

KOF Bulletin

No. 79, November 2014

ECONOMY AND RESEARCH

KOF Business Tendency Surveys: KOF Business Situation Indicator Declines >>

Health Spending Forecast: Health Spending Set to Rise Further >>

The Anti-Mass Immigration Initiative and its Impact on Swiss Companies' Investment Plans >>

KOF Autumn Forecast: Waiting for the Upturn >>

A Weak Global Economy >>

KOF INDICATORS

KOF Employment Indicator: Labour Market Is Losing Momentum >>

KOF Economic Barometer: Again Close to its Long-run Average >>

Further KOF Publications >>

AGENDA

KOF Events >>

Other Events >>

CUSTOMER SERVICE >>

IMPRINT >>

KOF BUSINESS TENDENCY SURVEYS: KOF BUSINESS SITUATION INDICATOR DECLINES

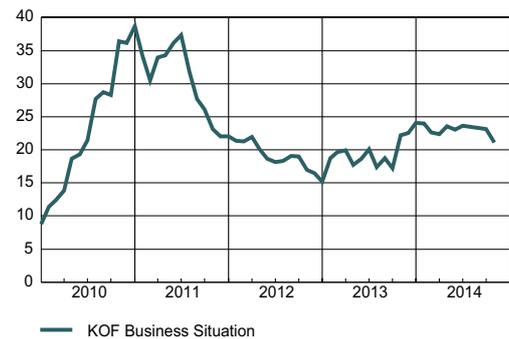
According to the answers given by 5,900 companies active in industry, construction and the main services, companies in Switzerland found their business situation substantially less positive in October. For the first time in four months, the Business Situation Indicator declined significantly (see G 1). On the other hand, the companies' expectations for the coming six months are almost unchanged and assessments of the further business outlook are cautiously positive. Nevertheless, the Swiss economy is encountering some headwinds this autumn.

The business situation in the processing industry did not change much in October. As in the previous month, it improved slightly and is generally considered to be satisfactory. Although the assessment was somewhat more positive among domestically-oriented companies than among export-oriented companies, there is currently no pronounced dissonance between the two groups. Capacity utilisation of appliances and machines was up slightly compared to the previous quarter although, at 82.4 per cent, capacity utilisation is still below average. The trend in order books was more favourable than before and companies are increasingly planning to step up production in the near future. These plans have progressed to the degree that intermediate product warehouses have been filled and more intermediate products will be ordered in the coming months. Although pressure on selling prices may not relent, business expectations remain confident.

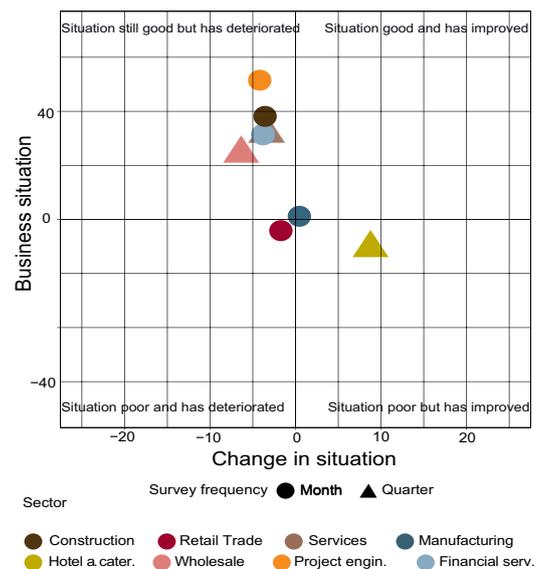
The business situation in the construction industry and the project engineering sector has deteriorated slightly with the indicator slipping considerably below the 2013 figures in both areas (see G 2). Fewer companies consider their current order pipelines to be substantial and normality is returning. However, the range of the order books has hardly changed in the construction business, although companies are expecting a slight decline in building production in the near future. Order books in the project engineering sector remain substantial and construction sums in the residential sector have gone up. In the industrial-commercial area and the public sector, construction sums have remained more or less unchanged. While project engineering offices expect stable demand in the coming three months, construction businesses anticipate less lively demand for their services. According to the respondents' plans, project engineering companies will maintain relatively stable human resources in the near future while construction companies plan to reduce staff numbers slightly.

G 1: KOF Business Situation Indicator

(balance, seasonally adjusted)



G 2: KOF Business Situation: Change in Different Sectors



SITUATION LESS FAVOURABLE IN THE RETAIL TRADE BUT MORE FAVOURABLE IN THE HOTEL AND CATERING SECTOR

Satisfaction with the business situation has gone down again in the retail trade. Neither customer frequency nor turnover came up to the previous year's figures. Although results have gone down, retail companies are not planning to shed jobs in the near future. As regards the trend in the coming three months, respondents are confident that turnover will increase. However, with prices still under pressure, optimism regarding the overall business outlook has become more cautious. The business situation in the wholesale trade has deteriorated noticeably for the first time in three months. All in all, however, the companies' assessment is still predominantly positive. Demand is no longer rising and sales of goods have declined compared to the previous year's period. Delivery times have become shorter while results are no longer on an upward trend. Wholesalers still expect an increase in demand in the near future. However, since they also anticipate a combination of rising purchasing prices and stable selling prices, their general business expectations are now less positive than before.

The business situation assessment in the hotel and catering industry is less desolate than in the first three quarters of the year. Both restaurant and hotel businesses complained less about the unfavourable business situation although, all in all, they are still dissatisfied. Hotels did not suffer any further decline in turnover compared to the previous year and their results did not subside further. In contrast, turnover and results have gone down in the catering industry. Hotels expect an increase in demand in the near future while catering companies anticipate stable demand. The number of employees is likely to decline slightly in both areas. All in all, the catering businesses are noticeably more confident when it comes to their business outlook.

