Business cycle signals

Results of the SNB company talks

First 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 January and 5 March.

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 first quarter. The expansion was driven by the services sector, with construction also contributing. Manufacturing, by contrast, continued to stagnate.

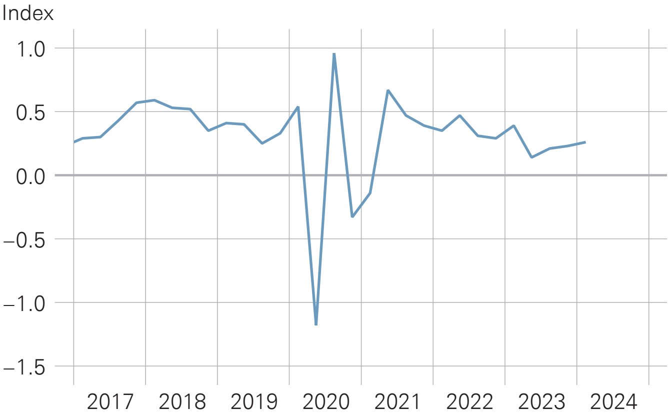
- Staff levels in the services sector are still rather tight despite an appreciable easing in recruitment difficulties, while infrastructure utilisation is close to normal. In the case of manufacturing, on the other hand, utilisation of personnel and technical capacity is unsatisfactory.

- In manufacturing, persistently weak global demand remains the main concern, with companies also increasingly citing the Swiss franc exchange rate as a challenge. They see hardly any latitude in pricing, which means their margins are under pressure.

- The outlook is improving. Companies in the services sector expect the robust growth to continue and manufacturing companies are also anticipating increases in turnover again.

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

Robust business activity in services and construction, stagnation in manufacturing

Overall, the Swiss economy showed a moderate expansion in the first quarter (cf. chart 1), with robust growth in services and construction. In manufacturing, by contrast, turnover continued to stagnate. Order backlogs, which a year ago were still considerable in most cases, have now been reduced to a large extent, and in many instances new orders have yet to come in. Some companies are still observing that demand, which is already weak, is being curbed further by customers reducing their inventories. Customers in neighbouring European countries are particularly reluctant to place orders. Sales to China also continue to present difficulties for many companies. By contrast, representatives say that momentum in the US remains positive overall. Several companies also make special mention of India as a dynamically growing market.

Technical capacity underutilised, particularly in manufacturing

Technical capacity utilisation is declining slightly and is below normal levels overall (cf. chart 2). Particularly in manufacturing, persistently weak demand is leading to low capacity utilisation. In the services sector, on the other hand, infrastructure utilisation is in most cases normal, or there is only minor underutilisation, usually because of a slight surplus of office space. Capacity utilisation in construction is fluctuating strongly despite solid development in demand overall. Reasons for this include delays in the granting of building permits or in the planning of major projects.

Decreasing staff shortages and easier recruitment
Staff shortages continue to ease (cf. chart 3). While companies in the services and construction sectors still regard staff levels to be rather too low, many manufacturing companies consider them to be too high. Companies are often not renewing contracts with temporary employees, and some are applying for short-time working. Wherever possible, however, companies are avoiding making skilled workers redundant.

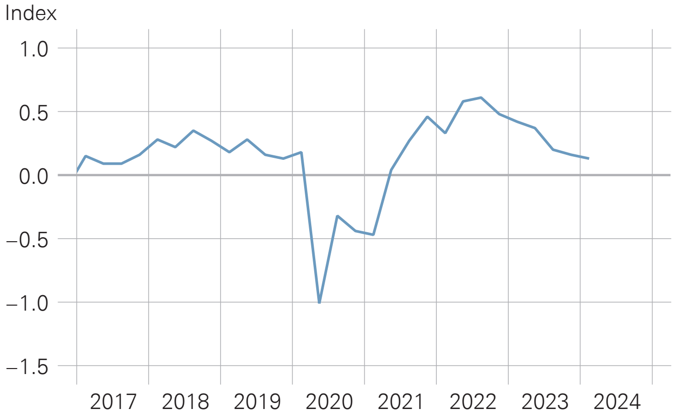
Recruitment difficulties are also easing. The effort involved in recruiting low-skilled workers is said to be generally normal. Some companies also report that owing to downsizing at international technology groups and the integration of Credit Suisse into UBS, they are now able to fill positions that have been vacant for some time, for example in wealth management but also in some cases in IT. Engineering specialists and staff in various skilled trades remain hard to find.

Robust profit margins, except in manufacturing
Profit margins remain robust overall (cf. chart 4). There are, however, considerable differences between the sectors. Margins in manufacturing have come under pressure, the main problem being the continued underutilisation of production capacity. Manufacturing companies also increasingly cite the Swiss franc exchange rate as a challenge. This is of additional consequence given the weak demand and the associated price pressure. Services and construction companies, by contrast, continue to enjoy solid margins.

