BCGE

Press Release

Economic outlook

BCGE – Economic outlook for 2022-23: fragility?

Geneva, 21 June 2022 – The reactions of central banks (in the USA, Europe and Switzerland) in the face of extreme uncertainty due to inflation in commodities and imported prices have rather surprised analysts. Although inflation is expected to reach 2.7% in Switzerland in 2022, it should ease in 2023, thus preventing the economy from sliding into recession and allowing it to maintain a moderate growth rate. The financial health of companies and individuals remains solid, and the sectoral exposure of Switzerland and Geneva is resilient.

Marco scenario	GDP		Inflation		Unemployment rate	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**
Switzerland	2.9	1.8	2.7	1.1	2.0	2.3
Geneva	2.7	1.8	2.7	1.1	4.0	4.3
Eurozone	3.0	2.3	7.2	2.7	6.0	5.6
United States	2.4	2.2	7.4	3.0	3.5	3.5

Key Interest Rates	20.06.22	3M	12M	18M
Switzerland	-0.25	0.00	0.00	0.00
Eurozone	0.00	0.25	0.50	0.50
United States	1.75	2.25	2.75	2.75

10Y Interest Rates	20.06.22	3M	12M	18M
Switzerland	0.78	0.70	1.20	1.10
Eurozone	1.71	1.30	1.10	1.20
United States	3.20	3.00	2.90	3.10

Currencies & Crude oil	20.06.22	3M	12M	18M
EUR/CHF	1.02	1.04	1.08	1.10
USD/CHF	0.97	0.99	0.92	0.92
EUR/USD	1.04	1.05	1.18	1.20
Brent crude oil USD/barrel	120	110	90	90

Source : Refinitiv Datastream & BCGE

Soaring inflation and drastic SNB response

For several months now, the conflict in Eastern Europe and logistical bottlenecks have led to rising commodity prices and an increase in inflation due to the rise in imported prices. Faced with this situation, the central banks, namely the US Fed, but also the SNB have taken drastic measures. In his statement on 16 June, Thomas Jordan announced the imminent exit from unconventional monetary policy after 7 years of negative interest rates and raised the SNB's key interest rate by 50 basis points. This combative attitude is intended to tackle a continuous rise in inflation, which is expected to subside by 2023, provided there is no transmission to domestic prices. If this scenario is confirmed, then the inflationary spiral should not last long enough to trigger a very rapid and widespread rise in wages. On the other hand, the authorities could consider targeted measures to boost purchasing power in order to adapt to a new macroeconomic environment, without deflation.

Fragile growth, but inflation does not mean recession

After a phase of accelerated growth, corresponding to the post-COVID recovery and its catch-up effects, a phase of deceleration is now taking place. However, inflation is not automatically synonymous with recession and the current economic situation should be assessed with a certain degree of caution. Companies continue to be financially sound and competitive, as do private savings. The specialised sectors of the Swiss and Geneva economies should not see an immediate slowdown. The labour market is also proving robust, which is why no wage-price spiral is to be expected.

Real estate bubble or pause for breath?

The rapid rise in mortgage rates reflects the nervousness of the financial markets in the face of central bank announcements and this is having an impact on mortgage lending in Switzerland and Geneva. This raises the question of the extent of real estate risk. Faced with this problem, the factors to be analysed are the balance between supply and demand, the evolution of the employment market and the continued attractiveness of the region (as reflected in demographic trends). These factors plead in favour of halting the rapid rise in residential prices following the post-COVID period but do not indicate a real estate crisis. The rise in interest rates should not be a brake on access to real estate, but should rather have an impact on the trade-off between real estate as a yielding asset (rental) and fixed income assets (bonds).

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