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2/2024 June

SCHWEIZERISCHE NATIONALBANK
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BANCA NAZIONALE SVIZZERA
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SWISS NATIONAL BANK



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Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly monetary policy assessment of June 2024

The report describes economic and monetary developments in Switzerland and explains the inflation forecast. It shows how the SNB views the economic situation and the implications for monetary policy it draws from this assessment. The first section ('Monetary policy decision of 20 June 2024') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 20 June 2024. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 20 June 2024, the SNB decided to lower its policy rate by 0.25 percentage points to 1.25%. With its decision, the SNB took into account the further reduction in inflationary pressure quarter-on-quarter. Without this rate cut, the conditional inflation forecast would have been lower than in March.
- Global economic growth was solid in the first quarter of 2024, and is likely to pick up somewhat further in the coming quarters. Although inflation moved sideways over the past months, and remained above central banks' targets in many countries, underlying inflationary pressure continued to decline slightly. Against this background, some central banks eased their monetary policy for the first time following the tightening cycle of the past two years. However, monetary policy remained restrictive in many countries.
- Economic growth in Switzerland was moderate in the first quarter of 2024, and activity is also likely to remain moderate for the time being. The SNB expects GDP growth of around 1% for this year. Economic activity should improve gradually over the medium term, supported by somewhat stronger foreign demand. The SNB expects growth of around 1.5% for 2025.
- Annual CPI inflation increased from 1.2% in February to 1.4% in May. Inflation expectations remained within the range consistent with price stability.
- The Swiss franc has appreciated slightly in trade-weighted terms since mid-March. There was barely any change in long-term bond yields, but equity prices and residential real estate prices both rose somewhat. The decrease in the broad monetary aggregates was less pronounced, and growth in mortgage lending stabilised.

1 Monetary policy decision of 20 June 2024

Swiss National Bank eases monetary policy and lowers SNB policy rate to 1.25%

The Swiss National Bank is lowering the SNB policy rate by 0.25 percentage points to 1.25%. Banks' sight deposits held at the SNB will be remunerated at the SNB policy rate up to a certain threshold, and at 0.75% above this threshold. The SNB is also willing to be active in the foreign exchange market as necessary.

The underlying inflationary pressure has decreased again compared to the previous quarter. With today's lowering of the SNB policy rate, the SNB is able to maintain appropriate monetary conditions. The SNB will continue to monitor the development of inflation closely, and will adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

Inflation has risen slightly since the last monetary policy assessment, and stood at 1.4% in May. Higher inflation in rents, tourism services and oil products has contributed in particular to this increase. Overall, inflation in Switzerland is currently being driven above all by higher prices for domestic services.

Taking into account today's policy rate cut, the new conditional inflation forecast is similar to that of March. Over the longer term, it is slightly below the previous forecast. This reflects somewhat lower second-round effects. Over the entire forecast horizon, the conditional inflation forecast is within the range of price stability (cf. chart 1.1). The forecast puts average annual inflation at 1.3% for 2024, 1.1% for 2025 and 1.0% for 2026 (cf. table 1.1). The forecast is based on the assumption that the SNB policy rate is 1.25% over the entire forecast horizon. Without today's rate cut, the forecast would have been lower.

Global economic growth was solid in the first quarter of 2024. Inflation largely moved sideways over the past months, and remained above central banks' targets in many countries. However, the underlying inflationary pressure continued to decrease slightly. Against this background, some central banks eased their monetary policy for the first time following the tightening cycle of the past two years. However, monetary policy remains restrictive in many countries.

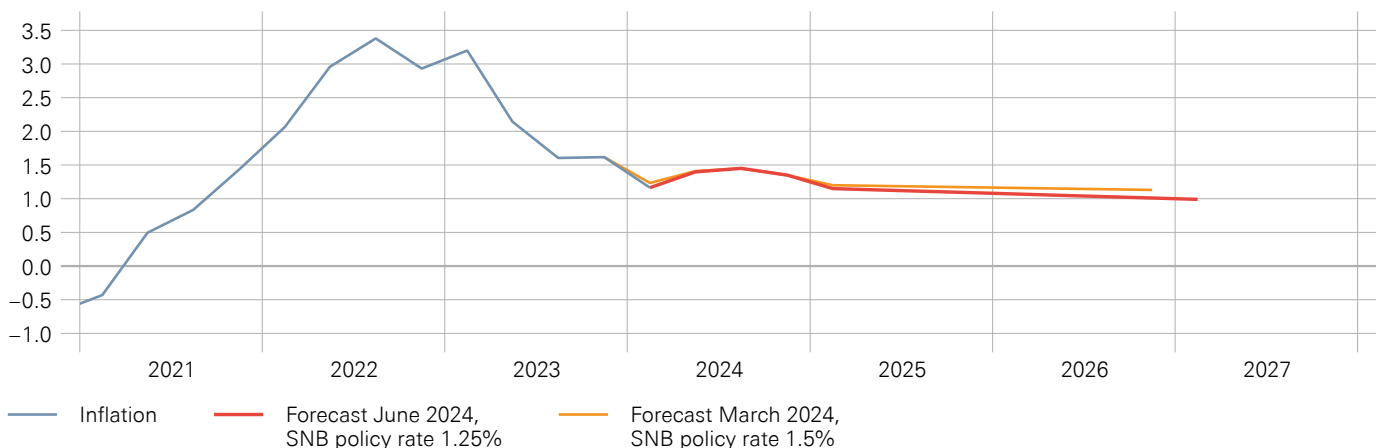
Inflationary pressure abroad is likely to continue to ease gradually over the next quarters. At the same time, the global economy is likely to pick up somewhat. However, for the coming quarters the SNB expects only moderate growth in global economic activity by longer-term comparison.

This scenario for the global economy is still subject to significant risks. Inflation could remain elevated for longer in some countries, necessitating a tighter monetary policy there than expected in the baseline scenario. Equally, a renewed increase in geopolitical tensions could result in weaker development of global economic activity.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF JUNE 2024

Year-on-year change in Swiss consumer price index in percent



Source(s): SFSO, SNB

Swiss GDP growth was moderate in the first quarter of 2024. The services sector continued to expand, while value added in manufacturing stagnated. There was a further slight increase in unemployment. The utilisation of overall production capacity was normal.

Growth is likely to remain moderate in Switzerland in the coming quarters. The SNB anticipates GDP growth of around 1% this year. In this environment, unemployment is likely to continue to rise slightly, and the utilisation of production capacity is set to decline slightly. Over the medium term, economic activity should improve gradually, supported by somewhat stronger demand from abroad. The SNB currently expects growth of around 1.5% for 2025.

The forecast for Switzerland, as for the global economy, is subject to significant uncertainty. Developments abroad represent the main risk.

Momentum on the mortgage and real estate markets in recent quarters has been weaker than in previous years. However, the vulnerabilities in these markets remain.

Monetary policy strategy at the SNB

The SNB has a statutory mandate to ensure price stability while taking due account of economic developments.

The SNB has specified the way in which it exercises this mandate in a three-part monetary policy strategy. First, it regards prices as stable when the Swiss consumer price index (CPI) rises by less than 2% per annum. This allows it to take account of the fact that the CPI slightly overstates actual inflation. In addition, the SNB allows inflation to fluctuate somewhat with

the economic cycle. Second, the SNB summarises its assessment of inflationary pressure and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant SNB policy rate, shows how the SNB expects the CPI to move over the next three years. As the third element in implementing its monetary policy the SNB sets the SNB policy rate, and seeks to keep the secured short-term Swiss franc money market rates close to this rate. If necessary, the SNB may also use additional monetary policy measures to influence the exchange rate or the interest rate level.

Table 1.1

OBSERVED INFLATION IN JUNE 2024

	2021				2022				2023				2024				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-0.4	0.5	0.8	1.4	2.1	3.0	3.4	2.9	3.2	2.1	1.6	1.6	1.2				0.6	2.8	2.1

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2024

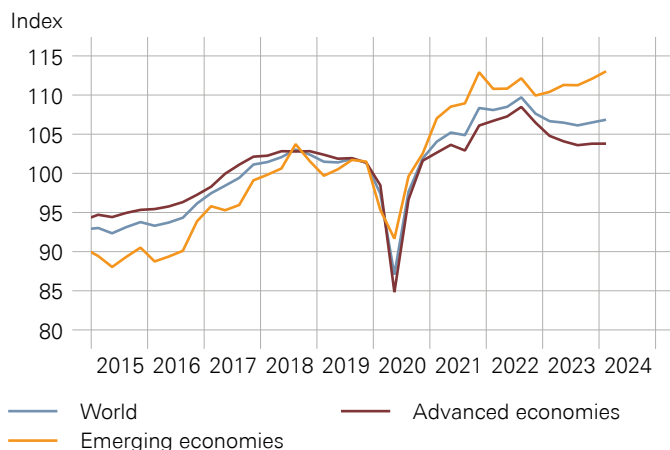
	2024				2025				2026				2027				2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2024, SNB policy rate 1.5%	1.2	1.4	1.5	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1					1.4	1.2	1.1
Forecast June 2024, SNB policy rate 1.25%		1.4	1.5	1.4	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0				1.3	1.1	1.0

Source(s): SNB

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



Source(s): CPB Netherlands Bureau for Economic Policy Analysis, LSEG Datastream

2 Global economic environment

Global economic growth was solid in the first quarter of 2024. In Europe, the economy gained momentum somewhat following the stagnation of previous quarters. In the US, economic activity remained robust despite a slowdown in growth.

Global manufacturing momentum remained subdued overall. Nevertheless, global goods trade did pick up slightly in the first quarter (cf. chart 2.1).

Inflation largely moved sideways over the past months, and remained above central banks' targets in many countries. However, the underlying inflationary pressure continued to decrease slightly. Against this background, some central banks eased their monetary policy for the first time following the tightening cycle of the past two years. However, monetary policy remained restrictive in many countries.

Inflationary pressure abroad is likely to continue to ease gradually over the next quarters. At the same time, the global economy is likely to pick up somewhat. Consumers' purchasing power should gradually recover and the dampening effect of the monetary policy tightening should ease slowly. However, for the coming quarters the SNB expects only moderate growth in global economic activity by longer-term comparison.

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

	2020	2021	2022	2023	Scenario	
					2024	2025
GDP, year-on-year change in percent						
Global ¹	-2.7	6.5	3.5	3.2	3.2	2.9
US	-2.2	5.8	1.9	2.5	2.5	1.7
Euro area	-6.2	5.9	3.5	0.6	0.7	1.2
China	2.2	8.4	3.0	5.2	5.2	4.6
Oil price in USD per barrel						
	41.8	70.7	100.9	82.5	84.8	85.0

¹ World aggregate as defined by the IMF, PPP-weighted.

Source(s): LSEG Datastream, SNB

This scenario for the global economy is still subject to significant risks. Inflation could remain elevated for longer in some countries, necessitating a tighter monetary policy there than expected in the baseline scenario. Equally, a renewed increase in geopolitical tensions could result in weaker development of global economic activity.

The SNB's forecasts for the global economy are based on assumptions about oil prices and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 85 per barrel, compared with USD 81 in the last baseline scenario, and an exchange rate of USD 1.07 to the euro compared with USD 1.08 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Since the last monetary policy assessment in March, inflation developments and market expectations regarding monetary policy have largely dominated events in international financial markets. The markets have also recently reacted to political uncertainty in Europe.

Robust economic signals and surprisingly persistent inflation served to dampen market expectations of rapid interest rate cuts somewhat, particularly for the US. Although the European Central Bank (ECB) lowered its key interest rate in June, as anticipated, it remained vague about further interest rate cuts. Against this backdrop, yields on ten-year government bonds in advanced economies initially increased. Due to the recent political uncertainty in Europe, government bonds considered safe by investors have been in greater demand again of late. Accordingly, yields showed a renewed decline, particularly in the US and Germany, and latterly stood at around the same level as three months ago (cf. charts 2.2 and 2.3).

International stock markets benefited from the favourable economic developments, and the MSCI World Index reached a new all-time high (cf. chart 2.4). Uncertainty about future price movements continued to be low, as indicated by the VIX, the index for the implied volatility of stocks in the US as measured by options prices.

Due to the revised market expectations regarding monetary policy, the US dollar and pound sterling appreciated slightly on a trade-weighted basis, while the euro and the yen weakened (cf. chart 2.5).

Oil prices fluctuated. However, latterly the price of Brent crude was back at around USD 85 per barrel, the same level as three months previously. Industrial metal prices, by contrast, rose amid expectations of strong future demand (cf. chart 2.6).

Chart 2.2

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

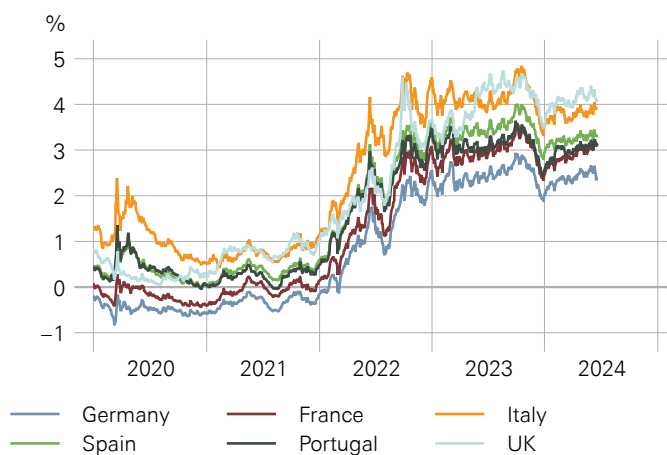


Source(s): LSEG Datastream

Chart 2.3

EUROPEAN LONG-TERM INTEREST RATES

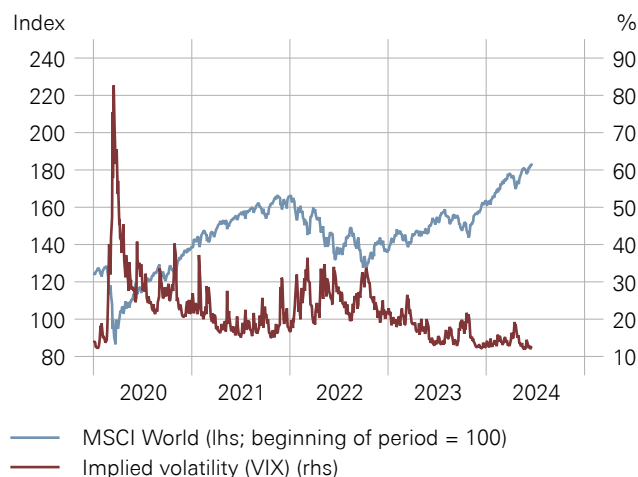
10-year government instruments



Source(s): LSEG Datastream

Chart 2.4

STOCK MARKETS



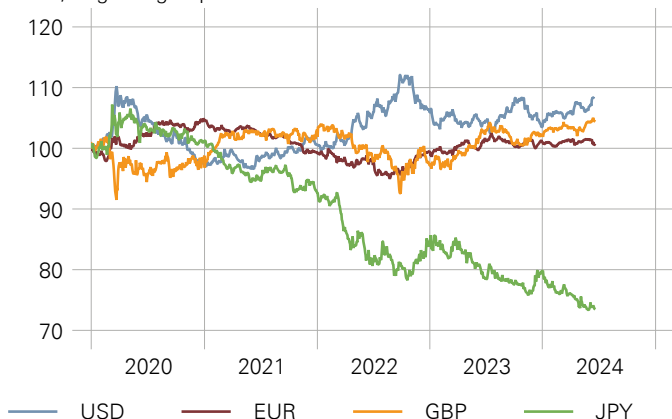
Source(s): LSEG Datastream

Chart 2.5

EXCHANGE RATES

Trade-weighted

Index, beginning of period = 100



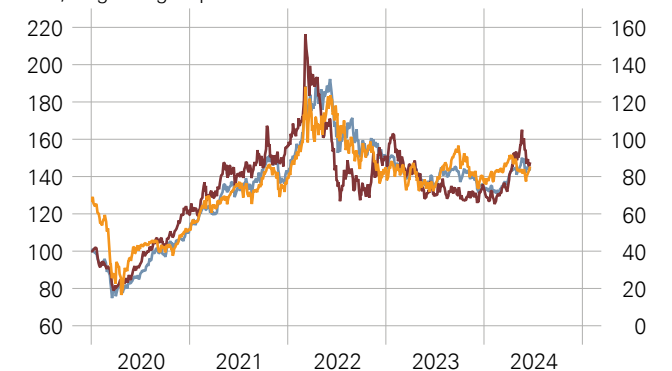
Source(s): LSEG Datastream

Chart 2.6

COMMODITY PRICES

Index, beginning of period = 100

USD/barrel



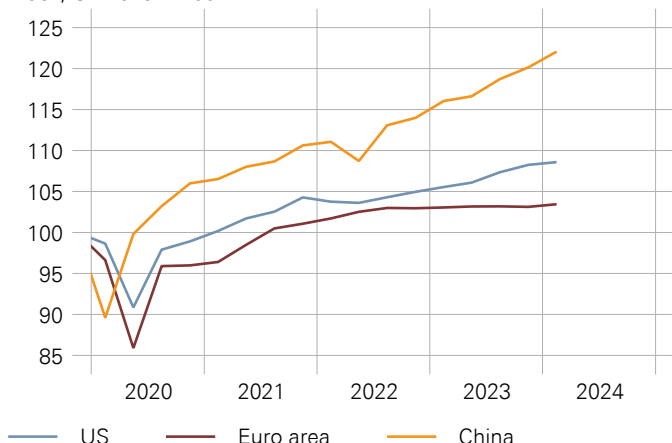
Commodities, total Industrial metals
Oil: Brent (rhs)

Source(s): LSEG Datastream

Chart 2.7

REAL GDP

Index, Q4 2019 = 100



Source(s): LSEG Datastream

UNITED STATES

GDP growth in the US slowed by 1.3% in the first quarter of 2024, following a strong rise in the previous quarter (cf. chart 2.7). While private domestic demand continued to exhibit robust growth, public spending advanced only marginally. Growth in exports also declined somewhat.

