

Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2012

Third quarter of 2012

The Swiss National Bank's delegates for regional economic relations are constantly in touch with companies from the different economic sectors and industries. Their reports, which contain 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 2012 with 200 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 industrial structure. The reference parameter is GDP excluding agriculture and public services. The companies selected differ from one quarter to the next.

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Summary

In the third quarter of 2012, economic activity remained largely unchanged from the previous quarter. However, in contrast to previous quarters, there was no further easing of margin problems; this is forcing companies to further optimise processes. In many places, therefore, a range of measures to cut costs and increase efficiency continue to be implemented.

The main source of concern about future developments continues to be the uncertainty surrounding the European debt crisis and – linked to this – further exchange rate developments, which in turn were a popular subject of discussion in the interviews.

There are still differences between industries. In construction, business activity registered another sharp increase. Manufacturing saw a marginal improvement, whereas business stagnated in the services sector. Demand for labour remained unchanged, overall, from the previous quarter.

The outlook for real growth in turnover remained cautiously optimistic in all industries. Capital expenditure and demand for staff are likely to remain unchanged or decline slightly. Average utilisation of technical production capacity and infrastructure is normal in manufacturing and in the services sector, and is still relatively high in construction.

1 Business activity

Manufacturing

In manufacturing, business activity has improved slightly. Real turnover was, overall, slightly above the previous quarter's and also the year-earlier quarter. The exchange rate problem continues to be dominant in most branches of industry. Additional measures taken by companies to increase efficiency and the continued focus on exchange rates in the SNB's policy have helped companies face this challenge effectively.

Machinery and vehicle manufacturing and the chemical and pharmaceutical industries all posted higher turnover than in the previous quarter. Turnover remained at the same level in the food and timber processing industries but was lower in the textile and clothing industries. The watchmaking industry and its suppliers reported that turnover growth had slowed from its previously very strong pace.

Demand from the emerging economies of Asia was again the main driver for the export industry, although the pace has slowed somewhat. Stimulus came from the US, Central and South America and the Arab countries. In Europe, demand originated mainly from Germany, Scandinavia and eastern Europe. Demand from France was weak and from southern Europe it was particularly slack or even non-existent.

Construction

In construction, real turnover was higher than in the previous quarter, though the pace of activity declined slightly. Developments were particularly buoyant in the finishing trade and preparatory constructing work, but turnover also rose in structural and civil engineering. Business momentum in residential construction barely slowed, while the situation in commercial and industrial construction remained rather subdued.

Real estate market risks were mentioned by a number of respondents, though the assessment of their importance continues to differ according to region and industry.

Services

In the services sector, real turnover remained largely unchanged overall, both quarter-on-quarter and year-on-year.

Good business momentum was reported by providers of facility management and maintenance services. IT companies working for small and medium-sized companies reported vigorous business. Auditors, legal and tax advisers and transport operators also recorded turnover growth. In contrast, trading business activity remained flat. Retailing continued to suffer as a result of cross-border shopping. The view that this phenomenon is set to continue for an extended period is increasing in the retail industry.

Considerable price pressure was also evident in the hotel and travel industries, leading to a drop in turnover in nominal terms year-on-year and stagnation compared with the previous quarter. Hotels in holiday regions expressed particular concern over the lack of European guests; however, strong demand from Asian tourists lent support to some areas. The catering industry recorded a decline in business activity. In banking, receipts from financial services were particularly sluggish – a result of considerable risk aversion on the part of clients.

2 Capacity utilisation

Overall, the utilisation of capacity and infrastructure was judged to be normal. The differences between the industries have grown, however.

Companies in the manufacturing industry rated their overall capacity utilisation as normal. It was high in the chemical and pharmaceutical industries and also for companies in the metal products and processing industries supplying the automotive industry, the medical technology field or companies with construction-related activities. In contrast, momentum in the watchmaking industry saw a definite slowdown; the companies surveyed judged capacity utilisation as being close to normal. Textile companies and the food industry continued to experience low or very low capacity utilisation. Finished product inventories are considered somewhat too high, particularly for the textile and machinery industries.

In construction, technical capacity utilisation remained consistently high, even more so in civil engineering than in structural engineering. Most of the surveyed companies expressed great satisfaction with capacity utilisation, with many order books full until the end of the year. The situation has allowed a number of companies to be selective with regard to the offers they submit and the orders they accept.

In the services sector, capacity utilisation was rated as normal overall. A relatively high level of capacity utilisation was recorded by IT companies, architectural firms and facility management, as in the previous quarter. Hotels and restaurants continued to see a low level of capacity utilisation, though the hotel industry in towns did profit from buoyant business tourism. The trend of reservations being made in lower categories of hotel due to cost considerations continued, however.