The business situation among financial and insurance companies has deteriorated slightly compared to the previous month. Nevertheless, the situation remains favourable and is more positive than at the beginning of the third quarter. The current decline in the business situation indicator results from the downward correction in the insurance companies' assessment. Nevertheless, improved business expectations among insurers show that they expect an interim lull. Banks report that their business situation is more favourable than before. They still maintain a confident outlook, albeit slightly less so than in the previous month. The banks anticipate a considerable increase in domestic demand. Their business expectations regarding foreign demand is less negative than before. Both banks and insurance companies consider the number of staff to be almost adequate. Staff plans in both areas indicate stable staff numbers in the near future.

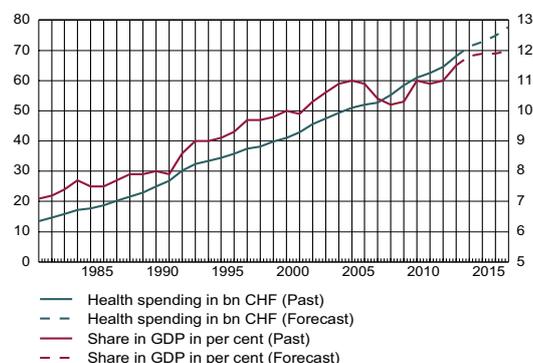
The favourable business situation among the other service providers has deteriorated somewhat. In particular transport, information and communications service providers report that their situation is no longer quite as positive as in the previous quarter. However, all in all, the surveyed service companies confirm a stable rise in demand in the past three months and expect a further increase in the near future. Their HR plans thus include further recruitment, not least because their business expectations for the coming six months are more confident than in the summer.

HEALTH SPENDING FORECAST: HEALTH SPENDING SET TO RISE FURTHER

Following above-average growth in 2012, a further substantial increase in health spending is expected for 2013. The significant rise in spending is mainly due to the hospital financing conversion to case-based lump sum financing. In the current year, growth is expected to level out and start rising again moderately in the coming years.

The health sector's significance is growing in Switzerland: In 2013, the industry provided 236,000 full-time equivalent jobs. The share of health service jobs in total employment in Switzerland has risen in the long term, growing from 4.9 per cent in 1992 to 6.7 per cent in 2013. However, the health spending share, i.e. the share of health spending in GDP, has risen steadily as well as the share of health sector employees: According to ESA95¹, in the ten years before 2012, it jumped from 10.9 per cent to 11.5 per cent. Since health spending is rising faster than nominal GDP in the forecast period ending in 2016, the share will go up to 12 per cent by 2016 (see G 3).

G 3: Trend in Health Spending and Share in GDP



SPECIAL EFFECT HAS SIGNIFICANT IMPACT ON GROWTH

According to data provided by the Swiss Federal Statistical Office (FSO), health spending increased by 5.3 per cent in 2012. This figure is higher than in 2011 and exceeds the 3.9 per cent average recorded since 1995. In the past year, above average growth in hospital spending is expected to have continued since the conversion of hospital financing to case-based reimbursement led to delays in invoicing. As a consequence, many services provided in 2012 were not settled until 2013.

Following the significant spending surges in 2012 and 2013, the increase is levelling out at 2.1 per cent in the current year. This figure is indicated by the cost monitoring results calculated by the Swiss Federal Office of Public Health (Bundesamt für Gesundheit, BAG) which involve a low increase (0.2%) in total mandatory health insurance (obligatorische Krankenversicherung, OKP) spending in the first half of 2014, compared to the previous year's period.

The role played by the exaggerated 2013 spending figure caused by the shift in expenses is as important as the re-introduction of the restriction on doctors' licenses. Furthermore, price cuts on prescription drugs entered into force in June 2013 which, according to the BAG, are to save 720 million Swiss francs by 2015. As a consequence, spending growth in the coming year is expected to be moderate at 2.8 per cent before going up to 3.7 per cent in 2016 once the savings measures have expired (see table 1).

Table 1: Total Health Spending-Forecast

	2013	2014	2015	2016
KOF Health Spending Forecast, Autumn 2014	4.9%	2.1%	2.8%	3.7%

© KOF, ETH Zürich

1) ESA95 is the old European System of National and Regional Accounts (ESA). In September 2014, the Swiss Federal Statistical Office converted the Swiss Accounts to the new European ESA2010 standard. However, the above forecast still uses the data based on the old ESA95.

IMPACT OF THE NEW HOSPITAL FINANCING SCHEME

Although it had been announced that the conversion to case-based reimbursement was to be implemented without causing further costs, a cost surge occurred as early as 2012. In the past year, a further significant increase in health spending is expected. With the OKP figures for the first six months of 2014 indicating stagnation, a shift in level appears to have occurred. Nevertheless, detailed analysis is not possible before the final figures are published for 2013 and 2014.

In terms of services, over the last two years, particular growth has been recorded in the fields of “inpatient treatment” and “outpatient treatment at hospitals” (see G 4). In terms of the financing scheme, “KGV health insurance” and “cantons” are recording higher growth rates while “private insurance” has declined significantly.

Following a three-year interruption, the KOF Swiss Economic Institute at ETH Zurich has resumed its half-yearly forecast of health spending in Switzerland. In autumn, the Institute’s forecast activities are supported by a research contribution submitted by Comparis and, in spring, by a research contribution submitted by TopPharm.

