

KOF Bulletin

No. 71, February 2014

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ECONOMY AND RESEARCH



KOF BUSINESS TENDENCY SURVEYS: SWISS COMPANIES INCREASE THEIR PACE

The KOF Business Situation Indicator for Switzerland's private sector economy rose for the fourth time in a row in January. It has gained considerable ground since the summer of last year (see G 1). Moreover, at the start of 2014, the companies surveyed are distinctly more optimistic about the future than they have been so far. Their personnel planning is a lot more positive than it was in December, which suggests a better employment outlook. Swiss companies are gaining momentum.

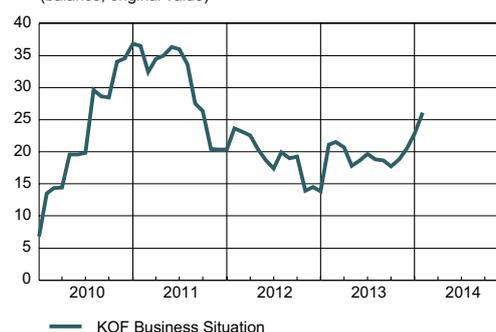
The business situation has continued to improve in the **manufacturing sector**. The companies surveyed overall gave their situation a satisfactory grade. The export-oriented companies in particular are not complaining nearly as much about sluggish business as they were during the fall of last year. Dissatisfaction at the existing order reserves has eased again and production capacities are being utilised somewhat more. However, the degree of machine and appliance utilisation (82%) continues to be below average. Current headcounts are considered a little too high. By and large companies are no longer planning redundancies because they are expecting demand to pick up in the near future. They see considerably greater opportunities in foreign business than they did last year. Production planning is therefore clearly positive. And since firms are no longer anticipating further price reductions, their business expectations are generally more confident than they have been until now.

In January, the business situation in the **construction industry** remained outstanding. More companies are reporting a healthy business situation than did a year ago. They are mostly satisfied with the existing order backlog. The number of employees is considered almost adequate. Looking ahead to the coming six months, the construction firms expect a fairly stable business run. The project engineering sector is also reporting an excellent business situation. For the near future, planning offices expect almost unchanged demand for their services.

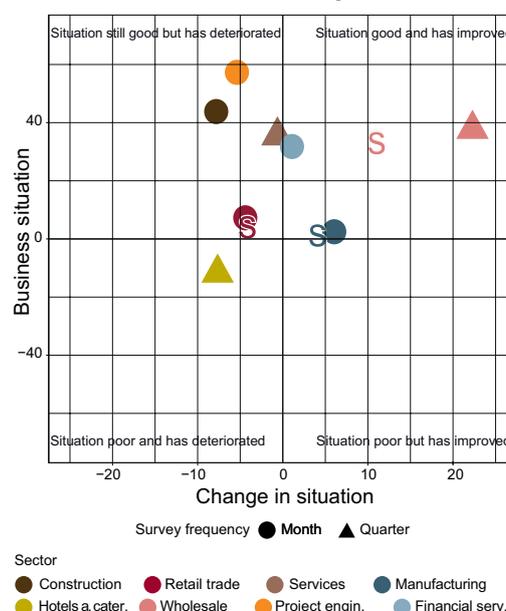
As for the **retail trade**, its current business situation is good, but not quite as good as in December (see G 2). In the last three months of 2013, retailers managed to sharply increase their sales and improve their profit situation. Customer frequency in shops is currently higher than in the corresponding month of the previous year, but warehouses are somewhat too well stocked, according to respondents. Nevertheless, the companies consider their sales outlook to be better than a year ago and they are intending to increase the number of their staff slightly in the near future. Retailers still maintain prudent optimism when it comes to business expectations for the next six months.

G 1: Business Situation Indicator

(balance, original value)



G 2: KOF Business Situation: Change in Different Sectors



The **wholesale traders** are a lot more satisfied with their situation than they were three months ago. Demand has intensified and the companies have sold more goods than before the end of last year. The survey participants perceived an improvement in their profitability. Furthermore, more price increases are planned for the near future. Overall the wholesalers are currently assessing their business outlook a lot more positively than before.

