Global CIO Office
Swiss Economics

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Lockdown savings will boost consumption again

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Editorial

Dear readers

We are not yet out of the woods, but hopes that the COVID-19 pandemic will have been largely mastered by the middle of 2021 do not appear fanciful. By then, a significant proportion of the people who are particularly susceptible to the virus should have been vaccinated. Perhaps we will also have finally implemented a more effective test-and-contact-tracing strategy across Switzerland by then. And last but not least, the return of ever longer and warmer days will help, as these are not favorable to the virus.

As the pandemic recedes, the global economy will gain further momentum. For a variety of reasons, the economy has held up much better in the second wave of the pandemic than in the first. This is true not only of the manufacturing industry, but also of numerous areas of the services sector (cf. page 6). In particular, the comprehensive fiscal stimulus package being passed by the US Congress around now will contribute to the acceleration in growth. It will support economic growth outside the US too, not least in Switzerland. What's more, the massive easing of fiscal policy is already feeding through into the financial markets: Yields have picked up all around the world, and the US dollar has gained in strength, at least for now. This is a welcome bonus for the Swiss export economy, and will also give the Swiss National Bank more breathing room. For equities instead, which are sensitive to interest rates, this development poses something of a risk. Last but not least, in the wake of gradual lifting of the COVID-19 restrictions we can expect to see a strong rise in consumer spending, as a significant proportion of households have accumulated (additional) excess savings in the second wave too. Our Focus article (cf. page 12) explores the developments that can be expected in the individual consumer segments in detail. Overall, and with certain exceptions such as international tourism, we are expecting consumer spending to have normalized once again by the early fall of 2021.

Over the last 12 months, it has been not only companies and households but also the political establishment that has had to focus first and foremost on the virus and measures to contain it. With the pandemic now seemingly in retreat, we can expect to see a shift in focus here too. At an international level, for example, the next UN Climate Conference is due to be held later this year in Glasgow, where delegates will seek to agree on further detail for the implementation of the net zero emissions target, among other things by formally enshrining the taxation of CO2 as a preferred instrument of climate policy. This concretization will give a further boost to the trend toward sustainable business development and the technologies needed to achieve it. The areas in which these technologies will come to the fore include those in which many Swiss small and medium-sized enterprises are strongly positioned. Finally, Switzerland's relations with the European Union will once again be a key topic of political debate. It is to be hoped that, despite all the associated emotions, reasonable solutions can be found that are beneficial to Switzerland as a business location.

We wish you an enjoyable and interesting read.

André Helfenstein
CEO Credit Suisse (Switzerland) Ltd

Oliver Adler
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Contents Page

Sustainable economic recovery after yo-yo year

The Swiss economy can be expected to recover on a relatively broad front this year. We are expecting GDP growth of 3.5%. Although economic output should return to pre-crisis levels, the loss of prosperity due to the coronavirus pandemic is nonetheless substantial.

Recession and rollercoaster ride

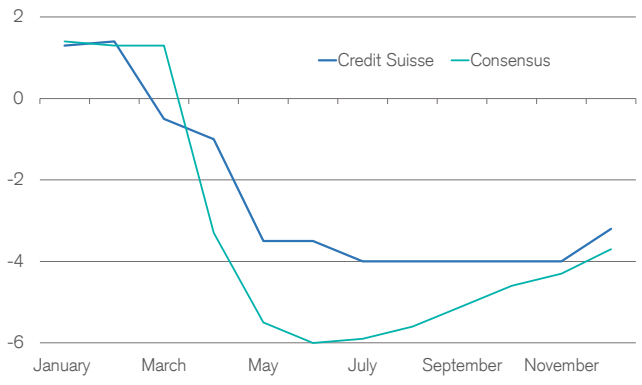
Swiss gross domestic product (GDP) declined by 2.9% last year – or roughly to the same extent as during the financial crisis of 2009 (-2.1%). But over the year as a whole, economic development resembled a rollercoaster ride: the worst slump ever recorded in the second quarter of 2020, followed by the fastest ever recovery in the third quarter, and then a waning of momentum in the fourth quarter. In keeping with these developments, the economic forecasts of a number of institutions likewise soared and slumped – we ourselves also underestimated the impact of COVID-19 on the Swiss economy at first. A year ago, in our issue of "Monitor Switzerland" for the first quarter of 2020, we predicted a decline in economic output of 0.5% (cf. Fig. 1). In the same publication for the second quarter, we reduced our forecast and from that point onward anticipated a GDP slump of 4.0% (revised upward to -3.2% shortly before the year-end in the fourth quarter issue of "Monitor Switzerland"). At that point we were clearly – and rightly – more optimistic than most other institutions. In particular, the extremely negative forecasts published at times by the International Monetary Fund (-6.0% in April), SECO (-6.7% in April), and the Organisation for Economic Co-operation and Development (OECD; -7.7% in June) were far too pessimistic.

Fluctuations become less pronounced

We remain moderately optimistic for the current year, continuing to predict GDP growth of 3.5%. Generally speaking, fluctuations in economic development have become less pronounced. Accordingly, the repercussions of the coronavirus pandemic for the economy are much less severe than they were during the first wave, and for several reasons: First, the measures to prevent proliferation of the virus are significantly less strict – or at least much more targeted – this time around, which is why the yo-yo effect on consumer spending has subsided (cf. Focus article "Which industries are benefiting from catch-up consumer spending?", page 12). Second, both protective health measures and supportive economic measures are now already known and in place. With greater knowledge about the virus, mask-wearing, and prevailing safety concepts, private companies and households have also learned how to organize their activities in a more "corona-compliant" way.

Fig. 1: Crisis first underestimated, then overestimated

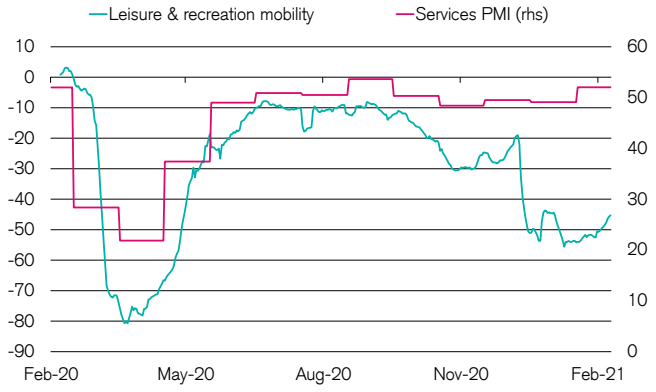
Forecast for 2020 Swiss GDP growth throughout the year



Source: Consensus Economics, Credit Suisse

Fig. 2: Mobility decline impacts economic activity less strongly

Percentage decline in mobility compared to pre-coronavirus base period (lhs), PMI for services sector (rhs)



Source: Google COVID-19 Community Mobility Report, IHS Markit, Credit Suisse

Mobility declining less strongly – and having less impact

In keeping with this development, not only has mobility declined less strongly than in the first lockdown, the level of activity as measured by the Purchasing Managers Index (PMI) of the services sector has also responded less sharply to the decline in mobility (cf. Fig. 2). Clearly people are less concerned about their health than they were during the first wave. Third, the global economic situation is much healthier than it was a year ago. In particular, many Asian countries – which account for around 30% of global demand – have the pandemic largely under control, and the recovery is in full swing. As an additional factor, we can expect to see demand for goods pick up worldwide in the face of massive fiscal stimulus in the US. The recovery of Switzerland's heavily export-dependent manufacturing sector will therefore be a lasting one. Fourth, the end of the pandemic is in sight thanks to vaccinations. Knowledge that the crisis has a finite life is one reason why no major wave of redundancies is imminent, despite the weak economy. We are anticipating a rise in the Swiss unemployment rate to a maximum of 3.7%. Companies will hold onto their staff to the greatest extent possible so as to be able to satisfy demand once the economy surges again. Thanks to the release of support funding, companies should still also be able to cover more of their fixed costs.

