



# Economics Group

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## Swiss GDP Accelerates in Q4

*Economic growth in Switzerland strengthened to end 2017, boosted by strong performances in the manufacturing and construction sectors. Inflation continues to show signs of gradually climbing higher.*

### Manufacturing Sector Helps Power Growth in Switzerland

Real GDP growth in Switzerland rose 0.6 percent on a sequential basis in Q4 (2.4 percent annualized) on the heels of an upwardly-revised Q3 print. This consensus-topping print brought year-over-year real GDP growth in Switzerland to 1.9 percent, up from just 0.6 percent in Q4-2016.

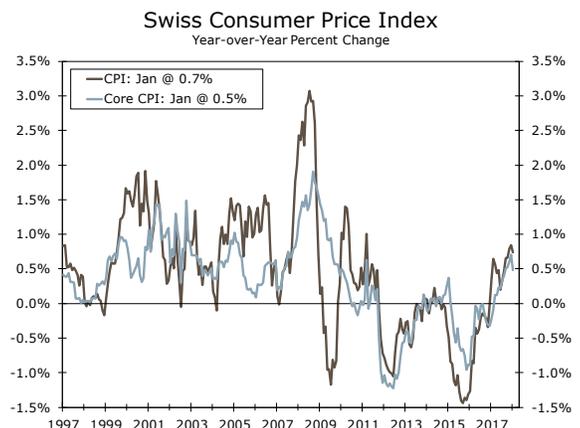
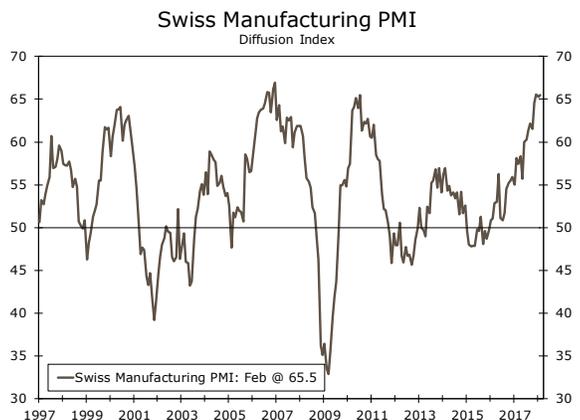
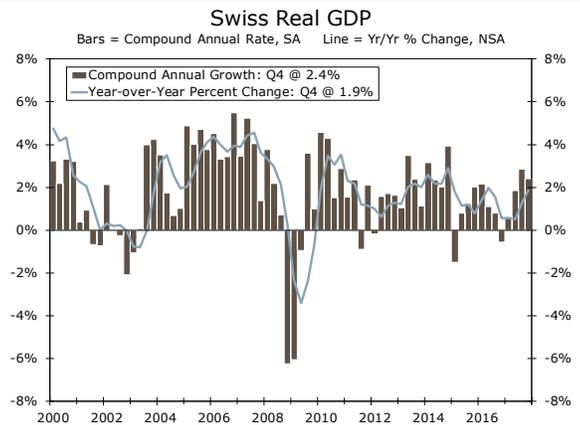
Despite the strength in the headline numbers, the details were a bit less encouraging. Household consumption growth slowed in Q4 on a sequential basis, and the year-over-year rate fell to 0.6 percent, roughly half of where it had hovered for most of 2017. Base effects accounted for some of this weakness, but real retail sales, which were also reported today, kicked off Q1 with a 1.4 percent year-over-year decline in January. Exports of goods excluding valuables and exports of services both declined in the quarter, while imports of goods rose sharply, with particular strength in vehicle, machinery and metal imports. Equipment and software investment reversed the third quarter's 1.3 percent increase with a 1.3 percent decline in Q4, though this decline was largely due to the volatile research and development segment. Government consumption, an inventory build and robust construction investment helped drive economic growth in Q4.

On the production side of the economy, Swiss manufacturing had a stellar quarter. Output rose 1.2 percent on a sequential basis in Q4 on the heels of a 2.2 percent gain in Q3. This robust growth in the "hard" data corresponds with a dramatic improvement in the "soft" data; the Swiss manufacturing purchasing managers' index (PMI) is near cycle-highs (middle chart). Financial services (+2.3 percent), accommodation and food services (+1.6 percent) and communications (+0.7 percent) also outperformed.

### Has Inflation Finally Returned in Switzerland?

Price growth in Switzerland spent most of the 2012-2017 period in deflationary territory, leading the Swiss National Bank (SNB) to adopt extraordinary monetary policy stimulus. More recently, both headline and core consumer price inflation have strengthened as the economy has improved, the Swiss franc has weakened and energy prices have recovered from their steep swoon. At its policy meeting in December, the SNB anticipated an inflation rate of 0.7 percent in 2018 and 1.1 percent in 2019. The economic recovery throughout Europe continues to gather steam, which bodes well for both economic growth and inflation in Switzerland.

That said, while stronger economic growth and faster inflation are a welcome development for the SNB, the deflation specter remains top of mind for central bank policymakers. As a result, the SNB will likely remain on hold for the foreseeable future, particularly with the European Central Bank continuing to take its time removing monetary policy stimulus.



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