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KOF Swiss Economic Institute

EDITORIAL

Dear readers,

The Swiss economy appears to be recovering progressively from the difficult times caused by the suspension of the minimum exchange rate in January 2015. KOF's current economic forecast projects solid growth of the Swiss economy both this and next year. Among other factors, this positive trend is owing to the recovery of the eurozone. The KOF Business Situation Indicator also inspires confidence: The last time companies' business situation assessments were this positive was two years ago. Moreover, the current KOF Economic Barometer has advanced significantly. These signs are all pointing towards a recovery of the Swiss economy. In the coming years, we may also expect interest rates to become more dynamic, albeit at a low level. The Swiss National Bank will therefore have to continue its negative interest policy for the foreseeable future.

A heated debate on globalisation and the free movement of people and goods is taking place, not only in Switzerland, which voted on the reintroduction of curbs on immigration, but also in other countries. One of our articles explores the possible causes of this resistance: the inequality of welfare gains between different consumer groups. Those who vote for populist parties are regularly counted among the "globalisation losers". The fourth article in this Bulletin investigates the question whether people's subjective feeling of their own welfare plays a role in their voting behaviour.

We hope you enjoy your read,

David Iselin, Solenn Le Goff and Anne Stücker

ECONOMY AND RESEARCH

Further Recovery of the Swiss Economy

After turbulent times for a large number of Swiss businesses, the available economic indicators, such as the KOF Economic Barometer and the KOF Business Tendency Surveys, are now pointing towards a somewhat more optimistic assessment of Swiss economic performance. In terms of overall economic development, the KOF is therefore forecasting Swiss gross domestic product (GDP) growth of 1.5 per cent this year and (unchanged) 1.9 per cent next year.

These sound prospects for economic development (see G 1) are attributable also to the economic recovery in the eurozone. The moderate upturn in the eurozone economies continued, above all thanks to positive development in Germany, Spain and the Netherlands. On the other hand, the dynamic in France and Italy remained weak. Economic growth in the United Kingdom, untroubled by the "Brexit" vote, made a considerable contribution to growth rates.

Over the forecast period, confidence is projected to rise in developed economies, whilst expectations in developing and emerging countries will remain cautious. However, it is expected that increases in raw material prices will have an invigorating effect on these regions. In view of the economic growth dynamic in the eurozone and the stabilising economic situation in emerging countries, demand for Swiss goods and services is projected to grow moderately. Exports of other services will also increase slightly, although due to the continuing fraught exchange rate situation, income from tourism will rise only gradually. As was the case last year, it is expected that Swiss foreign trade will be strongly influenced by growth in exports of pharmaceutical products. These helped to ensure that, despite a poor closing quarter, export growth in 2016 remained comfortably positive.

More momentum behind investment in plant and machinery and real estate

Imports are also projected to rise in the wake of stronger export growth. Import growth, and even more so the growth in investment in equipment, have been fuelled by special factors, such as the importation of aircraft and rolling

stock. The economic recovery is expected to lead to gradual increases in investment. Due to a statistical overhang from 2016 however, the growth rate for this year will still be negative (–0.9 %). An increase of one per cent is forecast for the coming year.

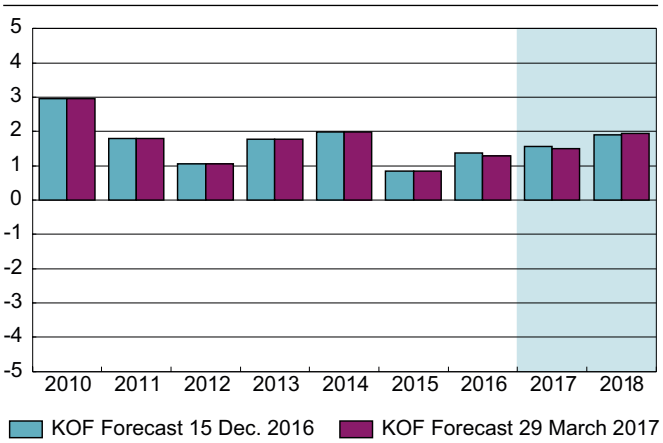
Investment in construction is also expected to bounce back, following a period of stagnation last year. The 1.1 per cent increase in construction investment this year has been driven by investment in rail and road infrastructure as well as healthcare and education facilities. Due to the still moderate demand and the rise in long-term interest rates, residential construction will grow only marginally.

Hardly any increase in employment – unemployment persists

It is expected that the upward pressure on the Swiss franc will continue. Margins of businesses remain under pressure due to the strong franc. This pressure in the economic sectors that are exposed to international competition will result in further rationalisation. This means that increasing employment numbers are essentially expected only in labour-intensive and protected sectors, such as education and health and social care. Overall, employment growth will be comparatively low and the registered unemployment rate is forecast to remain at the current level (2017 and 2018: 3.3 %, see G 2). As regards the internationally comparable unemployment rate according to the definition of the International Labour Organization (ILO), which also covers persons not officially registered as unemployed, the KOF is expecting a minor increase from 4.6 per cent this year to 4.7 per cent in 2018.