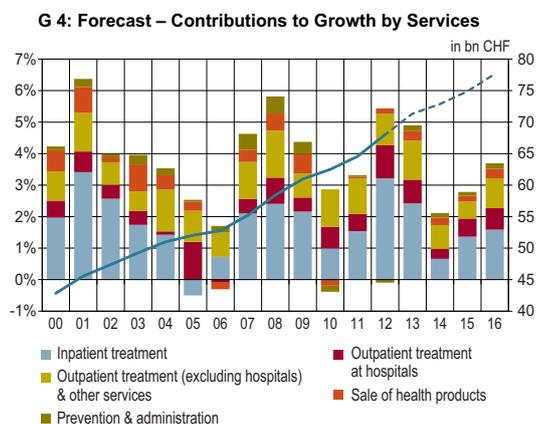
The full study is available on our website:

www.kof.ethz.ch/de/publikationen/p/kof-studien/3424/ >>

THE ANTI-MASS IMMIGRATION INITIATIVE AND ITS IMPACT ON SWISS COMPANIES’ INVESTMENT PLANS

The close and rather unexpected vote in favour of the Anti-Mass Immigration Initiative in February 2014 has led to a sudden surge in insecurity regarding the future political framework conditions in Switzerland. As a rule, insecurity is particularly uncondusive to private investment. This general rule has been confirmed by a study examining the investment plans of Swiss companies which took part in a special KOF survey for this purpose.

Shortly after the adoption of the Anti-Mass Immigration Initiative (MII), KOF conducted a study among Swiss companies to find out how enterprises are reacting to the result of the vote (see press release of 25 April 2014). Initial analysis showed that around 13 per cent of the companies report reduced investment security as a consequence of the MII and more than half of the surveyed companies think that the medium-term growth prospects for the Swiss economy are affected. Furthermore, the companies expect higher recruitment costs due to the MII. Owing to this assessment, it is hardly surprising that a significant number of the surveyed companies have already adjusted their investment and HR plans for the current and subsequent years in reaction to the adoption of the Initiative.



12 HYPOTHESES REGARDING THE IMPACT OF THE MII

KOF has analysed the special survey in detail taking economic literature on the correlation between insecurity and investment as the main basis. By means of 12 hypotheses, the authors Klaus Abberger, Andreas Dibiasi, Michael Siegenthaler and Jan-Egbert Sturm present the potential effects of the MII on companies' investment and HR planning. In this context, the assumption has been confirmed that higher insecurity has already led to a reduction in investment plans and cuts in future employment before the actual mode of implementation has been determined. For instance, the probability of companies reducing their investments in 2016 has risen by 18 percentage points in cases whereby companies report that insecurity has risen.

In addition, the authors attempt to convert the insecurity effect arising from the adoption of the Initiative into concrete figures. For this purpose, they use current investment figures provided by the companies. Their evaluation indicates that the adoption of the Initiative has reduced the private investment volume at the macroeconomic level by 0.9 percentage points in 2014.

The results also show that the negative impact on HR plans caused by the adoption of the Initiative is similar to the negative effect on investment plans. It was also found that companies which assume a larger decrease in investment security appear to adjust their investment plans more significantly than their HR plans.

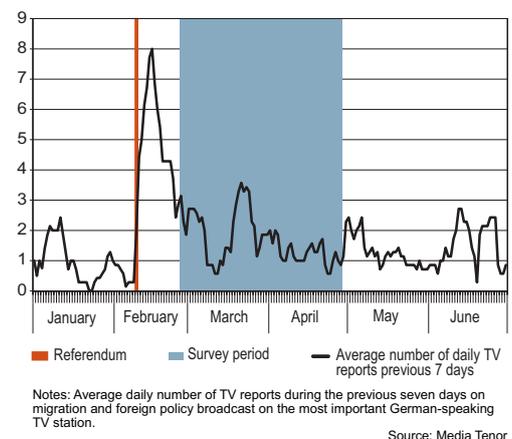
MEDIA INFLUENCE?

There has been extensive coverage of the (unexpected) adoption of the Initiative, both in the national and the international press. According to an evaluation of the media coverage by Swiss Radio and Television (SRF), the number of reports on migration and Swiss foreign policy increased significantly after the vote on 9 February and has remained high ever since (see G 5).

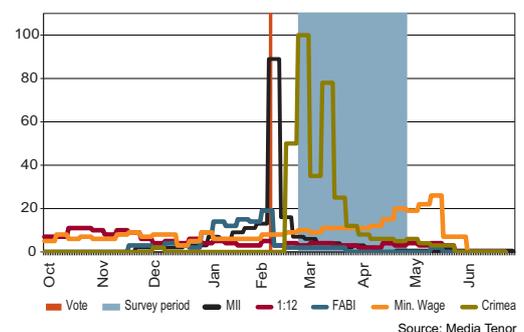
Consultation of Google Trend data shows that, before the vote, media interest in the MII did not differ much from that invested in other initiatives (1:12, FABI, minimum wage) (see G 6). Media interest only surged after the adoption of the Initiative. The rapid increase in coverage after the vote suggests that the public was rather surprised by the outcome.

Due to the extensive media coverage, the suspicion arises that companies may have been, to some degree, influenced by media reports when they completed the questionnaire. However, the authors show that, statistically speaking, there is very little correlation between general sentiment and the companies' actual response behaviour in the survey.

G 5: TV Reporting



G 6: Google Trends – MII and Other Events



TO BE CONTINUED

The debate about investment (in)security will continue as soon as the implementation of the Initiative commences. That effects can already be discerned today is not least due to companies preferring to wait out periods of insecurity rather than making substantial investments which may turn out to be wrong or misguided depending on the actual implementation of the MII. The problem is exacerbated by the fact that investments are usually to a large degree irreversible.

Klaus Abberger, Andreas Dibiasi, Michael Siegenthaler and Jan-Egbert Sturm (2014):

The Swiss Mass Immigration Initiative: The impact of increased policy uncertainty on expected firm behaviour, KOF Studies, 53, Zurich. >>

KOF AUTUMN FORECAST: WAITING FOR THE UPTURN

Just as the world economy is performing in a more restrained manner, so too the national economy is no longer displaying the previous year's dynamism. The effect of both of these developments is that, over the coming year, Swiss economic growth will remain solid, yet weaker at 1.7 per cent. An increase of 2.1 per cent is forecast for 2016. The unemployment rate will hardly change in the coming months. The general increase in prices continues to be low.