The labour market nevertheless remained well utilised, as reflected in the ongoing low level of unemployment, which stood at 4.0% in May (cf. chart 2.9). Employment momentum remained robust. Moreover, wage growth was still above average, although it continued to slow somewhat.

According to economic indicators, GDP growth is set to be strong in the second quarter. Thereafter, the economy will likely lose momentum. Private consumption, in particular, is expected to grow more slowly, but investment too will probably be sluggish due to tight financing conditions. Finally, fiscal policy is likely to have a less expansionary effect. However, owing to the consistently high level of immigration, economic growth is likely to slow less rapidly than previously assumed. The SNB is raising its 2024 growth forecast slightly compared to that of March, to 2.5%. For 2025, it expects GDP growth of 1.7% (cf. table 2.1).

At 3.3% in May, consumer price inflation was marginally higher than at the beginning of the year (cf. chart 2.10). The increase was mainly attributable to rising energy prices. Core inflation, by contrast, decreased further, to 3.4% (cf. chart 2.11). Inflation as measured by the personal consumption expenditure deflator – the index used by the US Federal Reserve to set its 2% inflation target – still remained above the Fed’s target, at 2.7% in April.

In May and June, the Fed left its target range for the federal funds rate unchanged at 5.25–5.5% (cf. chart 2.12). It emphasised that the progress achieved in combating inflation was not yet sufficient to lower its policy rate. Additionally, it will continue to reduce its balance sheet, albeit at a somewhat slower pace since June. The portfolio of Treasury and mortgage-backed securities is now set to shrink by up to USD 60 billion per month (around 0.8% of the current balance sheet), rather than by up to USD 95 billion per month, as previously.

EURO AREA

In the euro area, GDP growth picked up (1.3%) in the first quarter, having previously stagnated for several consecutive quarters (cf. chart 2.7). While exports recovered in particular, private consumption also supported growth. Employment figures rose further, and unemployment remained at a historically low level in April, at 6.4% (cf. chart 2.9).

The economic signals for the second quarter are positive. The services sector in particular recently developed favourably, likely due to a recovery in private consumption. Developments in manufacturing have remained subdued to date, as shown by the purchasing managers' index (cf. chart 2.8). Owing to strong wage growth, private consumption is expected to recover further over the course of the year. In the medium term, the dampening effect of monetary policy tightening should ease slowly, while a tighter fiscal policy is likely to have a curbing effect. In light of the positive economic growth in the first quarter, the SNB is raising its forecast for 2024 slightly, to 0.7%. The forecast for 2025 remains virtually unchanged at 1.2% (cf. table 2.1).

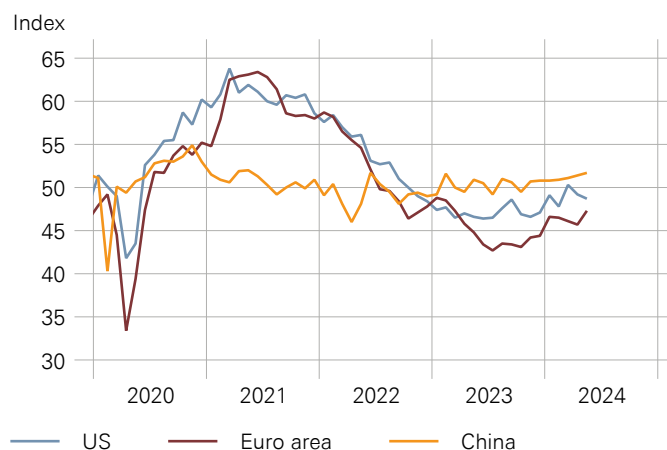
At 2.6% in May, consumer price inflation was still above the ECB's 2% target (cf. chart 2.10). Core inflation decreased only slightly, to 2.9% (cf. chart 2.11). Given the strong wage growth, services inflation remained high.

The ECB lowered its key interest rates by 25 basis points in June, having left them unchanged since autumn of last year. The currently relevant interest rate in the money market – the deposit facility rate – thus latterly stood at 3.75% (cf. chart 2.12). The ECB also signalled that although a further cut in key interest rates was likely, the timing of further interest rate moves was very uncertain and dependent on developments in economic data.

Since mid-2023, securities maturing under the asset purchase programme (APP) have no longer been reinvested, with the result that the APP portfolio is shrinking by about EUR 25 billion per month (around 0.4% of the current balance sheet). Moreover, the reinvestment of securities maturing under the pandemic emergency purchase programme (PEPP) will be reduced from mid-2024 onwards and discontinued from next year.

Chart 2.8

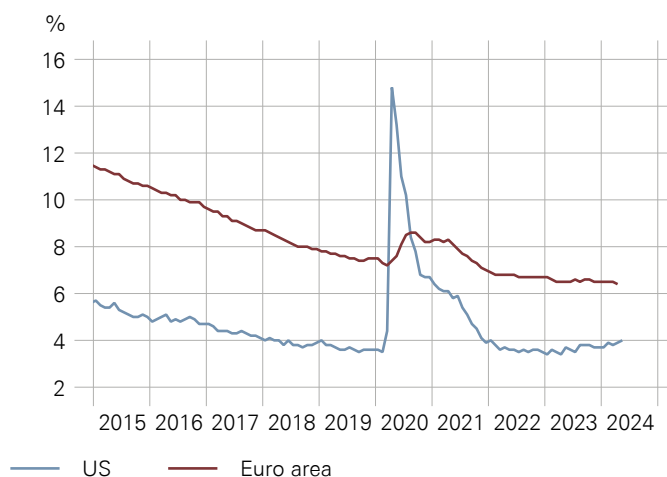
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source(s): Institute for Supply Management (ISM), S&P Global

Chart 2.9

UNEMPLOYMENT RATES

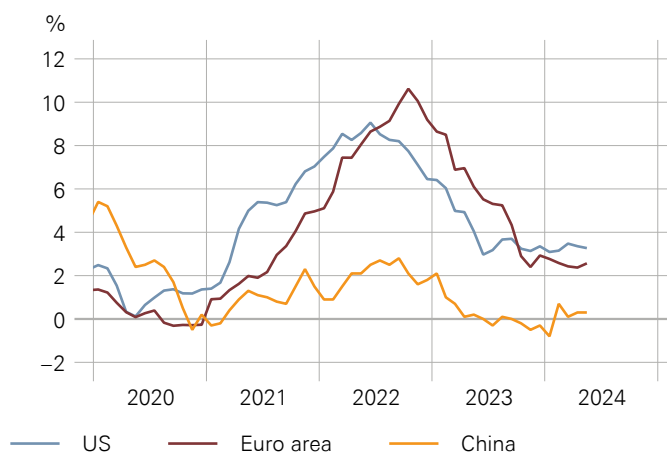


Source(s): LSEG Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

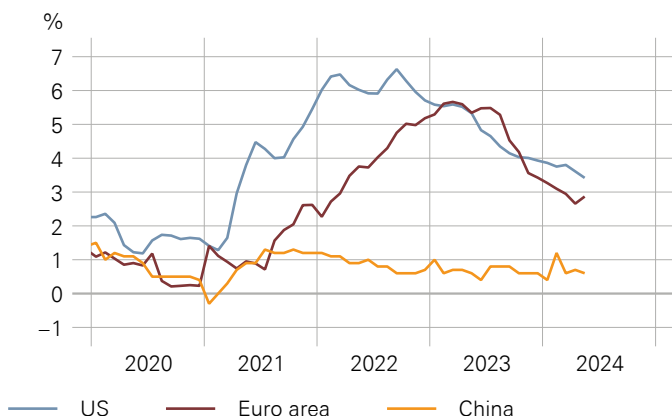


Source(s): LSEG Datastream

Chart 2.11

CORE INFLATION RATES¹

Year-on-year change

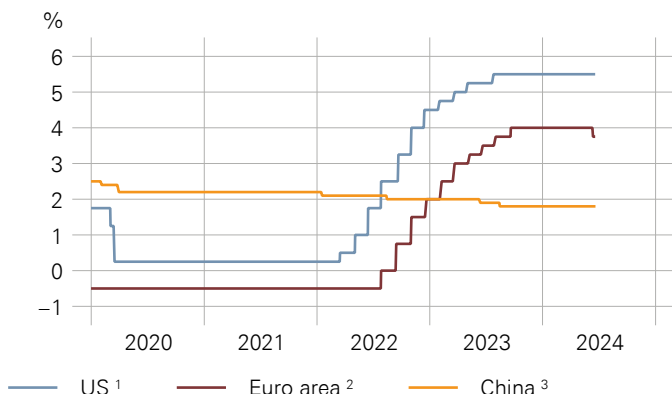


¹ Excluding food and energy.

Source(s): LSEG Datastream

Chart 2.12

OFFICIAL INTEREST RATES



¹ Federal funds rate (upper limit of target range).

² Deposit facility rate.

³ Reverse repo rate (7-day).

Source(s): LSEG Datastream

CHINA

In China, GDP growth stood at 6.6% in the first quarter and was thus stronger than in the previous quarter (cf. chart 2.7). Economic stimulus measures, which include expenditure for infrastructure projects and measures to support the real estate sector, contributed significantly to this expansion. In addition, manufacturing benefited from favourable developments in exports.

Owing to the real estate crisis and subdued household and business sentiment, however, the economic climate in China remains difficult. Furthermore, the trade policy environment is becoming increasingly challenging due to rising import tariffs in the US and the EU. However, the expansionary economic policy will likely continue to underpin the economy. The authorities have introduced a new initiative in a bid to step up their efforts to stabilise the real estate sector in particular, by enabling state-owned enterprises to purchase property via special central bank loans.

As a result of data revisions for previous quarters, the SNB is revising its growth forecast for 2024 upwards to 5.2%; it thus remains within the government's target range of around 5%. For 2025, the SNB continues to expect GDP expansion of 4.6% (cf. table 2.1).

Consumer price inflation remained weak. Following the fluctuations during the Chinese New Year holiday, it was back near 0% in May (cf. chart 2.10). Core inflation latterly stood at 0.6% (cf. chart 2.11).

3 Economic developments in Switzerland

Swiss GDP growth was moderate in the first quarter of 2024.¹ In the services sector, value added rose again. In the manufacturing sector, however, it stagnated, this being above all attributable to the subdued momentum in manufacturing worldwide. There was a further slight increase in unemployment, and the utilisation of overall production capacity was normal.

Growth is likely to remain moderate in the coming quarters. The SNB expects GDP growth of around 1% for this year. In this environment, unemployment is likely to rise somewhat further, and the utilisation of production capacity is set to decline slightly. Economic activity should improve gradually over the medium term, supported by somewhat stronger foreign demand. The SNB expects growth of around 1.5% for 2025.

The forecast for Switzerland, as for the global economy, is subject to significant uncertainty. Developments abroad represent the main risk.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. According to this information, growth remained moderate in the first quarter of 2024. However, the latest signals point to an improvement in economic activity in the second quarter.

Moderate growth in first quarter of 2024

According to the estimate by the State Secretariat for Economic Affairs (SECO), GDP advanced by 1.1% in the first quarter (cf. chart 3.1).

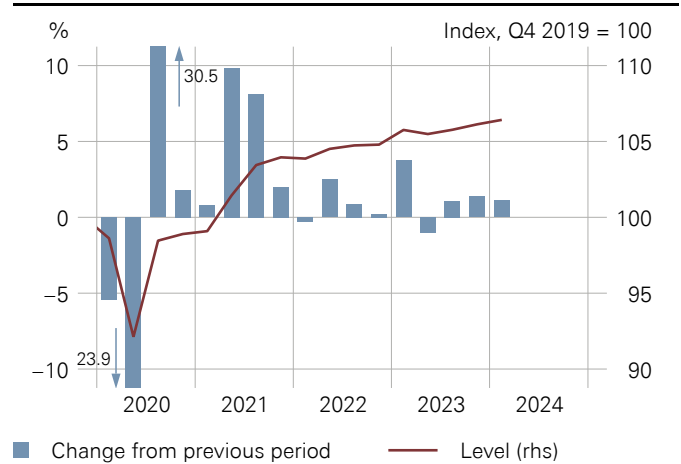
Growth continued to be supported by the services sector. In manufacturing, by contrast, value added stagnated, mainly as a result of subdued momentum in manufacturing worldwide.

¹ The GDP figures commented on and forecast by the SNB in the press release and Quarterly Bulletin are adjusted for sporting events (cf. Glossary).

Chart 3.1

REAL GDP

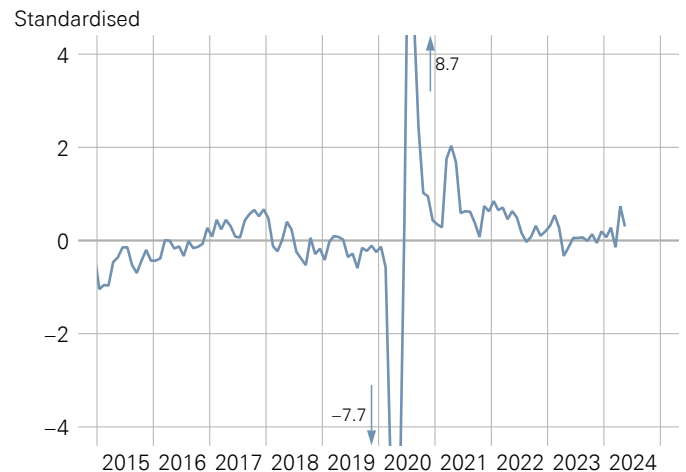
Adjusted for sporting events



Source(s): SECO

Chart 3.2

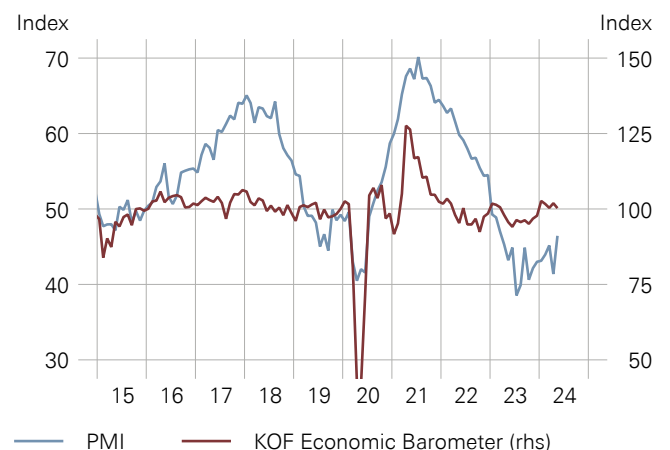
SNB BUSINESS CYCLE INDEX



Source(s): SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Source(s): KOF Swiss Economic Institute, UBS

Private consumption and equipment investment developed favourably, while exports contracted and foreign trade made a correspondingly negative contribution to GDP growth (cf. table 3.1).