3 Demand for labour

As in the previous quarter, the demand for labour remained almost unchanged. The companies surveyed in the manufacturing industry continue to assess their staff numbers as being slightly too high. They continue to exercise restraint in their personnel policy, often do not replace employees when they leave and cover any increases in demand by taking on temporary staff or through overtime work. The trend of increased spontaneous applications from southern European countries continued, particularly in the border areas.

In construction, numbers of staff were generally considered appropriate, whereas in the previous quarter they had been considered to be too low. Specialists continue to be in short supply. Civil engineering firms are finding it easier than structural engineering firms to find personnel.

Staff numbers in the services sector were also adequate overall. Architectural practices, planning firms and auditors indicated that their recruitment needs were fairly high. Banking specialists are being sought selectively. The catering and hotel industries continue to be overstaffed.

The surveyed companies rate the recruitment of staff overall as being just as difficult and time-consuming as always. In many industries, the required personnel can only be found abroad. Staff availability remained tight in the plastics production and processing industry and, to some extent, in pharmaceuticals. Various companies in the machinery, electronics and metal (MEM) industries also had difficulty finding specialist staff. Insurance companies, transport operators and the hotel industry found it easier than normal to recruit staff.

4 Prices, margins and earnings situation

All sectors rated margins as weaker than normal. The trend observed in recent quarters towards an alleviation of this problem did not continue. Pressure to optimise costs and innovate thus continues unabated. At the same time, however, the results from previous optimisation measures are having an effect.

Many discussions reconfirmed that the minimum exchange rate for the Swiss franc against the euro brought welcome planning security for many companies and even prevented some from going out of business. A number of respondents indicated the severe impact which any further appreciation of the Swiss franc could have on their company or industry.

The manufacturing industry continued to suffer a great deal from the pressure on profit margins. Each industry is affected, though it is particularly pronounced in the textile industry, as well as in timber and plastic processing and the machinery industry. On average, companies expect purchase prices to remain unchanged in the coming months, but they anticipate that they will have to make further concessions in sale prices in Swiss francs. The development of the US dollar exchange rate led to margin improvements for some companies at least.

In construction, a trend towards below-average margins became apparent in structural engineering and the finishing trade, while civil engineering recorded almost normal margins. A trend towards the stabilisation of purchase prices and a simultaneous downward adjustment in construction prices suggest that the pressure on margins is set to continue.

The services sector presented an unchanged picture: Hotels and restaurants continued to suffer from unusually low margins, as did wholesaling. Representatives of the financial, transport and logistics industries rated their position in this respect as unfavourable. The companies surveyed in the services sector expect sale and purchase prices to remain unchanged.

5 Outlook

Uncertainty about future developments has hardly changed since the second quarter. In terms of global risks, uncertainty surrounding the European debt crisis was cited most frequently. There is a great deal of scepticism regarding further developments in southern Europe. The economic slowdown in northern Europe and other parts of the world is also contributing to this uncertainty.

Companies continue to be restrained with their employment and cautious with their domestic investment plans. However, as in the previous quarter, turnover expectations for the coming months remain positive in all industries, despite the potential dangers.

In manufacturing, representatives of all industries, apart from the textile industry and some metals and machinery companies, expect turnover to rise slightly over the next six months. The outlook in the watchmaking industry and its suppliers is slightly subdued.

In construction, seasonally adjusted turnover and capacity utilisation should increase slightly in the coming months. Some companies report that order books are already well filled or even very full well into next year. Many companies are also not expecting to see any significant slowdown in 2013, despite the adoption of the second homes initiative leading to uncertainty about construction activity in holiday regions over the medium term. However, no additional stimulus is to be expected as far as employment is concerned.

Overall, companies from the services sector are cautiously optimistic about the business trend in the next six months, as in the last quarter. All industries assume that turnover will be stable or rise slightly. Capacity utilisation and headcounts are likely to remain unchanged from their current levels. Not only facility management companies but also travel agencies and staff recruitment firms have relatively optimistic turnover expectations. Retail trade, passenger transport and transport operators are also more confident about the future than just a few months ago.

The continuing high level of uncertainty with regard to the future path of the economy is reflected in investment plans. All three sectors will see a slight decline in equipment investment in the coming twelve months compared with the past year, though individual companies are investing substantially with the intention of improving productivity at their Swiss locations. Planned investments in commercial and industrial construction are stagnating at present levels in all sectors.

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