Companies continue to invest

Although certain investments have been postponed here and there due to the second wave of the pandemic, there is no evidence of any investment freeze taking place. Moreover, the volume of investment in plant and equipment rose again in the fourth quarter of 2020. And in the January survey of purchasing managers of Swiss manufacturing companies (PMI survey), the majority made it clear that the second wave was having barely any impact on their investment planning – unlike the first wave, which clearly fed through into the plans of manufacturers. A quarter of respondents said they were investing less than originally planned due to coronavirus, whereas last June one in every two companies was scaling back investment. In addition, the deferred investment is nonetheless likely to be implemented at a later date. Last year, some three-quarters of the decline in investment was then made good between the spring and the end of the year.

Economy to accelerate, but not recover fully

Whereas economic output will probably decline slightly in the first quarter of 2021 (forecast: -0.5%), economic growth should accelerate through the summer thanks to the progress of vaccine campaigns and the step-by-step easing of measures. That said, excessive optimism would be misplaced. For one thing, it is likely to be quite a while before the pandemic is truly under control. In certain areas such as intercontinental tourism, there is no realistic prospect of a normalization of demand any time soon. Given the unequal and incomplete recovery, the unemployment rate will remain above average for quite some while. As an additional factor, there is still considerable uncertainty regarding the progress of vaccination and the rollback of restrictive measures. Finally, although economic output should be back at pre-crisis levels toward the end of this year, the loss of prosperity as a result of the coronavirus pandemic will nonetheless be substantial (cf. Fig. 3). Based on the lost growth of this period, we put the GDP "hit" caused by the pandemic at around CHF 36 billion in 2020 and some CHF 21 billion in 2021 – i.e. CHF 57 billion or so in total (equivalent to around 8% of 2019 GDP). Viewed from this perspective, the growth gap caused by COVID-19 will not have been plugged even by the end of 2022.

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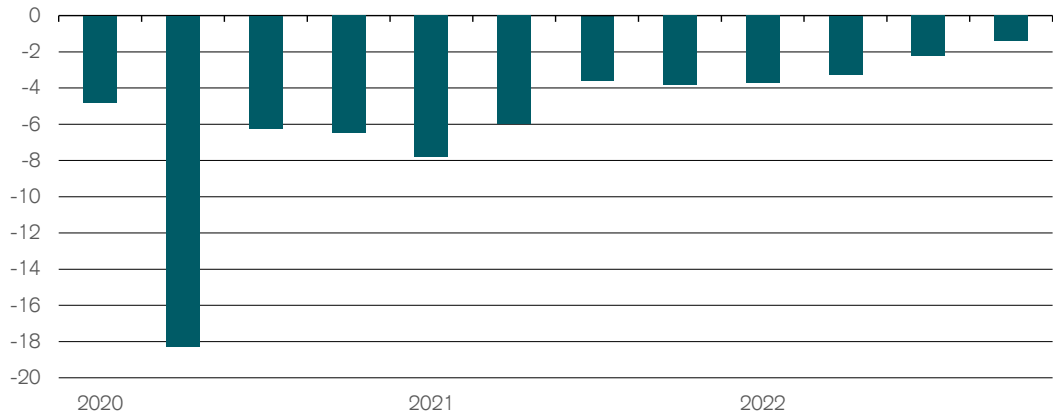
Fig. 3: Significant loss of prosperity during first wave in particular

Real GDP prosperity loss compared to "no crisis" scenario, per quarter in CHF bn



Source: Credit Suisse

Inflation

In keeping with the gradual acceleration of economic activity, the level of prices can be expected to rise. Above all, the cost of leisure services can be expected to pick up temporarily as soon as these can once again be consumed free of restrictions. Furthermore, inflation rates are also being pushed up by higher oil prices compared to the global lockdown period of 2020. Overall, we are expecting consumer prices to be around 0.3% higher on average in 2021 than in the previous year. This increase is modest in an international comparison, and can be expected to accelerate only marginally in 2022. Inflation risk in Switzerland is accordingly low.

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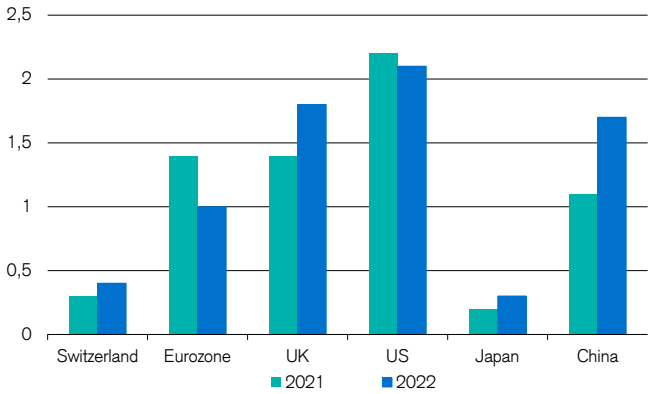
Swiss inflation low in international comparison

Inflation forecast 2021, in %



Source: Credit Suisse. Forecast of February 24, 2021

Labor market

At the end of 2020, there were some 22,800 fewer jobs in Switzerland than a year previously (-15,500 or -0.4% in full-time equivalents [FTEs]). Without short-time working, this decline would have looked far worse. In December there were still some 300,000 people in short-time working, compared to a high of more than 1.3 million in the spring of 2020. Given the second lockdown, the labor market situation remains challenging at the start of 2021, particularly as short-time working and unemployment are once again rising (the latter to a seasonally adjusted 3.6% in February). However, we are anticipating a slow recovery as the year progresses, and therefore ultimately modest employment growth of 0.3% for 2021 as a whole.

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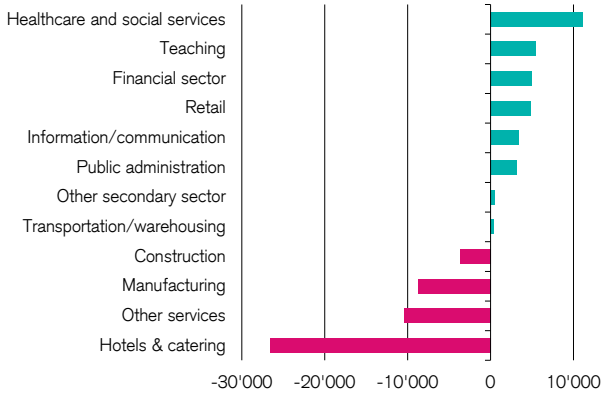
Hospitality industry sheds most jobs in 2020

Employment (FTEs), absolute change between end 2019 and end 2020



Source: Swiss Federal Statistical Office, Credit Suisse

Migration

At an estimated 62,000 persons (including Swiss citizens), net immigration was astonishingly high in 2020. This was above all attributable to the sharp decline in the number of people leaving the country. This in turn can be explained by the fact that the Swiss labor market is more crisis-resistant than those of the potential destination countries of people returning to their native countries or leaving Switzerland for the first time. In 2021, the number of people leaving the country is likely to be low once again. Due to modest employment growth and fewer switches in status from the non-permanent to the permanent residential population (since the number of short-term residents declined sharply in 2020), we are expecting an overall decline in net migration to 55,000 persons.

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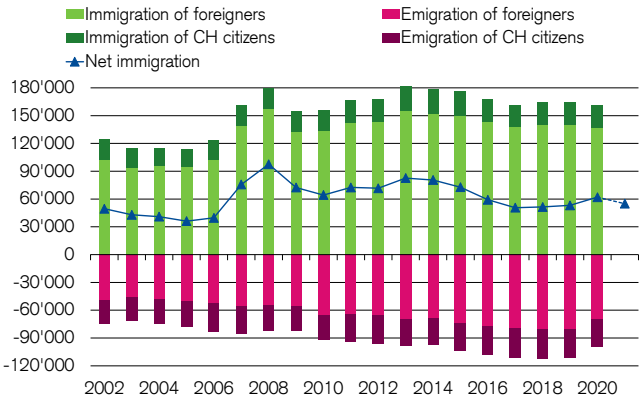
Immigration weakens

Migration of the permanent residential population (excluding register corrections). 2020: extrapolation; 2021: forecast



Source: State Secretariat for Migration, Swiss Federal Statistical Office, Credit Suisse

Pharmaceutical industry

The coronavirus crisis has seen the pharma industry too endure a rollercoaster ride: Exports surged at the start of the first wave in 2020, because foreign institutions were keen to build up their supplies of key drugs. Foreign demand then weakened in the third and fourth quarters as inventories were scaled down. Viewed over 2020 as a whole, however, pharma exports exhibited stable development. We are not expecting the situation to change in the short term. In the longer term, however, a possible reform of the US healthcare system harbors certain risks for the Swiss pharma industry.

