CREDIT SUISSE

Swiss labor market between uncertainty and skilled labor shortage

Monitor Switzerland | Q4 2021

Editorial

Dear readers

As 2021 draws to a close, we can look back on another year defined by the coronavirus pandemic, and should brace ourselves for the likelihood of this virus affecting our lives for some time yet. Without doubt, several difficult winter months lie ahead of us. You can find out how well the Swiss private sector has coped with the problematic situation so far in our article on the Swiss economy (cf. Page 6). At the end of the third quarter of 2021, Swiss gross domestic product (GDP) was already 1.4% above its pre-crisis level. But although this shows that Switzerland is in better economic shape than most other countries, the outlook here too is clouded by rising COVID-19 case numbers and intensified measures to contain the pandemic, as well as global supply chain problems. For example, in a survey carried out by us together with procure.ch – the Trade Association for Purchasing and Supply Management – two-thirds of respondent manufacturers stated that they were anticipating production outages over the next few months as a result of insufficient supplies of input goods. Furthermore, the persistence of the pandemic is likely to require the imposition of repeated restrictions in a number of service sectors, most notably catering and tourism, until the spring of 2022 at the earliest.

Overall, and despite all these imponderables, we are still expecting a continued recovery next year. We set out the reasons for our – guarded – optimism from page 6. One decisive driver of economic development is the labor market situation. As in many countries, the labor market in Switzerland suffered quite a shock during the global recession of 2020, but has since bounced back rapidly. Unemployment has been declining for months now, and the number of vacant positions keeps on rising. Indeed, some employers are becoming desperate in their search for qualified personnel at the moment. You can read about the various factors that are making the recruitment process more difficult, and how this is impacting employment in the individual sectors of the economy, in our Focus Article starting on page 12.

We wish you enjoyable reading, a restorative festive season, and a healthy New Year.

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Recovery only slowed down

The COVID-19 pandemic will continue to preoccupy Switzerland for quite a while. However, the current wave should weigh on the economic recovery only temporarily. We expect the Swiss economy to grow by 2.5% next year, following on from 4.0% in 2021.

Economic output back above pre-crisis level

A look in the economic rear mirror is gratifying: In the third quarter of 2021, Swiss gross domestic product (GDP) was already back significantly above its pre-crisis level. In other words, Switzerland is in relatively better economic shape than most other countries (cf. Fig. 1). GDP is likely to have increased by 4.0% on average this year, following a slump of 2.4% in 2020. However, the outlook for next year is clouded by rising COVID-19 case numbers and the associated measures to contain them, as well as global supply problems.

Economy and society better placed to cope with the virus

The evolution of the pandemic is almost impossible to predict, particularly as the Omicron variant has added a further unknown factor to the mix. However, there is a clear pattern of infections having occurred in waves so far, which in turn implies that containment measures and changes in behavior – as well as progress on the vaccine front – have consistently had an effect. Moreover, our econometric analyses show that the economic repercussions of the pandemic have receded markedly as the various waves of infections have progressed. Figure 2 illustrates the parallel decline in the development of services sector sales and the mobility of the Swiss population against a backdrop of key virus developments in each wave. This is likely to be attributable to the fact that more rigorous measures have been implemented in a less damaging way on the one hand, while on the other hand service providers and households have found ways of dealing with the virus and not having to adapt their behavior so strongly in response to it.

Current wave hitting a few sectors hard

As a consequence, it is only logical to assume that the economic damage of the current wave will remain within tolerable limits. We expect this wave to hold back the recovery only in the short term. That said, certain sectors are likely to suffer more than this average overview would imply. For example, numerous hospitality businesses, clubs, and leisure operators face considerable uncertainty over the winter months. The biggest blow is likely to be dealt to the recovery of intercontinental tourism, where normalization prior to the end of 2022 now no longer looks realistic.

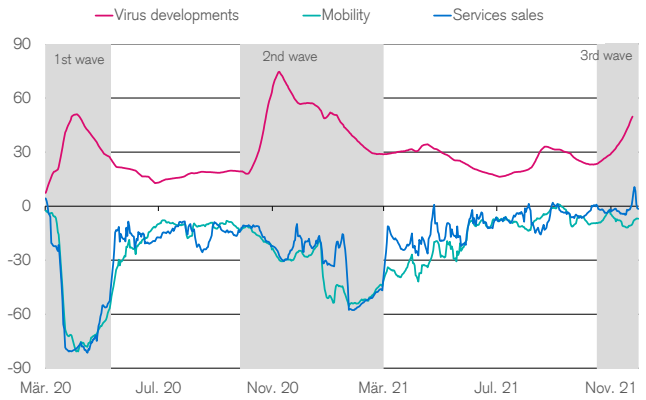
Fig 1: Swiss economy above pre-crisis level

Real GDP, seasonally adjusted, Q4 2019 = 100

Source: Datastream, Credit Suisse. Last data point: Q3 2021

Fig 2: Virus loses ability to impact mobility and sales

Index based on case numbers, deaths, positivity rates, stringency, deviation of mobility from pre-pandemic level (03.01. – 06.02.2020), deviation of sales from 2019 level; moving seven-day averages



Source: Monitoring Consumption Switzerland, Google Mobility Report, Datastream, Credit Suisse. Last data point: December 6, 2021

Purchasing problems to trigger production outages at two-thirds of manufacturers

The recovery of manufacturing is currently being held back by supply shortages. Two-thirds of the purchasing managers surveyed by us in collaboration with the Trade Association for Procurement and Supply Management – procure.ch – are anticipating production outages over the next six months due to procurement difficulties. Around one in five of these companies has already had to revert to short-time working for this reason. A look at the inventory levels reported by the Economic Research Institute (KOF) of ETH Zurich gives an indication of which industries are having the greatest problems with supply shortages (Fig. 3). In sectors such as paper and furniture, but also electronics, watches, and pharma, insufficient levels of primary products are going hand in hand with insufficient inventories of finished products, which is a sign that unsatisfactory supplies of primary products are weighing on production and sales. By contrast, insufficient levels of primary products in sectors such as the metal-working industry and mechanical engineering are not having a wide-spread negative impact on sales inventory levels.

Supply situation to first ease slightly in 2022

In view of the fact that demand for goods is set to decline only slowly due to the ongoing backdrop of the pandemic, and that production and transport capacities will be expanded or fully recommissioned only sluggishly around the world, we are not anticipating any clear improvement in the situation before the middle of next year. In the electronics area – and specifically the area of semiconductors (chips) – the situation is likely to remain fraught through into 2023.

Electronic goods predominantly imported

Price rises as a result of supply difficulties are one reason why we are expecting higher inflation in 2022 than on average over the last few years (cf. "Inflation" on page 8). For two reasons, however, the drag that this will have on GDP growth is likely to be limited: First, the average household spends less than 7% of its money on goods that contain semiconductors, and these goods are for the most part imported. Any price-related purchasing restraint would therefore affect domestic manufacturers rather indirectly. Second, the labor market situation in both manufacturing and the economy as a whole is continuing to recover, irrespective of the current problems (cf. Focus article from page 12 onward). This improvement in the labor market should also have a positive impact on consumer sentiment in 2022.

GDP growth of 2.5% in 2022

Although persistent supply chain problems and the difficult epidemiological situation are weighing on economic growth at the moment, we continue to believe that the economic recovery will overall persist in 2022. Specifically, we are forecasting GDP growth of 2.5% next year, with the temporary weakness evident in the winter months likely to be offset by stronger development over the rest of the year.

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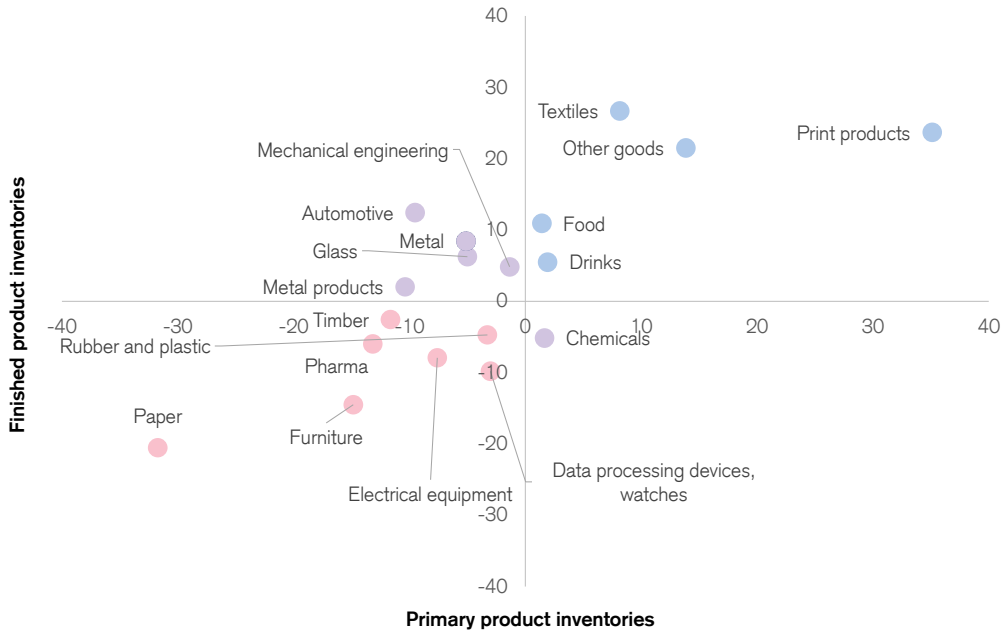
Fig 3: Not all sectors equally affected by supply chain disruptions

Negative values indicate that the majority of companies in the sector have insufficient inventory levels.



