rising volumes, manufacturing companies are feeling the pressure on margins. On the cost side, higher prices for intermediate inputs and raw materials in particular, as well as higher energy costs, are leading to lower margins. Companies at the beginning of the value chain – for example those operating in the energy-intensive processing of materials such as steel or, to some extent, plastics – are particularly affected by rising energy costs. On the revenue side, the rapidly strengthening Swiss franc is narrowing margins, particularly at companies whose options for adjusting prices are limited in the short term.

Construction continues to benefit from a persistently good order situation. Building construction as well as completion and finishing companies in particular are seeing very good levels of utilisation thanks to continuing high demand for residential space. The rising need for energy-efficient renovations is providing additional support. However, the construction industry is particularly hard hit by the rising price of materials. The margin situation in building construction, for example, has deteriorated significantly despite inflation clauses. Some construction companies are also concerned that further increases in the costs of construction could lead to a decline in demand.

OUTLOOK

Increasing staff levels despite declining confidence in development of turnover

While companies expect turnover to rise further in the next two quarters (cf. chart 6), confidence has declined owing to weaker growth in global economic demand. At the same time, there is still support from the fact that domestic demand has so far been robust and the order situation is good.

There are plans to expand staff numbers in the next two quarters (cf. chart 7), as many companies consider their current levels to be too low. Added to this, the anticipated growth in turnover will tend to increase the need for staff. Due to the tight situation on the labour market and the elevated level of inflation, the companies visited are planning to raise wages next year by an average of 2.4%. This year's average increase is 1.7% (cf. chart 8).

The good utilisation of technical capacity, the higher demand for storage space and the continued need to expand IT infrastructure are driving a further increase in planned investment activity. Company leaders say that a key driver is the shortage of staff, which various companies are addressing by investing more in automation. They are also increasingly taking measures to reduce energy costs.

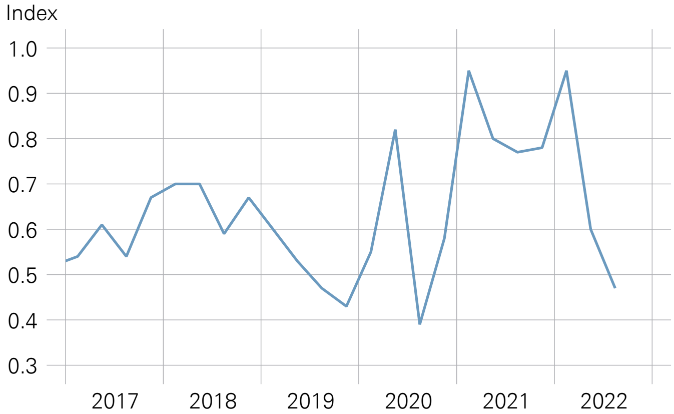
Increases in purchase and sales prices levelling off slightly

Given the slight easing in the procurement situation, companies are still expecting purchase prices to increase significantly, albeit not as sharply as in previous quarters. However, expectations vary depending on the product group. While sustained strong growth in procurement prices for fuels and certain electronic products is anticipated, companies do not expect the price of raw materials such as steel and timber to increase further, or even expect prices to fall.

There are also signs that the rise in sales prices is weakening slightly. Companies say the reason for this lies in intense competition and declining demand because households are losing purchasing power. This applies especially to retailers. However, a large proportion of companies will still have to pass increased costs through to sales prices in order to stabilise margins.