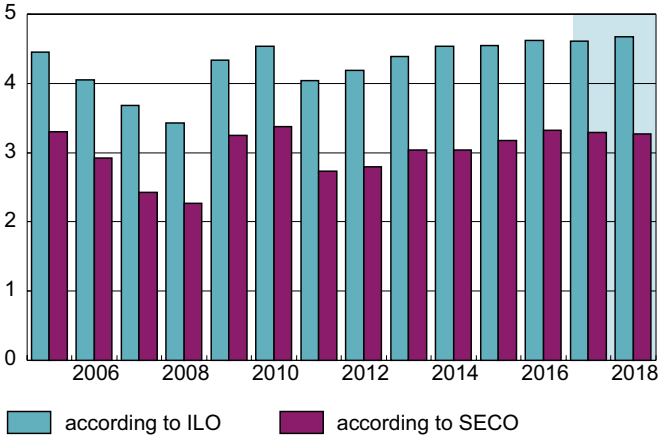
Due to the sluggish labour market growth and negative price inflation last year, wage growth remains weak. In view of this fact, along with the continuing strong Swiss franc, inflation will remain low. The KOF is forecasting an increase in consumer prices this year (2017: 0.3 %) due to the slightly higher prices of petroleum products compared to last year as well as temporarily high prices for fresh produce. However, no broad inflationary pressure will emerge on a national level in the near future.

G 1: Switzerland: Real GDP with Forecast
(change over previous year, in %)



The low interest rates in the eurozone continue to preclude a reduction in negative short-term interest rates in Switzerland, and it is expected that interest rates will only increase again after the end of the forecasting horizon in 2018. However, long-term interest rates are expected to be raised earlier; it is expected that they will move back into positive territory again at the start of 2018.

G 2: Switzerland: Unemployment Rate
(in %)

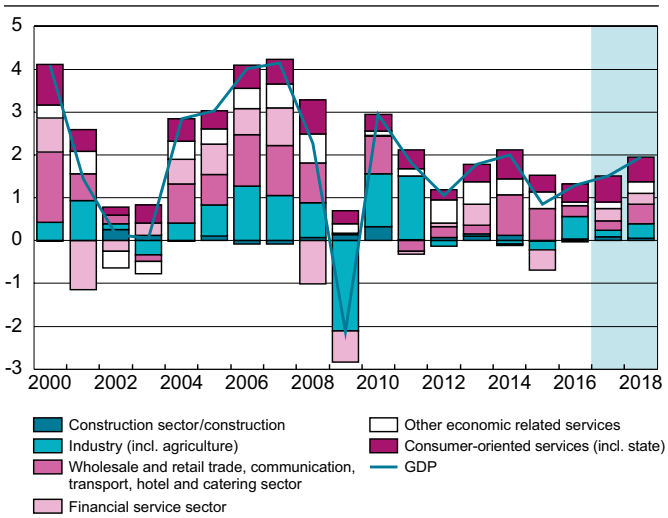


Sectoral development

Quarterly estimates for the past year point to a mixed picture of economic development. Production growth was contained last year at 1.3 per cent. Retailers and wholesalers provided a below-average contribution to economic development. Retailers continued to suffer from the strong Swiss franc, which has resulted in a significant fall in sales revenue. Whilst foreign purchases have not increased during the most recent period, they have also not fallen. With growth last year of just over 10 per cent, real added value from transit trade (as a part of wholesale trade) increased by less than in both of the previous two years (20% and 16 %).

The strongest increase was reported last year for education and health and social care. Having grown by 4.8 per cent, the share of this sector out of value added for the

G 3: Growth Contributions GDP: Production Side
(in pp of GDP)



economy as a whole rose to 7.9 per cent. The sector is even more important for the labour market: 14.1 per cent of employees and 12.4 per cent of full-time equivalent positions related to the health and social care sector last year.

Health and social care will continue to post robust growth during the forecasting period. After a very weak half-year in 2016, trade overall will be able to increase added value both this year and in particular in the coming year (see G 3). The situation in the hotel and catering sector will now gradually stabilise after some difficult years. Business activity will be buoyant in the financial services and insurance sector both this year and in the coming year.

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Monetary Policy: Outlook Slowly Improving

US monetary policy is gradually easing up. Increasingly, there are signs that a change in monetary policy may also become possible in Europe, albeit with a significant delay. In the meantime, the Swiss National Bank (SNB) is carrying on with its two-pillar policy.

FED takes the lead

In March 2017, the FED made another interest rate adjustment of 25 basis points, pushing the Federal Funds Rate up to a range between 0.75 per cent and one per cent. The signs from the labour market remain positive. However, inflation as measured by the "Personal Consumption Expenditures Price Index" is still slightly below the FED's longer-term target value of two per cent. Nevertheless, the FED is on course since the sound labour market situation is slowly having an effect on the wage trend, which, in turn, should ratchet up inflation. Since its inflation target is symmetric, the FED is likely to tolerate temporary future inflation rates above the target figure. Even though, thanks to a solid economic trend, KOF expects the FED to raise key interest rates three times by 25 basis points, both this and next year. This will give the FED a bit more freedom to employ conventional monetary policy measures in response to future crises.

