

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

Summary report for the attention of the Governing Board of the SNB for its quarterly assessment of June 2008

The SNB'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. On the following pages, the most important results of the talks held from March to May 2008 on the current and future economic situation are summarised.

Summary

Most of the 190 or so representatives of various economic sectors and industries interviewed by the SNB delegates for regional economic relations between March and May expected the good business trend to continue. This was especially true for the retail trade and other consumer-oriented sectors such as hospitality. The assessment of the business situation and outlook by the export sector was more mixed than in the last round, while banks were feeling the effects of the stock market decline particularly strongly.

Sentiment has been hit by worries about the impact of the financial market turbulence as well as the massive hike in the price of agricultural products, energy and industrial raw materials and the heavy depreciation of the dollar. Although the general uncertainty has increased, the majority of companies are sticking to their investment plans and some are planning a further increase in headcount. They continued to report recruitment problems and a pronounced shortage of skilled staff.

1 Production

Manufacturing

The majority of export-oriented companies reported that incoming orders remained high, although momentum was somewhat reduced. However, the signs of a slowdown were not seen as a cause for concern in view of the high level of capacity utilisation. Nevertheless, a few companies reported a significant deterioration in business. In most of these cases, the dampening effect came from the US market, while demand from Europe, especially Germany and eastern Europe, and from Asia and Latin America was judged satisfactory.

Representatives of the agrochemicals, energy technology and supply, and watchmaking sectors continued to achieve excellent business results. The watchmaking sector and its suppliers continued to complain about supply problems and signs of overheating. In stark contrast, the textile machinery industry experienced a sudden drop in sales. The main explanation given for this was a slowdown in the Asian textile industry. The majority of firms in other areas of the capital goods and machinery industry reported good order intake. This group included the casting industry, which is regarded as a leading indicator for the mechanical engineering and electrical/electronics industry.

Services

The retail trade was still satisfied with business trends, and described consumer sentiment as good to very good. Sales were roughly in line with expectations and actually exceeded expectations in some cases. This was true for wholesalers as well as for smaller retailers. Suppliers in border regions benefited from the improved competitiveness of

prices compared with neighbouring countries. This reflected both the weakening of the euro/Swiss franc exchange rate and price cuts on the Swiss market. Despite good overall sentiment, some respondents were expecting weakening consumer spending against the background of the problems in the banking sector and unfavourable stock market conditions. This was particularly evident in the high-price segment, which tends to benefit when customers receive high bonus payments.

Representatives of the hospitality sector also reported a positive picture. The majority reported an increase in the number of guests compared with the previous year accompanied by a greater willingness to spend. Following an excellent winter season, the tourism industry was registering good bookings for the summer season. Swiss cities continued to benefit from booming tourism and robust demand in connection with business travel and conferences. That said, there were some indications that companies were cutting back on spending and a few instances of cancellations.

The company-related services segment was less optimistic than it had been three months previously. The sharp rise in transport costs and slower export business reduced the demand for transport services. This trend affected air freight, inland waterways and road transport. Representatives of the management consulting sector noted a certain reticence on the part of some clients; in particular, there was a drop in demand from the banking sector. A similar picture was painted by respondents from the advertising and IT sectors: in the latter sector, project decisions were being delayed and in some cases (notably at banks) projects were even cancelled.

The banking sector reported a substantial deterioration in asset management business. Trad-

ing volume dropped as a result of uncertainty and stock market volatility, leading to a year-on-year decline in commission income for the majority of respondents. By contrast, the lending business remained satisfactory. Demand for mortgages and corporate loans increased further, although growth was slower than in the preceding months. However, there was also greater competition between banks, so margins came under renewed pressure in both areas. The banks were still upbeat about their clients' financial circumstances. Like the corporate sector, they refuted the suggestion that lending conditions had tightened. However, there was some talk about subjecting loan applications to a more thorough examination.

Construction and real estate

Construction industry representatives were satisfied with the business environment. Both construction activity and the order backlog are still high. Although some representatives indicated lower demand, others detected a renewed rise in residential building, including conversion and renovation work, which is one of the mainstays of the industry. Positive impetus also came from the commercial construction sector and to some extent from major infrastructure projects. Price growth on the real estate market seems to be subsiding in some regions, mainly because of a sharp increase in the supply of residential property. However, prices continued to rise in other areas – especially in the high-price segment – although sector representatives had not detected any signs of overheating.

2 Labour market

Many representatives continue to envisage an increase in staff numbers. However, in isolated instances there was talk of shedding staff for the first time in a long while. Fluctuation rates remained high in general, with many companies reporting recruitment problems and high recruitment costs. The pronounced shortage of skilled workers was regularly cited. More companies reported a rise in wage pressure, which appeared to be causing greater concern at some companies in the light of the sharp general rise in cost pressure.

3 Prices, margins and earnings situation

Issues raised by many representatives were the availability of raw materials, the sharp hike in production costs and the depreciation of the US dollar. Most respondents pointed to considerable pressure on margins and a deterioration in their earnings position. Although it had often been possible to pass on the massive rise in the price of agricultural and industrial raw materials to customers, recouping the rise in energy and transport costs was proving more difficult. A number of representatives also pointed to a sharp rise in the price of preliminary products sourced from Asia, especially China, which was putting additional pressure on margins. Moreover, many exporters had to contend with a reduction in earnings as a result of the marked depreciation of the US dollar. Only in rare cases had it been possible to raise prices in Swiss francs or invoice in euros.