

Swiss Economics

Sentiment slips further despite robust economic situation

Financial Market Survey Switzerland | 27/04/2022, 08:52, UTC

In light of the war in Ukraine, lockdowns in China and increasing monetary policy tightening, analysts see major challenges ahead for the Swiss economy.

Moreover, for the first time more than half the analysts surveyed are forecasting an annual inflation rate outside of the SNB's target range. This means they see a reversal in interest rate policy approaching fast in Switzerland.

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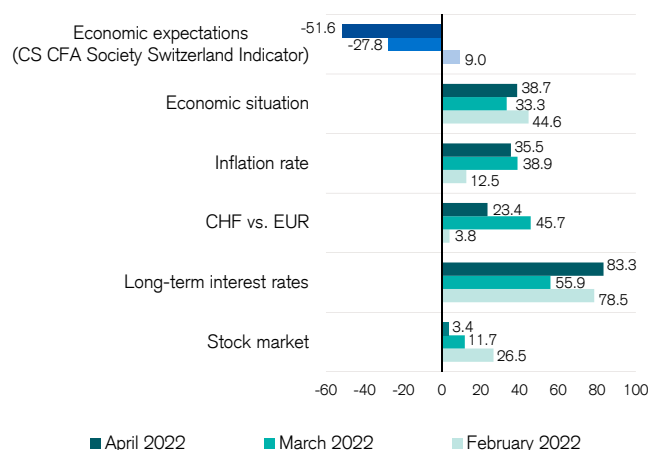
Sentiment indicator continuing to slide

Swiss financial analysts became even more pessimistic in April. The war in Ukraine is being compounded by lockdowns in China and more aggressive monetary policy tightening in the US. This combination has sent the CS CFA Society Switzerland indicator tumbling once again. Compared to the previous month, the sentiment indicator regarding economic

growth in Switzerland plunged by another 23.8 points to come in at -51.6 points in April (see figure 1). At 58%, more analysts are forecasting a slowdown in economic growth over the coming six months than at any time since the start of the Covid-19 pandemic. Survey respondents are even more pessimistic when it comes to prospects for the eurozone, with three-quarters of analysts anticipating a deterioration (see table). That said, in view of the strong economic situation at present, this does not necessarily mean that analysts are pricing in a recession.

Figure 1: Indicators for Switzerland

Net percentage of responses: a positive value signals a rise, while a negative reading indicates a fall



Source: CFA Society Switzerland, Credit Suisse

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Lockdowns in China set to continue for an extended period

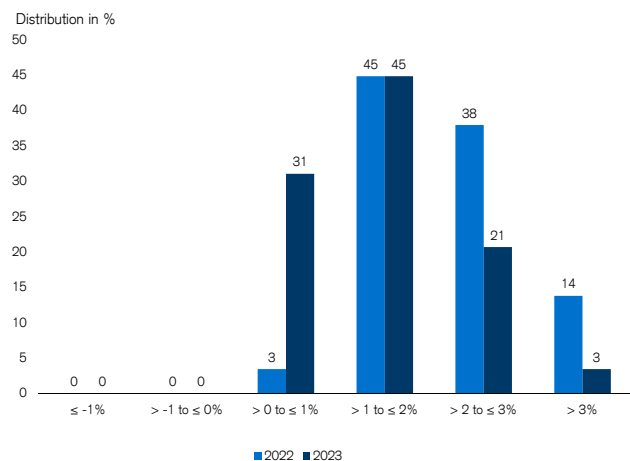
As far as China is concerned, despite the lockdowns in the country, just one-third of Swiss analysts describe the current economic situation as “poor”. During the lockdown in early 2020, the corresponding figure was higher than 60%. Nevertheless, analysts are not necessarily expecting a rapid end to the restrictions, as just 23% of those surveyed are forecasting an improvement in the economic situation over the coming six months. Accordingly, expectations with regard to Switzerland’s export momentum remain weak, though at least they have not deteriorated further month-on-month.

Reversal in Swiss interest rate policy likely soon

The April survey saw significant movement in short-term interest rate expectations. This suggests that initial rate hikes are drawing ever closer, even in Switzerland. More than half of analysts expect short-term interest rates to rise as soon as this year. 57% of those surveyed expect the SARON (Swiss Average Rate Overnight) to climb above –0.5% over the next 12 months, which could even imply two rate moves by the Swiss National Bank (SNB) between now and April 2023. For the SNB to make such decisive rate hikes, interest rate policy in the Eurozone will have to be moving in a similar direction. Moreover, it is essential that the Swiss franc does not appreciate too much. In the survey respondents’ view, both of these conditions are being met, as they expect to see a growing interest rate differential between the euro area and Switzerland, as well as receding upside pressure on the CHF against the EUR.

Figure 2: Mid-term inflation expectations

What is your forecast for Switzerland’s annual rate of inflation in 2021 and 2022?



Source: CFA Society Switzerland, Credit Suisse

Inflation expectations for 2022 outside of the SNB’s target range

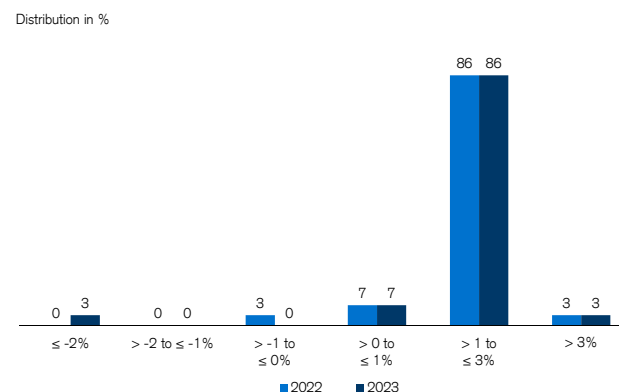
Following last month’s surge in inflation forecasts due to the Ukraine war, short-term expectations have not risen any further this month. Inflation expectations for the US are actually declining, as almost 40% of the respondents think that the inflation rate is close to peaking. This is probably partly due to the reversal of interest rate policy that is already under way

in the US. The majority of respondents (58%) project that inflation rates in Switzerland will continue to climb in the next six months.