Most companies still describe their liquidity situation as comfortable. Despite the current difficult earnings situation, this also applies to manufacturing, where some companies are benefiting from good business performance in recent years.

Chart 3

STAFF SHORTAGES

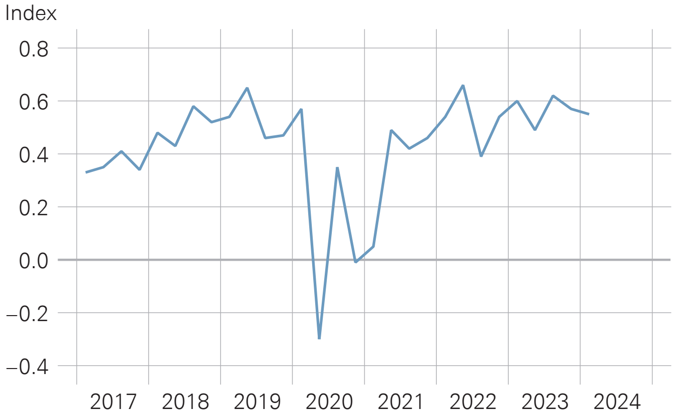


Assessment of staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

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

Persisting weakness in manufacturing
Turnover is stagnating in broad sections of manufacturing. Manufacturers of capital goods in particular, for example in the mechanical engineering industry, are having to contend with weak global demand. There has also been a significant slowing in the watchmaking industry. Sales to China are particularly disappointing. Manufacturers of consumer goods are also feeling little momentum. Swiss premium segment products, however, continue to enjoy growing popularity in overseas markets.

Medical technology and the pharmaceutical industry are regaining some momentum. Demand for goods for rail transport, aviation and defence has also continued to pick up. For this reason some companies are seeking ways of targeting these customer segments. The fact that construction also remains a stable source of orders is benefiting industries such as timber processing.

Growth in trade and logistics industries modest
Retailers are seeing solid demand for food and other everyday items. Last year, customers were tending to switch to cheaper product lines because of losses in purchasing power. This trend continues but is not deteriorating further. It remains fairly difficult for both bricks-and-mortar and online retailers to sell durable goods such as clothing, sporting goods and electronics.

The tentative development of demand, due not least to higher leasing interest rates, and the tight supply situation are leading to heavy price pressure in the motor vehicle trade. Customers are increasingly opting for low-price rather than mid-range vehicles, which is reflected in rather weak sales of electric models. Demand for luxury vehicles, on the other hand, remains high.

The situation in wholesale and logistics is mixed. On the one hand, the weak state of manufacturing and the subdued momentum of online retail are curbing trade and transport volumes. On the other, there are signs of an end to the reduction in inventories of purchased goods in parts of the manufacturing sector, which is supporting trading volumes.

Tourism industry successful – little momentum in food services
The majority of hotels and mountain railways are very satisfied with the utilisation of their infrastructure and with their earnings situation. Tourism businesses geared to an international clientele are benefiting from solid development in demand, particularly from travellers from the US, Southeast Asia and India. The numbers of guests from China and Japan are also picking up again. These tend to be individual travellers; the number of tour groups has not yet returned to pre-pandemic levels. Guests from Switzerland are also proving to be an important source of business for tourism. Growth in guest numbers from European countries, on the other hand, is modest. Companies attribute this partly to the weak euro.

In food services there is generally a lack of significant momentum. The effects of lower purchasing power are still being felt in some cases. Moreover, bookings for corporate events are considered to be subdued.

Robust business activity in financial and ICT industries
Business activity in the financial industry remains robust. Banks are benefiting from profitable interest business. The positive overall development of income from wealth management and other services such as the credit card business is supporting the commission and services business.

The development of demand in the ICT industry is also robust overall. Investments in cybersecurity, digitalisation and artificial intelligence are still key growth drivers. Demand tends to be focused more on cost reductions than on actual innovations, which is why there is a particular call for process optimisation technologies. Both private companies and public institutions often rely on support from external service providers for these technologies. A certain easing in the availability of skilled workers is making it easier for consulting companies to increase staff levels and handle more engagements in future.

Solid capacity utilisation in construction
Construction companies are seeing solid development in demand, although capacity utilisation can fluctuate strongly owing to delays in the granting of permits or in planning. The public sector is an important source of support, particularly when it comes to the maintenance and expansion of transport infrastructure. In addition, the need for energy-efficient renovation remains high in both residential and commercial construction. Residential construction is generally benefiting from robust demand for residential space, although regulatory obstacles, higher interest rates and persistently high construction costs are seen as curbing factors.