ECB continues bond-buying programme

At its December meeting, the European Central Bank (ECB) announced that it would continue its bond-buying programme until the end of 2017, although it would reduce its purchases from an original 80 billion euros a month to 60 billion euros. At its March meeting, the ECB made no changes to the planned duration and scope of the current buying programme. At the beginning of 2017, total inflation rose significantly, even in the eurozone, and is expected to hover around two per cent in the coming months. However, since the rise is predominantly due to an increase in energy and food price inflation, which is most likely of a temporary nature, pressure on core inflation remains muted. According to the ECB, as yet, there are no signs of a convincing upward trend in core inflation. Consequently, there is still a need for very expansive monetary policies to ensure that inflation rates will swiftly return to a level of just under two per cent. Nevertheless, the risk of deflation is considered low for the foreseeable future. The ECB also announced

that interest rates will remain at the present or lower levels for an extended period of time and well past the horizon of the net asset purchases. ECB policy will thus remain extremely expansive and a rise in interest rates is not expected during the forecast period.

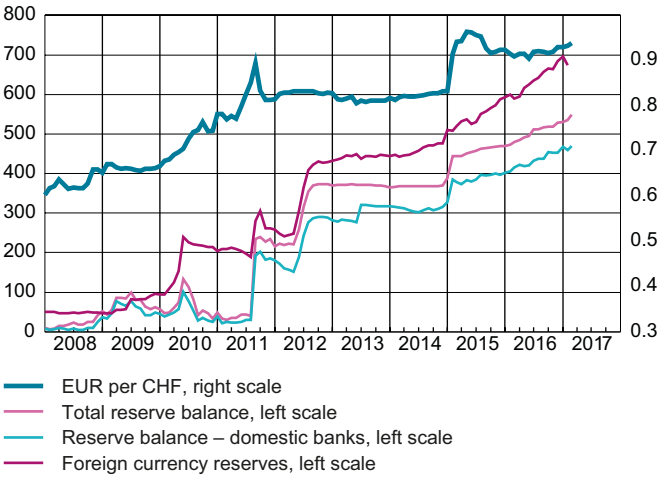
SNB depending on other countries

At its March meeting, the Swiss National Bank (SNB) decided to keep its two-pillar monetary policy ('negative interest' and 'readiness to intervene') expansive. The –0.75 per cent interest rate on demand deposits with the National Bank and the bank's readiness to intervene on the foreign exchange markets are intended to keep investments in Swiss francs less attractive, thereby reducing pressure on the currency (see G 5).

In February, inflation was back in positive territory, returning to the SNB's target range in the first quarter of 2017. In contrast, core inflation, which excludes fresh seasonal products as well as energy and fuels, was slightly negative until well into February. During the forecast period, KOF anticipates low pressure on inflation and a rate that remains significantly below the one per cent mark.

The substantial increase in demand deposits since the start of 2017 indicates that the SNB has once again been more active on the foreign exchange market in order to weaken the Swiss franc. However, this is not an isolated case: The Danish central bank also intervened on the foreign exchange market in February, and the Czech central bank, which is defending a similar minimum exchange rate with the euro that the SNB once pursued, has recently experienced mounting pressure.

G 5: SNB Balance Sheet Positions and Swiss Franc/Euro Exchange Rate
(in billion CHF or EUR per CHF)



In the coming quarters, the SNB will do its best to keep Swiss money market interest significantly below that of the eurozone in order to reduce the attractiveness of the Swiss franc. Given the expected ECB policies, the National bank will thus be forced to continue its negative interest rate policy in the coming months. However, KOF does not anticipate any need for a further reduction of the negative interest; it appears that key interest rates have finally bottomed out. Instead, the target range for the three-month Libor is likely to remain between –0.25 per cent and –1.25 per cent, and interest on demand deposits with the National Bank is expected to remain at –0.75 per cent.

The second half of 2016 was dominated by surprising outcomes to a number of political events. The British vote in favour of Brexit led to a significant devaluation of the British pound. Nevertheless, thanks to its readiness to intervene, the SNB managed to cushion the attendant upward pressure on the Swiss franc as a "safe haven". Even after the US elections and the constitutional referendum in Italy, significant revaluations of the Swiss franc were avoided. All in all, on a trade-weighted basis, the real external value of the Swiss franc has hardly changed over the past year. If one analyses the nominal exchange rates since mid-2016, the franc rose slightly against the euro and declined slightly against the US dollar. In its current forecast, KOF projects a euro/Swiss franc exchange rate of 1.07.