The **hotel and catering sector** reports an unsatisfactory business situation. After experiencing an upswing in business during the summer of 2013, the enterprises once again recorded a greater decline in turnover. The less favourable business situation has mainly affected companies involved in catering. Sales declined only slightly, but the earning situation of the catering companies has been affected noticeably. However, the companies surveyed are anticipating growth in demand in the near future and many will be raising their prices. The business expectations of the caterers are therefore a lot more optimistic than so far. In comparison to the previous year, guesthouses and hotels experienced a decline in domestic and foreign guests, but revenues remained more or less stable. Even though guesthouses and hotels are expecting brisk business prospects in the near future and the business expectations are overall positive, plans for hiring are clearly pointing in the other direction.

The **financial and insurance services industry** is reporting a slight improvement in its business situation. This amelioration is due to the insurance companies. Demand for insurance services has risen over the past three months. While the insurance companies are expecting slackening demand, they have generally regained their optimism about the business outlook. Companies also want to increase their headcount. After having recorded an improvement in the business situation in the previous month, the situation of the banks barely changed in January. They continue to suffer from weak business with foreign customers. In this particular area they have expressed scepticism about developments in the near future. By contrast, they do assess their current business with domestic customers as very good and are therefore optimistic about business with their inland customers over the next six months. Both the domestic private clientele business and the demand from domestic firms should be on the rise, according to the survey participants. Again, the banks are generally not planning to reduce their headcount.

The business situation continues to be favourable for **other service providers**. Their current staff numbers are considered to be adequate. Since companies are increasingly expecting greater demand, they want to hire more personnel. With regard to their business outlook for the coming six months, survey participants are even more optimistic than during the previous quarter.

Further information regarding the KOF Business Tendency Surveys is available at:

www.kof.ethz.ch/en/surveys/business-tendency-surveys/ >>

Take part in the KOF Business Tendency Surveys:

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SWISS FOREIGN TRADE IN 2013: GROWTH STILL DRIVEN BY PHARMACEUTICALS

Following a prolonged period of slow dynamics in Swiss foreign trade, the improved economic situation witnessed in the big industrialised countries towards the end of last year also impacted the Swiss trade in goods. According to current figures published by the Swiss Customs Administration (EZV), goods exports picked up speed in the second half of 2013: Exports of goods (excluding electricity exports) rose by 1.5 per cent over the previous year (see G 3).

This result was largely achieved thanks to strong growth in pharmaceuticals exports (+11.3%). The pharmaceutical industry thus continued to drive Swiss foreign trade. In contrast, exports in the second growth engine, clocks, recorded two-digit growth figures, stagnating for the first time in three years. A slight decline in the high growth figures had already suggested itself in autumn 2012, mainly due to a decrease in clock exports to the Chinese market. In general, clock exports are expected to follow a slower growth trend in the coming years. Nevertheless, the clock sector will remain Switzerland's third most important export industry thanks to steady demand in the various emerging markets.

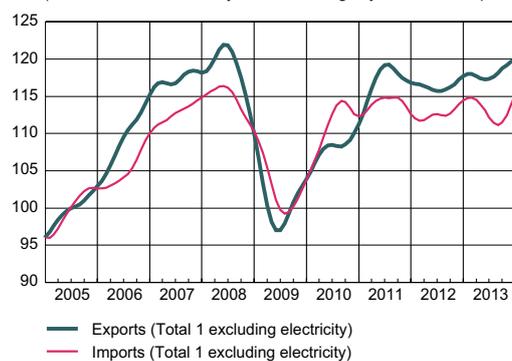
GAP IN EXPORT INDUSTRY GROWTH

The gap between individual export sectors, which opened up due to the banking and financial crisis and the associated slump in global trade, has not closed over the past year. However, thanks to lower negative dynamics in machinery, chemicals and electronics exports in 2013, the gap has not increased (see G 4). Following two years of declining figures, although bottoming out last year, machinery exports still went down by a further 3 per cent compared to 2012.

