

Flash Note

Switzerland: economic activity

Take headline GDP data with a pinch of salt

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The most recent Swiss GDP data surprised to the downside, raising questions about the health of the economy. According to SECO's estimates, the economy contracted at the end of 2016, and Q3 2016 and Q1 2017 figures were revised down.

The downturn in GDP figures was further exacerbated by special effects related to the inclusion of sports events in the "Art, entertainment, recreation and other services" sector.

In view of these downward revisions, our GDP growth forecast for Switzerland has been pushed down mechanically from 1.4% to 0.8% for 2017.

However, the state of the Swiss economy is not as bad as the headline GDP number suggests. A broad set of indicators paint a considerably more positive picture, confirming that economic recovery remains on track.

We therefore expect GDP growth to accelerate to 1.7% in 2018.

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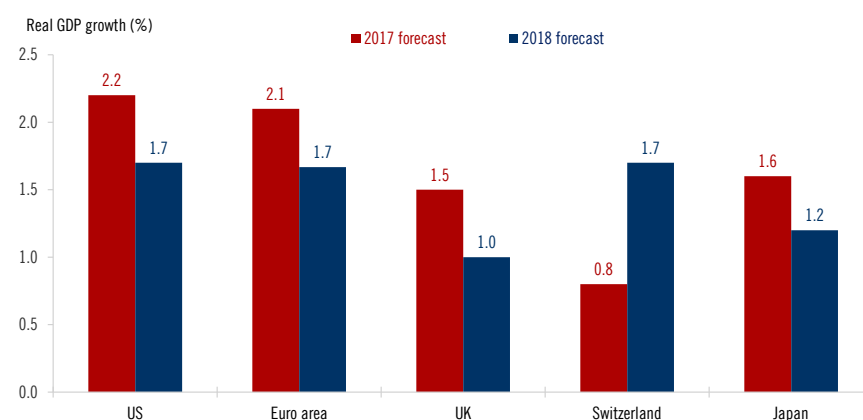
Revised GDP data published by [SECO](#) (State Secretariat for Economic Affairs) in September surprised to the downside, raising some questions about the health of the Swiss economy. According to SECO's estimates, the economy contracted in the final quarter of 2016 for the first time since Q1 2015, while Q3 2016 and Q1 2017 figures were revised down. The downturn in GDP figures was further exacerbated by special effects related to the inclusion of sports events in the "Art, entertainment, recreation and other services" sector, which pushed down the revised GDP figure for Q4 2016.

These downward revisions mechanically decrease **our GDP growth forecast for Switzerland from 1.4% to 0.8% for 2017**—but the 2018 forecast has been left unchanged at 1.7%.

If our forecast turns out to be correct, then the Swiss economy will have grown less than the euro zone, the US, Japan and even the UK in 2017 (see *Chart 1*), posting its lowest annual GDP growth since 2009.

However, **things are not as bad as the headline GDP number suggests**. Specific and statistical factors in the computation of GDP data explain part of the revisions witnessed recently, whereas a broad set of indicators paint a considerably more positive picture. As a result, **we remain optimistic about the Swiss economy for the end of 2017 and for 2018**.

Chart 1: AA&MR real GDP growth forecasts



Source: Pictet WM – AA&MR

Some specificities of Swiss GDP data

In Switzerland, two different offices compute GDP data. Every year, the Swiss Federal Statistical Office (SFSO) computes annual figures for the previous year and revises figures for the two years before. The SFSO generally publishes its calculations during the summer. When drawing up quarterly national accounts, SECO takes into account the SFSO's annual revisions and reviews its own methods for calculating quarterly figures and seasonal adjustments. **This is the reason why we often have revisions in September each year when SECO publishes its Q2 GDP figures.**

Leaving aside SFSO adjustments, **almost half of the revisions in the latest SECO release are explained by certain, previously under-represented economic activities** in Switzerland's national accounts. The "Art, entertainment, recreation and other services" sector now takes better account of the impact of **sporting events**, for example. In particular, the sale of trademark and broadcasting rights for major international sporting events is now taken into consideration, reflecting the fact that international sporting associations like FIFA, UEFA and the International Olympic Committee (IOC) have their headquarters in Switzerland. The economic activity they generate is recorded where these events take place, which is rarely in Switzerland. However, **the income generated by licensing does go to the respective sports associations and can have an impact on the Swiss economy.**

The sector "Art, entertainment, recreation and other services" accounts for 2% of real GDP. Variations in income from international sports events therefore can have an impact on GDP growth, but have only become clearly visible since 2014 (*see Chart 2, red line*). Two factors explain this: first, the quality of statistics has improved and, second, the fluctuations were less important in the previous years.

