

## 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 March 2005

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 December 2004 and February 2005 on the current and future economic situation are summarised below.

## Summary

The talks held between December 2004 and February 2005 with around 140 companies representing the major economic sectors revealed a predominantly favourable picture. The business results for 2004, which range from good to excellent, contributed to this positive assessment. Despite a slowdown in business, the export companies surveyed were generally satisfied with both the order situation and order intake.

The export-oriented companies continued to view the business situation more favourably than those geared to the domestic market, which were still unable to report any broad-based economic pickup. However, the soft dollar was an increasing worry for many export companies. The major weaknesses of the domestic economy are the low level of consumer spending, an only gradual improvement in investor confidence, and a construction sector driven solely by residential building.

The companies surveyed were still reluctant to invest. Only a few were planning to expand capacity substantially; in some cases, moreover, these expansion plans were confined to foreign countries (Asia). A number of companies held out the prospect of increasing their workforce this year; at the same time, though, some are still planning to cut jobs.

On the whole, prospects for 2005 were considered optimistic. Nevertheless, growth in turnover is expected to be slower than in 2004 – as already suggested by many companies last autumn.

# 1 Production

## **Manufacturing**

Most of the strongly export-oriented companies started the new year with a solid order backlog and a satisfactory order intake. Demand from Asia and the US remained buoyant. The weak dollar, however, often required painful price concessions or even resulted in orders being lost to competitors in the dollar area. Demand from Europe was still rated as slack, but the business climate in Germany was given a slightly more optimistic assessment than in autumn 2004.

The recovery of the export market was felt by almost all industries. Watchmaking, the chemical/pharmaceutical and medical industries performed particularly well. The various branches of the mechanical engineering industry as well as the metalworking sector also reported excellent business. Although turnover was mostly expected to grow at a slower pace this year, none of the companies surveyed anticipated a drop in business. Only manufacturers of semiconductors seemed to be bracing themselves for significantly weaker demand.

## **Services**

The majority of retail companies surveyed considered business to be sluggish. For the most part, Christmas business remained below expectations, barely reaching the year-earlier result. The consumer electronics segment, by contrast, performed relatively well. Weak business activity was experienced by the textile industry in particular. Consumers were still perceived as price-conscious and selective. The companies surveyed attributed the lacklustre consumer sentiment mainly to the absence of any recovery in the labour market, to uncertainty over retirement benefits and to the increase in healthcare costs – factors that are unlikely to improve in the short term.

The tourist industry was slightly more upbeat. Thanks to good snow conditions in January and February, the ski resorts enjoyed excellent occupancy levels. In general, the hospitality sector reported a slight upturn in spending levels among both private individuals and companies.

Apart from the transportation and logistics industries, other corporate services segments also seem to be benefiting from the economic revival. This was especially true of the advertising industry, consultancy and IT services. IT providers in particular continued to suffer from extremely tight margins, plummeting hardware prices and persistently low consumer spending.

The talks held with banks revealed an unchanged picture. While corporate lending was rather slack, mortgage loans expanded vigorously. Given the stiff competition for good risks, the banks are making far-reaching concessions to their clients in this segment with regard to terms and conditions. Some of the companies surveyed doubted that the banks and clients were paying due attention to the risk of interest rate changes. With margins falling, asset management also remained highly competitive.

## **Construction**

Construction activity continued to be driven primarily by new residential building and renovation projects. Whereas the brisk demand for housing had mainly benefited urban areas so far, peripheral regions now seem to follow suit. Given the high vacancy rate, a general upswing in commercial construction was not in sight. Some positive signals came from the hospitality industry, though. The lack of momentum from civil engineering was a particular worry.

## 2 Labour market

Following last year's modest personnel increases by some companies, most of them were not planning to change their staff levels. Nevertheless, some buoyant export companies announced their intention to hire additional staff this year, too. As before, though, there were also companies intending either to reduce headcounts or to create additional jobs abroad so as to rationalise their operations. Some companies found it difficult to recruit qualified employees.

## 3 Prices and margins

The majority of the companies were exposed to strong price competition, which squeezed their margins. Like last autumn, some companies voiced their intention to raise prices this year in order to pass on the higher costs. However, additional price increases are feasible only in exceptional cases of very strong demand. Many export companies expressed concern about the dollar's weakness. The euro exchange rate, by contrast, gave no reason for complaint. The companies surveyed also seem to be satisfied with the development of salaries and wages in 2005.