Switzerland is currently undergoing a period of relatively weak but stable economic growth. The export sector is booming less than before. Development of the domestic economy, which had compensated for the lack of foreign demand both during and after the financial crisis, is now weaker. However, net immigration has prevented a real slump in domestic demand. Private consumption will increase more slowly than the population this year. This might change again during the course of the coming year, even if consumption no longer quite reaches the growth rates of 2012 and 2013 (2015: 1.9 per cent; see G 7) (see table 2).

The development of Switzerland's most important trading partners gives little cause to be optimistic (see the contribution on the "Weak World Economy"). In the European Union, in particular, a sustainable upturn is a long time coming and demand there for Swiss capital goods is correspondingly still small. In Eastern Europe, the conflict in eastern areas of Ukraine is having a dampening effect. Outside Europe, for example in the USA, the economy is doing relatively well, which is giving important impulses internationally. By contrast, the emerging economies, especially the BRIC states, are no longer showing the same growth dynamic that they did a few years ago. China is one of the few of these countries to still be developing well, although the dynamic has abated here too.

G 7: Growth Contributions to GDP
(in PP of real GDP)

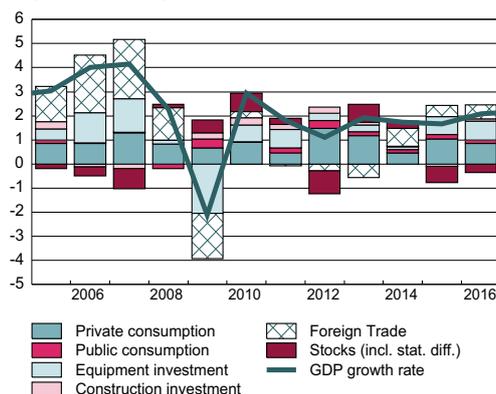


Table 2: Switzerland: Real Gross Domestic Product by Type of Expenditure

at previous year's prices	2014	2015	2016
Private consumption	0.8	1.9	1.6
Public consumption	1.4	1.8	1.3
Gross fixed capital formation	0.5	2.8	3.9
Construction	0.2	-1.0	1.1
Machinery and equipment	0.8	5.2	5.5
Exports of goods (1) and services	2.6	4.4	5.1
Goods (1), (2)	3.8	5.2	5.7
Services	2.8	3.3	4.9
Imports of goods (1) and services	1.4	4.3	5.1
Goods (1)	1.9	5.1	5.4
Services	0.4	2.7	4.5
Change in stocks (3)	0.8	-0.6	-0.4
Gross Domestic Product (GDP)	1.7	1.7	2.1

(1) without valuables (i.e. exports and imports of precious metals
incl. non-monetary gold and stones, gems as well as objects of art and antiquities)

(2) without merchandising

(3) Percentage contribution to GDP-growth

© KOF, ETH Zürich

GROWTH IN EMPLOYMENT CONTINUES

Against this background, the KOF is expecting the following developments for the Swiss labour market. Full-time equivalent employment will continue to rise in the coming year, by 1.1 per cent (see table 3). Growth will primarily be seen in the service sector, which is also where the majority of increasing investments in plant and machinery are expected. Large volumes of investment have already been ordered, in particular for passenger transport, and will be delivered at the end of next year and 2016. The unemployment rate according to the definition used by the State Secretariat for Economic Affairs (SECO) will settle at 3.2 per cent during the current year and next year (see G 8). According to the definition of the International Labour Organisation (ILO), it might amount to 4.2 per cent next year, after 4.5 per cent this year.

Table 3: Switzerland: Other Macroeconomic Indicators

	2014	2015	2016
Consumer prices	0.0	0.3	0.6
Full-time equivalent employment	0.8	1.1	1.2
Unemployment rate (1)	3.2	3.2	3.1

(1) according to SECO

© KOF, ETH Zürich

With a rise in prices of under one per cent in the next two years, monetary policy has no cause to act restrictively. The KOF expects that short-term interest rates will continue to be close to zero, while a gradual increase is to be expected for long-term interest rates over the course of the forecast period until the end of 2016. The exchange rate against the euro will remain at 1.20 for some time yet. The forecasted economic development in the eurozone makes it improbable that the Swiss franc will weaken in the near future.

The expectations of the KOF for this year are virtually unchanged with an increase in GDP of 1.7 per cent (summer forecast: 1.8 per cent). However, the outlook for next year has clouded over slightly on the whole. During the summer, the KOF was still expecting GDP growth of 2 per cent for 2015, but it now assumes growth of 1.7 per cent (see G 9).

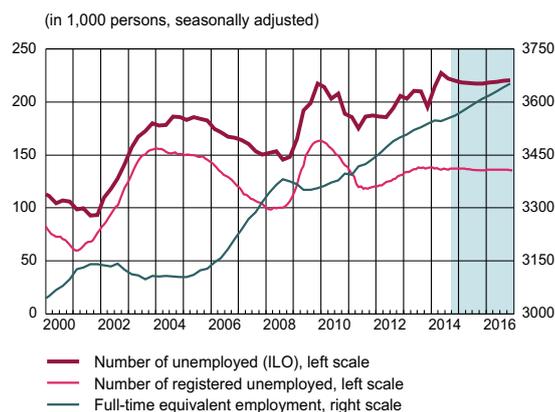
The changeover of the National Accounts is also noticeable in the most recent forecast. It admittedly changes little about the prospects for the future, but has led to some shifts in the past instead (see KOF Bulletin no. 77).

