



KOF Bulletin

No. 120, July/August 2018

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EDITORIAL

Correctly Measured Unemployment

That the Swiss unemployment rate is low in international comparison is rightly seen as a success. However, in fact the rate is not quite as low as the official statistics would have us believe. The first article casts a critical eye on labour market statistics and reveals that Switzerland's low unemployment figure is, to some extent, exaggerated. The second article presents the results of the KOF Investment Survey, according to which Swiss companies intend to substantially increase their investment activities in the current year. In contrast to most horror scenarios, the last article conveys a positive view of the digital transformation as graduates of higher technical colleges profess to higher work satisfaction thanks to digitalisation.

David Iselin

ECONOMY AND RESEARCH

Unemployment at Record Low – Is It Really True?



‘Unemployment in Switzerland drops to 2008-levels’ - headlines like this have done the rounds after the Swiss State Secretariat for Economic Affairs (SECO) presented its latest unemployment figures at the beginning of the month. Regrettably, however, the situation on the labour market is not (yet) as rosy as it was in early 2008. The new unemployment figures are not comparable with the historic figures.

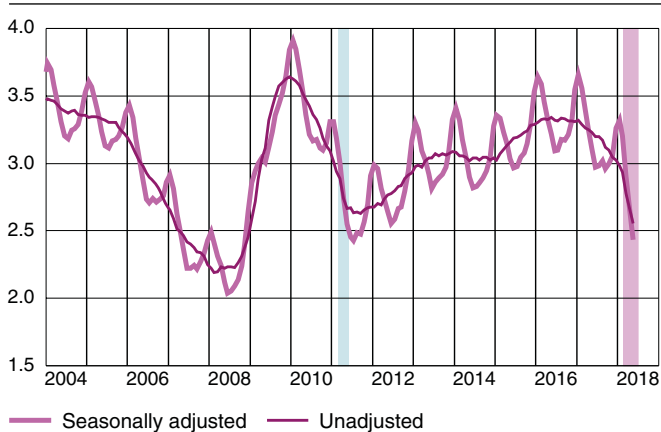
According to the latest SECO unemployment figures, the Swiss labour market is in an enviable state. As shown by Graph 1, seasonally adjusted unemployment amounted to just under 2.50%. This is the lowest rate since early 2008 when the Swiss economy was in an excellent state at the tail end of a lengthy boom. Between March and May of this year alone, the overall Swiss unemployment rate declined from 2.9% to 2.6% on a seasonally adjusted basis. Comments in the Swiss media were jubilant. ‘Unemployment at lowest level in 10 years’, wrote the *Blick* daily. However, the current unemployment figures, which are indeed very low, are not comparable to those published 10 years ago.

Stricter unemployment insurance rules reduce unemployment

There are two reasons responsible for this. The first is the unemployment insurance reform of March 2011. As part of the restructuring of the unemployment insurance system, the reform also involved restrictions applying to various population groups. For instance, the maximum entitlement to daily unemployment benefit of childless jobseekers under 25 was cut by 50%, and a special waiting period was introduced for students in order to raise the barrier to registration with regional employment offices (RAV). These changes affect the SECO unemployment figures, which

G 1: Unemployment Rate

(Registered unemployment as a percentage)



now only include unemployed individuals who actually register with an employment office. For some population groups, the reform reduced the incentive to register with a RAV. On top of this, benefit periods were cut, resulting in numerous long-term unemployed being disqualified and losing their entitlement to benefits. In most cases, these disqualified unemployed disappear from the SECO unemployment statistics.

How did the reform affect the recorded unemployment rate? A look at the number of people who were disqualified due to the changes may provide a possible answer to this question. In March 2011, around 16,000 long-term unemployed were disqualified – approximately 12,500 more than in the months before and after. Taking this figure as the starting point, the legislative amendment permanently reduced the recorded unemployment rate by around 0.2 percentage points.¹

Jobseekers on employment and training programmes are not included in the unemployment rate

Furthermore, the new registered unemployment figures are not directly comparable to the 2008 figures since SECO has also converted its processing of the unemployment

data in March of this year. Individuals registering with an employment office are now divided into 'unemployed' jobseekers and 'not unemployed' jobseekers. This breakdown has been introduced since it is common international practice to include only those who are available to take up a new job on short notice in the unemployment statistics. Hence, a relatively large number of people who register with RAVs do not count as unemployed. This includes, for instance, jobseekers who have been assigned to active labour market integration measures, such as employment programmes or qualification courses, as well as jobseekers who are entitled to unemployment benefit after a dismissal but have not yet completed their notice period. Up until now, the breakdown into unemployed and not unemployed jobseekers was based on assessments by the RAV staff. Now, SECO divides jobseekers into unemployed and not unemployed on a semi-automatic basis. This conversion raises the significance of the unemployment figures since the breakdown method is more reliable.

