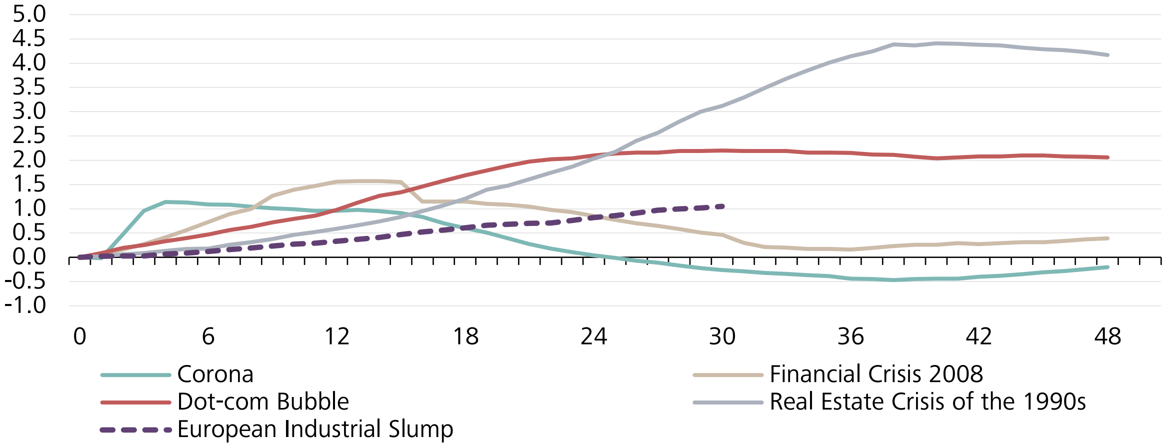
DECEMBER 2025

Macro check-up

The Swiss economy contracted sharply in the third quarter. This, however, was the inevitable response to the advance effect of tariffs on exports, which had previously given strong support to growth. Although the export outlook is much less threatening following the tariff deal with the US, the headwind for industry continues. We are thus sticking by our cautious GDP growth forecast of 1.0% for next year. In the meantime, de-escalation on the tariff front and a fairly stable EUR/CHF exchange rate suggest there is currently no reason for the SNB to make further interest rate adjustments.

CHART OF THE MONTH: PRONOUNCED LABOUR MARKET WEAKNESS

Cumulative change in the Swiss unemployment rate in percentage points, by month



Source: SECO, Raiffeisen Economic Research

Despite all the uncertainty and the many difficulties besetting world trade, the global economy is proving resilient and unemployment rates remain moderate or low in most countries. Unemployment in Switzerland has risen more sharply on an international comparison, having been drifting slowly but steadily upwards for more than the last two and a half years. The unemployment rate has now risen almost as fast as it did during the global financial crisis (see chart). However, the increase is from a very low level and, at 3.0%, the unemployment rate is not yet alarming.

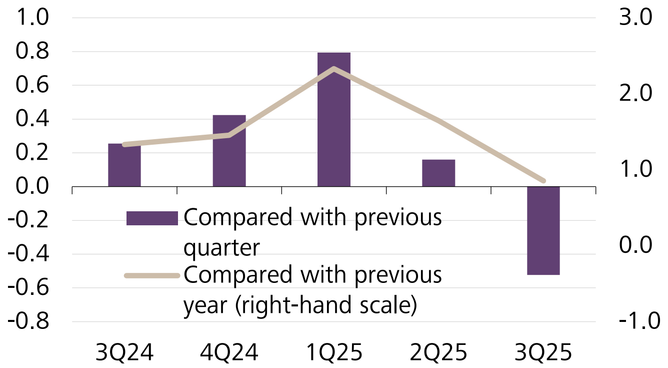
The slowdown in the Swiss labour market, which has already lasted for some time, shows that this is not a tariff phenomenon, but largely the effects of years of European industrial sluggishness. The headwind that has been blowing for a while is keeping the capacity utilisation of many industrial plants low. Over time, therefore, manufacturers were no longer able to avoid redundancies. Solid demand for employment in services has been more than offsetting the decline in industrial employment for quite some time. While jobs in government-related service sectors continue to grow, demand for labour has recently been significantly lower in the more cyclically sensitive service sectors too.

Following agreement in the tariff dispute, there is a good chance that the decline in industrial jobs will lose momentum. Instead, as European industrial demand stabilises, downsizing will gradually reduce again next year. Therefore, this should stop having a detrimental effect on the demand for employment in the services sector also. We assume that unemployment will continue to rise in the short term, then, but the weakness of the labour market should gradually disappear over the next year and the unemployment rate remain below 3.5%.