Moderate economic growth continues in second quarter of 2024

The available economic indicators suggest that the economy is likely to continue to grow moderately in the second quarter of 2024.

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. The SNB's Business Cycle Index indicates that economic activity recently picked up pace; it points to robust growth (cf. chart 3.2). The KOF Economic Barometer has changed little in recent months and indicates growth in line with the historical average for the second quarter (cf. chart 3.3). Signals from other indicators, such as the purchasing managers' index (PMI) surveys and unemployment figures, by contrast, are somewhat more muted. Overall, the available indicators suggest moderate economic growth.

Signals in manufacturing and services remain mixed. While the manufacturing PMI improved somewhat, it still points to weak growth in this sector (cf. chart 3.3). Indicators in services, by contrast, point to continued expansion. However, the divergence between the two sectors is likely to narrow gradually, as indicated for instance in the talks held by the SNB's delegates for regional economic relations with companies (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, seasonally adjusted, annualised

	2020	2021	2022	2023	2022			2023				2024
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	-3.4	1.8	4.2	2.1	4.8	2.4	3.0	2.2	1.2	0.4	1.1	1.6
Government consumption	3.8	3.3	-0.8	-2.0	-1.8	0.1	0.3	-5.8	-2.3	-0.2	0.2	0.8
Investment in fixed assets	-1.4	2.8	1.2	-1.4	4.0	0.4	-2.1	4.1	-9.6	-1.6	-3.2	1.8
Construction	-1.0	-3.1	-5.5	-2.0	-2.9	-8.7	-2.5	0.8	-3.0	1.1	-0.5	-1.0
Equipment	-1.6	6.0	4.6	-1.1	7.3	4.8	-2.0	5.8	-12.6	-2.9	-4.4	3.2
Domestic final demand	-1.9	2.3	2.6	0.5	3.6	1.5	1.1	1.7	-2.6	-0.2	-0.3	1.6
Change in inventories ¹	-0.7	-0.8	0.4	1.6	20.9	-15.0	-0.8	11.8	-3.7	-0.4	-2.2	8.8
Total exports ^{2,3}	-4.6	11.5	4.5	2.8	-29.4	37.5	-2.6	1.1	-1.8	7.3	11.5	-8.1
Goods ²	-1.2	12.3	3.9	2.8	-42.7	54.8	-0.8	-0.6	-6.1	12.5	16.0	-12.7
Goods excluding merchanting ²	-3.7	12.7	4.6	2.8	-3.0	4.1	-5.8	19.7	-9.4	12.4	-7.4	0.9
Services ³	-11.1	9.9	6.0	2.7	16.0	4.9	-6.8	5.3	9.2	-4.1	1.2	3.9
Total imports ^{2,3}	-5.9	5.3	6.2	5.0	4.8	15.5	-3.3	20.5	-11.5	5.5	6.7	8.2
Goods ²	-6.3	4.3	7.6	0.8	0.1	10.6	-7.3	20.8	-23.4	5.7	8.1	9.6
Services ³	-5.2	6.6	4.3	11.6	12.4	23.0	2.8	20.8	8.7	5.2	4.8	6.2
Net exports ^{3,4}	0.2	3.8	-0.2	-0.8	-21.6	14.5	0.0	-9.7	4.8	1.7	3.7	-9.1
GDP³	-2.2	5.1	2.4	1.3	2.5	0.9	0.2	3.7	-1.0	1.1	1.4	1.1

1 Contribution to growth in percentage points (including statistical discrepancy).

2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).

3 Adjusted for sporting events.

4 Contribution to growth in percentage points.

Source(s): SECO

LABOUR MARKET

Employment increased again. Unemployment rose slightly, but remained at a low level.

Employment growth in first quarter

According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose further in the first quarter. While many new jobs were created in services and manufacturing, employment stagnated in construction (cf. chart 3.4). The Employment Statistics (ES) confirmed the generally positive trend; the seasonally adjusted number of persons employed also increased.

Slight rise in unemployment

In recent months, the number of unemployed persons continued to rise slightly according to figures published by SECO. Excluding seasonal fluctuations, 109,000 people were registered as unemployed at the end of May. The seasonally adjusted unemployment rate rose to 2.4%, but remained low by historical standards. The unemployment figures calculated by the Swiss Federal Statistical Office (SFSO) in line with the definition of the International Labour Organization (ILO) receded slightly. At 4.0%, it was also low in historical terms in the first quarter (cf. chart 3.5).

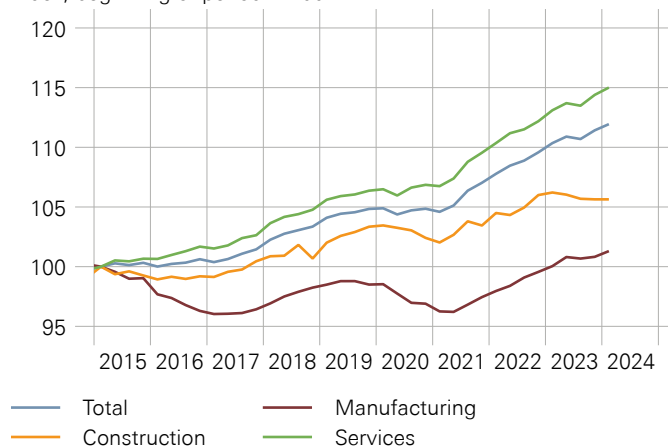
Recruitment situation eases slightly

According to JOBSTAT, many companies continued to have trouble finding suitable personnel. However, the recruitment difficulties decreased somewhat in the first quarter (cf. chart 3.6).

Chart 3.4

FULL-TIME EQUIVALENT JOBS

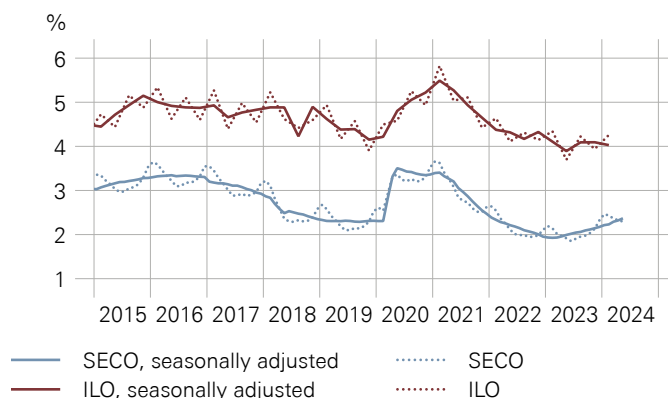
Index, beginning of period = 100



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.5

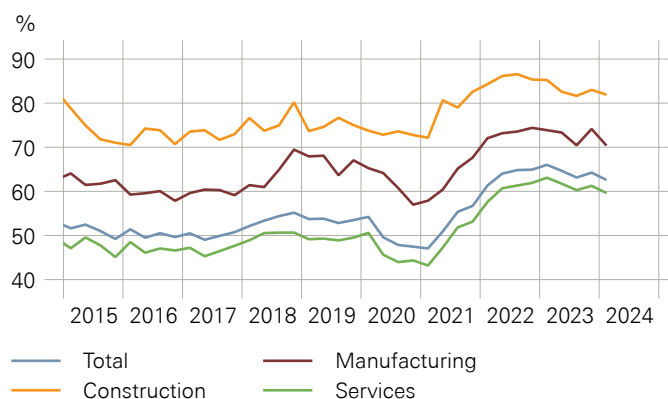
UNEMPLOYMENT RATE



SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons).
ILO: Unemployment rate based on International Labour Organization definition.
Source(s): SECO, SFSO

Chart 3.6

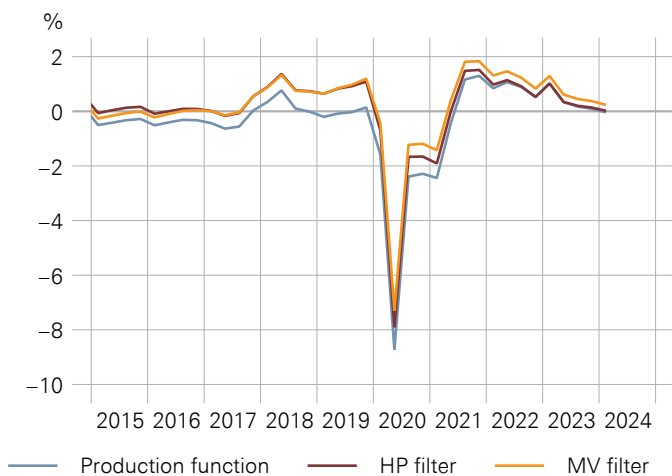
RECRUITMENT DIFFICULTIES



Share of companies that had difficulties or did not succeed in recruiting qualified staff. Only companies that are actively recruiting qualified staff are taken into account. Estimate based on the national job statistics (JOBSTAT).
Source(s): SFSO, SNB

Chart 3.7

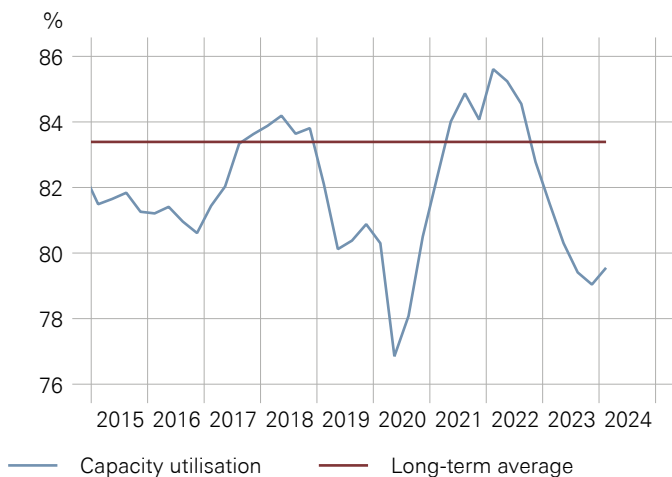
OUTPUT GAP



Source(s): SNB

Chart 3.8

CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

CAPACITY UTILISATION

Output gap closed

The output gap, defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well production capacity in an economy is being utilised. In the case of overutilisation the gap is positive, and in the case of underutilisation it is negative.

Potential output as estimated by means of a production function shows a closed output gap for the first quarter, corresponding to a normal level of utilisation. Other estimation methods also indicate that the gap has closed (cf. chart 3.7).

Capacity utilisation varies between sectors

In addition to the estimation of the aggregate output gap, surveys also play an important role in assessing utilisation levels. The surveys on the utilisation of production factors continued to present a mixed picture for the first quarter.

According to the surveys conducted by KOF, technical capacity utilisation in manufacturing stabilised in the first quarter, albeit at a level considerably below the long-term average (cf. chart 3.8). In most areas of the services sector, utilisation was slightly above average. The available indicators thus pointed to an average level of utilisation for the economy as a whole.

As regards the labour situation, the surveys in the first quarter indicate a gradual improvement. While the labour shortage in manufacturing has eased somewhat, staffing levels remained tight in many areas of the services sector.

OUTLOOK

Growth is likely to remain moderate in the quarters ahead, with services still a source of support. Furthermore, the outlook in manufacturing is steadily improving, as shown by the export-weighted manufacturing PMI (cf. chart 3.9). Accordingly, manufacturing is likely to gradually pick up.

Overall, expectations among Swiss companies regarding their future business situation have improved somewhat, with the corresponding KOF surveys continuing to show better results (cf. chart 3.10). Although the indicators for the employment outlook have declined in general, they continue to point to employment growth (cf. chart 3.11).

The SNB expects GDP growth of around 1% for 2024. In this environment, unemployment is likely to continue to rise somewhat, and the utilisation of production capacity is likely to decline slightly. Supported by somewhat stronger foreign demand, economic activity is set to improve gradually in the medium term. For 2025, the SNB expects growth of around 1.5%. The level of uncertainty associated with the forecast remains significant. Developments abroad represent the main risk.

Chart 3.9

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

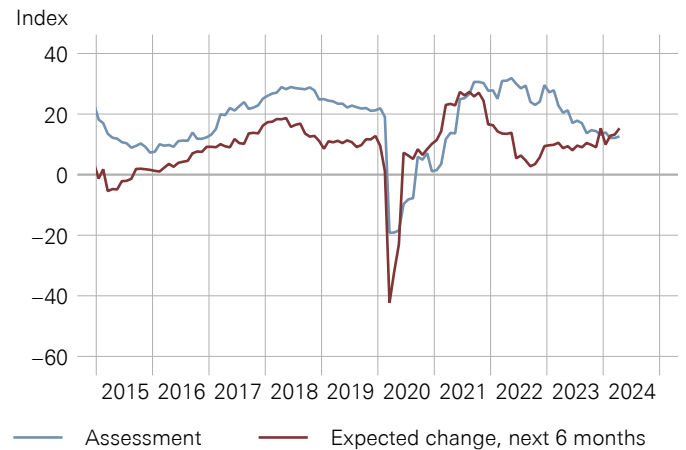


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), LSEG Datastream, SNB

Chart 3.10

BUSINESS SITUATION

Average across all KOF surveys

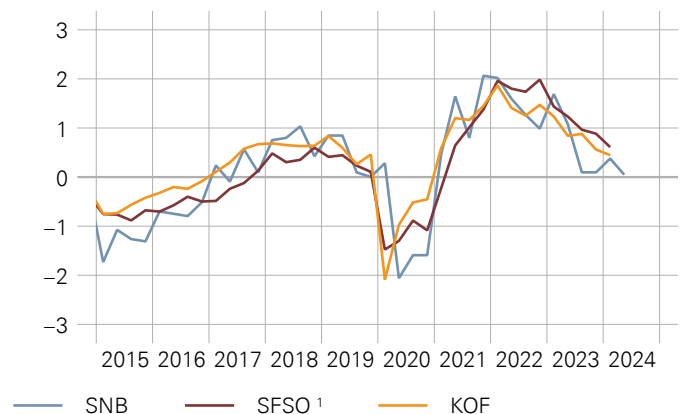


Source(s): KOF Swiss Economic Institute

Chart 3.11

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



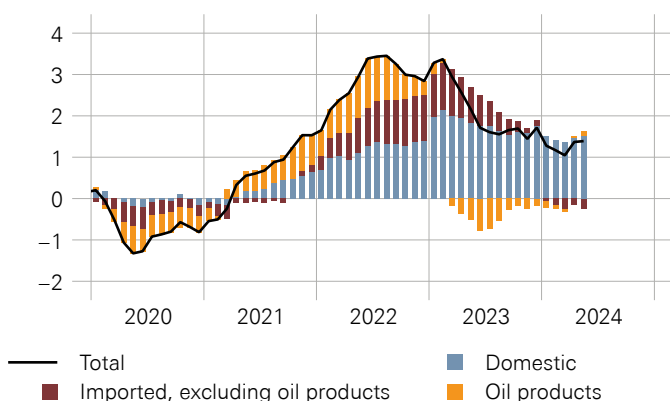
1 Seasonal adjustment: SNB.