Source: Economic Research Institute (KOF) of ETH Zurich, Credit Suisse

Inflation

Three factors are likely to result in inflation being higher in 2022 than in 2021. First, food prices have fallen this year, and we are expecting this situation to normalize in 2022. Second, we expect seasonal price development to normalize to some extent, particularly for package holidays, which were heavily affected by the pandemic and exhibited sharp price declines as a result. Third, shortages in global industrial production are likely to put upward pressure on the prices of certain import goods. Taking everything into consideration, we are therefore revising our inflation forecast for 2022 upward from 0.5% to 1.0%.

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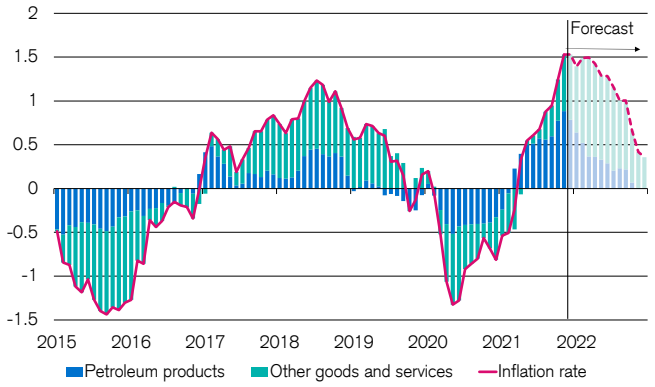
Inflation to peak in second quarter of 2022

Year-on-year comparison, in %



Source: Refinitiv Datastream, Credit Suisse. Last data point: November 2021. The forecast contribution of crude oil products assumes constant oil prices.

Labor market

Declining unemployment figures and rising numbers of vacant positions have recently made the recruitment process more difficult generally from the employer perspective (see Focus on p. 12). Meanwhile, employee fears over job security are receding, as is clear from responses in the quarterly survey of consumer sentiment. Following the nadir recorded at the turn of 2020/2021, the sub-index of perceived job security is now back close to its long-term average. At the same time, the index on expected unemployment was lower in October 2021 than at any point since 2011.

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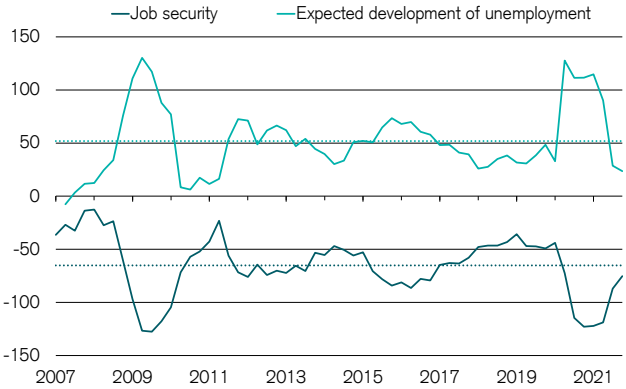
Fears over job security recede

Index of consumer sentiment, questions on labor market development, seasonally- and calendar-adjusted; dotted lines: averages 2007 – 2021



Source: State Secretariat for Migration, Credit Suisse. Last data point: Oct. 2021

Immigration

With the exception of residence permits for workers from Croatia, there is currently still spare capacity in Switzerland's immigration quotas. In particular, Swiss companies have so far made little use of the quota for workers from the United Kingdom, which was designed as a way of cushioning the effects of Brexit. For 2022, the Federal Council has resolved to leave the existing ceilings unchanged at 2021 levels and introduce unrestricted freedom of movement for Croatia. Given the expectation of greater employment momentum, this should make it easier for Swiss companies to recruit the right personnel.

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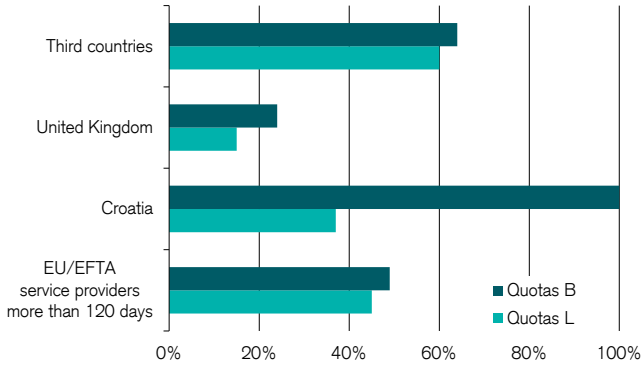
Spare capacity in immigration quotas

Degree of utilization of quota-limited short-stay residence permits (L) and normal residence permits (B) in %, as per end October 2021



Source: State Secretariat for Migration

Pharmaceutical industry

The exports of the Swiss pharmaceutical industry rose to a new high of just under CHF 26 billion in the third quarter of 2021. Almost a third of all growth in Swiss goods exports compared to the previous year was attributable to the positive development of pharma exports, with the sector's contribution to the total growth of almost 18% rising to around 5.5 percentage points. Its contribution to growth has therefore increased strongly since the start of the year. We are expecting international demand for pharma products to remain robust over the next few months, not least thanks to the need for vaccines.

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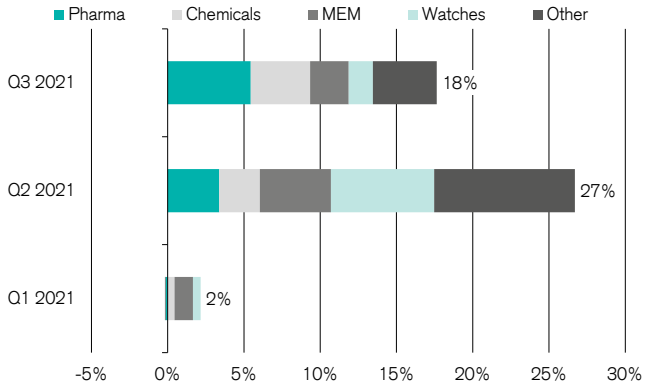
Significant growth driver

Growth in goods exports compared to prior-year quarter, by sector and total, seasonally adjusted



Source: Swiss Federal Customs Administration, Credit Suisse

Engineering, electrical and metal industry (MEM)

MEM exports in the third quarter of 2021 were above their pre-crisis level. At the same time, primary product inventories fell sharply in September. The balance between companies that consider their primary product inventories to be too high and those who consider them to be too low slumped to a nadir of more than –12% in September. This development is attributable to bottlenecks in international supply chains. Demand for MEM exports can be expected to remain high. However, there is a risk of slight productivity declines against the backdrop of supply problems.

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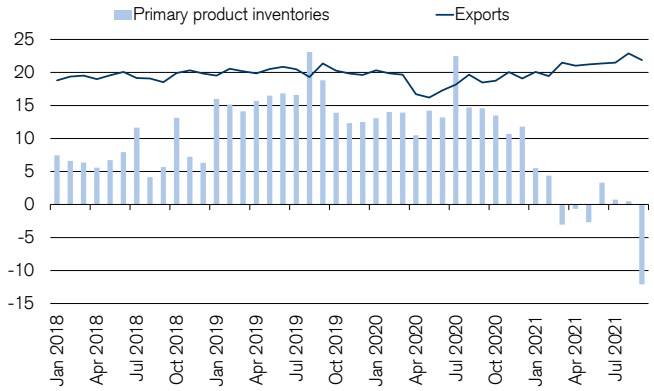
Primary product inventories decline in September

Year-on-year change of MEM exports in %, seasonally adjusted, and balance between companies who see their primary product inventories as too high compared to those who see them as too low



Source: Swiss Federal Customs Administration, Economic Research unit of the ETH Zurich (KOF), Credit Suisse

Watch industry

Swiss watch exports recorded year-on-year growth of 4.3% in the third quarter of 2021. This was attributable to strong demand from the key export destinations of China, the US, and the UK. In many European countries, however, demand continues to languish below pre-crisis levels. This is not least because of the reduced number of Asian tourists, who used to acquire watches on their travels but now do this in their own country instead. Nothing is likely to change in this respect over the next few months. China's share of total watch exports can therefore be expected to remain above its pre-crisis level in the future too.