FORECASTING RISK: INTERNATIONAL AND NATIONAL LEVEL

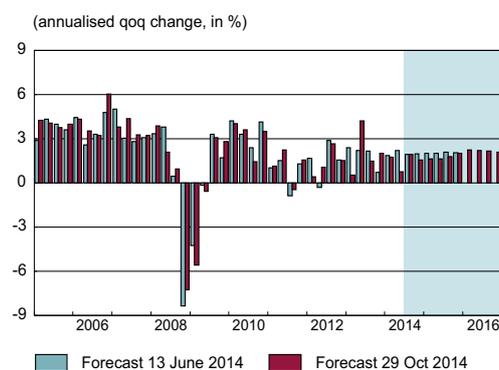
The uncertainty created by the success of the Initiative against Mass Immigration (MIA) is having an affect on investment and the implementation of past investments. In addition, due to international developments, economic imponderables have increased once again. At the moment, they might also be affecting the plans of businesses in Switzerland so the KOF is, on the whole, only assuming a reserved dynamic in investments in plant and machinery. The risks exist both in an economic context in the eurozone and in the political developments in Ukraine and the Middle East. In addition, the further spread of the Ebola virus in West Africa may have negative effects on the economic mood, even if the states affected so far are of limited importance for the international economy.

That the forecasted 2014 GDP increase has scarcely changed despite the developments mentioned is down to inventory management. Businesses have absorbed the less auspicious development during the year so far with their inventory management. The amount of inventory investment in 2013 and in the first six months of 2014, and the associated increase of inventories will continue at a reduced rate until the end of the forecast period. However, if production were to decrease at a more rapid rate and be adapted to demand, this would have corresponding negative consequences for the development of value added and, finally, for employment.

G 8: Employment and Unemployment With Forecast



G 9: Switzerland: Real GDP



Future measures as part of the MIA are not taken into consideration to the full extent in the forecast since there are currently still too many uncertainties about when and in which way the Initiative will be implemented. However, existing uncertainty has been factored into the forecast. In its forecast, the KOF also assumes the status quo, which implies that the “Ecopop Initiative” will be rejected. Adoption of the initiative would, in the short term, greatly increase uncertainty with regard to the future development of demand, recruitment costs and access to the internal EU market. Investments by businesses in Switzerland might be distinctly reduced as a result. Growth in Switzerland in previous years was determined to a considerable extent by immigration, free movement of persons and bilateral agreements. Accordingly, it is practically impossible to make empirically based, quantitative statements about the future development of the Swiss national economy when initiatives are being adopted.

A WEAK GLOBAL ECONOMY

It is almost a truism, yet no less accurate for this reason: growth in the Swiss economy is significantly affected also by the international economy. What prospects are there for growth in the most important economic regions around the world? Europe is growing rather weakly, whilst the USA is doing well by contrast. Economic growth for the BRIC countries is a mixed bag.

EUROZONE: RECOVERY STILL NOT ON TRACK

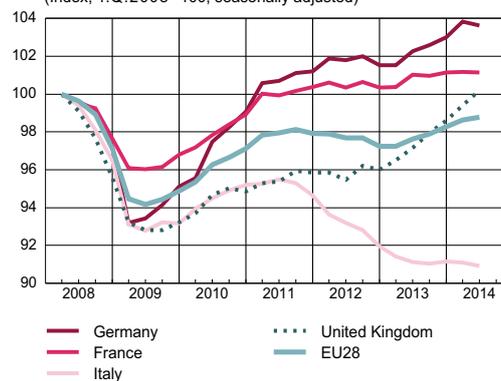
Despite the stimulus measures adopted by the European Central Bank (ECB), the eurozone economy is expected to stagnate this year and to experience only moderate growth over the rest of the forecast period (until the end of 2016) (see G 10). The reasons for this are the unfavourable situation on the labour market, high private and public sector debt levels and, consequently, efforts to pay down this debt. Overall, the KOF forecasts gross domestic product (GDP) growth for the eurozone of 0.6 per cent during the current year and 0.8 per cent next year. More robust growth is forecast for the eurozone in 2016.

It is expected that, due to the rather weak global economy, the major eurozone economies (Germany, France and Italy) will be more reluctant to invest. Similarly, it is not expected that the coming quarter will generate high export figures. Germany will only grow by 1.3 per cent during the year about to end. However, private consumption should expand further over the forecast period overall. During the coming year, investments are expected to pick up again somewhat in Germany.

For the time being, the largest driver of GDP growth in Italy is forecast to come from foreign trade, until private consumption and investment picks up again over the coming year. This will enable the Italian economy to grow by 0.8 per cent in 2016. The Italian economy is still not picking up.

G 10: GDP Growth in Selected Countries Since the Great Recession

(Index, 1.Q. 2008=100, seasonally adjusted)



France appears to be being weighed down by the weak economic environment and the general slump in confidence. A recovery should take hold next year, although it will be weaker than in Germany with growth of 0.8 per cent. Even in 2016, the recovery in France will be trailing Germany with GDP growth of 1.5 per cent.

By contrast, in the United Kingdom the economy has been expanding since the start of 2013, driven on by the domestic market. The KOF expects production to increase by three per cent overall in 2014. Production growth is forecast to slow to 2.4 per cent over the coming year, above all due to the Bank of England's restrictive monetary policy.

USA CONTINUES TO GROW

The KOF expects GDP in the USA to grow by 2.2 per cent in the current year, 3.1 per cent next year and 2.8 per cent in 2016 (see G 11). The unemployment rate should fall further as a result of the recovery. Inflation is forecast to reach 1.8 per cent only. Overall, a robust upswing is expected over the forecast period. A considerable impetus will continue to be provided by public demand. Continuing beneficial financing conditions and the taking up of slack in individual sectors should initially power a significant expansion of corporate investment. Following a somewhat weaker rise in the third quarter of 2014, private consumption should grow at a rate of 2.5 until the end of 2015, due to increased disposable income, the related fall in the need to pay back debt and the sustained improvement in the labour market.