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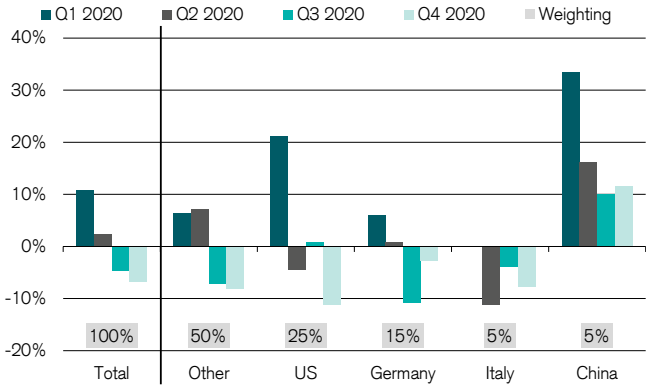
Pharma exports stable overall in 2020

Development of pharma exports compared to prior-year quarter, by country, seasonally adjusted, and proportion of total pharma exports



Source: Swiss Federal Customs Administration, Credit Suisse

Engineering, electrical and metal industry (MEM)

In the wake of the first wave of COVID-19 back in the spring of 2020, the exports of the engineering, electrical and metal (MEM) industry initially slumped. However, this was then followed by a recovery in all key export destination countries, which persisted despite a second wave of infection. Purchasing managers indices suggest that sentiment remains optimistic in the global manufacturing industry, which should impact positively on demand for Swiss MEM exports. In comparison with the financial crisis of 2008/2009, the repercussions of the coronavirus crisis for the Swiss MEM industry therefore appear to be less severe.

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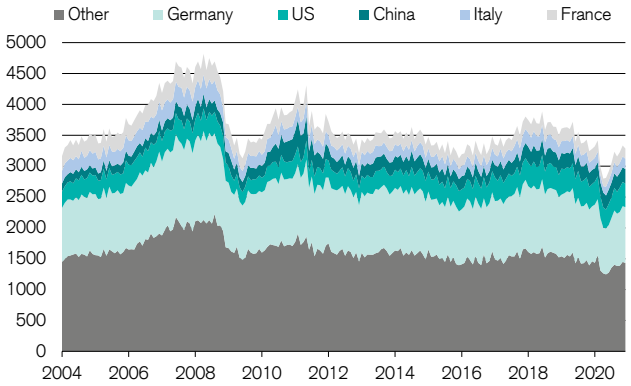
Coronavirus crisis vs. financial crisis: Slump shorter and less severe this time around

MEM exports by country, seasonally adjusted, in CHF mn



Source: Swiss Federal Customs Administration, Credit Suisse

Watch industry

Unlike in the MEM industry, the exports of the watch industry suffered a much greater slump during the coronavirus than they did during the financial crisis. Although a recovery was quick to establish itself here too, export volumes remained below pre-crisis levels. In Europe in particular (cf. "Other" category in the graph on the right), there is still ground to be made up here, whereas demand in Asia is now almost back to pre-crisis levels. That said, an economic upturn as a result of containment measures being lifted in the second half of 2021 is likely to support watch exports to Europe, and ultimately ensure a full recovery of this market.

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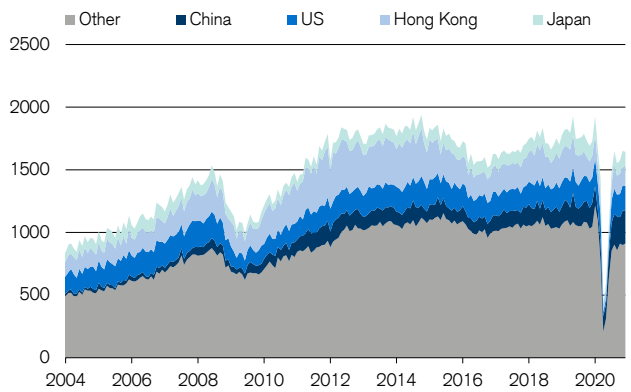
Watch exports: Demand from Asia has recovered swiftly

Watch exports in CHF mn, by country, seasonally adjusted



Source: Swiss Federal Customs Administration, Credit Suisse

Retail trade

Despite a turbulent year, sales in both the food/near-food area and in the non-food segment were able to remain above the levels recorded at the end of 2019 – even after lockdown. The restrictions imposed on the hospitality sector toward the 2020 year-end once again proved a sales driver for food retailers. This development is likely to persist for as long as food catering businesses remain closed and "shopping tourism" is complicated by border restrictions relating to COVID-19.

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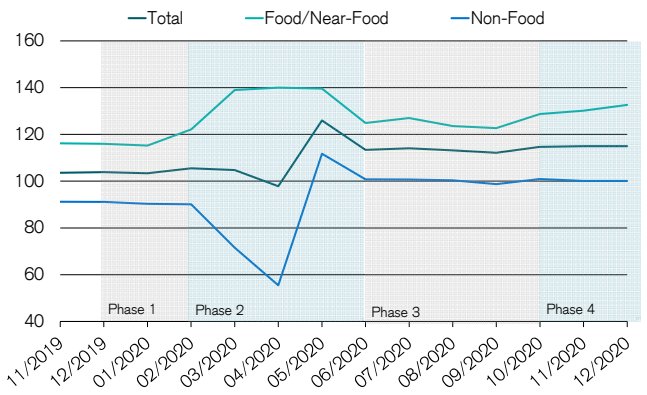
Food segment once again the beneficiary over Christmas period
Nominal retail sales, seasonally adjusted, indexed (January 2012 = 100)



Source: GfK, Credit Suisse

Tourism

After overnight stays slumped by almost 80% in the second quarter of 2020, the large numbers of domestic tourists over the summer and fall seasons turned out to be a key prop for Swiss vacation regions. The slump in European tourist numbers was also not so pronounced in the third quarter. Looking ahead to the next few months, the easing of restrictive measures and the reinvigoration of intra-European tourism should lead to greater numbers of European guests but fewer domestic tourists. The latter are likely to want to spend at least a proportion of their vacation time elsewhere in Europe.

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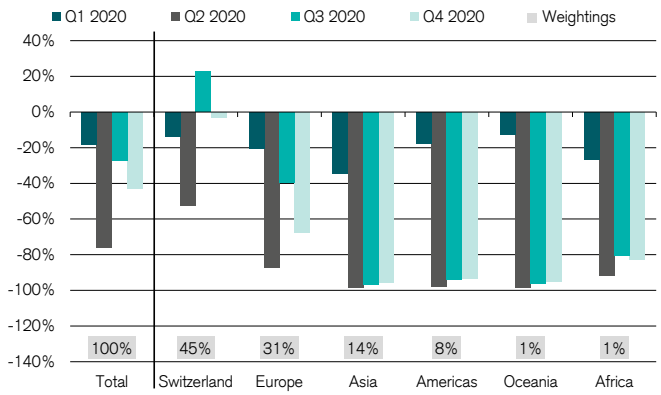
Domestic tourists save hotels from greater slump
Overnight stays per quarter, by region of origin, compared to prior-year quarter



Source: Swiss Federal Statistical Office, Credit Suisse

Information technology (IT)

IT service providers are relatively pessimistic about business conditions at the start of 2021. The balance between companies who view their business situation as positive and those that view it as negative has now reached 15.5% (previous quarter: 2.9%). As long as the COVID-19 pandemic continues to weigh on service industries generally, the IT sector too can be expected to suffer from investment being pushed back. We are expecting sentiment to brighten among IT service providers as soon as containment measures can be lifted.

