Weekly Analysis

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MONETARY EASING AND A 12% RISE IN SWISS COMPANY PROFITS BY 2024

Economic slowdown in Q4. Inflation close to zero. Easing in Q2 2024. Historical yield differentials unfavourable to the franc. Bond yields below 1%. Sharp rise in corporate profits in 2024.

Key points

- Q3 better, but questionable
- Slowdown expected in Q4
- Fragile resilience in household consumption
- Leading indicators still uninspiring
- Further decline in foreign trade
- No inflation in Switzerland for nine months
- SNB monetary easing expected in Q2 2024
- Historical yield differentials unfavourable to the franc
- Bond yields falling below 1%
- Profit growth in excess of +10% in 2024

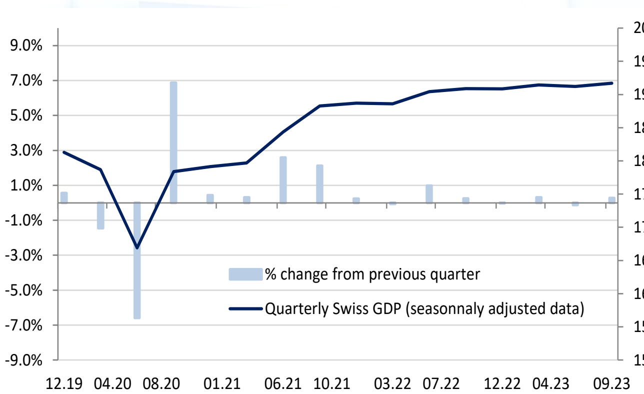
Q3 better but questionable after Q2 revision finally shows contraction in Swiss GDP

The GDP growth announced by SECO for the 3rd quarter of 2023 points to a rebound in economic activity of +0.3% in our country. This result remains below the historical average, and in our view is open to question following the revision of the growth rate for the 2nd quarter, which now indicates a contraction of -0.1% in the Swiss economy. For several quarters now, it has seemed increasingly clear that Switzerland's economic momentum has stalled, both because of the difficulties encountered by our main economic partners in Europe and because of the SNB's restrictive monetary policy. Rising interest rates and financing costs are now having a greater impact on households and businesses, which remain cautious about the outlook for 2024 and are translating their uncertainty and lack of confidence into more controlled spending. After the -0.1% fall in GDP at the end of June, the +0.3% growth in Q3 is a positive surprise for most economists, who were expecting only a slight increase of +0.1%. On a year-on-year basis, however, Swiss GDP growth was only 0.3%, below expectations (+0.5%).

In our view, the Swiss economy continues to be severely affected by a sluggish international environment and by the rise in the Swiss franc, which continues to affect the outlook for the manufacturing sector. In the absence of a clearer picture of future interest rates and inflation, Swiss economic agents remain cautious. As a result, value creation stagnated in industry, while the services sector remained more buoyant. The chemicals and pharmaceuticals industry, which is less exposed to international fluctuations, nevertheless advanced by 1.2%, thanks to positive sales trends and rising exports. Industrial sectors that are sensitive to the international economy, such as machinery and metals, made very little headway. Exports, which rose by a substantial +6.2%, benefited from transit trade, while imports grew by just +0.7%, owing to rather weak domestic demand.

In the services segment, it was above all the health (+0.7%) and trade (+1.1%) sectors that boosted domestic demand. Among the negative contributors were business services and the hotel and catering sector (-3.7%), which saw a marked slowdown in activity. Overall, services are struggling to drive final domestic demand, which therefore failed to grow (+0.0%) in what is also a very anaemic international environment. On the private consumption front, despite continuing mixed sentiment among households, there was still a very slight increase of 0.2%, which remains extremely weak. At the same time, public spending rose by an appreciable 0.5%, but still below its historical average.

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



Sources: Bloomberg, BBGI Group SA