Source(s): KOF Swiss Economic Institute, SFSO, SNB regional network

Chart 4.1

CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

Year-on-year change in CPI in percent. Contribution of individual components, in percentage points.

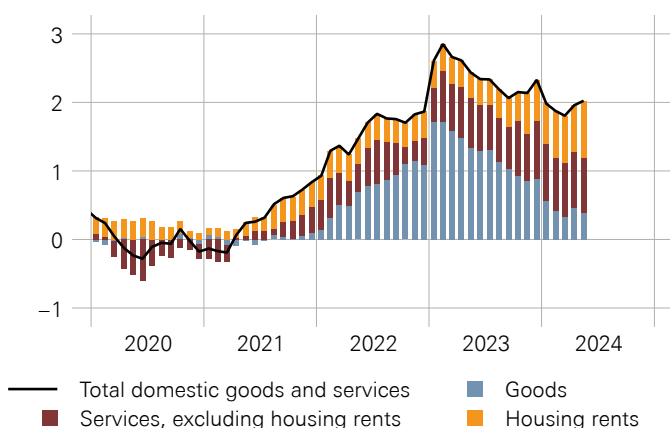


Source(s): SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Source(s): SFSO, SNB

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2023			2024			2024		
	Q2	Q3	Q4	Q1	Feb	Mar	Apr	May	
Overall CPI	2.1	2.1	1.6	1.6	1.2	1.2	1.0	1.4	1.4
Domestic goods and services	2.4	2.5	2.2	2.2	1.9	1.9	1.8	2.0	2.0
Goods	5.4	5.8	5.0	3.9	1.9	1.8	1.5	2.1	1.8
Services	1.5	1.4	1.3	1.7	1.9	1.9	1.9	1.9	2.1
Private services excluding housing rents	1.5	1.4	1.5	2.0	1.8	1.8	1.8	1.8	1.8
Housing rents	1.7	1.5	1.6	2.2	2.7	2.8	2.8	2.8	3.4
Public services	0.8	1.4	0.5	0.2	0.7	0.6	0.7	0.7	0.7
Imported goods and services	1.4	1.2	-0.1	-0.1	-1.1	-1.0	-1.3	-0.4	-0.6
Excluding oil products	2.9	3.9	2.1	0.8	-0.7	-0.7	-1.2	-0.7	-1.1
Oil products	-10.0	-17.2	-15.7	-6.9	-3.9	-3.5	-2.4	1.3	3.6

Source(s): SFSO, SNB

4

Prices and inflation expectations

The inflation rate as measured by the consumer price index (CPI) rose from 1.2% in February to 1.4% in May. Underlying inflation as measured by core inflation also saw a marginal increase in the past three months.

Short-term inflation expectations were down slightly, while longer-term expectations remained virtually unchanged. Both short and longer-term expectations were within the range consistent with price stability.

CONSUMER PRICES

Rise in annual inflation rate

Annual CPI inflation rose by 0.2 percentage points in the past three months and stood at 1.4% in May (cf. chart 4.1, table 4.1). This increase was attributable in equal measure to imported and domestic inflation. However, the latter remained the key driver of inflation, contributing around 1.5 percentage points in May (February: 1.4 percentage points), while that of imported inflation was around -0.1 percentage points (February: -0.3 percentage points).

Higher imported inflation

The increase in imported inflation from -1.0% in February to -0.6% in May was due to petrol and diesel prices. Overall, CPI inflation for oil products rose from -3.5% to 3.6% in the same period.

Inflation for other imported goods and services decreased from -0.7% in February to -1.1% in May.

Domestic inflation up slightly

Domestic inflation rose marginally from 1.9% in February to 2.0% in May (cf. chart 4.2, table 4.1). While inflation for domestic goods remained at 1.8% , inflation for domestic services advanced from 1.9% in February to 2.1% in May.

The increase in domestic services inflation is primarily attributable to higher rent inflation. Housing rent inflation was up 0.6 percentage points on February and stood at 3.4% in May (cf. chart 4.3). The rise in rent inflation is most likely due to the December increase in the mortgage reference rate of 0.25 percentage points to 1.75% . Owing to contractual notice periods for rent adjustments, changes to the reference rate typically do not affect rent inflation for several months. Even after the increase in the reference rate in June 2023, it took a few months for rents to start rising. Between August 2023 and February 2024, rent inflation increased by 1.2 percentage points to 2.8% .

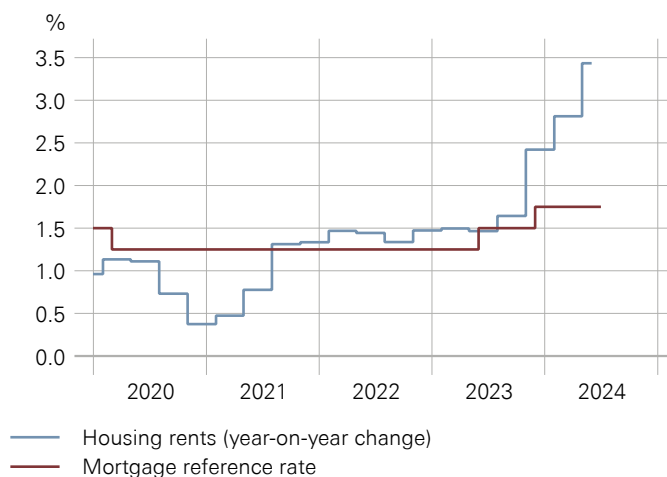
Inflation for domestic services excluding housing rents, by contrast, has remained virtually unchanged since February. While it stayed at 1.8% in the private sector, it rose marginally in the public sector, from 0.6% in February to 0.7% in May (cf. table 4.1).

Slight increase in core inflation

Core inflation has risen slightly since February. For instance, the core inflation rate as measured by the SNB's trimmed mean (TM15) increased from 1.2% in February to 1.4% in May, while the SFSO core inflation rate 1 (SFSO1) advanced from 1.1% to 1.2% during the same period (cf. chart 4.4).

Chart 4.3

HOUSING RENTS

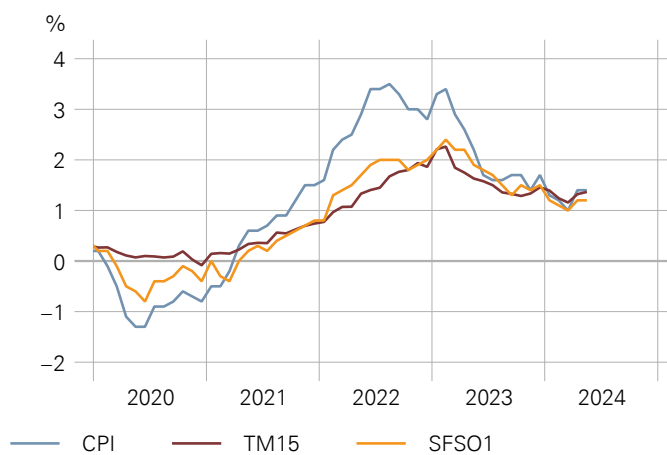


Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

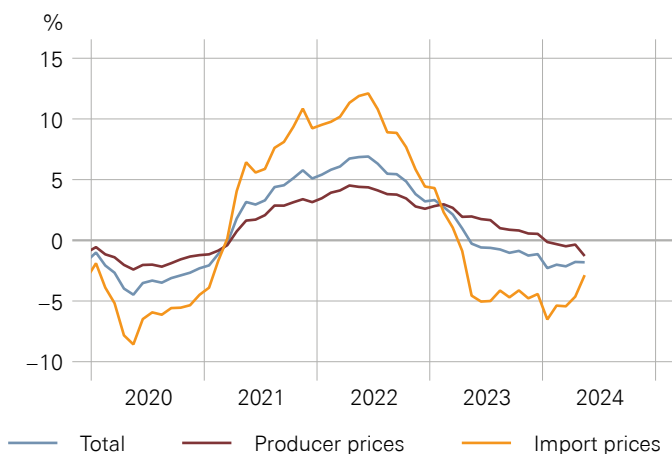


Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change



Source(s): SFSO

Chart 4.6

SHORT-TERM PRICE AND INFLATION EXPECTATIONS

Aggregate responses from SECO survey on consumer sentiment and UBS CFA financial market survey



Source(s): CFA Society Switzerland, SECO, UBS

PRODUCER AND IMPORT PRICES

Higher inflation for producer and import prices

Inflation as measured by the producer and import price index stood at -1.8% in May, up from -2.0% in February (cf. chart 4.5). The increase was attributable to import prices. Inflation for import prices rose from -5.4% in February to -2.9% in May, driven primarily by energy products. Inflation for producer prices fell from -0.3% to -1.3% , largely due to consumer goods.

INFLATION EXPECTATIONS

Short-term inflation expectations somewhat lower

The indicators for short-term inflation expectations fell slightly this quarter.

The index on the expected development of prices over the next twelve months – which is based on the survey of consumer sentiment conducted by SECO – fell again somewhat (cf. chart 4.6). The survey conducted in April indicated that roughly three out of four households anticipate an increase in prices in the short term.

The index based on the joint monthly financial market survey by UBS and the CFA Society Switzerland also dropped slightly over the past three months (cf. chart 4.6). Given that more respondents continued to expect inflation to fall rather than rise in the next six months, the index remained in negative territory. In the May survey, however, slightly more than half of respondents anticipated unchanged inflation rates.

The talks conducted by the SNB's delegates for regional economic relations with company representatives showed a continued decline in short-term inflation expectations, as in the preceding quarters (cf. chart 9 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months stood at 1.4% , compared with 1.6% in the previous quarter.

The forecast of the banks and economic institutions participating in the monthly survey conducted by Consensus Economics for expected inflation in 2024 also receded somewhat and stood at 1.3% in June (cf. chart 4.7). For 2025, the panel of experts anticipated a decline in inflation to 1.1%.

Longer-term inflation expectations consistent with price stability

Longer-term inflation expectations remained stable in the quarter under review.

For UBS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years stood at 1.4% in March, as in the previous quarter (cf. chart 4.8). Company representatives interviewed by the SNB’s delegates in the second quarter also put inflation for the same time frame at 1.4%.

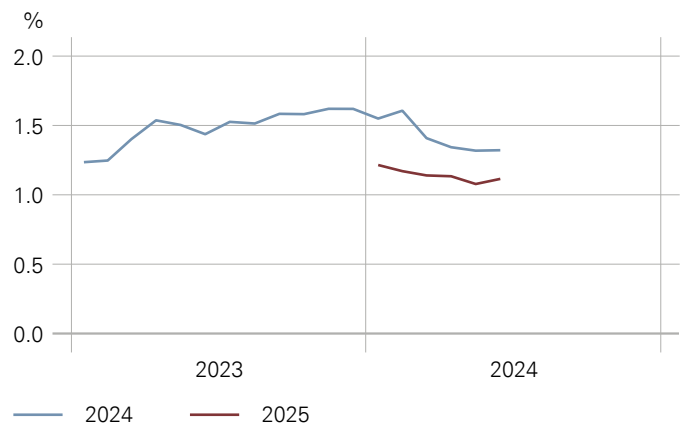
According to the Consensus Economics survey conducted in April, the long-term inflation expectations (six to ten years) of participating banks and economic institutions also remained stable at 1.2%.

Survey results on medium and long-term inflation expectations were thus still within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

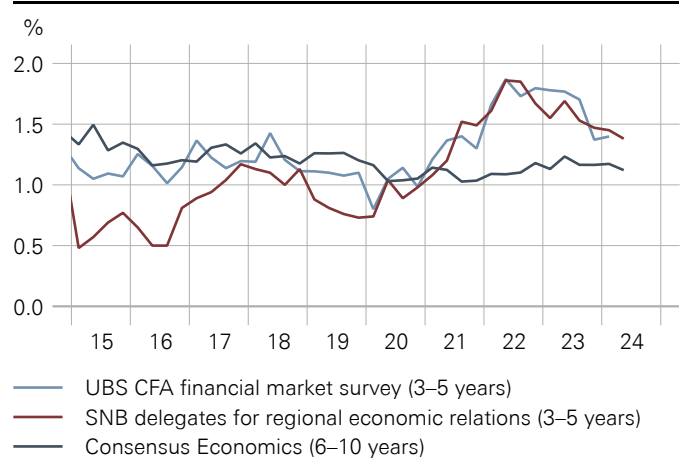
Monthly forecasts for annual inflation



Source(s): Consensus Economics Inc.

Chart 4.8

MEDIUM AND LONG-TERM INFLATION EXPECTATIONS



Source(s): CFA Society Switzerland, Consensus Economics Inc., SNB, UBS

5

Monetary developments

Yields on long-term Confederation bonds have barely changed since the monetary policy assessment in March. In mid-June, the Swiss franc was slightly above its mid-March level in trade-weighted terms. Prices on the Swiss stock market rose.

The decrease in broad monetary aggregates was less pronounced than in the previous quarters. Growth in mortgage lending stabilised.

MONETARY POLICY MEASURES SINCE MARCH 2024 ASSESSMENT

Monetary policy easing

At its monetary policy assessment of 21 March 2024, the SNB decided to lower its policy rate by 0.25 percentage points to 1.5%. The easing of monetary policy was made possible because the fight against inflation over the past two and a half years had been effective. For some months, inflation had been back below 2% and thus in the range the SNB equates with price stability. The SNB also confirmed that it remains willing to be active in the foreign exchange market as necessary.

Remuneration of sight deposits

Sight deposits up to the threshold were remunerated at an interest rate of 1.5%, while the rate for sight deposits above the threshold was 1.0%. A discount of 0.5 percentage points relative to the SNB policy rate thus continued to apply to sight deposits above the threshold. Together with the absorption of sight deposits via open market operations, this tiered remuneration of sight deposits ensures that monetary policy will be passed through efficiently to interest rates in the money market overall.

Absorption of sight deposits via repo transactions and SNB Bills

The SNB continued to absorb sight deposits by way of repo transactions and the issuance of SNB Bills. For this purpose, repo transactions with a term of one week were auctioned daily, while SNB Bills with terms ranging from a month to a year were auctioned on a weekly basis. By absorbing sight deposits, the SNB reduced the liquidity supply in the money market, and thus ensured that the secured short-term Swiss franc money market rates remained close to the SNB policy rate. Since the March assessment, outstanding liquidity-absorbing repo transactions have averaged CHF 67.0 billion. In the same period, the average level of outstanding SNB Bills amounted to CHF 62.4 billion.

Slight reduction in sight deposits at the SNB

Sight deposits held at the SNB decreased slightly compared with the March assessment. In the week ending 14 June 2024 (last calendar week before the June assessment), they amounted on average to CHF 453.5 billion. This was slightly lower than in the week ending 15 March 2024, the last calendar week preceding the March assessment (CHF 469.2 billion). Between these two assessments, they averaged CHF 465.7 billion. Of this amount, CHF 456.8 billion were sight deposits of domestic banks and the remaining CHF 8.9 billion were other sight deposits.

Statutory minimum reserves averaged CHF 21.0 billion between 20 February 2024 and 19 May 2024. Overall, banks still exceeded the minimum reserve requirement by CHF 446.4 billion (previous period: CHF 446.5 billion). Banks' excess reserves thus remain very high.

Increase in minimum reserve requirement for banks

On 22 April 2024, the SNB decided to raise the minimum reserve requirement for domestic banks, and to that end amended the National Bank Ordinance as of 1 July 2024. Liabilities arising from cancellable customer deposits (excluding tied pension provision) will in future be included in full in the calculation of the minimum reserve requirement, as is the case with the other relevant liabilities. This revoked the previous exception whereby only 20% of these liabilities counted towards the calculation. The SNB also raised the minimum reserve ratio from 2.5% to 4%. These adjustments ensure that implementation of the SNB's monetary policy remains effective and efficient. They do not affect the monetary policy stance. However, the amendments will reduce the interest costs for the SNB since sight deposits which are held by banks to meet minimum reserve requirements are not remunerated.