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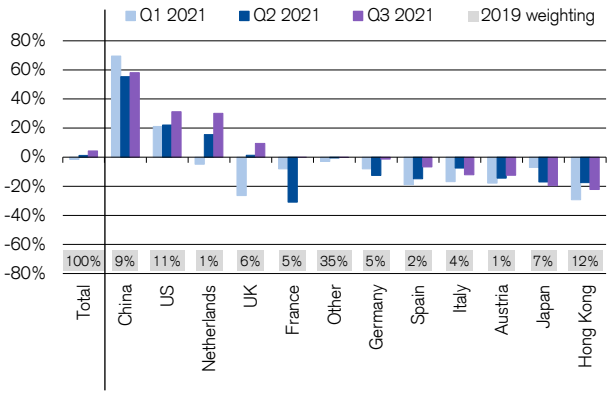
Export growth thanks to China, US, and UK

Change in watch exports compared to prior-year quarter, by country, seasonally adjusted, and weighting of countries in 2019



Source: Swiss Federal Customs Administration, Credit Suisse

Retail trade

The remarkable "rollercoaster ride" of retail sales does not appear to be over yet. In the third quarter of 2021, both the food/near-food and non-food areas recorded negative growth rates. To a large extent this can be explained by the record sales notched up during the COVID-19 pandemic, which are difficult to repeat under more normal circumstances. With this in mind, negative year-on-year sales figures can be expected over the next three months too. However, viewed on an absolute basis we believe that retail sales will remain above pre-crisis levels.

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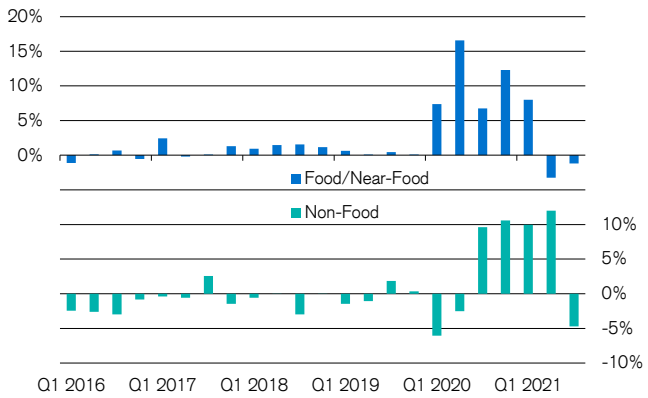
Retail sales fall below prior-year levels

Development of seasonally-adjusted nominal retail sales compared to prior-year quarter



Source: GfK, Credit Suisse

Tourism

The recovery in the number of overnight stays in tourist municipalities flattened off somewhat in the third quarter of 2021. Although the recovery remained dynamic in the urban centers and suburban municipalities, this category is still much further below its pre-crisis level than tourist regions. However, the winter sports season at the start of 2022 is likely to see tourist municipalities closing in on their pre-crisis levels, particularly as both domestic tourists and European guests can be expected to support the recovery of overnight stays in Switzerland's winter sports regions.

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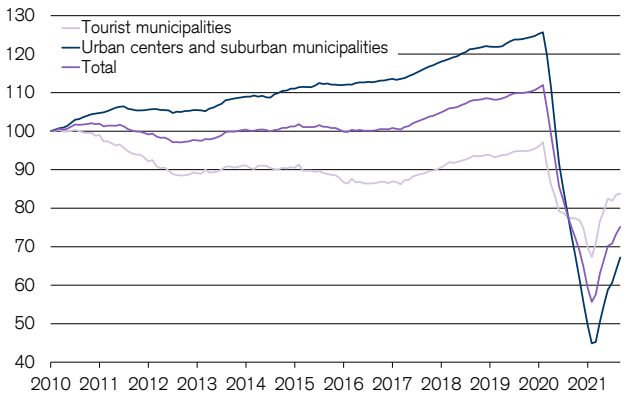
Tourist numbers remain well below pre-crisis levels

Overnight stays, indexed (Jan. 2010 = 100), 12-month averages



Source: Swiss Federal Statistical Office, Credit Suisse

Information technology (IT)

Sentiment in the IT sector has picked up and is now even higher than in the pre-crisis year of 2019. The balance between companies who view their business situation as positive and those that view it as negative stood at almost 56% at the start of the fourth quarter of 2021. This is the highest level recorded since 2017. Corporate investment collapsed during the pandemic. Although the recovery is well underway, there is still further upside potential, and the IT sector should continue to benefit.

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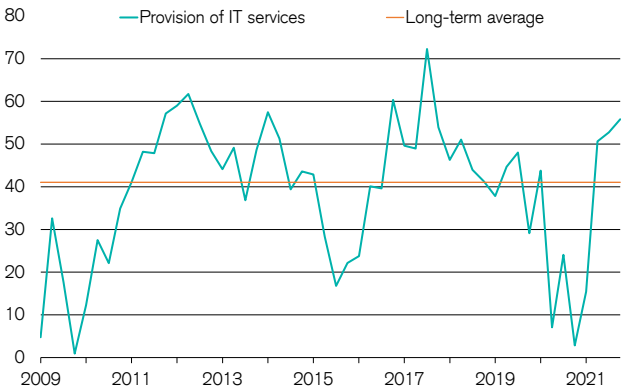
Significant improvement in sentiment in IT sector

Balance between companies who view their business situation as positive and those that view it as negative, in %, 5-year average



Source: Economic Research unit of the ETH Zurich (KOF), Credit Suisse

Vacant positions at record high

The recovery of the Swiss labor market is proceeding apace: Unemployment is falling, and the number of vacant positions is rising. Accordingly, an increasing number of employers are having trouble recruiting qualified personnel. However, there are significant differences between individual sectors. For 2022 overall, we are expecting employment growth of 1.2% and nominal wage growth of 0.8%.

Coronavirus-related decline in employment reversed

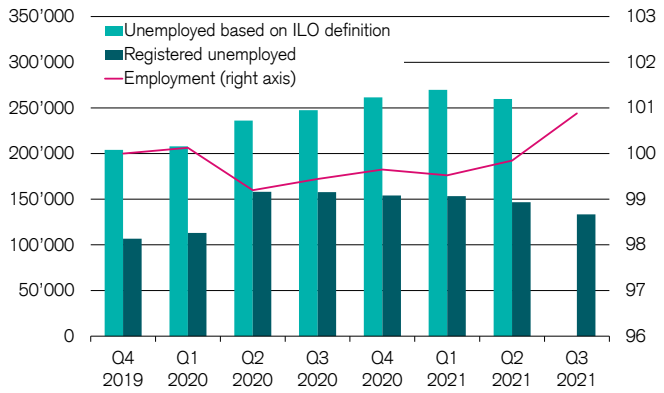
The coronavirus crisis subjected the Swiss labor market to a severe shock. In the wake of the first lockdown, overall employment in the second quarter of 2020 recorded a seasonally adjusted quarter-on-quarter decline of 0.9% (cf. Fig. 1) – the sharpest quarterly decline for almost 30 years. Compared to the historic slump in gross domestic product (GDP), however, the labor market can be said to have escaped relatively lightly, which is not least attributable to the massive use of short-time working. Moreover, the magnitude of the decline was mirrored by the briskness of the recovery in the second half of 2020. Following a temporary reverse at the start of 2021 during the second lockdown, employment has been on the rise ever since the spring. By the end of September 2021, it was about 0.9% above the pre-crisis level.

Declining unemployment on the one hand…

The unemployment figures also reflect the positive dynamics of the Swiss labor market (cf. Fig. 1). At the end of the November, the number of unemployed persons registered with regional employment agencies (RAV) was some 24% lower than in February 2021 on a seasonally adjusted basis (approx. –37,000 persons). In the unemployment statistics based on ILO definition, which also encompass people who may be actively looking for a job but are not registered with an RAV, a positive trend reversal also became apparent from the spring onward. An interesting feature here is the diverging development of the two indicators in the second half of 2020 and at the start of 2021, when the number of unemployed based on ILO definition rose further, even though the number of registered unemployed was already falling. One possible explanation of this phenomenon is that discouraged job-seekers gave up actively looking for a job in view of the general uncertainty and the fact that many companies had put their recruitment drives on hold during the first lockdown. These cases appear in the statistics as inactive rather than unemployed persons. Only after resuming the job-hunting process, they then gradually reappeared in the statistics for the unemployed based on ILO definition over the following quarters. The strong but temporary decline in the employment rate in the second quarter of 2020 confirms this picture.

