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 June 2009

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 April to May 2009 on the current and future economic situation are summarised.

Summary

The talks held by the SNB delegates for regional economic relations with around 180 representatives from various economic sectors and industries from April to May 2009 yielded a picture of a further deterioration in the economic situation. Although there were a number of indications that the downward trend has slowed, especially in the export industry, very few companies said that business was stabilising, let alone improving.

Initially, the crisis mainly affected exports and the financial industry, but in recent months it also had a noticeable impact on the domestic economy. However, there were still striking differences. Businesses in the export industry continued to fare markedly worse than firms that cater to domestic demand. In terms of individual industry segments, the capital goods industry suffered the worst decline. By contrast, the majority of companies in construction and retailing performed comparatively well, although these industries also experienced a definite slowdown.

Most firms implemented comprehensive cost-cutting measures in response to the crisis. Investment projects were increasingly put on hold and many businesses – particularly in the manufacturing industry – introduced short-time working. This reflects the general outlook, which most respondents regard as gloomy. Only a few are expecting the situation to improve in the second half of the year, and the prospects for 2010 are described as very uncertain. Against the backdrop of global recession, many respondents were worried about the exchange rate trend over the past few quarters. Representatives of the export industry, in particular, therefore welcomed the SNB's announcement that it would take steps to prevent a further appreciation of the Swiss franc against the euro.

1 Production

Manufacturing

A year ago it was still the norm for manufacturing businesses to be working at full capacity. This has since become the exception. New orders and orders in hand fell sharply and production was cut back. Furthermore, the weakening in demand has spread further in recent months: the crisis has now affected companies whose market position and production structure had meant that they had previously been left unscathed.

So far, the export industry has been hardest hit by the recession, with many firms confronting a massive drop in orders year on year. The decline has been especially marked for the capital goods industry. Unsurprisingly, the food and pharmaceuticals industries have proved the most stable. The situation improved for a few niche areas only, including companies active in the renewable energies segment.

The recession has had a particularly severe impact on a large number of supplier firms. In the boom times they benefited from the decision by many big companies to outsource parts of their value chain. This trend has reversed to some extent because of the crisis, with companies taking back these tasks in order to keep their own employees occupied. Many suppliers have continued to see their order intake suffer in recent months, as numerous major customers abroad slashed their inventories.

A number of respondents from the manufacturing industry reported that the pace of decline in new orders has slowed recently. However, most of them do not believe any economic turnaround is in sight yet.

Services

Respondents from the consumer-related services sector gave differing reports regarding the business environment. In the retail trade, sales of food and other everyday items were still higher than a year ago in the majority of cases. Clothing, consumer electronics and consumer durables did not perform so well. Luxury goods registered significant declines; in general, consumers seem to be trading down to cheaper items. Since Easter there have also been signs of a noticeable slowdown in demand generally. For some time now, retailers have been expecting rising unemployment to hit consumer confidence.

The hospitality industry has seen overnight stays fall in recent months, with the number of guests from abroad declining significantly more than domestic visitors. There was a marked drop in business customers, in particular, and in guests from new markets such as Russia. Expenditure per guest also seems to have fallen. Most respondents are expecting guest numbers to decline further in the summer season, although they do not predict a real slump. Numbers are difficult to forecast, however, since in times of recession people tend to book less far in advance than in normal years.

Respondents from firms offering company-related services have mostly been harder hit than the retail trade or large parts of the hospitality industry. Demand has fallen markedly in the transport and logistics industry, and remains slack. The advertising and consultancy segments have also been significantly affected. By contrast, orders have held up relatively robustly in the IT industry. Although this sector has also been hit by the crisis, a number of respondents reported that they had not experienced any drop in sales.

Most representatives from the banking industry were satisfied with volumes in the interest income business, but unhappy with margins. Commission income was again significantly down year on year. Although the sustained rally on the stock markets since mid-March had led to a certain renewal of optimism, a number of asset managers said that investor confidence was still low.

Construction and real estate

The construction industry again appeared surprisingly robust. In the first quarter, construction activity was below expectations because of the weather, while demand declined noticeably in the commercial segment. However, the majority of respondents said that business remained healthy in the civil engineering industry and that demand for residential construction continued to be strong, helped by orders for the renovation of single-family homes as well as new builds.

Respondents from the construction industry are expecting demand to weaken, but not slump, in the next few quarters. In the residential segment, demand is being supported by population growth as well as low mortgage rates. Furthermore, the high uncertainty on equity markets means that property is now being viewed as a more attractive investment for pension funds and private investors. Construction has also been given a boost by the economic stimulus packages announced by the federal government and various cantons. Even cantons that have not passed such packages are planning to spend more on construction than they did last year, encouraged by healthy balance sheets in recent years.

2 Labour market

Many firms – especially in the manufacturing industry – reacted to weakening demand by introducing short-time working. For most respondents, the chief advantage of short-time working is that it allows them to cut costs without losing human capital. Moreover, short-time working does not demoralise employees as much as redundancies.

Most respondents are expecting unemployment figures to rise in the coming months. For one thing, it is thought that many companies will continue trying to reduce their headcounts through natural wastage. For another, short-time working is increasingly likely to lead to job losses if the prospects for an economic recovery do not improve.

3 Lending conditions

The decline in lending volumes is largely because of falling demand, according to the majority of respondents. They reported that companies have cut their investment and in many cases are using their own resources to finance any projects still in hand.

Almost all respondents said that financing conditions were basically unchanged. However, many expect them to become more difficult soon because of the clear deterioration in key data. Furthermore, some mentioned that large loans have become harder to obtain.

Many company representatives explained that they were paying close attention to liquidity management and striving to maintain sufficient liquidity. Banks and business consultants referred to a growing number of struggling firms, and are expecting higher credit default rates.

4 Prices, margins and earnings situation

Most respondents reported that competitive pressure has increased in tandem with growing under-utilisation of capacity. Many firms are coming under strong price pressure. Businesses are tackling costs in response to pressure on margins. A large number have brought in cost-cutting measures and are preparing to take further steps. Lower raw material and transport costs, as well as low interest rates, are providing some relief, depending on the company's particular cost structure.

More attention is being paid to exchange rate movements, against the backdrop of a deteriorating earnings situation. Respondents from the export industry, who had been anxiously watching the rise of the Swiss franc, therefore welcomed the SNB's announcement that it would act to prevent the Swiss franc appreciating further against the euro.