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 2016

Third quarter of 2016
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 from mid-July to the end of August 2016 with 208 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 composition of GDP (excluding agriculture and public services).

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SUMMARY

Based on company surveys conducted in the third quarter, the Swiss economy grew somewhat in the quarter under review, compared to both the previous quarter and the previous year. This applies to all three sectors. Margins are stable but are still strained. Production capacity overall remains underutilised.

Companies expect a further slight increase in real turnover over the coming months, and an upturn in foreign demand. Margins are likely to improve through enhanced efficiency and cost-cutting measures, but also due to innovation. The stable exchange rate situation contributes to this relatively favourable assessment.

Staff numbers in the services sector are likely to increase somewhat in the next few months, whereas those in manufacturing and construction will decrease slightly. The willingness to invest remains very subdued.

BUSINESS ACTIVITY

Moderate rise in turnover overall

Real turnover in manufacturing was slightly higher than the year-back quarter and also marginally above the previous quarter. The economic situation has improved in a number of industries, including pharmaceuticals, food manufacturers and producers of electrical appliances. By contrast, the marked sluggishness in the watchmaking industry persists or has spread further.

As to export business, sales to Germany remain relatively dynamic, and North America and northern Europe are generally also cited as strong sales markets. Demand from Asia is trending upwards; there are increasing signs that this is particularly the case for China. On the other hand, several industries are feeling the effects of the very depressed economic situation in Russia and Brazil. Demand from the automotive and medical technology sectors remains high, and is increasing in the aviation industry.

Overall, business performance in construction continues to be positive, especially in structural engineering and the finishing trade. In the services sector, real turnover was slightly above that of the previous quarter. This is the case for a number of industries, namely transport, travel, IT and hotels. In retailing too, although border regions continue to be affected by cross-border shopping, sales were marginally higher than in the previous quarter. Retailing is experiencing a structural shift: while some online traders are expanding vigorously, other retailers are also attempting to diversify into this business, but with mixed success.

CAPACITY UTILISATION

Still substantial underutilisation
Overall, production capacity at the companies surveyed remains underutilised, with 45% of the survey respondents rating their utilisation as lower than usual.

Over half of the responding companies in manufacturing reported a slight to significant underutilisation of capacity, with most industry categories being affected. This was particularly pronounced in the mechanical and electrical engineering industries (MEM industries).

In construction, seasonally adjusted utilisation of technical capacity exceeded the previous quarter, both in the main construction and finishing trades. Lower-lying areas continue to notice the increased competitive pressure from mountain-region construction firms. This is partly attributable to a shortage of projects in the mountain areas as a result of the vote to curb second-home ownership (Zweitwohnungsinitiative).

The services sector continued to present a heterogeneous picture, but here too more company representatives than in the preceding quarter reported an underutilisation of infrastructure (office and retail space as well as IT and transport capacity). This applies particularly to banks, hotels and trading.

DEMAND FOR LABOUR

Staff numbers generally adequate
Overall, staff numbers are currently considered to be in line with demand. However, the situation differs from one sector to another.

Most representatives of manufacturing firms rate their staff numbers as slightly too high. This applies in particular to the MEM industries. Given the weaknesses in the watchmaking industry, some companies have already introduced short-time working, while others are considering introducing this measure in the coming months.

Staff numbers in construction are generally considered appropriate; in structural engineering, however, they are slightly low. In the services sector, headcounts in retailing and hotels are somewhat too high, while ICT companies are on a recruitment drive. Banks are continuing to expand their compliance units.

Overall, the time and effort required for staff recruitment is rated as normal. Construction is finding it easier than before to find specialised staff. The hitherto frequently cited shortage of engineers has eased somewhat, especially in the MEM industries. By contrast, staff recruitment in the IT sector is more laborious and difficult than usual. In general, a slight trend in appointing more temporary than permanent staff is discernible, for reasons of increased flexibility.

PRICES, MARGINS AND EARNINGS SITUATION

Margin pressure persists

The assessment of the margin situation has hardly changed, with margins remaining below what is considered normal. Half the companies surveyed rated their margins as lower than usual. In certain cases, prices can still be increased, especially abroad.

Considerable margin pressure still prevails in manufacturing. In the services sector, margins remain under significant pressure in trading as well as in the hotel and financial industries.

Expectations regarding developments in purchase and sales prices have shown a downward trend for quite some time. However, the situation is gradually stabilising.

Some of the data on the real estate market confirm the observation made in the previous quarter that commercial property rents are under a great deal of pressure in some cases, particularly in prime locations.

OUTLOOK

Moderate optimism

Overall, a slight increase is expected in real turnover over the coming months. Respondents are optimistic, particularly in the services sector, and to a lesser degree also in manufacturing. Reasons for this optimism include the stable exchange rate conditions, anticipated economic developments abroad and the impact of measures taken to raise efficiency and promote innovation. This constellation is expected to lead to gradual improvement in margins. Investment plans for the coming 12 months, however, still indicate no upturn in investment activity.

As to employment plans, survey respondents in the services sector anticipate a further slight increase, and that in almost all industry categories, whereas those in manufacturing and construction by and large expect marginal staff reductions. Hardly anything has changed in this respect compared to the previous quarter.

Respondents perceive increasing security risks in Europe as a threat. They identify further risks associated with an accelerated structural transformation in Switzerland, stricter regulatory requirements, the impact of the current corporate tax reform and the negative consequences of the implementation of the mass immigration initiative. The topic of cybercrime was also mentioned somewhat more frequently than previously. By contrast, the negative consequences of the Brexit decision – one of the main worries in the preceding quarter – were scarcely mentioned. While most companies have found a way of coping with the current exchange rate conditions and particularly appreciate the stability, exchange rates remain more of a challenge for others, especially for SMEs. The low interest rate environment is increasingly viewed with concern in relation to the long-term outlook for pension funds.

Companies' inflation expectations (as measured by the consumer price index) remain unchanged quarter-on-quarter, averaging –0.2% over the next 6–12 months. Expectations over a horizon of 3–5 years are 0.5% (previous quarter: 0.5%).

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