

Swiss Economics

Recovery well under way according to analysts

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The CS CFA Society Switzerland Indicator has reached a record level in June in tandem with improved assessments of the current economic situation and exports. As the exchange rate outlook stabilizes, analysts see no need for a key interest rate change throughout the next nine months.

The analysts' mid-term growth forecasts have also improved, although it is worth noting that forecasting uncertainty has increased.

Franziska Fischer
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Our partner



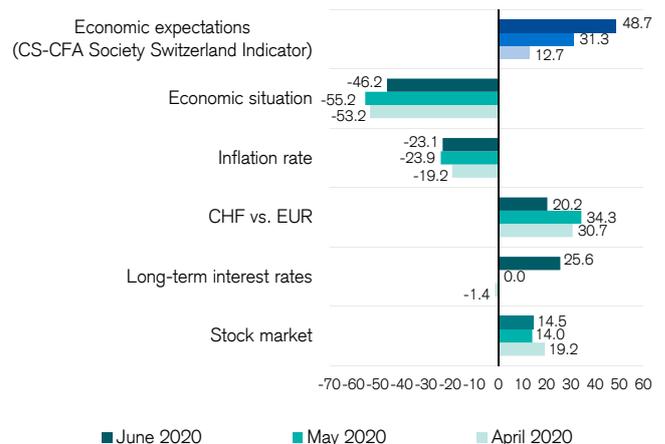
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Sentiment indicator climbs to record level

The CS CFA Society Switzerland Indicator has reached a record level of 48.7 points in June (see figure 1). Expectations regarding the economic trend in the next six months were only higher in December 2017 and in the immediate recovery phase after the financial crisis from September 2009 to April 2010. The continued easing of lockdown measures now seems to be having an impact on the analysts' views as their

assessment of the current economic situation has also picked up in June, unlike in the preceding months. While the economic situation is still considered poor by half of the respondents, this marks a significant improvement versus the prior month. A similar trend is also visible in the euro area and the US, where the assessment of the current situation has recently undergone a reversal. However, as infection numbers remain elevated in both of these regions, the share of analysts who take a pessimistic view on these areas is significantly higher than for Switzerland, at 85% and 76%, respectively (see table at the end).

Figure 1
Indicators for Switzerland (balances)



Source: CFA Society Switzerland, Credit Suisse

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Macroeconomic indicators are stabilizing

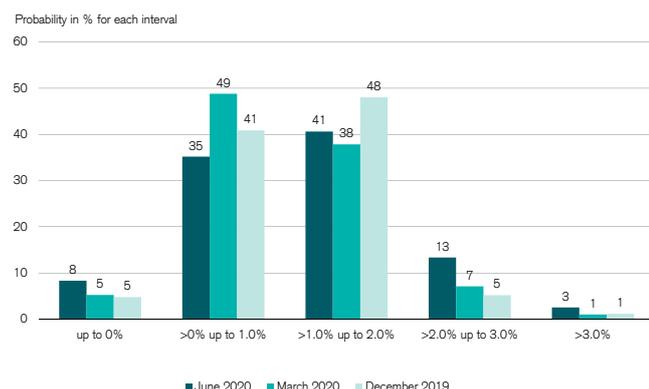
In line with the cautiously optimistic view of the economic situation, there are signs of recovery in other macroeconomic indicators. Opinions on the unemployment rate in Switzerland have improved by 22 points. 70% of the survey participants now expect a further rise, down from 90% in April and 82% in May, while nearly a fifth already expect the rate to decline. The current situation in foreign trade is still considered poor by 80% of the respondents, but this number has also fallen appreciably by almost 15 percentage points since May. Moreover, export expectations point to accelerating momentum before the end of the year. This is probably also due to the fact that the analysts see declining pressure on the CHF; half of the survey participants now believe that the CHF will remain unchanged versus the EUR.

