

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 December 2004

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

Summary

Overall, talks held with almost 120 companies and industry associations between September and November indicate that there has been very little change in the general economic situation. The economy continued to grow, but momentum declined, increasing the discrepancy between business activity in the various industries. While hopes of a noticeable pickup in domestic demand went unfulfilled, exports remained buoyant at the last count.

A rising number of companies with good business activity were planning to raise capacity. At the same time, more companies than previously reported that they intend to increase staff numbers. Nevertheless, relocating production abroad, which often entails a reduction in jobs in Switzerland, remained an issue, especially in the manufacturing sector.

The majority of respondents were confident about the outlook for 2005. Although many companies expect sales growth to slow slightly, underlying sentiment remains generally positive despite the weakness of the dollar and the sharp rise in oil prices.

1 Production

Manufacturing

Most of the export companies surveyed said that order intake and orders on hand were still good even though order growth has slowed. The main impetus continued to emanate from Asia, especially China, and from the US. The assessment of demand from the EU was somewhat more optimistic than in the summer. However, Germany was again the exception as business remained sluggish.

Export-oriented companies rated the situation much the same as in the summer. The chemical, pharmaceutical and watchmaking industries again reported a sound business performance. Producers of metal goods, energy and automation technology and textile machinery were extremely satisfied with the situation. Following a rapid recovery, the semiconductor sector in particular is once again suffering from global overcapacity and the resultant price erosion, however. Companies focused on the domestic market are struggling much harder as they have to contend with both foreign competition and high pressure on prices and margins.

Services

Thanks to the return of visitors from Asia and the US and a slight improvement in business travel, the tourism industry is doing far better than a year ago. However, the upward impetus has declined slightly in many areas in recent months, partly because of the weak dollar. Moreover, many tourist areas suffered from the persistently low demand from Germany and the general drop in spending per visitor. Hotels in Ticino formed an exception: in the summer and autumn they reported a substantial rise in visitors from Germany, France and the Netherlands who decided to spend their holidays in southern Switzerland as a result of the sharp price rises in Italy and the south of France. Nevertheless, the situation in the hospitality trade in Ticino remained difficult overall; this was also evident from the large number of business closures.

In the corporate services sector, business trends picked up in the transport (including air freight) and logistics segments. Consultancy also registered an uptrend. By contrast, the majority of IT service-providers complained that business was listless.

Following a promising start to the year, business at asset management banks proved disappointing up to the autumn. The inflow of funds stagnated or increased only slightly, and the weakness of the

stock market meant that commission income was thin. Competition and pressure on margins therefore remained keen. Competitive pressure for lending business is now also very stiff, especially in the mortgage sector. This is partly due to the rise in lending limits.

Most retail companies reported that business was still sluggish and lacking in direction. Some reported a considerable drop in sales since the summer months. Larger retailers did better than smaller businesses, which were hit by low consumer confidence and increased competition from big stores. In the first six months of this year, retailers in Ticino and in the Lake Geneva region benefited from the reduction in price benefits in nearby French and Italian shopping areas, but this impetus now seems to have tailed off again. The market for textiles remained very difficult. By contrast, sales of IT products picked up.

Construction

Sentiment in the construction sector improved slightly as many companies continued to benefit from buoyant housing construction and robust demand for refurbishments. By contrast, commercial and public-sector construction remained weak following signs of a slight improvement in the summer. The sector reported pressure on prices – and thus on earnings at many companies. There are now growing signs that a shake-out is under way in the construction industry. In border areas such as Ticino, as well as in western Switzerland, construction companies are noticing keener competition from neighbouring countries.

2 Labour market

Readiness to increase staff numbers seems to have increased slightly in recent months, but that does not mean that headcount reductions are over. However, unlike a year ago, the situation is now no longer dominated by cyclical considerations. In most cases, staff reductions are due to strategic decisions to relocate production to other countries, mainly in Asia or Eastern Europe. The service sector is still not able to provide a perceptible impetus for the labour market. This is equally true for the banking industry and commerce, both of which are facing hefty cost pressure.

3 Prices, margins and earnings situation

More companies than at the start of the year felt they were able to pass on higher procurement costs to customers by raising prices. Generally, though, price pressure remains high. This is primarily affecting intermediate suppliers. Increased competition from abroad has actually stepped up price pressure on some goods in Switzerland, especially in the retail trade and construction-related areas such as sanitary fittings.

The exchange rate is a source of increased concern. The massive drop in the dollar has meant a painful decline in margins at many companies. Worst affected is the watchmaking industry, but many companies producing for the Asian market have also been hard hit. Conversely, in some sectors the weakness of the dollar has lessened the impact of the rise in raw material and energy costs.