

# 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 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. On the following pages, the most important results of the talks held from June to August 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 yielded a picture of a broad-based economic boom in the period from June to August. Most representatives reported robust to strong growth in turnover and orders; some even spoke of a record year. Prospects were viewed as positive. There was little mention of any foreseeable slowdown in business. In view of the financial market turmoil in August, some respondents were somewhat concerned, however.

Given the high level of capacity utilisation and the positive earnings situation, many companies have invested in expansion or plan to do so. Difficulty recruiting qualified employees was regularly mentioned. Overall, the scope for price adjustments seems to have increased, making it more possible to pass higher commodity and energy prices on to customers. Once again, capacity shortages and problems with the procurement of commodities and primary products were cited as the main concern.

# 1 Production

## Manufacturing

In the manufacturing sector, production was buoyant and orders increased strongly. In general, utilisation of personnel and technical resources is high, and the order backlog is sufficient to guarantee full employment until well into 2008. In terms of turnover and earnings, this therefore looks set to be another successful year. Demand is geographically broad-based, with the EU (and especially Germany) being mentioned first in most cases. However, the representatives also viewed business in Asia (in particular China and India) and Eastern Europe (Russia) as positive. Their opinions on the situation regarding the US differed more and were overall more restrained. In order to cope with the volume of orders, many companies introduced extra shifts or had to cancel company vacation closures. In view of continued procurement problems and delays in delivery of commodities and primary products, various respondents considered a (costly) increase in stocks. Some registered a deterioration in the quality of primary products and, in a few cases, also of their own products.

The healthy economic situation was felt in almost all industries. There was no indication of a slowdown in business activity. This was also confirmed in talks with representatives of the casting industry, which is regarded as a leading indicator for mechanical engineering and which reported a continued high level of new orders. The following categories recorded particularly good results: energy technology (including alternative energies), air conditioning technology, medical technology and manufacturing for the aviation industry. But also suppliers of the automobile industry, which operate in a particularly competitive area, reported satisfactory to good business results. In the consumer goods industry, watchmaking remained in the lead, with other categories, such as the furniture and textile industries, also benefiting from strong demand.

## Services

Discussions with retail business representatives showed that the mood in this industry was also upbeat. Despite a continued price decline in certain product ranges, turnover of wholesalers and shopping malls was in most cases above the year-back level. Customers are free-spending, which particularly benefits the low and high price segments. Retailers in Switzerland's border regions continue to profit from the softening of the Swiss franc against the euro, which makes shopping in Switzerland more attractive.

Representatives of the tourism and hospitality trades have also been satisfied with the results of the summer season to date. Despite the somewhat unfavourable weather conditions, hoteliers from the different regions reported healthy levels of bookings and rising turnover per guest. Guests from Switzerland proved to be particularly free-spending. This also applies to companies, which have again organised many seminars and events. In general, prices are no longer a primary criterion. Various representatives mentioned the low CHF/EUR exchange rate, which made prices in Swiss tourism more competitive, and all respondents were optimistic about the coming winter season. Talks with representatives of other consumer and business-related service industries – in particular the IT industry, but also airlines, travel agencies and transport companies – confirmed the steady broad-based economic upswing.

The representatives of the banking industry also remained optimistic. The mortgage business flourished, as did investment and trading. The corporate clients business was more subdued. The representatives of the banks attributed this fact mainly to their customers' high levels of liquidity. Consequently, many loans were paid off. Given the favourable business situation of their clients, the banks made fewer value adjustments. It was not surprising that the banks in particular were somewhat concerned by the financial market turmoil in August.

### Construction and real estate

Most representatives of the construction industry reported good business results, with residential construction being the driving force. In both the construction industry proper and the finishing industry, capacity utilisation is very high and order books are full. As a result of strong demand, competitive pressure seems to have abated, and price increases have thus become possible. The respondents' opinions on the outlook differed, however. Some expected construction activity to slow down in the coming months. Particularly in the area of commercial construction, they identified clear signs of such a development. Others assume that construction activity will remain robust. Notably, a strong rise in foreign demand for second homes in excellent locations was registered.

## 2 Labour market

Most representatives reported that they intended to further increase staff numbers. Difficulty recruiting qualified employees was regularly mentioned. Staff shortages seem to be particularly acute for technical professions, financial market specialists and project management. The agreement on the free movement of persons with the EU has eased the situation somewhat, but meanwhile, the EU is also suffering from a shortage of qualified employees. Internal training and continued education of staff, including programmes for women returning to work, have become more important in this tight environment. By contrast, representatives of employment offices confirmed that placement of untrained job seekers was difficult, since there are not enough low-skilled jobs.

Growing wage pressure is an issue that was frequently mentioned, although it does not seem to be a major cause for concern yet. For 2008, most respondents expect substantial salary increases. A rise in staff turnover has also been observed. In particular, employees from the EU who only recently moved to Switzerland are now looking for better-paid jobs. In certain industries, such as the hospitality trade, foreign workers have increasingly demanded compensation for the weaker Swiss franc.

## 3 Prices, margins and earnings situation

Most representatives reported a positive development in the earnings situation. In many cases, it has since become possible to raise prices, and thus pass on higher commodity and energy prices to customers. As an alternative to price increases, discounts and special rates were abolished at times. The environment for price increases seems to be more favourable, not least because competitors nowadays tend to follow such adjustments and because price is no longer the decisive factor for clients, but rather availability and delivery times. Several representatives indicated their intention to further increase prices next year. Once again, retail trade was an exception, since stiff competition especially puts pressure on prices of day-to-day necessities. Export-oriented companies continued to benefit from the weak Swiss franc against the euro. However, the respondents pointed out on a number of occasions that their calculations were still based on a considerably stronger Swiss franc.