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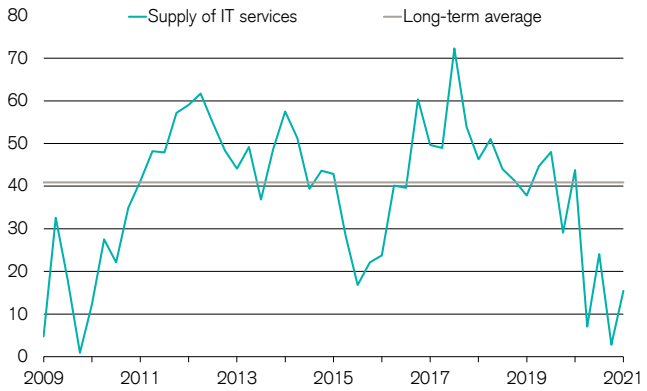
IT service providers remain relatively pessimistic
Business conditions; share of surveyed IT service providers, balance in percentage points; quarterly



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

Which sectors are benefiting from catch-up consumer spending?

Swiss households have saved money during lockdown – hence the potential for catch-up spending once restrictive measures ease. The greatest beneficiary should be non-food retailing, whereas normalization in the hotel industry is likely to be some way off.

Record-high savings ratio in first lockdown

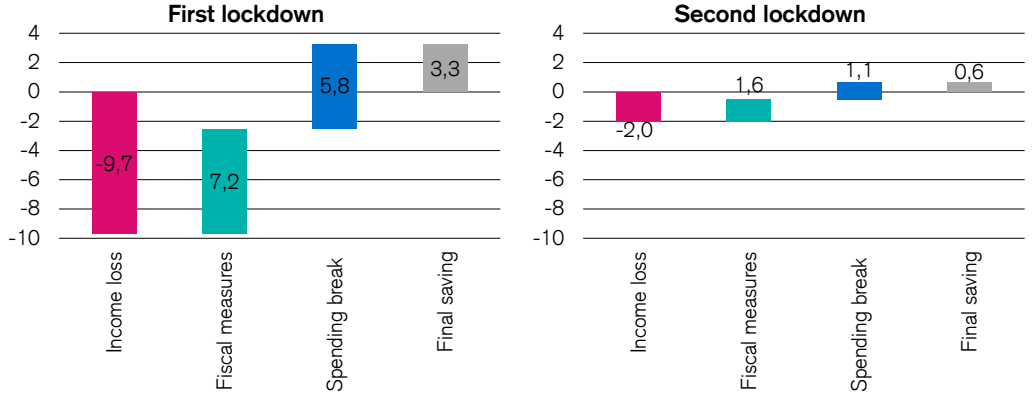
At first glance it looks paradoxical: Swiss households became "richer" on average over the two waves of coronavirus, because they made additional savings. On the one hand, despite the economy not running at full steam, disposable incomes declined relatively little thanks to unemployment insurance payments, short-time working compensation, and lost earnings compensation. Prior to the crisis, the gross income of the average Swiss household (2.2 persons) amounted to some CHF 10,200 per month; due to the pandemic, it is likely to have temporarily declined in 2020 by CHF 560 (-5.5%). On the other hand, ways of spending money were heavily restricted by the measures imposed to contain coronavirus. During the first lockdown, the savings ratio – or the proportion of income saved by a household after deduction of all expenditure – was almost twice as high as in normal times. Before the pandemic, "voluntary" household savings accounted for some 15% of disposable gross household income (on top of which should be factored in mandatory retirement saving contributions amounting to around 10%). Due to constraints on spending during lockdown, the voluntary savings ratio is likely to have risen temporarily to around 30%, whereas payments to mandatory retirement savings schemes are likely to have declined only slightly, because social security contributions apply even to short-time working compensation.

Surge in catch-up spending after first wave

The average Swiss household therefore saved almost an additional CHF 3,000 during the first lockdown. Of course, such an average assessment has its limitations, as it fails to reflect the situation of individual households: Numerous families were presumably not in a position to put any money aside, and some will have even had to eat into their savings. From a macroeconomic perspective, however, it is significant that potential consumer spending was reduced by almost CHF 12 billion over a two-month period, which suggests there is plenty of potential for catch-up purchases. Specifically, a significant proportion of the money saved was spent when the lockdown was lifted last year: By the start of the second wave, the spending of private households in Switzerland had almost returned to pre-crisis levels (spending growth in Q3 2020: 12.2%). But in the fourth quarter of last year, the resumption of measures to contain the pandemic acted as a brake on the recovery: Consumer spending recorded a decline of 1.5%, which is likely to have been accelerated in January and February 2021. That said, a genuine slump in spending as witnessed in the second quarter of 2020 (-8.1%) is neither evident nor likely.

Fig. 1: Income develops positively during lockdown due to restrictions on spending

in CHF bn per month



Source: Federal Council, State Secretariat for Economic affairs, Swiss Federal Statistical Office, Federal Social Insurance Office, Credit Suisse

"Excess" saving during second wave some two-thirds lower than during first wave

We are now coming toward the end of the second wave, and it has already been possible to relax some of the COVID-19 measures. Although the health repercussions of infection were more prolonged and serious in the second wave than in the first, the economic consequences were less severe (cf. Swiss Economy page 6). As such, the loss of income caused by lockdown has been less pronounced this time around (cf. Fig. 1). We are estimating that around CHF 6.0 billion of income will have been forgone in the first quarter of 2021, of which more than CHF 4.5 billion is likely to have been supplemented by the state; the net income lost in the second lockdown will thus amount to some CHF 1.5 billion by the end of March. By way of comparison, during the first lockdown – which was one month shorter – the total net loss amounted to CHF 4.5 billion. In addition, spending opportunities were less restricted during the second wave, which is why the amount saved during this period will turn out lower. According to our calculations, more than a third of all goods and services were unavailable to Swiss consumers – or only obtainable with great difficulty – in the spring of 2020. By contrast, the equivalent figure in the second wave was 15% at most, and on average only around 7%. All in all, we are anticipating that an additional CHF 3.5 billion has been saved during the second wave, or around CHF 880 per household. Accordingly, the savings ratio during the lockdown months has risen to around 20% on average. In other words, the "excess saving" as a result of the most recent lockdown works out at just under a third of last spring's equivalent.

30% of savings set aside for a "rainy day"

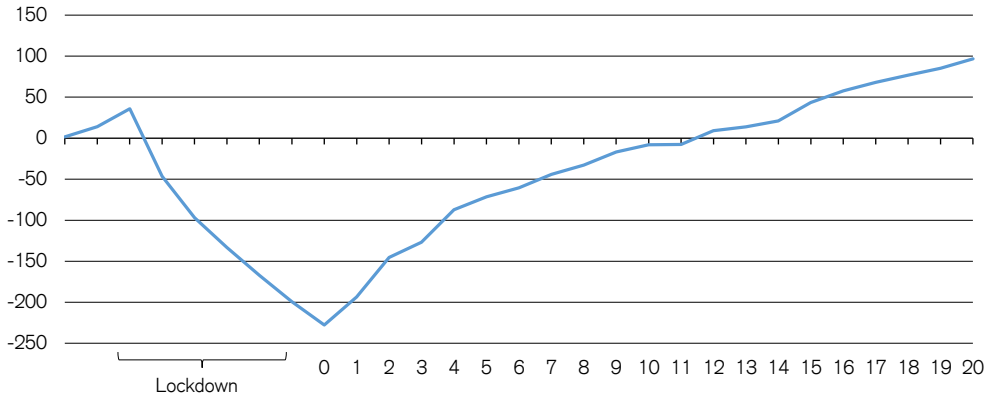
Given the smaller pile of savings available for catch-up spending and the lower preceding decline in consumer spending, it is likely that the current recovery will be less stellar than that of last year. In addition, it is also unlikely that households will "blow" the entire amount saved after the second lockdown. This is true not least because the savings ratio reacts to significant changes in the economic environment, and particularly to changes in the labor market situation. When households fear a loss of employment income, they rein in spending. Therefore, the higher unemployment rate and the widespread use of short-time working will leave their mark on the savings ratio. According to our estimates, just under 30% of savings accrued during the second lockdown will be set aside as medium to long-term "rainy day" savings (equivalent to a rise in the savings rate of almost one percentage point).