Technical changes reduce recorded unemployment figures

How would the unemployment figures have developed in the last three months if the recording method had not changed? Again, the current system is too new to allow for an accurate answer. However, the trend in registered jobseekers between March and May provides certain insights. It is likely that the change in method has predominantly affected the breakdown into unemployed and not unemployed jobseekers, but not the overall number of jobseekers. Graph 2 juxtaposes the trend in the number of registered unemployed with the number of registered jobseekers. The Graph presents the absolute change in seasonally adjusted figures over the previous month. For the present, it shows that normally both rows follow a very similar trend. However, this has not been the case in the last three months. In these three months, the number of registered unemployed dropped by around 16,000: 6,000 in March and approximately 5,000 each in April and May. However, in the same period the seasonally adjusted number of registered

¹ If the unemployment insurance reform had affected the behaviour of newly unemployed jobseekers – specifically their success in finding a job – the effect could have been temporary instead of permanent. However, according to a study by Arni and Schiprowski (2016), this does not appear to be the case.

jobseekers declined by no more than around 4,500. At face value, these figures indicate that approximately two-thirds of the decline in unemployment in the last three months is due to the change in method. According to this simple estimate, the unemployment rate today would be 0.15 to 0.3 percentage points higher if the system had not been adjusted. It should be noted that further changes in the recording method are planned in June, which will lead to a slight increase in unemployment figures. These changes should therefore reduce the impact of the system conversion to some extent.

Unemployment rate pursuant to ILO corrects over-optimistic labour market perception

Without the unemployment insurance reform and the technical conversion of the unemployment measurement method, recorded unemployment would now be higher. According to our rough calculations, the seasonally adjusted unemployment rate would range between 3.0 and 3.2% – approximately half a percentage point higher than the current figures. The unemployment statistics according to the International Labor Organization (ILO), which are known as jobless statistics in Switzerland, show that there are still

numerous people looking for jobs despite the positive start to the year. In contrast to the SECO statistics of registered unemployed, the ILO figures also include the unemployed who are not registered with the employment office. In the first quarter of 2018, on a seasonally adjusted basis, these figures remained close to 5% and declined very little in the last quarters. Historically, this level of unemployment is rather high for Switzerland. However, the substantial increase in employment in the first quarter of 2018 raises hopes for an actual drop in unemployment in the coming months.

Contact

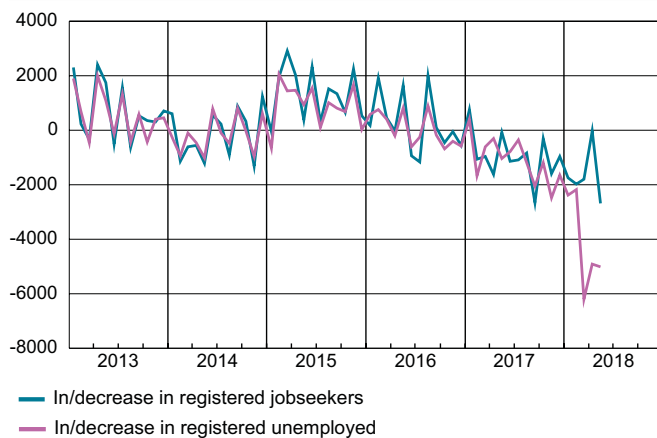
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Literature

P. Arni and A. Schiprowski (2016): Evaluation der AVIG-Revision 2011 (Taggelder für Junge, Sanktionierungen). Analyse der Wirkung von Suchvorgaben der Arbeitsbemühungen. In: SECO Publikation Arbeitsmarktpolitik No. 44 (10. 2016), Bern.

G 2: Monthly Trend in the Number of Registered Unemployed and the Number of Registered Job Seekers

(Absolute month-on-month change, seasonally adjusted)



Swiss Companies Expand Capacities

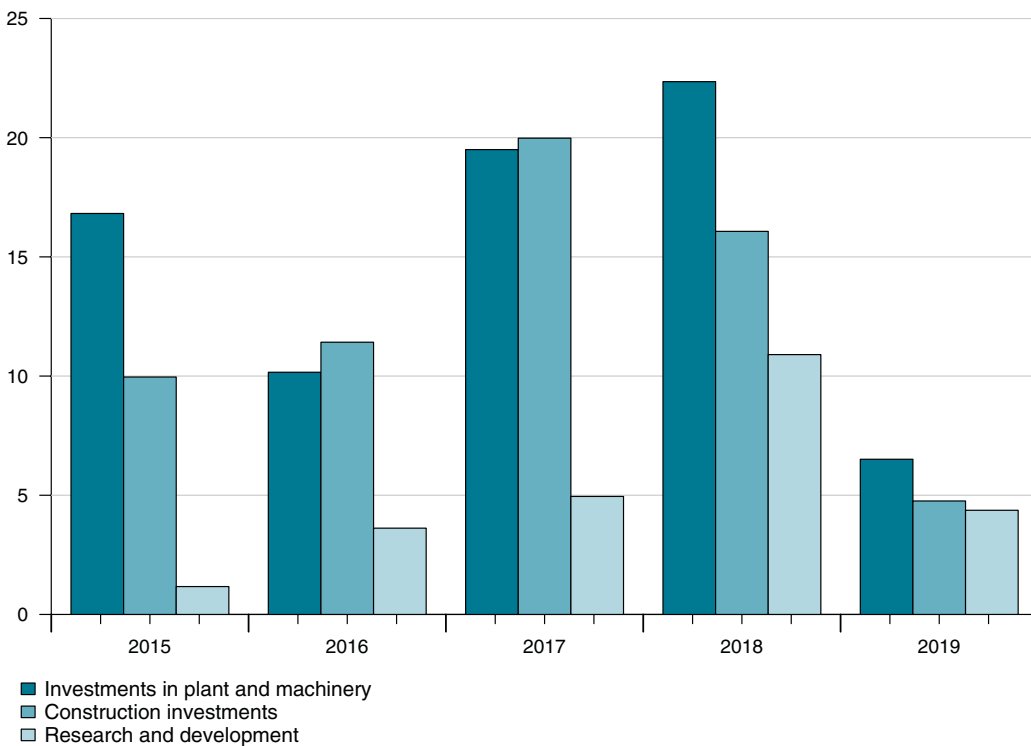
Total investment in Switzerland continues to rise in 2018, as shown by the results of the semi-annual KOF Investment Survey. Surveyed companies intend to increase investment activities by around 8% this year. A significant part of the planned investments will be funnelled into the expansion of existing capacities.

