

Switzerland: macro update

It's not all smooth sailing for the SNB

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FLASH NOTE

SUMMARY

- Switzerland's GDP adjusted for sport events grew by 0.5% q-o-q in Q2, above trend, but this good performance was essentially driven by the pharmaceutical and chemical sectors. Leading indicators paint a mixed picture for Q3.
- Swiss CPI inflation eased from 1.3% y-o-y in July to 1.1% y-o-y in August. Once again, the main driver was imported inflation going deeper into negative territory while domestic inflation remained stable.
- Given the recent economic data, the SNB will likely sound dovish at its meeting on 26 September. We continue to expect the SNB to cut its policy rate by 25bp to 1.0% and to remain open to intervening in the FX market if necessary.
- The risk that the SNB's policy rate is cut below what the SNB considers the neutral level (i.e. 1.0%) later this year or in 2025 has increased.

GROWTH: STRONG HEADLINE, POOR DETAILS

Switzerland's GDP adjusted for sport events grew by 0.5% q-o-q in Q2, after +0.3% in Q1. This brings the GDP 7.4% above its pre-pandemic level.

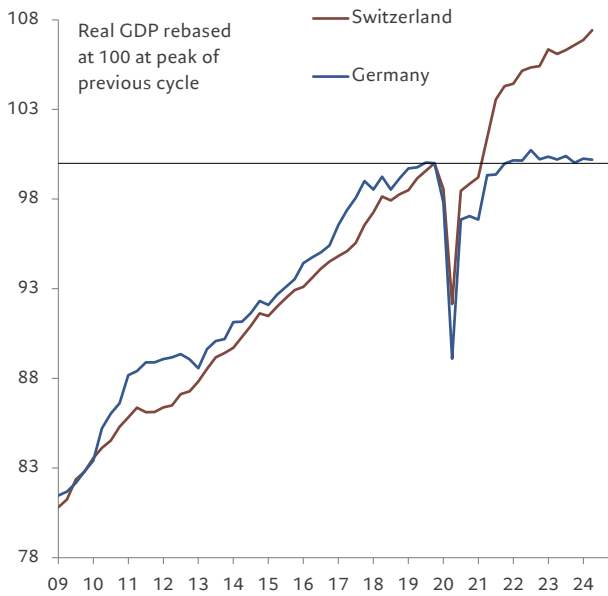
Manufacturing was the main growth driver, but this was entirely driven by a strong expansion of the pharmaceutical and chemical sectors (+8.4% q-o-q), which are less sensitive to currency fluctuations and the business cycle. Growth in other industrial sectors fell, mirroring weak performances in other economies, in particular Germany. Services sector growth was weak overall.

Leading indicators such as the KOF Economic Barometer and the purchasing manager index (PMI) paint a mixed picture for Q3. The manufacturing PMI rose by 5.5 points in August to 49, reaching its highest level since January 2023, but this was at odds with manufacturing PMIs published by other key trading partners. The KOF Economic Barometer rose as well in August, but to a lesser extent.

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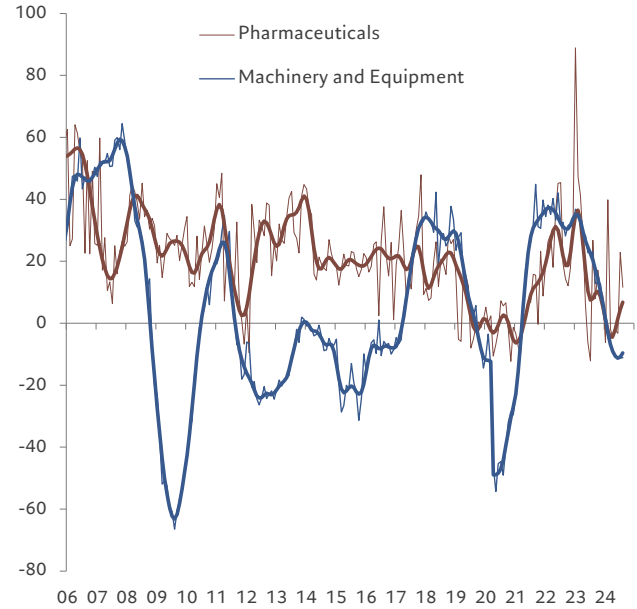
In all, we continue to expect annual GDP (adjusted for sport events) growth of 1.1% in Switzerland for 2024, which remains below trend. The strength of the Swiss franc and the weak performance of some key trading partners will continue to be a drag on some Swiss industries. By contrast, domestic demand will continue to benefit from the healthy labour market, although we do not expect a big surge in households' consumption.

