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Switzerland: Inflation edges higher.

Surprising few, June consumer price inflation edged up 0.2 percentage point to 0.6% Y/Y. In M/M terms, prices fell 0.2%, largely a result of lower clothing costs, with a clear dip in the price of imported items. The Y/Y breakdown, however, saw mixed developments, with the edging up in the overall rate largely a result of a recovery in clothing price inflation. Indeed, partly as a result, core inflation (excluding food, energy and fuel) rose by 0.3 percentage points to 0.3% Y/Y while the core inflation measure excluding administered price products rose similarly but to 0.1% Y/Y.

The data very much underscore the impact of the strong franc on prices, with domestic goods inflation running at 0.8% Y/Y, while that for foreign goods was flat. The impact of the exchange rate is obviously a crucial factor to the SNB, albeit as much for the alleged impact on the economy. Even so, the stronger franc was the main factor that resulted in the SNB paring back medium-term inflation forecasts (at the updated assessment offered a few weeks ago) to a degree that provided the central bank with more 'rationale' to keep policy on hold.

Regardless, the obvious suspicion remains that the SNB is producing forecasts that enable it to continue with its present policy stance for longer than otherwise. Such circumspection from the SNB may be justifiable given the clear uncertainty facing all policy makers at present, particularly in Europe where sovereign debt risks have resurfaced so clearly of late. However, the manner in which the central bank fiddles with its projections in order to justify any particular policy stance is an indictment of inflation targeting, at least as practiced by the SNB. It is very clear that the SNB is a very different animal to that of the ECB.