The Investment Survey conducted in spring 2018, which has now been completed, provides the second set of investment figures for 2018. Last autumn, the survey participants already provided assessments of their expected investment activities in 2018. At the time, they anticipated an increase in investment activities of around 8%, with industry and the service sector the main growth drivers. The current results show that the respondents' expectations have not changed

much. According to the survey, the companies still anticipate a robust rise in investments of some 8% in 2018. The main dynamics are coming from the manufacturing industry and the service sector. Swiss construction companies have budgeted a less significant rise in investment spending in the current year. The growth in total investments is driven both by investments in plant and machinery and construction investments. Research &

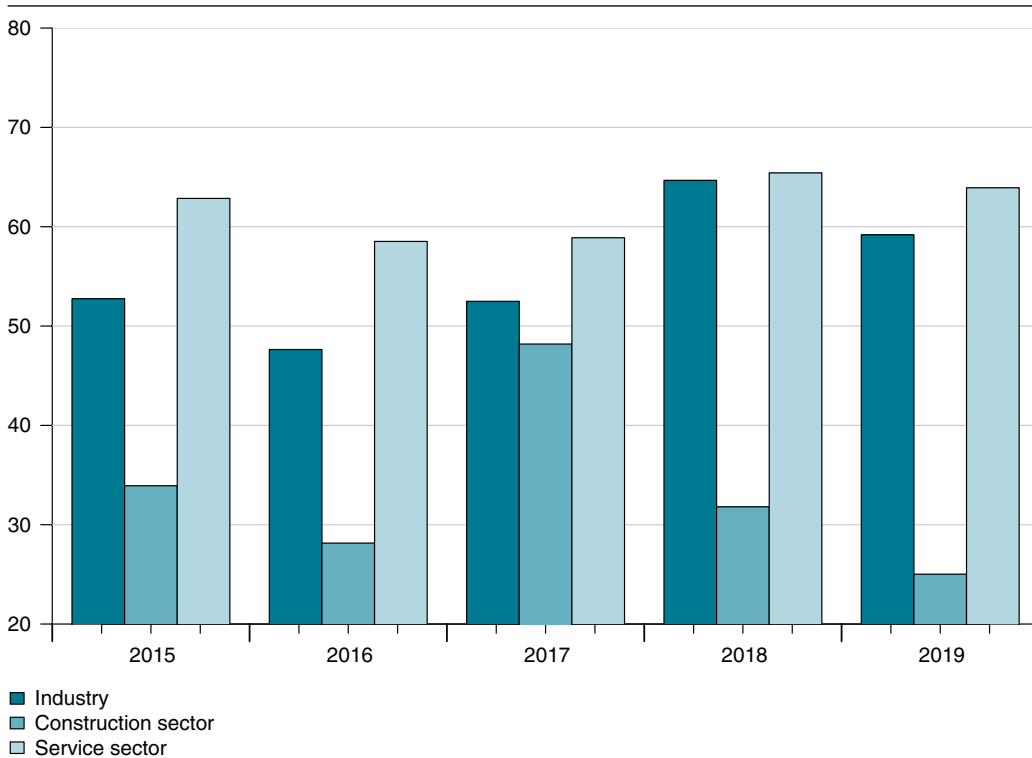
G 3: Qualitative Investment Trends

(Saldo)



G 4: Expansion Investments

(Saldo)



development expenditure also shows robust dynamics this year. For 2019, the companies anticipate a slight decline in investment activities. According to the current survey, growth in investments will be much more moderate than in 2018. The results of the Investment Survey suggest that the latest Swiss investment cycle will end in 2019.