Analysts expect long-term interest rates to rise

The analysts' opinions on the inflation rate and short-term interest rates are little changed in all regions. In terms of the price level, the survey results point to continued slight deflation, while four-fifths of the respondents do not expect any change to short-term interest rates for the time being. Meanwhile, there has been an appreciable shift in the analysts' views on long-term interest rates compared to May. The share of survey participants who expect long-term interest rates to rise has climbed by 15 percentage points each for Switzerland, Germany and the US as demand for safe-haven bonds from these countries has cooled. The analysts' views on the stock markets remain mixed, with almost equal shares expecting prices to rise, fall or move sideways in Switzerland and the US. Only the reading for the euro area is higher than in May, with more analysts now seeing upside potential in the EuroStoxx 50.

Figure 2

What is your forecast for Switzerland's annual rate of economic growth in the next three to five years?



Source: CFA Society Switzerland, Credit Suisse

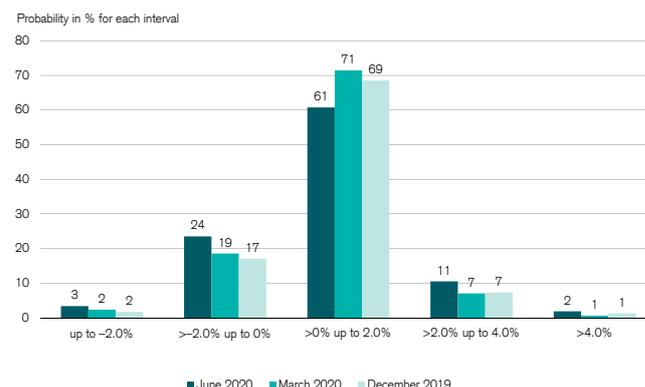
Growth rates subject to higher forecasting uncertainty

The analysts are more upbeat on growth in Swiss gross domestic product (GDP) over the next three to five years. After revising down their growth forecasts to 1.2% in the quarterly survey conducted in March, the analysts now project a growth rate of 1.4% on average, which is even above the pre-crisis level of 1.3%. This forecast is likely to include a strong recovery effect after the deep recession of 2020, in addition to

expectations on trend growth. Meanwhile, the greater variation of responses reflects the forecasting uncertainty that is characteristic of the current situation (see figure 2). Extreme values such as negative growth on the one hand or a sharp rise of more than 2% on the other hand have become more likely in the eyes of the analysts, who see a probability of almost 25% for such events. That said, the analysts still consider it more realistic to expect a growth rate of 0 to 1% (with a 35% probability), or 1 to 2% (41% probability).

Figure 3

What is your forecast for Switzerland's annual rate of inflation five years from now?



Source: CFA Society Switzerland, Credit Suisse

Analysts project mid-term inflation rate in the SNB's target range

As previously, the respondents' expectations for the inflation rate in five years' time demonstrates confidence in the policy of the Swiss National Bank (SNB). The probability distribution between percentages has moved slightly downwards as the analysts now see a 27% likelihood of prolonged deflation (see figure 3). However, according to the respondents, the most realistic scenario (with a probability of 61%) is that inflation will be in line with the SNB's target range of 0 to 2%. The point forecasts average 1.1%, which marks an increase of 0.3 percentage points since March to the pre-pandemic level of December 2019.

Special question: how likely is it that the SNB key rate will reach the defined percentage range in the quarters listed below?

	2020 Q2	2020 Q3	2020 Q4	2021 Q1
< -1.75%	0%	0%	0%	0%
-1.75%	3%	3%	3%	3%
-1.50%	1%	0%	1%	1%
-1.25%	3%	3%	3%	3%
-1.00%	9%	11%	10%	9%
-0.75%	75%	72%	71%	68%
-0.50%	6%	7%	8%	10%
-0.25%	1%	1%	1%	3%
0.00%	1%	1%	0%	1%
0.25%	0%	1%	0%	0%
0.50%	0%	0%	1%	1%
≥ 0.75%	0%	0%	0%	0%

Source: CFA Society, Credit Suisse

Key rate will be on hold for some time according to analysts

With regard to expectations of SNB policy, there is little variation in the responses to the quarterly special question on the SNB's key rate. A clear majority of more than two-thirds of the analysts expect the key rate of -0.75% to remain unchanged up to and including Q1 2021 (see table on the special question). The remaining respondents consider a rate cut in the same period more likely than a rate hike. However, what is striking is that the pandemic seems to adversely affect the analysts' long-term expectations of the key interest rate. While the analysts expected the key rate to exceed 0.8% on a ten-year horizon in March, they now see no potential for an increase above 0.4% by 2030.