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Tables KOF Spring Forecast 2017

SWITZERLAND

Real Gross Domestic Product by Type of Expenditure

		Percentage change against														
		previous quarter (annualised, trend cycle component)												previous year		
	2008-	2016				2017				2018				2016	2017	2018
	2015	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Private consumption	1.5	1.0	0.7	1.1	1.7	1.2	0.6	0.7	0.8	1.0	1.2	1.0	1.0	1.2	1.0	1.0
Public consumption	1.5	2.6	2.6	1.5	1.0	1.5	1.7	1.3	1.3	1.1	1.1	1.0	1.0	1.9	1.5	1.2
Gross fixed capital formation	1.4	3.4	2.6	0.5	-0.6	-0.2	-0.2	-1.6	0.8	3.5	2.1	1.6	2.2	2.4	-0.1	1.6
– Construction	2.3	-0.7	-0.5	-0.1	0.2	0.9	1.9	2.3	2.8	2.8	2.1	1.8	1.6	0.0	1.1	2.3
– Machinery and equipment	0.9	5.9	4.7	0.8	-1.1	-0.9	-1.8	-3.9	-0.4	4.0	2.1	1.4	2.5	4.1	-0.9	1.0
Exports of goods (1) and services	2.3	8.1	4.2	-0.9	-1.6	1.0	4.6	5.5	4.1	2.7	3.0	4.5	4.0	4.9	2.0	3.7
– Goods (1), (2)	1.9	9.4	3.2	-0.2	-1.3	1.4	4.2	3.3	4.0	4.5	3.9	4.1	4.5	5.8	2.0	4.0
– Services	1.6	3.1	1.1	-1.5	-2.8	2.7	6.1	4.8	4.5	3.2	2.4	2.5	3.4	2.3	2.2	3.5
Imports of goods (1) and services	2.5	3.0	0.4	-1.3	-0.6	4.1	5.0	2.0	3.5	5.6	3.9	3.6	4.0	2.1	2.4	4.0
– Goods (1)	1.4	5.4	1.1	1.5	1.9	5.6	4.5	0.1	1.8	5.0	3.5	2.2	2.9	3.9	3.1	3.0
– Services	5.2	-2.4	-8.6	-8.1	-7.1	2.8	9.9	4.4	6.5	6.9	5.9	5.9	5.7	-1.3	1.1	6.1
Change in stocks (3)	-0.2	-2.6	-2.5	-0.8	1.7	3.2	1.8	-0.2	-0.1	0.7	1.0	0.5	0.1	-2.5	1.4	0.5
Gross Domestic Product (GDP)	1.3	1.9	1.5	0.6	0.5	1.7	2.2	1.9	2.0	2.0	2.0	2.1	2.2	1.3	1.5	1.9

(1) Without valuables (i.e. precious metals including non-monetary gold, precious stones and gems as well as objects of art and antiquities)
(2) Without merchanting
(3) Percentage contribution to GDP-growth

Other Macroeconomic Indicators

		Percentage change against														
		previous quarter												previous year		
	2008-	2016				2017				2018				2016	2017	2018
	2015	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real effective exchange rate of CHF (1)	2.7	-1.3	-1.3	3.2	2.0	1.4	-2.5	-2.8	-0.8	-0.2	-0.9	-2.3	-0.3	-2.3	0.2	-1.2
Short term interest rate (3-month Libor CHF) (2)	0.2	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Yield of 10 years federal bonds (2)	1.1	-0.4	-0.4	-0.5	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.2	-0.4	-0.1	0.1
Consumer prices (3)	0.0	-1.0	-0.4	-0.2	-0.2	0.5	0.2	0.2	0.3	0.1	0.3	0.3	0.4	-0.4	0.3	0.3
Full-time equivalent employment (4)	1.0	-0.2	0.2	0.3	0.4	0.6	0.7	0.6	0.6	0.5	0.5	0.6	0.7	-0.1	0.5	0.6
Unemployment rate (2,5)	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3

(1) Annualised
(2) Level
(3) Same quarter of previous year
(4) Annualised trend-cycle component
(5) Unemployed as percentage of labour force according to survey 2012-2014

GLOBAL ECONOMY

		Percentage change against														
		previous quarter (annualised, seasonal adjusted)												previous year		
	2008-	2016				2017				2018				2016	2017	2018
	2015	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real Gross Domestic Product (GDP)																
– OECD total	1.2	1.5	1.7	2.0	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.1	2.1	1.7	1.9	2.0
– European Union (EU-28)	0.6	1.8	1.7	1.8	2.1	1.8	1.6	1.6	1.6	1.7	1.5	1.5	1.5	1.8	1.8	1.6
– USA	1.3	0.8	1.4	3.5	1.9	2.0	2.1	2.1	2.2	2.4	2.5	2.6	2.6	1.6	2.2	2.4
– Japan	0.4	2.3	1.8	1.4	1.0	1.2	1.1	0.8	0.7	0.5	0.5	0.8	0.8	1.0	1.1	0.7
Oil price ($ per barrel) (1)	85.4	35.2	47.0	47.0	51.1	56.2	52.0	52.3	52.5	52.8	53.0	53.3	53.6	45.1	53.2	53.2

(1) Level

Backlash Against Globalization and the Gains from Trade

It is now clearer than ever that the backlash against free movement of workers and goods is a reality in many countries in the world. The UK voting for Brexit and the US pulling out of the Trans-Pacific Partnership are merely the two most striking examples of this change in attitudes towards free trade. This article discusses one possible explanation for this dramatic change: the inequality in the welfare gains from trade across different consumer groups.

