

# Weekly Analysis

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## MORE FAVORABLE OUTLOOK AFTER ONE LAST BNS RATE HIKE IN 2023

GDP growth slowed. Inflation stabilizes below 2%. End of key rate hike cycle imminent. Potential weakness of the Swiss franc. Stabilization of yields. Bullish recovery for equities.

### Key points



- Swiss economy slows sharply in Q2, with seasonally adjusted real GDP stagnating
- Private consumption and service exports on the rise
- Leading indicators still not very encouraging
- Inflation stabilizes below the SNB's +2% target
- SNB policy more restrictive than it seems
- Yield differentials unfavorable to the franc
- Stabilizing rates and low capital gains potential
- Renewed uptrend in equities

### Swiss economy slows sharply in Q2, with seasonally adjusted real GDP stagnating

The Swiss economy got off to a rather surprising start in 2023, finally recovering quite markedly after a last quarter of 2022 in which GDP stagnated (0%). GDP for the 1st quarter of 2023 initially showed growth of +0.5%, corrected to just +0.3% later, after adjustment for sporting events, which nevertheless exceeded economists' forecast of very slight growth of +0.1% at the start of the year.

After a rather surprising start to the year, Switzerland's Q2 GDP slowed sharply, posting no growth over three months to the end of June. On a year-on-year basis, the Swiss economy remained positive, but declined to a moderate +0.5%. The Swiss economy thus turned out to be significantly weaker than expected, with limited overall support from the services sector, and most other components making a rather negative contribution.

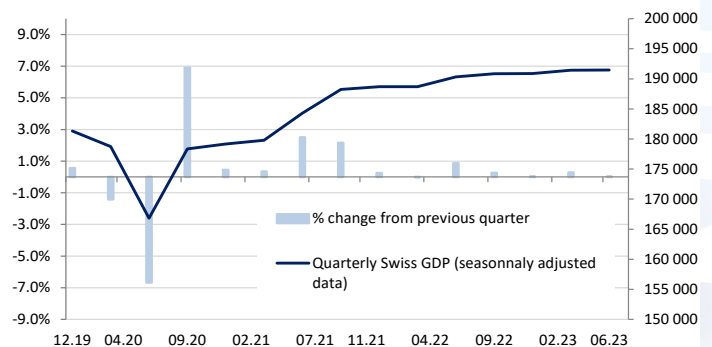
Value creation in industry was significantly reduced, while activity in services recorded above-average growth. The favorable start to the year in industry was largely reversed in Q2, with a -2.9% fall in activity. The chemical-pharmaceutical sector was also down by -2.3%.

Rising final domestic demand underpinned GDP, thanks in particular to strong private consumption, up +0.4%. A slowdown in growth in 2023 was widely expected, and is now materializing as some of Switzerland's major European economic partners are experiencing persistent difficulties that are also affecting Swiss momentum. The Swiss economy weakened slightly more than the eurozone as a whole in Q2 (+0.1%) after revision of initial data, and performed identically to the German economy (+0%) over the period under review.

The quarterly evolution of our GDP is in line with quarterly sequences of gross domestic product development still close to zero, and therefore still insufficient to maintain annual growth close to the historical average. The outlook for the coming months will continue to be affected by a persistently uncertain international economic environment, although the risks associated with inflation and monetary policy are diminishing.

At the start of the year and at the end of Q2, our forecasts for annual Swiss GDP growth were +0.7% in 2023, but the results of Q2 call into question this expected performance for the year. The current quarter and the following one should be slightly positive (+0.2%), which may not be enough to enable GDP growth of around +0.7% for 2023 as a whole.

Swiss economic performance (GDP) in million CHF



Source: Bloomberg, BBGI Group SA