Fig. 1: Employment over pre-crisis level in September 2021

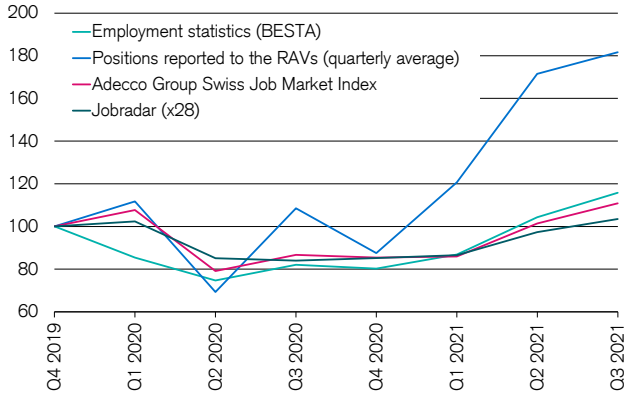
Total employed: As per quarter-end, index for Q4 2019 = 100; unemployed based on ILO definition and unemployed: average quarterly figures; seasonally adj. values



Source: Swiss Federal Statistical Office, State Secretariat for Economic Affairs, Credit Suisse
Last data point: Q3 2021 (employment, registered unemployed), Q2 2021 (unemployed based on ILO definition)

Fig. 2: More vacant positions than prior to onset of COVID-19 crisis

Vacant positions as per various indicators, indices for Q4 2019 = 100



Source: Swiss Federal Statistical Office, State Secretary for Economic Affairs, Adecco Group Switzerland/University of Zurich, x28 AG, Credit Suisse
Last data point: Q3 2021

… and increase in number of vacant positions on the other hand

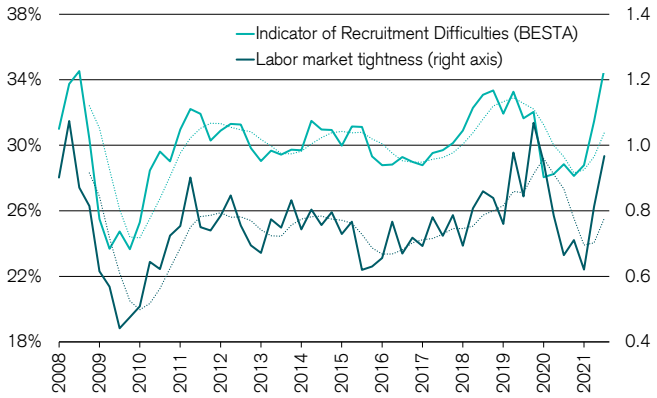
The labor market recovery is also evident in the development of the number of vacant positions in Switzerland (cf. Fig. 2). While the various available indicators may differ in respect of survey timing and survey method (questionnaire, internet search for job advertisements, or list of vacant positions as per the RAVs), which may in turn result in certain discrepancies in the number and time windows of vacant positions, a positive basic trend is easy to discern. The unusually strong upward and downward movements in the number of vacant positions recorded with the RAVs are largely attributable to changes in the job registration requirement: These were temporarily lifted between March 26 and June 8, 2020. In addition, as a result of the sharp rise in unemployment in 2020, the list of professions for which reporting was required was expanded with effect from January 2021. As such, the RAV figures are not a reliable indicator of the actual development of the Swiss job market. The other indicators suggest that – following a sharp slump in the first half of 2020 and an initially gradual recovery – an increasingly large number of vacant positions have been advertised by companies from the second quarter of 2021 onward. The figures published in the third quarter of 2021 were even higher than those published at the end of 2019/beginning of 2020, which were the previous record levels. According to the "Jobradar" of the company x28, more than 212,700 jobs were advertised last August in Switzerland on the websites of companies and recruitment agencies, compared to some 210,300 in February 2020.

Consequence: rising labor market tightness from employers' perspective

Accordingly, the number of job vacancies in the Swiss labor market was only slightly below the number of unemployed persons in the third quarter of 2021. At the time of going to press, there was no official data on unemployed persons based on ILO definition available for the third quarter of 2021. However, we estimate this to be in the region of 220,000 persons (not seasonally adjusted). The relationship between vacant positions and number of unemployed is referred to as the labor market tightness. If this figure is higher than 1, demand for labor – expressed simply – is greater than supply, whereas the opposite is true for a figure of less than 1. This metric therefore gives an indication of the difficulty employers are having in filling vacant positions, and to a certain extent can be interpreted as an indicator of a shortage in skilled labor. At the end of 2019, prior to the onset of the coronavirus crisis, the labor market tightness had reached its highest level since 2008, but then declined sharply in Switzerland in 2020 for the first time since the financial crisis (cf. Fig. 3). The reason for this was the sharp increase in unemployment at the same time as the number of vacant positions slumped in the wake of the first lockdown. However, this indicator has bounced back powerfully since the spring of 2021. In the third quarter of 2021, there were around 0.97 job advertisements for every unemployed person in Switzerland – compared to just 0.6 at the start of the year. The fact that companies are now having greater difficulty in filling vacant positions with suitable personnel is also confirmed by the Indicator of Recruitment Difficulties, which is based on a survey of 65,000 businesses in the secondary and tertiary sectors carried out by the Swiss Federal Statistical Office (cf. Fig. 3). In the third quarter of 2021, the proportion of surveyed companies who stated that they were unable to find qualified personnel, or able to do so only with difficulty, stood at almost 35% – compared to 28% in 2020 and 33% in mid-2019.

Fig. 3: Recruitment difficulties increase once again

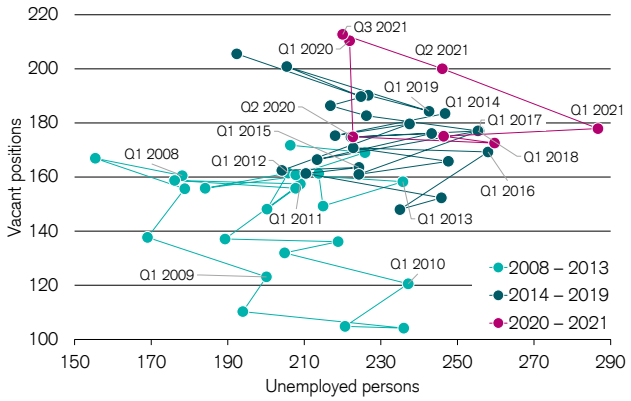
Labor market tightness: relationship between open vacancies (estimates based on Jobradar [x28] and the Adecco Group Swiss Job Market Index) and unemployed persons (based on ILO definition); Indicator of Recruitment Difficulties: proportion of companies surveyed (weighted by employment) unable to recruit qualified personnel or able to do so only with difficulty; dotted lines: 4-quarter averages



Source: Swiss Federal Statistical Office, Adecco Group Switzerland/University of Zurich, x28 AG, Credit Suisse
Last data point: Q3 2021 (unemployed based on ILO definition: Credit Suisse estimate)

Fig. 4: Beveridge curve shifted in the coronavirus crisis

Beveridge curve: unemployed persons (based on ILO definition) and vacant positions (estimates based on Jobradar [x28] and the Adecco Group Swiss Job Market Index) in thousands, quarterly figures, not seasonally adjusted, 2008 – 2021



Source: Swiss Federal Statistical Office, Adecco Group Switzerland/University of Zurich, x28 AG, Credit Suisse
Last data point: Q3 2021 (unemployed based on ILO definition: Credit Suisse estimate)

The concept of the Beveridge curve

Figure 4 uses the same data on vacant positions and unemployed persons as the indicator of labor market tightness, but illustrates this in a different way, namely in the form of the so-called Beveridge curve. It is usually downward sloping: As a general rule, unemployment is low and the number of vacancies is high at times of economic strength, whereas the opposite tends to apply in recessions. However, the angle of the Beveridge curve also allows for conclusions to be drawn about the magnitude of structural unemployment. If the curve is close to its axis origin, this points to an efficient interaction between the unemployed and vacant positions. By contrast, high unemployment coinciding with high vacancies is an indicator of potential problems in the reallocation processes. This is the case, for example, if the profiles of job-seekers do not match – or do not properly match – the requirements of the advertised positions. The term used in economics to describe this situation is mismatch. Mismatches can relate to industries, qualifications, or regions. However, changes in short-term frictional unemployment can also lead to a shift in the Beveridge curve. The latter arises because job-hunting and the recruitment process also take some time even where applicant and job profiles are in alignment.