Economic situation

SWISS GDP

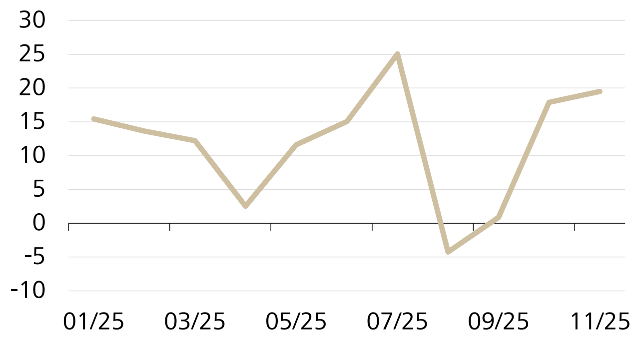
Growth, real, in %



Source: SECO, Raiffeisen Economic Research

TARIFF ROLLERCOASTER

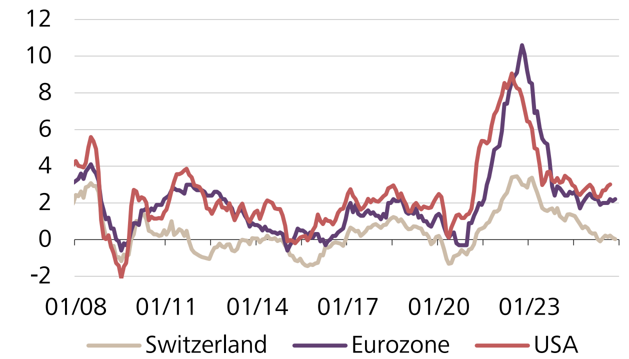
KOF export expectations



Source: KOF, Raiffeisen Economic Research

CONSUMER PRICES

In % compared to previous year



Source: LSEG, Raiffeisen Economic Research

Tariff correction

The Swiss economy contracted significantly in the third quarter, with GDP falling 0.5% on the previous quarter. The drop was driven by a sharp 7.9% decline in added value in the chemical-pharmaceutical industry. This was, however, an inevitable response to the advance effect of tariffs in the previous months, which had given substantial support to growth in the first half of the year. This time, though, the rest of the manufacturing sector was able to make a positive contribution to growth, even though the 39% tariffs from August onwards slowed down the exports affected, for example in mechanical engineering or precision instruments. That is because the negative GDP effects of declining exports were partially offset by a stronger accumulation of stocks. The generally negative development in the industrial sector could not be offset by the below-average momentum of the services sector. Private consumption was solid, supporting the distributive trade and hospitality. On the other hand, added value in business-related services fell for the second quarter in a row as a result of the industrial weakness.

Headwinds continue to blow

After the correction in the third quarter, the monthly export figures again appear more stable towards the end of the year. Moreover, following the tariff deal for exporters with a high share of US exports, who had previously been hit by 39% tariffs, the outlook is now much less threatening. This easing is already being reflected in a strong recovery after a previous collapse in export expectations, according to the KOF industry survey. Manufacturers can breathe freely after the tariff rollercoaster. However, the global growth environment remains very challenging. US tariffs remain higher at 15%, China is increasingly becoming a competitor and industrial demand in neighbouring countries, especially Germany, is stabilising, but not yet showing any clear signs of recovery. This, too, suggests only subdued growth momentum in Switzerland.

Swiss inflation remains close to zero

The punitive US tariffs have so far been borne primarily by US importers. Some of the additional costs have already been passed on to consumers, and US companies are planning further such shifts in the coming months. In addition, price pressure in the US remains generally higher due to the healthy state of the economy. This is not the case in Europe, where subdued growth momentum and the associated decline in wage growth mean less pressure on domestic prices. In Switzerland, the strong currency is also contributing to the dampening of price rises via imported deflation. Indeed, the annual rate of inflation fell back to zero in November.