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate

At its March monetary policy assessment, the SNB lowered its policy rate by 25 basis points to 1.5%. Following the reduction, SARON – the average overnight interest rate on the secured money market – continued to fluctuate slightly below the SNB policy rate (cf. chart 5.1). In mid-June, it stood at 1.46%.

Long-term yields almost unchanged

In mid-June, the yield on ten-year Confederation bonds stood at 0.71%, close to the level at the beginning of the period under review (cf. chart 5.2).

The volatility of yields on Swiss government bonds increased somewhat in June, but, as in the previous quarter, it was slightly lower than for euro area and US government bonds. This likely still reflects the fact that the market was less uncertain about future inflation and monetary policy developments in Switzerland than abroad.

Flatter yield curve

Following the reduction in the SNB policy rate at the monetary policy assessment in March, yields on short-term Confederation bonds declined. Yields on Confederation bonds with medium to long maturities, by contrast, were virtually unchanged by comparison with mid-March. This narrowed the gap between long and short-term interest rates. Accordingly, although the yield curve for Confederation bonds was inverted in mid-June, as in preceding quarters, it was somewhat flatter than at the time of the March assessment (cf. chart 5.3).

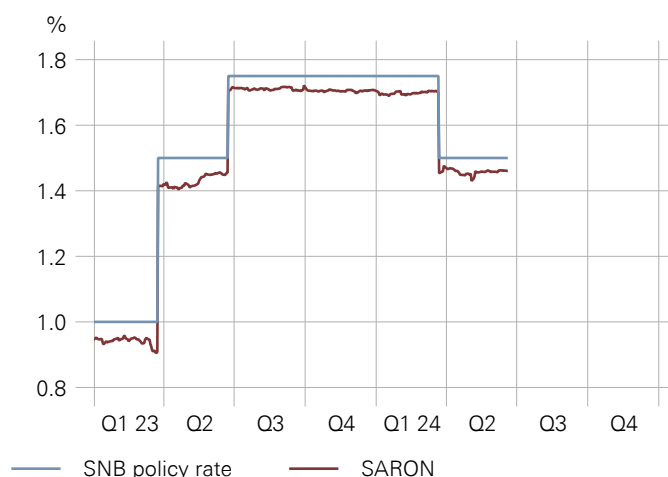
Long-term real interest rates practically unchanged

Real interest rates – the difference between nominal interest rates and inflation expectations – are an important factor in the saving and investment decisions of companies and households.

In mid-June, long-term real interest rates were at approximately the same level as at the March assessment, because long-term nominal interest rates had barely changed (cf. chart 5.3) and long-term inflation expectations remained stable (cf. chapter 4).

Chart 5.1

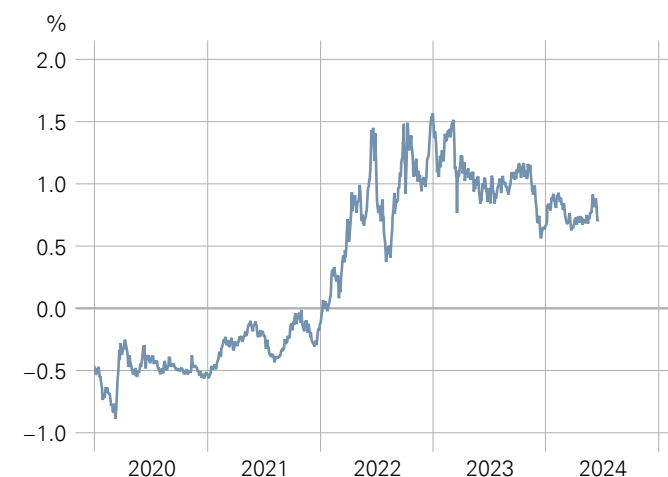
SNB POLICY RATE AND SARON



Source(s): Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

10-YEAR SWISS CONFEDERATION BOND YIELD

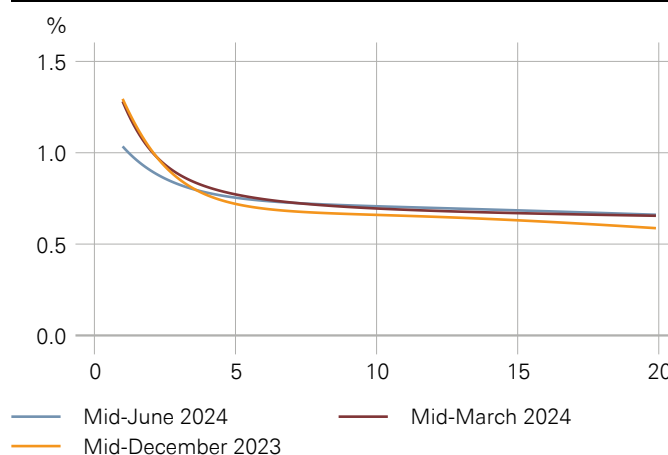


Source(s): SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

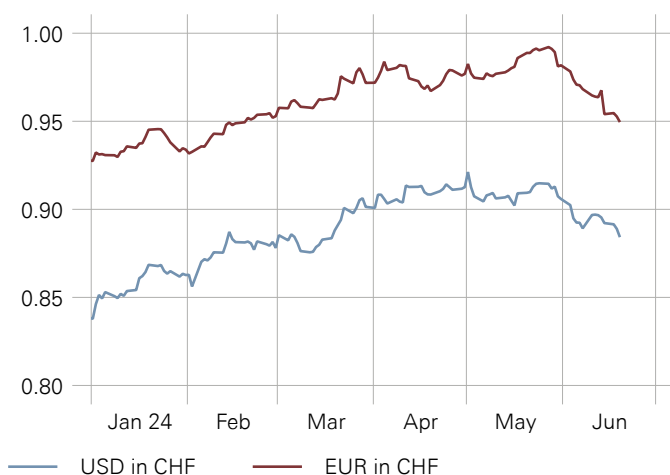
Years to maturity (horizontal axis); Nelson-Siegel-Svensson method



Source(s): SNB

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

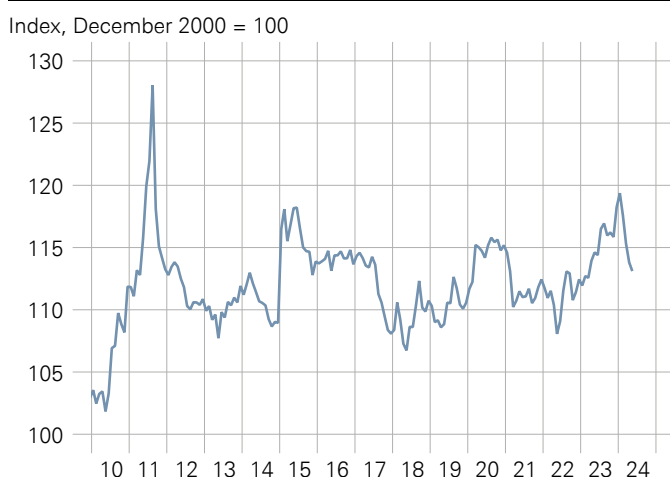
NOMINAL EXTERNAL VALUE OF SWISS FRANC



Source(s): SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC



Source(s): SNB

EXCHANGE RATES

Swiss franc appreciates somewhat against euro and US dollar

In mid-June, one euro was worth CHF 0.95, while one dollar was CHF 0.88 (cf. chart 5.4). The Swiss franc exchange rates were thus 1.7% and 0.8% lower, respectively, than at the time of March assessment.

Immediately after the SNB policy rate was lowered in mid-March, the Swiss franc continued its downward trend observed since the beginning of the year and depreciated noticeably against both the euro and the US dollar. Over the rest of the quarter, the Swiss franc initially continued to weaken against the two currencies. This primarily reflected the fact that market participants expected a slower, less pronounced easing of monetary policy in the euro area and the US, partly due to surprisingly positive economic data in the US.

However, from the end of May, the trend reversed and the franc once again strengthened. This was due in part to weaker US economic data, but also to market expectations of monetary policy easing being less pronounced in Switzerland. The ECB's interest rate cut at the beginning of June had already been priced in by the market and therefore did not lead to a major movement in the Swiss franc exchange rate against the euro. In June, however, the Swiss franc appreciated significantly against the euro – as it did against the US dollar – due to political uncertainty in Europe.

Trade-weighted Swiss franc exchange rate somewhat stronger

Following the SNB's policy rate cut in March, the trade-weighted nominal Swiss franc exchange rate initially continued its downward trend, which had been ongoing since the beginning of the year. From the end of May, the Swiss franc started to appreciate again on a trade-weighted basis. By mid-June, the trade-weighted Swiss franc exchange rate was somewhat above its mid-March level (cf. chart 5.5). Since the March assessment, the franc has appreciated not just against the euro and US dollar, but also against the currencies of most of Switzerland's other major trading partners.

Real external value of Swiss franc weaker than at start of year

With the Swiss franc's depreciation in nominal terms against the currencies of major trading partners between January and May 2024, it also weakened on a real, trade-weighted basis. The real external value of the Swiss franc measured on a monthly basis declined in the same period by around 5% (cf. chart 5.6).

SHARE AND REAL ESTATE PRICES

Swiss share prices higher

In mid-June, the Swiss Market Index (SMI) was just under 4% higher than at March the monetary policy assessment (cf. chart 5.7). This rise was consistent with developments on global stock markets.

Movements in the major share indices largely reflected changing market expectations regarding the future course of monetary policy in the US. This was also the case for the SMI. In April, market expectations of a less pronounced easing of monetary policy in the US amid ongoing inflationary pressure were accompanied by falling share prices worldwide. Weaker US economic data at the beginning of May led markets to once again expect a stronger easing of US monetary policy, causing share prices to rise further than they had previously fallen.

Stock market volatility up slightly

The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). In the period under review, the index mostly moved inversely to the SMI. In May, the index rose somewhat, due in part to weaker US economic data. In mid-June, the index was slightly higher than in mid-March, mainly due to political uncertainty in Europe in June. However, it remained at a low level in a long-term comparison (since 1999).

Rise in sector indices

Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). All sector indices gained in value in the period under review. In mid-June, the share prices of companies in the various industries were higher than they had been at the monetary policy assessment in March, with the increases ranging from just under 3% (financials) to around 7% (industrials).

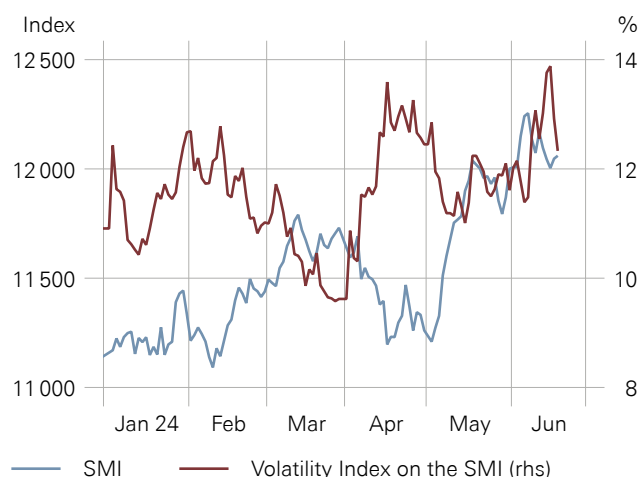
Momentum in residential real estate prices still subdued

In the first quarter of 2024, transaction prices for privately owned apartments and single-family houses rose slightly quarter-on-quarter. Overall, however, momentum remained somewhat weaker than in previous years (cf. chart 5.9).

The apartment buildings segment – which includes residential investment property of private and institutional investors – also registered a slight increase in prices.

Chart 5.7

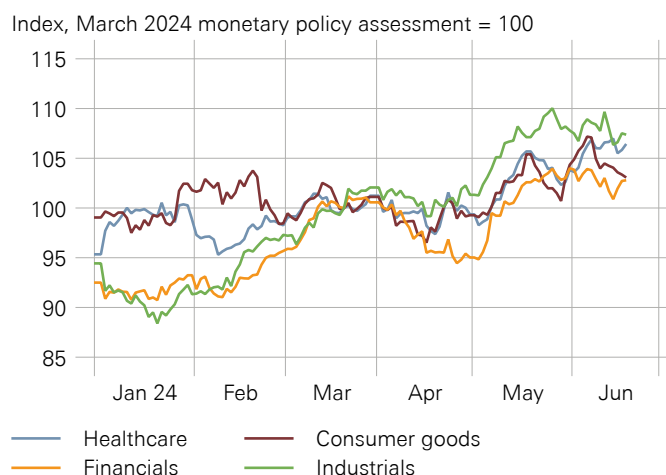
SHARE PRICES AND VOLATILITY



Source(s): SIX Swiss Exchange Ltd

Chart 5.8

SELECTED SPI SECTORS

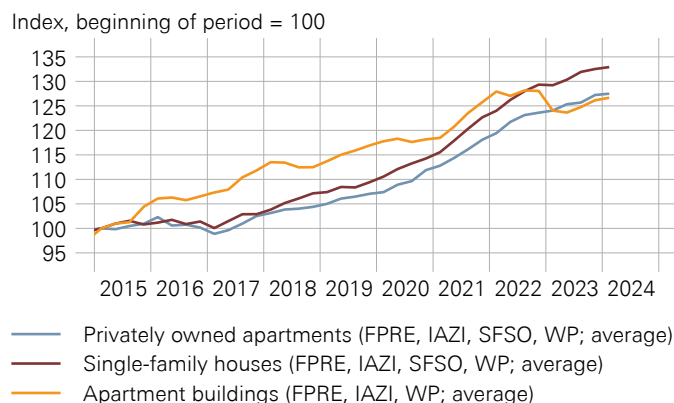


Source(s): SIX Swiss Exchange Ltd

Chart 5.9

TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE

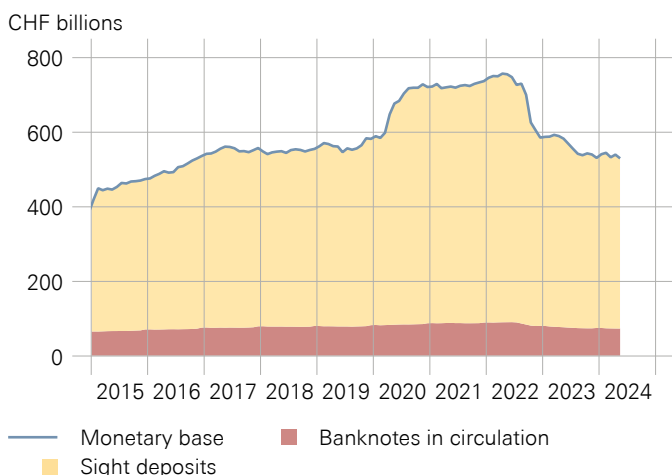
Nominal (hedonic)



Source(s): Fahländer Partner Raumentwicklung (FPRE), IAZI, SFZO (from 2017), Wüest Partner (WP)

Chart 5.10

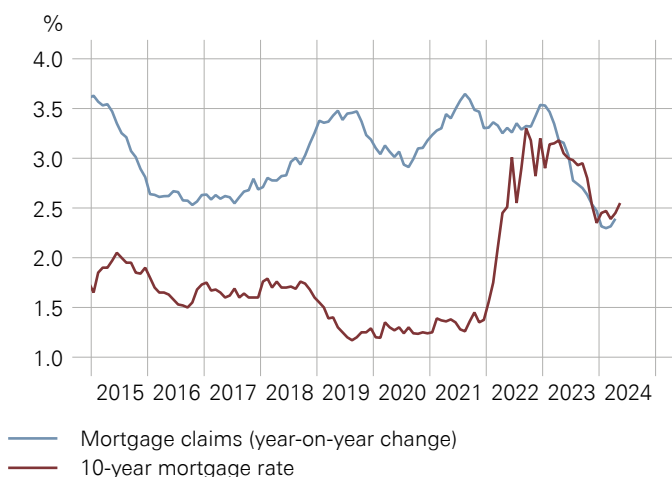
MONETARY BASE



Source(s): SNB

Chart 5.11

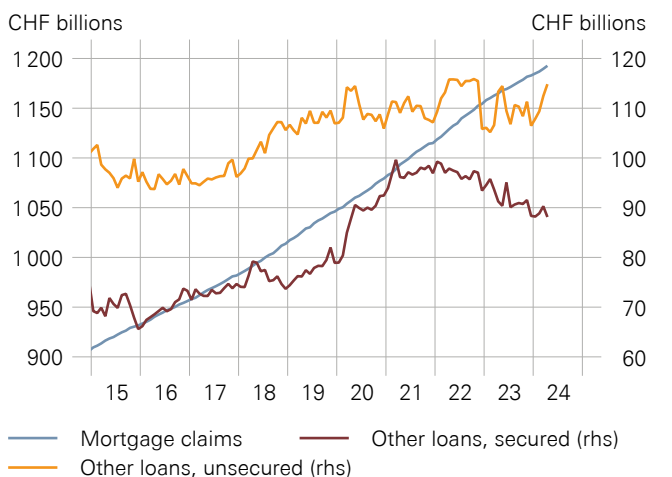
MORTGAGE CLAIMS AND INTEREST RATES



Source(s): SNB

Chart 5.12

MORTGAGE CLAIMS AND OTHER LOANS



Source(s): SNB

MONETARY AND CREDIT AGGREGATES

Little change to monetary base

Having declined in 2023, the monetary base has hardly changed since the beginning of 2024. In May 2024, it averaged CHF 529.9 billion (cf. chart 5.10), and was thus down by around CHF 14.9 billion on February.

