

Switzerland 2023 Macro Outlook

Resilient economy to see slowdown in growth and inflation

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FLASH NOTE

SUMMARY

- The Swiss economy has proved resilient this year despite a challenging environment, but we expect GDP growth to decline from 2.0% in 2022 to 0.5% next year. We also forecast headline inflation to average 2.0% in 2023 (down from 2.9% in 2022).
- We expect the Swiss National Bank (SNB) to slow the pace of hiking to 50bp in December and again in March and then pause for the rest of 2023.

A CHALLENGING EXTERNAL ENVIRONMENT

The Swiss economy has fared relatively well this year. GDP expanded by 0.2% quarter-on-quarter (q-o-q) in Q3, up from 0.1% in Q2. Growth has been mainly driven by the services sector, which continues to recover from the pandemic-related slump.

Forward indicators are a bit mixed, but are generally pointing to a slowdown in economic activity. Larger-than-expected levels of gas storage have reduced the risk of energy rationing this winter, but the international environment remains a challenge for the Swiss economy, with some key trading partners likely to fall into a (mild) recession and the war in Ukraine expected to keep pressure on energy prices. Additionally, the strength of the Swiss franc could hurt export-oriented industries. On a more positive note, the labour market remains robust and should continue to support household consumption. Consequently, we forecast Swiss GDP to grow by 0.5% in 2023, compared with 2.0% in 2022. We expect Switzerland to avoid recession in 2023, but a lot will depend on the global situation and energy supplies.

MODERATION EXPECTED IN INFLATION IN 2023

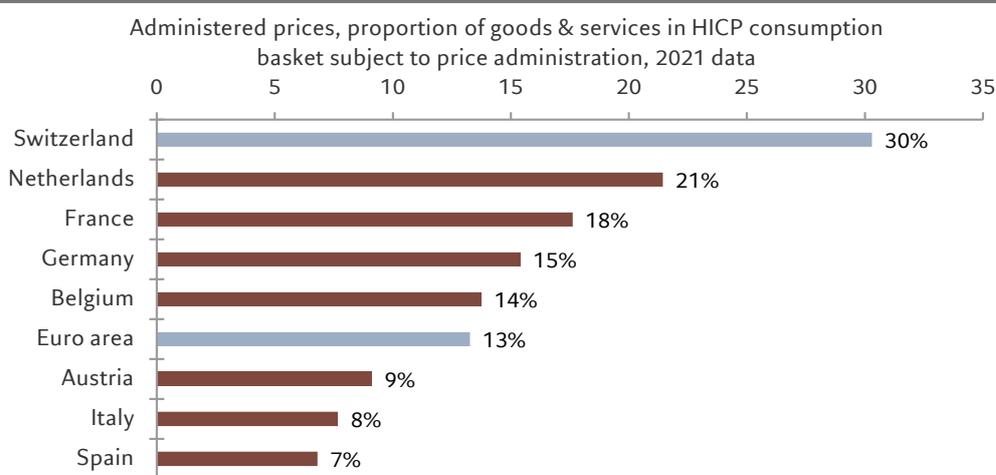
As elsewhere, Swiss headline inflation has accelerated sharply in 2022, with food and energy the main drivers. The increase in Swiss inflation has been more modest

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than in the euro area and the US for several reasons. First, the strength of the Swiss currency has helped to reduce imported price pressures. Second, while a large share of it comes from Russia, Switzerland's dependence on natural gas is comparatively low. Switzerland's electricity needs are almost entirely met by hydroenergy and nuclear power. Third, there are government imposed price controls on a wider range of goods and services than in euro area countries (see *chart 1*).

These factors will continue to drive inflation in 2023. Slowing growth, the recent correction in energy prices and the easing of supply bottlenecks will help moderate inflation in 2023, with the exception of the CPI print for January which will include an increase in electricity prices of 27%. In all, we expect headline inflation to average 2.0% in 2023 (down from 2.9% in 2022).

Chart 1: Price controls in Europe



Source: Pictet WM CIO Office & Macro Research, Eurostat, as of 09.12.2022

TOO EARLY TO CLAIM VICTORY FOR THE SNB

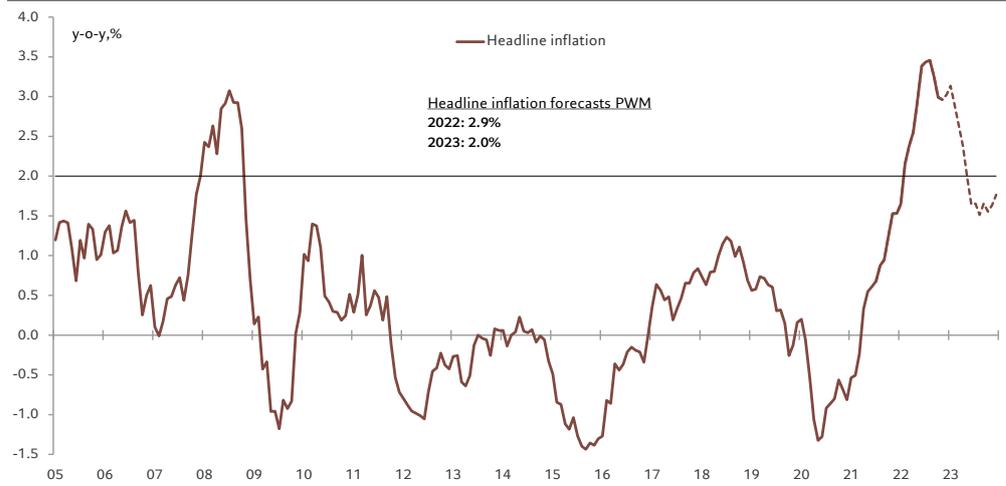
The SNB has played a major role in keeping inflation lower than elsewhere by moving away from trying to weaken the Swiss franc towards one that aims to keep it strong. Yet while Switzerland's inflation rate of around 3% is low by international comparison, it is significantly above the 0% to 2% range that the SNB equates with price stability¹. Having said that, easing price pressures should reduce the need for further aggressive monetary policy tightening.

Following a rate hike of 75bp in September, we expect the SNB to slow the pace of rate increases to 50bp next week, bringing its main policy rate to 1.0% (see our *Flash Note "Central banks' hawkish downshift"*). Our central forecast is for the SNB to hike by a further 50bp in March, bringing the policy rate to 1.5%, before marking a pause for the rest of the year. While interest rates will remain its policy tool of choice, we expect the SNB to sell foreign currency reserves to reduce any downward pressure on the Swiss franc (although not in a systematic way).

¹ The SNB defines price stability as a rise in the Swiss consumer price index (CPI) of less than 2% per annum.

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Chart 2: Swiss headline inflation (including our forecast for 2023)



Source: Pictet WM CIO Office & Macro Research, SFO, as of 09.12.2022

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