

The economic situation from the vantage point of the delegates for regional economic relations

Summary report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2008

The SNB'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 2008 on the current and future economic situation are summarised.

Summary

The 170 or so representatives of various economic sectors and industries interviewed by the SNB delegates for regional economic relations between June and August continued to regard business performance as good to very good. As regards the outlook, however, the assessment was more muted. A number of industries have witnessed a slackening of demand over the past few months. Others are expecting a similar development for the remainder of this year and 2009. Thus, compared to

the previous report, there is growing evidence of an economic slowdown and uncertainty. Yet in many cases this does not reflect a drop in demand but a welcome return to normal conditions that should result in the alleviation of bottlenecks. Consequently, new investments are being planned. In this regard, banks' lending policies are currently not seen as posing a problem. Depending on the circumstances, headcount could remain stable or be increased slightly. Owing to a combination of rising production costs and robust demand, the trend towards higher selling prices is continuing.

1 Production

Manufacturing

Overall, the utilisation rate in manufacturing remained high to very high. Investment was correspondingly robust and there was little talk of reinvesting in future investment plans. According to the respondents, lending conditions for firms have so far remained unchanged, despite the crisis on financial markets. This is attributable to the continuing good earnings situation. However, some respondents believe that access to bank financing could rapidly become more constrained in the event of a deterioration in business performance. Self-financing is thus a strategic objective for many firms.

Even in those cases where a slowdown or stagnation of demand was observed, respondents were reportedly satisfied with the level of turnover. Demand from emerging economies in Asia, Latin America and Central and Eastern Europe, as well as from oil-exporting countries, remained particularly strong. Assessments varied as regards demand from Western Europe, the US and Japan.

The growth rate also varied quite strongly between industries. The momentum in niche and luxury markets (such as medical technology, energy technology and supply, and watchmaking) continued unabated. Conversely, for classic capital goods (electronics and machinery) and for some consumer-related industries (e.g. automotive industry suppliers), new orders flattened out or even contracted. Most respondents were confident about the short-term outlook, as a result of well-filled order books. For 2009, the majority of respondents are expecting that growth will slow – substantially in some cases.

Services

In the retail trade, developments were more mixed than they had been in the spring. Despite the decline observed in the consumer sentiment index, the consumer climate up to August was mainly judged to be positive. This was true for both wholesalers and specialist retailers. In particular, strong increases in turnover were recorded in the food and luxury goods industries. Suppliers in border regions continued to benefit from the improved competitiveness of prices compared with neighbouring countries. However, other respondents reported a slackening of demand. For the near future, most reporters are expecting turnover to flatten.

In the hospitality industry, the positive trend continued, and in a number of cases the excellent results achieved in 2007 were even surpassed. With the exception of the Basel region, the 2008 European football championships had no positive effect on volumes. In the host cities, the number of overnight stays in June was actually below the previous year's figure. However, the guests did consume more in relative terms. In addition, hotels were able to charge higher prices. The positive trend continued into July. The outlook for 2009 differs according to the customer segment. Firms are spending less on corporate events and conferences, while in the area of private tourism the number of reservations received for the winter season (above all from Germany and Italy) has so far been relatively modest. Moreover, the higher cost of air travel due to the price of oil could have a dampening effect on bookings from tourist groups from Asia. Representatives of the luxury hotel segment were comparatively sanguine.

The assessment of the business environment was also mixed in the transport industry. Representatives from the goods trade category reported that demand had fallen back – in some cases from very high levels. By contrast, for tourism-related water, rail and air transport companies, business continued to be satisfactory. The picture was also mixed in the corporate services sector. Rising business volumes were again observed in technical and legal consultancy activities, as well as in the IT sector. However, the slackening of demand in the labour market has caused activity by temporary staff agencies to lose momentum somewhat.

As in previous months, banking sector representatives reported that conditions in asset management business continue to be difficult. The financial market turbulence had led some respondents to experience a significant drop in turnover, and hence commission income. Lending, on the other hand, continued to be a mainstay of business activity. There was a renewed increase in mortgages and corporate loans, although margins continued to trend downwards. Like other industry representatives, the respondents from the banking sector refuted the suggestion that lending conditions had tightened.

The recent business performance of other service providers (catering, insurance, wholesaling and cleaning) is seen as trending upwards or stable.

Construction and real estate

Construction industry representatives described the business environment as satisfactory. Their level of activity continues to be high. Although a few firms experienced a renewed decline in orders, this is regarded as a return to normal. The main impetus was again provided by residential construction and, in particular, increased renovation activity. Demand for commercial construction was driven mainly by the manufacturing and hospitality industries. Wide regional divergences were reported for civil engineering activity. Prices for apartments and single-family homes rose once again. Most respondents considered the price rises to be justified, given the ongoing tension in the housing market. Owing to the high cost of raw materials (steel, glass), construction prices also continued to trend upwards.

2 Labour market

The demand for labour remains robust, despite a reduction in the amount of overtime at a number of firms and the general move towards greater caution in staff recruitment plans. Most firms are expecting headcount to remain stable or increase slightly. Only in a few cases were headcount reductions mentioned. A number of industries continued to experience problems in recruiting skilled staff.

Inflation looks set to play an important role in the forthcoming round of pay negotiations. The pay increases factored in by the respondents range between 1% and 3.5%, with most firms expecting a nominal increase of around 2.5%. Pay increase figures that exceeded this range were mentioned by only very few respondents, and generally involved companies that have recently achieved above-average productivity gains and excellent earnings.

3 Prices, margins and earnings situation

Energy and commodities prices continued to be an important issue. Despite the correction that took place during the summer, prices remain high. Accordingly, firms passed on substantial costs during 2008. With the exception of certain parts of the chemical industry, customers generally accepted the price rises. Despite this, price increases did not uniformly keep pace with rising costs, and this squeezed operating margins further. Many of the firms surveyed are planning further price adjustments for 2009. Since the weakness of the dollar had also resulted in substantial margin shrinkage, export-oriented firms have welcomed the US currency's recent recovery.