Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2014

First quarter of 2014

The Swiss National Bank's delegates for regional economic development are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted in January and February 2014 with 241 managers and entrepreneurs on the current and future situation of their companies and 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).

Regions	Delegates
Central Switzerland	Walter Näf
Eastern Switzerland	Jean-Pierre Jetzer
	Urs Schönholzer
Geneva	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Martin Wyss
Northwestern Switzerland	Daniel Hanimann
Vaud-Valais	Aline Chabloz
Zurich	Markus Zimmerli

SUMMARY

According to this survey, Switzerland enjoyed solid growth in the first quarter of 2014. Numerous businesses managed to sustain the momentum of the last two quarters of 2013 into the new year and remain confident that operations will continue to develop favourably over the coming months.

Growth was broad-based in terms of sector. Momentum in manufacturing improved slightly. The favourable business outlook in Switzerland acted as a stimulus. Demand from abroad was more geographically diversified than in the previous quarter.

Overall, margins were somewhat lower than respondents regarded as normal. Demand for labour remained stable quarter-on-quarter.

The outlook for real growth in turnover over the next few months remains optimistic in all industries. Companies are signalling that they plan to increase investments somewhat and to marginally raise the number of jobs.

Entrepreneurs believe that various political developments, including the effects of the recently passed referendum on limiting immigration, as well as increased regulation could negatively influence operating conditions in the future. However, uncertainty caused by economic and structural risks in Europe has, in their view, declined.

BUSINESS ACTIVITY

Manufacturing: Ongoing recovery

Compared with the last survey of companies, manufacturing witnessed a certain improvement in business activity. Overall, real turnover was up slightly on the previous quarter. Of the companies surveyed, 45% recorded a quarter-on-quarter rise in turnover; 40% posted no change.

Most industries reported positive developments. The most notable increases in real turnover were registered by pharmaceuticals, chemicals and plastics manufacturers, but the metals industry and food producers also reported turnover gains. By contrast, the machinery and textiles industries experienced a slight decline in turnover compared to the previous quarter.

Domestic demand remains high in Switzerland and momentum has even improved somewhat. In Europe, demand from Germany and the UK remains solid and signs of revived demand from Spain and Italy are beginning to be felt. Demand from the US, Asia and Eastern Europe is acting as a stimulus, and automobile manufacturers are sending strong positive signals.

Construction: Continued momentum

Starting from a very high baseline, real quarter-on-quarter turnover continued to rise in the construction sector. In fact, turnover was substantially higher than in the same quarter a year earlier, due to exceptionally favourable weather conditions. Structural engineering's performance was particularly dynamic.

Services: Moderate growth

The services sector continued to report moderate growth spanning a wide range of industries, albeit at a less pronounced rate than in previous quarters. While nearly one third of the companies surveyed recorded a quarter-on-quarter rise in turnover, 45% reported that turnover had stagnated.

Companies in the following sectors registered relatively dynamic business momentum: IT, consulting, staff recruitment, wholesale, vehicle dealerships and transport. In finance, retail and hospitality, business was relatively flat. Various retailers expressed their belief that cross-border shopping activity had remained stable. In the same survey, a range of retailers highlighted the growing proportion of online purchases, presenting it as both an opportunity and a risk.

Although quarter-on-quarter business remained flat for leisure hotels, it improved significantly compared to the same period a year earlier. Hoteliers noted that demand remained very volatile and that customers were increasingly booking short stays – and at short notice. The number of foreign guests – particularly from Germany – increased slightly. Seminar business was described as muted, not least due to the decline in demand from the finance sector.

CAPACITY UTILISATION

Overall, capacity utilisation remains at a 'normal' level, although substantial differences exist between the construction industry and other branches of the economy.

As in the fourth quarter of 2013, manufacturing companies rated their capacity utilisation as somewhat lower than normal. The pharmaceuticals industry continued to report a slightly higher than normal level, and metals manufacturing and processing companies also reported that utilisation had increased. Machinery manufacturers advised of a noticeable underutilisation of production capacity.

In construction, utilisation of technical capacity was generally a little higher than usual for the time of year. This was due largely to unusually favourable weather conditions.

In the services sector, overall utilisation of infrastructure (i.e. primarily office and retail space as well as transport capacity) was still at a normal level. Architecture and engineering firms, but also tour operators, indicated that capacity utilisation was on the high side. Despite a gratifying start to the winter season, hotel and restaurant operators pointed to a certain underutilisation of their capacity – in the first half of the quarter, at least. One reason named was changes in winter holiday dates.