Switzerland and Germany: real GDP



Source: PWM, Eurostat, SECO, as of 04.09.2024

Switzerland: KOF business assessment



Source: PWM, KOF, as of 04.09.2024

CPI: DRIVEN DOWN BY IMPORTED INFLATION

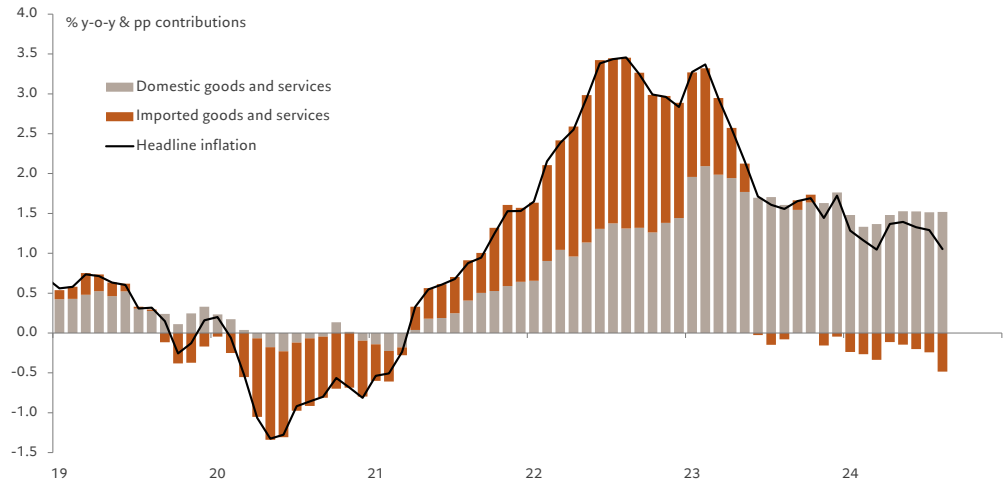
Swiss CPI inflation eased from 1.3% to 1.1% y-o-y in August, but core CPI (total excluding fresh and seasonal products, energy and fuel) remained broadly unchanged at 1.1% for the third month running. Once again, the main driver was imported inflation going deeper into negative territory. A key focus in August was housing rental inflation (which accounts for 18% of the Swiss CPI basket). Rent inflation did accelerate, from 3.4% to 4.0%, but that was not enough to offset the negative factors weighing on CPI. Last but not least, services inflation was stable at 2.2%.

Looking ahead, we expect inflation to stay close to the current level, hovering around 1.1% until year end. Risks are tilted to the downside as the decline in imported inflation could accelerate over the coming months due to the strength of the CHF.

The Swiss National Bank (SNB) was among the first central banks in developed markets to cut rates as inflation quickly returned to the central bank's target (i.e. CPI inflation of less than 2%). The average CPI number for July and August CPI was markedly below the SNB's conditional inflation forecast made in June, which saw Q3 inflation averaging 1.5% y-o-y. This will probably lead the SNB to revise down its conditional inflation forecast, at least for 2024.

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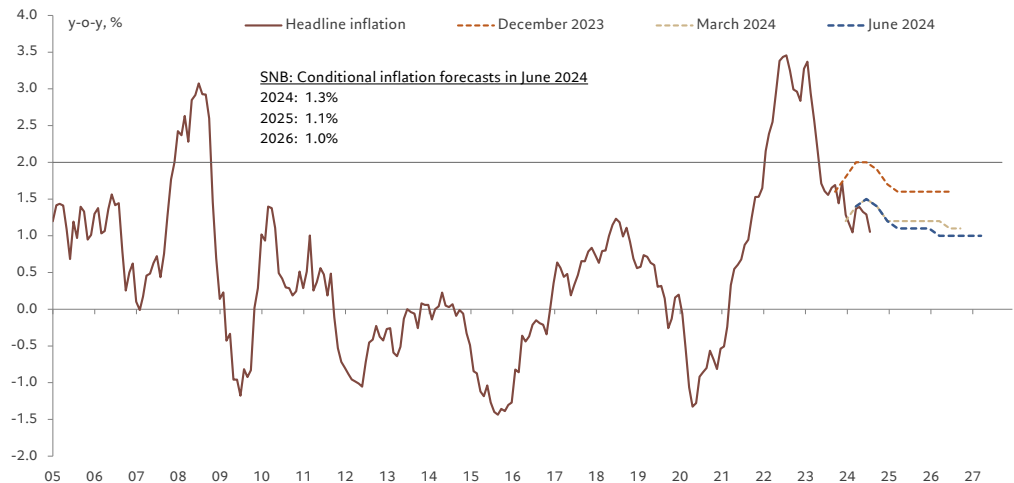
Switzerland: CPI breakdown



Source: Pictet Wealth Management, FSO, as of 04.09.2025

Given the recent economic data, SNB will likely sound dovish at its meeting on 26 September. We continue to expect the SNB to cut its policy rate by 25bp to 1.0% and to remain open to intervening in the FX market if necessary. A 25bp cut is fully priced by the market, so the question is will it surprise the market by doing more. A lot will also depend on what other central banks will do and communicate this month, especially the ECB (September 12) and the Fed (September 17-18). Should the Fed and the ECB do more than expected by the market, then the pressure will be on the SNB to follow suit. In any case, given the weakening in inflation outlook and the strength of the CHF, the risk that the SNB’s policy rate cut is below what it considers the neutral level (i.e. 1.0%) later this year or in 2025 has increased.

Switzerland: CPI inflation with SNB conditional inflation forecasts



Source: Pictet Wealth Management, SNB, FSO, as of 04.09.2024

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