SWITZERLAND

CLOSER AND CLOSER TO THE NEUTRAL RATE

In H2 2024, Swiss growth is expected to ease slightly (0.3% q/q in Q3 and 0.2% q/q in Q4 according to our forecasts). The persistent weakness of the country's main trading partners will continue to weigh on its growth, but the lagged impacts of the monetary easing initiated by the SNB in March 2024 should play out more favourably. We expect the SNB to make two further policy rate cuts by the end of the year, due in particular to the favourable developments seen in inflation in recent months.

IN Q2, REAL GDP GROWTH RETURNED TO ITS STRONGEST PACE IN TWO YEARS

After posting growth of 0.5% q/q in Q1, Swiss real GDP grew by 0.7% in Q2, boosted by sporting event rights (Paris Olympic Games and the UEFA European Championship)[1] and the sharp increase in chemical and pharmaceutical production (+8.4% q/q). This increase has significantly driven value added in the manufacturing sector (+2.6% q/q) which is, as a result, growing faster than at its historical average pace. However, the value added of other industrial sectors has fallen, mirroring the difficulties of the industrial sector seen among the country's European neighbours. Although capital investment fell (-1.4% q/q), the moderate increase in construction investment (+0.5% q/q) helped to limit the drop in total investment (-0.8% q/q). And lastly, private and public consumption components remained weak (+0.3% and +0.2% q/q) and below their historical average. Foreign trade, on the other hand, proved to be an important pillar of real GDP growth in Q2 (+2.3 pp contribution).

MOVING TOWARDS SLIGHT MODERATION IN ACTIVITY OVER H2

However, this recovery in Q2 is expected to have only a limited impact over the rest of the year. We expect Swiss real GDP growth to ease slightly in H2 (+0.25% q/q on average in Q3 and Q4), primarily due to the weakness of its main trading partners (the US and the Eurozone - mainly Germany).

In August, the KOF Swiss Economic Institute Economic Barometer (101.6; +1 point over a month) remained very slightly above its long-term average (100). And although having sharply risen since October 2023 (+14.3 points), the Economic Sentiment Indicator remains below 100 (90.9). Lastly, the manufacturing PMI reached 49.0 in August (+5.5 points over a month, the highest level seen since January 2023), suggesting that the downward trend in production in the sector could be coming to an end soon, but that the Swiss economy is still on a hesitant recovery trajectory.

In addition, the delayed impacts of monetary easing will provide some support for growth. The latter should have positive effects on the manufacturing sector, which tends to be sensitive to interest rate movements.

GROWTH AND INFLATION

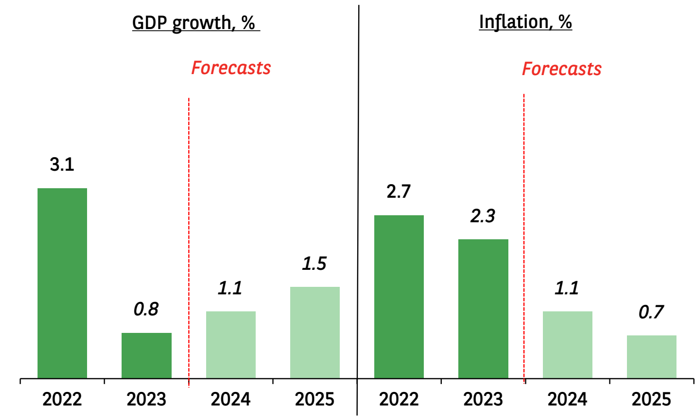

CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

SNB EXPECTED TO MAKE TWO MORE RATE CUTS THIS YEAR

While the Swiss National Bank (SNB) was the first of its peers to begin its monetary easing policy with two rate cuts in H1 2024[2], we expect it to make two further cuts by the end of the year[3], due to favourable inflation developments and its intention to slow the appreciation of the Swiss franc.

The latter[4], observed since the key rate cut in June, could restrict growth by reducing Swiss export demand. If this momentum continues, the SNB could make the choice to adjust its key rate at future meetings.

For its part, disinflation continues: the HICP recorded an annual change of 1.0% y/y in August (-0.2 pp over a month), returning to its lowest level since September 2021. We expect inflation in Q3 (1.1%) to be significantly lower than the latest SNB 1.5% forecast[5]. However, pricing pressure is persisting, and these figures tend to mask the divergence between services inflation (2.1% y/y in August; +1 pp) and goods inflation (-0.5%; -0.5 pp). Nevertheless, overall inflation should remain within the target range of 0.0% to 2.0% throughout 2024 and 2025 (1.1% and 0,7% on annual average, respectively, according to our forecasts).

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1 Adjusted for the impact of sporting events, Swiss real GDP only grew by 0.5% quarterly in Q2 (after +0.3% q/q in Q1).
2 In March and June, from 25 basis points each to 1.5%, then 1.25%.
3 One of these rate cuts was made on 26 September 2024: the SNB lowered the policy rate by 25 bps to 1.0%.
4 Appreciation of the actual effective exchange rate of around 2% since June 2024.
5 Source: Quarterly Bulletin 2/2024 June, SNB.