Business cycle trends
SNB regional network

Summary report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2011

Third quarter of 2011

The Swiss National Bank's delegates for regional economic relations are constantly in touch with a large number of enterprises from the different economic sectors and industries. Their reports, which contain subjective evaluations by these companies, are a valuable source of information for assessing the economic situation. The following pages contain a summary of the most important results of the talks held in July and August 2011 with 164 representatives of various industries on the current and future situation of their companies and the economy in general. The selection of companies is made according to a model that reflects Switzerland's production structure; the companies selected differ from one quarter to the next. The reference parameter is GDP excluding agriculture and public services.

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Summary

Confidence in the third quarter of 2011 was strongly influenced by the exchange rate situation. Accordingly, companies' assessment of the situation became generally gloomier during the survey period. The economy lost momentum in all three sectors – manufacturing, construction and services. This was most apparent in the services sector. Overall, the demand for labour increased only marginally. Uncertainty about future developments has mounted perceptibly of late.

In terms of real growth in sales, prospects in the manufacturing industry and the services sector are still positive – but much less so than in the preceding quarters. Only in the construction industry is capital expenditure likely to continue growing. Technical capacity utilisation in the Swiss economy is normal to very high in all three sectors, and looks set to stabilise at the current level in the months ahead.

According to the talks held in July and August, concern over future developments has increased tangibly. Further exchange rate movements are the main focus of attention. The export industry is suffering from extremely heavy pressure on margins. Measures such as a hiring or investment freeze, or an extension of working hours without a corresponding pay rise, have become widespread. The prospect of a slowdown in the world economy and of further negative repercussions of the debt crisis in Europe has given rise to further uncertainty.

As in the previous quarters, reactions to the appreciation of the Swiss franc vary considerably from one sector to the next; overall, however, the pressure on the economy has risen substantially (cf. 'Exchange rate survey: Effects of Swiss franc appreciation and company reactions', pp. 38–43).

1 Business activity

Manufacturing

Despite the difficult exchange rate situation, the manufacturing industry benefited from its existing backlog of orders. Turnover in real terms rose both year-on-year and quarter-on-quarter. However, momentum weakened considerably from the previous quarter in all industries except watchmaking, which proved very resilient.

As in the preceding quarters, business showed a particularly sharp year-on-year improvement in the watchmaking, metal processing and machinery industries, as well as in parts of the machine tools industry. The electrical and electronic components production industry also performed very well.

The export industry continued to benefit from strong demand emanating from the emerging economies of Asia, and from northern and eastern Europe. Further contributions to growth came from the US and South America. Within the euro area, demand from Germany remained brisk.

Construction

For the construction industry, business activity continued to be very positive, although the momentum slowed slightly. Turnover was up substantially on a year-on-year basis. Although the quarter-on-quarter comparison was also positive, the increase was less pronounced than in the second quarter of 2011. Turnover remains strong in residential construction and also in the finishing trade. Given the ample backlog of orders, there is no end in sight to the fundamentally positive trend. In many places, capacity in allied building trades, too, is being pushed to the limit; some respondents reported that order books 'have never been so full'.

In the light of recent interest rate developments, a number of respondents expressed their concern about real estate market risks.

Services

Sales trends in the services sector have stabilised both year-on-year and quarter-on-quarter. As a result, the pace of growth has tailed off appreciably.

The slowdown was especially noticeable in the wholesale and retail segments, in the hospitality industry, and in banking. Numerous hotel owners experienced a sharp fall-off in overnight stays during the summer. As in the previous quarter, however, a clear distinction must be made between city tourism – where business continues to be buoyant – and the mountain regions, where the situation is difficult. Retailing has been hit by the tendency among Swiss residents to go shopping in areas just across the border – and, recently, further afield. The automobile industry and the furniture trade have also been seriously affected by this phenomenon. On the other hand, business has remained brisk in the engineering and planning consultancy segments, as well as among real estate agents and transport firms. Here, sales were considerably higher than in the previous quarter.

2 Capacity utilisation

After rising sharply in the previous quarter, utilisation of production capacity has fallen back slightly. Capacity utilisation in the construction industry remains high. In manufacturing, utilisation was rated as fairly high, while in the services sector it was rated as normal. However, the problem of low or inadequate profitability despite high capacity utilisation has worsened across a broad front.

The watchmaking industry and its suppliers reported a very high level of capacity utilisation. Manufacturers of computer equipment, electronic and optical devices as well as electrical equipment reported relatively high utilisation. Reports from the machinery industry were very mixed, ranging from high to low capacity utilisation.

The construction industry saw technical capacity utilisation persisting at the previous quarter's high level. All the respondent firms were still very satisfied with capacity utilisation, although some of them would have liked their business to be proceeding at a somewhat slower pace. Company representatives expect the level of capacity utilisation to stabilise in the months ahead, and do not see any signs of a downturn.

In the services sector, capacity utilisation was rated as normal overall – as in the preceding quarters. The companies with the highest level of utilisation were engineering, architectural and consulting offices along with transport firms. Capacity utilisation in the IT industry has risen again. Travel operators, too, reported a rather high level of capacity utilisation. In the financial sector, utilisation was rated as normal. By contrast, capacity utilisation in trading (car trade, wholesaling and retailing) and in the hospitality industry has fallen markedly.

3 Demand for labour

In the manufacturing industry, demand for labour has fallen off slightly compared to the previous quarter. Overall, representatives of manufacturing companies now only rated their staffing levels as being slightly on the low side. Owing to the high level of uncertainty, companies are pursuing cautious HR policies. Their recruitment needs have waned accordingly. Companies in the metals processing and electrical equipment manufacturing segments reported a shortage of labour.

