Business cycle signals

Results of the SNB company talks

Third quarter of 2023

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 205 company talks were conducted between 18 July and 5 September.

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 modest in the third quarter. While turnover is increasing moderately in the services sector, in construction it is rising only marginally and in manufacturing it is stagnating.
- The growth outlook for Q4 2023 and Q1 2024 has deteriorated. In manufacturing, significant declines in order intake are creating uncertainty. Added to this, higher interest rates are increasingly seen as having a dampening effect, especially in construction.
- Utilisation of technical production capacity and infrastructure remains satisfactory. Margins are also mostly at a good level. Some manufacturing companies, however, are experiencing increased pressure on margins due to weak growth and the stronger Swiss franc.
- There are increasing signs that the situation on the labour market is easing. Recruitment difficulties are receding slightly and staff shortages are no longer quite as pronounced as they were a year ago. For many companies, however, recruitment remains a major challenge.
- Against the backdrop of the recent declines in inflation rates, companies expect wages to rise by an average of 1.8% in 2024, after 2.6% this year.

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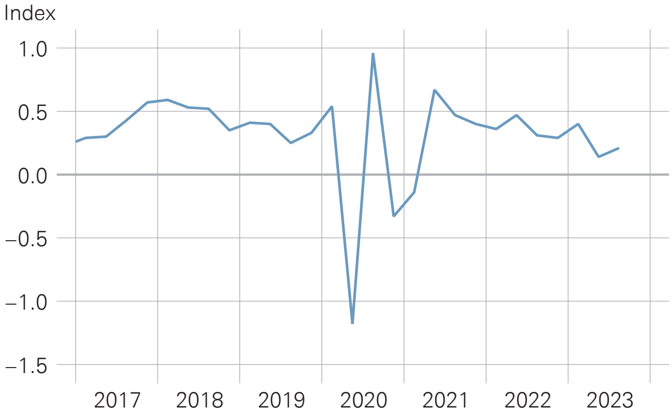
Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER



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

Source(s): SNB

Chart 2

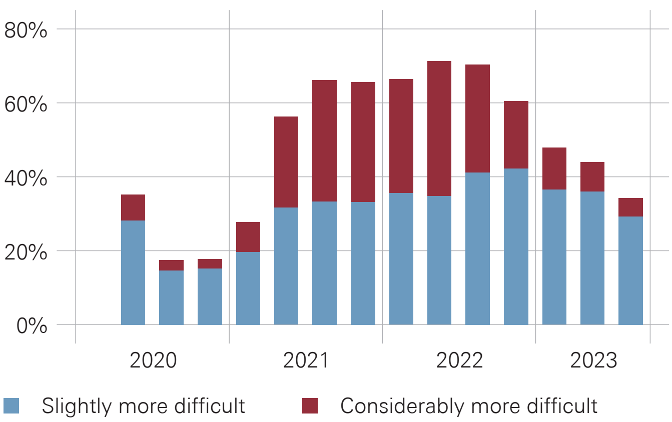
CAPACITY UTILISATION

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

Chart 3

PROCUREMENT SITUATION



Share of companies facing a more difficult procurement situation as compared to a normal situation.

Source(s): SNB

CURRENT SITUATION

Growth in turnover modest

Real turnover growth, in other words turnover growth adjusted for price changes, remained modest in the third quarter (cf. chart 1). In the services sector there was a moderate quarter-on-quarter increase in turnover. Turnover in construction, by contrast, is only marginally higher than in Q2, and in manufacturing it is stagnating.

Exported-oriented manufacturing companies are feeling the effects of a weak environment in their sales markets. Demand from Europe in particular remains subdued, especially from Germany and the UK, where an inflation-related loss of household purchasing power is weighing on demand for high-price consumer goods and higher financing costs are curbing demand for capital goods. In addition, many customers are seeking to draw down their inventories, which is reducing orders for intermediate goods. In addition to the weak development of demand in Europe, sales in China are proving difficult for many companies. On the other hand, companies describe the development of turnover in the US as comparatively robust. Some representatives also made positive mention of demand from the Middle East and India.

As regards the domestic economy, momentum has been mixed. Domestically-oriented financial services providers are benefiting from a favourable business environment. The same applies to providers of goods and services in the areas of digitalisation and sustainability, including sections of the construction sector in particular. Transport services, the motor vehicle trade and food services, by contrast, have been unable to maintain the momentum of previous quarters.

Capacity utilisation near normal levels

Despite weak growth in turnover, utilisation of technical production capacity and infrastructure has deteriorated only marginally and is near normal levels (cf. chart 2). However, some companies report a marked decline in order intake in recent months. They therefore anticipate significantly weaker utilisation in the coming months.

