

Flash Note

Switzerland: Q3 GDP

Stronger and broader growth

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In the third quarter, the Swiss economy posted its fastest growth rate in almost three years.

According to SECO's estimates, Swiss real GDP rose by 0.6% q-o-q in Q3 2017, in line with expectations.

After weak performance in the previous quarters (partly explained by statistical effects), Swiss GDP data appear now more in line with signals from monthly indicators.

Growth was broadly based across sectors with manufacturing providing the most substantial boost to growth.

Overall, today's data confirm that the Swiss economy is continuing its recovery. The economy is set to benefit from the global economy's solid momentum, all the more so if the Swiss franc depreciates further. As a result, 2018 GDP growth is likely to edge closer to 2%.

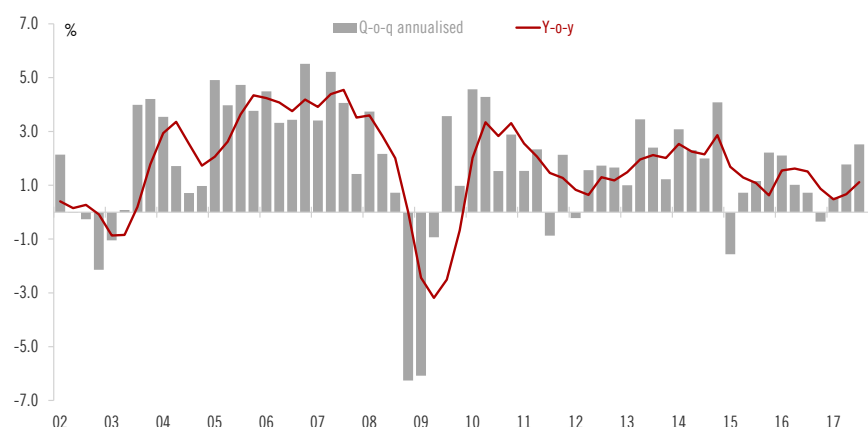
According to the State Secretariat for Economic Affairs (SECO), Swiss real gross domestic product (GDP) expanded by 0.6% q-o-q in Q3 2017, in line with consensus expectations and our own forecasts. This comes after several quarters of poor performance. As we mentioned in our [previous Flash Note](#), the downturn in previous GDP figures was exacerbated by special statistical effects related partly to the inclusion of sports events in the "Art, entertainment, recreation and other services" sector. **GDP data appear now more in line with what is signalled by monthly indicators.**

Overall, Switzerland still lags the US and the euro area in terms of GDP growth, but today's **data confirm that the Swiss economy is continuing its recovery**. Importantly, surveys and hard data suggest that activity is becoming more broad based across sectors. The economy is set to benefit from the global economy's solid momentum, all the more so if the Swiss franc depreciates further. As a result, **2018 GDP growth is likely to edge closer to 2% in Switzerland**, up from about 1% in 2017.

A widely expected rebound in Q3

Swiss real GDP expanded by 0.6% q-o-q (2.5 % q-o-q annualised, 1.2% y-o-y) in Q3 2017 (*see Chart 1*), in line with consensus expectations and our forecasts. **This is the fastest growth rate since Q4 2014**. This comes after an upwardly revised figure of 0.4% q-o-q in Q2 and 0.1% q-o-q in Q1 this year. Previous quarters were also revised in particular Q4 2016 (from -0.2% to -0.1% q-o-q).

Chart 1: Swiss real GDP growth



Source: Pictet WM – AA&MR, SECO

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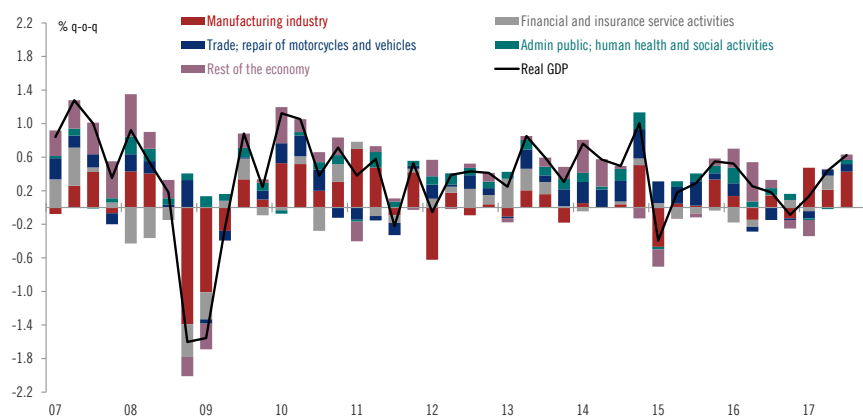
The breakdown by GDP components should be taken with a pinch of salt as these are particularly volatile in Switzerland. Nevertheless, several observations can be drawn from Q3 data.

First, domestic demand proved once again a key pillar of growth. Private consumption rebounded (+0.4% q-o-q) in Q3, mainly driven by spending on health, energy and housing as well as leisure time and culture. General government consumption (+0.5% q-o-q) rose at its long term average pace. Developments in investment were mixed. Investment in construction (-0.1% q-o-q) contracted, while investment in equipment (0.9% q-o-q) rose with almost every segment playing a role, particularly investment in machinery and IT, according to SECO's press release.

Turning to foreign trade, exports of goods (excluding non-monetary gold and valuables) increased 2.1% q-o-q in Q3. The increase was broad based, with exports of chemical and pharmaceutical products, energy, machinery, equipment and electronics providing a significant boost to growth.

On the production side of GDP, growth was broadly based across sectors with **manufacturing (see Chart 2) sector providing the most substantial boost to growth.**

Chart 2: Swiss real GDP growth (production approach)



Source: Pictet WM – AA&MR, SECO

Acceleration in sight in 2018

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 depreciates further. Surveys suggest that activity is becoming more broad based across sectors, with the watch making and machinery and equipment industry recovering from the slump of recent years.

Domestic demand is expected to gain momentum as well. Specific factors such as sports events will also have a favourable impact on GDP growth. As a result, **2018 GDP growth is likely to edge closer to 2% in Switzerland, up from about 1% in 2017.**