Chart 6

EXPECTED TURNOVER

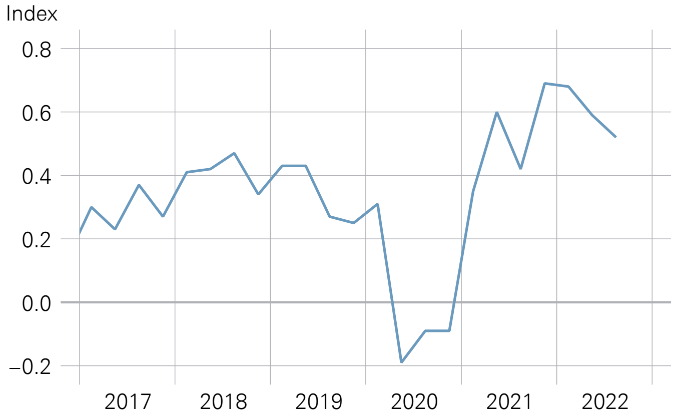


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

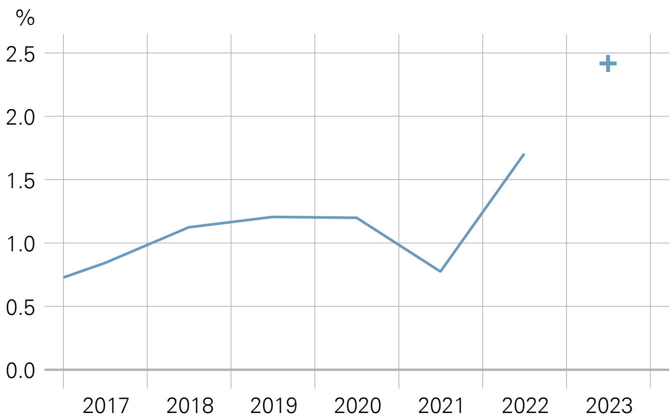


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

WAGE INCREASES

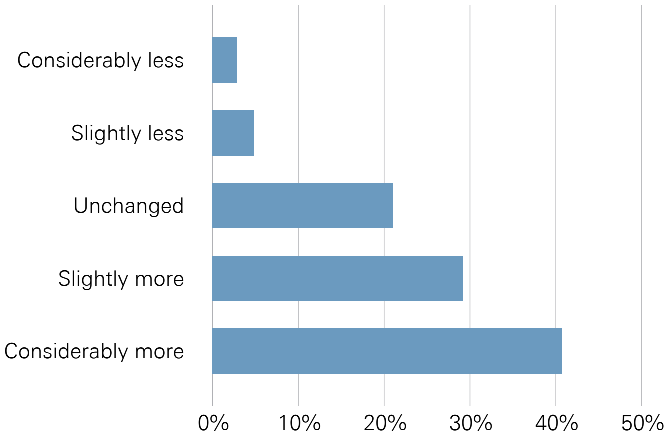


Expected average wage increase for the coming year (cross) and agreed annual wage increases (line).

Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.
Source(s): SNB

Multiple challenges and a high degree of uncertainty
The fundamentally favourable sales outlook is clouded by multiple challenges and imponderables. Companies see an extraordinarily high level of uncertainty with regard to the future development of their business, with around 70% of the companies surveyed describing uncertainty for the next two quarters as elevated (cf. chart 9).

The risk of energy shortages has now entered the focus of many companies. This applies not only to those with high energy requirements. All manufacturing and services companies anticipate major difficulties in the event of power cuts, especially if they occur unexpectedly.

The fact that inflation has risen significantly internationally is also causing uncertainty. This renders pricing more difficult and makes it harder to plan with any certainty. Companies also fear that pronounced declines in real incomes could curb demand for consumer goods and lead to a widespread weakening in global demand.

The exchange rate situation has also moved further to the fore. Export-oriented companies and those exposed to heavy competition from imports are viewing with concern the speed at which the Swiss franc has appreciated.

Added to this are imponderables that had already been giving companies major grounds for concern in previous quarters. There is still a great deal of uncertainty with regard to the development of the global economy. In this connection, companies often point to the fragility of international value chains against a backdrop of geopolitical tension. An escalation in the conflict between Taiwan and China, for example, could have massive implications for the availability of electronic components. The tight labour market also remains a great challenge for companies. The majority do not expect the situation to ease in the coming quarters and are therefore uncertain as to whether they will be able to put their personnel plans into practice. Finally, some company representatives point out that the coronavirus pandemic could flare up again.

INFLATION EXPECTATIONS

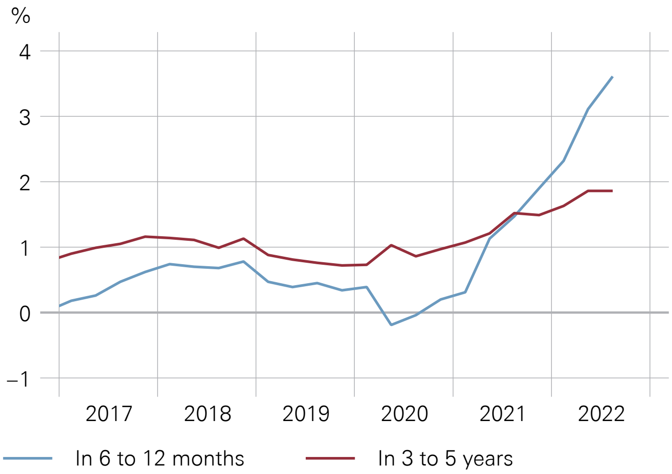
The delegates also ask company representatives about their short and long-term inflation expectations.

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 10) is 3.6%, compared with 3.1% in the previous quarter. The renewed rise is due on the one hand to the significantly higher inflation observed in recent months. Added to this, rising energy prices and sustained increases in producer prices are likely to also continue to be passed through to consumer prices.

However, company representatives still expect inflation to level off again in the medium term. Their inflation expectations over a three to five-year horizon are stable at 1.9%, in other words within the range that the SNB equates with price stability. Company representatives emphasise the important role of the central banks in ensuring price stability in the medium term.

Chart 10

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

September 2022

At its quarterly assessment of 22 September, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.75 percentage points to 0.5%. In doing so, it seeks to counter the rise in inflationary pressure and a broad spread of inflation to goods and services. To ensure appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. Moreover, the SNB adjusts the implementation of its monetary policy to the positive interest rate environment. This ensures that the secured short-term Swiss franc money market rates remain close to the SNB policy rate. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of zero percent.

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.

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	Between January 2015 and September 2022, the SNB charged → negative interest on → sight deposits. The exemption threshold was the portion of a bank's sight deposits on which the SNB did not charge negative interest.

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 → thresholds for the domestic banks.
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	Between January 2015 and September 2022, the SNB charged negative interest on sight deposits above a certain → exemption threshold. The negative interest rate corresponded 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. It can provide liquidity or, using a reverse repo, absorb liquidity.
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 SNB implements its → monetary policy by setting the SNB policy rate. It seeks to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. SARON is the most representative of these rates.
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.
Threshold	If the → SNB policy rate is zero percent or positive, → sight deposits up to a certain threshold are subject to interest (or 'remuneration') at the SNB policy rate. Sight deposits above this threshold are remunerated at the SNB policy rate minus a discount. The threshold per sight deposit account holder is at least zero. For domestic banks, the threshold corresponds to the three-year average of the → minimum reserve requirements, multiplied by the applicable threshold factor.
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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