Easing regarding procurement

The procurement situation continues to ease. While around one-third of companies still say they are having to contend with a difficult situation (cf. chart 3), the proportion facing serious supply problems has declined from about one-third in summer 2022 to around 5% most recently. There are hardly any supply problems any more for raw materials such as steel and timber. However, the procurement situation remains difficult for specific electronic components and some internationally traded agricultural products.

Reduction in staff shortages

Staff shortages have decreased appreciably (cf. chart 4). Recruitment difficulties are also somewhat less pronounced than in previous quarters. For example, there are certain signs of improvement in the availability of commercial staff and IT specialists. Downsizing at some large international companies is helping to fill vacancies a little faster. Added to this, recruiting unskilled workers is seen as being relatively unproblematic. However, when it comes to technical professions such as engineering, but also specialists with customer-facing roles or irregular working hours, the recruitment difficulties remain pronounced.

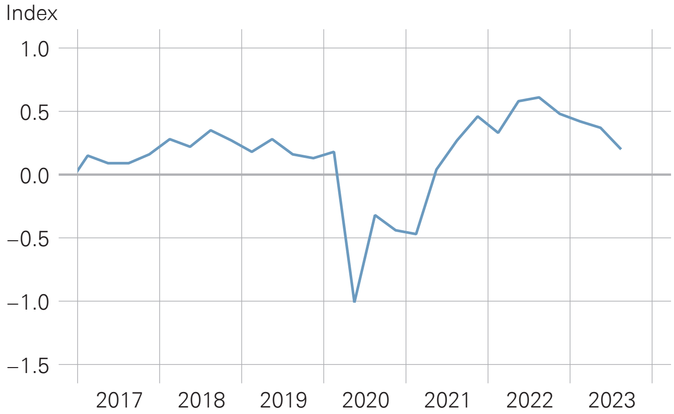
Largely robust profit margins and stable liquidity situation

For the majority of companies, margins are still sufficient to conduct business profitably and make the necessary investments (cf. chart 5). Margins in services and construction have improved and are now slightly above the historic average. The financial industry in particular is able to generate above-average margins. However, the margin situation is becoming increasingly problematic for individual manufacturing companies that are exposed to intensified price competition because of the weak global economy and the firmer Swiss franc.

Most companies view their liquidity situation as being comfortable. However, a few mention that elevated inventories are a strain on liquidity. There are also some reports of late customer payments. Despite higher interest costs, access to credit remains unproblematic for the majority of companies. A slightly increasing, but still limited number of companies say they are facing more restrictive lending conditions. Companies reliant on private venture capital are also observing greater restraint in this being made available.

Chart 4

STAFF SHORTAGES

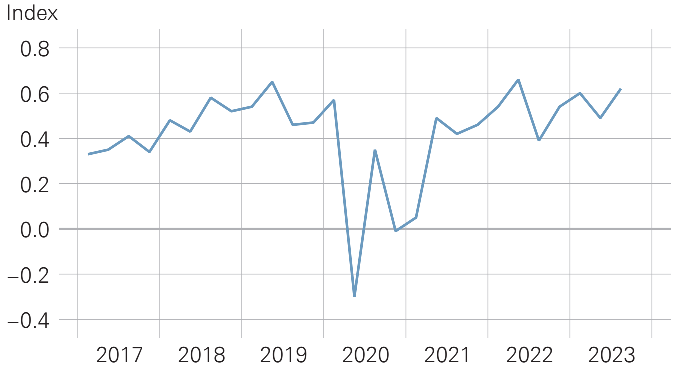


Assessment of staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

Source(s): SNB

Chart 5

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

Slowdown in broad sections of manufacturing
The global economic slowdown is affecting broad sections of the manufacturing sector. Producers of intermediate products such as metals, plastics and packaging materials, for example, report a significant weakening. Business is also modest for consumer goods manufacturers, which are experiencing subdued demand for durable goods as well as for high-price foods. In the meantime, the first declines in demand are also becoming apparent in the luxury goods industry, which was still recording very good results in the previous quarters. By contrast, manufacturers of energy transition-related products continue to see strong demand. This also applies to certain suppliers to the construction industry, in particular those supplying wood products. Added to this, highly specialised companies in the life sciences industry are profiting from continued high demand from Switzerland and abroad.

Growth in the trade and logistics industries subdued
There is little positive impetus to report in the trade and logistics industries. While retail companies are experiencing stable demand for everyday items, consumers are frequently avoiding higher-priced products and are also showing restraint when it comes to durable goods such as clothing and furniture. Motor vehicle traders also report a marked hesitancy among customers with regard to purchasing new cars, and they have only been able to cushion the effects of significant declines in turnover with solid spares and repairs business. In addition, the weak turnover of goods in the manufacturing sector, made even more pronounced by increased inventories, is having a curbing effect in wholesale and logistics.

