Business cycle signals

Results of the SNB company talks

Second quarter of 2024

Report submitted to the Governing Board of the Swiss National Bank for its quarterly monetary policy assessment

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and members of management at companies throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 242 company talks were conducted between 16 April and 4 June.

Regions	Delegates
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Marco Huwiler

Key points

- Growth in the Swiss economy was moderate in the second quarter. Turnover in the manufacturing sector picked up again after several quarters of weak growth. In the construction and services sectors, by contrast, growth slowed to a certain extent.

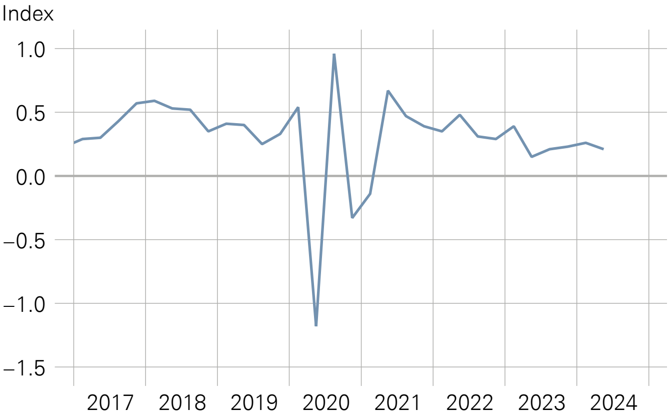
- Companies consider staff levels to be adequate. The recruitment situation continued to return to normal and, with a few exceptions, is no longer extraordinarily difficult.

- While technical capacity utilisation in manufacturing has improved somewhat, it remains at a low level. The margin situation is thus still challenging for some manufacturing companies, even though the depreciation of the Swiss franc has been counteracting the pressure on margins since the beginning of the year.

- Despite numerous uncertainties, companies are confident about the coming quarters and anticipate robust growth.

Chart 1

TURNOVER

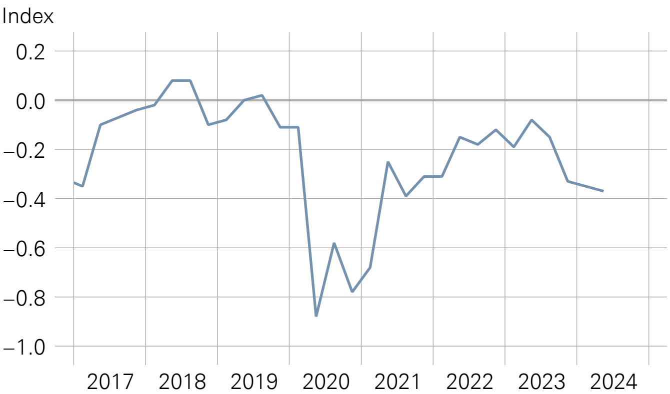


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

CAPACITY UTILISATION



Utilisation of technical capacity and/or business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

CURRENT SITUATION

Subdued growth in services and construction, manufacturing picking up

Growth in the Swiss economy was moderate overall in the second quarter (cf. chart 1). The services sector grew somewhat less strongly than in the previous quarters. In particular, there was little impetus from consumer-related industries such as retail and food services. The construction sector has also shown barely any growth.

After a lengthier period of stagnation, there have been signs of an upturn in manufacturing, however. Some companies attribute this to the fact that their customers have now run down their inventories. Certain companies are also seeing signs of an upturn in demand from neighbouring countries. At the same time, momentum in the US is said to be remaining robust. Developments in demand from Asia are mixed. Notably, India is increasingly cited as a growth market.

Technical capacity underutilised

Technical capacity utilisation is practically unchanged and is below normal levels (cf. chart 2). Increased homeworking continues to contribute to underutilisation of office space at services companies. Although the upturn in demand has led to slightly higher capacity utilisation in manufacturing quarter-on-quarter, capacity remains underutilised at more than half of manufacturing companies – in some cases significantly so. The majority of companies in construction are operating at close to normal capacity utilisation.

Staff utilisation and recruitment largely back to normal
Companies consider staff levels to be adequate overall (cf. chart 3). This applies to both the services sector and to manufacturing, the latter having considered levels to be too high in the previous quarter.

The recruitment situation is no longer exceptionally difficult. Demand for qualified specialists persists, with managerial positions in skilled and technical trades still noticeably difficult to fill. IT experts also remain in demand, for example those specialising in cybersecurity and artificial intelligence. However, recruitment difficulties are no longer as widespread as they were a year ago. Some companies assume that the integration of Credit Suisse into UBS and job cuts at international technology and pharmaceutical firms are responsible for this.

