

Economic trends

Worksheet

First download the worksheet and store it locally. You can then open the PDF, for example using the free Acrobat Reader. The form fields are highlighted in colour. Just click on any field to start filling out the form. You can use the tab key to move between fields.

Winter 2019/2020

Background

Every quarter the Federal Government's Expert Group publishes a forecast of economic developments in Switzerland based on assumptions about the international economy and monetary developments.¹

The winter 2019/2020 economic forecast was presented on 12 December 2019 with a SECO press release and documented in a comprehensive SECO publication entitled 'Konjunkturtendenzen'/'Tendances conjoncturelles'.

This publication is freely accessible online at www.seco.admin.ch/Konjunkturtendenzen.

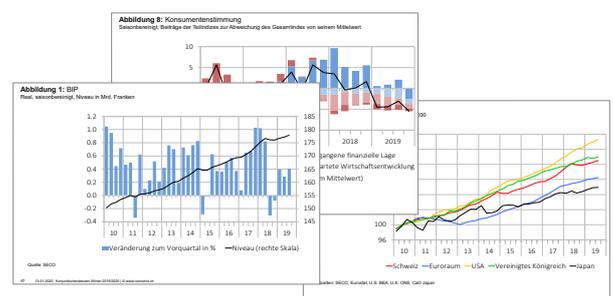
In this **task**, iconomix presents a concise summary on the basis of excerpts from the SECO publication. It then sets a number of questions, for which it provides sample answers.²



The iconomix summary is structured as follows: As a small economy geared to the global markets, Switzerland is heavily influenced by international economic developments. For this reason, the summary starts with an outline of the **global economic situation** and the monetary environment. The second section looks into the **economic situation in Switzerland**, while the third presents the latest **economic forecast**. The fourth part of the summary explains the **risks** to economic development and the forecast.

Slide set with charts and tables

The iconomix 'Economic trends' unit includes a PDF slide set containing all the charts and tables from the corresponding SECO publication, covering areas such contributions made by the various economic sectors to GDP growth, global trade and inflation trends.



¹ In addition to the Federal Government's Expert Group, a range of other institutions and companies also publish economic forecasts for Switzerland. They include BAK Economics, Institut CREA de macroéconomie appliquée, Credit Suisse (CS), the International Monetary Fund (IMF), KOF Swiss Economic Institute at the ETH, the Organisation for Economic Co-operation and Development (OECD), the Swiss National Bank (SNB), Swiss Life, UBS and Zürcher Kantonalbank (ZKB).

² The sample answers are reserved for teachers and can only be seen by users who are logged in.

First name Last name

International and monetary environment

Global economy

While the US once again posted solid growth in the third quarter of 2019, the pace of growth in the euro area was weak, as it had been the previous quarter. Even so, Germany – an important trading partner for Switzerland – was just able to avoid a technical recession. Despite this, there are signs that the economic recovery anticipated for Germany and Europe might materialise later and more tentatively than initially thought. This would also affect the Swiss economy.

Monetary developments

In the autumn months of 2019 there was a widespread decline in inflation in the wake of lower oil prices. Given the low inflationary pressure and the uncertain situation, monetary policy all over the world is still very expansionary. This is also helping bring calm to the financial markets. Over the course of the autumn, share prices rose amid declining volatility.

Questions on the international and monetary environment

- a. Describe the current global economic situation.

In the third quarter, growth in the global economy was once again slightly below average.

- b. How would you describe monetary developments?

Various central banks maintained a very expansionary monetary policy in the autumn of 2019 in light of modest inflation and the economic risks.

- c. Why could economic developments in Europe, particularly in Germany, have consequences for the Swiss economy?

As a small economy geared to the global markets, Switzerland is heavily influenced by international economic developments. If the economies of important trading partners such as Germany falter, this has a negative effect on Switzerland's exports to these countries, and as a consequence on the Swiss economy as a whole.

Economic situation in Switzerland

Gross domestic product

The economic slowdown is being confirmed on the whole. In the third quarter of 2019, exposed sectors – the cyclically sensitive mechanical engineering and metals industries – felt the effects of the adverse international environment. Switzerland's GDP rose by 0.4% in Q3, this following an increase of 0.3% in the previous quarter, with significant contributions from the pharmaceuticals and energy sectors.

Labour market

Employment growth came to 0.3% in the third quarter of 2019, only slightly weaker quarter-on-quarter. The signs of a slowdown are being confirmed in the industrial sector, however.