Turnover development in hospitality weak
For the most part, food services companies are reporting weak and in some cases negative development in turnover. The reasons are manifold and include unfavourable weather effects and decreased purchasing power. The hotel industry, too, has recorded only slight increases in turnover. However, capacity utilisation is described as being robust overall, and in the upmarket segment even as very satisfactory. Swiss tourists are increasingly spending their holidays abroad again and hotels geared to an international clientele are suffering from the fact that there are fewer Chinese guests than before the pandemic because of the limited availability of flights and visas. However, this shortfall has largely been made up for by travellers from other regions of Asia, the US and the Middle East.

Financial and ICT industries see positive development
The financial industry is showing sustained positive momentum. Domestically-oriented financial services providers say that business has developed very well, highlighting their interest business in particular. Asset managers and fiduciaries also report a successful quarter. Insurers describe their development as stable overall. While inflation is leading to higher loss amounts, higher investment returns are underpinning results.

Utilisation in business-related services, and in particular in the ICT industry, remains good due to the digital transformation taking place at many companies and the pronounced need for cybersecurity solutions. However, growth is limited by the fact that companies' budgets are somewhat tighter in some cases.

Utilisation good but outlook increasingly pessimistic in construction
Utilisation at construction companies remains good. Demand is underpinned by the significant need for energy-efficient renovations, the trend to sustainable and high-quality materials, and the general shortage of residential space. The public sector is also an important source of support for some companies. However, construction companies are increasingly pessimistic about the outlook, particularly for building construction. There are fears that the higher level of interest rates will curb investment activity, especially on the part of institutional investors. Planning firms also indicate that they were not quite able to maintain the order levels of previous quarters.

OUTLOOK

Deteriorating business outlook
Expectations of future growth have deteriorated (cf. chart 6). Some companies, particularly in manufacturing, report a significant decline in new orders, which is likely to curb turnover growth in the coming quarters. Owing to weak sales momentum, companies are planning a somewhat less marked expansion of their workforce (cf. chart 7).

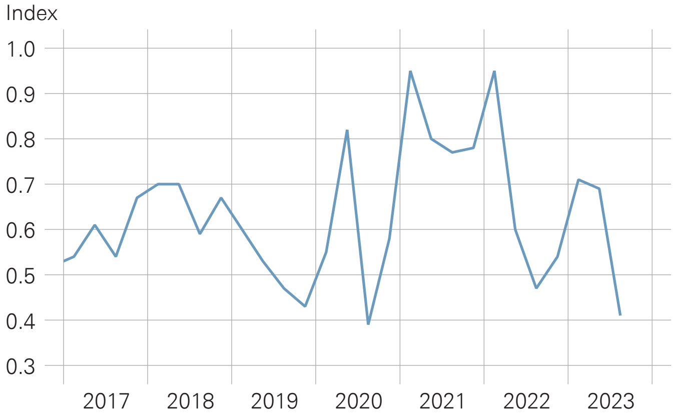
On the other hand, they are planning a robust increase in investment volumes. Although the higher level of interest rates makes financing more expensive, in only a few cases so far has this resulted in a greater reluctance to invest. In particular, the trend to investment in sustainable and energy-efficient technologies remains intact. Companies are also investing in automation and IT infrastructure to optimise processes and thus counter the structural shortage of staff.

Given declining inflation rates and the less optimistic business outlook, companies expect wage growth to weaken to a certain extent. They currently expect wages to increase by an average of 1.8% in 2024 after 2.6% this year. In many cases companies point out that the development of their business and inflation measured at the time of wage negotiations will have a significant influence on the agreements reached.

Minor changes in purchase prices and moderate increases in sales prices
Most companies envisage only minor changes in purchase prices in the coming two quarters (cf. chart 8). Manufacturing companies in particular anticipate slight declines in prices, while some services companies expect to see increases to a certain extent. As regards sales, companies expect price increases somewhat more frequently, primarily citing higher wage and energy costs as reasons. However, in most cases the price rises are likely to be moderate. While the general upward trend in prices made increases easier until the beginning of the year, various companies are now facing more intense price competition again and the window of opportunity for major price rises is closing.

