

# Swiss recovery - a 2025 story

## Swiss economy

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- Anemic economic growth in the Eurozone likely means Swiss economic growth, particularly in the manufacturing sector, will remain suppressed through the rest of 2024. However, we see Eurozone economic growth strengthening in 2025 which should help the Swiss economy return to trend growth. We see the Swiss economy growing at 1.3% in 2024 and 1.5% in 2025.
- The Swiss economy is likely to be supported this year—like last year—by solid domestic consumption and a resilient labor market. However, in 2025, manufacturing and investments should play a greater role in growth. Risks to the Swiss economy remain high global price pressures and (geo-)political uncertainties.
- Over the next 12 months, Swiss inflation is likely to be influenced by two factors. On the one hand, relatively weak economic utilization rates will likely lead to a decline in inflation, while on the other hand, second-round effects should slow the fall in inflation. We see Swiss inflation at 1.2% in 2024 and 1.0% in 2025.



Source: UBS

The US economy fared well in 1H24, fending off a recession and delivering robust growth. However, US growth is expected to fade later this year and into 2025 as the higher interest rates of the past two years dampen US consumption. Nevertheless, the risk of a sharp slowdown is low, in our opinion, given we expect the US Federal Reserve (Fed) to begin its rate-cutting cycle later this year.

The European economy was sluggish in 1H24. However, as inflation wanes, ECB interest rate cuts kick in, and a trend reversal in the inventory cycle materializes, the Eurozone should return to stronger growth in the coming quarters. A recovery is likely to take hold by the end of 2024 or possibly 2025, in our view.

### Consumption no longer a driving force

Consumption has driven the Swiss economy over the past two years. We think consumption will continue to support the Swiss economy this year, but not to the extent seen in 2022 or 2023 (post-pandemic spending is behind us, while 2024 has seen household income burdened by inflation and significant increases in health insurance premiums).

We expect to see solid but somewhat muted consumer demand in the coming quarters which will no longer be the major driver of the economy. Unemployment is expected to rise only slightly in an environment characterized by long-term labor shortage. However, household incomes are likely to be burdened by a significant increase in health insurance premiums, even in 2025.

### Manufacturing and investments to awaken in 2025

Swiss manufacturing is suffering from weak foreign demand, particularly from the Eurozone. The manufacturing purchasing managers' index has remained below the 50-point mark since the beginning of last year, indicating a manufacturing recession. Additionally, Swiss manufacturing continues to suffer from relatively high inventories of finished products. Inventory levels need to normalize for growth to reaccelerate. A strengthening of the Eurozone economy is needed to bring Swiss manufacturing back to trend growth.

Anemic manufacturing activity resulted in a decline in Swiss equipment investments. We don't expect significantly stronger momentum in the second half of the year, but in 2025 investments should benefit from the recovery of the manufacturing sector.

### Split economy this year, trend growth next year

We think we'll see solid consumption but weak manufacturing activity for the remainder of 2024. However, a recovery in manufacturing and investments next year should help the Swiss economy return to trend growth. The absence of major sporting events will slow growth—we see growth of 1.3% this year (adjusted for sports events: 0.9%) and 1.5% next year (adjusted for sports events: 1.6%).

### Only a slight decline in inflation

The surge in energy prices was the main driver of inflation in 2022. While energy prices still pose a risk, they are no longer the main driver of Inflation. In the coming quarters, we think inflation will be influenced by the underutilization we see in the economy, which is likely to weigh on inflation, and second-round effects, which could slow the decline in inflation. In Switzerland, the rise in inflation was less pronounced, suggesting only a slight decline in the coming quarters. With inflation running at an average 1.2% this year, we see it falling to 1% in 2025.

At 1% in 2025, inflation remains higher than the levels we've see over the past decade. Swiss inflation is, of course, not independent of inflation in other industrialized countries. We expect inflation rates slightly above 2% in the US and the Eurozone, both also significantly higher than in the 2010s.

### Political uncertainty in Europe is a risk

Risks in the second half of the year stem from (geo-)politics. Political uncertainty in France has brought sovereign indebtedness back to the fore. This points to two risks for the Swiss economy. On the one hand, increased demand for safe-haven currencies could lead to an appreciation of the franc against the euro. On the other hand, increased political uncertainty in Europe could delay the recovery process of the European economy.

An escalation of geopolitical tensions in the Middle East could lead to a spike in oil prices and see inflation rise once again. This would make central bank monetary policy more challenging which could result in higher inflation and delay global economic recovery.

Table 1: UBS forecasts for the Swiss economy in %

	2023	2024F	2025F
Gross domestic product	0.7	1.3	1.5
... adjusted for events	1.3	0.9	1.6
Private consumption	2.1	1.2	1.2
Government spending	-2.0	0.1	0.0
Capital spending	-1.4	-0.4	1.7
Construction	-2.0	-0.2	1.0
Equipment	-1.1	-0.5	2.0
Exports*	2.0	2.1	3.9
Imports*	4.5	5.2	4.9
Inflation	2.1	1.2	1.0
Unemployment rate**	2.0	2.3	2.4

\* excluding valuables, \*\* annual average; F: forecast,

Sources: Seco, UBS

## Appendix

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