Increasing mismatch evident in the Swiss labor market

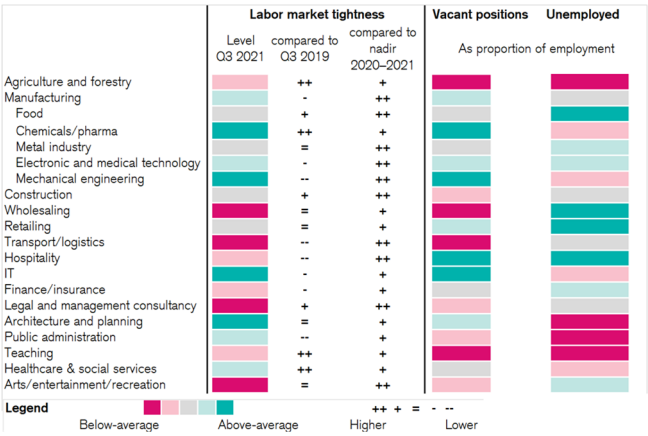
The development of the Beveridge curve indicates that structural unemployment in the Swiss labor market has risen since the financial crisis of 2008/2009. Between the points of the line describing the years 2008 to 2013 and those describing the years 2014 to 2019 there is clear evidence of a shift of the curve to the right, a phenomenon that was then accentuated in 2020/2021 during the coronavirus crisis. During the first lockdown in the spring of 2020, numerous recruitment processes became more complex or were even put on hold, including in the sectors of the economy that were less affected by the COVID-19 containment measures. This is likely to have triggered a rise in frictional unemployment. However, the main reason for the increasing mismatch between non-gainfully employed persons and vacant positions is likely to have been the sharply diverging developments of the individual sectors during the pandemic. Because the sectors where the number of vacancies has increased most strongly over the last few quarters are not necessarily those, in which a particularly large number of people are looking for a job.

But the situation is not the same in all sectors

A differentiated analysis of the current labor market tightness and potential mismatch problems at sector level reveals significant differences (cf. Fig. 5). For these calculations, we have resorted on the one hand to the figures of the unemployed as registered with the RAVs, as these are supplied promptly and broken down by industry sector, in contrast to the statistics for the unemployed based on ILO definition. The details on the number of vacant positions by sector, on the other hand, are taken from the "Jobradar" of the company x28, whereby in the survey by sector only the websites of companies (without recruitment agencies) are taken into consideration. The labor market tightness figures ascertained at sector level are therefore not directly comparable with the figures presented above at an overall Swiss level.

Fig. 5: Sector differences with regard to labor market situation

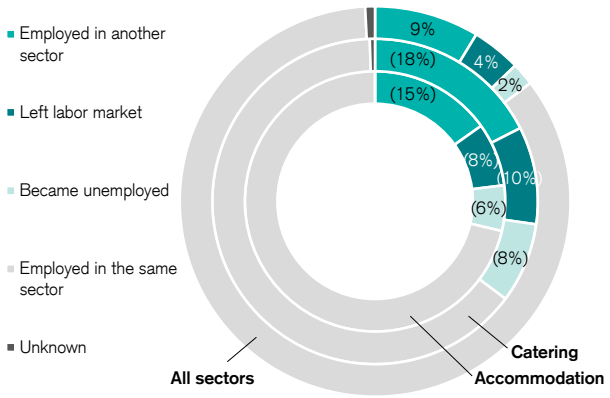
Vacant positions (Jobradar x28) and registered unemployed (quarterly average) by selected sectors, Q3 2021, in relation to one another (labor market tightness) and to employment by sector. The color scales indicate how high the figure works out compared to the average across all sectors, the plus/minus signs indicate whether the level in Q3 2021 was higher or lower than in Q3 2019 or than during the coronavirus-related low point (depending on the sector).



Source: State Secretary for Economic Affairs, x28 AG, Credit Suisse.

Fig. 6: Many hotel & catering employees switched sector in 2020

Employed persons surveyed in Q4 2019, by status in Q4 2020, in %
(n = 8443 persons who were surveyed in both quarters);
Figures in brackets indicate that results should be treated with caution due to the low random sample size.



Source: Swiss Federal Statistical Office (SFSO), Credit Suisse

Labor market tightest in IT sector

According to our calculations, in the third quarter of 2021, labor market tightness was at its highest in the information technology (IT) sector, followed by architects' practices, the chemical-pharmaceutical industry, and mechanical engineering (cf. Fig. 5). In all these sectors, an above-average proportion of open vacancies (when measured against sector employment) contrasts with a relatively low unemployment rate. However, these sectors differ with respect to development since the start of the coronavirus crisis: While labor market tightness in the IT sector and in mechanical engineering was still lower in Q3 2021 than two years previously, the levels recorded at the end of 2019 had already been exceeded two years on in the chemicals/pharma industry. When viewed in absolute terms, healthcare & social services was the sector with the most vacancies in the third quarter of 2021 (more than 15,800 according to Jobradar x28, of which 11,700 related to the care profession). Relative to the size of the sector, the number of vacant positions in healthcare & social services is not above-average, however. Nevertheless, as the unemployment rate in the sector is relatively low, the resulting labor market tightness is still above-average in a sectoral comparison. Labor market tightness was lowest in the third quarter of 2021 in the transport & logistics sector and in wholesaling, where relatively few positions were advertised.

High mismatch in hospitality …

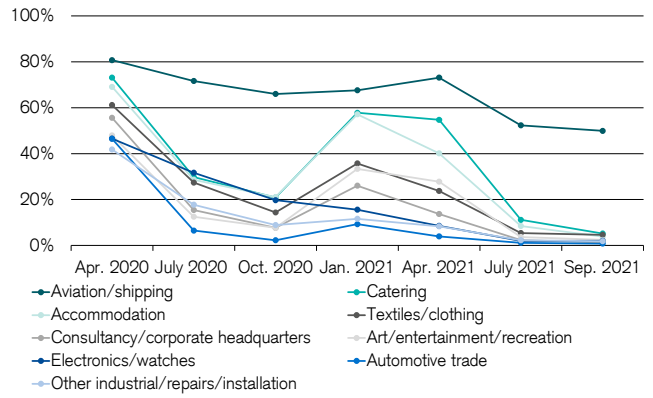
According to Jobradar x28, with just under 10,100 job advertisements the hospitality sector recorded the third-highest number of vacancies in the third quarter of 2021, behind healthcare and retailing. This is double the figure recorded in the first lockdown in the second quarter of 2020. As a consequence, hospitality exhibited the highest vacancy rate after the IT sector. However, the former also had a very high unemployment rate, which indicates a significant mismatch between job-seekers on the one hand and vacant positions on the other. In addition to possible discrepancies between the job and qualification profiles on offer compared to those being sought, a certain amount of professional reorientation is likely to play a key role here. Specifically, the RAV statistics assign the unemployed to the last sector in which they were active before losing their job, but this does not necessarily mean they are looking for a new job in that sector.

… and plenty of "reorientation"

An analysis of data taken from the Swiss labor force survey, for example, shows that switches between sectors and people leaving the labor market in 2020 (e.g. to pursue training or further education) were particularly common among workers from hospitality compared to other sectors (cf. Fig. 6). Indeed, 18% of surveyed workers from the hospitality sector commenced activity in a different sector between the end of 2019 and the end of 2020, while a further 10% left the labor market altogether. On average, the equivalent figures across all sectors were "only" 9% and 4% of workers respectively. The labor market tightness figure ascertained for hospitality is therefore likely to be underestimating the actual recruitment difficulties in this industry. In addition, short-time working is still relatively widespread in the hospitality sector (cf. Fig. 7). In September 2021, around 5% were employed at least partially on a short-time working basis in the catering sector. Only in the aviation industry was this figure higher (and significantly so). The longer the instrument of short-time working is used, the more the question arises of whether short-time working is not simply delaying unemployment – and thereby contributing to the mismatch between job-seekers and vacant positions.

Fig. 7: Short-time working still relatively widespread in hospitality

Proportion of all employed workers in short-time working (approximation values); sectors shown are those with a value of more than 40% in April 2020



Source: State Secretariat for Economic Affairs, Swiss Federal Statistical Office, Credit Suisse
Last data point: September 2021

Fig. 8: Employment growth expected in all sectors in 2022

Employment in full-time equivalents (annual average), year-on-year change in %

Sector	2020	2021*	2022*
Manufacturing	-1.0%	-0.9%	0.6%
Construction	0.2%	-0.5%	0.6%
Trading	0.3%	-0.4%	0.4%
Transport/logistics	-0.1%	-0.7%	0.7%
Hospitality	-9.0%	-4.0%	4.1%
IT / communication	3.1%	1.4%	1.0%
Financial and insurance services	0.8%	2.0%	0.8%
Company services	-0.4%	2.0%	1.8%
Health / public services	2.5%	1.5%	1.6%
Employment total	**0.1%**	**0.4%**	**1.2%**

Source: Swiss Federal Statistical Office
*Estimates for 2021 and forecasts for 2022: Credit Suisse

Nominal wages likely to grow more strongly in 2022 than in 2021

In view of the increase in labor market tightness, companies in Switzerland are generally facing greater recruitment difficulties at the moment compared to a few quarters ago. This in turn increases the pressure on them to offer better working conditions and/or higher wages in such a competitive environment for qualified personnel. As the above analysis has shown, however, not all sectors are affected by this problem to the same extent. All in all, we are expecting nominal wage growth of 0.8% for 2022, which is more or less in line with the average of the ten years prior to the coronavirus crisis. When factoring in the current inflation forecast (+1.0%, cf. p. 8), however, real wages can be expected to decrease modestly next year. They have probably already declined this year: According to our forecast (which has been revised slightly upward), nominal wage growth amounted to 0.4% in total in 2021. However, at the same time inflation worked out at 0.6%. We are expecting the strongest wage increases in 2022 in sectors where a relatively high labor market tightness is currently apparent, such as the IT sector and the chemical-pharmaceutical sector. Due to increasing recruitment difficulties, there will be a certain amount of upward pressure on wages even in hospitality, which received a battering during the coronavirus crisis. In a sectoral comparison, however, nominal wage growth in hospitality is likely to prove fairly low in 2022.