Disconnect between economists and general public

Surveys often point to large disparities between economists and the general public when it comes to their respective views on free trade. For example, a 2011 survey conducted among members of the American Economic Association revealed that more than 93 per cent of economists agreed with the statement: "Tariffs and import quotas usually reduce general economic welfare" (see Fuller and Geide-Stevenson, 2014). At the same time, the views among non-economists on free trade are far from consensus. According to a 2010 Pew Research Survey, only 26 per cent of respondents in the US felt helped by international trade. This disconnect can be partially explained by the approach trade economists generally take when calculating the welfare effects of free trade – measuring aggregate gains for a country. While this measure is informative and reflects the gains of an average consumer, it masks the true gains across different population groups, especially in countries with high levels of income inequality.

Maritime navigation is the most important mode of transport for freight.

Income inequality and heterogeneous gains from trade

People differ in income levels, creating differences in consumption patterns. The rich generally consume more manufacturing goods and services, whereas the poor often spend a lion's share of their income on food, housing, and other necessities. International trade benefits countries via increased access to lower priced goods; however, price reductions across different products are far from uniform. Hence, the exact gains from trade for a particular person depend on their specific consumption bundle.

Manufacturing goods, for example clothing and electronics, react more acutely to falling international trade barriers than food products. This is due to the fact that the productivity dispersion across countries is much larger in manufacturing than in agricultural goods. For example, productivity differences across firms that grow potatoes are much smaller than across firms that manufacture computers. Essentially, free trade thus tends to benefit those consumer groups that spend a larger share of their income on manufacturing goods and services rather than on food. Economic analyses based on an average consumer can therefore vastly overestimate the gains to the poor, while severely underestimating the gains to the rich. Under a

hypothetical decrease in trade barriers of 15 per cent, the gains of rich consumers could be 16 percentage points higher than those of the poor.

Distributional effects of trade should not be overlooked. Trade policies are often informed by economic analyses based on aggregate gains from trade. While there is little disagreement among economists that reducing trade barriers will generally lead to aggregate gains, it is important to realize that trade also has strong distributional effects. These effects must be taken into account when evaluating potential benefits of free trade, especially for countries with high inequality.

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This article is based on:
Nigai Sergey (2016): On Measuring the Welfare Gains from Trade, Economic Journal, 126: 1193-1237.
www.onlinelibrary.wiley.com/doi/10.1111/ →

Further literature:
Fuller, Dan and Doris Geide-Stevenson (2014): Consensus among Economists – an Update, Journal of Economic Education, 45(2): 131-146.

On the Role of Subjective Wellbeing in Retrospective Voting Hypothesis

To which extend does wellbeing matter when it comes to voting? Are voters' political decisions influenced by their own happiness? In their recent paper, "Happy Voters", Federica Liberini, Michela Redoano and Eugenio Proto present the effect of wellbeing on voting intention and show that this indicator can be a good complement to the traditional indicators, such as financial and economic outcomes.

Political economists have long been interested in understanding the extent to which citizens consider the past performance of political party representatives when choosing whether to cast a vote in their favor. The retrospective voting hypothesis summarizes the wide consensus that voters evaluate diagnostic information, such as economic trends and personal financial conditions, to reward good political performance, and punish leaders who are corrupt or incompetent. A corollary of this voting hypothesis is that voters' retrospection can sometimes be "blind", because voters reward (punish) the government for improvements (damages) to their personal living conditions, even when these changes cannot be attributed to any implemented policy. Existing studies primarily look at the effect of financial and economic outcomes on voting decisions.

The vote, always a rational decision?

These observations keep the debate open to whether citizens consider their level of wellbeing, when evaluating the performance of their policy makers. In particular, the idea of "blind" retrospection raises the question of whether

citizens are capable of keeping policy makers accountable only for the changes in wellbeing that are objectively derived from implemented policies.

Wellbeing has a significant impact on voters' decision

In their recent paper, the authors assess these issues, while proposing an extension to the methodology used in the existing literature. Considering the recent attention given by policymakers to the institution of new indicators that account for living conditions beyond the mere assessment of monetary and financial status, the authors propose to test the retrospective voting theory on measures of subjecting wellbeing (SWB), such as self-reported life satisfaction.

Liberini, Redoano and Proto's research informs the debate by showing that the subjective perception of wellbeing significantly influences the political decision of British voters. They find that citizens who declare a high level of SWB are more likely to cast their vote in favor of the ruling party. For example, those who declare themselves as highly satisfied are 1.6 per cent more likely to support the prime minister party in future elections. By contrast, a 10 per cent increase in family income leads to a 0.18 per cent increase in an individual's support for the incumbent. The authors also analyze the effect of swing voters' SWB on the incumbent party support (i. e. the voters who do not hold a strong political view and ideological support for a party). As it is reasonable to expect, the effect of SWB on the incumbent party support seems to be stronger than for the full sample. For example, being satisfied with life increases the probability of supporting the ruling party by about two per cent.

