

# 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 September 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. In the following, the most important results of the talks held from June to August 2006 on the current and future economic situation are summarised.

## Summary

The talks held by the SNB delegates for regional economic relations with around 150 representatives from various economic sectors and industries yielded a positive picture of the economy for the period from June to August 2006. The companies surveyed did not detect any sign of a slow-down in the second half of 2006, and were expecting sales to remain healthy in 2007. The export industry (including tourism) was experiencing particularly good results, as were the construction industry and the banks. However, the trend in the retail trade remained muted, despite the improvements in consumer sentiment.

There was a marked increase in the willingness to invest. However, the main objective of this investment was – increasingly – either to expand capacity or to strengthen market positions through acquisition. The healthy earnings situation made it possible for planned investments to be financed internally in most cases. Many companies said that the lack of qualified staff was holding back rapid expansion in capacity. The main concerns were the broad-based rise in commodity and energy prices, and the danger of a weakening dollar.

# 1 Production

## Manufacturing

Right through to the end of the period reviewed, most export companies reported rapid increases in orders, a considerable backlog of orders and full utilisation of capacity. In many cases, sales so far this year had been considerably above the targeted figures, which in themselves were already optimistic. As a result, many companies appear set for a record year. There was much talk of production bottlenecks and lengthening delivery times, and some companies spoke of overloading and overheating. Demand from Asia (in particular China) and Latin America remained strong, while some companies had observed a marginal slowdown in orders from the US. A clear upswing in demand from the EU countries was noted, particularly from Germany. However, some companies expressed doubts about the sustainability of the German recovery, particularly in view of the upcoming increase in German value-added tax.

Nearly all industries and companies were benefiting from the upturn in the economy. In the few cases where business was sluggish, structural problems or difficulties specific to individual companies were involved. The various segments of the chemical industry, the plastics industry, medical technology and the metal and watchmaking industries continued to experience particularly strong growth. Providers in the field of energy technology (heating/cooling technology) and transport recorded a surge in growth. The recovery also aided the consumer goods industry, which benefited particularly from thriving worldwide consumption of luxury goods.

## Services

Following a rather restrained trend at the beginning of the year, representatives of tourism and the hotel and catering sector declared themselves very satisfied with the results for the summer season, even if the poor weather in August had clouded the picture a little. Turnover was considerably higher than a year previously, both in mountain locations and in the cities. The number of foreign guests had increased substantially, and they stayed longer on average, with higher expenditure per head. Apart from the improvement in the economic climate in the EU, reasons given for this positive trend were a qualitative improvement in tourism products and the favourable exchange rate for the Swiss franc against the euro. Industry representa-

tives were generally confident about prospects for the coming winter season.

On the whole, the mood amongst representatives of other service industries – including consulting, air transport, travel agencies and transportation companies – was also upbeat. By contrast, representatives of the IT industry painted a mixed picture. Following a good start to the year, the business trend had been muted on the whole. It was possible that special factors, such as the delay in the introduction of a new software product, had played a role here. Once again, the extremely competitive price situation in this industry was mentioned.

Representatives of the banking sector were again very satisfied with business trends. Despite higher interest rates, mortgage business was still lively and competition between providers remained strong. Most representatives of banks also reported a revival in business with corporate clients and rated both the mood and the business performance of their clients as very good. Commission business was scarcely affected by the substantial fall in prices on the stock exchanges in May and June. The risks contingent on a possible continued rise in interest rates were mentioned more often.

The basic mood of discussions with representatives of the retail sector was cautious. According to wholesalers, business had also improved in the retail industry over the course of the past year. However, it would be wrong to say that the mood was euphoric. Although consumers are willing to spend more, they continue to be very price conscious and give preference to lines of budget products launched by wholesalers, particularly for basic necessities. By contrast, most representatives of other parts of the retail sector were satisfied with the sales trend. This applied to providers in the high-price segment, in particular.

## Construction

As in manufacturing, the mood in the construction industry remained buoyant. There was even some talk of excesses. New residential building was still the main driving force, although renovation business also developed well. Only here and there was there talk of an imminent levelling-off in activity and a more cautious attitude on the part of investors. Many representatives, by contrast, mentioned a revival in office and industrial construction, as well as an increase in public sector demand – on the part of the municipalities, in particular.

## 2 Labour market

A number of representatives said their companies had increased staff numbers in the past few months, or at least intended to do so, as a result of the healthy level of demand. As in the last round of discussions, frequent mention was made of the problems in finding well-qualified specialists in the domestic labour market. This applied to technical professions, in particular, as well as to construction specialists. Although the possibility of recruiting staff from EU countries is helping the situation, a large number of companies still mentioned staff shortages as a significant constraint on production.

## 3 Prices, margins and earnings situation

Despite the good business performance and the capacity bottlenecks experienced in many places, the problem of pressure on prices came up in many discussions. This was most pronounced in the case of companies that were very exposed to foreign competition. It limited the extent to which higher commodity and energy prices could be passed on to customers. Nevertheless, a few of the companies in this area were able to pass on their higher costs. In general, the earnings situation was very good, due to healthy sales figures. However, cost controls and productivity increases were still important. Representatives from the services sector reported a tendency towards greater leeway for price-setting, and a number of providers increased their prices.

The trend in commodity and energy prices continued to be the main concern, although companies were also worried about possible weakening in the dollar. However, they expressed little concern about wage developments. With respect to pay negotiations for 2007, some representatives expected that wages would rise more strongly than in the previous year. A number of representatives commented that there was little risk that wages would increase very substantially, not least because the labour market had been opened up to the EU countries.