

The economic situation from the vantage point of the delegates for regional economic relations

Summary report to the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of 18 March 2004

The Swiss National Bank's delegates for regional economic relations are in contact with a large number of enterprises from the different industries and economic sectors. Their reports, which contain the subjective evaluations of the enterprises, are an important additional source of information for assessing the economic situation. The key results of the talks held between November 2003 and February 2004 on the current and future economic situation are summarised in the following.

Summary

The business situation of the enterprises brightened in the past few months, and corporate sentiment became more upbeat. Upward trends were clearly predominant, although some enterprises still considered the recovery to be hesitant and the pick-up has not yet benefited all industries.

Exports were the main driving force, with demand from Asia still displaying particularly dynamic growth. Orders from the US, by contrast, were rather disappointing as the weak dollar placed a burden on many exporters. Demand from the euro area was still muted; however, there were occasional positive reports again on Germany. The electronics and communications technology industries staged a significant recovery. In the service sector, signs of a turnaround emerged – notably in tourism. Retail trade continued to be affected by customer restraint; pent-up demand for consumer durables was evident here and there.

Corporate investment activity remained subdued but investment confidence is gradually recovering. Also, there was hardly any mention of job cuts anymore. Companies were not yet willing, though, to increase staff numbers significantly. The large majority of enterprises surveyed saw no scope for price increases. This was particularly true for those industries that export to the dollar area and suffer from severely squeezed margins.

The companies were guardedly optimistic in their outlook for the economy. Many anticipate an actual upswing – albeit a moderate one – to emerge only in the second half of the year.

1 1. Production

Manufacturing

Most export-oriented industries reported a pick-up in activity. They assessed the economic situation much more positively than did the companies with a domestic focus, particularly suppliers. However, there was no mention yet of a marked upturn in the export industry either; frequently, the volume of orders is still considered to be too small and the earnings situation unsatisfactory. For many companies, orders from the US in particular have been disappointing so far. The low exchange rate of the US dollar and, in some instances, the stiffer competition from Asia (notably China) proved to be a challenge. Exports to Central and Southern Europe as well as to some parts of South America (Brazil) were gratifying, whereas demand from Switzerland's neighbouring countries picked up only hesitantly. At least positive reports are now coming in again – mainly from the Basel region – on business with Germany and France.

The mechanical engineering industry and its suppliers have not yet felt much of a rebound in investment on the major markets. Some companies were adversely affected by US industrial companies shifting production facilities to Asia. The electronics and semiconductor industries as well as telecommunications are on an upswing again, albeit from a low level. In the consumer-related industries and, particularly, in the pharmaceutical and medical technology sectors, business activity remained pleasing. In other lines of business, such as household appliances, the situation is gradually starting to improve. Business activity in the food industry was between satisfactory and good, and the watchmaking industry registered a revival in demand. Inventories, which were extremely high until recently, are also declining gradually.

Given the still considerable amount of free capacity, investment continued to be restrained, but investment confidence is already stronger than half a year ago. Enterprises with production facilities outside Switzerland increasingly considered investing abroad. The main production centre is Asia, and China in particular.

Services

Retail trade recorded a satisfactory Christmas and clearance sales season overall and most retailers have since seen sales rebounding somewhat. This upswing is more pronounced for major retail chains than for smaller businesses. Consumers continue to be very price-conscious and selective. In Switzerland's border regions, retail trade benefited from the softening of the Swiss franc against the euro and the higher inflation abroad. Demand for consumer durables remained subdued, but pent-up demand made itself felt gradually. By contrast, sales of luxury items (watches and jewellery) seem to have emerged from their low, not least thanks to the pickup in international tourism. Sales of consumer electronics products also developed favourably.

Tourism experienced a good start to the winter season, and sentiment became more upbeat. The enterprises surveyed reported stronger tourism activity, particularly from Asia, and noticed that the visitors are also spending more. The weak US dollar is an inhibiting factor. In comparison, the exchange rate against the euro is favourable, but demand from Europe has risen only modestly so far. The situation for the tourist industry in Ticino remained difficult but seems to have reached its trough now.

Activity in company-related services also showed some signs of recovery. This includes business travel, which benefited from the favourable exchange rate against the euro. Brisker demand was also registered by consulting firms and the transport industry.

Construction

As usual, the construction industry gave off extremely mixed signals, depending on the region and line of business; in general, however, the situation does not seem to have worsened any further. Construction of single-family homes and owner-occupied apartments continued its dynamic growth along the main population corridors whereas activity in the industrial and commercial construction industries as well as in civil engineering was sluggish. This also had an impact on many construction-related industries and suppliers. Construction activity in Ticino was comparatively healthy. Generally, the finishing industry was in a better position than the construction industry proper.

2 Labour market

Some of the companies surveyed still considered staff numbers to be excessive. As the majority of companies expect the order books to improve, they are trying to avoid further layoffs if possible. New staff were hired mainly by industries experiencing very buoyant business, such as the medical technology segment.

3 Prices and margins

The large majority of enterprises queried still felt the high pressure on prices and did not see any scope for price increases. This was particularly true for companies exporting to the dollar area. They had to make price concessions, which reduced their margins critically. Some companies were also affected by fiercer import competition from the dollar area (which includes Asia), forcing them to implement further rationalisation measures. With the depreciation of the Swiss franc against the euro, however, the price competitiveness vis-à-vis European competitors improved significantly. Unlike the export industry, hotels and restaurants increased their prices slightly, and the strong pressure on prices in the construction industry seems to be subsiding somewhat. On the cost side, the sharp rise in steel prices affects some industries while the construction sector has to contend with the additional costs associated with the new retirement rules.