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 Swiss National Bank for its quarterly assessment of December 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 September to November 2008 on the current and future economic situation are summarised.

Summary

The 180 or so representatives of various economic sectors and industries interviewed by the SNB's delegates for regional economic relations between September and November indicated that sentiment with regard to the economic situation was considerably worse than it had been three months previously. Although initial signs of a slackening of demand had already been observed, the speed with which orders dropped off from the end of September, at the latest, came as a surprise. Most of those interviewed now expect business to deteriorate in 2009. However, there is considerable uncertainty about the extent of the downtrend.

The most significant change of sentiment was in the export sector. By contrast, large parts of the domestic economy have proven relatively resilient so far. In response to the deteriorating outlook, many export-based enterprises are reviewing their budgets and cutting growth in expenditures. Advertising is being scaled back, investments postponed and companies are becoming more cautious about filling vacancies.

Complaints about labour shortages and procurement price trends were less common than in the spring and summer. Moreover, fears that banks could tighten financing and lending conditions significantly and thus hold back investment plans have not been borne out. By contrast, many companies expressed concern about the high volatility of exchange rates and the Swiss franc's appreciation against the euro in October. The rise in electricity prices announced by utilities for the start of 2009 was also more of an issue.

1 Production

Manufacturing

The decline in new orders hit industry at a time when most companies had high to very high levels of capacity utilisation and well-filled order books. Although business has flattened since the spring in some sectors – machinery, for example – the majority of companies reported good to very good half-year results. Since mid-September, many of those interviewed – especially in the export sector – have been reporting an order downturn, which has been substantial in some cases. While demand from the US market declined some time ago, Europe and even the Chinese market are now increasingly showing signs of a slowdown. Although orders on hand are still high in many sectors, a rapidly rising number of exporting companies seem to be cutting back production.

This has affected suppliers to the textile, electronics and automotive industries most heavily. However, with a few exceptions, companies in the watchmaking and jewellery sector, which has had an extremely successful year, are now expecting business to dip next year. A few niche suppliers (e.g. energy technology) and the food sector, which is traditionally non-cyclical, have observed little or no change. Overall, sectors focused principally on the domestic market seem to be less affected than exporters. Most representatives of these sectors reported that business had remained good although they too forecast a downturn in the coming quarters. Virtually all respondents, including companies that expect to gain market share, predict that capacity utilisation will be lower in 2009.

The economic slowdown and mounting insecurity among consumers and investors is mainly affecting investment spending. Many of those interviewed indicated that the willingness to invest had declined substantially in recent months and that plans are increasingly being reviewed. Many pointed to the cancellation of investment plans, while others talked about phased investment or focusing on essentials.

Services

Consumer spending has proven resilient so far. Although the indicators point to a drop in consumer confidence, this has not yet been reflected in retail sales. However, the interviews with representatives of the retail trade indicated a drop in demand for consumer durables. Apart from that, the main impact has been felt in the mid-price segment, with demand shifting to lower priced goods. Reports from the upper price segment are contradictory, but there are growing signs that demand for luxury goods is losing momentum. Forecasts for the Christmas period are mixed. The consensus view seems to be that the season will be good as unemployment is still low, but most companies do not expect to top last year's very good performance.

The majority of the representatives of the tourism and hospitality sectors were still very satisfied with the situation, but regional differences are increasing. Although there was a decline in the number of foreign visitors (especially from the US and the UK), overnight stays by domestic visitors remained unchanged. Spending cut-backs by the corporate sector (business entertaining, business trips) are clearly already having an impact. It was also noted that guests are becoming more reluctant to spend money on additional services. Bookings for the winter season are judged to be satisfactory. The main source of uncertainty with regard to the winter season – apart from snow conditions – is the euro exchange rate.

In the banking sector, commission and service income has been clipped most severely by the financial crisis. Representatives of this sector also pointed out that the interest margin had narrowed. By contrast, lending had continued unchanged. There had not been any tightening of lending terms although this could not be ruled out, given the deterioration in the economic outlook. This ties in with comments from other sectors, the majority of which had not observed any deterioration in borrowing conditions. However, some companies reported more careful scrutiny of business plans than had been common a few months ago. Increasing difficulties were also becoming evident in the export credit sector as a result of the higher risks.

Construction and real estate

Construction activity remains robust. Although order intake was down year-on-year at most firms, the level of orders on hand remains high. Consequently, the crisis is unlikely to feed through to output until the second half of 2009. The majority of industry representatives expected commercial and industrial construction to suffer more than residential construction. Already, there were signs that a rising number of projects in the commercial and industrial sectors were being cancelled. By contrast, housing construction is expected to remain buoyant because vacancy rates are low. Civil engineering could be least affected but the order situation in this segment varies greatly.

Representatives of the real estate sector felt that the recession would eliminate the housing shortage. However, they did not anticipate a sharp rise in vacancy rates. A bigger impact is expected on office vacancies, and price trends in this sector have already flattened in recent months.

2 Labour market

As yet, the economic slowdown has had little effect on the labour market. Companies have been making use of natural fluctuation, in other words, not all employees leaving have been replaced. Moreover, employees at many companies have been forced to take vacation entitlements and time off to compensate for overtime worked. Some companies (textiles, suppliers to the automotive industry) have already announced short-time working or are planning to do so. Dismissals have been observed at a few firms. Generally speaking, companies have become more cautious and are no longer endeavouring to fill all vacancies.

Complaints about difficulties recruiting skilled staff have declined but have not disappeared altogether. Most respondents foresee pay increases of around 2.5% next year and plan to adhere to this level, despite the events of the past three months.

3 Prices, margins and earnings situation

Many companies have raised prices this year as a result of the good order situation and higher prices for food, oil and other commodities. Some companies, especially in industry, have increased margins thanks to the good economic situation. However, the outlook for next year is subdued. Some of the margin increases have already been trimmed by the appreciation of the Swiss franc against the euro since September. Pay increases and the sharp hike in electricity prices scheduled for the start of 2009 are also likely to put pressure on margins. Overall, it is expected that weaker demand will make it more difficult to raise prices. Nevertheless, a significant proportion of the companies interviewed are planning (modest) price increases in 2009.