DEMAND FOR LABOUR

Steady demand for staff
Demand for labour remained virtually unchanged quarter-on-quarter according to this survey. Many companies continue to increase or decrease temporary staff in order to manage unexpected surges or drops in demand. Nonetheless, there are some signs that the number of permanent employment contracts may be increasing slightly. Changes in staffing policy (e.g. short-time working or hiring freezes) were barely mentioned. There are still marked differences between the various industries in their assessment of how appropriate staffing levels are.

The manufacturing companies surveyed indicated that their staff numbers almost exactly matched requirements. Representatives of the chemicals and pharmaceuticals industries, but also some from the timber processing sector, stated that their headcounts were on the low side. Companies in the machinery industry considered themselves marginally overstaffed, while metal-processing firms reported appropriate staff levels.

In construction, only businesses from the finishing trade stated that they were somewhat understaffed. Staffing levels in both civil and structural engineering are considered appropriate.

In the services sector, employee levels were also seen as appropriate overall, whereas IT companies as well as architectural and engineering firms stated that their staff levels continued to be distinctly too low.

As in the previous quarter, the companies surveyed considered the process of recruiting staff to be roughly as challenging and time-consuming as before. Recruitment has become more problematic in certain sectors and industries, however. Many sectors mentioned that the level of spontaneous job applications was still high.

PRICES, MARGINS AND EARNINGS SITUATION

Margins virtually unchanged
Of the companies surveyed, approximately one third reported that margins were slightly lower than usual overall, while a further 45% considered their margins to be within the normal range.

In manufacturing – mainly in machinery but also in timber processing and the furniture trade – profit margins remained weaker than normal. Food producers and textile processors also noted that margins were lower than usual. By contrast, margins in the chemicals industry were reported as considerably higher than usual, and they were also well above average in pharmaceuticals. Manufacturing companies expect purchase prices to rise slightly and sale prices to remain stable in the coming months.

In construction, the surveyed companies reported margins within the expected range overall, with a slightly more favourable situation in structural engineering being offset by just below-average margins in civil engineering.

In the services sector, margins were once again rated as lower than normal. They have, however, generally improved since the last survey, when significantly more representatives from the services sector reported below-average levels. Banks, retailers, transport firms and vehicle dealers in particular were once again confronted with rather low margins. In addition to the persistently low interest rates, bank representatives frequently cited the cost of implementing regulatory requirements as a cause of margin pressure. Most other services industries reported normal margins. Wholesalers, restaurant operators and banks in particular are expecting higher sales and service prices in the months ahead.

Improvements in margins in recent months were most frequently attributed to cost savings in the production process, but also to leeway for sales price increases. Companies from all three sectors of the economy continue to appreciate the stable exchange rate against the euro as well as against the US dollar, be it in connection with invoicing, budgeting or price negotiations.

OUTLOOK

Increased visibility for the remainder of the year

Companies remain confident about the business outlook for the coming months. This is related to the fact that 'visibility', i.e. the term that entrepreneurs use to refer to the predictability of the course of business, has increased. In all industries, respondents expect turnover to rise in the next six months, due in large part to ongoing economic improvements in Europe and good consumer confidence in Switzerland.

A slight increase in headcounts is also envisaged over this time horizon, and quite a few companies said they had raised salaries by a good 1 percentage point or thereabouts from the beginning of the year, or intended to do so in the next few months.

The somewhat higher level of confidence was also reflected – for the first time in several quarters – by slightly more expansive investment plans at companies in all three sectors. Expenditure on capital as well as on building investments is expected to increase slightly in the coming twelve months.

However, numerous political initiatives in Switzerland and the increasingly complex regulatory and bureaucratic environment remain a prime concern among the SNB's respondents. Several companies, especially in the border regions, have expressed their unease at the recent adoption of the referendum on limiting immigration in Switzerland. However, they do not expect tangible negative effects in the immediate future. The European debt crisis was mentioned sporadically by individual companies as an ongoing issue that has yet to be resolved.

Published by
Swiss National Bank
Economic Affairs
Börsenstrasse 15
P.O. Box
CH-8022 Zurich

Design
Interbrand Ltd, Zurich

Typeset and printed by
Neidhart + Schön AG, Zurich

Language versions:
The *Quarterly Bulletin* is available
in printed form in
German (ISSN 1423–3789) and
French (ISSN 1423–3797).

The *Quarterly Bulletin* can also be downloaded from the SNB website in the following language versions:
English: www.snb.ch, *Publications, Quarterly Bulletin* (ISSN 1662–257X)
German: www.snb.ch, *Publikationen, Quartalsheft* (ISSN 1662–2588)
French: www.snb.ch, *Publications, Bulletin trimestriel* (ISSN 1662–2596)
Italian (Business cycle trends):
www.snb.ch, *Pubblicazioni, Pubblicazioni economiche, Bollettino trimestrale*

Website
www.snb.ch