

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 2007

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 December 2006 to February 2007 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 were marked by optimism in the period from December 2006 to February 2007. Almost all participants thought that 2007 had got off to a good start after a largely excellent year in 2006 and most said they were expecting the current year to see further substantial sales growth. There was

little if any mention of a slowdown in business. In particular, there was greater optimism among representatives of the retail sector, who had been cautious until recently.

High capacity utilisation led to a greater willingness to expand capacity and personnel numbers in many sectors. Rising prices and lengthening delivery times for commodities and primary products were once again cited as the main concern. However, difficulty recruiting qualified employees was also increasingly mentioned.

1 Production

Manufacturing

Most of the industrial companies surveyed said the year had got off to a promising start. The high order rate was continuing and the backlog of orders, which many respondents described as being at record levels, was expected to drive production until well into 2007. Demand remained broad-based, with sales to Europe (Germany, Eastern Europe), Asia and Latin America following a particularly gratifying trend, while orders from the US were tending to lose momentum. The very high utilisation of production capacity was regularly mentioned. There were concerns over the lengthening delivery times for commodities and primary products which were leading to delays in companies' own deliveries.

The boom in the manufacturing sector benefited virtually all sectors, but especially plastics, medical technology and watchmaking. Manufacturers closely linked to the construction sector were also very satisfied with sales. The upturn was now extending to structurally weak companies with a strong focus on the domestic market. There was relief, too, at the decline in the value of the Swiss franc against the euro, which was putting companies in a better position to compete with strong foreign rivals.

Services

There was an improvement in sentiment in the retail sector. After a predominantly gratifying Christmas season, momentum continued into the new year, with little sign of any January lull. For the most part, footfall rates and spending per shopper were also up on the previous year. Weather-related falls in sales of winter clothing – some of them dramatic – were in many cases offset by higher sales of other sportswear. Most respondents attributed setbacks in specific segments to the huge expansion of retail floor space in 2006. Retailers in Switzerland's border regions benefited from the softening of the Swiss franc against the euro as this made cross-border shopping less attractive. The expansion of the luxury and low-price segments at the expense of the medium price range now appears to have been accepted, along with the sustained pressure on the price of many day-to-day necessities.

Most representatives of the hotel and hospitality sector took a positive view of the 2006–2007 winter season and remained optimistic about 2007. The lack of snow was causing problems for the lower-altitude mountain railways/cableways, but the losses in the hospitality sector were often less serious than feared as guests switched to other activities. In general, there was an increase not only in occupancy rates, but also in spending per guest. After an excellent fourth quarter, the representatives of the city tourism sector were very pleased with the trend of business and leisure tourism in the new year.

A positive picture also emerged from the talks with representatives of the business services sector, including the transportation, consultancy and IT service sectors. The companies surveyed in the IT sector had detected a substantial need for modernisation of both hardware and software and a resulting rise in demand for training. However, prices remained under pressure in all segments of the IT sector.

After an excellent year in 2006, the representatives of the banks were expecting another good financial year. Here, too, there was no mention of any foreseeable slowdown in business. Both the lending and asset management segments had been doing well thus far. The competitive pressure in the mortgages as well as the corporate loans segment was judged to be as great as ever, which meant that margins remained under pressure.

Construction

The construction companies surveyed still thought that business was going well, with high levels of new orders and orders in hand. Capacity was well utilised, leading to delays at times. In addition to the positive development of volumes, there was also evidence that customers were spending more, for example on interior finishing work. Some of the companies questioned thought that residential construction activity had peaked, but this was clearly not yet a source of concern. Some reported an increase in industrial construction activity, while assessments of the situation in the civil engineering segment differed from region to region.

2 Labour market

Many of the companies surveyed intended to recruit more staff, often in conjunction with investment in expansion. There were frequent references to serious shortages of qualified staff which were an obstacle to further expansion. Respondents regularly sought specialist personnel in the EU area.

Pay trends were increasingly an issue. A number of representatives from the manufacturing and service sectors reported sharp increases in wages, fuelled mainly by stiff competition when looking for technical and other specialist staff. Most companies saw this as an adjustment process after a long phase of modest pay rises.

3 Prices, margins and earnings situation

Most of the manufacturing companies surveyed found that profitability had improved significantly, mainly thanks to the good volume of business. By contrast, margins remained under pressure as sharp rises in the price of commodities, primary products (steel and plastic components) and energy could only partly be passed on to selling prices. Nevertheless, in comparison with previous rounds of discussions, more companies raised selling prices, or reported that price rises were on the cards. Strong international competition was still cited as the main reason why there was still little scope overall for price hikes.

Retail prices remained under pressure, particularly in the lower price segment. Wholesalers responded to the rise in the value of the euro with lower price offers on their procurement markets. Various representatives from the consumer goods sector also thought that there was no longer much scope for imposing higher product prices in Switzerland than abroad and attributed this mainly to the tremendous increase in price transparency brought about by the Internet.

The decline in the value of the Swiss franc against the euro provided an opportunity to improve margins in the manufacturing sector. At the same time, importers from the euro area experienced the downside of the Swiss franc's depreciation.