

# Economic trends

## Worksheet

### Winter 2020/2021

#### 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.<sup>1</sup>

The **winter forecast** was presented on **15 December 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](http://www.seco.admin.ch/Konjunkturtendenzen).

In this **task**, iconomix presents a concise summary on the basis of excerpts from the 36-page publication and press release from SECO. It then sets a number of questions, for which it provides sample answers.<sup>2</sup>

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



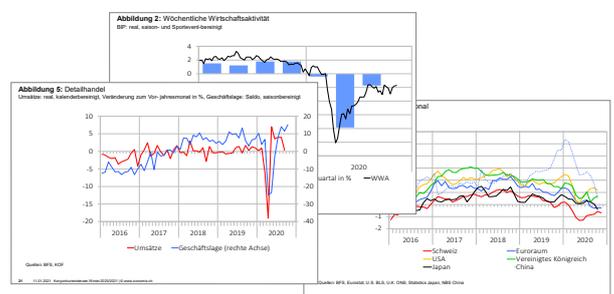
The summary is structured as follows: As a small economy geared to the global markets, Switzerland is heavily influenced by international economic developments. For this reason, the summary starts with an outline of the **global economic situation** and the monetary environment. The second section looks 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 developments and the forecast.

#### Data on the economic cycle in real time

SECO has developed an indicator of weekly economic activity in Switzerland. It shows a high statistical correlation with the growth of real GDP in Switzerland. It does not replace the GDP calculations, but it does supplement the existing data. The advantage of real-time data is that they provide timely information on the development of the Swiss economy. There is more information on this under Weekly Economic Activity on the SECO website.

#### 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.



<sup>1</sup> 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).

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

## International and monetary environment

### Global economy

With the easing of coronavirus containment measures in mid-2020 and thanks to extensive government support measures, global economic activity picked up rapidly again in the third quarter of 2020.

However, there were considerable differences between the various economies and from industry to industry. While international air traffic showed scarcely any recovery, for example, in many countries other consumer-related industries – and specifically trade – participated more fully in the recovery.

As a result, there were many instances of historic increases in GDP from the very low levels of the previous quarter.

In the course of the autumn, the epidemiological situation deteriorated in many countries, prompting a tightening of coronavirus measures. This is weighing on economic developments. There are signs of a weakening in the euro area in particular. China looks set to continue its recovery.

### Monetary developments

Inflation rates remained low across a broad front in autumn 2020. The central banks in major advanced economies continue to pursue extraordinarily expansionary monetary policies. Despite the second wave of the pandemic, the financial markets appear confident.

### Questions on the international and monetary environment

a. Describe the current global economic situation.

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b. How would you describe monetary developments?

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c. To address the current situation, monetary policy in major advanced economies remains extraordinarily expansionary, and in some cases has been eased yet further. What measures have the central banks taken to this end?

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d. The Swiss franc came under strong upward pressure at times in 2020 due to the enormous uncertainty and the search for safe havens. How did the Swiss National Bank respond to this?

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## Economic situation in Switzerland

### Overview

The Swiss economy recovered rapidly in the third quarter after coronavirus measures were eased. By international standards it has weathered the coronavirus crisis relatively well so far.

### Gross domestic product

In the third quarter, Switzerland's GDP recorded a strong recovery, recouping around three-quarters of the ground lost in the severe downturn in the first half of the year. GDP is still just over 2% below its pre-crisis level at the end of 2019. The economic recovery is likely to be interrupted in the fourth quarter of 2020. However, an actual downturn is not to be expected.

### Labour market

The situation on the labour market stabilised in the middle of the year. Unemployment declined slightly and short-time working could be significantly reduced. At the end of October 2020, the unemployment rate was 3.3%. By way of comparison, in December 2019 it was 2.5%.

### Prices

In autumn 2020, consumer price inflation continued to recover from its lows of the second quarter. It did remain negative, however, standing at -0.6% in October. Annual average unemployment is likely to come in at -0.7% in 2020.