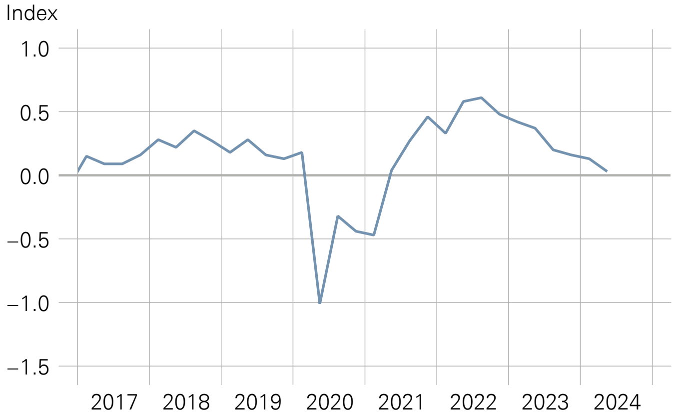
Companies attribute the remaining recruitment difficulties primarily to structural factors. They also point to the upcoming retirements in the next few years. Some companies are noticing a change in the needs of younger employees and are trying to adapt to this, focusing primarily on non-financial incentives such as greater flexibility in terms of work location and working hours.

Mixed developments in profit margins
Profit margins have changed little overall compared with the previous quarter, and remain robust (cf. chart 4). However, developments varied depending on the industry. In some industries in the services sector, such as trade and tourism, margins are slightly lower than in the previous quarter. Construction companies are also reporting a tendency towards higher margin pressure owing to the subdued development of turnover. In manufacturing, the effects of the demand situation and currency dependency are being felt. For export-oriented companies, the weakening of the Swiss franc since the beginning of the year is helping to ease the pressure on margins. At its current level, the Swiss franc is cited less frequently as a concern than in the previous quarter. Margins are also recovering somewhat in the manufacturing sector as capacity utilisation increases. However, the rise is often still modest, meaning that the situation remains tense for some companies.

A large majority of companies continue to view their liquidity situation as being comfortable. Only a few still see increased inventories as a strain on liquidity. In the context of financing larger and international projects, some companies regret the loss of Credit Suisse as an important corporate banking partner.

Chart 3

STAFF SHORTAGES

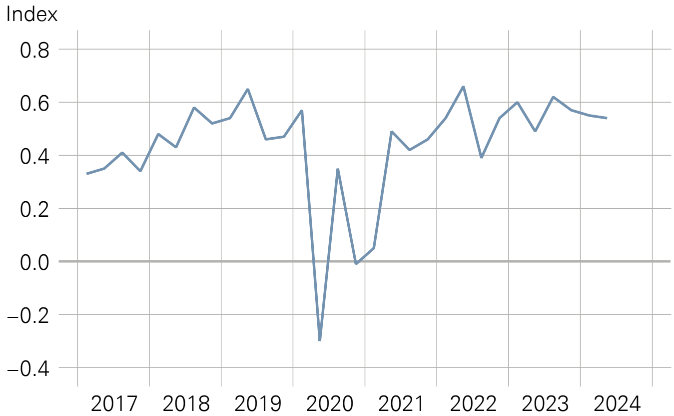


Assessment of staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

Source(s): SNB

Chart 4

CHARACTERISATION OF MARGINS



Characterisation of the margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Upturn in growth for various manufacturing industries
Manufacturing is experiencing a broad-based upturn in growth. Producers of medical technology and companies in the chemical industry in particular report a significant pick-up in demand. Large parts of the pharmaceutical industry have also been able to expand.

After several quarters of stagnation, the mechanical engineering, electrical engineering and metal industries are also reporting increases in turnover again. However, growth remains modest. Economic and geopolitical uncertainties in sales markets are curbing customers' investments in new machinery. Despite having bottomed out, demand from the automotive industry, for example, is still at a low level. The metal industry is suffering from persistently weak demand for capital goods, but demand for goods for shipbuilding, aviation and the expansion of railway infrastructure is picking up.

In the watchmaking industry, on the other hand, there are hardly any signs of an upturn. Demand from China in particular remains weak. In addition, watch retailers' inventories are still high, which is curbing business.

Modest growth in trade and logistics industries
The retail trade is having to contend with subdued demand for everyday items. Customers are continuing to switch to cheaper product lines because of losses in purchasing power. It also remains fairly difficult for both bricks-and-mortar and online retailers to sell durable goods such as clothing, electronics, sporting goods and furniture.

In the motor vehicle trade, there is still elevated price pressure owing to the relaxed supply situation and weak demand. Dealers cite lower purchasing power, higher leasing interest rates and uncertainty about the right choice of drive technology as reasons for customers' restraint. In the current quarter, however, there are signs that demand is stabilising or even improving slightly.

