WEEKLY ANALYSIS

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END OF SWISS YIELD CURVE INVERSION IN 2025

Temporary acceleration in GDP. Leading indicators still uncertain. Fall in exports. Inflation below 1%. Key rates at 0.75%. Limited franc weakness. Long-term interest rate target reached. Positive outlook for Swiss equities.

Key points

- Swiss GDP growth accelerates significantly
- Swiss exports plummet since April
- Leading indicators still too uncertain
- Inflation will temporarily fall below 1%.
- SNB to cut rates by a further 0.25% in September
- Don't bet on a weak franc
- The decline in long-term interest rates is coming to an end
- Positive outlook for Swiss equities

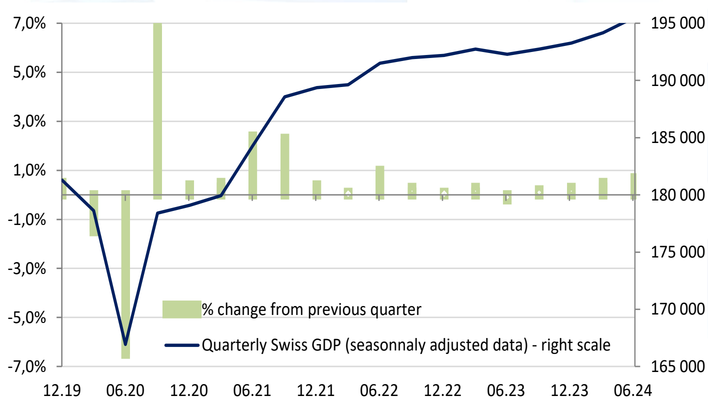
Swiss GDP growth accelerates significantly

Swiss GDP growth for the 2nd quarter has just been published, and this time it shows more than just a degree of resilience on the part of our national economy in an international and European context that is still very hesitant. The Swiss economy grew by a further +0.7% before the summer, and by +0.5% adjusted for sporting events in the 2nd quarter, bringing the year-on-year increase to +1.8%. This is the strongest Swiss quarterly growth since Q2 2022 (+1%), when annualized growth stood at +3.9%. The GDP growth announced by SECO was part of an accelerating trend, above the historical average. The Swiss economy was thus able to strengthen its pace of growth, while the manufacturing sector seemed to suffer a little less from the exchange rate, declining in the first six months of 2024 by around -7% against the dollar. The change in monetary policy decided by the SNB and implemented by a first rate cut in March 2024 helped to create the conditions for a weaker franc and to support the Swiss economic outlook.

It is particularly interesting to note that Switzerland's momentum was no longer affected to the same extent by declining global demand and the level of the exchange rate in the 2nd quarter. However, the manufacturing sector has not yet recovered, although the PMI indicator has been suggesting an improvement in the potential situation for some months now. At the same time, the trend reversal is spectacular for the services indicator, which rebounds from 44.7 to 52.9, offering a distinctly different and much more optimistic picture at the start of September.

An analysis of the situation at the end of June, based on data published by Seco, shows vigorous expansion in the chemical and pharmaceutical industries. Expansion in this segment was robust in Q2; the +8.4% rise was exceptional, and was largely underpinned by very dynamic exports. Value creation in the manufacturing segment proved rather surprising, with above-average growth of +2.6%. In the other branches of industry, value creation declined, reflecting difficult situations in Switzerland's European partner countries. Domestic demand proved relatively weak, with a notable -1.4% drop in investment in capital goods. Investment in construction remained subdued (+0.5%), while consumption rose only slightly. Private consumption grew by only +0.3%, a below average increase, while public consumption contributed only +0.2%.

Swiss GDP in million CHF (quarterly data)



Sources: Bloomberg, BBGI Group SA