Industrial and service sectors provide momentum

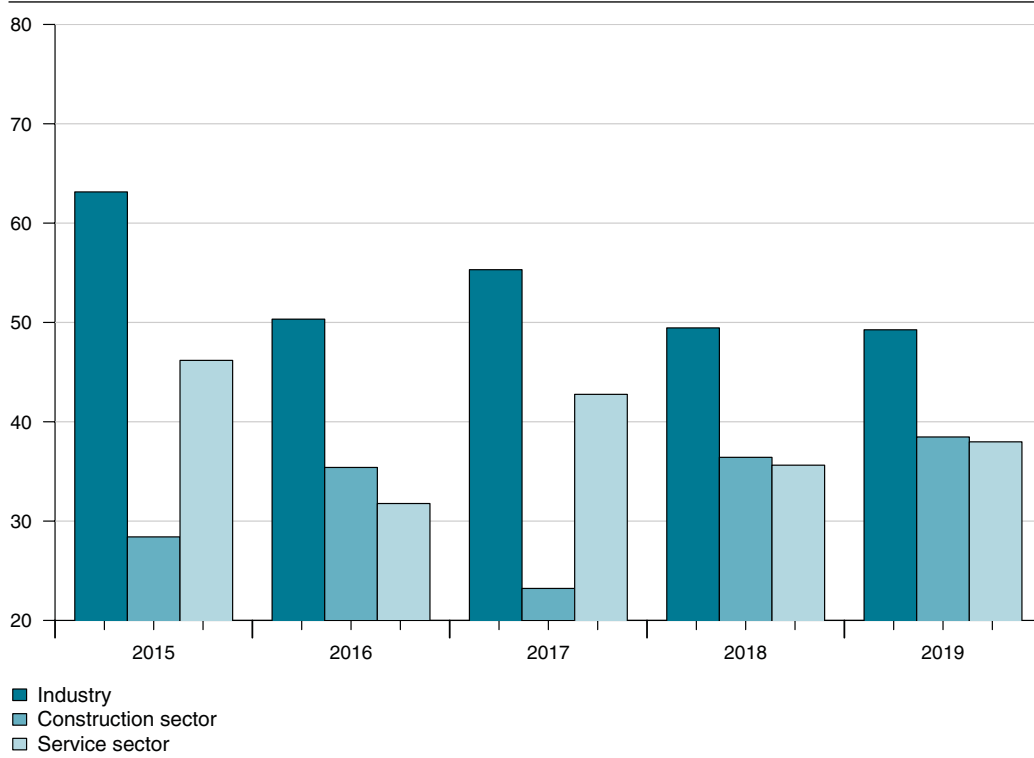
According to the survey participants, the percentage of expansion investments is set to rise further in 2018. Around 65% of the industrial enterprises and service providers plan to expand their production capacities in 2018. Despite lower investment dynamics, the percentage of expansion investments should also remain high in the coming year. Although the share of companies budgeting for expansion investments will decline slightly in both sectors, the overall

percentage will remain at a high level. In contrast to industrial enterprises and service providers, the percentage of construction companies investing in capacity expansion is far lower. While the share of construction companies investing in expansion was close to 50% in 2017, only 32% of the investing companies are planning to invest in the expansion of their production capacities in the current year. This percentage is set to decline even further in 2019. All in all, only one in four Swiss construction companies is planning to invest in capacity expansion.

The percentage of rationalisation investments is set to decline slightly in both the manufacturing industry and the service sector. While pressure to rationalise had risen substantially after the Swiss franc appreciation in 2015 and efficiency dominated the companies' investment

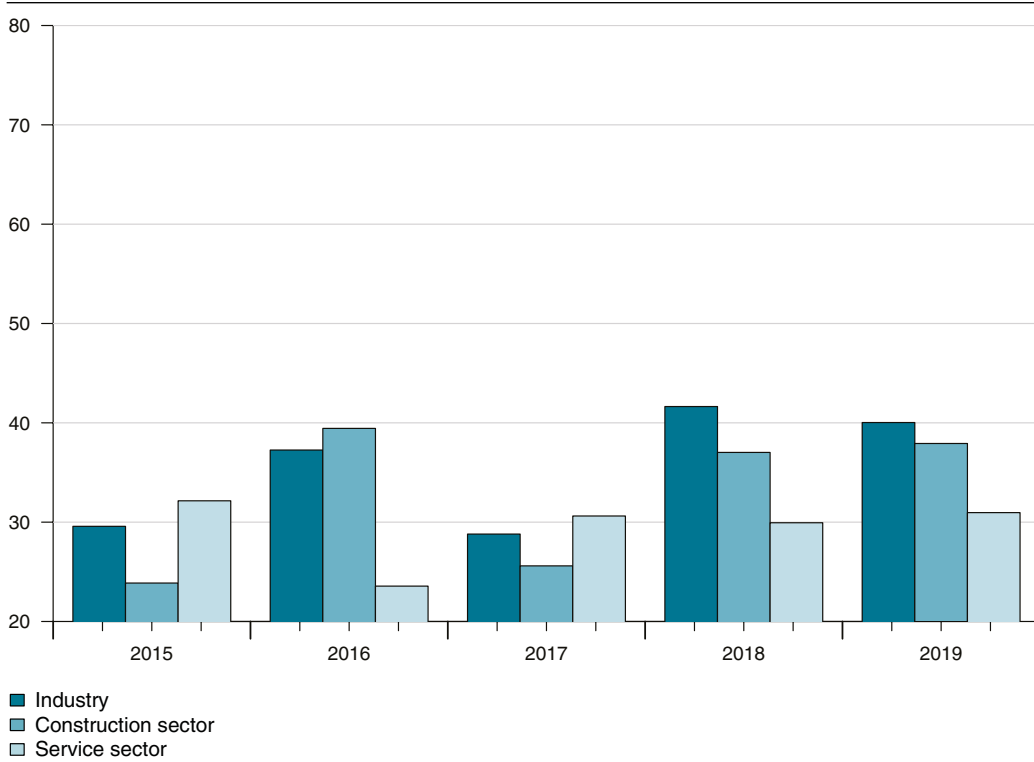
G 5: Rationalisation Investments

(Saldo)