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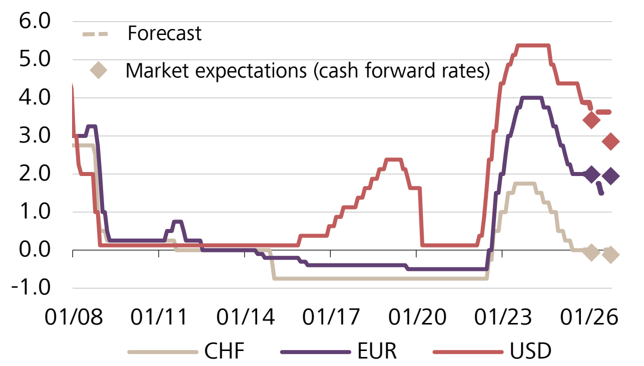
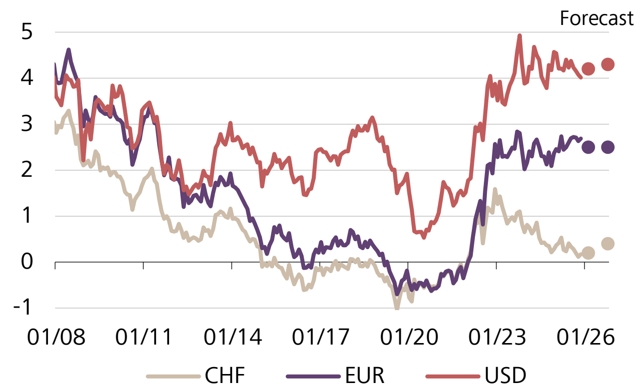
Interest rates

KEY INTEREST RATES, IN %



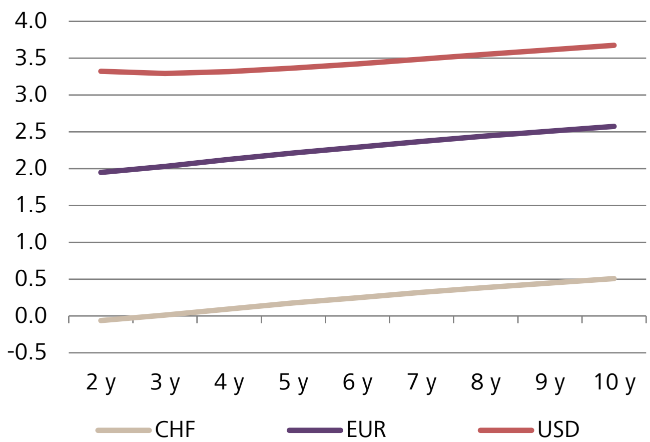
Source: LSEG, Raiffeisen Economic Research

10-YEAR GOVERNMENT BONDS, %



Source: LSEG, Raiffeisen Economic Research

INTEREST RATE CURVE (08.12.2025), IN %



Source: LSEG, Raiffeisen Economic Research

Fed is more indecisive

The Federal Reserve cut its key interest rates by 25 basis points at each of the last two meetings. Afterwards, however, Fed chairman Jerome Powell confirmed that committee members differed markedly in their assessments. The delayed release of much data due to the long shutdown makes it difficult to assess the situation. The latest available data do not show a clear trend in consumer prices and the labour market, which is why Powell considers a more cautious approach to be appropriate. While downside risks in the labour market lead many members of the Federal Open Market Committee (FOMC) to believe that they should to slow the pace of interest rate cuts from a level that remains at least slightly restrictive, the resilient economy and the associated increase in price pressures do not so far support the argument for much more easing – if any.

ECB remains in good position

The European Central Bank (ECB) reckons the growth outlook for the eurozone has been more balanced in recent months. In particular, it expects industry to stabilise due to the tariff agreement with the US and planned additional public investment. Overall, the ECB sees fewer downside risks to the economic outlook of late and thus also to the price outlook. This makes the central bank confident that it will be able to meet the medium-term inflation objective. Accordingly, most members of the ECB's Governing Council still consider monetary policy to be in a good position and see no need to adjust the key interest rates at present. The deposit rate has remained unchanged at 2.0% since June. The latest economic data have fundamentally underpinned the ECB's assessment and make it unlikely, at least in the short term, that a further cut in interest rates to support the fragile recovery is likely.