Exports of both precision instruments (+7.5%) and foodstuffs, drinks and tobacco (7.5%) went up in 2013. The food industry benefited from consistent demand for coffee capsules and energy drinks. Metal exports continued on a sideways trend.

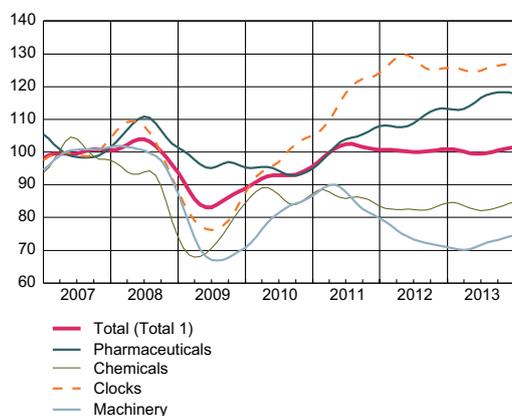
G 3: Accelerated Increase at Year-End

(real, index 2005 = 100, adjusted to working days, smooth component)



G 4: Exports by Sector

(real, index 2007 = 100, adjusted to working days, smooth component)



A geographical breakdown of the EZV figures shows that the USA, UK and China were regions of particular growth for the Swiss export economy. Trade between Switzerland and its big European neighbours was, however, slow. The consistent upswing in Europe will stimulate demand for Swiss exports in the big neighbours this year. Accelerating economic growth should also raise Swiss goods exports back to a long-term growth rate of over four per cent per year.

Swiss trade with Japan slumped last year as the consistent devaluation of the Yen made Swiss products increasingly expensive. Trade with a few of the bigger emerging markets (including India and Brazil) also suffered due to unfavourable exchange rates.

SLOW TREND IN GOODS IMPORTS

Imports of goods stagnated last year despite the exchange rate-related low prices of foreign goods and the robust domestic economy. Imports of consumer goods declined more than other categories (6.4%). This was due, among other reasons, to lower car imports, which declined from the high figures of the previous year. Imports of jewellery articles dropped considerably while investment goods went up in the last year (+5.7%). Switzerland also imported more machinery and building materials. The upswing in export activities towards the end of last year stimulated imports of semi-finished and finished goods (+1.4%).

Growing dynamics in goods exports had an impact on last year's balance of trade. The surplus rose further to over 25 billion Swiss francs, reaching a level last seen in the years before the global economic crisis.

USA: FINAL SPURT MARRED BY FLAWS

Towards the end of last year, the US economy delivered a strong performance: According to initial estimates made by the Department of Commerce in January, economic performance measured in terms of gross domestic product (GDP) grew by an annualised 3.2 per cent in the fourth quarter 2013. In the previous quarter, growth had already reached a level of 4.1 per cent. Hence, extrapolated growth of the US economy totalled an annualised 3.5 per cent in the second half of 2013. The last time a stronger six-month growth figure was recorded was before 2005 – long before the onset of the real estate, financial and economic crisis. The upswing thus seems to have finally arrived in the USA.

Nevertheless, the strong performance is marred by flaws. Of the 3.5 per cent growth in the second half of the year, inventory build-up accounts for close to one percentage point and the trade balance for just under 0.5 percentage points. Domestic aggregate demand (consumption plus investments) increased by a mere 2.2 per cent. Although this figure is still high compared to the EU, it is rather modest compared to the USA's former upswing phases. On top of this, a setback might still occur in the half-year that has just started. Traditionally, warehouse stocks in the USA increase by around 25 billion US dollars per six-month period on a price-adjusted basis (not annualised). In the second half of 2013, however, the figure was 60 billion US dollars. If warehousing activities normalise in the first half-year of 2014, economic growth will lose one whole percentage point.