## Questions on the economic situation in Switzerland

a. What is the economic situation in Switzerland at the end of 2020?

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b. What is the situation on the labour market?

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

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d. In recent months almost all industries have seen declines in value creation, with some being particularly hard hit. Give examples.

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## Economic forecasts

### Overview

The second wave of the pandemic is weighing on the Swiss economy in Q4 2020 and Q1 2021. The Expert Group is therefore revising its GDP forecast for the coming year downwards. If the epidemiological situation eases, growth should pick up significantly as time goes on. However, uncertainty remains extraordinarily high.

### GDP forecast

The Swiss economy has weathered the last three quarters somewhat better than previously thought. Against this backdrop, for 2020 as a whole the Expert Group is expecting GDP adjusted for sporting events to fall by 3.3% (October forecast: a decline of 3.8%). This would be the strongest decrease since 1975.

The start of 2021 is also likely to be negatively affected by the spread of the coronavirus and the associated measures. Accordingly, the Expert Group is revising its forecast for 2021 downwards and is now anticipating growth in GDP adjusted for sporting events of 3.0% (October forecast: +3.8%); however, this is still well above the long-term average. In particular, economic growth should pick up significantly in the course of 2021, and Switzerland's economic output should return to its pre-crisis level towards the end of the year.

This forecast is based on the expectation that the epidemiological situation will gradually stabilise from spring 2021, after coronavirus vaccines become widely available, for example. If this is the case, GDP growth would be likely to be above average temporarily, as some delayed consumption expenditure and spending on investments would be made up and exports of goods in particular should pick up noticeably amid a global economic recovery.

As time goes on, the economic recovery in Switzerland should also become more widespread. Assuming that hardly any measures to contain the coronavirus are required in 2022, even particularly vulnerable economic sectors such as international tourism should find their way out of the crisis. For 2022, the Expert Group expects above-average growth of 3.1% in GDP adjusted for sporting events.

### Labour market

The average unemployment rate for 2020 is likely to be 3.2%. Unemployment is likely to rise further to 3.3% in 2021 and then decline again somewhat in 2022 to 3.0%.

### Questions on the economic forecast

a. What GDP growth is the Federal Government's Expert Group expecting for 2020 to 2022?

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b. How will unemployment develop?

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## Risks

### High degree of uncertainty owing to coronavirus pandemic

The most significant economic risks are those linked to the coronavirus pandemic and the responses of economic players and politicians to the situation.

On the one hand, the second wave of the pandemic could have a less negative impact on the economy than assumed, especially abroad, or the coronavirus vaccines could be administered to the broader population earlier than expected, making further containment measures unnecessary. A much more rapid economic recovery would then be expected. In addition, given that the development of income is relatively stable, the recovery in consumption could be stronger owing to catch-up or substitution effects.

On the other hand, containing the second wave of infections might turn out to be more difficult than expected, or

expectations regarding the efficacy of the coronavirus vaccines might not be met. The recovery would be interrupted again if further severe waves of the pandemic were to materialise during the forecast period, resulting in dramatic containment measures in Switzerland and abroad. The longer the crisis persists, the greater the probability of second-round economic effects such as large-scale job cuts and corporate bankruptcies would be. The risks linked to the continued increase in government and company debt would also grow.

### Further risks

The international trade conflict poses further risks to the global economy. A 'hard' Brexit would place an additional burden on the fragile economy. Finally, there is still a risk of more major corrections in the Swiss real estate sector.

## Questions on the risks

- a. In its winter forecast, the Federal Government's Expert Group bases its assumptions on a relatively optimistic scenario. Formulate this in your own words.

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- b. There are currently very high levels of uncertainty. Name the main negative risks.

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- c. There are also positive risks. Name the main positive risks from your point of view.

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d. In the text there is talk of ‘second-round effects’ in the context of staff reductions and corporate bankruptcies. What is meant by this?

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