Prices

Inflation slipped into negative territory in October 2019, down to -0.3 %, primarily owing to a significant year-on-year decline in the price of oil.

Questions on the economic situation in Switzerland

- a. What's the current economic situation in Switzerland?

GDP increased by 0.4% in the third quarter of 2019. The main growth drivers were pharmaceuticals and the energy sector.

- b. How would you describe developments on the labour market?

The number of people in employment continued to increase slightly. The labour market thus continued to lend support to the economy.

- c. How did inflation develop?

Inflation slipped into negative territory in October 2019.

- d. Global economic growth has slowed in recent months. Contrary to this trend, global demand for pharmaceuticals is booming. This is also benefiting Swiss companies. What are the reasons behind this global boom in demand? Note down one or two possible reasons.

The reasons include an aging population, rising incomes and the development of innovative therapies.

Not only this, but Swiss pharmaceutical companies have managed to specialise in very high-value-added products that are characterised by high research and development costs and have correspondingly high selling prices (products are patent-protected).

Economic forecasts

Environment

The Expert Group continues to forecast only moderate growth for the Swiss economy in the near term, and has adjusted its economic growth forecast only slightly.

GDP forecast

After 0.9% for 2019, the Expert Group anticipates GDP growth of 1.7% for 2020 and 1.2% for 2021. Both the acceleration in GDP growth in 2020 and the slowing in 2021 are due to the effect of major sporting events, which has little economic relevance. Underlying economic momentum in 2020 looks set to be similar to 2019, before picking up moderately in 2021.

Labour market

Unemployment was low in 2019, averaging 2.3% over the year. While the unemployment rate is likely to pick up again slightly in 2020, all in all the situation on the labour market is still very good. Accordingly, the Expert Group continues to predict solid job growth overall.

Prices

Given the low capacity utilisation and only moderate economic growth, inflation should remain low in the near term, and is likely to amount to just 0.1% in 2020 (September forecast: 0.4%).

Questions on the economic forecast

- a. What GDP growth is the Federal Government's Expert Group expecting for 2019, 2020 and 2021?

In the year just ended, 2019, GDP growth is likely to come to 0.9% (the figure for the last quarter is not yet available).
The Federal Government's Expert Group predicts GDP growth of 1.7% for 2020 and 1.2% for 2021.

- b. How will unemployment develop?

The situation on the labour market is set to remain favourable overall for 2020.

- c. How will inflation develop?

The annual inflation rate as measured by the Swiss consumer price index (CPI) is likely to come in at a low 0.1% for 2020.

- d. The Expert Group attributes a pick-up in GDP growth in 2020 to exceptional effects. Explain.

Sports federations including FIFA, UEFA and the IOC are headquartered in Switzerland. In years when many major sporting events are held – 2020 being an example – this has a positive impact on Swiss GDP. Revenues from big sports events are likely to boost 2020 GDP growth by around half of one percentage point.

Risks

Trade tensions and Brexit

The downside economic risks continue to outweigh the upside potential, although some threats have become somewhat less acute in the short term. For example, the US and China are negotiating at least a partial settlement of a trade dispute going back more than a year; at the same time the provisional agreement between the EU and the UK has reduced the likelihood of a disorderly Brexit.

Even so, a renewed deterioration, both on the international trade front and in terms of EU-UK relations, cannot be ruled out. The Swiss economy would be particularly hard hit if the US were to impose punitive tariffs on more goods from the EU in the coming year, and if there were to be a major slowdown in growth in the EU in the wake of a disorderly Brexit.

Domestic risks

As in the last forecast, there is also still uncertainty in connection with the institutional agreement. Any deterioration in relations between Switzerland and the EU could make Switzerland less attractive as a base for business and deter investors. On the domestic front, lingering imbalances mean that there is still the risk of a marked real estate correction.

Questions on the risks

- a. Name the biggest risks to the global economy.

The primary risks are still political uncertainty (a disorderly Brexit) and trade tensions.

- b. Besides global economic risks there are also threats to the Swiss economy that have their origins at home. Which two risks are mentioned in the text?

As far as Swiss-EU relations are concerned, there is still uncertainty around the framework agreement. The risk of a major real estate correction also remains.

- c. At times of international crisis and turmoil on the financial markets, the Swiss franc is a popular safe haven for investors at home and abroad. How does this affect the Swiss economy?

International tensions and financial market turmoil lead to sharp increases in demand for Swiss francs. The franc comes under upward pressure, which has a negative impact on the export sector and industries subject to strong competition from imports.