WEAK IMPORTS REDUCE US FOREIGN TRADE DEFICIT

Recently, US foreign trade has also been subject to special factors that have reduced the traditional deficit between the USA and the rest of the world. In the fourth quarter 2013, US exports rose by more than ten per cent while imports grew by a mere one per cent. Food exports, which had already increased by 40 per cent in the previous quarter, grew by over 80 per cent on an annualised basis. This result is due to an excellent harvest season in 2013, which also fuelled high warehouse stocks. On the import side, however, a few structural changes are currently having an impact: The proliferation of hydraulic fracking progressively reduces the USA's dependence on imports of mineral oil and petroleum product imports, which have declined dramatically since 2011. In addition, troop withdrawals from foreign countries are also affecting the balance as the money spent by soldiers in their areas of operation, wages paid locally to natives and construction expenses are all counted as service imports – which are now on the wane. Sometime in the near future, these factors will cease to impact the import growth rate as opposed to the level.

GDP DEFIES STRESS FACTORS

Nevertheless, these slight flaws cannot disguise the fact that the US economic engine has picked up speed. This is particularly true for private consumption which accelerated from two per cent to 3.3 per cent in the fourth quarter 2013 despite the government's sequestration policy and the shutdown of government agencies last October. Even the weak equipment investments seem to have bottomed out and soared by five per cent. In contrast, construction investment declined by 5.5 per cent and residential construction investment by as much as ten per cent – after three years of uninterrupted growth. This is probably due to the rise in long-term interest rates that started in May as well as the unfavourable weather conditions in December. A further stress factor consisted of public consumption at the government level which was cut by close to 13 per cent in the course of the shutdown and sequestration policies. These special factors thus had an impact in both directions in the fourth quarter 2013, and their discontinuance in the course of the year should ultimately facilitate a balanced upward movement.

KOF INDICATORS



KOF EMPLOYMENT INDICATOR: BACK IN THE BLACK

The KOF Employment Indicator has risen slightly and is now showing positive figures again. Nevertheless, it is still close to naught. The differences between the sectors observed in recent months in the assessment of employment figures have narrowed.

The KOF Employment Indicator rose by 1.5 per cent and now stands at +0.6 points (see G 5). In November 2013, it still stood at -0.9 (revised from -0.1). Companies surveyed by the KOF estimate, for the most part, that their headcount is adequate at the present time. The current level of the Indicator suggests that the development of employment recorded these past months will continue.

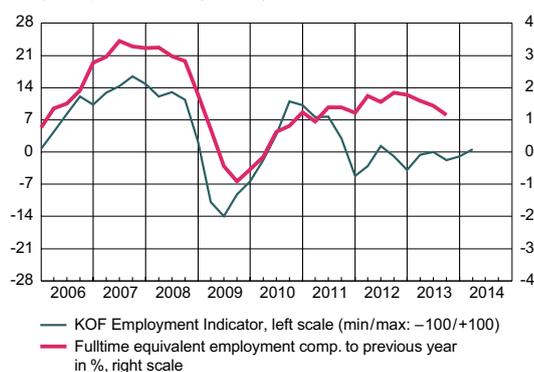
SECTOR-BASED RESULTS

The Indicator's modest rise is rooted mainly in the slightly more optimistic evaluation of employment in those sectors that previously generated negative estimations (see G 6). The banking and hotel and catering sectors are still leaning towards more redundancies, as is the industrial sector. However, the indicators in these sectors have moved closer to the indicators in other sectors where jobs have been added in the recent past. Among the latter were, in particular, the insurance and the other service sectors, including real estate services and healthcare. The narrowing of differences between the sectoral indicators suggests a somewhat broader-based development of employment.

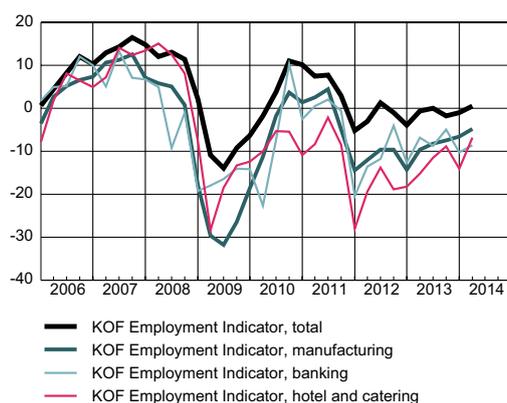
The KOF Employment Indicator is ascertained using the business tendency surveys of Swiss companies. It is based on information given out by companies, namely whether they consider their workforce too large, too small, or adequate, and whether they are planning to hire or fire personnel in the coming three months. The Indicator allows for an early evaluation of the labour market situation, since it shows how the employment tendencies will evolve in the next three months in Switzerland.

