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Economics Group

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Swiss GDP Stalled in Q3

Swiss GDP was flat on the quarter, undershooting consensus expectations which called for marginal growth. However, most analysts do not expect weakness in the underlying demand components to linger for long.

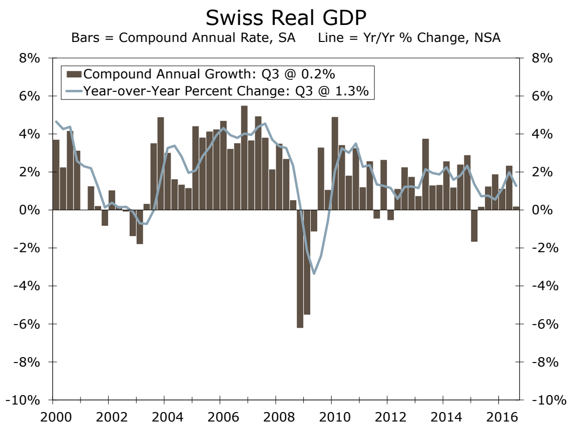
Weak Domestic Demand Hampers Growth

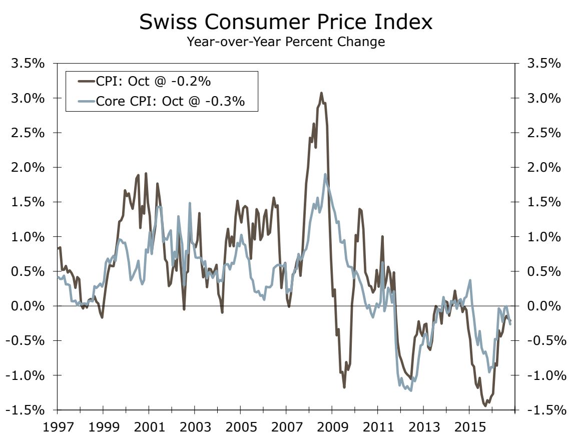
Swiss GDP data, released this morning, revealed that output was flat on a quarterly basis, undershooting the consensus expectation which called for 0.3 percent growth. On a year-over-year basis, GDP increased only 1.3 percent, which widely missed the market forecast of 1.8 percent. A breakdown of Swiss output into its underlying demand components shows broad-based weakness in the third quarter. Household spending, usually a driver of growth, was essentially flat in Q3 and it has not risen on balance since the beginning of the year. Government spending, historically a net positive for growth, contracted on the quarter, most likely a reaction to the previous quarter's 7.2 percent jump in the same sector. Fixed business investment, on the other hand, increased 2.1 percent quarter over quarter, retracing the component's 2.4 percent contraction in the second quarter. However, the primary driver of GDP growth, or lack thereof, was net exports. The sizeable boost that net exports provided to the headline figure was a function of continued weakness in imports rather than a result of robust export numbers. Overall imports plunged 6.7 percent on the quarter while exports remained flat. Furthermore, nominal inventories declined on the quarter, and it appears that real inventories are weighing on overall growth. However, the current drag of inventories on topline growth provides the potential for a bounce back in coming quarters, perhaps the silver-lining in an otherwise uninspiring report.

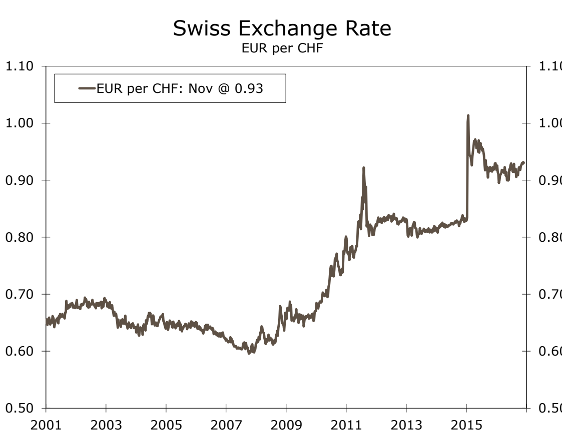
Despite the general weakness across the GDP components in Q3, sustained economic stagnation in the Swiss economy does not seem likely. Switzerland's purchasing managers' index (PMI) has increased in five consecutive months, suggesting that we should see output firm in Q4. November's print of 56.6 jumped nearly two full points from the October figure and is the highest reading since February 2014.

Stuck in a Deflationary Environment

Consumer price inflation in Switzerland has been in negative territory for over two years. This should not come as a surprise against the backdrop of lackluster domestic demand. Moreover, the continued strength of the Swiss franc has served as an inflationary headwind, weighing on export growth no doubt. The Swiss National Bank (SNB) has cut its policy rate into negative territory and remains dovish, indicating scope for future easing. Policy makers have demonstrated their willingness to intervene in currency markets in order to reign in the strength of the franc, which has appreciated 10 percent versus the euro since early 2014. Our currency strategy team expects the Swiss franc to decline against the greenback in coming quarters as the Federal Reserve likely resumes its tightening in 2016 and through 2017.







Source: IHS Data Insight, Bloomberg LP and Wells Fargo Securities

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