Broad monetary aggregates contract less strongly

Annual growth rates for the broad monetary aggregates have remained negative (cf. table 5.1). However, they rose successively between February and May because the decline in interest rates observed from 2023 (cf. chart 5.2) once again increased the incentive to hold short-term bank deposits.

In May, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) fell by 12.6% year-on-year, compared with a decline of 16.6% in February. The M2 aggregate (M1 plus savings deposits) contracted by 7.7% year-on-year in May and M3 (M2 plus time deposits) by 0.6%, compared with decreases of 11.9% and 2.6%, respectively, in February.

Mortgage claims growth stabilises

Following a prolonged slowdown in growth, banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, stabilised in April at 2.4% (cf. chart 5.11, table 5.1). This stabilisation is attributable to mortgage lending to households and to private companies alike.

In line with interest rate movements in the capital market, published interest rates for fixed-rate mortgages have seen little change since the end of 2023. The ten-year mortgage rate stood at approximately 2.5% at the end of May 2024 (cf. chart 5.11). Following the SNB policy rate cut in mid-March, money market mortgage rates fell by 25 basis points and also approached the 2.5% mark.

Decline in other loans

Other loans are considerably more volatile than mortgage loans (cf. chart 5.12), contracting by 0.8% year-on-year in the first quarter of 2024.

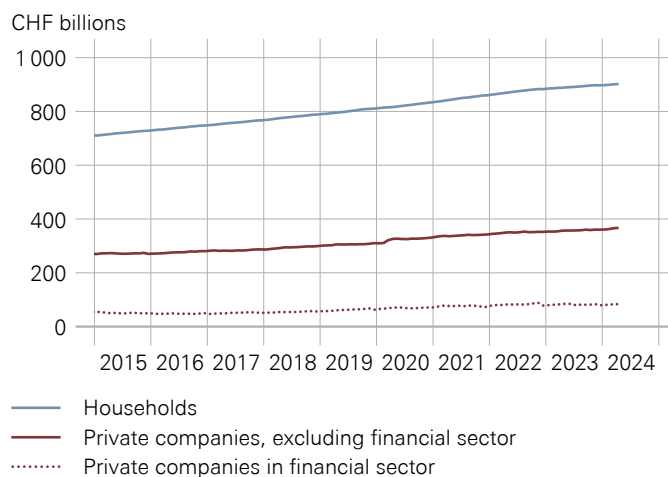
The decline in the volume of secured other loans, which began in 2022, continued. This was again due to repayments of COVID-19 loans. At the end of May, approximately CHF 4.7 billion in COVID-19 loans were still outstanding out of an original total of CHF 15.3 billion. The volume of unsecured other loans has remained largely stable since 2020, with any fluctuations primarily reflecting developments in other loans to financial companies.

Lending growth by sector

Bank loans to households and companies continued to grow on an annual basis (cf. chart 5.13). At the end of April 2024, loans to households and non-financial companies recorded a year-on-year increase of CHF 13.7 billion (1.5%) and CHF 10.5 billion (2.9%) respectively, while loans to financial companies contracted by CHF 0.7 billion (−0.8%).

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES



Source(s): SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2023	2023			2024	2024		
		Q2	Q3	Q4	Q1	Mar	Apr	May
M1	-13.6	-12.2	-17.5	-17.9	-16.1	-14.6	-13.8	-12.6
M2	-10.2	-9.3	-12.8	-13.0	-11.4	-10.1	-8.9	-7.7
M3	-1.5	-0.9	-2.2	-2.6	-2.1	-1.5	-0.9	-0.6
Bank loans, total ^{1,3}	1.8	2.0	1.5	1.5	1.9	2.2	1.9	
Mortgage claims ^{1,3}	3.0	3.1	2.7	2.5	2.3	2.3	2.4	
Households ^{2,3}	2.1	2.3	1.9	1.8	1.6	1.6	1.6	
Private companies ^{2,3}	5.2	5.5	5.1	4.7	4.3	4.4	4.6	
Other loans ^{1,3}	-4.6	-4.0	-5.3	-4.5	-0.8	1.2	-0.8	
Secured ^{1,3}	-5.2	-5.4	-5.6	-6.0	-5.8	-3.6	-3.4	
Unsecured ^{1,3}	-4.0	-2.9	-5.1	-3.3	3.7	5.5	1.3	

1 Monthly balance sheets (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).

2 Credit volume statistics (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).

3 Growth rates for the bank loans item and its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published on the SNB's data portal, data.snb.ch.

Source(s): SNB

Business cycle signals

Results of the SNB company talks

Second quarter of 2024

Report submitted to the Governing Board of the Swiss National Bank for its quarterly monetary policy assessment

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and members of management at companies throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 242 company talks were conducted between 16 April and 4 June.

Regions

Central Switzerland
Eastern Switzerland
Fribourg/Vaud/Valais
Geneva/Jura/Neuchâtel
Italian-speaking Switzerland
Mittelland
Northwestern Switzerland
Zurich

Delegates

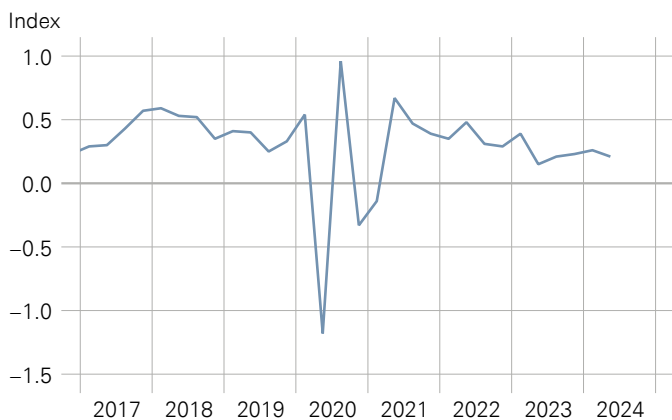
Astrid Frey
Urs Schönholzer
Aline Chabloz
Jean-Marc Falter
Fabio Bossi
Roland Scheurer
Daniel Hanimann
Marco Huwiler

Key points

- Growth in the Swiss economy was moderate in the second quarter. Turnover in the manufacturing sector picked up again after several quarters of weak growth. In the construction and services sectors, by contrast, growth slowed to a certain extent.
- Companies consider staff levels to be adequate. The recruitment situation continued to return to normal and, with a few exceptions, is no longer extraordinarily difficult.
- While technical capacity utilisation in manufacturing has improved somewhat, it remains at a low level. The margin situation is thus still challenging for some manufacturing companies, even though the depreciation of the Swiss franc has been counteracting the pressure on margins since the beginning of the year.
- Despite numerous uncertainties, companies are confident about the coming quarters and anticipate robust growth.

Chart 1

TURNOVER



Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

CURRENT SITUATION

Subdued growth in services and construction, manufacturing picking up

Growth in the Swiss economy was moderate overall in the second quarter (cf. chart 1). The services sector grew somewhat less strongly than in the previous quarters. In particular, there was little impetus from consumer-related industries such as retail and food services. The construction sector has also shown barely any growth.

After a lengthier period of stagnation, there have been signs of an upturn in manufacturing, however. Some companies attribute this to the fact that their customers have now run down their inventories. Certain companies are also seeing signs of an upturn in demand from neighbouring countries. At the same time, momentum in the US is said to be remaining robust. Developments in demand from Asia are mixed. Notably, India is increasingly cited as a growth market.

Technical capacity underutilised

Technical capacity utilisation is practically unchanged and is below normal levels (cf. chart 2). Increased homeworking continues to contribute to underutilisation of office space at services companies. Although the upturn in demand has led to slightly higher capacity utilisation in manufacturing quarter-on-quarter, capacity remains underutilised at more than half of manufacturing companies – in some cases significantly so. The majority of companies in construction are operating at close to normal capacity utilisation.

Chart 2

CAPACITY UTILISATION



Utilisation of technical capacity and/or business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

Staff utilisation and recruitment largely back to normal

Companies consider staff levels to be adequate overall (cf. chart 3). This applies to both the services sector and to manufacturing, the latter having considered levels to be too high in the previous quarter.

The recruitment situation is no longer exceptionally difficult. Demand for qualified specialists persists, with managerial positions in skilled and technical trades still noticeably difficult to fill. IT experts also remain in demand, for example those specialising in cybersecurity and artificial intelligence. However, recruitment difficulties are no longer as widespread as they were a year ago. Some companies assume that the integration of Credit Suisse into UBS and job cuts at international technology and pharmaceutical firms are responsible for this.

Companies attribute the remaining recruitment difficulties primarily to structural factors. They also point to the upcoming retirements in the next few years. Some companies are noticing a change in the needs of younger employees and are trying to adapt to this, focusing primarily on non-financial incentives such as greater flexibility in terms of work location and working hours.

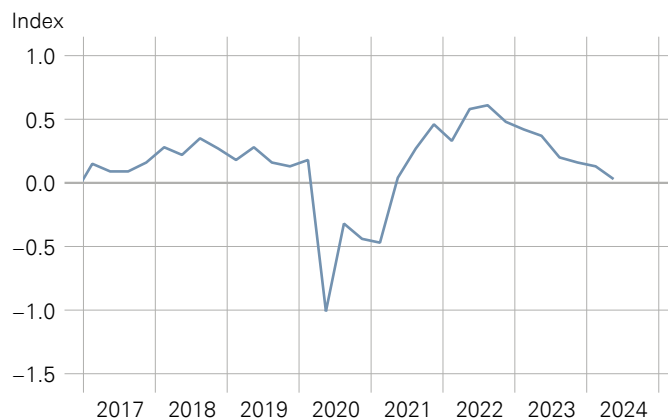
Mixed developments in profit margins

Profit margins have changed little overall compared with the previous quarter, and remain robust (cf. chart 4). However, developments varied depending on the industry. In some industries in the services sector, such as trade and tourism, margins are slightly lower than in the previous quarter. Construction companies are also reporting a tendency towards higher margin pressure owing to the subdued development of turnover. In manufacturing, the effects of the demand situation and currency dependency are being felt. For export-oriented companies, the weakening of the Swiss franc since the beginning of the year is helping to ease the pressure on margins. At its current level, the Swiss franc is cited less frequently as a concern than in the previous quarter. Margins are also recovering somewhat in the manufacturing sector as capacity utilisation increases. However, the rise is often still modest, meaning that the situation remains tense for some companies.

A large majority of companies continue to view their liquidity situation as being comfortable. Only a few still see increased inventories as a strain on liquidity. In the context of financing larger and international projects, some companies regret the loss of Credit Suisse as an important corporate banking partner.

Chart 3

STAFF SHORTAGES

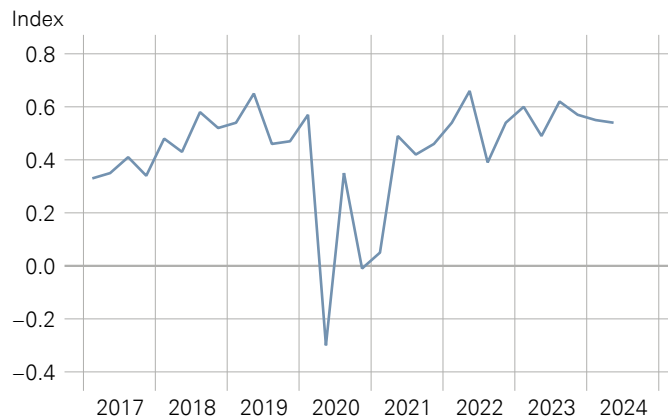


Assessment of staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

Source(s): SNB

Chart 4

CHARACTERISATION OF MARGINS



Characterisation of the margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Upturn in growth for various manufacturing industries

Manufacturing is experiencing a broad-based upturn in growth. Producers of medical technology and companies in the chemical industry in particular report a significant pick-up in demand. Large parts of the pharmaceutical industry have also been able to expand.

After several quarters of stagnation, the mechanical engineering, electrical engineering and metal industries are also reporting increases in turnover again. However, growth remains modest. Economic and geopolitical uncertainties in sales markets are curbing customers' investments in new machinery. Despite having bottomed out, demand from the automotive industry, for example, is still at a low level. The metal industry is suffering from persistently weak demand for capital goods, but demand for goods for shipbuilding, aviation and the expansion of railway infrastructure is picking up.

In the watchmaking industry, on the other hand, there are hardly any signs of an upturn. Demand from China in particular remains weak. In addition, watch retailers' inventories are still high, which is curbing business.

Modest growth in trade and logistics industries

The retail trade is having to contend with subdued demand for everyday items. Customers are continuing to switch to cheaper product lines because of losses in purchasing power. It also remains fairly difficult for both bricks-and-mortar and online retailers to sell durable goods such as clothing, electronics, sporting goods and furniture.

In the motor vehicle trade, there is still elevated price pressure owing to the relaxed supply situation and weak demand. Dealers cite lower purchasing power, higher leasing interest rates and uncertainty about the right choice of drive technology as reasons for customers' restraint. In the current quarter, however, there are signs that demand is stabilising or even improving slightly.

The situation in wholesale and logistics is mixed. The pick-up in manufacturing, combined with the fact that inventories have returned to normal, is also having a positive impact on companies trading in intermediate products. Suppliers of building materials, on the other hand, are feeling the effects of subdued momentum in the construction sector. Modest retail sales momentum is also reflected in wholesale trade in consumer goods.

Little impetus in hospitality

The hotel and food services industries have had a fairly weak quarter. While tourism businesses geared to an international clientele are benefiting from solid development in demand from travellers from the US and Asia, there is hardly any impetus from neighbouring countries, and domestic demand has weakened slightly compared with the previous quarter. This is partly attributed to the weather. However, subdued consumer sentiment owing to the loss of purchasing power is also frequently cited. In addition, bookings for corporate events are said to be modest.

Robust business activity in financial and ICT industries

Business activity in the financial industry remains robust. Banks are continuing to benefit from favourable interest rate business, although changes in the interest rate structure and competition for client deposits are having a curbing effect. Stock market developments have been positive overall, which is supporting the commission and services business.

Business momentum in the ICT sector has slowed somewhat after some very good years but remains positive. Investments in cybersecurity, digitalisation and artificial intelligence are key growth drivers.

Subdued business activity in construction

Overall, the development of turnover in the construction industry has been subdued. In many cases, companies are seeing turnover decline, particularly when it comes to new builds. The reasons for this are delays in obtaining building permits, planning bottlenecks at clients and the lack of major projects, particularly from private investors. However, representatives point out that the fact that interest rates are somewhat lower again is influencing the outlook positively.