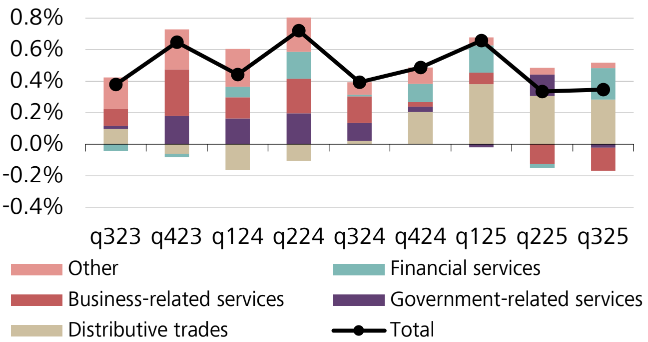
SNB has no need to act

With the tariff agreement between Switzerland and the US, the Swiss franc again came under pressure to appreciate. This could have prompted the SNB to intervene again. However, the SNB's monthly balance sheet data do not indicate any intervention by the SNB, or at most minimal transactions, that would suggest a similar surge in value in October. In the current economic and exchange rate environment, the SNB does not seem to be under pressure to act. This is understandable, given that the Swiss franc did not appreciate markedly this year, especially against the euro. Since the ECB has paused its lowering cycle and is maintaining a comfortable interest rate spread with the SNB, the Swiss franc is not becoming more attractive as an investment currency. Since the SNB assumes a moderate upward trend from low inflation over the medium term, moreover, there is no reason to adjust monetary policy. The key interest rate should therefore remain at 0.0% for the time being. Indeed, the interest rate markets expect this rate to remain unchanged over a two-year horizon.

Swiss sectors

ADDED VALUE IN THE TERTIARY SECTOR

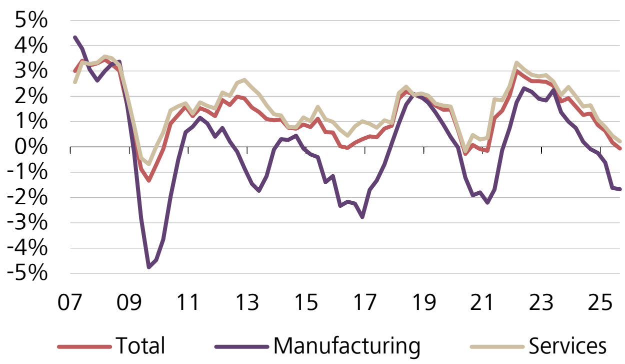
Contributions to real (qoq) GDP growth



Source: SECO, Raiffeisen Economic Research

EMPLOYMENT TRENDS

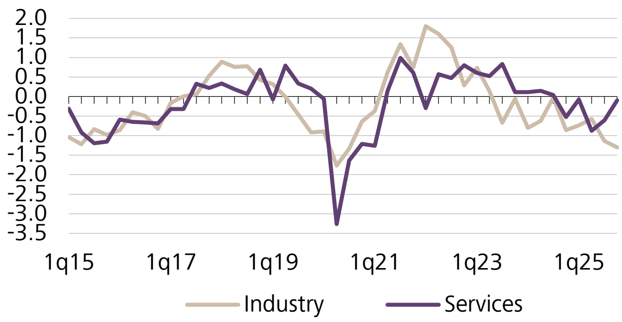
Full-time equivalents, change over previous year



Source: SECO, Raiffeisen Economic Research

LABOUR MARKET OUTLOOK

KOF employment indicator (0 = long-term average)



Source: FSO, Raiffeisen Economic Research

Weaker services sector

After the third quarter, added value in the services sector is still 1.8% higher than it was in the previous year. Although this is slightly up on the long-term average (1.7%), quarterly growth has recently been below average twice in a row. The main reason for this is the poor situation in industry, which has led to a decline in added value in business-related services for the first time since the pandemic. This affects advisory and advertising activities, among others. In addition, government-related sectors have recently grown less than usual. Overall, the expansion in the tertiary sector is thus based on only a few industries. The distributive trades have been making the biggest contribution to growth in the last few quarters – not retail or traditional wholesale, however, but transit trade. Most of its surpluses come from commodity trading, but other transit trading activities have become more important recently as a result of US tariffs and the transactions undertaken in order to evade them. This includes, for example, when a company based in Switzerland purchases goods abroad and delivers them to the US unchanged.

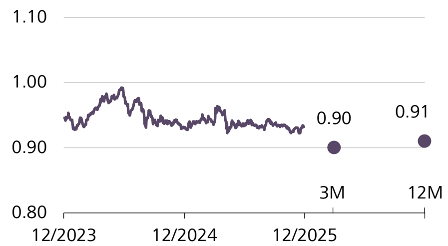
Declining employment

The weak situation in the manufacturing sector and the slowdown in the services sector are now leading to a decline in total employment. In the third quarter, the number of jobs, measured in full-time equivalents, fell below the previous year's level for the first time since 2021. In the services sector, only just under 7,000 full-time positions were created during this period, almost entirely thanks to government-related activities. Employment declined in almost all other sectors.

