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# 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 2013

## **Third 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 July and August 2013 with 203 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 the GDP (excluding agriculture and public services).

### **Regions**

Central Switzerland  
Eastern Switzerland  
Geneva  
Italian-speaking Switzerland  
Mittelland  
Northwestern Switzerland  
Vaud-Valais  
Zurich

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Fabio Bossi  
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## SUMMARY

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According to this survey, growth in Switzerland was robust in the third quarter of 2013, and was broad-based in terms of sector. Momentum in manufacturing gained markedly, which showed itself in greater utilisation.

Exporters reported a brisk level of demand from the US. The relatively favourable economic situation in Switzerland had a stimulating effect. By contrast, demand from Europe – except Germany – was lacking again. The minimum exchange rate against the euro, as a stabilising factor for business planning, continued to be appreciated.

While margins were lower than usual in all three sectors, the large number of streamlining measures effected recently are having a beneficial impact, particularly in manufacturing. Demand for labour increased only slightly compared with the previous quarter.

The outlook for real growth in turnover over the next few months remains cautiously optimistic in all industries. The demand for staff is likely to rise slightly. Investment is expected to continue at the same level.

Latent uncertainty about economic and financial developments in Europe remains, but has decreased further. Entrepreneurs also believe that various political initiatives in Switzerland are adding an element of uncertainty with regard to future regulations.

## BUSINESS ACTIVITY

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### **Manufacturing: Noticeable improvement**

Manufacturing saw a noticeable improvement in business activity both quarter-on-quarter and year-on-year. Half of the companies surveyed posted higher sales than in the previous quarter, while turnover remained the same at around 40% of the companies.

A significant upturn in business was reported by representatives of the chemical industry and manufacturers of basic metals. Pharmaceutical companies and manufacturers of precision instruments also saw greater turnover in comparison to the previous quarter. Business activity in the food and machinery industries was flat.

Domestic demand remained high. Exporters continued to be seriously affected by the recession in southern Europe. Demand from the rest of Europe, too, remained subdued, while demand from the US, South America, Russia, and – slightly below previous levels – from Asia acted as a stimulus. Some sectors also benefited from high demand from South Africa and Australia.

### **Construction: Continued momentum**

In real terms, turnover in construction again rose significantly compared with the previous quarter, and was also much higher than a year ago. Both the ongoing brisk level of demand and, in comparison to the previous quarter, ideal weather conditions contributed to the good business results. About half the companies surveyed reported a quarter-on-quarter rise in seasonally adjusted turnover, while the other half stated that turnover was unchanged from the previous quarter.

The momentum of business activities in structural engineering was very lively. Civil engineering and the finishing trade also reported turnover well in excess of the previous and year-back periods. Whereas residential construction remained brisk, commercial and industrial construction activity continued to be modest. Only a few respondents referred to real estate risks.

### **Services: Moderate growth**

The services sector continued to report moderate growth spanning a wide range of industries. About 40% of the companies surveyed reported a rise in turnover, with another 40% stating that turnover was unchanged from the previous quarter.

Companies in the following sectors reported a relatively good level of business momentum: IT, hospitality, transport, facility management services, auditing, and staff recruitment. In wholesale and retail, momentum was less pronounced than in the previous quarter. Cross-border shopping continued to be an issue in some border regions. Furthermore, businesses felt the effect of increasing online purchases.

Companies from the advertising industry and individual vehicle traders reported little change in business activity compared with the previous quarter. Banks only saw a minimal rise in comparison to the previous quarter, but a noticeable improvement year-on-year. This growth was driven by both interest differential business and commission income. However, various industries still feel the impact of the banks' cost saving efforts on their business. Change in the banking sector is continuing.

The excellent weather conditions had a positive impact on mountain resorts that are highly dependent on day trippers. The demand from Swiss residents and tour groups from Asia and the Arab countries was particularly buoyant. There was a tentative increase in the number of guests from Europe. Hospitality overall continued to see the slightly improved business momentum that began in the previous quarter. However, industry representatives continue to describe business as very volatile. Structural changes in the form of modernisation and consolidation are expected to continue in this sector, too.

The majority of respondents from all three sectors did not consider the banks' lending policies to be a limiting factor.

## **CAPACITY UTILISATION**

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On balance, utilisation of production capacity and infrastructure was again judged to be normal. Within the industries, capacity utilisation remained rather uneven.

Companies in the manufacturing industry rated their overall capacity utilisation as slightly greater than normal, which represents an appreciable increase compared with the previous quarter. A relatively high level was reported in the chemical and pharmaceutical industries, in watchmaking and precision instruments, as well as in metal processing. Capacity utilisation in the machine industry remained lower than normal.

In construction, utilisation of technical capacities was generally higher than otherwise normal for this time of year. This applied not only to companies in structural and civil engineering but also to the finishing trade. In many cases, order books are already full for months ahead.

