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Ressort: Wirtschaft und Finanzen

Suisse ECONOMY: The outlook has become gloomier

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Economic forecast by the Federal Government's Expert Group – autumn 2019 -- The Expert Group is revising its expectations for the Swiss economy in the coming quarters slightly downwards. Weaker development than previously assumed is anticipated for the global economy and uncertainty is high.

Over the course of 2019, the international environment and the outlook for the Swiss economy have worsened. The Expert Group is forecasting GDP growth of 0.8% for 2019 and 1.7% for 2020 (June forecast: 1.2% and 1.7%). However, the downward revision for 2019 is largely due to the effect of major sporting events, which has little relevance for the stance of the business cycle, but which is making both the slowdown of GDP growth in 2019 and the acceleration in 2020 look much more pronounced.*

Somewhat less impetus is to be expected from foreign demand during the forecast period than was assumed in the most recent forecast, as signs of a weak second half of 2019 for important trade partner Germany are increasing, among other factors. This would have a particularly negative impact on the export sectors which are quite sensitive to business cycle fluctuations, such as the metal and machinery industry. The appreciation of the Swiss franc over the past few months is also curbing exports. Overall, the Expert Group is forecasting that exports will grow merely below-average in 2019 for the first time in several years.

The outlook has become gloomier for the domestic economy too. Due to the declining utilisation of their production capacity, the sluggish order intake and the considerable uncertainty, companies are set to invest only hesitantly in equipment in the near future, despite favourable financing conditions. Restrained development is also forecast for investment in construction, with climbing vacancy rates and falling building permits pointing to a certain level of market saturation, at least in civil engineering.

For consumption, the Expert Group expects the moderate growth experienced in the first half of the year to continue, supported by the still favourable situation on the labour market. Employment is anticipated to grow solidly in 2019, primarily in the service sector, with the average unemployment rate for the year coming to a low 2.3%.** Declining inflation (annual inflation for 2019: +0.5%) is also bolstering households' purchasing power.

In the coming year, the Swiss economy is set to brighten only gradually. The Expert Group is assuming that global economic growth will increase slightly towards the end of the forecast period. Provided that there is

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no further significant escalation of the international trade conflict, global trade and Swiss foreign trade will also pick up a little. In addition, investment activity is expected to recover somewhat. Finally, private consumption is set to gain a small amount of momentum in 2020 in the wake of an ongoing rise in employment and moderate wage increases.

Economic risks

Downside risks clearly predominate for the global economy. The introduction of further tariffs on Chinese consumer goods by the US has intensified the international trade conflict again. If the situation were to deteriorate further, the economy would be expected to slow down more sharply than estimated in the forecast. Political uncertainty remains high with regard to Brexit as well as to Switzerland's relationship with the EU in connection with the framework agreement.

A disorganised Brexit would significantly curb the European economy and thus indirectly affect Switzerland; should Switzerland's relationship with the EU worsen, its attractiveness as a business location and willingness to invest in the country could be impaired. Owing to the uncertainty and the fragile situation in some emerging economies such as Argentina, the risk of financial market turbulence has increased recently.

Upward pressure on the Swiss franc could also increase if further risks with considerable implications materialize, with corresponding dampening effects on the export economy. In view of simmering imbalances, the risk of a major correction in the domestic real estate sector still remains.

* Further information about the sporting event effect: Press release on GDP in the 2nd quarter, Konjunkturtendenzen spring 2018 and autumn 2017.

** Since July 2019, a new basis (labour force) has been used to calculate the unemployment rate. The conversion has resulted in a downward revision of the unemployment rate, and thus the forecast, by 0.1 percentage point.

(SOURCE: SECO, State Secretariat for Economic Affairs)

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