Recovery in consumer spending after first wave as blueprint for the coming months

Moreover, not all sectors will benefit to the same extent from the expected catch-up effect in consumer spending. We have used the behavior of consumers following the first lockdown as our basis for calculating likely catch-up spending after the second lockdown. Here we have restricted our analysis to sectors we expect to follow a similar pattern of development as last year given the restrictions in place. Specifically, these are non-food retailing, the hotel and catering industry, and the leisure/recreation sector. By contrast, it would be much more difficult to calculate the spending catch-up effect in areas such as healthcare and personal services, for example. But it may be generally assumed that catch-up spending in these areas will be significantly lower following the second wave than after the first wave. After all, last spring the Federal Council decreed the postponement of elective operations in hospitals as well as the closure of hairdressing salons and cosmetics studios, which was not the case in the second wave.

Fig. 2: Sales losses on non-food items made good in twelve weeks

Forecast change in consumer spending per calendar week compared to pre-crisis levels, in CHF mn



Source: Monitoring Consumption Switzerland, Swiss Federal Statistical Office, GfK, Credit Suisse

Non-food retailing needs three months to return to pre-lockdown levels

In the non-food retail trade in particular, significant catch-up spending was apparent in the months following the first lockdown. In a direct comparison, the 2021 lockdown was rather shorter and indeed not as restrictive for the non-food retail trade, as fewer goods were affected by the prohibition of sales. According to our calculations, lost sales for non-food items during the 2021 lockdown amounted to just under CHF 230 million. If catch-up spending follows the same pattern as last year, this deficit should be made good in around three months (cf. Fig. 2).

Recreation and sports to benefit less from catch-up spending

In the recreation and sports segment too, a certain amount of catch-up spending was apparent following the first lockdown, but this was less pronounced than in the non-food retail sector. Ultimately, the potential for making up for lost cinema and theater trips or sporting activities is limited, as the number of free days or evenings of the typical household is hardly likely to increase after lockdown. We therefore anticipate a similar development following the second lockdown. Overall, consumer spending in the recreation and sports area since December 22, 2020 is more than CHF 250 million down on the prior-year period. As experience has shown, catch-up spending does not kick in immediately, which will initially likely lead to a further rise in the year-on-year decline in spending despite venues reopening. On average, it will then take around eight weeks to compensate for the lost spending of a week of lockdown.

Little potential for catch-up spending in catering industry

In the catering industry, by contrast, 2020 sales remained subdued even after the lockdown period. This is explained on one hand by the retention of certain protective measures, and on the other by the reluctance of some consumer groups to visit bars and restaurants due to the risk of infection. Thanks to the availability of vaccines that should offer protection to high-risk groups, the reopening of bars and restaurants this year should result in a normalization of business more quickly than in 2020. We nonetheless estimate the catch-up potential to be low here. While we do not rule out the possibility of restaurants and bars enjoying an initial surge in popularity, we think it unlikely that households will maintain their frequency of visits at a sufficiently high level to compensate for the lost spending during lockdown. During the second lockdown, weekly expenditure on restaurant and bar visits was some CHF 42 million lower than in the prior-year period. Assuming that there is no significant catch-up spending, it will probably require around 14 normal weeks' business following reopening to make good the lost spending in just a single week of lockdown.

Normalization of hotel operations still a long way off

The hotel industry will have to wait longer than any other sector for a return to business as usual. While international tourism was largely banned during the first wave, domestic tourists proved a key prop for Swiss hotels. Nonetheless, the loss of many domestic business trips and city breaks since the outbreak of the first wave of coronavirus has meant domestic guests spending nearly CHF 300 million less on hotel stays. The spending slump on the part of foreign guests is likely to have been much more severe. The development of demand going forward will depend on the extent to which restrictions remain on cross-border travel. In the event of at least European travel being possible in the summer, hotels in Switzerland will have to resign themselves to an increasing number of Swiss wanting to spend their vacations abroad this year. In other words, the support provided by domestic tourists can be expected to crumble away in 2021, the effect of which cannot be compensated by more European tourists travelling to Switzerland. A return to normal business will probably only be possible when international travel activity returns to pre-crisis levels, and we do not consider this a realistic prospect until mid-2022 at the earliest.

Major differences in recovery momentum

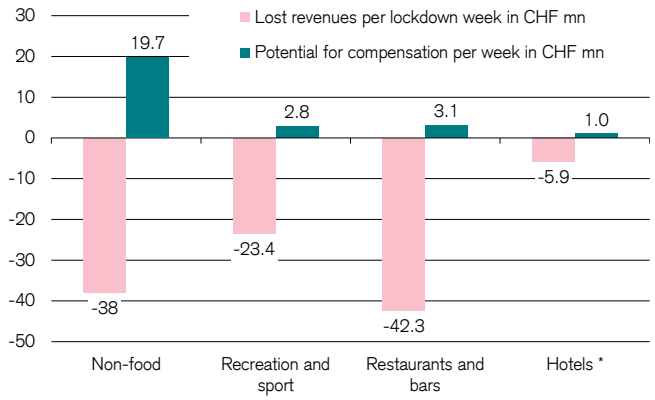
It therefore follows that the return to pre-crisis levels will take longest on the one hand in sectors that were particularly badly affected by restrictions for a prolonged period (e.g. the intercontinental hotel business), and on the other in sectors where the slump in spending cannot be made good (e.g. catering and leisure). While non-food retailers can make up the temporary lost revenues of one 2021 lockdown week with around two weeks of catch-up spending, the recreation and sports segment is likely to require an average of around eight weeks. The high degree of substitutability of restaurant and bar visits reduces the potential for catch-up spending in these areas. With the resumption of normal business operations, it should be possible to make up for the lost revenues of one 2021 lockdown week in around 14 weeks.

Swiss food retail on the upswing

While many service providers have suffered under the coronavirus crisis, the Swiss food trade has been a clear beneficiary. Competition from restaurants and bars evaporated, and shopping tourism was made more difficult for a number of weeks. Growth rates in food retail sales surged to record highs (cf. Fig. 4). Here the average sales increase amounted to more than 12% between the start of the pandemic and the end of 2020. But the lifting of containment measures imposed on restaurants and bars, together with the easing of cross-border travel restrictions, will probably lead to sales in the food retail trade returning close to pre-crisis levels – in other words, the current boom will near an end.

Fig. 3: Non-food benefits from catch-up spending

Lost revenues per lockdown week and compensation potential per week

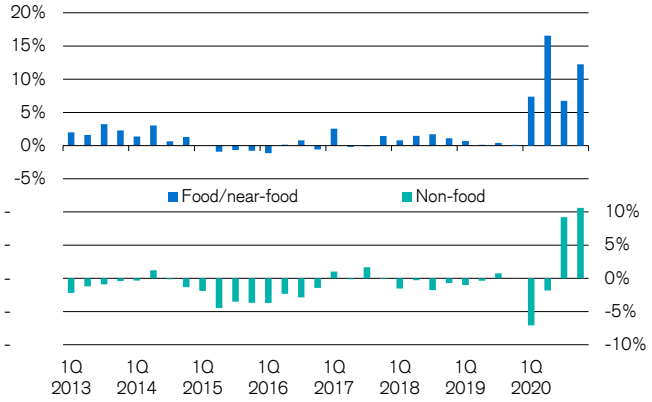


Source: Monitoring Consumption Switzerland, Swiss Federal Statistical Office, GfK, Credit Suisse

* For the hotel industry, lost revenues per week have been calculated since the start of the coronavirus pandemic

Fig. 4: Food trade registers record-high sales growth

Development of normal retail sales per quarter



Source: GfK, Credit Suisse

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Mounting pressure on the SNB

The US government has labelled Switzerland a "currency manipulator," putting the Swiss National Bank (SNB) under more pressure. Yet, given the expected recovery and decline in demand for safe havens, the need for currency interventions should diminish in 2021.