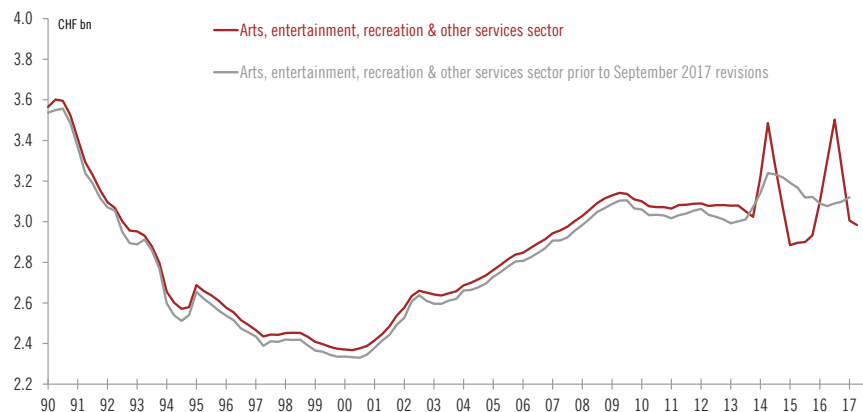
In 2014, the value added of "Art, entertainment, recreation and other services" sector increased by 6.7%, a year when the football World Cup in Brazil and Winter Olympics in Russia took place. In the following year, there were no big competitions and the sector value added contracted by 11%. Then, in 2016, when the Olympic Games and the UEFA European Championship were held respectively in Brazil and France, it increased by 13.3%. Taking only 2016, annual real GDP growth was boosted by 0.2 percentage point. However, the fact that these events took place between Q2 and Q3, exacerbated the contraction of the quarter-over-quarter growth figure for Q4.

In 2018, the holding of the Winter Olympics in South Korea and the football World Cup in Russia will again boost Swiss annual GDP growth, but make quarterly growth more volatile.

If the timing of a particular sport event is known in advance, **the exact duration of its contribution to Swiss value added is not limited to the period of the event itself.** As a result, SECO makes certain assumptions when estimating quarterly GDP. In years when the Winter Olympics (February) and football World Cup (June or July) take place, the value added of such events reaches its maximum in Q2, while in years when the Olympic Games (August) and the UEFA European Championship (June or July) are held, the maximum impact is in Q3.

These effects fall outside cyclical economic factors, but have to be taken into account when forecasting annual Swiss GDP growth in 2018 and beyond. Correcting for the effects of major international sports events will also help to better capture the “true” underlying trend of Swiss economic activity.

Chart 2: Swiss real GDP – “arts, entertainment, recreation & other services” sector



Source: Pictet WM – AA&MR, SECO

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Broad set of data paint a positive picture

Current high-frequency statistics paint a considerably more positive picture of the Swiss economy than the headline GDP figure suggests. Swiss consumer confidence is above its historical average, the labour market is gradually improving, capacity utilisation in industry has been growing for months, both manufacturing and the hotel and catering industry are recovering from the slump of recent years, and even retail sales have stabilised. Surveys suggest that activity is becoming more broad based across sectors. Leading indicators such as the Purchasing Manager's index and the KOF barometer point to a marked acceleration in growth in the near future, underpinned by solid momentum in the global economy and by the recent depreciation of the Swiss franc. Q3 trade data were pretty strong, confirming that Switzerland's export recovery remains on track.

Take GDP data with a pinch of salt

All in all, since Switzerland is a small and open economy, GDP data are particularly volatile. The better integration of sport events will add to this volatility. However, looking at a **broad set of indicators, the Swiss economic recovery remains on track.** Over the coming quarters, Swiss exports are set to benefit from the global economy's solid momentum, all the more so if the Swiss franc, which fell in value during the summer, maintains its current level. Domestic demand is expected to gain momentum as well. Specific factors such as sports events will also have a favourable impact on GDP growth. **We therefore expect GDP growth to accelerate to 1.7% in 2018, with upside and downside risks broadly balanced.**