G 6: Legal Requirements/Environmental Protection

(Saldo)





decisions, rationalisation now plays a secondary role in current investment plans. Similar to expansion investment, rationalisation investment in the construction sector presents a heterogeneous picture. In the past three years, the percentage of construction companies investing in rationalisation was relatively small. This is firstly due to the fact that the impact of the Swiss franc crisis was lower on the construction sector than on the manufacturing industry and the service sector, and secondly that Swiss building companies have benefited from expansive construction activities in the last few years, which reduced the

pressure to rationalise. The current year will see a shift from expansion to rationalisation investments. According to the survey results, the percentage of construction companies investing in rationalisation will rise substantially in the coming two years.

In 2018 and 2019, investments due to commercial stipulations and legal requirements will also play a slightly more prominent role aside from expansion and rationalisation investments. Especially the industrial sector is likely to invest more due to legal standards.

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You can find more information about the KOF Investment Survey on our website:

www.kof.ethz.ch →

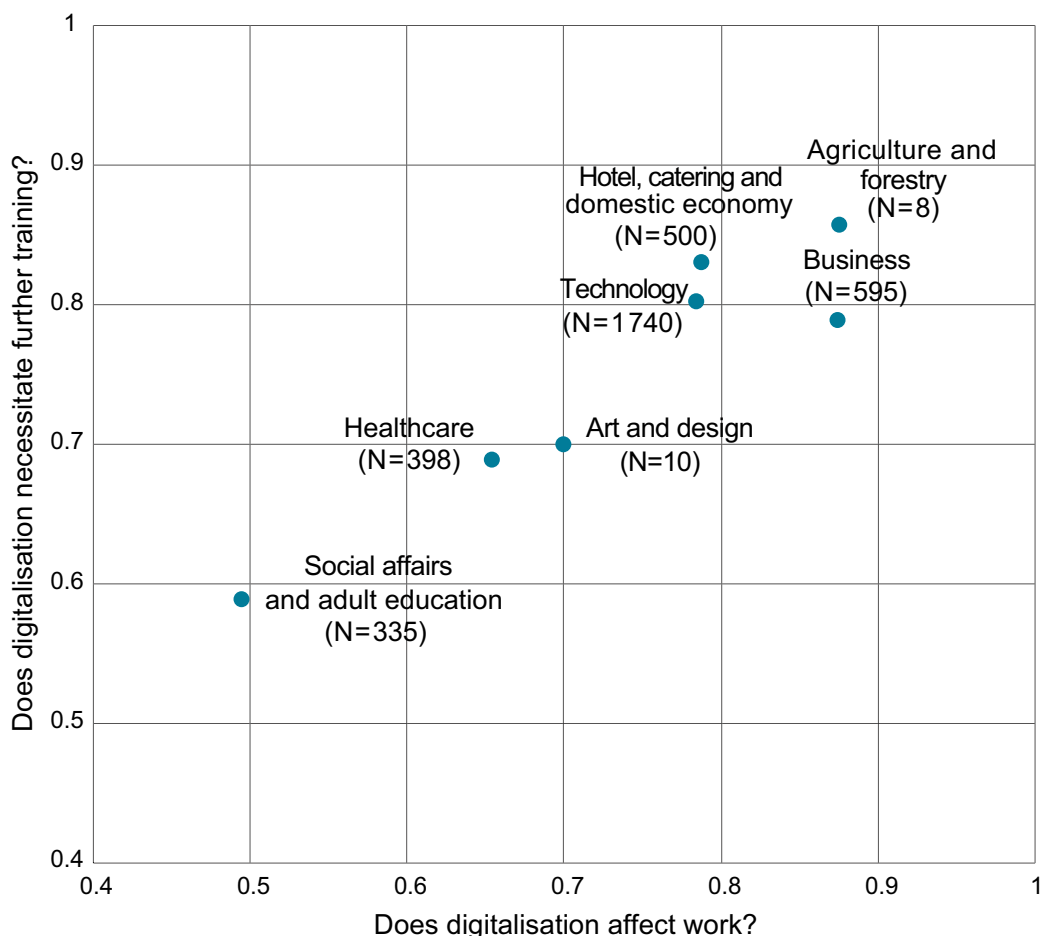
Digitalisation Raises Work Satisfaction for Majority of Higher Technical College Graduates

Nowadays, the buzzword ‘digitalisation’ is on everybody’s lips. A growing number of studies is researching the question which professions may be threatened by digitalisation and where new jobs could be created. The debate pays little attention to the impact of digitalisation on the quality of existing jobs. A survey among graduates of higher technical colleges (HF) shows that digitalisation generally increases satisfaction among the respondents.

