

Swiss Economics

Analysts' confidence tinged with doubt

Financial Market Survey Switzerland | 29/07/2020, 08:31, UTC

After three strong months, the sentiment indicator is consolidating at a high level. One likely reason for this trend is the sluggish recovery in export momentum.

The survey participants' mid-term forecasts for economic growth and inflation in Switzerland have continued to deteriorate since last quarter. A full recovery is not expected in 2021.

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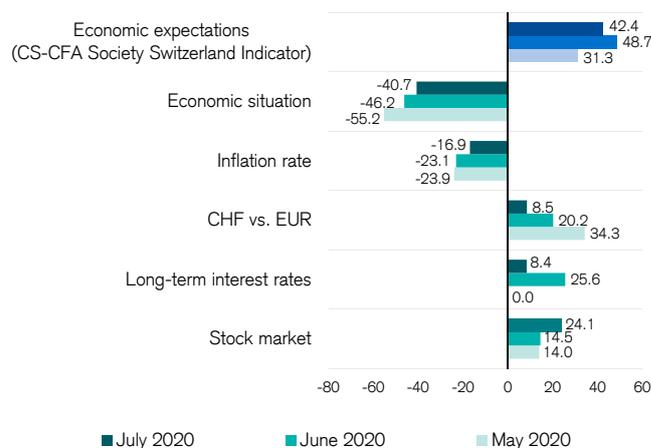
Analysts expect recovery to slow

The three-month uptrend in the CS CFA Society Switzerland Indicator has come to a halt for the time being. While the sentiment indicator remains historically high at a level that was surpassed only in the wake of the financial crisis and in autumn 2017, it has fallen from 48.7 in the previous month to 42.4 points in July (see figure 1). The analysts' responses regarding the other regions covered by the survey (euro area, USA, China) paint a similar picture. After a sharp upswing due to the easing of lockdown restrictions, they project the

recovery curve to flatten again in the coming six months. So far, the analysts are not particularly pessimistic regarding the US despite the renewed rise in coronavirus infections and partial shutdowns. At the same time, the participants' assessment of the current economic situation is continuing to stabilize. Less than half of the respondents describe the situation in Switzerland as "poor", while 42% already consider it "normal" (see table). The only country deemed to be in a better position is China, while the US and the euro area are lagging behind somewhat in the recovery stakes. That said, the assessment of the economic situation in the latter has improved most noticeably versus the prior month.

Figure 1

Indicators for Switzerland (balances)



Source: CFA Society Switzerland, Credit Suisse

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Sluggish export recovery despite positive exchange rate trend

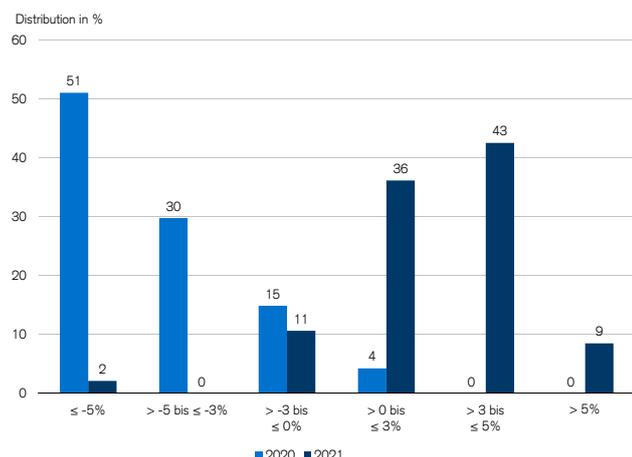
Although the export situation is continuing to pick up slowly, it has some distance to go before returning to positive territory according to the analysts, which is surprising because the respondents' six-month forecasts for export momentum have been largely optimistic since April. This suggests that foreign trade is recovering at a more muted pace than the analysts had initially envisaged. For once, this is unlikely to be related to the exchange rate as, for the third consecutive month, the analysts expect upward pressure on the Swiss franc to ease – at least against the euro. Prospects for the labor market are also gloomy: the proportion of analysts who forecast a rise in the unemployment rate has grown again to 76% in July.

More upside potential for stock markets

With regard to the inflation trend, the analysts still see signs of deflation in Switzerland. For the euro area, however, the consensus is not quite as clear as it was a month earlier, while for the US, a small majority of analysts even expect the inflation rate to head upwards over the next half-year. Interest rate expectations are little changed. More than 80% of the analysts expect short-term interest rates to move sideways in all regions. The majority of respondents forecast the same trend in long-term interest rates, while the remainder think that yields are more likely to climb than fall, especially in the US. Meanwhile, the tide has turned for the stock markets. It is now half of the survey participants who see upside potential for the Swiss, European and US benchmark equity indices, resulting in an improvement of ten percentage points compared to the previous months.

Figure 2

What is your forecast for real Swiss GDP growth in 2020 and 2021?



Source: CFA Society Switzerland, Credit Suisse

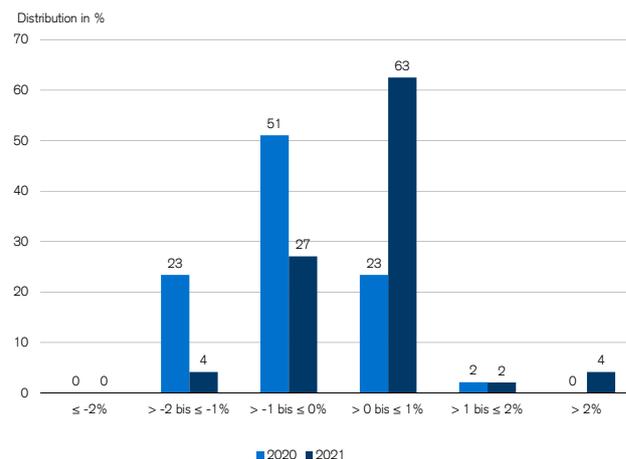
Respondents project a -4.4% GDP slump in 2020