The situation in wholesale and logistics is mixed. The pick-up in manufacturing, combined with the fact that inventories have returned to normal, is also having a positive impact on companies trading in intermediate products. Suppliers of building materials, on the other hand, are feeling the effects of subdued momentum in the construction sector. Modest retail sales momentum is also reflected in wholesale trade in consumer goods.

Little impetus in hospitality
The hotel and food services industries have had a fairly weak quarter. While tourism businesses geared to an international clientele are benefiting from solid development in demand from travellers from the US and Asia, there is hardly any impetus from neighbouring countries, and domestic demand has weakened slightly compared with the previous quarter. This is partly attributed to the weather. However, subdued consumer sentiment owing to the loss of purchasing power is also frequently cited. In addition, bookings for corporate events are said to be modest.

Robust business activity in financial and ICT industries
Business activity in the financial industry remains robust. Banks are continuing to benefit from favourable interest rate business, although changes in the interest rate structure and competition for client deposits are having a curbing effect. Stock market developments have been positive overall, which is supporting the commission and services business.

Business momentum in the ICT sector has slowed somewhat after some very good years but remains positive. Investments in cybersecurity, digitalisation and artificial intelligence are key growth drivers.

Subdued business activity in construction
Overall, the development of turnover in the construction industry has been subdued. In many cases, companies are seeing turnover decline, particularly when it comes to new builds. The reasons for this are delays in obtaining building permits, planning bottlenecks at clients and the lack of major projects, particularly from private investors. However, representatives point out that the fact that interest rates are somewhat lower again is influencing the outlook positively.

On the other hand, numerous public sector projects and the ongoing need for renovation continue to support business. In particular, companies that offer energy-efficient renovations are enjoying a robust order situation. Timber construction companies are benefiting from rising demand in connection with the trend towards sustainability.

OUTLOOK

Continued confidence

Companies remain optimistic for the next two quarters and anticipate robust growth in turnover (cf. chart 5). The outlook in the services sector has worsened slightly, but confidence continues to grow in manufacturing following the recent upturn. Companies in the construction sector also expect turnover to rise.

Although these prospects are positive in themselves, just under half of representatives see the uncertainty surrounding them as elevated or significantly elevated (cf. chart 6). A large proportion of companies cite geopolitical risks as sources of uncertainty that could jeopardise the economic recovery.

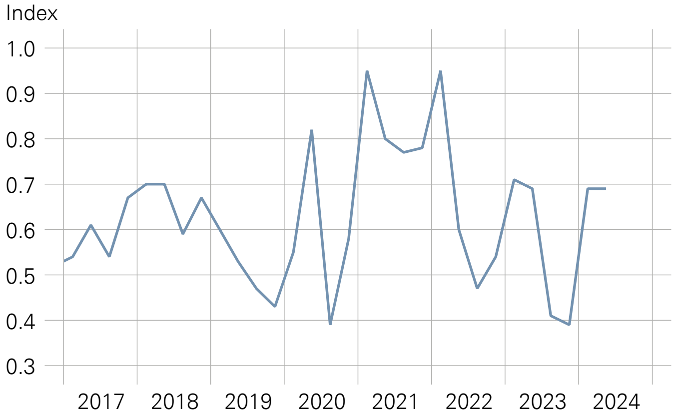
Capital expenditure is likely to increase in the coming quarters, albeit not to the same extent in all sectors. Services companies are planning significantly higher spending, particularly on digitalisation projects. Companies in the manufacturing sector, on the other hand, are cautious with their plans for investment. Owing to persistently low capacity utilisation, they have little need to expand their technical capacity. In many cases they are making only the necessary replacement investments.

In light of the positive turnover expectations and the fact that staff utilisation is currently good, companies in all sectors are planning to expand their workforce (cf. chart 7). Despite an easing in the recruitment situation, companies emphasise that the availability of skilled workers with the right qualifications is a prerequisite for employment growth.

Given the lower level of inflation and the less tight labour market, companies expect wage growth to weaken. They are currently assuming that wages will rise by an average of 2.1% in 2024 after 2.3% last year. For 2025, they expect wage growth to weaken again to around 1.5%.