On the other hand, numerous public sector projects and the ongoing need for renovation continue to support business. In particular, companies that offer energy-efficient renovations are enjoying a robust order situation. Timber construction companies are benefiting from rising demand in connection with the trend towards sustainability.

OUTLOOK

Continued confidence

Companies remain optimistic for the next two quarters and anticipate robust growth in turnover (cf. chart 5). The outlook in the services sector has worsened slightly, but confidence continues to grow in manufacturing following the recent upturn. Companies in the construction sector also expect turnover to rise.

Although these prospects are positive in themselves, just under half of representatives see the uncertainty surrounding them as elevated or significantly elevated (cf. chart 6). A large proportion of companies cite geopolitical risks as sources of uncertainty that could jeopardise the economic recovery.

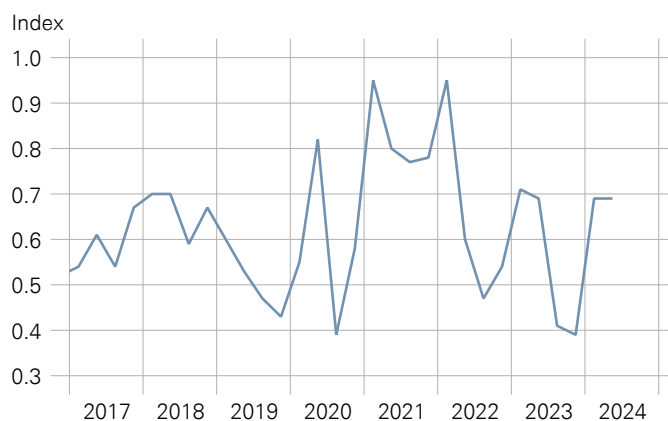
Capital expenditure is likely to increase in the coming quarters, albeit not to the same extent in all sectors. Services companies are planning significantly higher spending, particularly on digitalisation projects. Companies in the manufacturing sector, on the other hand, are cautious with their plans for investment. Owing to persistently low capacity utilisation, they have little need to expand their technical capacity. In many cases they are making only the necessary replacement investments.

In light of the positive turnover expectations and the fact that staff utilisation is currently good, companies in all sectors are planning to expand their workforce (cf. chart 7). Despite an easing in the recruitment situation, companies emphasise that the availability of skilled workers with the right qualifications is a prerequisite for employment growth.

Given the lower level of inflation and the less tight labour market, companies expect wage growth to weaken. They are currently assuming that wages will rise by an average of 2.1% in 2024 after 2.3% last year. For 2025, they expect wage growth to weaken again to around 1.5%.

Chart 5

EXPECTED TURNOVER

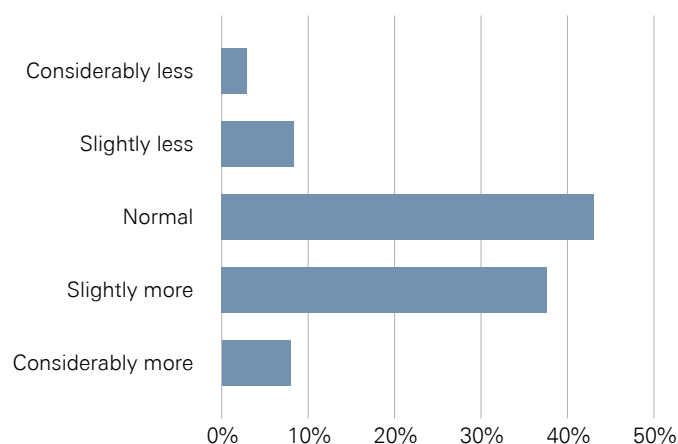


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 6

UNCERTAINTY

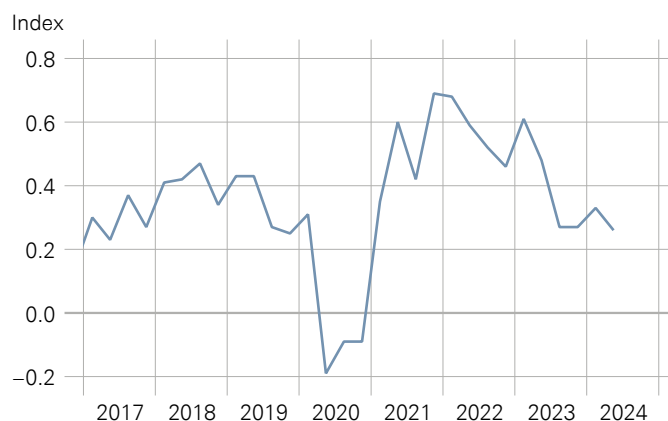


Uncertainty about development of business over the next two quarters.

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

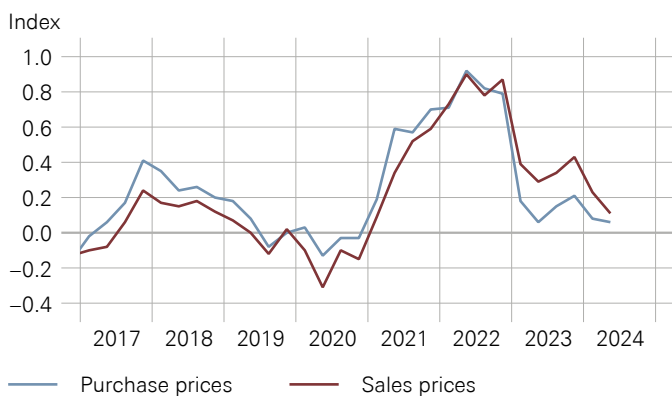


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES



Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Stable purchase and sales prices

The majority of companies expect no or only minor price changes in the next two quarters (cf. chart 8). Services companies anticipate slight increases in purchase and sales prices, while the expectation among manufacturing companies is more that purchase prices will decrease slightly with sales prices remaining unchanged.

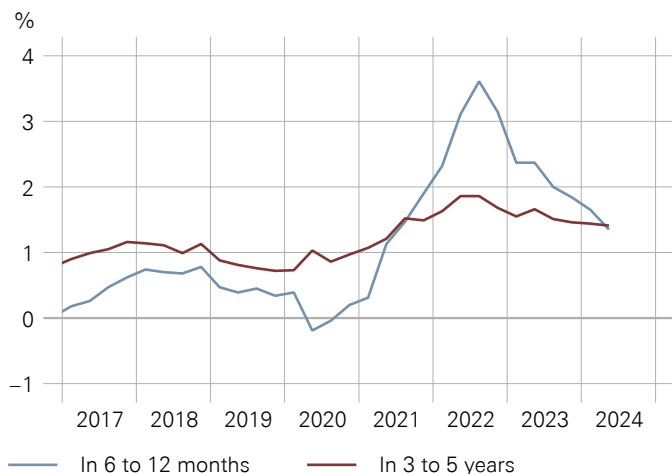
INFLATION EXPECTATIONS

The delegates also ask company representatives about their own short and long-term inflation expectations.

Short-term inflation expectations as measured by the consumer price index have continued to fall: The average for the next six to twelve months (cf. chart 9) is 1.4%, compared with 1.6% in the previous quarter. Inflation expectations over a three to five-year horizon remain virtually unchanged, likewise at 1.4%.

Chart 9

EXPECTED INFLATION



Source(s): SNB

About this report

Each quarter, the SNB's delegates for regional economic relations hold more than 200 talks with company executives. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while public administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. The sample changes each quarter.

In the talks, the SNB's delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade part of the qualitative

information received according to a numeric scale. The five-tier scale ranges from 'substantially higher' or 'much too high' (+2), 'slightly higher' or 'somewhat high' (+1), 'the same' or 'normal' (0), 'slightly lower' or 'somewhat low' (-1), to 'substantially lower' or 'much too low' (-2). The index values shown in the charts represent the average of the findings from all companies visited.

Further information can be found in the 'Business cycle signals' reports at www.snb.ch, The SNB/Regional economic relations.

Chronicle of monetary events

The chronicle summarises the most recent monetary events.
For events dating further back, please refer to the **press releases** and **chronicle of monetary events** at www.snb.ch.

At its quarterly assessment of 20 June, the SNB lowers its policy rate to 1.25%. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold, and at 0.75% above this threshold. The SNB is also willing to be active in the foreign exchange market as necessary. With its decision, the SNB is taking into account the reduced inflationary pressure compared with the previous quarter. With the rate cut, the SNB is able to maintain appropriate monetary conditions. The SNB will continue to monitor the development of inflation closely, and will adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

June 2024

On 22 April 2024, the SNB decides to raise the minimum reserve requirement for domestic banks, and to that end amends the National Bank Ordinance as of 1 July 2024. Liabilities arising from cancellable customer deposits (excluding tied pension provision) are to be included in full in the calculation of the minimum reserve requirement, as is the case with the other relevant liabilities. The SNB also raises the minimum reserve ratio from 2.5% to 4%. These adjustments ensure that implementation of the SNB's monetary policy remains effective and efficient, and do not affect the monetary policy stance.

April 2024

At its quarterly assessment of 21 March, the SNB lowers its policy rate to 1.5%. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold, and at 1.0% above this threshold. The SNB also remains willing to be active in the foreign exchange market as necessary. With its decision, the SNB is taking into account the reduced inflationary pressure as well as the appreciation of the Swiss franc in real terms over the past year. The policy rate cut also supports economic activity. The easing thus ensures that monetary conditions remain appropriate. The SNB will continue to monitor the development of inflation closely, and will adjust its monetary policy again if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

March 2024

At its quarterly assessment of 14 December, the SNB leaves its policy rate unchanged at 1.75%. Inflationary pressure has decreased slightly over the past quarter. However, uncertainty remains high. The SNB will therefore continue to monitor the development of inflation closely, and will adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold, and at 1.25% above this threshold. A discount of 0.5 percentage points relative to the SNB policy rate thus continues to apply to sight deposits above the threshold. The SNB is also willing to be active in the foreign exchange market as necessary. The focus is no longer on foreign currency sales.

December 2023

At its quarterly assessment of 21 September, the SNB leaves its policy rate unchanged at 1.75%. The significant tightening of monetary policy over recent quarters is countering remaining inflationary pressure. The SNB does not rule out that a further tightening of monetary policy may become necessary to ensure price stability over the medium term. To provide appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. Banks' sight deposits held at the SNB will continue to be remunerated at the SNB policy rate of 1.75% up to a certain threshold. Sight deposits above this threshold will be remunerated at an interest rate of 1.25%, and thus still at a discount of 0.5 percentage points relative to the SNB policy rate.

September 2023

Glossary

Annualised	Data are said to be annualised when they are converted to an annual value. When → GDP increases by 1% from one quarter to the next, the annualised growth is 4.06%.
Baseline scenario	The SNB's baseline scenario comprises forecasts for what it considers to be the most likely global economic development for the coming three calendar years. It serves as an important basis for the domestic economic and → inflation forecasts.
Basket of goods	The basket of goods represents an average household's expenditure on goods and services. It is determined on the basis of a household survey and is used to calculate the → Swiss consumer price index.
Bond	A bond is a → security. The buyer of a bond (creditor) makes a specific amount of money available to the bond issuer for a specific period. The issuer repays this amount to the creditor at the end of the term, and in most cases also pays → interest.
Business cycle, business cycle conditions	Business cycle refers to deviations in economic activity from the long-term trend. In addition to → real → GDP, the business cycle is also reflected in a variety of other economic → indicators (e.g. unemployment and consumer confidence indices). A business cycle lasts from the beginning of an upturn and all the way through the economic downturn to its end (→ recession).
Capacity utilisation	Capacity utilisation measures the degree of utilisation of the technical capacities (e.g. machines and equipment) of a company or an industry.
Capital	Capital refers on the one hand to financing resources (→ equity and → debt capital) and on the other to a → factor of production (e.g. machinery).
Capital market	The capital market supplements the → money market, and is a market for raising and investing funds with a term of more than one year. A distinction is made between the market for → equity capital (→ shares), and the market for → debt capital (→ bonds).
Collateral	In credit transactions, the debtor can provide the creditor with collateral (→ secured loan) in order to reduce the risk for the creditor and thus the → interest. The creditor can take possession of the collateral if the debtor is unable to pay the agreed interest or make the repayment.
Consumer price index	→ Swiss consumer price index
Core inflation	Core inflation is a measure of → inflation that excludes goods and services with particularly volatile prices (e.g. energy and food). Core inflation thus captures the underlying price trend. The Swiss Federal Statistical Office therefore takes neither energy and fuel nor unprocessed food and seasonal goods and services into account when calculating the SFSO1 core inflation rate. The TM15, as calculated by the SNB, excludes the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest every month.
Corporate bond	A corporate bond is a → bond issued by a company.
Countercyclical capital buffer	The countercyclical capital buffer is a → macroprudential measure which contributes towards → financial stability. If the capital buffer is activated, banks are required to hold more → capital. The capital buffer can be targeted at the entire credit market or just individual sectors, e.g. the mortgage market.
Debt capital	Debt capital refers to the borrowings and provisions of a company.
Deflation	Deflation denotes a sustained decrease in the general price level over time.
Delegates for regional economic relations	The delegates for regional economic relations represent the SNB in the various regions of Switzerland, collect information on economic development through their contacts to companies in those regions and, as ambassadors of the SNB, explain its policies. They are supported by the Regional Economic Councils. The SNB maintains representative offices in Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St Gallen and Zurich.
Equity	Equity is the difference between a company's assets and liabilities (→ debt capital).
Excess reserves	Excess reserves are → sight deposits held by banks at the SNB that exceed their → minimum reserve requirement.
Exchange rate	The exchange rate is the rate at which two currencies are exchanged. It is expressed as the price of one currency in units of another currency. If the exchange rate is adjusted for the price development of the countries concerned, it is referred to as the real exchange rate; if it is measured against the currencies of trading partners, it is referred to as the → trade-weighted exchange rate.
Factors of production	Factors of production are the inputs (primarily labour and → capital) used in the production of goods and services.
Final demand, domestic	Domestic final demand is the sum of private and public consumption plus construction and equipment investment (e.g. new machines).

Financial stability	A financial system is stable if its individual components – banks, financial markets and financial market infrastructures (e.g. stock exchanges) – fulfil their individual functions and are resilient to potential disruptions.
Fine-tuning operations	Fine-tuning operations refer to measures taken by a central bank to curb excessive volatility in short-term → interest rates on the → money market. This can be carried out using → repo transactions, for example.
Fiscal policy	Measures (receipts and expenditure) that aim to influence → business cycle conditions.
Foreign exchange	Foreign exchange comprises credit balances and claims denominated in a foreign currency.
Foreign exchange market interventions	When a central bank intervenes in the foreign exchange market, it buys or sells its domestic currency against a foreign currency with the aim of influencing the → exchange rate.
Full-time equivalent (FTE)	The full-time equivalent is the unit of measure for the number of full-time employees that would be needed to complete the working hours of full-time and part-time employees.
Futures contract	A futures contract governs a transaction that has to be performed at a future point in time specified in the contract.
Government bond	A government bond is a → bond issued by a public-law institution.
Government consumption	Government consumption measures government consumption expenditure, i.e. current spending on goods and services provided by the government to the citizens of a country (e.g. schools, healthcare, defence).
Gross domestic product (GDP)	Gross domestic product indicates the total value of all final goods and services produced in a country during a period, after subtracting the cost of intermediate goods. → Real GDP is the most important measure of an economy's → value added.
Hodrick-Prescott filter (HP filter)	The Hodrick-Prescott filter is a tool for calculating a trend in a data series. For example, deviations of → real → GDP from trend are used in business cycle analysis.
ICT industry	The ICT industry comprises those companies active in information and communications technology.
Indicator	An indicator is a statistical metric or data series that, for example, provides information on → business cycle conditions.
Inflation, inflation rate	Inflation is a sustained increase in the general price level over time. Inflation reduces the → purchasing power of money. In Switzerland, inflation is measured using the → Swiss consumer price index (CPI). The inflation rate denotes the percentage change in the index compared to the previous year.
Inflation forecast, conditional	The SNB publishes a forecast of movements in the → inflation rate over the coming three years every quarter at its → monetary policy assessment. The forecast is conditional because it is based on the assumption that the SNB will not change the → SNB policy rate over the forecast horizon. The SNB bases its monetary policy decisions on the inflation forecast.
Interest, interest rate	Interest is the price a borrower pays to the creditor in return for the latter making a sum of money available for a certain period. Its level is influenced by the term and the financial standing (creditworthiness and solvency) of the debtor as well as the quality of any → collateral. Interest is expressed as a percentage of the loan (interest rate) and usually refers to a time period of one year.
Interest differential, interest margin transaction	The difference between → interest rates on investments which vary, for example, according to currency or risk, is called the interest rate differential. An interest margin transaction uses the interest differential between various financial products to generate profit.
KOF Economic Barometer	The KOF Economic Barometer is an → indicator that shows how the Swiss → business cycle is likely to develop in the near future. It has been published by the KOF Swiss Economic Institute at ETH Zurich since the 1970s.
Liquidity	Liquidity has three meanings in economics. First, being liquid refers to the ability to make due payments at any time and without restriction. Second, liquidity describes the funds required for this purpose. Banks exchange liquidity via the → money market, and the SNB can influence liquidity with → repo transactions, among other things. Third, a market is considered liquid if transactions can be effected without triggering significant price movements.
Macroprudential measure	Regulatory requirement for banks, for example, which contributes to → financial stability.
Mandate	Mandate refers to the SNB's statutory tasks. Article 99 of the Federal Constitution entrusts the Swiss National Bank, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The National Bank Act sets this out in detail, explaining that the SNB is required to ensure → price stability and, in so doing, to take due account of economic developments (art. 5 para. 1 NBA).
MEM industries	MEM industries refers to the companies in the mechanical engineering, electrical engineering and metals industries.
Merchanting	Merchanting refers to a Swiss-domiciled company purchasing goods outside Switzerland and then directly reselling them unchanged to a customer outside Switzerland, without the goods passing through Switzerland.