G 5: KOF Employment Indicator

(Employment according to FSO)



G 6: Employment Indicator by Sector



KOF ECONOMIC BAROMETER: ON THE RISE

The KOF Economic Barometer continued its upward movement in January 2014, albeit at a slower pace, rising by 0.03 points to 1.98. The Swiss economy got off to a good start in the new year.

In January 2014, the KOF Economic Barometer climbed from 1.95 to 1.98, rising for the tenth consecutive time, albeit at a slower pace than before (see G 7). The last time the Barometer reached a comparable level was in July 2011 (2.03 points). The positive trend at the start of the year was mostly carried by domestic consumption. The credit business has stabilised while the construction sector has slowed down slightly.

The KOF Economic Barometer is based on a multi-sector design involving three modules: the “Core GDP” module (GDP excluding construction and banking), the “Construction” module and the “Banking” module. The “Core GDP” module is still following an upward trend, albeit at a noticeably slower pace. In return, after months of following a downward trend, the “Construction” module has largely stabilised while the “Banking” module is once again pointing downwards.

The “Core GDP” module, which encompasses over 90 per cent of Swiss GDP, dominates the KOF Economic Barometer. The underlying measurement modules are “Swiss Industry”, “Swiss Consumption” and “Swiss Exports Destination EU”. All three measurement models positively contribute to the dynamics of the “Core GDP” module, with the “Swiss Consumption” module providing particular impetus in January.

FURTHER KOF PUBLICATIONS

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<http://kof.ethz.ch/en/publications/> >>

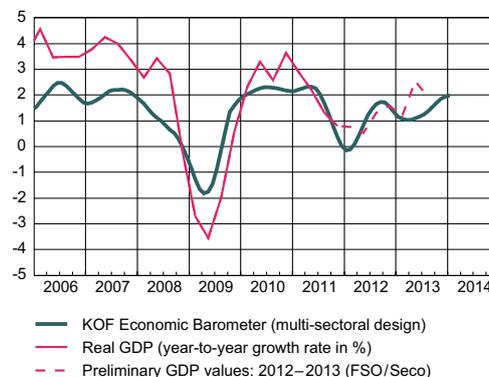
KOF ECONOMIC FORECAST

How much GDP growth does the KOF expect for this year? How will the labour market develop? You find the latest KOF Economic Forecasts here:

http://www.kof.ethz.ch/static_media/bulletin/71/kof_bulletin_forecasts_2014_02_en.pdf >>

G 7: KOF Economic Barometer

(GDP according to ESA 95)



AGENDA

KOF EVENTS**KOF Research Seminar:**

Trade Adjustment: Worker Level Evidence

David Dorn, Centro Estudios Monetarios y Financieros CEMFI

ETH Zurich, 13 February 2014

tba

Andreas Haufler, University of Munich

ETH Zurich, 11 March 2014

tba

Florian Englmaier, University of Munich

ETH Zurich, 12 March 2014

The Chicken and the Egg: Financial Innovation and the Demand for Safe Assets

Johannes Eugster, Graduate Institute Geneva

ETH Zurich, 9 April 2014

tba

Panu Poutvaara, University of Munich and ifo Institute

ETH Zurich, 16 April 2014

tba

Ian Wooten, University of Strathclyde

ETH Zurich, 29 April 2014

Trade and the Topography of the Spatial Economy

Costas Arkolakis, Yale University

ETH Zurich, 30 April 2014

tba

Volker Nitsch, Darmstadt University of Technology

ETH Zurich, 14 May 2014

tba

Harris Schlesinger, University of Alabama

ETH Zurich, 2 June 2014

tba

Michael Klein, Tufts University

ETH Zurich, 4 June 2014<http://www.kof.ethz.ch/de/veranstaltungen/k/kof-research-seminar/> >>**KOF-ETH-UZH International Economic Policy Seminar:**