The CFA Society Switzerland and Credit Suisse have been conducting the Switzerland Financial Market Survey (a monthly survey of financial analysts) since January 2017. The detailed results of the survey conducted between 10 and 18 June 2020 are published here.

(22/06/2020)

Financial Market Survey Switzerland by Credit Suisse and CFA Society Switzerland: June 2020 results

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	3.8	-0.7	46.2	10.4	50.0	-9.7	-46.2	9.0
Eurozone	0.0	0.0	15.8	8.2	84.2	-8.2	-84.2	8.2
USA	1.3	-0.2	22.1	6.9	76.6	-6.7	-75.3	6.5
China	4.1	0.9	52.7	11.4	43.2	-12.4	-39.1	13.3
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	62.8	9.1	23.1	-0.8	14.1	-8.3	48.7	17.4
Eurozone	58.4	6.9	22.1	0.9	19.5	-7.8	38.9	14.7
USA	59.2	3.8	17.1	-1.4	23.7	-2.5	35.5	6.3
China	59.5	-4.0	28.4	12.5	12.2	-8.4	47.3	4.4
Inflation rate	increase		no change		decrease		balance	
Switzerland	9.0	-5.9	59.0	12.7	32.1	-6.7	-23.1	0.8
Eurozone	10.4	-3.2	57.1	16.2	32.5	-13.0	-22.1	9.8
USA	16.9	-4.0	53.2	12.9	29.9	-8.9	-13.0	4.9
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	1.4	1.4	17.6	13.0	81.1	-14.3	-79.7	15.7
Export momentum (expectations)	62.2	6.8	27.0	3.9	10.8	-10.7	51.4	17.5
Unemployment rate	70.1	-11.7	11.7	1.1	18.2	10.6	51.9	-22.3
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	3.9	-3.9	86.8	7.1	9.2	-3.3	-5.3	-0.6
Eurozone	3.9	-5.5	88.2	19.4	7.9	-14.0	-4.0	8.5
USA	6.6	2.0	76.3	8.6	17.1	-10.6	-10.5	12.6
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	5.3	-4.5	89.5	12.5	5.3	-7.8	0.0	3.3
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	37.8	15.6	50.0	-5.6	12.2	-10.0	25.6	25.6
Germany	39.2	15.0	50.0	-3.2	10.8	-11.8	28.4	26.8
USA	39.2	15.0	37.8	-4.1	23.0	-10.9	16.2	25.9
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	21.9	-2.3	74.0	6.3	4.1	-4.0	17.8	1.7
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	39.5	-8.9	35.5	18.3	25.0	-9.4	14.5	0.5
EuroStoxx 50 (Eurozone)	43.4	5.9	30.3	0.6	26.3	-6.5	17.1	12.4
S&P (USA)	36.5	-7.3	32.4	15.2	31.1	-8.0	5.4	0.7
Exchange rate CHF vs.	appreciate		no change		depreciate		balance	
EUR	35.1	-13.3	50.0	12.5	14.9	0.8	20.2	-14.1
USD	49.3	-3.8	35.6	4.4	15.1	-0.5	34.2	-3.3
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	45.9	-18.0	37.8	8.3	16.2	9.6	29.7	-27.6
Gold (per ounce)	55.4	-2.9	31.1	6.1	13.5	-3.2	41.9	0.3

Note: 78 analysts took part in the Financial Market Survey Switzerland for June from 10 to 18 June 2020. 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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