OUTLOOK

Improved business outlook
The business outlook has improved. Overall, companies expect solid development in turnover in the next two quarters (cf. chart 5). This is particularly true of the services sector. The first tentative signs of recovery are also being seen in manufacturing, particularly at companies where changes in the business cycle are typically reflected in demand early on. Some companies are seeing signs of an end to their customers reducing inventories. This should lead to a revival in demand. In addition, some representatives point out that interest rates could soon fall in the US and Europe. However, only a few companies expect the economy to recover significantly in the coming months. The economic situation in Europe is still viewed with concern. However, companies are also counting on being able to gain market share with innovative products and improved sales strategies and thus increase sales volumes again.

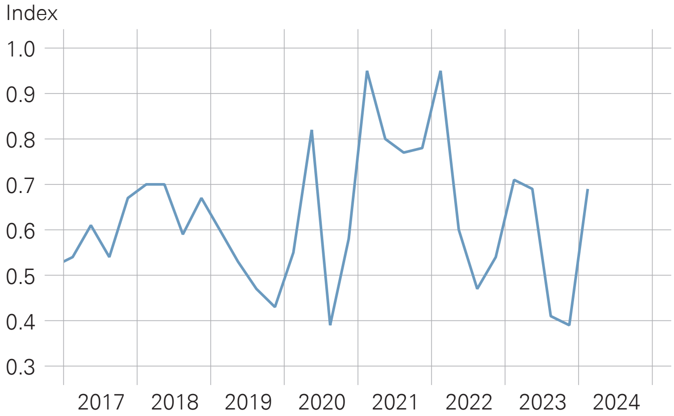
Companies remain cautious when it comes to their investment plans. The need for investment in automation and IT infrastructure remains unbroken, as does the trend to investment in sustainable and energy-efficient technologies. However, in manufacturing in particular, many companies have only just completed major investment projects and, given the low capacity utilisation, are now holding off on further phases of expansion.

The overall intention is to continue increasing staff levels (cf. chart 6), although such plans are now limited almost exclusively to services companies. Manufacturing companies are holding back on hiring new staff and some are using natural attrition to reduce their workforce.

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 slightly to below 2%.

Chart 5

EXPECTED TURNOVER

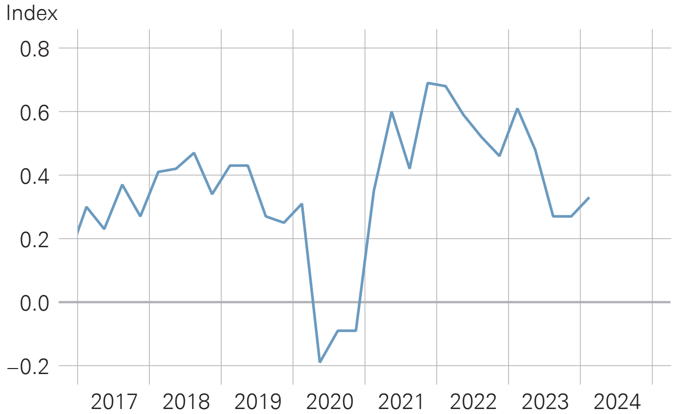


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 6

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 7

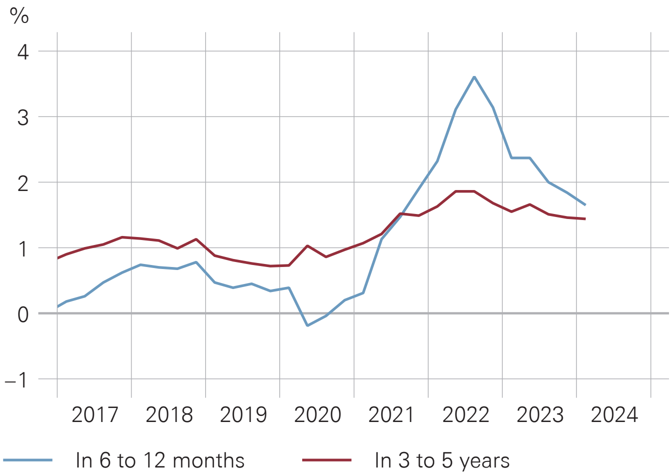
EXPECTED CHANGE IN PURCHASE AND SALES PRICES

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

Source(s): SNB

Chart 8

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 7). Services companies are tending to 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. Despite weak capacity utilisation, manufacturing companies are trying to refrain from reducing prices. Only rarely do they see any latitude for raising their prices. This also applies to exporters, who, given the stronger Swiss franc, would have to increase prices in foreign currency to keep their margins constant. The disruptions in international shipping due to the attacks on merchant ships in the Red Sea have so far barely affected companies' price expectations.

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 continued to fall slightly: The average for the next six to twelve months is now 1.6%, compared with 1.8% in the previous quarter (cf. chart 8). Inflation expectations over a three to five-year horizon remain virtually unchanged 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. 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. 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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