Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2013

Second quarter of 2013
The Swiss National Bank's delegates for regional economic relations are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted in April and May 2013 with 241 managers and entrepreneurs on the current and future situation of their companies and on the economy in general. The selection of companies differs from one quarter to the next. It reflects the industrial structure of the Swiss economy, based on the breakdown of GDP (excluding agriculture and public services).

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SUMMARY

According to this survey, the Swiss economy continued growing at a moderate pace in the second quarter of 2013. The main growth drivers were construction and the services sector. In manufacturing, the level of business activity remained modest.

Exporters benefited from an upturn in demand from the US. The relatively buoyant domestic economy also acted as a stimulus. By contrast, demand from within Europe was still lacking. The importance of the minimum exchange rate against the euro was once again stressed by many respondents.

Margins in manufacturing and in the services sector remained below average. In construction, high demand led to a significant improvement in margins. Moreover, the large number of streamlining measures effected recently are having a beneficial impact. Overall, demand for labour remained unchanged from the previous quarter.

The outlook for real growth in turnover over the next few months remains cautiously optimistic in all sectors. The demand for staff is likely to increase slightly.

Latent uncertainty about developments in Europe remains, but is no longer so marked. In addition, companies find that various political initiatives in Switzerland are adding a slight element of uncertainty.

BUSINESS ACTIVITY

Manufacturing: Slight improvement
Manufacturing has seen only a slight improvement in business activity since the last survey. Over one-third of the companies surveyed posted higher sales than in the previous quarter, while turnover was static at almost half the companies.

An upturn in business was reported by the food industry, plastics manufacturing and producers of electrical equipment and precision instruments. The chemical industry reported slightly lower turnover than in the previous period. Business activity remained flat in the textiles and watchmaking industries as well as in mechanical engineering.

Exporters continued to be seriously affected by the recession in southern Europe. Demand from the rest of Europe was also subdued. However, demand stimuli emanated from Asia, the US (where business activity was noticeably stronger in places) and Russia, as well as from the domestic economy.

Construction: Business still brisk
In real terms, turnover in construction rose significantly compared with the previous quarter, and was also much higher than a year ago. Although weather conditions were less than ideal, business was buoyed up by a backlog of demand from the previous quarters. About half the companies surveyed reported a quarter-on-quarter rise in seasonally adjusted turnover, while one-third stated that turnover was unchanged from the previous quarter.

The momentum of business activities in the finishing trade was very lively. Structural and civil engineering also reported turnover well in excess of the previous and year-back periods. Whereas residential construction remained brisk, commercial and industrial construction activity was modest.

A number of respondents referred to real estate risks. Price reductions in the luxury residential segments – already mentioned in previous surveys – were also confirmed. Banks' lending policies were not judged to be a limiting factor.

Services: Moderate but broader-based growth
The services sector continued to report moderate growth. This sector's situation has improved further since the previous survey, and progress is broader-based in terms of industries. Just under half the companies stated that their sales were as high as or higher than in the previous quarter.

Companies in the following industries reported a good level of business momentum: hospitality, IT, real estate, auditing, and staff recruitment. Retailers and car dealers recorded a further upturn in business activity. Although business volumes in border regions continue to be impacted by cross-border shopping, this trend has stabilised.

Banks and insurance companies reported a rather flat business trend compared with the previous quarter. Various industries stated that banks' economy drives are continuing to affect business. The shake-up in the banking industry has not yet run its course.

Hospitality reported a noticeable upturn in business after stagnation in the previous quarter. It has become highly volatile, however, with bookings coming in at very short notice. Resorts in mountainous regions that are highly dependent on day trippers were badly hit by the unusually adverse weather conditions.

CAPACITY UTILISATION

On balance, utilisation of production capacity and infrastructure was again judged to be normal. Construction was the only industry to report higher capacity utilisation than in the previous quarter. In many cases, this was due to a backlog of work that had built up owing to bad weather. Within the industries, however, capacity utilisation remained rather uneven.

Companies in the manufacturing industry rated their overall capacity utilisation as normal. As in the previous quarter, vehicle manufacturers and producers of electrical equipment reported rather high levels of capacity utilisation. The metals processing industry indicated a further improvement in workload compared to the previous quarter. In the chemical industry, however, capacity utilisation deteriorated and was much lower than usual. It also remained low in the machine industry. Companies in the food industry and in plastics manufacturing reported normal levels of capacity utilisation.

In construction, technical capacity utilisation was generally higher than is usual for this time of year. This applied not only to companies in structural and civil engineering, but also to those in the finishing trade. In many cases, order books are already full for the rest of the year.

In the services sector, utilisation of infrastructure (i.e. primarily office and retail space) was reported to be at a normal level. Providers of building management services and IT firms continue to report rather high capacity utilisation. This was also the case in the wholesale trade. Hotels and recruitment agencies were again beset by low utilisation levels, whereas the automotive industry, restaurants, and architectural and engineering firms reported normal levels of capacity utilisation.