Forecast for 2022: Employment to rise by 1.2% as an annual average

Regarding employment, we are anticipating average annual growth of 1.2% in 2022 (full-time equivalent positions), compared to a likely increase this year of 0.4%. Following strongly diverging developments in the current year, we are expecting all key sectors to make a positive contribution to employment growth in 2022 (cf. Fig. 8). However, in manufacturing, transport & logistics, and particularly in hospitality, the expected growth in employment in 2022 is unlikely to be enough for employment to return to pre-crisis levels. For the seasonally adjusted unemployment rate, we are anticipating a further fall next year, although this decline should be less dynamic than in the second half of 2021. According to our forecasts, unemployment should come in at 2.4% at the end of 2022, only slightly above the level recorded at the start of 2020 (2.3%).

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Inflation still on the rise

Despite a modest acceleration, inflation in Switzerland has remained lower than in most other economies, not least due to a relatively low weight of the energy component in the consumer price index. There is therefore no pressure for tighter monetary policy.

Energy accounts for only 5.3% of Swiss CPI

Despite elevated inflation rates in major advanced economies, inflation in Switzerland has only accelerated moderately (Figure 1). This difference is mainly due to structural factors. Firstly, the sharp rise in energy prices has not had the same impact on Swiss inflation as elsewhere in the world, given the low weight of this category in the consumer price index (CPI). While energy accounts for 5.3% of the Swiss CPI, it makes 10.8% of the German one, for example (Figure 2). Moreover, the gas and electricity markets are not liberalized for consumers in Switzerland, so that the surge in market prices for these energy sources has been only very partially passed on to consumers. Secondly, food prices in Switzerland have dropped this year. Poor weather over the spring and the summer have reduced domestic agricultural production, which was compensated for by imports from cheaper regions. Thirdly, health care prices continue to decline, while they have generally trended upward in other advanced economies.

Rising prices due to supply chain issues are visible in a few categories

However, Swiss consumer prices have not been immune to global supply chain issues either. Cars, car spare parts, furniture and electronics are among the categories for which prices have risen. We expect prices in these categories to continue to climb in the first half of 2022, i.e. for longer than previously anticipated, as supply chain issues persist. At the same time, the sharp acceleration in producer price inflation, i.e. prices of goods at the factory level in Switzerland, is not indicative of future price hikes for consumer, in our view. Indeed, our analysis suggests that the current rate of consumer price inflation corresponds to what we would expect given the current rate of producer price inflation (p. 19).

No pressure for a policy rate liftoff, but fewer foreign currency purchases likely

While we revise our inflation forecast upward for 2022 from 0.5% to 1% (p. 8), we still believe that inflation will not be a constraint for monetary policy. We therefore expect the Swiss National Bank (SNB) to maintain its policy rate unchanged at –0.75% in 2022. At the same time, in a context of higher inflation and strong external demand for Swiss goods, the SNB can tolerate a stronger Swiss franc. It therefore means that bouts of Swiss franc appreciation will not be met with very large foreign currency interventions, in our view.

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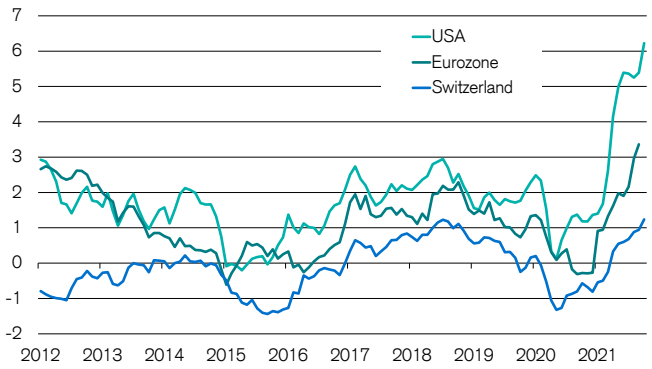
Figure 1: Inflation in Switzerland much lower than elsewhere

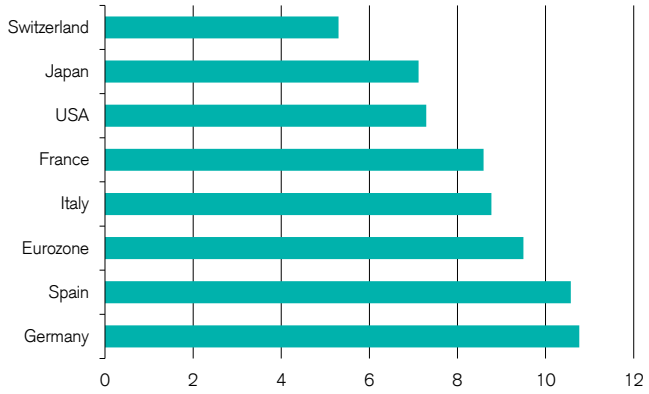
Consumer price inflation rate, in % YoY



Source: Refinitiv Datastream, Credit Suisse. Last data point: 10/2021

Figure 2: Energy component has a smaller weight in Switzerland

Weight of the energy component in the CPI, in %



Source: Swiss Federal Statistical Office, Statistics Bureau of Japan, US Bureau of Labor Statistics, Eurostat, Credit Suisse. Last data point: 2021

Producer prices

Prices of domestic supply in Switzerland (i.e. prices for goods for the domestic market at the factory level) have also increased strongly. However, we do not believe that the rise in prices so far will translate into higher consumer prices. First, producer prices are much more volatile than consumer prices and an increase of 1% in producer prices typically raises consumer prices by 0.2%. Second, most of the increase is due to oil prices. Assuming constant oil prices until the end of 2022, producer price inflation should start to decline as soon as January 2022. That said, supply chain issues might slow down this decline, at least in the first half of 2022.

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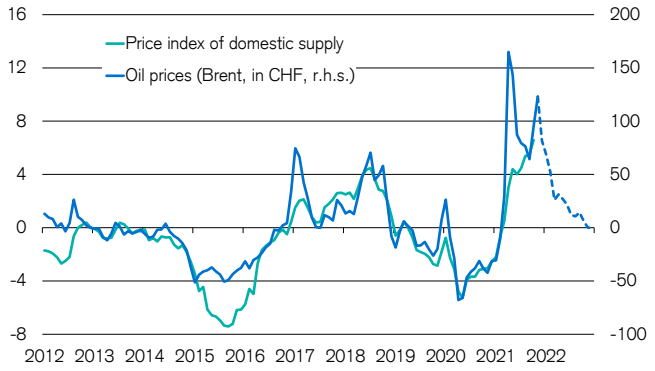
Higher oil prices have pushed producer prices higher

In % YoY. For oil prices, we assume constant prices from November 2021.



Source: Federal Statistical Office, Refinitiv Datastream, Credit Suisse. Last data point: 10/2021

COVID-19 loans

Since the last edition of the "Monitor Switzerland" (based on data from 8 September 2021), companies have paid back an additional CHF 1247 m of COVID-19 loans. With a total of CHF 4.4 bn, corporates have paid back 26% of COVID-19 loans. Defaults have also increased since our last update, from CHF 239 m to CHF 324 m. Despite the continuous rise in default, we have not observed any significant acceleration over the course of the year with less than CHF 100 m of defaulted loans per quarter.

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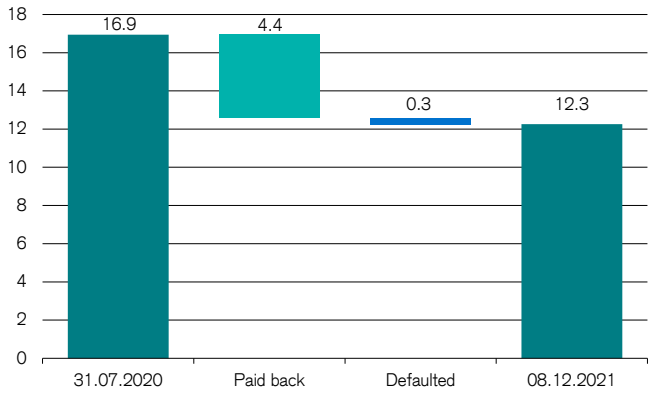
Companies continue to pay COVID-19 loans back

COVID-19 credits, in CHF bn



Source: SECO, Credit Suisse. Last data point: 08.12.2021

SNB profit

For the first three quarters of 2021, the SNB reported a profit of CHF 41.4 bn or slightly less than 6% of annual gross domestic product (GDP). This profit has brought SNB's total equity to just below CHF 220 bn. After taking into account the annual allocation of CHF 8.7 bn to the "provisions for currency reserves" (10% of the current level of these provisions), the distribution reserves and the remainder of the profit add to around CHF 124 bn and are available for profit distribution to the cantons and the Confederation. The maximal distribution of CHF 6 bn seems therefore guaranteed.

