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 2017

First quarter of 2017

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-January to the end of February 2017 with 240 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

As in the previous quarters, the results of talks with company representatives conducted in the quarter under review point towards positive economic growth. This applies to manufacturing, construction and services, with greater homogeneity between the industries than before. Momentum remains moderate and, although the margin situation is improving, production capacities continue to be underutilised.

Despite the oft-cited higher political risks, the assessment of the general outlook is cautiously positive. Company representatives anticipate a further rise in real turnover over the coming months. An important proviso is that exchange rate conditions remain comparatively stable. This optimism is also reflected in expectations of slight increases in staff numbers in manufacturing and services over the next few months.

For the first time since the discontinuation of the minimum exchange rate, short-term inflation expectations are in positive territory. Medium-term inflation expectations have also risen slightly again.

BUSINESS ACTIVITY

Increased turnover in all sectors

Business performance in manufacturing continues to improve, with real turnover up on the previous quarter. This progress is reflected in almost all industry categories. A notable exception is the watchmaking industry, which continues to contract, although significant differences are still observed between manufacturers.

As to export business, a number of companies are benefitting from fairly dynamic demand from the US and partly also from Japan. There are signs of improved sales to China while, in Europe, Germany is most often cited as a thriving sales market. Moreover, as in the last quarter, company representatives are mentioning positive economic signals from southern Europe. Business with Russia and Brazil, however, remains slack. Looking at individual industry categories, there is sustained strong demand from the automotive, medical technology and aircraft industries.

In construction, turnover continues to rise slightly, helped by ongoing high activity in structural engineering – particularly in residential construction – and in the finishing trade. Nevertheless, some companies report growing vacancy rates in residential property and longer advertising periods.

In the services sector, most industries are recording higher real turnover than in the previous quarter. This is especially evident in transport companies, the IT industry and wholesale trade. The lull in retailing continues, with sales still below the previous year’s level while, in tourism, there are signs that the downturn might have bottomed out.

CAPACITY UTILISATION

Low but stable capacity utilisation
Production capacity utilisation has stabilised at a low level over the past three quarters. In the current quarter, almost 40% of the companies surveyed rate their utilisation as lower than usual.

In manufacturing, representatives from plastics and metal processing companies, in particular, as well as precision tool manufacturers (strongly influenced by developments in the watchmaking industry) report underutilisation.

In the services sector, representatives from a number of categories, especially trade, hotels and catering, are complaining of underutilisation of infrastructure (office and sales space as well as IT and transport capacities).

DEMAND FOR LABOUR

Staff numbers in line with demand
Overall, staff numbers are currently considered in line with or slightly below demand. The situation has improved noticeably since the previous quarter.

In manufacturing, industry categories which were still reporting excessive staff numbers in the last quarter now rate headcounts as appropriate. In watchmaking, however, staff numbers continue to exceed requirements.

Headcounts in the services sector are regarded as marginally too low, particularly in IT, transport, and architecture and engineering firms. While overstaffing in trading and the financial industry has decreased, staff numbers in the hotel industry are still considered slightly too high.

Overall, efforts required to hire staff are rated as normal. Representatives from the energy and financial sectors report the process of recruitment to be somewhat easier than usual.

PRICES, MARGINS AND EARNINGS SITUATION

Improved margin situation
The margin situation has improved a little, partly due to the success of measures taken to achieve efficiency gains. Margins in all areas, however, are still reported to be lower than usual. Around 40% of company representatives rate current margins in their firms as lower than normal; a further 40% consider them to be within the normal range.

In manufacturing, representatives from the mechanical and electrical engineering (MEM) industries, in particular, continue to rate margins as weaker than usual. Margin pressure also remains high in trade and finance companies. A similar situation in construction can be explained by overcapacity in certain areas.

While sales prices in all areas are expected to continue their slight downward trend in the coming months, companies are anticipating stable purchase prices for the first time since the discontinuation of the minimum exchange rate.

OUTLOOK

Optimism prevails

Company representatives are optimistic about their business prospects in the coming months. Increases in real turnover and higher capacity or infrastructure utilisation are expected in all areas and almost all industries. The reasons lie in anticipated economic developments abroad, a gratifying volume of new orders in many cases, generally more stable exchange rate conditions and the impact of efficiency drives.

Companies are also expressing somewhat greater willingness to invest, with slightly higher investment plans in both manufacturing and the services sector. Over a quarter of companies surveyed who are investing in equipment will be expanding their production capacities.

As to employment plans, companies in the services sector and, more recently, also manufacturing, anticipate a slight increase in the next six months. This applies to virtually all industry categories. Particularly high recruitment needs are reported by precision tool manufacturers (excluding watches) and the IT industry.

Based on information provided by company representatives, the wage increases planned so far for 2017, or those already carried out, average 0.8%.

Most companies have found ways of coping with the current exchange rate conditions. Any difficulties that may have been encountered, or fears of renewed Swiss franc appreciation, are often mentioned in connection with other (structural) problems or (political) risks. These include the risk of growing protectionism, the forthcoming elections in Europe and the challenges caused by digitalisation and the boom in online trading. However, especially in view of the uncertain international environment, many companies also emphasise the advantages of Switzerland as a production location, with its liberal labour market, high-quality labour force, political stability, excellent infrastructure and strong innovative capacity. At the same time, they continue to criticise the tendency towards overregulation.

Companies are concerned about the impact of the low interest rate environment on the long-term outlook for pension funds. Restrained criticism of negative interest rates is expressed by representatives from the banking sector.

Expectations with regard to inflation – as measured by the consumer price index – continue to point upwards. For the next 6–12 months, they now average 0.2% (fourth quarter 2016: 0.0%), thereby moving into positive territory for the first time since the first quarter of 2015. Medium-term inflation expectations (horizon of three to five years) in the period under review stand at 0.9% (fourth quarter 2016: 0.8%).

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