DEMAND FOR LABOUR

Little change in demand for staff

As in previous quarters, overall demand for labour remained virtually unchanged. Very little mention was made of any specific changes in staffing policy. Various measures such as longer working hours for the same salary had already been rescinded as of the start of the year. However, there were still marked differences between the different industries in terms of their assessment of appropriate staffing levels.

The manufacturing companies surveyed felt that their headcounts had still been slightly too high in the preceding quarter, but that these now corresponded almost exactly to requirements. Manufacturers of precision instruments and electrical equipment considered their headcounts to be on the low side. Companies in the food industry, mechanical engineering and plastics manufacturing industries stated that headcounts were more or less in line with requirements, whereas metals processing firms, furniture makers, processors of paper and cardboard products, and printing companies considered themselves somewhat overstaffed.

The construction industry indicated that its headcounts were generally rather low. Staff numbers were seen as slightly low in the finishing industry, in particular, but were rated as roughly in line with requirements in structural and civil engineering.

In the services sector, staff levels were considered appropriate overall. IT companies, in particular, again stated that staff levels were somewhat low and that the need to recruit was fairly acute. Fiduciary companies, consultancies and auditors also indicated recruitment needs. Banks and some retailers again stated that their headcounts were slightly too high.

Increase in spontaneous job applications

Overall, the companies surveyed considered the process of recruiting staff to be more or less as challenging and time-consuming as ever. In many cases, the required personnel can only be found abroad. A number of respondents mentioned a pronounced rise in spontaneous job applications, especially from southern Europe. A significantly larger number of applicants are responding to recruitment advertisements. However, their profiles often fail to meet the requirements of companies.

Companies in the metals and food industries as well as in banking and hospitality were finding the recruitment process somewhat easier than usual. By contrast, recruitment was perceived as more difficult than usual by architectural and engineering firms. As before, the construction industry is finding it difficult to hire site foremen and machine technicians.

PRICES, MARGINS AND EARNINGS SITUATION

Margins slightly lower than usual

Margins are still lower than usual overall. In construction, the assessment has changed for the better. By contrast, margins in manufacturing and in the services sector are still rated as somewhat narrower than usual. Companies are continuing to focus on optimising costs and raising efficiency. New markets, products and customer segments, as well as isolated price rises, are helping to boost margins – as is the addition of new services. Numerous companies from all three sectors of the economy stressed the importance of the minimum exchange rate against the euro for their companies over the last 18 or so months.

In manufacturing, profit margins in many areas are lower than usual. This applies, in particular, to the metals processing and machine industries and to wood, paper and plastics processing firms. The chemical industry and furniture manufacturers are also reporting lower-than-average margins. By contrast, margins are relatively good at pharmaceutical companies. The exchange rate problem still poses a challenge for some manufacturing firms. These companies expect purchase prices to remain stable in the coming months while sale prices recede, thus keeping up the downward pressure on prices.

In construction, the companies surveyed reported above-average margins in all subsectors – structural and civil engineering, and finishing – owing to buoyant demand. Moreover, as it anticipates a slight fall in the cost of construction materials in the next few months while construction prices remain stable, margins should improve still further.

In the services sector, most industries were again confronted with unusually low margins. The worst-affected areas were once again hospitality and banking. Recruitment agencies complained of below-average margins – as did building management companies, which reported that competition had become significantly fiercer. Retailers stated that their margin situation had largely returned to normal. The margin situation was also rated as normal by IT and transport enterprises as well as by fiduciary companies and law firms. Insurers reported margins above the long-term average, owing in part to the favourable development of claims. A slight improvement in margins is expected in hospitality in particular, as purchase and sale prices are expected to move in a positive direction over the next few months.

OUTLOOK: GUARDED OPTIMISM

Uncertainty about future developments has hardly changed since the last survey. In terms of international risks, companies are still concerned about the possibility of a renewed flare-up in the European debt crisis. The subdued economic outlook for Europe is also causing a degree of uncertainty, whereas respondents remain confident about developments in demand from other parts of the world and in Switzerland. A relatively large number of companies surveyed mentioned the numerous political initiatives within Switzerland and the increasingly complex regulatory environment, coupled with the international tax debate, as adding a slight degree of uncertainty to future business conditions.

Overall, companies in all three sectors expect turnover to rise in the next six months. Corporate recruitment plans envisage a slight increase in headcounts over this time horizon. For seasonal reasons, the construction industry is predicting the largest rise.

In manufacturing, companies remain confident about their business outlook: representatives from almost all industries are anticipating slight rises in turnover over the next six months.

In construction, seasonally adjusted turnover should continue to rise slightly over the next few months, as should capacity utilisation. This industry remains optimistic overall: it is not expecting a significant downturn in the current year.

Services sector companies surveyed are also generally upbeat about their business outlook for the next six months. As in the previous quarter, no industry is forecasting a downturn in turnover within this time horizon, and only banks are expecting flat growth. The outlook in retailing and IT has improved further. Both capacity utilisation and headcounts can be expected to rise slightly again in the services sector over the next few months. Companies' investment plans in all three sectors for the year ahead suggest that these expenditures will increase only very slightly.

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