

Swiss GDP: a small uptick

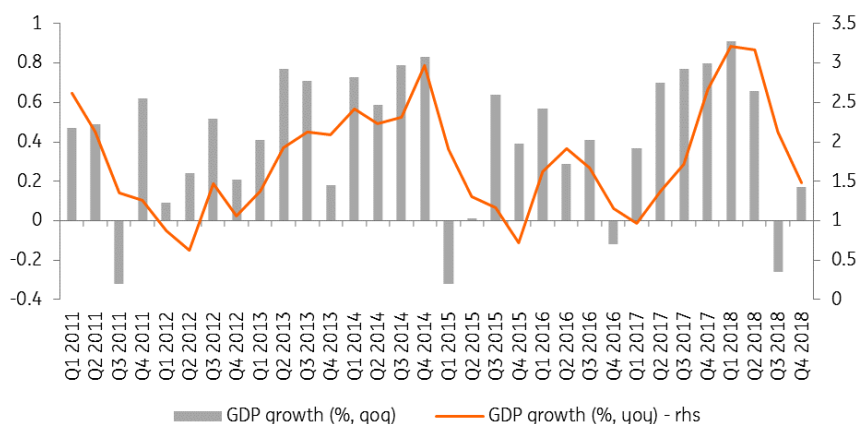
Swiss GDP grew 0.2% in 4Q18 after a very bad Q3 (-0.3% QoQ). We expect slower growth in 2019



Source: Shutterstock

A slight rise in Q4

Swiss GDP grew 0.2% QoQ in 4Q18. Growth has therefore picked up again, following the 0.3% contraction in GDP in 4Q17. Manufacturing contributed significantly to this result (+ 1.5%), offsetting its very poor Q3 performance. This was particularly thanks to the rise in merchandise exports (+5.6%). At the same time, domestic demand remained weak. While private consumption has picked up somewhat, investments have contracted - a sign of increased uncertainty.



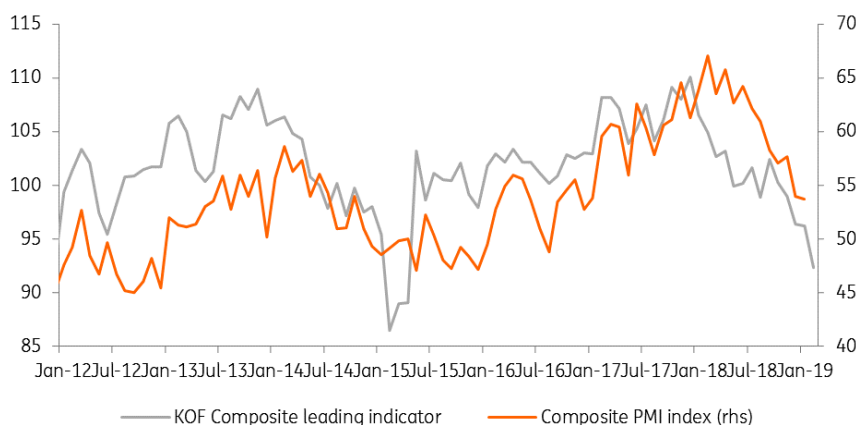
Source: Thomson Reuters Datastream, ING Economic Research

An up-and-down 2018

Over 2018 as a whole, GDP increased by 2.5%, its best result since 2014. Growth in 2018 was mainly driven by foreign trade. Domestic demand remained weak, particularly with private consumption held back by weak trends in real purchasing power. The encouraging 2.5% growth rate in 2018 follows an up-and-down year: with an exceptional first half (with 0.9% and 0.7% QoQ growth in Q1 and Q2) after very good momentum in late 2017 and the second part of 2018 strongly disappointing. Switzerland, a small open economy dependent on the rest of the world, was strongly impacted by the slowdown in Europe in the second half of 2018.

Slowdown is expected in 2019

Growth should continue to slow in 2019. The global growth deceleration will probably weigh on Swiss exports. The numerous risks weighing on the global economy are already affecting confidence at Swiss companies, which should lead to a slowdown in investments in 2019. PMI indicators have been in a downward trend since July 2018. In January the manufacturing index reached its lowest level since the summer of 2016, while the composite index stood at 53.7, far below the 67 observed in February 2018. The KOF index, the most important leading indicator of the Swiss economy, is now at 92.4, well below its long-term average. The question now is whether in 2019 Switzerland will be able to maintain a growth rate higher than that of the eurozone. We believe that this will be difficult, and expect the Swiss economy to grow at a rate of around 1.2% in 2019.



Monetary policy normalization is still far away

This slowdown in growth, combined with still very low inflation (with CPI inflation at 0.9% in 2018 and core CPI inflation at 0.4%), implies that the Swiss National Bank is very far from being able to normalize its monetary policy. We believe that it will not be able to raise rates during this cycle and that the SNB's key rate will remain negative and at its current level (-0.75%) until at least 2021.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.