

Non Technical Report - Economic Forecasting for Decision Making

Viktor Gradoux, Pasha Mammadov and Mora Klimberg van Marrewijk

December 2022

The world faces disruptions in the global supply chain leading to high inflationary environment, product of the pandemic but mostly, the war in Ukraine. Inflation risks shifted from being persistently on the downside to the upside. Prices of domestic products are expected to rise moderately. Whereas prices of imported products, particularly of oil products are expected to rise significantly. Overall, we predict inflation to reach 4.24% in early 2023, decreasing to 2.15% by 2024 before stabilizing to 1.99% by 2025.

Prices of domestic products are expected to remain on the upward side and above target for the medium term but the impact to the domestic economy remains limited.

The domestic demand has been able to recover after the easing of COVID-19 measures and monetary and fiscal policies associated. On the other hand, domestic firms have been suffering from trade disruptions caused by the war in Ukraine. The labor market situation remains quite positive. Unemployment rates decreased to 4.4%¹, becoming one of the lowest unemployment rates in Europe. And in terms of wage inflation, Swiss households have seen their wage increase to 1.5%² last year, mostly due to the high inflation environment. Thus, there is little sign of a wage-inflation spiral. We predict domestic inflation to reach 1.6% by 2023 but stabilize to 1.41% by 2024 and 2025.

Prices of European imported products (excluding oil products) are expected to rise over the next semester 2023 before returning to its normal levels. With the outburst of the war in Ukraine in the first quarter of 2022, trade disruptions have been more important than during the pandemic. Economic sanctions on Russia put stronger upwards pressure on all commodities. Foreign firms are facing higher costs that spillover to its trading partners, like Switzerland. Even though Switzerland buys 62% of its imported from Europe, the strong domestic currency shields the economy from the high European inflation. Swiss households' purchasing power remains relatively higher than those from European households. We expect prices of imported products to stay at 0.47% and 0.45% in 2023 and 2024 before decreasing to 0.28% in 2025.

Prices of oil and energy are expected to increase sharply in the next two months before returning to normal levels. In 2021, crude oil was already higher than usual. The war in Ukraine exacerbated the upward pressure due to geopolitical tensions with Russia adding a much stronger momentum. Energy shortage and the need to find new energy suppliers has led to a strong

1. Statistical Federal Office (OFS)
2. Statistical Federal Office (OFS)

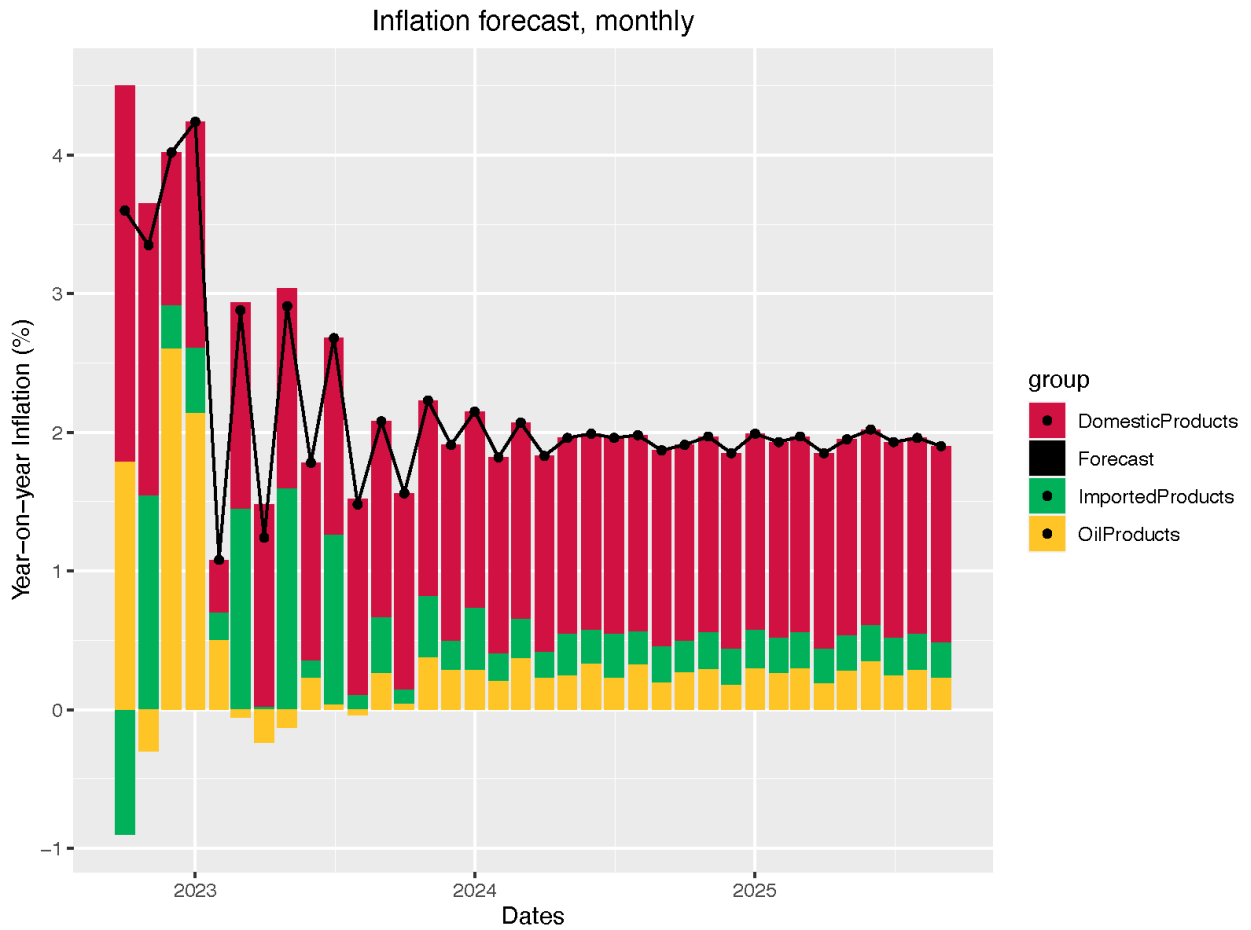


FIGURE 1 – Inflation forecast, monthly (YoY)

increase in energy prices. The willingness to find new energy partners and diversifying sources of energy will be determinant to avoid a further increase in energy prices. We believe that energy prices will reach to 2.14% in January 2023 but will significantly decrease by January 2024 and 2025 to 0.3%.

Overall, inflation will be above target level at 4.24% for 2023 but will stabilize to 2.15% and 1.99% by 2024 and 2025. The need for the Swiss National Bank to intervene in order to maintain inflation closer to its target will mostly depend on international conditions. However, the strong domestic currency is helping swiss firms and swiss households keep a relatively high purchasing power which helps the economy to be afloat in times of high inflation. If the global economy were to worsen with a further shortage of energy or a resurgence of the pandemic, inflation forecasts should be review on the upward side again.

| CPI Components | Weights | January-2023 | January-2024 | January-2025 |
|--|---------|--------------|--------------|--------------|
| Total | 100% | 4.24% | 2.15% | 1.99% |
| Domestic products (without oil products) | 75% | 1.6275% | 1.41% | 1.41% |
| Imported products (without oil products) | 22% | 0.4725% | 0.4554% | 0.2838% |
| Oil products | 3% | 2.14% | 0.2846% | 0.2962% |

– Table 2 : Annual Inflation Forecast (%), Year-on-year