Substantial foreign currency purchases in 2020

Last December, the US Treasury labelled Switzerland a "currency manipulator," after the SNB purchased CHF 109.4 bn of foreign currencies in 2020, by our estimates. Being labelled a "currency manipulator" does not automatically lead to economic sanctions. However, the USA will "engage in negotiations" with the Swiss authorities to address some of the issues identified by the US Treasury.

The current account surplus is not very sensitive to the exchange rate

In addition to the currency purchases of the SNB, an issue raised by the US Treasury is the large current account surplus of Switzerland that the US Treasury assesses as being "excessive." There is no mention of the Swiss franc being undervalued against the US dollar, although the report says that "further franc appreciation would help facilitate gradual adjustment of Switzerland's excessive current account surplus." As the large current account surplus (Figure 1) of Switzerland is essentially due to pharmaceutical exports and commodity trading (merchanting), it is unlikely to fall even in the event of a stronger Swiss franc, i.e. if the SNB were to halt its foreign exchange interventions. These categories have indeed proved resilient to the appreciation of the Swiss franc.

Lower demand for the Swiss franc in a global recovery scenario

As Switzerland's surplus will not change much over the next few quarters, the key change needed would be for the SNB to clearly limit its foreign currency interventions, if Switzerland wants to ensure that diplomatic tensions with the USA are avoided. Fortunately, reducing or even halting foreign currency purchases may in fact be quite possible, as was the case, e.g. between mid-2017 and mid-2019 (Figure 2). If the global economy continues to recover as we expect, the need for foreign currency purchases will likely diminish almost naturally, because appreciation pressure on the Swiss franc, at least relative to the euro – the key currency for Switzerland's sensitive SME sector – should abate. We therefore expect the SNB to reduce substantially its foreign exchange interventions in 2021 compared to 2020. Consequently, the USA should refrain from escalating the issue in a way that could harm Swiss economic growth.

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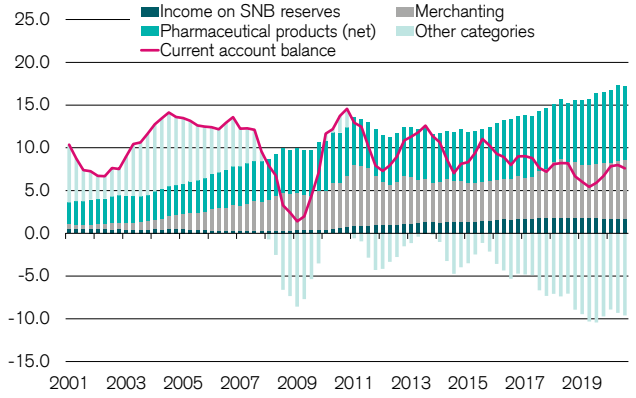
Figure 1: The current account surplus has remained substantial

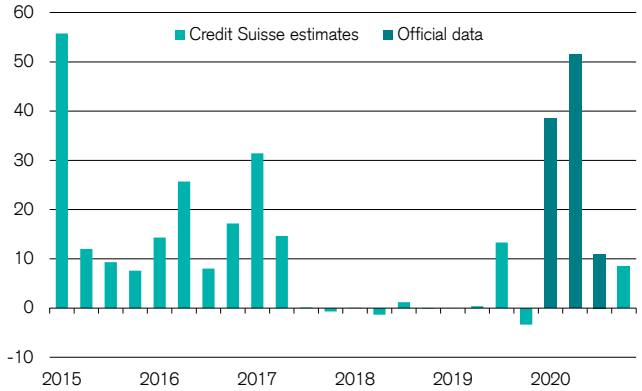
In % of GDP, 4-quarter rolling sum



Last data point: Q3 2020. Source: Datastream, Federal Customs Administration, SNB, Credit Suisse.

Figure 2: Foreign exchange interventions have declined

Foreign currency purchases by the SNB, in CHF bn



Last data point: Q4 2020. Source: SNB, Credit Suisse.

Household net financial assets

Since 2015, households in Switzerland have accumulated financial assets worth CHF 268 bn, net of debt. Households added CHF 165 bn to their bank deposits, largely because they borrowed CHF 132 bn (mostly mortgage credits). Essentially reflecting mandatory savings, households contributed CHF 166 bn to their insurance and pensions schemes in this period. Finally, while they acquired units in collective investment schemes (funds) worth CHF 69 bn, they bought only CHF 14 bn of shares and sold approximately the same amount of debt securities.

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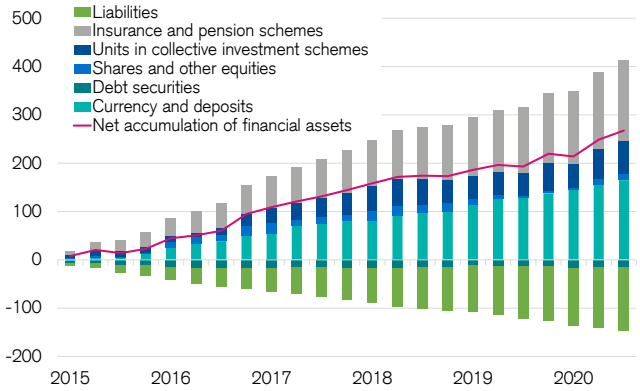
Swiss households have not poured money into the stock market

Cumulated transactions of households in financial assets and liabilities, in CHF bn



Last data point: Q3 2020. Source: SNB, Credit Suisse.

Corporate loans

Since the COVID-19 credit facility closed at the end of July 2020, corporates have already paid back CHF 1.5 bn of the CHF 17.0 bn borrowed. Defaults have remained limited so far at CHF 105 m. Still, they have increased roughly threefold since the December edition of our "Monitor." Separately, loans to corporates have continued to increase at an annual rate of 4.7% since the COVID-19 credit facility closed. Bank lending to corporates in Switzerland (incl. COVID-19 loans) reached around CHF 400 bn at the end of 2020, of which close to 70% were mortgage loans.

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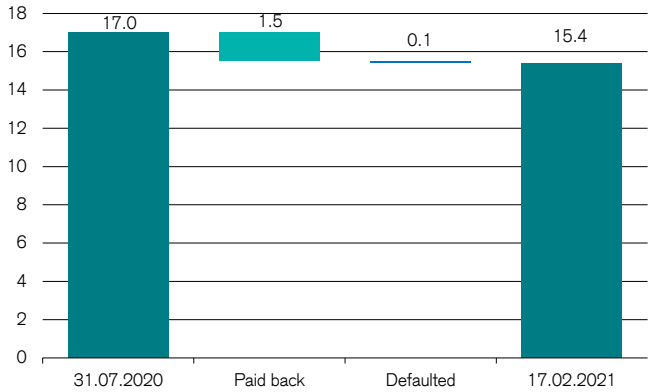
Still CHF 15.4 bn of COVID-19 loans outstanding

COVID-19 loans, in CHF bn



Last data point: 17/02/2021. Source: Seco, Credit Suisse.

Mortgage loans

Mortgage loan growth has been resilient during the pandemic. Households have increased their borrowing by CHF 20 bn, while corporates borrowed an additional CHF 11 bn in 2020 compared to 2019. Overall, domestic mortgage loans have broken the 150% of GDP level; that said, the drop in GDP last year was one of the drivers. Last year, the SNB deactivated the countercyclical buffer that had forced banks to set aside more capital relative to their mortgage portfolio. A full reactivation of the countercyclical buffer is not necessarily warranted, in our view, as losses on mortgage loans are likely to remain limited despite the deep recession.

