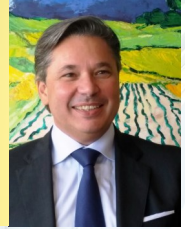


WEEKLY ANALYSIS

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GEOPOLITICS ALSO THREATEN SWISS GROWTH

Revision of the current economic outlook. Likely increase in inflation. Significant threats to purchasing power and household consumption. In ten weeks, Swiss equities erase their 2021 gains.

Key Points

- Unsurprisingly, Swiss GDP slowed at the end of the year (+0.3%) but is still growing at +3.7%/year
- Q1 is expected to be a mixed bag
- The geopolitical crisis in Europe threatens growth prospects in H1
- Leading indicators expected to weaken
- Surprise rise in inflation to +2% in February 2022
- What can the SNB do in the face of soaring inflation?
- The franc temporarily regains parity with the euro
- Risks of recession and stagflation in 2022
- Swiss equities erase their 2021 gains

Unsurprisingly, Swiss GDP slowed at the end of the year (+0.3%) but is still growing at +3.7%/year

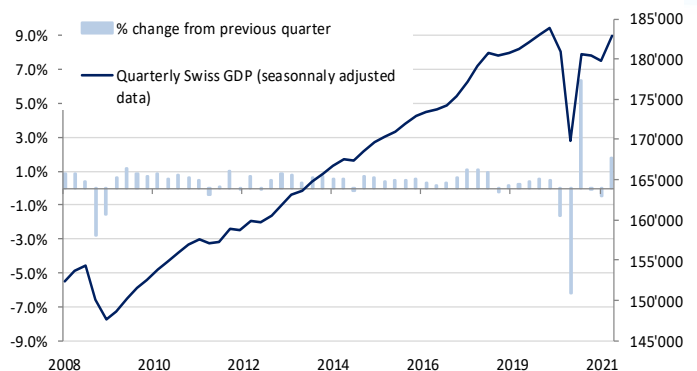
As anticipated, Switzerland's GDP recorded quarterly growth of +0.3% in Q4, in line with economists' expectations in a context once again disrupted by the health measures put in place following the emergence of the Omicron variant. Growth slowed abruptly compared to the extraordinarily strong previous quarter (+1.9%), which is perfectly logical in the context prevailing at the end of 2021. Switzerland's economy is therefore continuing to recover, albeit at a slower pace, held back by the latest wave of Covid and by the health measures taken in response by the Swiss authorities. This positive result was made possible by the strong performance of certain sectors such as the pharmaceutical and chemical industries.

The significantly less severe health measures at the end of 2021 did not lead to massive reversals of fortune in the hotel and restaurant segments, which nevertheless posted a decline of -2.9%.

Overall, Switzerland's economy has recovered well from the -2.4% contraction in GDP recorded in 2020. By the summer of 2021, it had already returned to its pre-pandemic level and was then able to create significant new value added, pushing GDP up almost +1.5% higher than at the end of 2019. Switzerland is thus doing better than its main European trading partner, Germany, whose economy contracted by -0.3% in Q4. Most economic sectors in Switzerland were growing at the end of the year. Goods and products manufacturing and exports recorded the strongest increases in value. The manufacturing industry grew by +1.7%, despite difficulties sourcing raw materials and products due to continuing problems in the value chain globally. The chemical and pharmaceutical sector also increased its output significantly, with a notable rise in exports of industrial products.

Consumer retail (+4%) supported consumption growth, which was held back, however, by the fall in demand for vehicles. Private consumption grew by +0.3%, while public spending made a significant contribution to GDP with an increase of +1%. Investment in capital goods rose by a notable +2.4%. The construction sector recorded a decline of -0.8% and a fall of -0.1% in investments.

Performance of the Swiss economy (GDP) in million CHF)



Sources: SECO, BBGI Group SA

Q1 is expected to be a mixed bag

Switzerland's economy could have started 2022 more dynamically than will ultimately be the case, due to the multiple factors that are aligning and weighing on GDP growth. The lifting of the health measures announced at the end of February will likely boost consumption of services and retail sales in March, but this improvement will only just make up for the weakness of the first few weeks of the year and will not be enough to cancel out the potentially negative effects of the rise in the franc on our exports and the economic downturn observed in some of our European neighbours. The strong rise of the franc towards parity against the euro, largely induced by the worsening of the geopolitical crisis in Europe in recent weeks, is likely to have an unfavourable impact on Swiss exports to the euro zone and on trade with our main economic partners, especially since an economic slowdown is likely in both Europe and Switzerland in the increasingly tense geopolitical context. In this more uncertain economic climate, expected GDP growth of +0.3% in Q1 2022 could prove to be too optimistic.

