

## Switzerland: KOF barometer brings down hopes of further growth acceleration

The decline in the KOF barometer mainly came from the more pessimistic view in the metal sector and given that Switzerland is a small open economy, President Trump's protectionist policies could have a serious impact



Source: Shutterstock

### Protectionist policies are bringing the barometer down

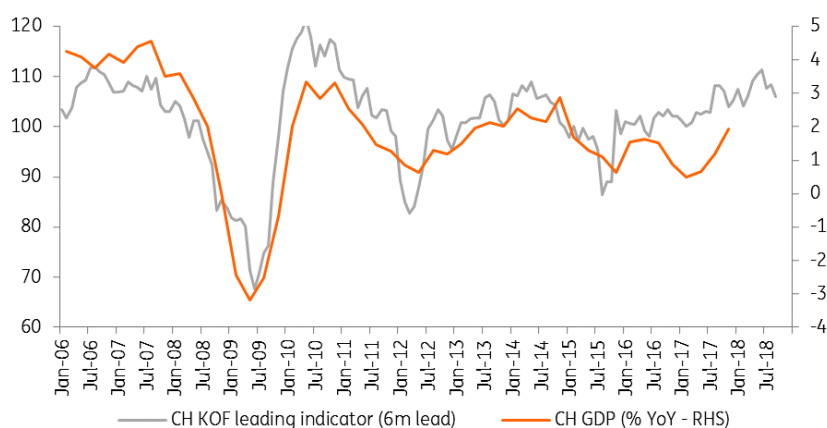
The KOF Economic barometer, the leading indicator of the Swiss economy, fell more than expected in March, to 106.0 from 108.4 in February. The indicator reached its peak in 4Q17 but in March below its 2017 average of 107, limiting the possibility of growth acceleration after the first quarter

The decline mainly came from the manufacturing industry, especially the export sector and more specifically the metal sector, where the overall business situation was assessed more pessimistically than in February

Given that Switzerland is a small open economy and net exports contributed positively to growth in 4Q17, this pessimistic view is probably due to US President Donald Trump's protectionist policies. Contrary to the EU, Switzerland is not exempt from the new 25% tariffs for steel and 10% for

aluminium.

## KOF leading indicator and GDP



Source: Thomson Reuters Datastream

## Still strong growth outlook for 2018

After slow GDP growth (1.1%) in 2017 with a buoyant second half, Switzerland started 2018 on a strong footing. If the pessimism subsides, we believe the Swiss economy should grow by 2.1% in 2018.

Swiss national accounting recently started to reveal the effects on GDP of large sporting events, such as international soccer competitions and the Olympic Games. They result in the sale of TV rights and increase the revenues of entities (like the FIFA and IOC) domiciled in Switzerland. This kind of events gave a short-term boost to GDP growth each time they occurred. In 2018. The effect is estimated by the KOF institute to add 0.3 pp to GDP growth.

**2.1%** 2018 ING's growth forecast for the Swiss economy

### Bottom line

For the second half of 2018, we expect the Swiss Franc (CHF) to further depreciate against the EUR which is likely to increase the profitability of export-led companies, especially as we expect the Eurozone to continue to post strong growth figures in the second half of 2018. However, protectionist policies could seriously harm their performance too.

In this context, we don't expect the Swiss National Bank to hike interest rates before the ECB does so, which in our view would not happen before the second half of 2019. All in all, we expect a strong first half of 2018 and a somewhat slower growth rate in the second half. Inflation should stay low and well below the SNB target at about 0.8% in 2018.

## Author

### Charlotte de Montpellier

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto: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 <http://www.ing.com>.