Widowhood, a significant variable regarding wellbeing awarness

Most importantly, the authors show that citizens seem unable to distinguish between the changes in their subjective wellbeing which are not imputable to the government, and those for which the government is likely to be responsible. They arrived at this conclusion through an analysis of the effect of widowhood on voting intentions. This is a shock that it is well known to have a strong and significant impact on subjective wellbeing – especially on women – and at the same time can be reasonably assumed to be independent from government actions. Widows are between 10 and 12 per cent less likely to be pro-incumbent in the two years after the death of their partner than other individuals in the control group. (For men, this effect seems to exist as well, but it is of a smaller magnitude.)

In the context of recent events observed on the international political scene, this result is important, because it suggests that political victory of new entrants could be due to factors unrelated to the assessment of past policies implemented by the incumbent or to the lack of confidence in the future of the economy.

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This article is based on:

Liberini, Federica; Michela Redoano, and Eugenio Proto (2017): Happy Voters.

www.sciencedirect.com/science/article/pii/S0047272716301980 →

Economic Ideas You Should Forget

Economic science is haunted by numerous axioms we would be better off forgetting. A new book lists the key concepts you can safely ignore.

Both the field of economics and especially public perception are still haunted by economic theories that have long been out of date. For their book "Economic Ideas You Should Forget", Bruno S. Frey (University of Basel and CREMA) and David Iselin (KOF) collected articles by economists and social scientists which highlight the weaknesses of various economic concepts.

"Economic Ideas You Should Forget" contains 71 short essays by renowned international economists and social scientists, including Daron Acemoglu, Ken Binmore, Clemens Fuest, Richard Easterlin, Jeffrey Sachs, Hans-Werner Sinn, Elsbeth Stern, David Throsby and others. KOF contributed articles by Michael Graff, who writes about the obsolete idea that governments must reduce budget deficits, and by Jan-Egbert Sturm, who addresses the alleged asymmetry arising from the maintenance of fixed exchange rates. On top of this, their former KOF colleague Jochen Hartwig takes on Say's Law, which postulates that production is the source of demand.

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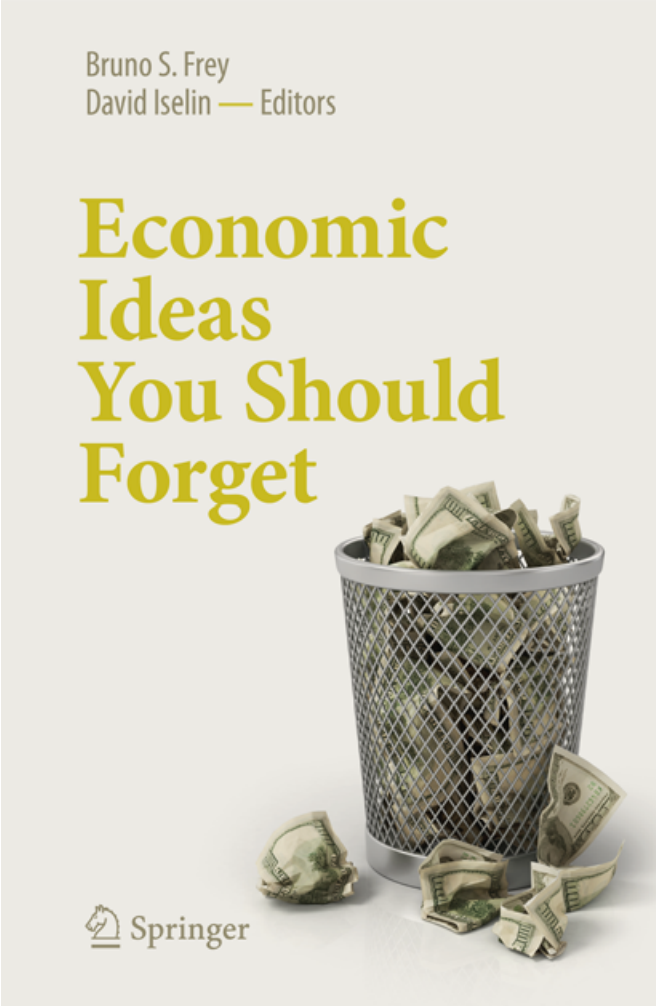


Reference:
Frey, Bruno S. and David Iselin (Eds.) (2017): Economic Ideas You Should Forget. Springer: New York.
www.springer.com/de/book/9783319474571#aboutAuthors →

Survey of Economists on the Energy Act

In collaboration with Schweizer Radio und Fernsehen SRF, KOF has surveyed Swiss-based research economists regarding their opinions on the new Energy Act, which will be put to the vote on 21 May. The majority of the respondents are in favour of subsidising renewable energy and reducing energy consumption. They think this should be primarily achieved via taxes as opposed to other types of intervention.

In regard to the new Energy Act, KOF has taken on the role of intermediary between academic research and the general public, with the objective of giving research economists a stronger voice via the survey. KOF defines research economists as Swiss-based economists who are active in the field of research, i.e. who have published articles in scientific magazines.