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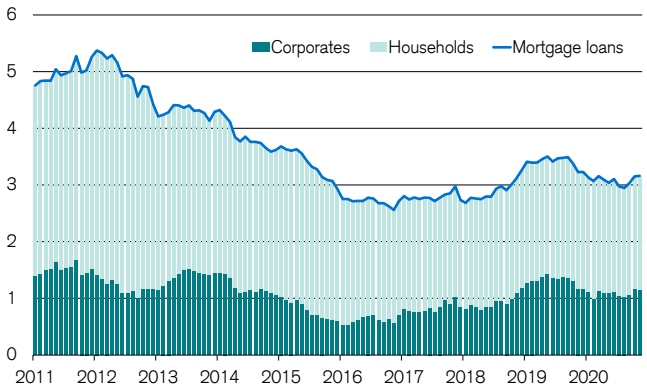
Mortgage loan growth has remained resilient

In % YoY



Last data point: November 2020. Source: SNB, Credit Suisse.

Owner-occupied housing

A combination of powerful demand and declining supply drove up the prices of residential property last year to an unexpectedly high degree. Within the space of just a year, prices of condominiums rose by 5.1% and the cost of single-family homes by 5.5%. Given the ongoing demand overhang, it is only reasonable to expect prices to continue to rise this year. That said, the upside price potential is limited by Switzerland's strict regulatory financing requirements. We are therefore expecting price momentum to flatten off. Just like last year, price growth can be expected to be less strong for condominiums (+3.0%) than for single-family homes (+4.0%).

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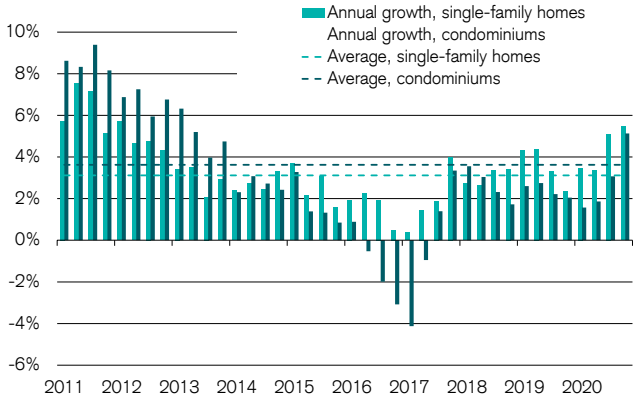
Unexpectedly strong price momentum

Annual growth rates of residential property prices, by segment



Source: Wüest Partner. Last data point: Q4 2020

Rental apartments

Thanks to astonishingly robust immigration and a gradual slowdown in construction activity, the economic repercussions of COVID-19 for the rental accommodation market have been modest so far. While the downturn can be expected to continue, it is unlikely to be significantly accelerated by the pandemic. For 2021, we are anticipating a further increase in the rental apartment vacancy rate to around 2.85%. However, some of this increase will take place in the main urban centers, where it will lead to a welcome (albeit only slight) cooling of the market. At the same time, the pressure on advertised rents can be expected to persist. Here we are expecting a decline of 1.5%.

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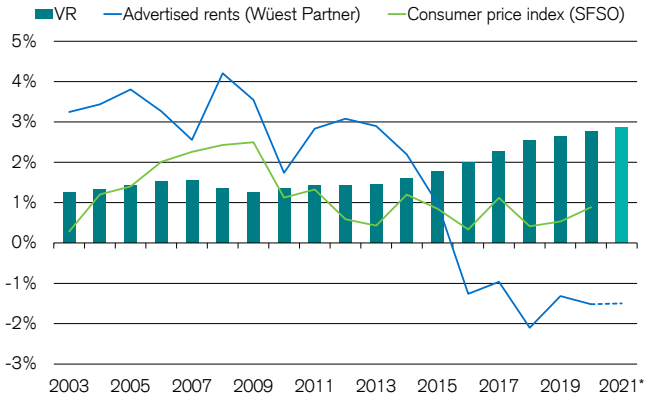
Downturn in the rental apartment market set to continue

Development of national vacancy rate (VR) and rents (as per Consumer Price Index [CPI], year-on-year change), 2021: forecasts



Source: Swiss Federal Statistical Office (SFSO), Wüest Partner, Credit Suisse. Last data point: Q4 2020

Office property

In the office markets under review, rents have developed broadly in step in recent years. Following a period of sideways movement, rents then rose strongly in 2019, which was the result of the recovery in office property demand in previous years. In 2020, however, these upward movements were abruptly halted by the COVID-19 outbreak. In the current year, declining demand for office space together with a level of construction activity that is still too high should increasingly feed through into declining rents and rising vacancies. Decentralized locations will be most affected by this phenomenon.

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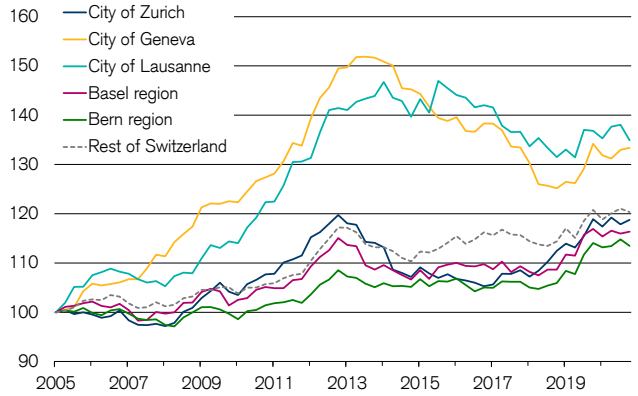
An end to the rise in office rents

