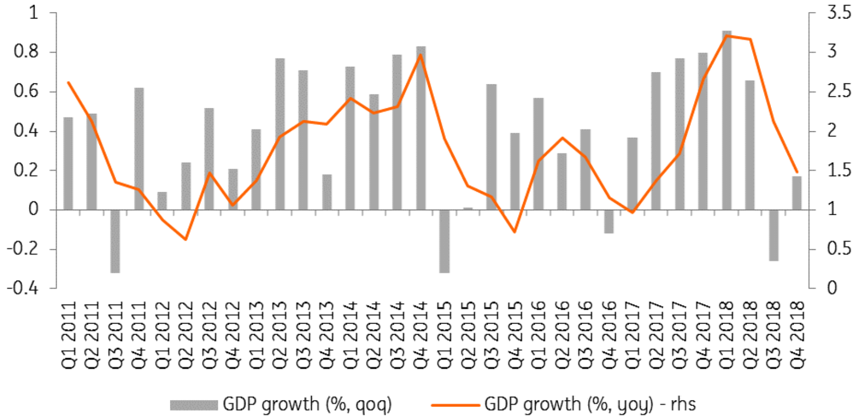
Swiss GDP: a small uptick

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 4Q18. 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.



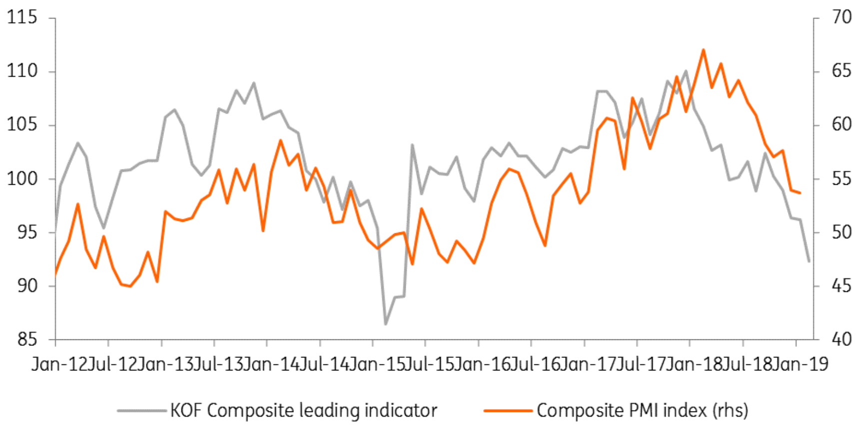
Source: Thomson Reuters Datastream, ING Economic Research

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