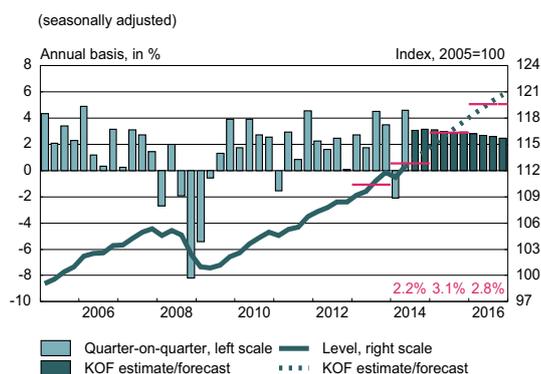
JAPAN: ECONOMIC CYCLE INFLUENCED BY INCREASE IN VALUE ADDED TAX

The performance of the Japanese economy this year is being significantly affected by the increase in value added tax to eight per cent, which has imposed further inflationary pressure. Beneficial effects are being felt not only by private consumption but also by private sector capital investment. The stimulus package intended to cushion the blow of the rise in value added tax should boost both public investment and investment in construction. Overall, the KOF forecasts GDP growth of 1.1 per cent in 2014, one per cent in 2015 and 1.3 per cent in 2016.

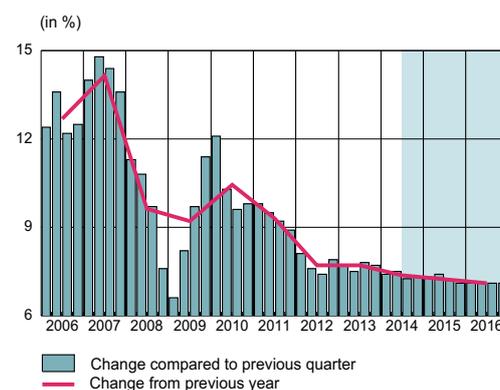
THE BRIC COUNTRIES: UNEVEN DEVELOPMENT

Following a weak start to the year in China, the economy has picked up again somewhat (thanks to fiscal and monetary stimulus measures). Following 1.5 per cent growth in the first quarter of 2014, GDP growth in the second quarter reached two per cent. Inflation remains low at between 1.5 and 2.5 per cent. The KOF forecasts overall economic growth of 7.4 per cent in 2014, followed by 7.2 per cent and 7.1 per cent in 2015 and 2016, respectively (see G 12).

G 11: USA: Real GDP With Forecast



G 12: China: Real GDP With Forecast



The Indian economy expanded strongly in the first half of 2014. Overall GDP growth of 5.3 per cent is expected for the 2014 calendar year. For 2015 and 2016, the KOF is forecasting six per cent and 6.2 per cent. Growth is being driven by the financial and agricultural sectors.

Russia reported relatively flat economic performance during the last half year. During quarter two, GDP grew compared to the previous quarter at an annualised rate of one per cent. Despite weak economic performance, inflation reached 8.3 per cent in September. The KOF expects GDP growth of 0.8 per cent in 2014, followed by 0.8 per cent and 2.1 per cent in 2015 and 2016.²

Brazil was in recession during the first half of 2014. A reason for this was the football World Cup, due to which additional holidays were created. Inflation has returned to an upward trend since the start of 2014 and its rate of 6.75 per cent in September lay outside the central bank's tolerance band (2.5-6.5 per cent). The incumbent Dilma Rousseff from the Workers' Party won the October presidential elections by a narrow margin. It is thus not expected that there will be any change in economic policy. Overall, the KOF forecasts GDP growth of 0.4 per cent in 2014, followed by 0.8 per cent and 1.6 per cent in 2015 and 2016, respectively.

2) This assumes that the negative effects of the Ukraine conflict will gradually dissipate in 2015.

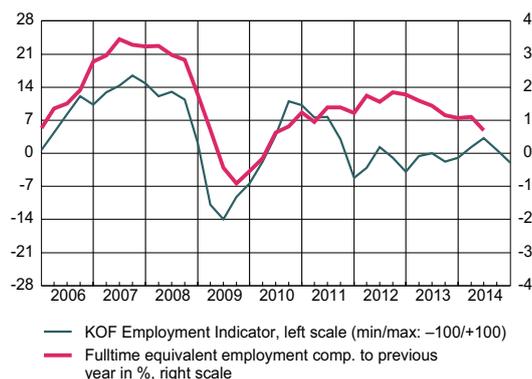
KOF EMPLOYMENT INDICATOR: LABOUR MARKET IS LOSING MOMENTUM

Most Swiss businesses surveyed by the KOF only intend to make minor changes to their employment levels over the coming months. The KOF Employment Indicator has fallen slightly compared to the previous quarter and now lies at -2.0 points. This suggests that the vitality of the labour market is flagging slightly.

Towards the end of the year, the labour market is expected to develop in a less dynamic manner compared to the previous months. This is suggested at least by the latest figure for the KOF Employment Indicator (see G13). The number of businesses that intend to reduce employment levels over the next three months is slightly larger than the number of businesses that intend to create new jobs. In addition, the overwhelming majority of businesses consider current employment levels to be slightly too high. This means that the employment indicator, which is calculated from these two questions concerning employment within the surveys, has fallen below zero. The indicator now lies at -2.0 points, following the previous quarter's figure of 0.7 (revised downwards from 1.2). Whilst the indicator suggests that the labour market is not as dynamic as it was previously, this is not (yet) a cause for concern. Businesses are in general always cautious when assessing their current and future employment levels which means that a negative figure does not necessarily have to imply a fall in employment.

G 13: KOF Employment Indicator and Employment

(Employment according to FSO)

**RESULTS BROKEN DOWN ACCORDING TO SECTOR**

The employment outlook has worsened in almost all sectors compared to the previous quarter. The Employment Indicators for manufacturing, banks and the hotel and catering sector remain negative. Moreover, the employment indicator has dropped by slightly more for traders, especially for wholesalers. This is therefore of interest since the employment indicator for wholesale trade normally follows an almost identical course to the employment indicator for the economy as a whole. This may be accounted for by the fact that the wholesale sector performs an important role not only as a link between producers and retailers but also as a supplier for businesses. Reduced employment expectations in the wholesale sector thus reflect the slightly more subdued expectations regarding the expected evolution of demand in other sectors. On the other hand, insurers and various economic service providers are expected to create further jobs. The latter category includes, amongst others, corporate consultancy, housing and self-employed as well as scientific and technical services.