Chart 6

EXPECTED TURNOVER

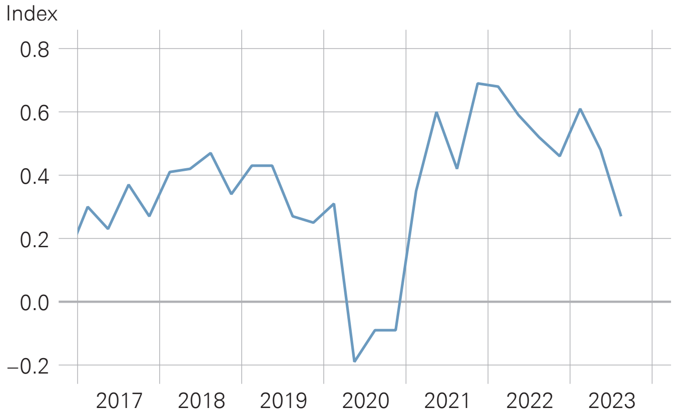


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

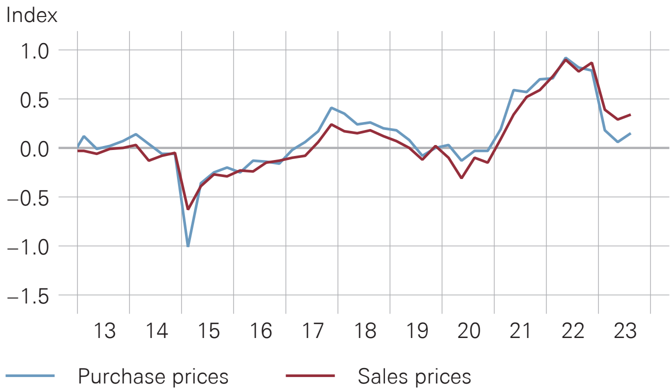


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES

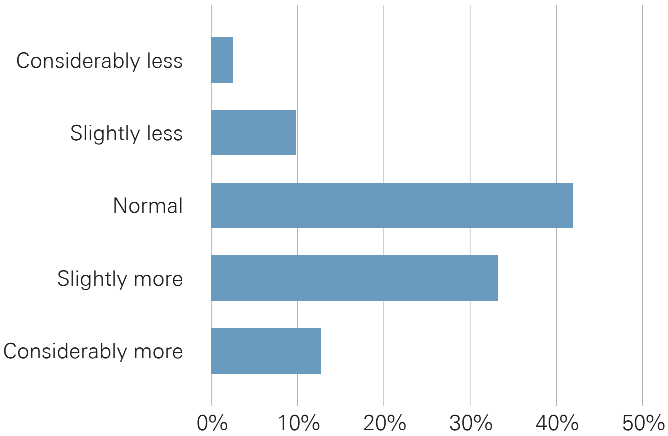


Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.
Source(s): SNB

Uncertainty remains elevated
Owing to a number of factors, uncertainty as to the development of turnover in the coming quarters remains elevated (cf. chart 9).

In manufacturing, weak order intake is leading to growing concerns about the economic outlook. The geopolitical situation is cited as an additional source of uncertainty, above all the war in Ukraine and the tensions between the US and China. Some companies also see their sales prospects jeopardised by stronger industrial policies in the major economies and the resulting competitive disadvantages. Some companies, however, are also benefiting from government investment programmes, particularly in the US.

Staff shortages are still frequently cited as a risk factor. These shortages are described not only as a temporary challenge, but also as a long-term structural problem. Companies are therefore investing in process optimisation and digitalisation. They are also attempting to increase their attractiveness for workers. Companies whose staff levels are currently too high are cutting jobs cautiously to be able to deliver when demand picks up and to cope with foreseeable retirements.

The acquisition of Credit Suisse by UBS is giving some suppliers cause for concern. Particularly at IT and consulting companies, order volumes are at risk in the medium term. Some companies also fear that competition in the corporate banking business could weaken because of the integration of CS into UBS.

INFLATION EXPECTATIONS

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

Short-term inflation expectations as measured by the consumer price index have declined: The average for the next six to twelve months is now 2.0%, compared with 2.4% in the previous quarter (cf. chart 10). Inflation expectations over a three to five-year horizon are 1.5%, also a somewhat lower figure than the previous quarter.

Chart 10

EXPECTED INFLATION

Source(s): SNB

About this report

Approach
Each quarter, the SNB's delegates for regional economic relations hold talks with members of management at companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

Over 200 companies are visited every quarter. 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 the public administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. Different companies are visited from one quarter to the next.

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. This enables the results to be aggregated and represented graphically.

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).

Interpreting the charts
The charts are to be regarded as a numeric summary of the qualitative information received. The index value shown represents the average of the findings from all companies visited. When interpreting the curves, relevance should be attached to their overall development, rather than to their numeric level or individual changes.

Additional information
Further information on the 'Business cycle signals' report is available at www.snb.ch, The SNB/SNB regional network.

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