Chart 5

EXPECTED TURNOVER

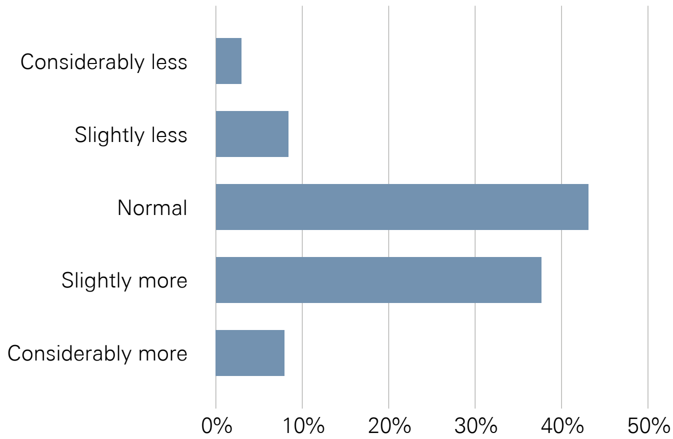


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 6

UNCERTAINTY

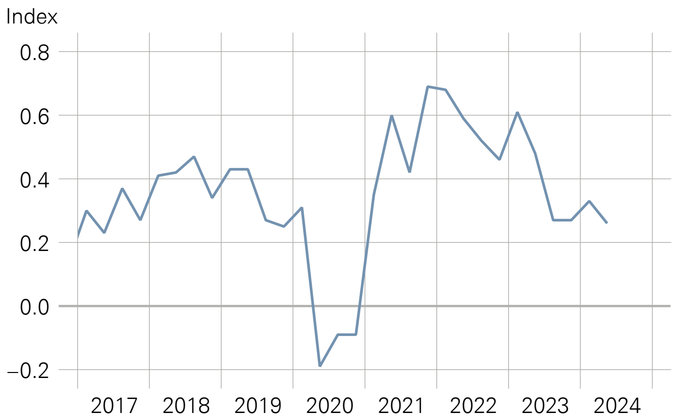


Uncertainty about development of business over the next two quarters.

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

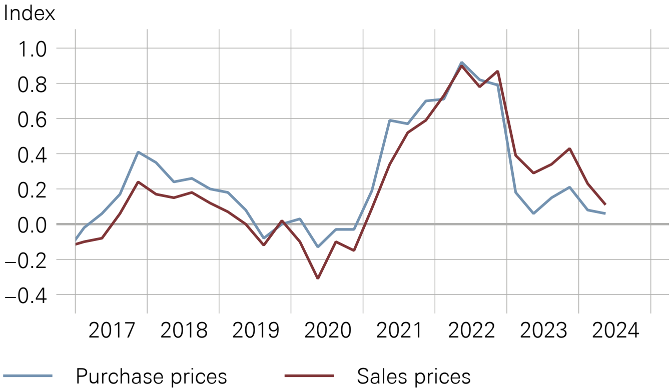


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES

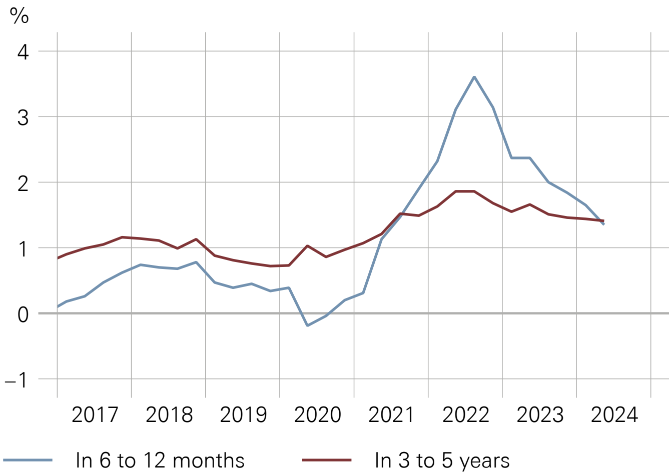


Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 9

EXPECTED INFLATION



Source(s): SNB

Stable purchase and sales prices
The majority of companies expect no or only minor price changes in the next two quarters (cf. chart 8). Services companies anticipate slight increases in purchase and sales prices, while the expectation among manufacturing companies is more that purchase prices will decrease slightly with sales prices remaining unchanged.

INFLATION EXPECTATIONS

The delegates also ask company representatives about their own short and long-term inflation expectations.

Short-term inflation expectations as measured by the consumer price index have continued to fall: The average for the next six to twelve months (cf. chart 9) is 1.4%, compared with 1.6% in the previous quarter. Inflation expectations over a three to five-year horizon remain virtually unchanged, likewise at 1.4%.

About this report

Each quarter, the SNB's delegates for regional economic relations hold more than 200 talks with company executives. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while public administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. The sample changes each quarter.

In the talks, the SNB's delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade part of the qualitative information received according to a numeric scale. The five-tier scale ranges from 'substantially higher' or 'much too high' (+2), 'slightly higher' or 'somewhat high' (+1), 'the same' or 'normal' (0), 'slightly lower' or 'somewhat low' (–1), to 'substantially lower' or 'much too low' (–2). The index values shown in the charts represent the average of the findings from all companies visited.

Further information can be found in the 'Business cycle signals' reports at www.snb.ch, The SNB/Regional economic relations.

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