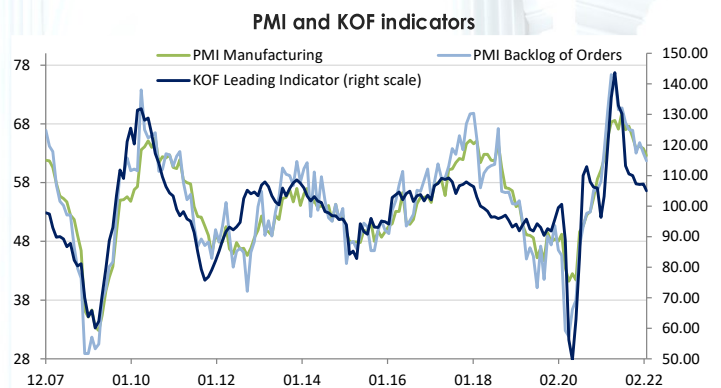
The geopolitical crisis in Europe threatens growth prospects in H1

More generally, the intensification of the conflict in Ukraine and the increase in tensions between Russia and Europe are rekindling many uncertainties and risks of the conflict getting out of hand and spreading. Consequently, the rise in energy and commodity prices seen in recent weeks could well prove to be long-lasting. A global supply shock and a major destabilisation of the world's commodity markets is now a credible possibility that should be considered at its true level of probability. The effects in 2022 of such a shock would be particularly damaging, as inflation is already at its highest level in 40 years in the US (+7.5%) and since October 2008 in Switzerland (+2.2%). The growth outlook for the coming months must therefore be revised because of the significant risks of a decline in household purchasing power. The downturn in private consumption would then materialise at the same time as the contraction in public spending to support the economy in connection with the health crisis. As a result, the economic outlook appears less bright than at the beginning of the year. We are reducing our expectations for 2022 below our previous target of +3%. Public spending significantly bolstered Swiss economic growth in 2021 and is logically expected to decline in 2022 to its overall pre-crisis level. We therefore believe that a -4.5% decline in public spending in 2022 is likely. This will only be partially offset by private demand. A more uncertain international economic environment will also affect the demand for Swiss products and services. Swiss exports will also be impacted by the surprise slowdown in global demand in 2022.

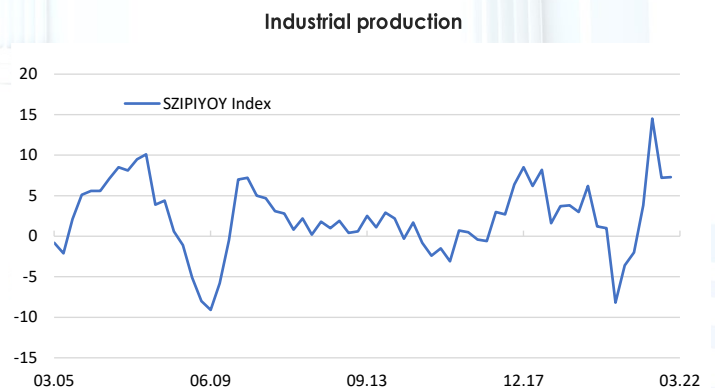
Leading indicators expected to weaken

The KOF leading indicators declined again in February from 107.8 to 105. The manufacturing PMI also showed a similar decline, down from 63.8 to 62.6 in the latest report for February. The indicator has been sliding since July 2021 and is now at its lowest level in a year, although it remains well above the growth threshold of 50. Overall, leading indicators remained at historically high levels in February and continued to suggest further value-added growth in Switzerland.

Swiss industrial production logically declined year-on-year in Q4 (+7.3%) after an increase of +8.3% in the previous quarter. It is expected to slow further in Q1 2022.



Sources: Bloomberg, BBGI Group SA



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