

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 December 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 September to November 2007 on the current and future economic situation are summarised.

Summary

The talks held by the SNB delegates for regional economic relations with around 170 representatives from various economic sectors and industries again pointed to a good economic situation in the period from September to November. While representatives from the retail sector in particular reported a clear upturn in sales, those from industry indicated that business was very buoyant through to the end of the period reviewed.

The majority of representatives, apart from those from the construction sector, had not detected any specific signs of a slowdown and were confident about 2008. Nevertheless, many assume that next year will be more difficult than 2007, which generated further record results in many sectors. Moreover, distinct nervousness was apparent among representatives of the financial sector. In view of the increased cyclical uncertainty, the broadly based rise in the price of energy, industrial and agricultural raw materials and preliminary products give cause for concern. Another recurrent issue was the increasing shortage of personnel.

1 Production

Manufacturing

Most respondents from the manufacturing sector reported a further rise in orders. Order books for 2008 are already well-filled at many firms and budgets are generally in line with 2007. Demand from the EU, especially Germany, and from Eastern Europe and Asia, remained strong and some companies had registered a further increase in momentum. The view on US demand was more sceptical, however. Construction suppliers noted that the crisis in the US construction sector had already had a clear impact on business and consumer goods suppliers are preparing for a drop in demand for consumer goods in the US. Utilisation of technical and staff capacity remained very high across all sectors. Long lead times for preliminary products, product delays at companies' own plants and a deterioration in quality due to overwork were commonly referred to. In view of the high capacity utilisation, a number of companies reported plans to invest in expansion of capacity.

There were few differences between industries. Business trends were particularly good in the watchmaking industry, energy technology, transport and – given the global boom in the agricultural sector – agricultural machinery. Respondents from other sectors of the capital and consumer goods industries also indicated a very positive situation, even though representatives of the textile machinery industry, which is regarded as a typical early-cycle indicator, registered a slight slowing of business.

Services

Representatives of both consumer and business-oriented service sectors were very satisfied with business trends, while the mood in the retail trade was very upbeat. Consumer confidence is regarded as excellent and all areas of the consumer goods industry are benefiting from this. Record turnover was reported by many companies. Turnover had been above-average at the top of the price bracket, benefiting in part from free spending by tourists. However, signs of mounting concern among clients in the financial sector were reported. Overall, sentiment on the upcoming Christmas season is very optimistic. In border regions, the retail sector continued to benefit from a fall-off in purchases by Swiss residents in neighbouring countries.

Representatives of the tourism and hospitality trades were also very satisfied with the trend in overnight stays and spending patterns. Following a pleasing summer season, the early onset of winter led to a sharp hike in bookings at holiday destinations. The hospitality sector in urban areas benefited, among other things, from higher spending by the corporate sector. Airport operators and airlines, especially those specialising in business travel, also reported an excellent level of business. IT service providers pointed to companies' continued high willingness to invest.

The situation in the financial sector was more downbeat than it had been three months earlier. Business in the mortgage sector and with corporate clients remained positive and a credit squeeze was denied by representatives across the board. On the contrary, further business expansion with the corporate sector had been hampered in many cases by companies' high liquidity and high levels of equity. This tallies with the statements by respondents from all sectors, who had not detected any tightening in lending conditions. The stock market downturn has led to a loss of momentum at banks specialising in asset management. Predictions for 2008 varied, but sentiment was generally more subdued, especially in the private equity sector.

Construction and real estate

Representatives of the construction industry again reported good business results and a comfortable level of orders on hand, but the consensus view was that the construction cycle has peaked. The majority pointed to signs of a slowdown and consolidation in residential construction, which was previously the driving force in this sector. By contrast, industrial and commercial construction were satisfactory. An excellent trend was reported for interior construction work due to the large number of new properties nearing completion and the continued buoyancy of the renovation market. Civil engineering remains a source of concern: many major infrastructure projects are nearing completion and there is a lack of follow-on projects. Opinions are divided on the outlook for the real estate market: while prices are still rising rapidly at the high end of the market, the upward pressure is slowing at the lower end.

2 Labour market

Many representatives reported plans to raise staff numbers further. However, the increasing shortage of skilled staff is causing concern in all industries. There is a particularly acute shortage of technical staff, IT specialists and skilled construction workers. The construction sector reported increasing difficulty recruiting foreign employees, as outflows of labour into other European countries have been accelerating. The depreciation of the Swiss franc versus the euro has made it more difficult to recruit staff from the EU. In the low-wage sector, in particular, a sharp rise had been registered in the number of workers wanting to be paid in euros or asking for compensation for the reduction in the Swiss franc's purchasing power. In border areas, in particular, commuters had seen a contraction of the wage differential, making Switzerland less attractive as a place of work.

The general expectation was that pay rises would be higher in 2008 than in 2007, with most representatives predicting a rise in the order of 2–2.5%. In addition, staff in all industries tend to receive bonus payments. According to personnel consultancies, a particularly marked increase in salaries can be seen in mid to upper management positions.

3 Prices, margins and earnings situation

The sharp rise in procurement prices was a recurrent theme. Alongside higher energy and raw material costs, a broad-based advance in the prices of agricultural products and processed foods is now apparent. Although the higher costs can easily be passed on to customers in the present environment, the prospect of a cyclical downturn is giving rise to concern. Despite some sharp price rises in the food sector, the retail trade is only expecting modest hikes. One reason cited for this was the unrelenting pressure from competition. Moreover, some companies are still facing a slide in selling prices. These include, first and foremost, producers of generics and other medical products, which are feeling the effects of the savings drive in the healthcare sector. Representatives of the construction sector are also expecting lower prices and margins in the light of the expected business slowdown.

The exchange rate situation was back in the forefront as well. The sharp depreciation of the dollar is causing concern as it is also making Asian suppliers more competitive. Various representatives indicated that they intended to shift costs to the dollar zone if there is no let-up in the dollar's weakness.