However, there are indications that the weakness in the labour market is no longer accelerating. Following the tariff deal with the US, the mood in the industry is likely to brighten. Employment prospects in the tertiary sector have already improved: the proportion of companies expecting to add jobs is now clearly higher again than those planning a reduction. Employment plans are thus back to near the historical average. Companies offering business-related services are also showing more optimism again. Government-related sectors have expanded strongly in recent years, particularly the health sector, which explains the recent pause in its GDP contribution. However, the outlook here is still positive, partly due to the growing population.

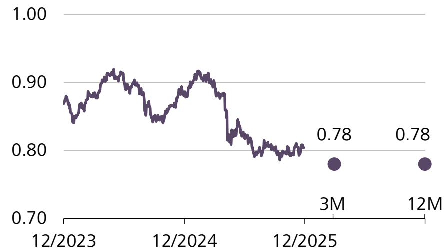
Exchange Rates

FORECAST



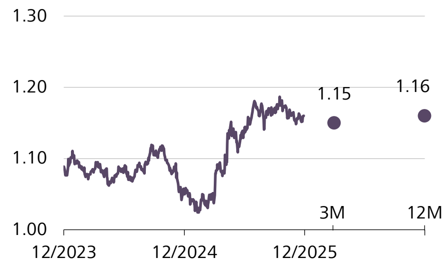
EUR/CHF

The euro fell to a multi-year low against the Swiss franc in the first half of November. The trigger was Switzerland's agreement with the United States on an imminent reduction of trade tariffs from 39% to 15%, eliminating the competitive disadvantage vis-à-vis the European Union (EU). Later in the month, however, the euro regained its losses. Despite policy rates being higher in the euro area compared to Switzerland, we expect the EUR/CHF exchange rate to trend slightly lower going forward. This outlook is supported by the bleak economic prospects in the EU and the volatile market environment, from which the Swiss currency benefits as a safe haven for capital.



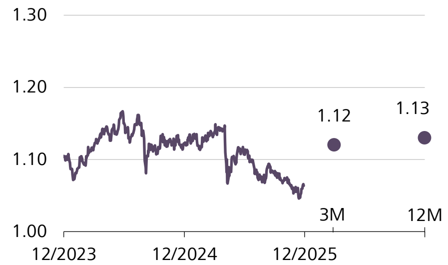
USD/CHF

The longest government shutdown in U.S. history came to an end in November. Nevertheless, economic data is still being published with delays and in some cases incompletely. As a result, uncertainty prevails in the financial markets regarding the actual state of the U.S. economy. This also led to disagreement about how the Federal Reserve's interest rate decision in mid-December would turn out. Consequently, the USD/CHF currency pair moved in a volatile sideways trend last month. In anticipation of President Trump's continued erratic trade policy, we forecast a persistently weak dollar over the course of the year.



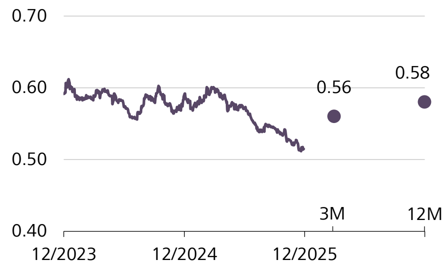
EUR/USD

The debt situation and the weakening economy in the EU are weighing on the euro. The U.S. dollar, in turn, faces headwinds from uncertainties surrounding trade disputes and lingering investor doubts about the state of the U.S. economy. At the same time, both the European Central Bank (ECB) and the Federal Reserve are expected to leave interest rates unchanged at year-end. Consequently, the EUR/USD currency pair fluctuated between 1.14 and 1.16 in November. We believe this sideways trend will remain largely unchanged for now. We maintain our 3- and 12-month forecasts at 1.15 and 1.16.



GBP/CHF

Inflation in the United Kingdom has recently fallen from 3.8% to 3.6%. From an investor's perspective, this gives the Bank of England (BoE) the necessary room to lower interest rates at its final monetary policy meeting of the year and thereby stimulate the economy. Nevertheless, the pound halted its decline against the Swiss franc last month and even regained some value (+0.5%). In our view, too much pessimism is still priced into the British currency. We therefore expect a recovery in the GBP/CHF exchange rate in the medium term.



