

Economic trends

Worksheet

Summer 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 summer forecast was presented on 16 June 2020 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 35-page SECO publication. It then sets a number of questions, for which it provides sample answers.²

Questions marked with the icon are advanced questions that go beyond the excerpts from the SECO text and encourage further thought.



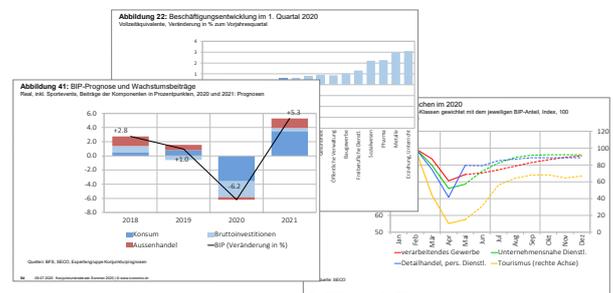
The task is structured as follows: As a small economy geared to the global markets, Switzerland is heavily influenced by international economic developments.

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 also includes a PDF slide set containing all the charts and tables from the corresponding SECO publication, covering areas such as 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, 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.

International and monetary environment

Global economy

In the first half of 2020, developments were dominated by the coronavirus pandemic and the measures taken to contain it. The global economy saw one of the most rapid and most severe downturns ever recorded.

There was a particularly sharp downturn in China owing to the fact that it was affected so early on and initiated such strict measures. GDP also fell significantly in the euro area, particularly in large southern European countries. The decline was less dramatic in the United States.

Monetary developments

There was a significant decline in inflation internationally. The central banks of major advanced economies eased their monetary policies further to counter the recession and low inflation, with the emphasis being on measures to encourage lending and on purchasing bonds. Since the beginning of 2020, the Swiss franc has appreciated in both real and trade-weighted terms.

Questions on the international and monetary environment

a. Describe the current global economic situation.

b. How would you describe monetary developments?



c. The global coronavirus recession has some exceptional aspects. Please give an example.



d. From the end of March until May 2020, the franc was at times under heavy upward pressure. This was due to the enormous uncertainty and the search for safe havens. How did the Swiss National Bank respond?

Economic situation in Switzerland

Overview

The coronavirus pandemic and the accompanying public health measures have hit the Swiss economy hard.

Gross domestic product

Switzerland's GDP shrank by 2.6% in the first quarter of 2020 following an increase of 0.3% in Q4 2019. The strongest declines were recorded in the services sector.

Labour market

In the first quarter of 2020, employment declined (-0.2%) and there was a significant increase in unemployment. At the end of April, the seasonally adjusted unemployment rate was 3.4% (in December 2019 it was still 2.3%). An even stronger rise was prevented by the massive uptake of short-time working.

Prices

Consumer prices have been in broad decline since the beginning of the year. Inflation has been negative since February.

Questions on the economic situation in Switzerland

a. What is the economic situation in Switzerland in mid-2020?

b. What is the situation on the labour market?

c. How did inflation develop at the beginning of 2020?



d. In the first quarter of 2020, private consumption recorded its strongest decline in 40 years. The development of this component of demand is usually very stable. Why is private consumption normally very stable, and why was this not the case on this occasion? Give reasons.

Economic forecasts

Overview

For 2020, the Federal Government's Expert Group is expecting the strongest decline in GDP in decades, largely confirming its April assessment. In the wake of health policy measures that became necessary in mid-March to contain the spread of the virus, many companies, particularly in the hospitality, retail, culture and leisure industries, had to restrict or completely suspend their business activities.

GDP forecast

The Expert Group expects a 6.2% decline in GDP for 2020 overall, and growth of 4.9% for 2021 (adjusted for sporting events).

Labour market

Thanks to the widespread and substantial uptake of short-time working, Switzerland was able to avoid a massive increase in unemployment in the first half of 2020 such as that seen in the US, for example. However, given the difficult situation that many companies find themselves in, a further increase in unemployment can be expected in the course of the year. The Expert Group anticipates an annual average unemployment rate of 3.8% (2019: 2.3%).

Prices

Given that the price of oil has recovered from its lows in April, the year-on-year inflation rate is likely to be somewhat higher again in the coming months. Overall, however, inflation remains well in negative territory. The Expert Group anticipates a rate of inflation of -0.9% for 2020 as a whole (2019: 0.4%).

Questions on the economic forecast

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

- b. How will unemployment develop?

- c. How is inflation expected to develop?

Risks

Uncertainty remains exceptionally high

Further economic developments hinge on how the pandemic progresses. Forecasts therefore remain subject to an extraordinary degree of uncertainty. That said, the availability of the first 'hard' data for March and April has reduced the uncertainty in quantifying the direct impact of the measures implemented.

The economy could recover more rapidly than anticipated in the forecast, for example if measures are relaxed more quickly, if Swiss consumers are less unsettled by the coronavirus, or if other countries make up lost ground more strongly than expected.

Government, corporate and household debt increasing

On the other hand, there could be a renewed flare-up in the pandemic in Switzerland and other key trading partner countries, necessitating more stringent containment measures. This would slow the recovery and increase the likelihood of more pronounced second-round economic effects such as major waves of redundancies and bankruptcies. This could be expected to have serious economic consequences across the entire forecasting horizon.

In light of the necessity of stabilisation measures, government and corporate debt is rising rapidly worldwide. This is increasing the risk of loan defaults and corporate insolvencies, which could ultimately pose a threat to the stability of the financial system. The risk of financial market turmoil and further upward pressure on the Swiss franc is high.

Questions on the risks

- a. Uncertainty remains exceptionally high. Name the main negative risks.

- b. There are also positive risks. Give examples.