In its latest survey conducted in collaboration with SRF, KOF asked Swiss-based economists to evaluate the 2050 Energy Strategy, as part of which the Swiss parliament decided to pass a new energy act last year. The Act, whose fate will be decided by the Swiss voters on 21 May 2017, includes measures promoting renewable energy on the one hand and a reduction in energy consumption on the other. A referendum has been launched in opposition to this Act. Given this background, KOF surveyed research economists to find out what they thought of the government's energy policy and which measures they supported. The survey combines the answers of close to 100 research economists (out of 433 potential respondents).

The results of the survey are available on our website:
www.kof.ethz.ch/en/surveys/experts-surveys/economistis-surveys/energy-law →

One aim of the so called "Energy Strategy 2050" is to raise the average annual production of electricity through hydropower.

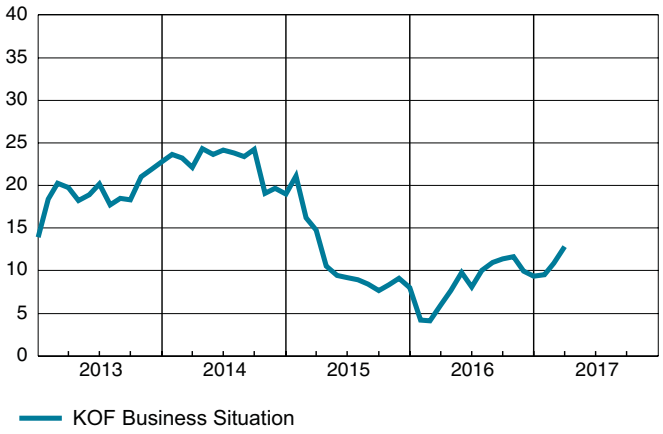
KOF INDICATORS

KOF Business Situation on an Upward Trend

The KOF Business Situation Indicator for the Swiss private sector improved significantly in March 2017, thus consolidating the trend from the previous month (see G 6). The business situation has not been this positive for the last two years. The Swiss economy is enjoying a significant boost.

In March, more favourable business situation was felt broadly throughout the sectors surveyed (see T 1). In the manufacturing sector, the construction-related sectors of construction and project engineering and in the financial and insurance sector the business situation improved significantly. The situation is also somewhat better in the retail sector, although here the indicator improved only marginally. It is therefore still not possible to discern a clearly improving trend for retailers. Wholesalers, the hotel and catering sector and other service providers were most recently questioned in January. At that time, the situation had brightened up for other service providers, whilst it had barely changed in the hotel and catering sector. By contrast, wholesalers were more likely to report an unfavourable business situation.

G 6: KOF Business Situation Indicator
(balance, seasonally adjusted)



T 1: KOF Business Situation for Switzerland (seasonally adjusted balances)

	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17
Private sector (overall)	6.0	7.7	9.8	8.1	10.0	10.9	11.4	11.7	9.9	9.3	9.5	10.9	12.8
Manufacturing	-10.0	-7.2	-6.2	-3.6	-8.6	-7.8	-7.6	-6.0	-9.7	-8.8	-9.8	-7.9	-5.6
Construction	25.4	24.9	22.3	23.0	24.0	27.7	23.2	25.0	26.4	24.3	28.2	28.0	32.2
Project engineering	45.3	45.3	46.7	43.9	45.5	46.2	46.1	45.9	42.1	46.3	47.5	47.5	49.1
Retail trade	-6.0	-8.9	-10.7	-8.6	-11.6	-10.6	-8.4	-7.5	-11.8	-9.5	-7.4	-10.1	-9.1
Wholesale trade	-	-7.8	-	-	4.2	-	-	3.5	-	-	-6.9	-	-
Financial services	19.5	18.1	26.5	14.4	18.2	22.9	23.1	24.4	21.7	17.7	22.1	31.2	35.0
Hotel and catering	-	-16.7	-	-	-23.0	-	-	-16.9	-	-	-16.3	-	-
Other services	-	20.5	-	-	24.0	-	-	22.2	-	-	25.3	-	-

Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of "good" answers minus the percentage of "bad" answers.

The improvement is broad also when considered from a regional perspective. Whilst the business situation in the Lake Geneva area remained unchanged in March compared to the previous month, in all other Federal Statistics Office (FSO) major regions the situation improved (see G 7). This was particularly clear even in Ticino, which is the worst performing area. An improvement was also recognisable in Central Switzerland, in the Zurich Region, in North West Switzerland, in Eastern Switzerland and in Espace Mittelland.