JPY/CHF*

In November, the yen once again weakened against the Swiss franc (-1.5%) and temporarily fell to a new all-time low. With rising inflation, pressure is mounting on the Bank of Japan (BoJ) to normalize its monetary policy. Nevertheless, policymakers are likely to raise interest rates only very cautiously. Reasons include the sluggish economy and geopolitical uncertainties. In addition, the new Prime Minister, Sanae Takaichi, favors an accommodative fiscal and monetary policy. Overall, we continue to expect a slight recovery in the JPY/CHF exchange rate in the medium term. However, this will hardly change the chronic weakness of the Japanese currency.

* Multiplied by 100
Sources: Bloomberg, Raiffeisen Switzerland CIO Office, Raiffeisen Schweiz Economic Research

Raiffeisen forecasts (I)

ECONOMIC SITUATION

GDP (average annual growth in %)

	2022	2023	2024	2025 forecast	2026 forecast
Switzerland*	3.5	1.3	1.2	**1.2**	**1.0**
Eurozone	3.6	0.6	0.8	**1.3**	**1.0**
US	2.5	2.9	2.8	**1.8**	**1.3**
China**	3.0	5.2	5.0	**4.8**	**4.0**
Japan	1.0	1.8	0.1	**1.0**	**0.8**
Global (PPP)	3.6	3.3	3.2	**2.9**	**2.6**

Inflation (annual average in %)

	2022	2023	2024	2025 forecast	2026 forecast
Switzerland	2.8	2.1	1.1	**0.2**	**0.5**
Eurozone	8.4	5.5	2.4	**2.0**	**1.6**
US	8.0	4.1	3.0	**3.0**	**3.2**
China	2.0	0.2	0.2	**0.2**	**0.5**
Japan	2.5	3.3	2.7	**2.7**	**1.9**

FINANCIAL MARKETS

Key interest rates (end of year %)***

	2023	2024	Current****	3M forecast	12M forecast
CHF	1.75	0.50	0.00	**0.00**	**0.00**
EUR	4.00	3.00	2.00	**2.00**	**1.50**
USD	5.25-5.50	4.25-4.50	3.75-4.00	**3.75-4.00**	**3.50-3.75**
JPY	-0.10	0.25	0.50	**0.50**	**0.75**

Capital market interest rates (10-year government bond yields; end of year %)

	2023	2024	Current****	3M forecast	12M forecast
CHF	0.65	0.27	0.19	**0.20**	**0.40**
EUR (Germany)	2.02	2.36	2.84	**2.50**	**2.50**
USD	3.88	4.57	4.15	**4.20**	**4.30**
JPY	0.61	1.09	2.01	**1.50**	**1.30**

Exchange rates (end of year)

	2023	2024	Current****	3M forecast	12M forecast
EUR/CHF	0.93	0.94	0.94	**0.90**	**0.91**
USD/CHF	0.84	0.90	0.80	**0.78**	**0.78**
JPY/CHF (x 100)	0.60	0.58	0.52	**0.56**	**0.58**
EUR/USD	1.10	1.04	1.17	**1.15**	**1.16**
GBP/CHF	1.07	1.14	1.07	**1.12**	**1.13**

Raw materials (end of year)

	2023	2024	Current****	3M forecast	12M forecast
Crude oil (Brent, USD/barrel)	77	75	64	**60**	**65**
Gold (USD/ounce)	2063	2625	4214	**4000**	**4200**

*Adjusted for sporting events **The GDP figures are more controversial in their accuracy than in other countries and should be viewed with some caution. *** The key interest rate relevant for money market rates (SNB deposit rate, ECB deposit rate, interest rate corridor for the Fed Funds target rate) ****08.12.2025

Raiffeisen forecasts (II)

SWITZERLAND – DETAILED FORECASTS (ADJUSTED FOR SPORTING EVENTS)

	2021	2022	2023	2024	2025 forecast	2026 forecast
GDP, real, % change	**5.9**	**3.5**	**1.3**	**1.2**	**1.2**	**1.0**
Private consumption	2.2	4.9	1.4	2.4	1.4	1.5
Government consumption	2.9	-0.6	1.4	1.3	1.2	0.8
Investment in equipment	7.0	4.7	3.8	1.2	1.2	1.9
Investment in construction	-3.1	-6.9	-1.5	-1.4	2.2	1.8
Export	11.5	5.8	-2.0	3.0	6.3	1.0
Import	4.8	6.6	1.1	3.7	6.9	1.9
Unemployment rate in %	**3.0**	**2.2**	**2.0**	**2.4**	**2.9**	**3.3**
Inflation in %	**0.6**	**2.8**	**2.1**	**1.1**	**0.2**	**0.5**

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