The analysts' mid-term growth expectations have deteriorated significantly again in the last three months. Half of the respondents expect a severe recession for 2020, with gross domes-

tic product (GDP) plunging by 5% or more, while almost a third look for a decline ranging from 3% to 5% (see figure 2). This produces a forecast of -4.4% on average, which is substantially lower than the average projection of -2.9% in April. The outlook for 2021 is more upbeat. Nonetheless, only a tenth of the analysts believe an unprecedented slump of more than 5% in 2020 could be followed by a recovery on the same scale. 43% of the survey participants see growth ranging between 3% and 5%, while around a third project a growth rate of up to 3% at most.

Figure 3

What is your forecast for Switzerland's annual rate of inflation in 2020 and 2021?



Source: CFA Society Switzerland, Credit Suisse

Analysts expect deflation next year, but no key rate cut

Since the question on mid-term inflation expectations was last posed in April, the national consumer price index for Switzerland recorded three more negative year-on-year changes. Consequently, the number of analysts who anticipate deflation in 2020 has increased further in the July survey (74%, up from previously 66%). Around half expect the price level to fall by 0% to 1%, while a further 23% forecast a decline of more than 1% (see figure 3). In addition, a third of the respondents do not see inflation reaching the target range of the Swiss National Bank in 2021. Nevertheless, practically none of the analysts expect a key rate cut in the next twelve months. The respondents' average inflation forecasts are -0.3% for 2020 and 0.4% for 2021.

The CFA Society Switzerland and Credit Suisse have been conducting the Switzerland Financial Market Survey (a monthly survey of financial analysts) since January 2017. Detailed results of the survey conducted between 15 and 23 July 2020 are published here.

(27/07/2020)

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

Current economic situation	good	+/-	normal	+/-	poor	+/-	balance	+/-
Switzerland	8.5	4.7	42.4	-3.8	49.2	-0.8	-40.7	5.5
Eurozone	0.0	0.0	29.3	13.5	70.7	-13.5	-70.7	13.5
USA	1.7	0.4	24.1	2.0	74.1	-2.5	-72.4	2.9
China	8.9	4.8	57.1	4.4	33.9	-9.3	-25.0	14.1
Economic expectations	improve		no change		worsen		balance	
Switzerland (CS CFA Society Switzerland Indicator)	59.3	-3.5	23.7	0.6	16.9	2.8	42.4	-6.3
Eurozone	56.9	-1.5	17.2	-4.9	25.9	6.4	31.0	-7.9
USA	55.2	-4.0	15.5	-1.6	29.3	5.6	25.9	-9.6
China	58.9	-0.6	28.6	0.2	12.5	0.3	46.4	-0.9
Inflation rate	increase		no change		decrease		balance	
Switzerland	10.2	1.2	62.7	3.7	27.1	-5.0	-16.9	6.2
Eurozone	13.8	3.4	65.5	8.4	20.7	-11.8	-6.9	15.2
USA	22.4	5.5	58.6	5.4	19.0	-10.9	3.4	16.4
Other economic indicators for Switzerland	increase		no change		decrease		balance	
Export momentum (situation)	1.8	0.4	20.0	2.4	78.2	-2.9	-76.4	3.3
Export momentum (expectations)	67.3	5.1	18.2	-8.8	14.5	3.7	52.8	1.4
Unemployment rate	75.9	5.8	17.2	5.5	6.9	-11.3	69.0	17.1
Short-term interest rates	increase		no change		decrease		balance	
Switzerland	3.4	-0.5	84.7	-2.1	11.9	2.7	-8.5	-3.2
Eurozone	3.4	-0.5	86.2	-2.0	10.3	2.4	-6.9	-2.9
USA	3.5	-3.1	80.7	4.4	15.8	-1.3	-12.3	-1.8
Short-term interest rate spread	increase		no change		decrease		balance	
Eurozone – Switzerland	7.3	2.0	87.3	-2.2	5.5	0.2	1.8	1.8
Long-term interest rates	increase		no change		decrease		balance	
Switzerland	18.6	-19.2	71.2	21.2	10.2	-2.0	8.4	-17.2
Germany	22.8	-16.4	63.2	13.2	14.0	3.2	8.8	-19.6
USA	29.8	-9.4	56.1	18.3	14.0	-9.0	15.8	-0.4
Long-term interest rate spread	increase		no change		decrease		balance	
Germany – Switzerland	23.6	1.7	69.1	-4.9	7.3	3.2	16.3	-1.5
Share price	increase		no change		decrease		balance	
SMI (Switzerland)	50.0	10.5	24.1	-11.4	25.9	0.9	24.1	9.6
EuroStoxx 50 (Eurozone)	49.1	5.7	24.6	-5.7	26.3	0.0	22.8	5.7
S&P (USA)	47.4	10.9	19.3	-13.1	33.3	2.2	14.1	8.7
Swiss franc exchange rate versus	appreciate		no change		depreciate		balance	
EUR	32.2	-2.9	44.1	-5.9	23.7	8.8	8.5	-11.7
USD	50.8	1.5	35.6	0.0	13.6	-1.5	37.2	3.0
Commodities	increase		no change		decrease		balance	
Oil (North Sea Brent)	43.9	-2.0	40.4	2.6	15.8	-0.4	28.1	-1.6
Gold (per ounce)	63.6	8.2	25.5	-5.6	10.9	-2.6	52.7	10.8

Note: 59 analysts took part in the Switzerland Financial Market Survey for July from 15 to 23 July 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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