Economic Outlook

Owerview

- Growth rates in our major markets are still showing a mixed picture, with the US economy marching ahead, Switzerland managing to stay on the growth path at least for now, and the euro zone facing a technical recession. The leading indicators have stabilised, thereby allowing the expectation that economic activity will pick up as the year progresses. The Greek haircut, but even more importantly the ECB's injection of liquidity into the system, has elicited a temporary sigh of relief in Europe, but the next challenges already loom.
- The latest leading indicators for most of the emerging nations continue to point north. The rise in the "new export orders" subcomponent of the Chinese purchasing managers index is cause for optimism. The minor pullback in China's exporting sector should gradually reverse direction in the second half. But several increasingly ominous blips are showing up on the macroeconomic radar screen, amongst them the bulging dual deficits in India and Brazil.
- Despite the otherwise expansive monetary policies of central banks, inflation rates are generally on the wane and should level out in 2012 at roughly 2% because of the lacklustre economy. Switzerland is still suffering from the deflationary tendencies brought on by the strong Swiss franc. Here, hardly any price increases are likely in the current year.
- We do not expect to see any interest rate hikes in our major markets for the foreseeable future. The challenging economic environment hardly allows for that. Another rate cut in the euro zone is entirely conceivable, but for the time being we are not anticipating such a move.

Markets

USA:	The economic picture in the USA has brightened significantly. Thanks to lively consumption and a notable increase in capital spending, Q4 GDP rose by 0.7%. Due to the fundamental improvements we increase our US growth forecast. Currently we forecast a minimum growth rate of 2% in USA for the calendar year 2012.
Europe:	The euro zone leading indicators generally appear to be stabilising but nonetheless have been towards an economic contraction for quite some time now. Thus it came as little surprise that Q4 GDP fell by 0.3%. It cannot be ruled out that the euro zone economy shrinks again in the first quarter of 2012 and thereby, at least technically, puts the Continent in a recession. For the entire year, however, we currently expect to see only a minor 0.5% retreat in GDP.
Switzerland:	In Q4 2011, the economy actually grew by 0.1% – the bleaker leading indicators in the second half of last year suggested that Switzerland's GDP would in fact shrink. Switzerland is

progressively feeling the pain of weak growth in the euro zone. Due to the low consumer confidence it is questionable if the private consumption can keep up with the positive guidelines form the previous quarters. We reckon that GDP will increase at best by 1% in 2012.

Emerging nations:

More and more emerging:market central banks are adopting the "easy money" approach. There, the monetary stimulus should lend support to personal spending and capital investment. But it remains to be seen whether the Chinese economy will manage to compensate for waning export dynamism through increased private consumption.

More Information

- Financial market news

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