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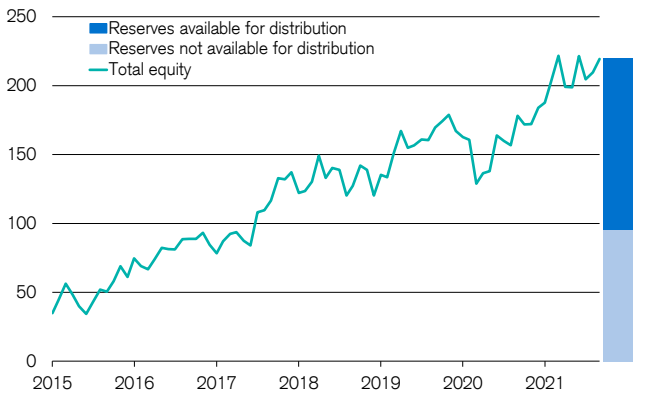
Substantial buffer for future profit distribution

SNB equity capital, in CHF bn



Source: Refinitiv Datastream, SNB, Credit Suisse. Last data point: 09/2021

Owner-occupied housing

Price momentum increased further in the third quarter of 2021: Over the last year, the prices of single-family homes have risen by 7.5%, and those of condominiums by 7.3%. These price increases were driven by the huge rise in interest in owner-occupied housing as a result of the COVID-19 pandemic, as well as the persistence of very low mortgage interest rates. At the same time, supply remains scarce due to declining newbuild activity. That price growth is not even higher is likely to be primarily due to Switzerland's rigorous regulatory financing requirements. These will limit upside price potential in the future too.

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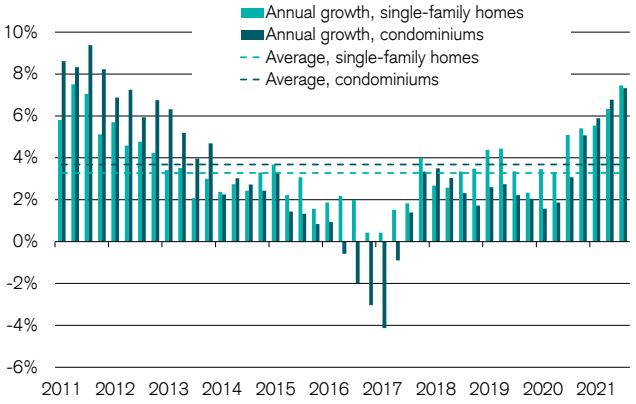
Residential property records strong price increases

Price development in mid-range segment; dotted lines: average 2000–2020



Source: Wüest Partner. Last data point: Q3 2021

Vacant housing

As a result of (excessively) high construction activity in the rental apartment sphere, the apartment vacancy rate rose continuously for many years. However, as of June 1, 2021 it has now recorded a decline (from 1.72% to 1.54%) for the first time in twelve years. This has affected both owner-occupied housing (vacancy rate: 0.48%) and rental apartments (2.49%), which have recently seen a decline in construction activity. This weakening was expected, as the volume of building permit issuance for new apartments passed its peak some three years ago. Moreover, while the pandemic has triggered a structural change in demand (in favor of larger apartments outside of the urban centers), demand has not fallen overall.

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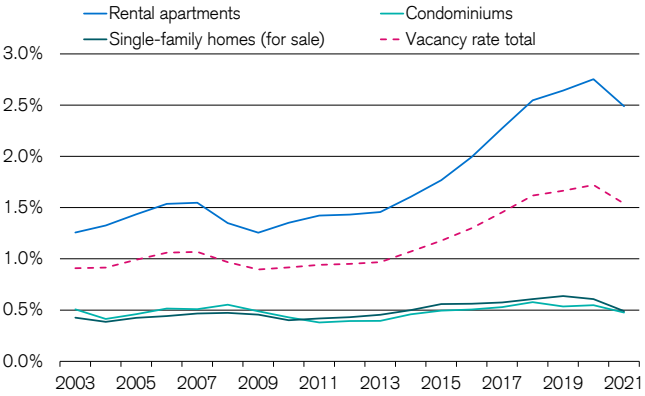
Fewer vacancies in all segments

Housing vacancy rate by segment, as % of respective housing stock



Source: Federal Statistical Office, Credit Suisse. Last data point: 01.06.2021

Rental apartments

Since the interim low point recorded in the second quarter of 2020 as a result of the COVID-19 lockdown, there has been a significant increase in the number of rental apartments on the market. Over the last four quarters, the supply rate has worked out at a high average of 6.1%. This increase is largely attributable to the large and medium-sized centers. Many households are likely to have been prompted by the pandemic to re-evaluate their living situation. The positive overall development of demand is evident from the average time-on-market of apartments, which has fallen over the last few quarters. As a consequence, the downward pressure on rents can be expected to weaken.

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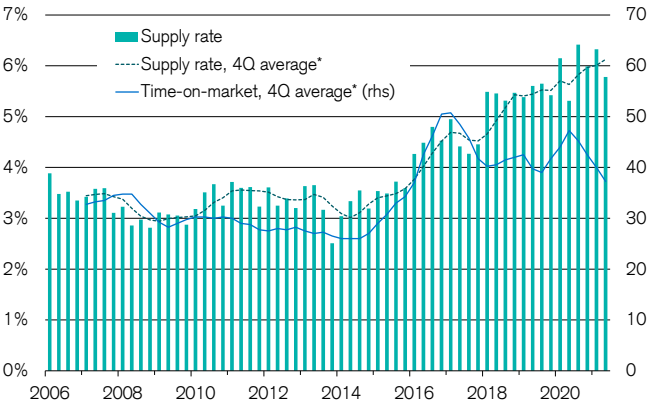
Pandemic prompts re-evaluation of housing situation

Supply rate as % of existing housing stock, time-on-market in number of days



* Moving average over four quarters
Source: Meta-Sys AG, Credit Suisse. Last data point: Q2 2021

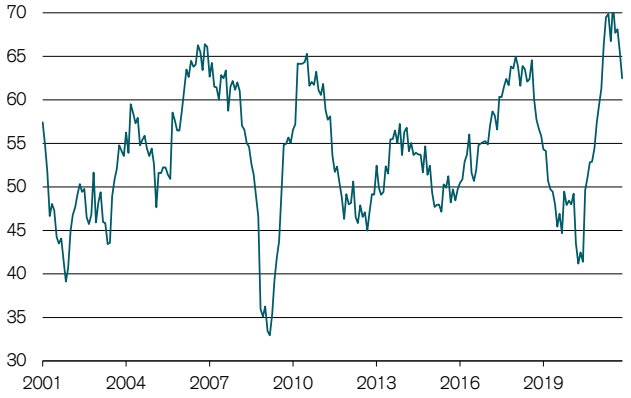
Credit Suisse Leading Indicators

Purchasing Managers' Index (PMI)

Purchasing managers stand at the beginning of the production process. The PMI uses this forward-looking feature to forecast the level of economic activity. The index is based on a monthly survey conducted by procure.ch, the industry body for purchasing and supply management. Purchasing managers respond to eight questions on output, backlog of orders, purchasing volumes, purchase price, delivery times, stocks of purchases, stocks of finished goods, and employment. They indicate whether activity levels are higher, the same, or lower than in the preceding month. The percentage share of responses stating "higher" and "no change" are used to calculate the sub-indices, though only half of the "no change" share of responses is included. The PMI lies between 0 and 100, with a figure of more than 50 indicating an expansion of activity compared with the previous month.