tba

Masaki Nakabayashi, University of Tokyo

ETH Zurich, 13 March 2014

tba

Alexander Apostolides, European University Cyprus

ETH Zurich, 20 March 2014

tba

Falko Jüssen, Bergische Universität Wuppertal

ETH Zurich, 27 March 2014

Globalization: A Woman's Best Friend? Exporters and the Gender Wage Gap

Beata Javorcik, University of Oxford

ETH Zurich, 10 April 2014

tba

Michael Funke, University of Hamburg

ETH Zurich, 15 May 2014

tba

Helmut Herwartz, University of Göttingen

ETH Zurich, 22 May 2014

www.kof.ethz.ch/de/veranstaltungen/k/kof-eth-uzh-seminar-in-international-economic-policy/ >>

KOF Media Agenda: www.kof.ethz.ch/en/medien/agenda/ >>

OTHER EVENTS

European Public Choice Society Meeting 2014

Cambridge (England), 3–6 April 2014

www.econ.cam.ac.uk/epcs2014/ >>

Annual Conference of the Spatial Econometrics Association (SEA)

Zurich (Switzerland), 3–6 June 2014

www.spataleconometricsassociation.org >>

17th World Congress of the International Economic Association (IEA)

Dead Sea (Jordan), 6–10 June 2014

www.iea-world.org/JordanCongress_GeneralInfo.php >>

Jahrestagung 2014 Verein für Socialpolitik

Evidenzbasierte Wirtschaftspolitik

(Call for Papers: 1 March 2014)

Hamburg (Germany), 7–10 September 2014

<http://socialpolitik.de/De/vfs-jahrestagung> >>

Annual CIRET Conference

Hangzhou (China), 9–11 October 2014

www.ciret.org/conferences >>

8th Annual Conference on the Political Economy of International Organizations

(Call for Papers: 30 September 2014)

Berlin (Germany), 12–14 February 2015

www.peio.me/ >>

Add event: www.kof.ethz.ch/publications/bulletin/event/index_en >>

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**PUBLISHER**

ETH Zurich, KOF Swiss Economic Institute, WEH D 4, Weinbergstrasse 35, 8092 Zürich