Digitalisation is defined as the conversion to digital processes and products based on information and communication technology. However, as yet little is known about the actual extent of its impact on employees. In autumn 2017, ODEC¹ gave KOF researchers the opportunity to ask over

3,000 HF graduates how the digital transformation is affecting their work². The results are described in this article.

G 7: Impact of Digitalisation on Work and Need for Further Training, According to HF Subject Area (total n = 3,586)



¹ Umbrella organisation of the higher technical college graduates (all areas of study).

² The average age of the sample was 35, with the majority of respondents aged between 25 and 49.

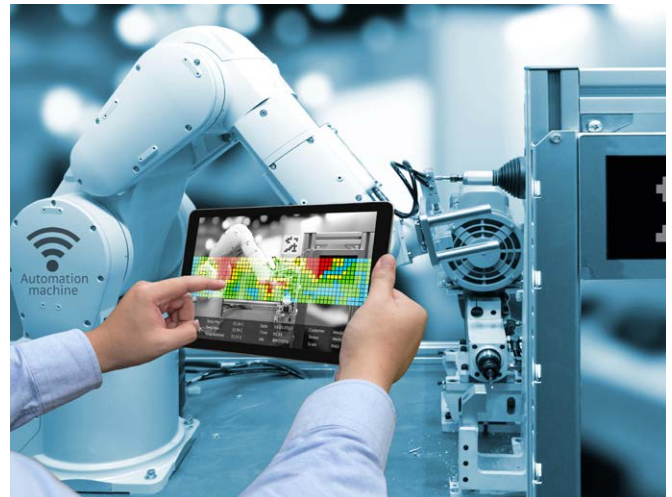
Impact of digitalisation varies according to area of study

The horizontal axis of Graph 7 shows the percentage of HF graduates stating that digitalisation is affecting their work. According to the results, digitalisation generally has a considerable impact on work. Surprisingly, the results show that work has changed most significantly in the HF subject area of 'agriculture and forestry', although only eight observations were collected in this field. Above-average work changes have also taken place in the 'hotel, catering and domestic economy', 'technology' and 'business' fields. By contrast, digitalisation has had a below-average impact on 'healthcare' as well as 'social affairs and adult education'.

Further data evaluation shows that men are affected to a greater extent than women, and that the impact of digitalisation is more pronounced on employees in large companies. It is also noteworthy that the effect in French-speaking Switzerland is below average, while digitalisation has a very strong effect on employees in Ticino. Executives, managers and directors stated that their work has changed significantly. By contrast, freelancers said that they were less affected.

Furthermore, the vertical axis in Graph 7 indicates to what degree respondents believe that further training is needed due to digitalisation. Again, there are major differences between the various HF subject areas. Around 85% of the graduates of 'agriculture and forestry' or 'hotel, catering and domestic economy' courses are convinced that further training will be necessary due to digitalisation. By contrast, less than 60% of the respondents in the 'social affairs and adult education' field believe this is necessary.

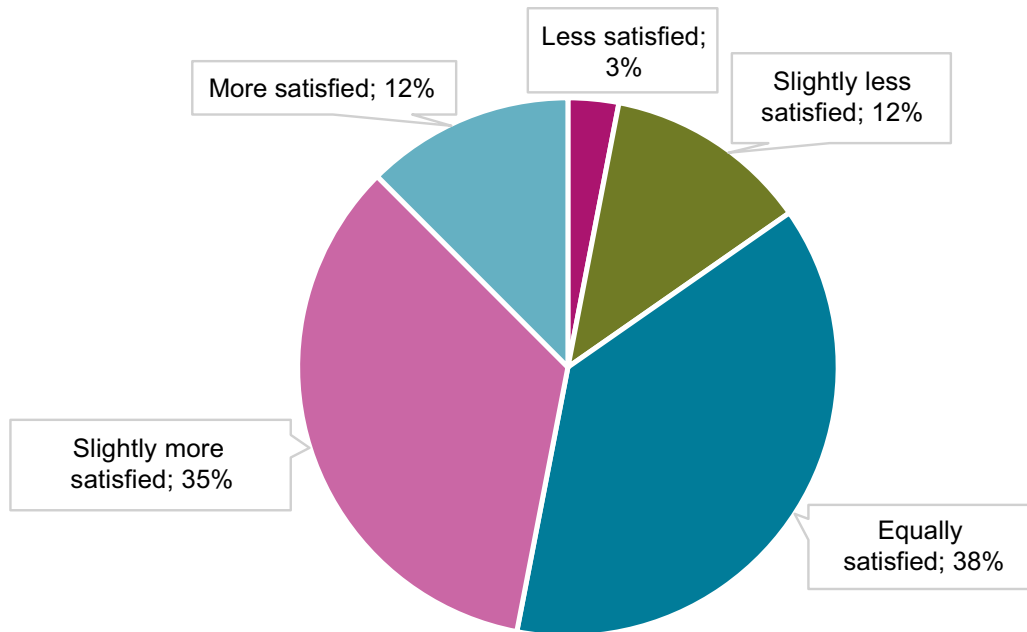
Graph 7 also indicates a strong correlation between the impact of the digital transformation on work and the perceived need for further training due to digitalisation.