In the construction industry, the demand for labour continued to rise. The majority of respondent companies rated the size of their current workforce as somewhat low, and the difficulties that a number of them are experiencing in recruiting suitable employees have intensified. In many cases, therefore, insufficient availability of staff was a limiting factor.

In the services sector, staff levels were generally considered appropriate. Architectural offices, engineering firms, planning offices, IT firms, transport companies and – to some extent – travel operators all reported a significant need to recruit staff. The hospitality industry is still overstaffed, and this now also applies to trading.

Whereas recruitment problems in the construction industry have worsened, the situation in the services sector, and to some extent also in manufacturing, has eased. Generally speaking, however, specialists and highly qualified staff still tended to be hard to find.

Per capita labour costs remained on an upward trend in most business sectors, although the trend was slightly less marked than in the previous quarter. In the construction industry in particular, higher demand for personnel and the tight labour market were pushing up costs. Companies in the electrical industry in particular were faced with higher per capita costs. In the services sector, it was mainly IT firms, real estate companies, consultancies, transport companies and recruitment agencies that reported higher labour costs.

4 Prices, margins and earnings situation

Margins, which were already judged to be tight in the preceding quarters, narrowed considerably in the third quarter. In the manufacturing and services sectors in particular, margins are increasingly falling short of the levels considered to be normal. This can be ascribed mainly to the strength of the Swiss franc and to the rises in some commodity prices. Measures such as a hiring or investment freeze, or an extension of working hours without a corresponding pay rise, have become widespread. A growing number of firms are also considering outsourcing abroad in the medium term.

It was once again manufacturing which suffered most from squeezed profit margins. Margins look set to remain under heavy pressure: although most companies now expect purchase prices to fall rather than continue rising, they will also have to make major concessions on sale prices in Swiss francs.

In construction, profit margins were judged to be normal – as in the previous quarters. Company representatives were now no longer expecting raw materials purchase prices to rise. At the same time, businesses no longer saw any possibility of being able to achieve higher sale prices. Their margins might therefore stabilise in the coming months.

Overall, respondents in the services sector regarded their profit margins as below average. The overall result continued to be adversely affected by banks' margins, which were clearly unsatisfactory. Low interest rates coupled with exchange rate and stock market developments had a significant impact on bank revenues. Representatives of wholesale and retail firms, hotels and certain fiduciary and consulting companies also rated their profit margins as unsatisfactory. By contrast, transport companies and travel agencies reported a relatively normal margins situation. Companies in the real estate management industry reported high margins.

As in the previous quarters, companies taking part in the July/August 2011 survey were again asked about the impact of the Swiss franc's appreciation on their business. This revealed a considerable deterioration compared to their assessment in the second quarter of 2011: 58% of firms now stated (compared to 48% in the previous survey) that they were experiencing negative effects overall, 31% (37%) of businesses were unaffected by the appreciation, and 10% (15%) reported positive effects. Once again it was manufacturing that was easily the worst affected by the Swiss franc strength; compared to the previous quarter, pressure on this sector has increased sharply (cf. 'Exchange rate survey: Effects of Swiss franc appreciation and company reactions', pp. 38–43).

5 Outlook

Uncertainty about future developments mounted perceptibly of late, especially towards the end of the survey period. The cautious stance among companies is reflected above all in their muted recruitment and investment plans. Their turnover expectations for the next few months have been reduced substantially compared to the previous quarter.

The majority of manufacturing companies expect turnover to continue rising gradually in the next six months. In some segments, however, the volume of new orders points to a marked slowdown. Capacity utilisation will probably stabilise and any further increases in employment will be only sporadic.

In the construction industry, confidence remains high. The positive trend in both turnover growth and recruitment plans is continuing. In many cases, order books are full well into next year. The finishing trade is especially optimistic.

Companies in the services sector are also generally upbeat about the business trend in the next six months. Turnover growth is projected to be considerably lower than in the previous quarter, however. Capacity utilisation and headcounts are likely to stabilise at their present levels. Representatives of IT and travel operators rate their turnover prospects very optimistically indeed. In contrast to the mountain regions, city-based tourism is still performing well, though some respondents expressed doubts about the reliability of what appears to be a good level of bookings. Recruitment firms are also positive, as are some insurers. Bank representatives, however, are expecting mainly negative trends. Retailers are hoping that consumer spending will bounce back in the coming months.

With regard to international risks, attention is focused on a slowing of the world economy and on further repercussions from the European debt crisis. Quite a few industries are facing raw material shortages. Fears expressed in the previous quarter about delivery bottlenecks and price rises for certain product categories in the wake of the Fukushima accident have not, on the whole, been borne out. Nor have worries about future energy prices become any more concrete.

On the other hand, erosion of margins – largely the result of the Swiss franc's appreciation – is causing a great deal of concern for the companies affected. As they expect purchase prices to soften over the next few months but will also have to make considerable price concessions when selling their products, the margins situation could at least stabilise. Many respondents hinted at serious consequences for their business if the Swiss franc were to stay at its current high level. A number of them expressed their unease about the persistently low interest rates.

The generally high level of uncertainty about future economic developments is reflected in capital spending plans: whereas in the previous quarter companies in all three sectors had still been planning to invest more, the latest survey shows that this now only applies to the construction industry. In manufacturing and the services sector, investment looks set to remain at current levels. At some manufacturing companies, there is talk of gradually cutting back investment in Switzerland in favour of new investment abroad.