The Employment Indicator enables early estimates to be made of the labour market situation. It is calculated on the basis of KOF economic surveys, which are carried out quarterly with private sector businesses in Switzerland.

KOF ECONOMIC BAROMETER: AGAIN CLOSE TO ITS LONG-RUN AVERAGE

The KOF Economic Barometer rose 0.5 points in October 2014, from 99.3 (revised from 99.1) to 99.8 (see G 14). With a reading close to the long-run average, the perspectives for the Swiss economy are friendly, but unexciting.

Taken together, positive impulses come first of all from the indicators relating to the financial sector, followed by the indicators related to domestic consumption and construction. The indicators from manufacturing, for the international environment as well as from the hospitality sector, however, affect the Barometer negatively.

Within manufacturing, the picture is as usual quite heterogeneous. The positive impulses come from indicators for wood processing, the textile and electric industry and, lastly, from the chemical industry.

On the other hand, the indicators for metal processing and vehicle construction, the food processing and paper industries as well as for other products contribute negatively to the change of the Barometer. The positive impulses of the manufacturing sector come predominantly from indicators related to orders and intermediate products, whereas a negative impact results from indicators reflecting returns, prices and output.

BAROMETER AND REFERENCE SERIES

The KOF Economic Barometer is a composite leading indicator for the Swiss economy. The latest version comprises 217 indicator variables, which are combined based on statistically determined weights. The indicator variable selection and their weights are updated annually after the release of the previous year's annual Gross Domestic Product (GDP) data by the Swiss Federal Statistical Office. This year's revision took place in October. Our new 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 September 2014. Due to the changes in the reference series and the 12 months forward move of the in-sample period, the indicator selection, the weights as well as the seasonal adjustment and scaling experienced slight modifications. The resulting revision affects the whole time span covered by the Barometer. Accordingly, a comparison of Barometer readings for different months is meaningful only within the latest time series.

For detailed information on the KOF Economic Barometer and on the October 2014 revision, see:

<http://www.kof.ethz.ch/en/indicators/economic-barometer/> >>

FURTHER KOF PUBLICATIONS

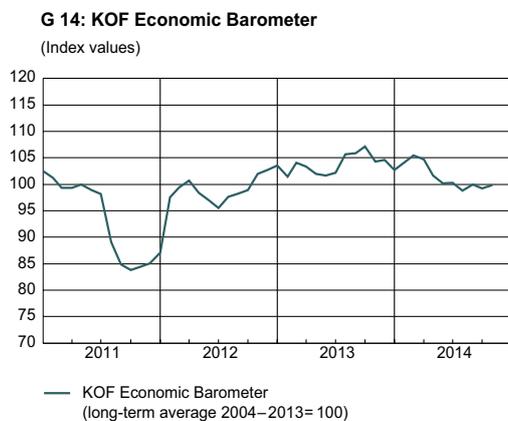
You will find a complete list of all KOF publications (KOF Analyses, KOF Working Papers and KOF Studies) on our website.

<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/79/kof_bulletin_forecasts_2014_11_en.pdf >>



AGENDA

**KOF EVENTS**

KOF Wirtschaftsforum

Thema «Innovationsökonomik»

ETH Zurich, 14 November 2014

CER-ETH/KOF Lecture

Program Evaluation with High-Dimensional Data

Prof. Christian Hansen, University of Chicago

ETH Zurich, 28 November 2014**KOF Research Seminar:**

Social Networks and Tax Avoidance: Evidence from a Well-defined Norwegian Tax Shelter

Annette Alstadsæter, University of Oslo

ETH Zurich, 12 November 2014

tba

Tommaso Nannini, Bocconi University

ETH Zurich, 3 December 2014

Environmental Standards and Trade: Evidence from a Natural Experiment

Pavel Chakraborty, University of Oxford

ETH Zurich, 10 December 2014

tba

Hartmut Egger, University of Bayreuth

ETH Zurich, 16 December 2014

Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany

Andreas Peichl, University of Mannheim, ZER

ETH Zurich, 17 December 2014www.kof.ethz.ch/de/veranstaltungen/k/kof-research-seminar/ >>

KOF-ETH-UZH International Economic Policy Seminar:

No Price Like Home: Global House Prices, 1870–2012

Thomas Steger, University of Leipzig

ETH Zurich, 13 November 2014

tba

Roland Hodler, University of St. Gallen

ETH Zurich, 4 December 2014

Alejandro Cunat, University of Vienna

ETH Zurich, 11 December 2014

Non-Tariff Barriers, Integration, and the Trans-Atlantic Economy

Doug Nelson – Tulane University

ETH Zurich, 18 December 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**

SNB: Workshop on Foreign Currency Lending since the Financial Crisis

Zurich (Switzerland), 21 November 2014

www.snb.ch/en/ifor/research/conf/id/sem_2014_11_21 >>

8th Annual Conference on the Political Economy of International Organizations

Berlin (Germany), 12–14 February 2015

www.peio.me/ >>

Young Swiss Economists Meeting – YSEM 2015

(Call for Papers: 10 November 2014)

Zurich (Switzerland), 12–13 February 2015

www.kof.ethz.ch/de/veranstaltungen/d/251/ >>

Annual Meeting Swiss Society of Economics and Statistics

The Solvency of Pension Systems

Basel (Switzerland), 2–3 June 2015

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

CUSTOMER SERVICE



The KOF Bulletin is a free service by e-mail which informs you about the latest developments relating to the economy, our research and important events on a monthly basis.