Positive perception of digitalisation

There is a general assumption that many jobs are being lost due to digitalisation. Hence, people hypothesise that digitalisation jeopardises job security and has a negative impact on work satisfaction. However, conversely, it could also be assumed that work contents become more attractive through digitalisation and that work satisfaction rises. The data from the ODEC survey allows the authors to conduct empirical research into the question whether digitalisation has a positive or a negative impact on work satisfaction among HF graduates. Graph 8 shows that the respondents generally have a positive view of digitalisation. 47% of the respondents state that their work satisfaction is higher or slightly higher due to digitalisation. Around 38% observe that digitalisation does not affect their work satisfaction. Only 15% of the respondents have a negative view of digitalisation. These results represent an important indication that digitalisation not only changes the quantity of jobs on offer but can also improve the quality of existing jobs. This positive impact has so far been neglected in the public debate.

G 8: Impact of Digitalisation on Work Satisfaction (n = 2,904)



A further insight consists of the fact that work satisfaction among respondents tends to be higher the more the work is affected by digitalisation. Digitalisation raises work satisfaction particularly among men, employees in large companies, employees in Ticino, executives, managers and directors. Furthermore, it emerges that it is especially the younger respondents who have a positive view of digitalisation. However, in this context it should be noted that the impact of digitalisation has at least a neutral impact in all groups.

We would like to thank ODEC for this opportunity to pose specific questions on the subject of digital transformation in the workplace as experienced by HF graduates in the context of the ODEC Salary Survey.

Reference
 Further evaluations are available in the following article:
 Pusterla, F., T. Bolli, and U. Renold (2018): So nehmen HF-Diplomierete die Digitalisierung wahr. ODEC Bulletin, 2018 (2): 12–13, Winterthur: ODEC.

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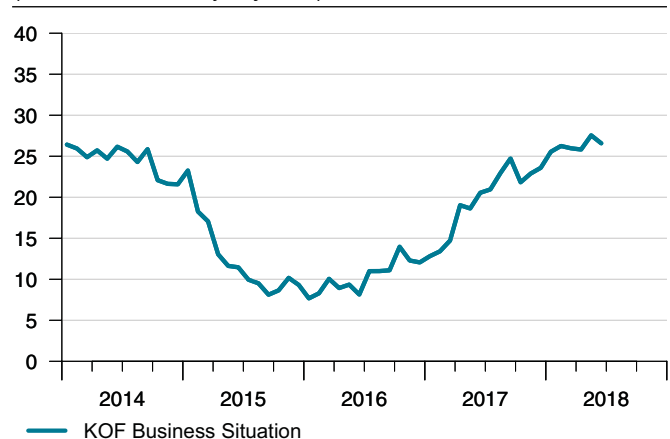
KOF INDICATORS

KOF Business Situation Indicator: Swiss Companies Report Slight Slowdown

In June 2018, the KOF Business Situation Indicator for the Swiss private economy lost some ground after having risen substantially in the preceding month (see G 9). All in all, the Business Situation Indicator has changed little since the beginning of 2018. Although the economic situation in Switzerland continues to be favourable, businesses are failing to make up further ground.

The slowdown of the business situation can be felt on a broad basis across the different sectors. Aside from the project engineering sector, where the excellent business situation improved even further, the Business Situation Indicator lost ground in all industries surveyed by KOF on a monthly basis (see T 1). Financial and insurance service providers reported a slight slowdown of their rather positive business situation, with the indicator also dropping to some extent in the construction and manufacturing industries. The Business Situation Indicator has also turned slightly negative in the retail trade as the recovery trend reported in the preceding month came to a halt. Wholesalers, hotel and catering companies and the other service providers were last surveyed in April. At the time, the business situation was improving in the hotel and catering sector and among the other service providers, while remaining almost unchanged in the wholesale sector.

G 9: KOF Business Situation Indicator
(Balance, seasonally adjusted)



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

	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18
Private sector (overall)	20.5	21.0	23.0	24.7	21.8	22.9	23.6	25.5	26.2	26.0	25.8	27.5	26.6
Manufacturing	7.3	6.4	11.8	16.7	15.4	18.5	17.8	18.2	20.4	19.8	18.6	23.8	21.9
Construction	29.6	30.5	29.9	29.9	30.1	29.6	28.4	30.3	30.3	27.9	30.2	29.6	27.8
Project engineering	47.0	46.9	47.0	47.5	48.6	49.6	49.8	46.1	49.2	50.3	49.1	47.2	51.4
Retail trade	-1.3	-1.9	-1.4	2.6	1.5	0.7	3.9	1.6	7.5	5.3	0.2	7.4	6.4
Wholesale trade	-	16.0	-	-	20.3	-	-	28.4	-	-	28.4	-	-
Financial services	34.3	30.1	35.1	37.7	32.6	35.3	40.4	42.1	40.0	41.1	41.1	42.0	38.9
Hotel and catering	-	-2.0	-	-	0.5	-	-	4.8	-	-	6.6	-	-
Other services	-	32.9	-	-	24.4	-	-	26.3	-	-	27.2	-	-

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.