In the services sector, utilisation of infrastructure (i.e. primarily office and retail space, as well as transport capacity) was again reported to be at a normal level overall. The transport sector as well as architectural and engineering firms reported high levels of utilisation. In contrast, relatively low levels of capacity utilisation were reported by various wholesalers, and also by banks. Representatives from recruitment agencies, tour operators and hotels reported normal levels of capacity utilisation.

## **DEMAND FOR LABOUR**

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### **Slightly greater demand for staff**

The overall demand for labour increased slightly. Changes in staffing policy were only mentioned in individual cases, especially by export-oriented companies catering to specific foreign markets currently in recession. Wherever possible, the number of temporary staff is adjusted first when it comes to coping with a change in demand. There are still marked differences between the various industries in their assessment as to whether their staffing level is appropriate.

The manufacturing companies surveyed felt that their headcounts corresponded almost exactly to requirements. Manufacturers of precision instruments continued to assess their headcounts as on the low side; companies in metal processing and the pharmaceutical industry came to same conclusion. Businesses in the food industry, as well as plastics manufacturers and furniture makers, stated that headcounts were more or less in line with requirements, whereas companies in the machine and textile industries considered themselves somewhat overstaffed.

The construction industry continued to report that its headcounts were generally rather low in all segments. Management and specialists are still sought after.

In the services sector, staff levels were considered appropriate overall. IT companies, in particular, again stated that staff levels were somewhat low. Architectural and engineering firms as well as facility management services also indicated recruitment needs. The market for engineers is particularly sparse, with companies actively recruiting from one another. Wholesalers and retailers as well as the transport industry reported appropriate staffing levels.

### **Continued high level of spontaneous job applications**

Overall, the companies surveyed considered the process of recruiting staff to be roughly as challenging and time-consuming as before. In many cases, the required personnel can still only be found abroad. Many respondents mentioned a continued high level of spontaneous job applications, especially from southern Europe. Furthermore, a significantly larger number of applicants are responding to recruitment advertisements.

Wood and paper processing firms, companies in the mechanical and civil engineering industries, wholesalers, restaurants and the advertising industry were finding the recruitment process somewhat easier than usual. Recruitment was perceived anew as rather more difficult for the IT industry in particular, and continuously so for architectural and engineering firms.

**Margins slightly lower than usual**

One-third of the companies surveyed reported margins as being slightly lower than usual overall, and one-quarter recorded higher margins than normal. Margins in manufacturing and services are still rated as somewhat narrower than usual, albeit to a lesser extent than in the previous quarter. Many companies are continuing to optimise costs and raise efficiency, however an increasing number of respondents reported that such crisis-related measures have now largely been implemented. Margins are most commonly improved with new products, services and client segments, and also the opening of new markets. Price increases are also possible in some cases. Numerous companies from all three sectors of the economy stressed the stabilising effect the minimum exchange rate against the euro has had for their companies, whether for invoicing, budgeting, or planning in general.

In manufacturing, profit margins in many areas are lower than usual. This applies, in particular, to the metals processing and machine industries and to plastics processing firms. Furniture manufacturers are also reporting lower-than-average margins. By contrast, margins are relatively good for firms producing precision instruments. The exchange rate problem still poses a challenge for some manufacturing firms, especially as demand in some specific target markets has weakened. These companies expect purchase and sale prices to remain stable in the coming months.

In construction, companies in structural engineering and the finishing trade reported normal margins, while companies in civil engineering recorded lower than average margins. As the next few months are expected to see the cost of construction materials to remain stable, and a slight decrease in construction prices is anticipated, pressure on margins could rise somewhat.

In the services sector, most industries were again confronted with unusually low margins. The worst-affected were various wholesalers, partly due to diverging purchase and sale prices. The situation in the hotel industry overall, and also in banking, has improved, with both reporting normal margins. Retailers also state that their margin situation has remained normal.

**Confident optimism**

Uncertainty over future developments has decreased slightly overall since the last survey. The somewhat more favourable economic outlook for Europe gave companies a certain degree of hope. Respondents remain confident about developments in demand in other parts of the world and in Switzerland. What continues to be unclear, however, is the sustainability of solutions to the European debt crisis. A relatively large number of companies surveyed mentioned the numerous political initiatives within Switzerland and the increasingly complex regulatory environment 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 also envisage a slight increase in headcounts over this time horizon. In this regard, the position remains practically unchanged from that in the previous quarter.

In manufacturing, companies continue to be confident about their business outlook: representatives from almost all industries are anticipating slight rises in turnover over the next six months, only some individual companies are expecting flat growth.

In construction, seasonally adjusted turnover should continue to rise slightly over the next few months, as should capacity utilisation and the number of staff employed. This industry remains optimistic overall and is not expecting a significant downturn in the current year. However, individual companies in civil engineering expect their turnover and capacity utilisation to decline. This reflects an accumulation of projects waiting to be approved, but also a certain level of caution by the public sector in order to save money.

Services sector companies surveyed are also generally upbeat about their business outlook for the next six months. As in the previous quarter, no segment is forecasting a downturn in turnover within this time horizon.

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. The industry's investment projects are marginally less restrictive than previously.

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