

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 June 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 evaluations of these companies, are an important additional source of information for assessing the economic situation. In the following, the most important results of the talks held from March to May on the current and future economic situation are summarised.

Summary

The talks held by the SNB delegates for regional economic relations with around 160 representatives from various economic sectors and industries yielded a largely positive picture of the economy for the period from March to May 2006. Following the good start to the new year, the representatives of almost all industries were very satisfied with the business trend to date. The retail trade was again the least optimistic sector, but even here some improvement in consumer sentiment was felt.

Given the buoyant corporate earnings – and, in some places, very high level of capacity utilisation – businesses were reporting a greater willingness both to invest and to hire staff. The survey participants were decidedly optimistic about the future. Turnover targets for 2006 seem likely to be met, and in some cases budget targets were being beaten. Two issues that were frequently mentioned were the shortage of skilled labour and the general uptrend in energy and raw materials prices.

1 Production

Manufacturing

The manufacturing sector witnessed very strong order intake, and the substantial backlog of orders will ensure that capacity is fully utilised for the foreseeable future. Once again, the good business performance was underpinned by high demand from Asia, Latin America, Eastern Europe (including Russia) and the US. The trend in business with EU countries, especially Germany, has also recently started giving greater cause for optimism. In order to cope with the large volume of orders, companies took advantage of the flexibility offered by annual working time. In some cases, extra shifts were introduced, while other businesses outsourced certain activities. Despite these measures, delivery times became longer in many cases.

The upturn extended to almost all manufacturing industries by now. The various segments of the chemical industry as well as medical technology and the metal and watchmaking industries continued to record excellent business activity. Mechanical, systems and electrical engineering as well as energy utilities derived particular benefit from the firmer investment climate both at home and abroad, as did machine-tool manufacturers – though in a more subdued fashion so far. Representatives of the food and cosmetics industries and other consumer-related industries also reported a pick-up in trading conditions.

Services

The slight upturn in retail business – already apparent in the preceding months – continued in the period under review. Many contacts, including major retailers, mentioned the general improvement in sentiment; smaller specialist retailers benefited not least from freer spending by foreign tourists. However, all segments stressed that customers are still very price conscious. The general view seems to be that the retail sector's current problems are largely of a structural nature, reflecting the process of adjustment to fiercer foreign competition.

The talks with representatives of holiday resorts yielded a mixed picture. Assessments of the winter season and Easter business ranged from

barely satisfactory to excellent, though in the luxury segment this period was universally rated as very satisfactory. While spending per visitor was generally up, bookings in particular exhibited marked regional variations. Most survey participants were, however, optimistic about prospects for the summer season. In the towns, the hospitality trade benefited from numerous conferences and trade fairs as well as from the rising popularity of city breaks.

The economic upturn also made itself felt in the area of company and consumer-related services. While transport and logistics companies (including air transport and air freight in particular) had been reporting improved conditions for quite some time already, other sectors – including business and Human Resources consultants and auditors – now also adopted a more upbeat stance. The number of mandates rose, and client sentiment was markedly brighter. IT service providers, too, said that, in the light of their clients' increased spending on hardware and software, they were satisfied, although they did mention strong competitive pressure in their line of business.

The survey participants from the banking industry reported a consistently good level of business activity. Despite pressure on margins, mortgage business flourished, while corporate lending appeared to be gradually gaining ground. Not only did demand for corporate loans increase slightly, but with the improvement in their clients' earnings situation, banks were less reluctant to lend. Leasing business performed very well. Up to April, commission business was excellent, too, but the subsequent slump on the equity markets dampened confidence somewhat.

Construction

According to the companies surveyed, construction activity is vigorous, and there were no signs of a slowdown. The construction boom continued to be driven by residential construction, though some industry representatives also mentioned a revival in commercial and public-sector construction. Furthermore, construction-related trades and the numerous manufacturing suppliers benefited from the strength of demand for building work.

2 Labour market

Staff hiring was on the rise again by and large, though the trend was generally cautious and gradual. In some cases, vacancies were still being filled by temporary manpower. Many companies mentioned a marked shortage of labour and saw this as limiting their growth potential. Internal training and apprenticeships therefore assumed greater importance at some companies. The Swiss labour market is currently suffering from a dearth of technicians and construction specialists in particular. To an increasing extent, bank staff and qualified sales personnel are also in short supply. In some cases, staff can be recruited from the border regions of neighbouring countries. Companies that operate on a shift basis are almost entirely reliant on foreign labour.

3 Prices, margins and earnings situation

Thanks to the buoyant economy, corporate profitability has generally improved. This was also true for small and medium-sized enterprises. The representatives of the construction industry were still dissatisfied with their earnings situation, though even here it appears to have improved over the last few quarters.

One frequent topic of conversation was the steep increase in prices for energy, fuels and raw materials, especially metals and plastics. The ability to pass the higher costs on to customers varied from industry to industry. In most cases, however, companies were having little success in passing the cost increases on in full since their customers are very cost-conscious. This was especially true of suppliers operating on the European market, who continued to face strong price pressure. Companies were still generally holding back on price hikes, trying instead to maintain their margins primarily through productivity increases. More mention was made this quarter of the exchange rate situation: The weakening of the US dollar, in particular, was viewed with concern.