Industrial Activity

PMI index > 50 = growth



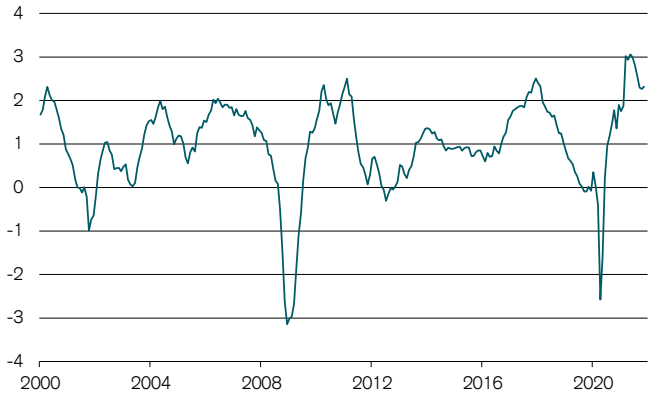
Source: procure.ch, Credit Suisse

Credit Suisse Export Barometer

The Credit Suisse Export Barometer takes as its basis the dependence of Swiss exports on foreign export markets. In constructing the export barometer, we have drawn together important leading industry indicators in Switzerland's 28 most important export markets. The values of these leading indicators are weighted on the basis of the share of exports that goes to each country. The export barometer consolidates this information to produce a single indicator. Since the values in question are standardized, the export barometer is calibrated in standard deviations. The zero line corresponds to the growth threshold. The long-term average growth of Swiss exports of approximately 5% is at 1.

Exports

In standard deviation, values > 0 = growth



Source: PMIPremium, Credit Suisse

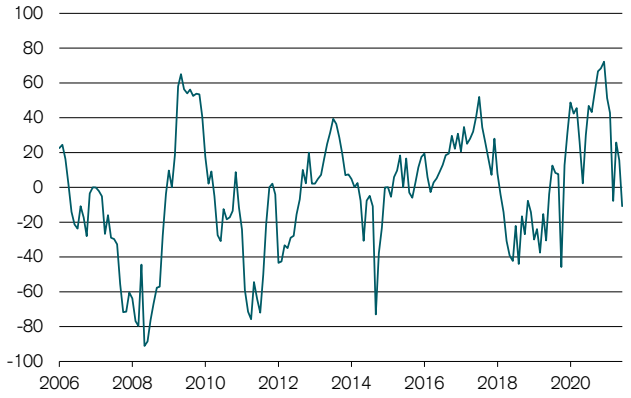
CS CFA Society Switzerland Index

Financial analysts have their finger on the pulse of the economy. Since 2017, we have been conducting a monthly survey of financial analysts jointly with CFA Society Switzerland under the heading Financial Market Test Switzerland[1]. Analysts are questioned not only about their assessment of the current and future economic situation as well as the rate of inflation but also about financial market issues such as equity market performance and interest rate forecasts. The CS CFA Society Switzerland Index represents the balance of expectations regarding the development of Swiss economic activity over the coming six months.

[1] Published as the Credit Suisse ZEW Index from 2006 until 2016

Economic Activity

Balance of expectations, values > 0 = growth



Source: CFA Society Switzerland, Credit Suisse

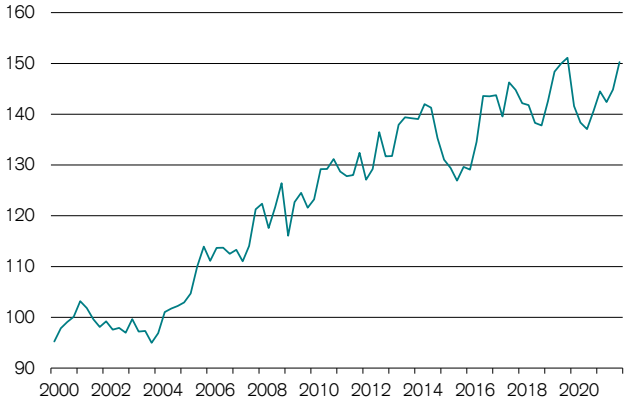
Credit Suisse Leading Indicators

Swiss Construction Index

The Swiss Construction Index is published once a quarter jointly by Credit Suisse and the Swiss Contractors' Association (SCA). It serves as a leading indicator for the state of Switzerland's construction sector by forecasting the volume of work in the core construction business in the coming quarter. The indicator is calculated by Credit Suisse and is based mainly on a quarterly survey conducted by the SCA among its members. Additional data is provided by the Swiss Federal Statistical Office and Baublatt. The Construction Index was launched in the first quarter of 1996.

Construction Industry Climate

1st quarter 1996 = 100



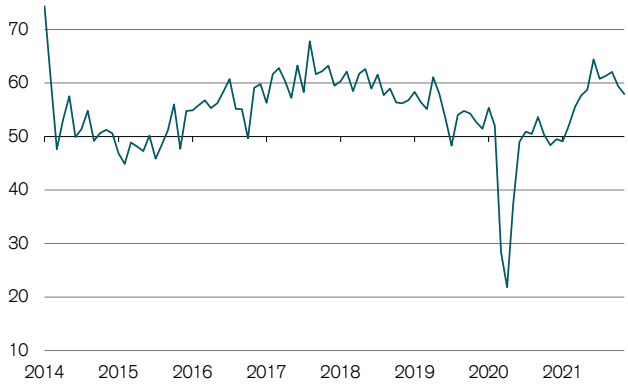
Source: Swiss Contractor's Association, Credit Suisse

PMI Services

Procure.ch, the professional association for purchasing and supply management and Credit Suisse launched a PMI for the services sector in 2014. The Services PMI is structured in exactly the same way as its industry counterpart. Values over 50.0 points mean expansion. It is based on a survey of purchasing managers from Swiss service providers. There are six subcomponents: type of business, new orders, order book, purchasing prices, sales prices and number of employees.

Activity in the services sector

PMI Services index > 50 = growth



Source: procure.ch, Credit Suisse

Forecasts and Indicators

Forecasts for the Swiss Economy

	2021	2021	2021	2021P	2022P	2022P	2022P	2022P	2021P	2022P
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4		
GDP (YoY, in %)	0.3	8.6	4.1	3.3	3.7	2.7	1.6	2.0	4.0	2.5
Consumer spending	-3.3	8.2	2.1	6.0	9.0	4.2	-0.7	-2.0	3.1	2.5
Government expenditure	4.7	7.9	6.2	2.0	0.0	-2.0	-4.0	0.0	5.1	-1.5
Gross capital investment	-0.1	10.4	1.1	-1.4	0.7	0.7	1.9	3.2	2.3	1.7
Construction investment	-0.5	5.7	0.5	-0.8	0.2	0.2	0.2	0.2	1.2	0.2
Investment in plant and equipment	0.2	13.2	1.4	-1.7	1.0	1.0	2.9	5.0	3.0	2.5
Exports (goods and services)	-0.1	21.5	14.8	3.0	5.0	5.0	5.0	5.0	9.2	5.0
Imports (goods and services)	-5.7	15.1	7.6	15.0	4.0	4.0	4.0	4.0	7.7	4.0
Inflation (in %)	-0.4	0.5	0.8	1.4	1.5	1.2	1.0	0.4	0.6	1.0
Unemployment (in %)	3.3	3.2	2.9	2.6	2.6	2.5	2.4	2.4	3.0	2.5
Employment growth FTEs (YoY, in %)	-0.7	0.3	1.1	1.0	1.4	1.5	0.7	1.1	0.4	1.2
Net immigration									55,000	55,000
Nominal wage growth (YoY, in %)									0.4	0.8

Source: Federal Statistics Office, State Secretariat for Economic Affairs SECO, Credit Suisse

Forecasts for the World Economy

	Forecasts				Structure		Significance for Switzerland	
Forecasts	**GDP** YoY, in %		**Inflation** YoY, in %		**Population** In million	**GDP** In USD billion	**Share of exports** In %	**Share of imports** In %
	2021	**2022**	**2021**	**2022**	**2020**	**2020**	**2020**	**2020**
World	5.8	4.2	3.5	3.8	7,674	83,845	100	100
US	5.5	3.8	4.7	4.5	330	20,807	17.5	6.3
Euro zone	5.3	4.2	2.4	2.8	343	12,712	48.3	66.3
Germany	2.7	3.7	3.2	2.9	83	3,781	17.9	27.1
France	6.5	4.6	2.2	2.7	65	2,551	5.2	7.0
Italy	6.5	4.5	2.1	2.7	60	1,848	5.8	9.2
UK	7.0	5.0	2.5	4.2	67	2,638	3.5	2.8
Japan	2.0	2.0	-0.2	0.5	126	4,911	3.1	2.0
China	8.1	6.1	0.9	2.2	1,404	14,861	6.5	8.8

Source: Datastream, International Monetary Fund, Credit Suisse

Interest Rates and Monetary Policy Data

	Current	3-month	12-month		10/2021	9/2021	10/2020
SNB target range (in %)	-0.75	-0.75	-0.75	M0 money supply (CHF bn)	729.8	723.9	719.3
10-year government bond yields (in %)	-0.30	-0.2	0.1	M1 money supply (%, YoY)	5.4	6.2	7.2
				M2 money supply (%, YoY)	2.5	3.3	4.4
				M3 money supply (%, YoY)	2.5	3.3	5.5
				Foreign currency reserves (CHF bn)	951.2	965.5	882.1

Source: Datastream, Bloomberg, Credit Suisse

Impressum

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Editorial deadline

8 December 2021

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