

Switzerland: Growth surprises on the upside

Swiss GDP growth surprised on the upside in 1Q, at 0.6% quarter-on-quarter. This doesn't change the forecasts for Switzerland, which remain tinged with uncertainty



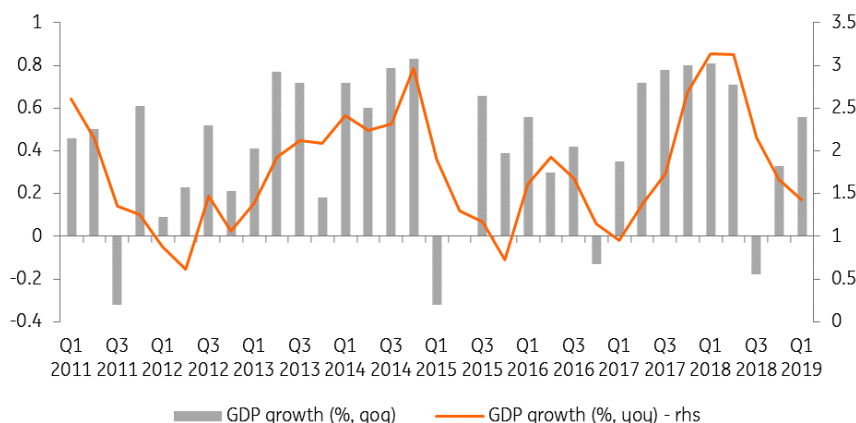
Source: Shutterstock

Positive surprise

Swiss GDP growth continues to surprise quarter after quarter. This time, the surprise is positive: GDP rose by 0.6% QoQ in 1Q19, above the consensus expectation of 0.4%. This is stronger than the growth seen in 4Q18 (0.3%) and in 3Q18 (-0.2% QoQ), which have both been revised upward.

- Contrary to what's usually been the case, strong growth in 1Q was mainly due to domestic demand, particularly to consumption, which increased by 0.45% QoQ- higher than the long-term average.
- In addition, investments also increased. This was due to investment in construction (+0.5% QoQ), which went up again after declining for two quarters, as well as investment in capital goods, which regained strength (+ 1.47% QoQ).
- Buoyed by stronger than expected growth in its trading partners, particularly in Germany, foreign trade showed a favourable trend in 1Q. As a result, exports of goods (without gold

and valuables) increased by 2.2% QoQ, driven by a still very dynamic manufacturing industry.



Source: Thomson Reuters Datastream, ING Economic Research

Outlook remains cloudy

Like its neighbours in the eurozone and Germany, 1Q growth in Switzerland was more dynamic than expected. Thanks to a positive base effect, this should enable 2019 growth to perform well, staying above 1% for the whole year. Nevertheless, this good first quarter result doesn't change the fact that difficulties are likely to increase as the year progresses. Indeed, leading indicators for 2Q19 are not showing particular signs of dynamism:

- The manufacturing PMI stood at 48.5 in April, falling below the key 50 mark for the first time since December 2015.
- The global economic slowdown, trade tensions and uncertainties are likely to weigh on the Swiss industrial sector in the coming quarters.
- Consumer confidence is also declining, which could limit the positive momentum of consumption in the coming months, especially if real wages continue to show a flattening trend.

Nothing changes for the SNB

The better-than-expected Swiss GDP growth in 1Q should not change the Swiss National Bank's monetary policy in coming months. Inflation is still low and the SNB still considers the Swiss franc to be "highly valued". We think the main SNB rate will remain at its current level until the next business cycle, and we don't see any rate hike over the forecast horizon.

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