From a regional perspective, the business situation slowed down in the large majority of the main FSO regions. The Zurich region, where the Business Situation Indicator changed only marginally, was the only region to escape this trend. In North-West Switzerland, the business situation in June is almost as favourable as in the preceding month. The Business Situation Indicator has noticeably declined in the Lake Geneva region, Ticino, Eastern Switzerland, Espace Mittelland and Central Switzerland.

Explanation of graphs:

Graph 9 presents the KOF business situation across all sectors covered by the survey. The business situation in sectors which are surveyed on a quarterly basis is kept constant during the intervening months.

Graph 10 presents the business situation in the main regions according to the Federal Statistics Office (FSO). The regions are coloured according to business situation. The arrows in the regions indicate the change in the business situation compared to the previous month. An upward-pointing arrow, for instance, indicates that the situation has improved over 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 10: 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

Net balances

■ 55 to 100	■ 30 to under 55	■ 16.5 to under 30
■ 9 to under 16.5	■ 5 to under 9	■ -5 to under 5
■ -9 to under -5	■ -16.5 to under -9	■ -30 to under -16.5
■ -55 to under -30	■ -100 to under -55	

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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: Economic Outlook Improves Slightly

The KOF Economic Barometer rose again in June for the first time in three months (see G 11). It increased by 1.7 points to 101.7 points, stopping its downward tendency in spring. The current Barometer value is now slightly above the long-term average of 100.0. Thus, the KOF Economic Barometer indicates a slightly above-average economic development in Switzerland. The tailwind for the Swiss economy is no longer as strong as during winter.

In June, the KOF Economic Barometer rose slightly to 101.7 points from 100.0 in May (100.0 in the initial publication in May). The indicator bundles for export development made a particularly clear contribution to this improvement. However, there have also been positive developments in domestic demand. In particular, the propensity to consume increased in June. In addition, the prospects for construction industry are more favourable. Minor impulses come from the manufacturing, banking, hotel and catering sectors.

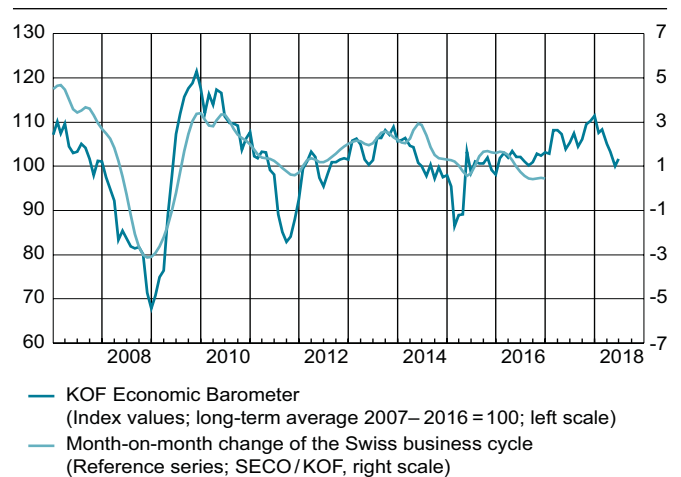
In the goods producing sectors (manufacturing and construction), the indicators for order backlogs, inventory reserves and intermediate goods purchasing point to a more positive development. However, the indicators for actual production development are dampening the positive picture somewhat.

Within manufacturing, signs of developments in the near future are mixed. The indicators for the wood and glass industry, the chemical, pharmaceutical and plastics industry and other goods producers developed positively. In contrast, the prospects for machinery and vehicle manufacturers, the textile industry and the metal industry have deteriorated.

KOF Economic Barometer and reference time series: annual update

In September 2017, the scheduled annual update of the KOF Economic Barometer took place. The annual update involves the following steps: redefinition of the pool of indicators that enter the selection procedure, update of the reference time series, and renewed execution of the variable selection procedure. The updated reference series is the smoothed continuous growth rate of the Swiss Gross

G 11: Economic Barometer and Reference Series



Domestic Product (GDP) according to the new System of National Accounts ESVC 2010, released in early September 2017, which takes into account the previous year's annual GDP data published by the Swiss Federal Statistical Office (FSO). As a result of the indicator variable selection procedure, the updated KOF Economic Barometer is now based on 273 indicators (instead of 272 as in the previous vintage), from a pool of almost 500 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 →

AGENDA

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KOF Prognosetagung Herbst 2018

10 Jahre seit der Finanzkrise

Wednesday, 3 October 2018, 16.45 – 18.30

UBS-Konferenzgebäude Grünenhof,
Nüscherstrasse 9, 8001 Zurich

Referate und Podiumsdiskussion:

Oswald Grübel (ehem. CEO UBS)

Prof. Dr. Aymo Brunetti (Universität Bern)

Prof. Dr. Jan-Egbert Sturm (KOF, ETH Zürich)

www.kof.ethz.ch/prognosetagung →

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Publisher	KOF Swiss Economic Institute, ETH Zurich		
Director	Prof. Dr. Jan-Egbert Sturm		
Editor	Dr. David Iselin		
Layout	Vera Degonda, Nicole Koch		
Pictures	Shutterstock, Roman Babakin		
Address	LEE G 116, Leonhardstrasse 21, 8092 Zurich		
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Next publication date: 7 September 2018

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