The rise in energy prices and renewed supply chain disruptions as a result of the lockdowns in China have also driven up the analysts’ mid-term inflation expectations according to our quarterly inflation poll. For 2022, 38% of the respondents expect the annual inflation rate to average more than 2%, while as much as 14% anticipate a rate in excess of 3%. Thus, for the first time more than half of the respondents are forecasting an inflation rate that exceeds the SNB’s target range of 0 to 2% (see figure 2). The average points forecast for 2022 is 2.67%. Nonetheless, the analysts’ confidence in the SNB seems to be intact as their inflation forecasts for 2023 are noticeably lower, at an average of 1.73%.

Figure 3: Mid-term growth forecasts

What is your forecast for real Swiss GDP growth in 2021 and 2022?



Source: CFA Society Switzerland, Credit Suisse

Yet analysts do not expect a recession

Meanwhile, the analysts’ mid-term growth forecasts are little changed. Despite subdued economic expectations, the survey participants project an average real growth rate of 2.3% for Swiss gross domestic product (GDP) this year, as the level of expectations before the Ukraine war began was exceptionally high owing to the recovery from the Covid-19 pandemic. The vast majority of respondents also look for a robust growth rate of 1 to 3% for next year, with the average forecast at 1.73%. This roughly corresponds to the long-term trend growth rate for Switzerland. Accordingly, for the time being the survey results do not signal a recession for 2023 either, despite the gloomier prospects.

The CFA Society Switzerland and Credit Suisse have been conducting the Financial Market Survey Switzerland (a monthly survey of financial analysts) since January 2017. Detailed results of the survey

conducted between 14 and 21 April 2022, involving the participation of 31 analysts from the Swiss financial sector, are published here.

(27/04/2022)

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: April 2022 results

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	41.9	-2.5	54.8	10.4	3.2	-7.9	38.7	5.4
Eurozone	16.1	-11.7	67.7	9.4	16.1	2.2	0.0	-13.9
USA	45.2	-7.6	51.6	7.2	3.2	0.4	42.0	-8.0
China	6.7	3.8	56.7	-20.4	36.7	16.7	-30.0	-12.9
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	6.5	-7.4	35.5	-8.9	58.1	16.4	-51.6	-23.8
Eurozone	6.5	-10.6	19.4	2.3	74.2	8.5	-67.7	-19.1
USA	6.5	-10.2	29.0	-4.3	64.5	14.5	-58.0	-24.7
China	23.3	-0.2	40.0	-10.0	36.7	10.2	-13.4	-10.4
Inflation rate	increase		no change		decrease		balance	
Switzerland	58.1	-0.2	19.4	-2.8	22.6	3.2	35.5	-3.4
Eurozone	54.8	-6.3	12.9	-3.8	32.3	10.1	22.5	-16.4
USA	45.2	-10.4	16.1	-6.1	38.7	16.5	6.5	-26.9
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	31.0	5.2	58.6	-9.1	10.3	3.8	20.7	1.4
Export momentum (expectations)	7.1	0.9	46.4	-0.5	46.4	-0.5	-39.3	1.4
Unemployment rate	45.2	24.0	51.6	-15.1	3.2	-8.9	42.0	32.9
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	56.7	27.3	43.3	-27.3	0.0	0.0	56.7	27.3
Eurozone	69.0	20.4	31.0	-20.4	0.0	0.0	69.0	20.4
USA	96.7	-0.4	3.3	0.4	0.0	0.0	96.7	-0.4
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	41.4	10.2	55.2	-13.6	3.4	3.4	38.0	6.8
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	83.3	21.5	16.7	-15.7	0.0	-5.9	83.3	27.4
Germany	83.3	16.6	16.7	-13.6	0.0	-3.0	83.3	19.6
USA	76.7	5.3	23.3	-2.4	0.0	-2.9	76.7	8.2
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	44.8	22.2	55.2	-22.2	0.0	0.0	44.8	22.2
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	36.7	-7.4	30.0	6.5	33.3	0.9	3.4	-8.3
EuroStoxx 50 (Eurozone)	23.3	-12.0	36.7	4.3	40.0	7.6	-16.7	-19.6
S&P (USA)	23.3	-17.9	36.7	10.2	40.0	7.6	-16.7	-25.5
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	36.7	-11.9	50.0	1.4	13.3	10.4	23.4	-22.3
USD	23.3	-13.8	60.0	8.6	16.7	5.3	6.6	-19.1
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	24.1	-9.2	37.9	16.7	37.9	-7.6	-13.8	-1.6
Gold (per ounce)	42.9	-5.5	32.1	6.3	25.0	-0.8	17.9	-4.7

Note: 31 analysts took part in the Switzerland Financial Market Survey for April from 14 to 21 April 2022. Analysts were asked about their expectations for the next six months. The numbers displayed are percentages. The balances represent the difference between the positive and negative shares of responses.

Source: CFA Society Switzerland, Credit Suisse

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