

The economic situation from the vantage point of the delegates for regional economic relations

Summary report to the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2005

The Swiss National Bank's delegates for regional economic relations are constantly in touch with a large number of enterprises from the different industries and economic sectors. Their reports, which contain the subjective evaluations of these companies, are an important additional source of information for assessing the economic situation. In the following, the most important results of the talks held from June to August on the current and future economic situation are summarised.

Abstract

The economic picture which emerged from the discussions held by the Swiss National Bank's delegates for regional economic relations with around 140 representatives of various economic sectors and industries is still a positive one. The improvement in the economy registered in the previous round of discussions continued, with differences between sectors tending to decrease. Overall, therefore, the economic recovery appears to have broadened.

The exporters and construction companies surveyed were particularly satisfied. Within the service sector, retailers still faced a difficult business environment, while the tourist sector described the situation as satisfactory. Banks, the transportation industry and other company-related services reported that business was picking up. However, prices were still under a great deal of pressure in all sectors and higher costs could only be passed on to customers in a small number of cases.

On the investment front, boosting productivity remained the top priority, which often meant further rationalisation of production; investment in expansion remained the exception. This applies both to industry and – to an even greater extent – to important service sector industries, in particular banks and retailers. As a result, only a small number of the companies surveyed planned to recruit more staff.

1 Production

Manufacturing

Almost all of the strongly export-oriented manufacturing companies surveyed reported positive to very positive sales trends over the June–August period. In light of their high order backlogs, most took a positive assessment of the outlook between now and the end of the year. The main stimuli continued to come from Asia, the United States and Eastern Europe, whereas most respondents described sales to the big three European economies – Germany, France and Italy – as sluggish to poor.

The watchmaking industry, the chemical/pharmaceutical industry and the medical sector were still among the sectors that were particularly dynamic. The metal and machine tool industries also reported positive sales trends, whereas representatives of the wider mechanical engineering sector were more cautious in their assessments. The textile companies surveyed described the situation as difficult. Apart from the depressed levels of consumer spending, this sector also felt the impact of the lifting of Chinese import quotas in the European export market. By contrast, companies in the technical textiles segment remained upbeat, particularly in relation to the automotive industry.

Services

The retail sector continued to describe the business situation as difficult. Customers were still seen as cautious and decidedly price-conscious. This is causing concern among businesses in the medium price segment in particular, and also among smaller specialist shops, whereas discounters and the luxury segment mostly reported satisfactory to positive sales trends.

The hotel sector was generally pleased with the summer season, reporting a year-on-year increase in numbers of Swiss and foreign guests. This applied both to the typical holiday destinations and to the cities, which benefited from the revival in business and conference travel. By contrast, restaurant owners described the business situation as very difficult: guests were spending cautiously and prices were being squeezed by fierce competition.

Business was very buoyant in the transportation sector, both in the (air) travel segment, which saw a marked rise in passenger numbers, and in the freight segment. In the IT sector the improvement in conditions in evidence for some time now was confirmed. Now that a considerable backlog of demand

has built up for the replacement of capital goods, companies are becoming more willing to invest. This has benefited both IT wholesalers and IT consultants. The general business consultancy companies surveyed also expressed satisfaction, with globally oriented clients exhibiting a particularly dynamic trend.

The banks likewise reported a positive trend of business – with rising cash flows and customer lendings. While the mortgage business continued to serve as an important pillar of support, the corporate lending segment remained sluggish. Many companies took advantage of their improved liquidity to reduce their borrowings from banks. The competitive pressure remained exceptionally strong. Some contested the claim that credit is still being allocated subject to strict criteria. The asset management business was described as very good. This was attributed not least to the positive performance of the stock market, although fierce competition and cost pressures were also mentioned again.

Construction

Building construction companies described the order situation and capacity utilisation as good to excellent. This applied in particular to the greater Basel area as well as the Lake Geneva and Central Switzerland regions. However, it was also increasingly true of more remote areas. As previously, the main source of support was the strongly expanding residential construction sector, which also benefited the renovation/fitting-out sector. In many cases, the order backlog is sufficient to guarantee full employment until 2006. There was no longer much talk of an impending slowdown. Individual companies surveyed reported some revival in the commercial construction sector, while in most regions the civil engineering sector was still described as slack or even continuing to decline.

2 Labour market

There was still little if any sign of an improvement in the labour market. Apart from strongly expanding industries, such as medical products and biotechnology, most companies were able to maintain their output with their existing staff. Rationalisation measures and decisions to relocate abroad, which often involve job losses, were still on the agenda. This applied to both the manufacturing and service sectors, and especially to banks and retailers. When new staff are recruited, they are often hired on a temporary basis. When questioned about the freedom of movement arrangements with the EU, many companies stress the simplification on the administrative front. They saw no changes in the recruitment of staff. Owing to the lack of certain skills in the Swiss labour market, some companies are still having to look abroad for labour.

3 Prices, margins and earnings situation

Particularly strong pressure on selling prices and margins was reported across all sectors, except in the case of a few highly specialised niche manufacturers. Higher costs, such as those resulting from the rise in oil prices, could not be passed on and were absorbed at the expense of margins. This particularly affected transport-intensive sectors, companies that manufacture petroleum-based products and those companies that purchase petroleum-based precursors. Most companies were also unable to raise prices to offset exchange rate losses resulting from the depreciation of the dollar. Despite the positive business situation, the construction sector also reported fierce competition and persistently heavy pressure on prices.

The euro exchange rate gave no grounds for concern. However, many companies surveyed still described the trend of the dollar as a major risk factor.