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News Release

UBS Outlook Switzerland – Purchasing power under pressure

While the majority of Swiss companies are granting wage increases of 1.9% in 2024 to compensate for rising prices, few are surpassing the rate of inflation. Taking rising health insurance premiums into account, many workers face a loss of purchasing power in the coming year. On the other hand, a robust labor market and excess savings are supporting consumption. The shortage of labor has eased somewhat but recruitment difficulties remain widespread.

Zurich, 8 November 2023 – In the annual Compensation Survey by the Chief Investment Office of UBS Global Wealth Management (UBS CIO GWM), the 389 surveyed companies expect a nominal wage increase of 1.9% in 2024. The increase in nominal wages next year is therefore expected to be considerably higher than the average of just under 1% for the last ten years. However, the expected rate of wage increases falls somewhat short of the wage agreements of 2.3% seen in 2023.

Broad-based wage increase

Inflation continues to be the dominant driver of this year's wage increases. The wage agreements show little deviation between the individual sectors, resulting in a 2% wage increase in 15 out of 22 sectors. With an expected wage increase of 1%, media is the only sector to lag significantly behind the average. Public sector employees, on the other hand, will likely be pleased with above-average wage increases of 2.2%. In the hospitality and hotel sector, the ongoing strong post-pandemic recovery is reflected in sharp wage increases of 2.8%.

Falling purchasing power despite inflation compensation

"While most of the surveyed companies are granting inflation compensation, they seldom go beyond that", suggests Florian Germanier, UBS economist and responsible for the survey. With inflation of 2%, as expected by UBS CIO GWM, real wages will effectively stagnate on average in 2024. In fact, purchasing power will fall in 2024 if the health insurance premiums, which are not included in the consumer price index, are taken into account.

Last year, higher energy costs and concerns about an energy shortage led to subdued wage increases in view of inflation. Now, weak foreign demand and higher financing costs due to the global rate hiking cycle are denying companies the financial scope for heftier wage increases.

Sub-trend growth but no recession

Despite the loss of purchasing power, UBS economists expect high immigration, a robust labor market and excess savings to support consumption in Switzerland in 2024. A large number of households will likely draw on savings to cushion the burden of higher healthcare premiums, as well as rising rents and higher electricity prices. Although lower-income groups have little or no savings, their wages are expected to increase above average, according to the UBS Compensation Survey.

Although labor market momentum has recently turned as a result of subdued economic development, the UBS economists do not expect a sharp rise in unemployment. More companies surveyed still plan to increase rather than reduce their workforce in 2024.

UBS CIO GWM forecasts GDP growth of 0.7% in 2023 and 1.2% in 2024. This scenario is in line with the survey results. The majority of the companies expect below-average economic development for 2024 but no recession.

Wages hardly fueling inflation

The expected average wage increase of 1.9% is unlikely to derail inflation in the coming quarters. According to the UBS Compensation Survey, three out of four companies expect next year's inflation to be within the Swiss National Bank's (SNB) target range. "Although the wage increases are not strong enough to force the SNB to raise rates further, they are preventing a rapid decline in inflation at the same time," UBS Chief Economist Daniel Kalt explains. He therefore does not expect swift rate cuts but rather for SNB policy rates to remain unchanged in the coming quarters.

Gen Z: opportunity and challenge at the same time

The shortage of labor has eased somewhat in the short term, due to the weakening economy, among other things. However, the majority of the companies surveyed still find it difficult to fill vacancies and the shortage of labor is likely to worsen again in the medium term due to demographic change.

Younger workers are therefore becoming increasingly important. Generation Z (Gen Z) are already ranked highly among the vast majority of the surveyed companies (93%). Surprisingly, demographic change is only the second most important reason for this. The survey participants consider the exchange between the generations to be more important.

However, the integration of younger workers presents challenges for companies, as they are often unable to meet the diverse demands of Gen Z. From the employer's perspective, while the remuneration of younger workers is important, flexible working models are proving more significant. In order to attract younger workers, the study finds that companies should focus more on soft factors, such as work content, professional development opportunities, part-time work models and remote working.

Nominal wage development according to the findings of the UBS Compensation Survey 2024

Sector	**Effective wage increase 2023**	**Expected wage increase 2024**
Public sector	2.9%	2.2%
Watches and jewelry	3.5%	2.0%
IT services and telecommunications	2.8%	2.0%
Materials and building materials	2.5%	2.0%
Metals	2.5%	2.0%
Electrical engineering	2.5%	2.0%
Logistics	2.5%	2.0%
Tourism including culture, sport and education	2.3%	2.0%
Energy, utilities and waste disposal	2.2%	2.0%
Chemicals and pharmaceuticals	2.2%	2.0%
Machinery	2.2%	2.0%
Financial services	2.2%	2.0%
Corporate services (including real estate)	2.2%	2.0%
Construction and architecture	2.0%	2.0%
Retail trade	2.0%	2.0%
Automobile sector	2.0%	2.0%
Health and social services	2.5%	1.9%
Textiles	1.5%	1.9%
Consumer goods	2.3%	1.8%
Wholesale trade	2.0%	1.5%
Food	2.0%	1.5%
Media	2.0%	1.0%
Switzerland	**2.3%**	**1.9%**

Links
www.ubs.com/outlook-ch-en (UBS Outlook and forecasts for Switzerland)

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