Phone +41 44 632 53 44 | Fax +41 44 632 12 18 | kof@kof.ethz.ch

EDITORIAL TEAM

Anne Stücker | David Iselin

bulletin@kof.ethz.ch

NEXT PUBLICATION DATES

7 March 2014 | 4 April 2014

TABLES – KOF Winter Forecast 2013

SWITZERLAND

Real Gross Domestic Product by Type of Expenditure																
Percentage change against																
	2004-2012	previous quarter (annualized, trend cycle component)												previous year		
		2013				2014				2015				2013	2014	2015
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Private consumption	1.7	2.5	1.9	1.7	1.9	2.5	2.6	2.2	1.8	1.8	2.0	1.9	1.7	2.2	2.2	1.9
Public consumption	0.7	1.7	0.6	-0.5	-0.7	0.0	0.8	1.1	1.8	2.2	1.8	1.3	0.9	1.4	0.4	1.6
Gross fixed capital formation	2.5	1.0	3.3	3.5	2.2	2.1	3.1	3.9	3.5	3.3	3.7	4.2	5.7	1.4	2.9	3.7
– Construction	1.7	1.0	0.7	2.6	3.8	2.8	1.2	-0.1	-1.2	-2.0	-1.4	0.3	2.6	2.6	2.0	-0.8
– Machinery and equipment	3.0	0.2	5.6	5.3	0.9	1.4	4.9	7.5	7.6	8.2	8.1	7.6	8.2	0.3	3.7	7.8
Exports of goods (1) and services	4.8	-0.9	2.0	4.2	3.6	3.3	5.0	5.2	5.5	6.5	5.9	5.6	5.6	1.3	4.1	5.8
– Goods	4.5	-2.9	2.2	4.7	3.6	2.7	4.1	5.3	6.6	7.6	6.2	5.9	6.3	0.3	3.8	6.4
– Services	5.7	3.7	0.9	1.6	3.7	6.0	7.0	5.5	3.2	3.5	5.6	5.4	4.0	3.4	4.7	4.6
Imports of goods (1) and services	4.2	-0.6	0.0	1.4	1.2	2.6	4.7	5.7	5.7	6.1	6.1	5.9	6.0	0.2	3.2	5.9
– Goods (1)	3.4	-2.1	0.5	2.2	1.3	2.2	4.2	5.6	6.3	6.9	6.6	6.5	6.7	-0.5	3.3	6.3
– Services	7.7	2.1	-2.7	-1.1	-0.1	4.5	7.4	4.8	3.6	3.8	4.8	3.4	3.4	2.7	3.2	4.2
Change in stocks (2)	0.0	1.0	0.4	-0.5	-0.3	0.4	-0.3	-0.4	-0.3	-0.5	-0.2	0.0	-0.2	0.3	-0.1	-0.3
Gross Domestic Product (GDP)	2.1	1.8	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.2	2.3	2.5	2.7	1.9	2.2	2.3

(1) Without valuables (i.e. precious metals, precious stones and gems as well as objects of art and antiquities)

(2) Percentage contribution to GDP-growth

Other Macroeconomic Indicators

Other Macroeconomic Indicators																
Percentage change against																
	2004-2012	same quarter of previous year												previous year		
		2013				2014				2015				2013	2014	2015
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real effective exchange rate of Swiss Franc	1.4	-2.5	-0.7	-0.4	4.2	-5.2	-2.8	-4.5	-1.0	-4.2	-1.9	-3.7	-1.0	-1.4	-1.8	-2.9
Short term interest rate ((3-month Libor CHF) (1))	1.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1
Yield of 10 years federal bonds (1)	2.1	0.8	0.8	1.1	1.1	1.2	1.3	1.4	1.5	1.5	1.6	1.6	1.7	0.9	1.4	1.6
Consumer prices	0.7	-0.4	-0.4	0.0	0.0	0.1	0.3	0.2	0.7	0.8	0.7	0.7	0.8	-0.2	0.3	0.7
Full-time equivalent employment (2)	1.3	1.2	1.1	1.0	1.0	1.2	1.3	1.3	1.3	1.4	1.4	1.5	1.6	1.3	1.2	1.4
Unemployment rate (1,3)	3.3	3.1	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.0	3.0	2.9	2.9	3.2	3.1	3.0

(1) Level

(2) Percentage change against previous quarter (annualized, trend cycle component)

(3) Unemployed as percentage of labour force according to census of 2000

GLOBAL ECONOMY

GLOBAL ECONOMY																
Percentage change against																
	2004-2012	previous quarter (annualized, seasonal adjusted)												previous year		
		2013				2014				2015				2013	2014	2015
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real Gross Domestic Product (GDP)																
– OECD total	1.7	1.2	2.2	2.1	1.3	1.7	1.4	1.7	2.1	2.1	2.1	2.3	2.0	1.2	1.7	2.0
– European Union (EU-28)	1.1	-0.3	1.4	0.9	1.4	1.3	1.3	1.5	1.6	1.6	1.6	1.7	1.7	0.0	1.3	1.6
– USA	1.7	1.1	2.5	3.6	0.6	1.7	2.3	2.6	2.8	2.8	2.8	2.8	2.8	1.7	2.1	2.7
– Japan	0.7	4.3	3.8	1.9	3.3	2.7	-1.3	-0.2	1.7	1.6	1.7	2.8	0.6	1.8	1.6	1.3
Oil price (\$ per barrel) (1)	77.0	112.9	103.0	110.1	110.0	110.5	111.0	111.6	112.1	112.7	113.3	113.9	114.5	109.0	111.3	113.6

(1) Level

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