Hedonic rental price index on the basis of signed contracts, index: 2005 = 100



Source: Wüest Partner, Credit Suisse. Last data point: Q4 2020

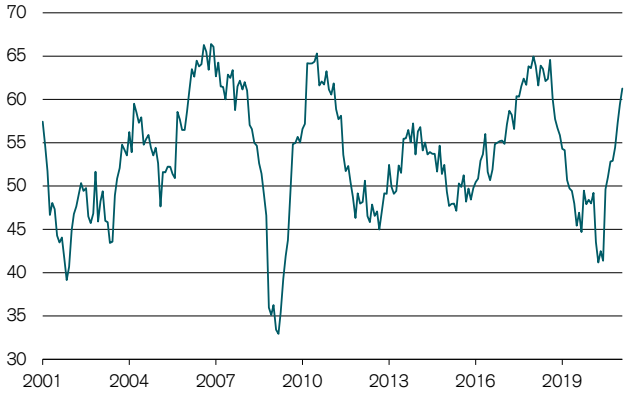
Credit Suisse Leading Indicators

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



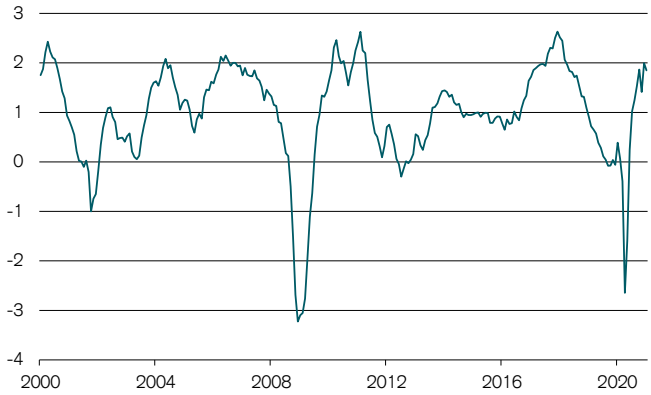
Source: procure.ch, Credit Suisse

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

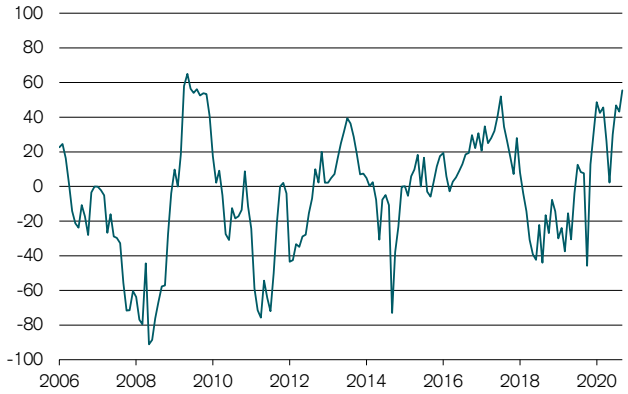
CS CFA Society Switzerland Index

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

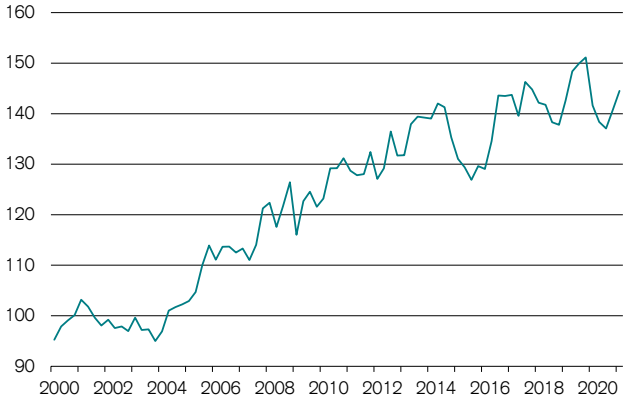
Credit Suisse Leading Indicators

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



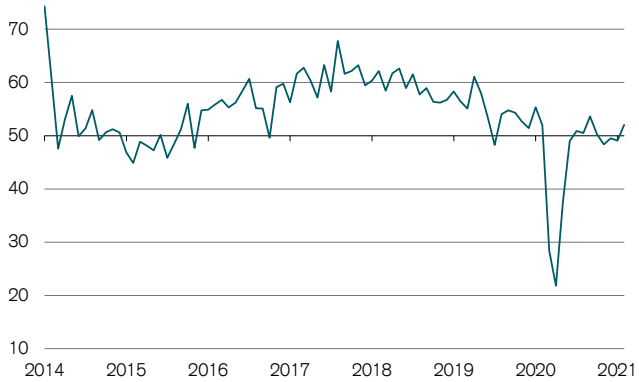
Source: Swiss Contractor's Association, Credit Suisse

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

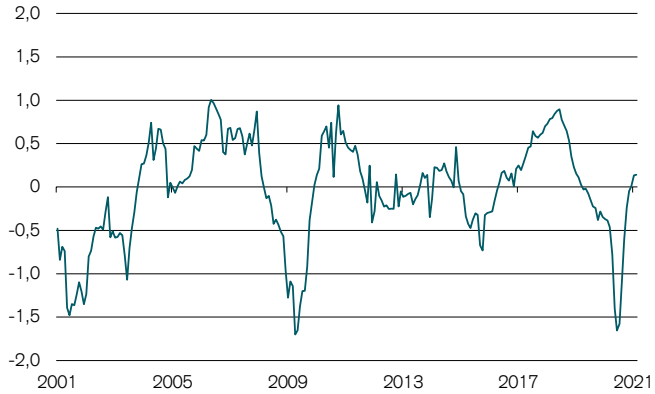


Source: procure.ch, Credit Suisse

Macro Momentum Indicator

The Credit Suisse Macro Momentum Indicator (MMI) condenses the current performance of key Swiss economic data to a single figure. Data from economic surveys, consumption, the labor market, lending and the export economy are used to calculate a standardized momentum that is then weighted with the applicable correlation to GDP development. Values above (below) zero point toward an acceleration (slowdown) of the Swiss economy in the last three months compared with the past six months.

Economic Activity



Source: Datastream, Credit Suisse

Forecasts and Indicators

Forecasts for the Swiss Economy

	2021P	2021P	2021P	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 %)	-0,2	9,0	2,8	2,8	3,4	2,1	1,2	1,2	3,5	2,0
Consumer spending	0,0	8,0	1,5	5,0	1,6	1,6	1,6	1,6	3,5	1,6
Government expenditure	4,0	3,0	3,0	3,0	1,8	1,8	1,8	1,8	3,2	1,8
Gross capital investment	1,1	7,5	-0,1	-2,2	2,0	1,9	1,9	1,9	1,4	1,9
Construction investment	-0,5	3,4	-0,2	-0,8	0,2	0,2	0,2	0,2	0,4	0,2
Investment in plant and equipment	2,0	10,0	0,0	-3,0	2,9	2,9	2,9	2,9	2,0	2,9
Exports (goods and services)	-4,0	15,0	9,0	9,5	4,0	4,0	4,0	4,0	7,0	4,0
Imports (goods and services)	-9,5	12,0	10,0	17,0	4,0	4,0	4,0	4,0	7,0	4,0
Inflation (in %)	-0,5	0,2	0,6	0,7	0,5	0,5	0,4	0,3	0,3	0,4
Unemployment (in %)	3,6	3,7	3,7	3,6	3,5	3,3	3,1	2,9	3,6	3,2
Employment growth FTEs (YoY, in %)	-0,4	0,7	0,4	0,6	0,9	1,1	1,2	1,2	0,3	1,1
Net immigration (in thousands)									55'000	55'000
Nominal wage growth (YoY, in %)									0,3	0,3

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	5,3	4,0	2,3	2,3	7'674	83'845	100	100
US	5,7	3,5	2,2	2,1	330	20'807	17,5	6,3
Euro zone	5,0	4,2	1,4	1,0	343	12'712	48,3	66,3
Germany	3,2	3,9	2,7	1,3	83	3'781	17,9	27,1
France	5,8	4,5	2,0	1,1	65	2'551	5,2	7,0
Italy	5,8	3,7	1,9	0,9	60	1'848	5,8	9,2
UK	5,3	7,5	1,6	1,8	67	2'638	3,5	2,8
Japan	1,7	1,9	0,2	0,3	126	4'911	3,1	2,0
China	7,1	5,2	1,1	1,7	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		10/2020	09/2020	10/2019
SNB target range (in %)	-0,75	-0,75	-0,75	M0 money supply (CHF bn)	722,5	721,3	589,3
10-year government bond yields (in %)	-0,25	-0,2	-0,2	M1 money supply (%, YoY)	9,7	9,0	-0,1
				M2 money supply (%, YoY)	6,6	6,0	-0,5
				M3 money supply (%, YoY)	7,0	6,5	0,1
				Foreign currency reserves (CHF bn)	914,0	910,0	783,0

Source: Datastream, Bloomberg, Credit Suisse

Impressum

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Editorial deadline

9 March 2021

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Where this document relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments
Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk, including the loss of the entire investment, and may not be suitable for many private investors. The performance of such investments depends on unpredictable factors such as natural catastrophes, climate influences, hauling capacities, political unrest, seasonal fluctuations and strong influences of rolling-forward, particularly in futures and indices.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

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Private Equity (hereafter "PE") means private equity capital investment in companies that are not traded publicly (i.e. are not listed on a stock exchange), they are complex, usually illiquid and long-lasting. Investments in a PE fund generally involve a significant degree of financial and/or business risk. Investments in PEfunds are not principal-protected nor guaranteed. Investors will be required to meet capital calls of investments over an extended period of time. Failure to do so may traditionally result in the forfeiture of a portion or the entirety of the capital account, forego any future income or gains on investments made prior to such default and among other things, lose any rights to participate in future investments or forced to sell their investments at a very low price, much lower than secondary market valuations. Companies or funds may be highly leveraged and therefore may be more sensitive to adverse business and/or financial developments or economic factors. Such investments may face intense competition, changing business or economic conditions or other developments that may adversely affect their performance.

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