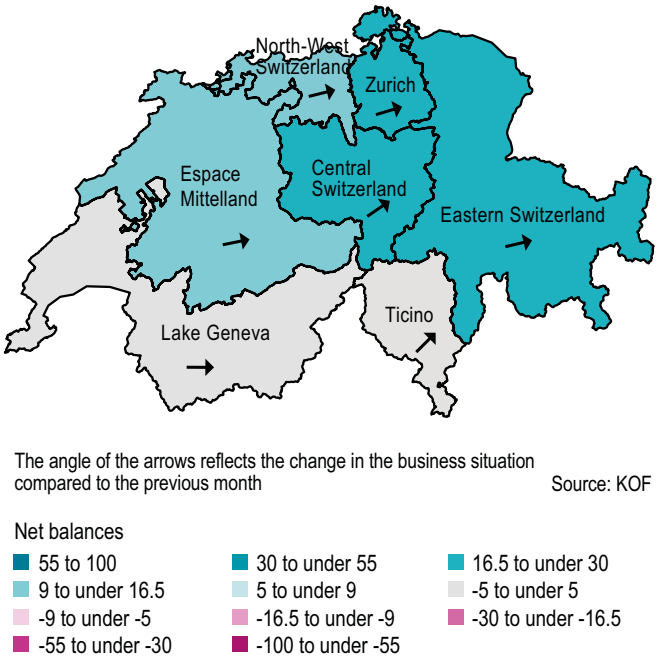
Explanation of graphs

Graph G 6 shows the KOF business situation for all sectors of the economy covered by the survey. For sectors of the economy that are only surveyed quarterly, the business situation is maintained at the same level during the intervening months.

Graph G 7 reports the business situation in the major regions used by the Federal Statistics Office. The regions are coloured differently depending on the business situation. The arrows within the regions indicate the change in the business situation compared to the previous month. An arrow pointing upwards means that the situation has improved compared to the previous month.

The KOF business situation is based on over 4,500 reports by Swiss companies. Every month, businesses are surveyed in the following sectors: industry, retail trade, construction and project engineering as well as financial and insurance services. Businesses in the hotel and catering sector, wholesalers and the other service providers are surveyed in the first month of every quarter. Among other questions, the businesses are asked to assess their current business situation. They may rate their situation as "good", "satisfactory" or "bad". The balance of the current business situation is the percentage difference between the "good' and "bad" responses.

G 7: KOF Business Situation in the Private Sector



The angle of the arrows reflects the change in the business situation compared to the previous month

Source: KOF

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You can find more information about the KOF Business Tendency Surveys on our website: www.kof.ethz.ch/en/surveys/business-tendency-surveys →

KOF Economic Barometer Continues to Rise

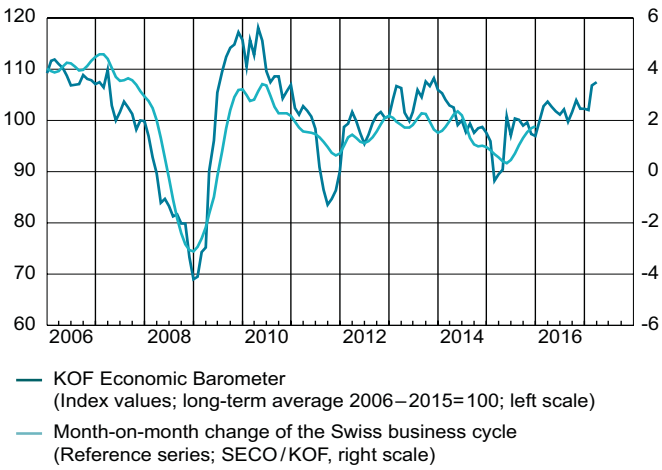
In March 2017, the KOF Economic Barometer rose by 0.7 points to a new reading of 107.6 (see G 8). It thus reinforces its previous month's climb to a level clearly above its long-term average. This indicates that the Swiss economy should grow at above average rates in the near future.

In March 2017, the KOF Economic Barometer climbed from 106.9 in February (revised down from 107.2) by 0.7 points to a level of 107.6. Accordingly, the Barometer not only confirmed the February reading, but even reached a slightly higher level. It thus stands markedly above its long-term average for the second time in a row, signaling above average growth rates for the near future.

The strongest positive contributions to this result come from the construction sector, followed by indicators relating to domestic private consumption and to the financial sector. Indicators regarding the manufacturing sector and the hospitality industry have practically remained unchanged. A slightly negative signal stems from the exporting industry.

Within the manufacturing industry, the unchanged overall outlook can be attributed to somewhat diverging signals. An improving sentiment is mainly visible amongst the architects. In addition, the electrical and the chemical industry are more optimistic than before. Negative signals, on the other hand, come from the metal and the textile industry. The remaining industry branches recorded hardly any changes.

G 8: Economic Barometer and Reference Series



KOF Economic Barometer and reference time series: annual update

In September 2016, the scheduled annual update of the KOF Economic Barometer took place. The annual update of the Barometer includes the following stages: redefinition of the pool of indicators that enter the selection procedure, update of the reference time series, a new execution of the variable selection procedure and a procedure to estimate missing monthly values of quarterly variables. The updated reference series is the smoothed continuous growth rate of Swiss GDP according to the new System of National Accounts ESVG 2010, released at the end of August 2015, which takes into account the release of the previous year's annual Gross Domestic Product (GDP) data by the Swiss Federal Statistical Office. As a result of the indicator variable selection procedure, the updated KOF Economic Barometer is now based on 272 indicators (instead of 238 as in the previous vintage) from a pool of more than 400 potential indicator series. They are combined using statistically determined weights.

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For detailed information on the KOF Economic Barometer, visit our website:
www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-economic-barometer →

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