

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 2006

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 2005 and February 2006 on the current and future economic situation are summarised in this section.

Summary

The talks held by the SNB delegates for regional economic relations with around 180 representatives from various economic sectors and industries again yielded a favourable picture of the economy for the three months up to February 2006. Compared with the preceding round of talks, the upswing seems to have gathered momentum and gained a broader footing. Most representatives of the export sector and the domestic industry reported good to excellent business results for 2005 and a promising start to the year 2006. For the first time in a long while, the retail sector was also somewhat more upbeat.

All industries were optimistic about the outlook for 2006. Given the high level of capacity utilisation and the satisfactory earnings performance, companies were again considering investing in expansion, often coupled with recruiting new staff. The surge in raw material and energy prices put pressure on some companies. However, more and more companies seem to be able to pass on at least part of the higher production costs to customers.

1 Production

Manufacturing

Most representatives from the manufacturing sector recorded a high order intake at the turn of 2005/2006, which should ensure full order books well into the year. Although production was buoyant in many industries, inventories fell to record lows in some cases and delivery periods lengthened. Asia (China), Central and Eastern Europe and the US remained particularly dynamic markets. Business with the rest of Europe now also seems to be rebounding, though. A number of companies surveyed registered higher demand from Germany in particular.

In addition to those industries that have been enjoying an upswing for some time now, notably the chemical/pharmaceutical sector, medical technology, and the watchmaking and metal industries, most other industries also rated business activity as good to excellent. Demand in the area of energy technology in particular exhibited a positive trend, reflecting an improvement in the global investment climate in the energy-generating industry. Suppliers and subcontractors also benefited, partly due to the outsourcing of activities that had previously been performed internally when order levels were low.

Services

The retail situation seems to be brightening slowly. A growing number of companies reported an improvement in turnover and in consumer sentiment, though there were few mentions yet of an actual trend reversal. Christmas business was judged surprisingly good in some cases. As before, the performance of luxury and budget items was satisfactory to very good, whereas products in the medium price bracket have been struggling.

The survey participants from the ski resorts were very satisfied with the winter season. Excellent weather and snow conditions helped push the occupancy rate up to high levels; moreover, tourist spending also revived. In addition, positive mention was made of the pick-up in bookings by German tourists. Higher spending, both amongst private and business customers, was also reported by the representatives of the hospitality trade and the urban hotel sector. A fundamental change in sentiment was mentioned on a number of occasions.

The picture which emerged from most of the talks with representatives of other service-sector industries was also satisfactory to positive. Air travel registered considerably brisker activity than a year ago. The business consultancies surveyed noted an increase in demand for their services and a significant improvement in the financial standing of their customers. IT service providers made similar observations.

After a successful 2005, the survey participants from the banking industry remain optimistic about future business activity. Contrary to the mortgage business and trading, corporate lending remained muted until the end of the period under review. Loans were paid back and investment projects were financed with internally generated funds thanks to the improved financial situation. At the same time, however, there were signs that credit lines were drawn down to a greater extent. The representatives from the insurance industry mentioned the continued pressure to increase productivity and anticipated further job cuts this year.

Construction

Boosted by the dynamic residential construction market, building activity was still vigorous. Consequently, the construction industry proper and the finishing industry were satisfied with the situation. The high order backlog ensures a healthy rate of capacity utilisation for the foreseeable future. Residential construction remained the most important segment by far. Some companies also saw a moderate improvement in commercial and public-sector construction and are hoping that these segments will provide increased stimulus should the residential construction boom slow down. Although pressure on prices and the tight earnings situation were mentioned again, this problem seems to have lost some of its urgency in view of the healthy order books. The soaring land prices in some areas were pointed out on a number of occasions.

2 Labour market

Demand for labour appears to be picking up gradually. While hiring new staff was barely considered until recently, the mood seems to have changed. A number of companies were planning to recruit new staff this year. This applies especially to the manufacturing sector. By contrast, the major service-sector industries – the retail trade in particular – are continuing to reduce their headcount. The lack of skills in the Swiss labour market is persisting in some fields, but the situation has eased thanks to the freedom of movement agreement with the EU.

3 Prices, margins and earnings situation

In some instances, concerns were expressed about surging prices in the area of energy, raw materials (aluminium, plastic) and transportation as well as higher accident insurance premiums. The development of salaries and wages, by contrast, did not give any reason for complaint and was judged adequate. With the exception of the construction industry and retail trade, the earnings situation was by and large considered good to very good. Unlike in the past, a number of companies were able to raise selling prices, thus passing on at least part of the increased costs to customers. This applies to exporters as well as to companies producing for the home market. Only in exceptional cases did the higher selling prices result in improved margins. Those industries facing fierce import competition continued to be affected by the high pressure on selling prices. The exchange rate situation gave hardly any grounds for concern. This is particularly true of the CHF/EUR relationship, which was regarded as unproblematic. The current USD exchange rate is deemed acceptable.