Minimum reserves, minimum reserve requirement	In order to facilitate the smooth functioning of the → money market, banks are required to hold minimum reserves against a certain percentage of their Swiss franc short-term liabilities (e.g. customer deposits). The minimum reserves are composed of cash in Swiss francs and → sight deposits held at the SNB. The minimum reserves form the basis for calculating the → thresholds for the domestic banks.
Monetary aggregate, broad	The broad monetary aggregate, in contrast to the → monetary base, is the stock of money held by households and companies outside the banking sector. It comprises money held on bank accounts and cash.
Monetary base	The monetary base is composed of the sum of banknotes in circulation plus the → sight deposits of domestic commercial banks held at the SNB. The monetary base is also referred to as the M0 monetary aggregate.
Monetary conditions	The interest rate level and the → exchange rate determine monetary conditions. The SNB uses → monetary policy instruments to influence monetary conditions in order to fulfil its → mandate.
Monetary policy	Monetary policy is the use of → monetary policy instruments by the central bank to set appropriate → monetary conditions and thereby fulfil its statutory → mandate.
Monetary policy assessment	As a rule, the SNB conducts a monetary policy assessment every quarter. Based on economic developments both domestically and abroad as well as → monetary conditions in Switzerland, the SNB Governing Board decides whether → monetary policy is to remain unchanged, or be tightened or eased.
Monetary policy instruments	In order to set appropriate → monetary conditions, the SNB uses monetary policy instruments such as → repo transactions and → foreign exchange market interventions.
Monetary policy strategy	The SNB's monetary policy strategy sets out how it operationalises its statutory → mandate. The strategy, which has been in place since 2000, consists of three elements: the definition of → price stability, the conditional → inflation forecast over the subsequent three years, and the implementation of monetary policy by means of the → SNB policy rate and, if needed, additional measures.
Money market	The money market is the market for raising and investing short-term → liquidity. Here, banks in particular grant short-term loans to each other, either secured against → collateral (→ repo transactions) or unsecured. Short-term liquidity is defined as liquidity with a term of up to one year.
Mortgage loan	A → secured loan for which real estate serves as the collateral.
Multivariate filter (MV filter)	Multivariate filters are used, for example, in business cycle analysis. In contrast to the → HP filter, MV filters use multiple → indicators to calculate a trend in a data series.
Negative interest	Between January 2015 and September 2022, the SNB charged negative interest on sight deposits above a certain exemption threshold. The negative interest rate corresponded to the → SNB policy rate.
Nominal	Nominal is the term used when an economic variable is not adjusted to reflect price development (→ nominal interest rate).
Nominal interest rate	→ Interest rates are usually stated in nominal terms, i.e. they do not take into account that, during → inflation, the → purchasing power of money is lower after the credit transaction expires than before the credit transaction.
Open market operations	Open market operations are a type of → monetary policy instrument. In contrast to → standing facilities, the use of open market operations is initiated by the SNB, rather than a commercial bank.
Option	An option is the right to either buy (call option) or sell (put option) a → share, for example, at a fixed price on a specific date. This right can be securitised and traded on exchanges.
Other loans	According to the SNB's definition, the other loans category comprises all loans granted to households and companies that are not → mortgage loans. They can be secured or unsecured (→ secured loan).
Output gap	The output gap is defined as the percentage deviation of → real → GDP from the estimated → potential output. If actual economic output falls below potential output, the output gap is negative and the economy is thus underutilised.
Personal consumption expenditure (PCE) deflator	The personal consumption expenditure (PCE) deflator measures the development of prices for all domestic and foreign goods and services consumed by households. Unlike the → consumer price index, it is not based on a specific → basket of goods, rather it takes all current consumer spending into account.
PMI manufacturing	The Purchasing Managers' Index is based on surveys and is an important → indicator of activity in the manufacturing sector. The Swiss index is composed of sub-indices covering production, order volume, delivery times, inventory, purchases and number of employees. A value above 50 points is considered a growth signal.
Potential growth	Potential growth refers to the change in → potential output.
Potential output, production potential	Potential output or production potential is the level of → real → GDP at normal utilisation of the → factors of production. Potential output is estimated using tools such as the → HP filter.
Price stability	According to the SNB's definition, price stability is considered to prevail when → inflation, as measured by the → Swiss consumer price index, is below 2%, and there is also no → deflation.

Production function	A production function describes the relationship between inputs (→ factors of production) and the resulting output (goods and services).
Purchasing power	The purchasing power of money indicates how many goods and services in a fixed → basket of goods can be bought with one unit of money. If → inflation prevails, purchasing power decreases over time.
Real	Real is the term used when an economic variable is adjusted to reflect price development (→ real rate of interest).
Real rate of interest	Adjusting the → nominal interest rate for the loss of → purchasing power due to → inflation over the duration of a credit transaction gives the real interest rate. The real rate of interest is thus calculated as the difference between the → nominal interest rate and the → inflation rate.
Recession	A recession is an economic downturn. There is no uniform definition, but a recession is often said to occur when → real → GDP falls for at least two consecutive quarters.
Refinancing	Refinancing has two meanings in economics. First, refinancing is when commercial banks raise funds on the → money market or → capital market. Second, it refers to the replacement of maturing debt by means of new debt.
Repo transactions, repo rate	In a repo transaction, the cash taker sells → securities to the cash provider and simultaneously agrees to repurchase securities of the same type and quantity at a later date. Economically, a repo transaction is a → secured loan. The → interest rate used in a repo transaction is called the 'repo rate'. The SNB can use repo transactions to steer → liquidity in the → money market. It can provide liquidity or, using a reverse repo, absorb liquidity.
Risk premium	A risk premium reflects the valuation of the risk associated with a financial instrument.
SARON	SARON (Swiss Average Rate Overnight) is the interest rate for → repo transactions in Swiss francs with overnight maturity. It is based on → transaction prices and trade quotes. The SNB has been focusing on SARON in seeking to keep the short-term Swiss franc money market rates close to the → SNB policy rate.
Seasonal adjustment	Seasonal adjustment is a statistical method to remove regular seasonal effects (such as the rise in unemployment in the winter months) from time series so that → business cycle conditions, for example, can be more easily identified.
Secured money market rate	The secured money market rate is the → interest for → secured loans on the → money market which are usually concluded as → repo transactions (→ SARON).
Secured/covered loan	A secured or covered loan, in contrast to an unsecured (uncovered) loan, is a loan where the debtor provides → collateral. The main type of secured loan is a → mortgage loan.
Security	A security certifies a property right (e.g. the right to receive an interest payment). The most important securities traded on a market are → shares and → bonds.
Share	A share or → stock is a → security with which the buyer acquires a participation in a company.
Sight deposits at the SNB	Banks use their sight deposits held at the SNB to carry out transactions (e.g. payments) for their customers. In addition to sight deposits held by domestic banks, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities.
SNB Bills	SNB Bills are interest-bearing debt certificates issued by the SNB and denominated in Swiss francs. They were first issued in autumn 2008. The SNB uses this instrument to temporarily absorb → liquidity from the market. The amount of the SNB Bill is withdrawn from the counterparty's sight deposit at the SNB, and the SNB increases the liability item SNB debt certificates. SNB Bills have a maximum term of 12 months. They are eligible as → collateral in → repo transactions with the SNB.
SNB policy rate	The SNB implements its → monetary policy by setting the SNB policy rate. It seeks to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. → SARON is the most representative of these rates.
Sporting-event adjustment	Adjustment for sporting events smooths the data associated with such events symmetrically throughout the year in which the event takes place. This involves the → gross domestic product, the → value added by the entertainment industry, and the import and export of services. Adjusted for sporting events, the data provide a clearer picture of the economic situation as they are no longer affected by the fluctuations caused by major sporting events.
Standing facilities	Standing facilities are a type of → monetary policy instrument. In contrast to → open market operations, the use of standing facilities is initiated not by the SNB, but by a commercial bank.
Stock	→ share
Swap, interest rate swap	A swap is a financial transaction in which the contracting parties exchange payment flows. In an interest rate swap, one contracting party pays the other a variable → interest rate linked to a market interest rate and in return receives fixed interest payments contractually determined in advance.
Swiss consumer price index (CPI)	The Swiss consumer price index (CPI), which is compiled by the Swiss Federal Statistical Office (SFSO), measures the average development of prices for goods and services consumed by households in Switzerland. The CPI is calculated every month based on a → basket of goods representative of household consumption.

Threshold	If the → SNB policy rate is zero percent or positive, → sight deposits at the SNB up to a certain threshold are subject to interest (or 'remuneration') at the SNB policy rate. Sight deposits above this threshold are remunerated at the SNB policy rate minus a discount. Sight deposits which are held to meet minimum reserve requirements are not remunerated. The threshold per sight deposit account holder is at least zero. For domestic banks, the threshold corresponds to the three-year average of the → minimum reserve requirements, multiplied by the applicable threshold factor.
Trade-weighted exchange rate	The trade-weighted or effective → exchange rate is the value of an economy's currency vis-à-vis the currencies of its trading partners. It is calculated using bilateral exchange rates with trading partners, with weightings dependent on trading activity.
Transaction price	The price at which a transaction is actually executed, as opposed to a bid or ask price.
Unemployment rate	The rate of unemployment is the ratio of the number of unemployed people to the number of people in the labour force (i.e. those employed and unemployed), expressed as a percentage.
Utilisation of credit lines	Depending on the type of loan, a borrower can decide whether to use the maximum amount granted by the bank or just some of it. Utilisation refers to the amount drawn down.
Value added	Value added measures the economic output of a sector or industry. It is defined as the difference between the value of goods and services produced in a given sector and the value of inputs obtained from other sectors. Total value added of all sectors, adjusted for taxes and subsidies, gives → GDP.
Volatility	Volatility describes the extent of fluctuations in given variables, e.g. share prices or → interest rates, over a certain period of time.
Yield	Yield refers to the return on financial assets or investments and is usually expressed as a percentage of the → capital invested.
Yield curve	The yield curve, also known as the term structure of interest rates, graphically represents the → yields of fixed-interest investments of the same quality with different maturities. Typically, the yields of → government bonds are used. The yield curve usually slopes upwards as investors demand a → risk premium for bonds with longer maturities.
Yield curve control	Yield curve control involves a central bank setting a target for the yield of government bonds with a specific maturity, typically longer-term, and using bond purchases to ensure that the actual yield is close to the target.

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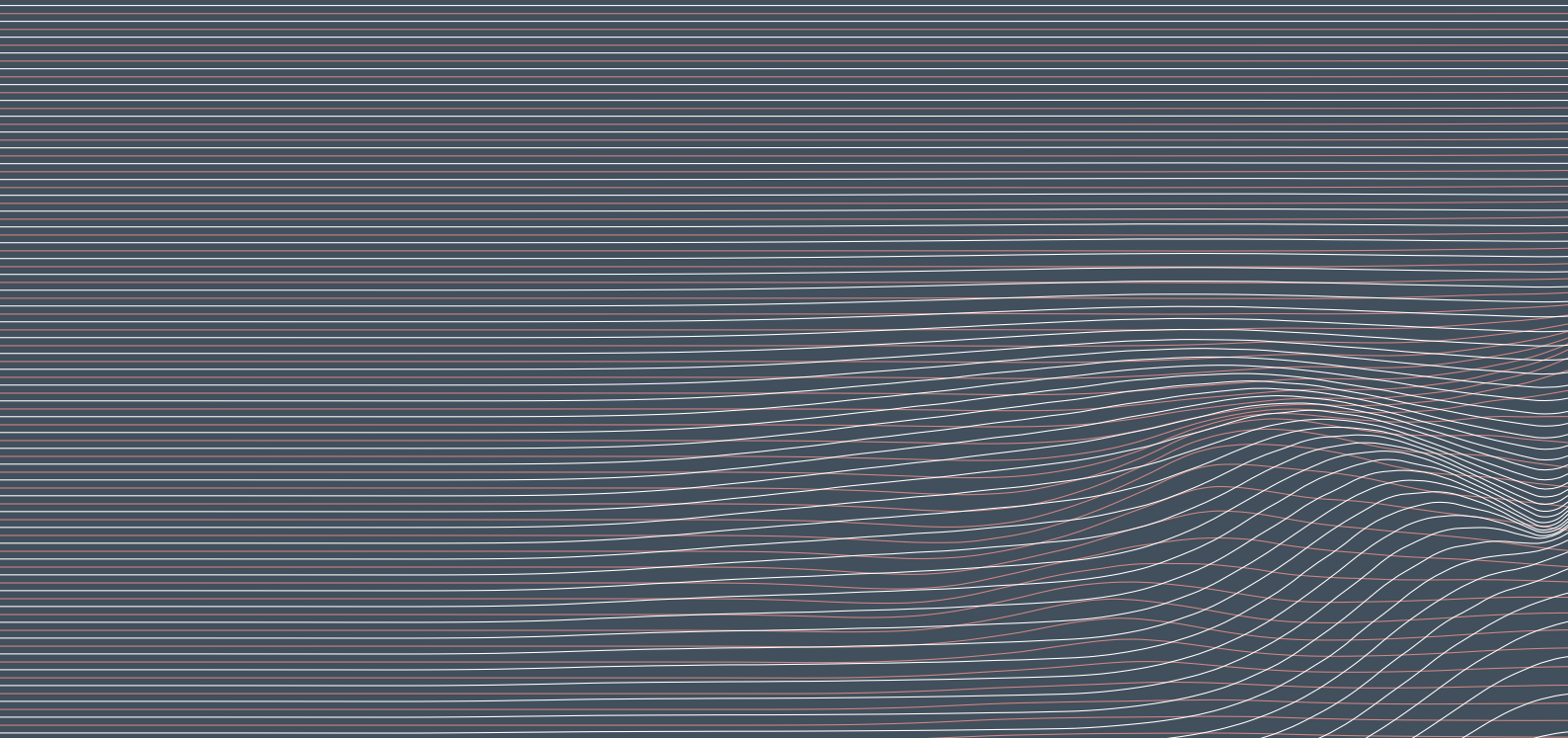
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