Register: www.kof.ethz.ch/publications/bulletin/registration/en >>

For previous KOF Bulletins, visit our archive:

www.kof.ethz.ch/publications/bulletin/archive/en >>

Visit us at: www.kof.ethz.ch >>

You can also extract time series from our extensive database via the KOF data service (in German):

www.kof.ethz.ch/de/ueber-uns/services/datenservice/ >>

The reproduction of this Bulletin (including excerpts thereof) is permitted only with the written permission of the publisher and with the citation of the original source.

ISSN 1662-4289

IMPRINT

**PUBLISHER**

ETH Zurich, KOF Swiss Economic Institute, LEE G 116, Leonhardstrasse 21, 8092 Zurich

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

5 December 2014 | 29 December 2014

TABLES – KOF Autumn Forecast 2014

SWITZERLAND

Real Gross Domestic Product by Type of Expenditure																
Percentage change against																
	2005-2013	previous quarter (annualized, trend cycle component)												previous year		
		2014				2015				2016				2014	2015	2016
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Private consumption	1.7	0.5	0.6	1.2	1.6	2.3	2.4	2.0	1.7	1.4	1.3	1.2	1.3	0.8	1.9	1.6
Public consumption	1.1	0.2	0.8	2.5	2.5	2.2	1.5	0.7	0.9	1.7	1.4	1.1	1.8	1.4	1.8	1.3
Gross fixed capital formation	2.0	-0.4	0.0	0.6	1.9	3.0	4.6	4.1	3.5	3.9	4.1	3.6	3.2	0.5	2.8	3.9
– Construction	1.4	0.0	-2.1	-2.7	-1.7	-1.1	-0.2	0.2	1.0	1.7	1.4	1.0	1.3	0.2	-1.0	1.1
– Machinery and equipment	2.3	-0.7	1.5	2.8	3.9	5.6	7.6	6.5	5.0	5.2	5.8	5.1	4.4	0.8	5.2	5.5
Exports of goods (1) and services	4.0	-0.5	2.2	3.1	4.8	5.4	4.0	3.9	5.6	5.9	5.0	4.8	5.4	2.6	4.4	5.1
– Goods	3.6	4.2	4.5	4.0	6.1	5.8	4.4	5.5	6.6	6.2	5.0	5.2	5.6	3.8	5.2	5.7
– Services	3.7	2.3	0.6	0.7	2.8	4.0	4.7	4.6	4.1	4.9	5.4	5.4	4.9	2.8	3.3	4.9
Imports of goods (1) and services	3.6	0.1	0.8	2.6	3.7	5.2	5.3	4.8	5.3	5.6	4.9	4.3	4.5	1.4	4.3	5.1
– Goods (1)	3.0	2.9	1.7	2.6	4.3	5.6	5.6	5.6	5.9	5.6	4.9	4.6	4.6	1.9	5.1	5.4
– Services	5.2	-2.2	-2.4	-0.1	3.4	3.3	3.8	4.7	4.2	4.8	4.6	4.6	4.2	0.4	2.7	4.5
Change in stocks (2)	0.2	2.2	0.5	-0.2	-0.9	-1.2	-0.5	-0.2	-0.7	-0.6	0.0	0.1	-0.4	0.8	-0.6	-0.4
Gross Domestic Product (GDP)	2.1	1.6	1.3	1.5	1.7	1.6	1.7	1.8	2.0	2.2	2.2	2.1	2.1	1.7	1.7	2.1

(1) Without valuables (i.e. precious metals including non-monetary gold, 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																
	2005-2013	previous quarter												previous year		
		2014				2015				2016				2014	2015	2016
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real effective exchange rate of Swiss Franc (1)	1.3	1.7	-0.2	-3.7	-4.6	-2.9	-0.9	-3.7	-0.6	-2.9	-0.4	-2.7	1.0	0.3	-2.8	-1.7
Short term interest rate ((3-month Libor CHF) (2))	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Yield of 10 years federal bonds (2)	1.9	1.0	0.8	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.1	1.1	1.2	0.7	0.8	1.1
Consumer prices (3)	0.5	0.0	0.1	0.0	0.0	0.1	0.2	0.2	0.5	0.5	0.5	0.6	0.7	0.0	0.3	0.6
Full-time equivalent employment (4)	1.4	0.8	0.5	0.6	1.0	1.3	1.4	1.4	1.2	1.1	1.2	1.3	1.3	0.8	1.1	1.2
Unemployment rate (2,5)	3.0	3.2	3.2	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.2	3.2	3.1

(1) Annualized

(2) Level

(3) Same quarter of previous year

(4) Smooth components annualized

(5) Unemployed as percentage of labour force according to census of 2010

GLOBAL ECONOMY

GLOBAL ECONOMY																
Percentage change against																
	2005-2013	previous quarter (annualized, seasonal adjusted)												previous year		
		2014				2015				2016				2014	2015	2016
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Real Gross Domestic Product (GDP)																
– OECD total	1.4	1.0	1.1	2.3	1.7	1.8	2.1	2.4	2.1	2.2	2.1	2.0	2.0	1.7	2.0	2.1
– European Union (EU-28)	0.9	1.3	0.6	0.7	0.9	1.2	1.5	1.7	1.8	1.9	1.9	1.7	1.7	1.2	1.2	1.8
– USA	1.5	-2.1	4.6	3.1	3.2	3.1	3.0	2.9	2.9	2.8	2.7	2.6	2.5	2.2	3.1	2.8
– Japan	0.6	6.0	-7.1	5.5	0.5	-0.1	1.6	3.1	0.3	1.2	1.2	1.2	1.3	1.1	1.0	1.3
Oil price (\$ per barrel) (1)	84.8	107.9	109.8	102.6	95.0	95.5	96.0	96.5	97.0	97.5	98.0	98.5	99.0	103.8	96.2	98.3

(1) Level

© KOF, ETH Zürich