

Business cycle trends

SNB regional network

Summary report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2011

Second quarter of 2011

The Swiss National Bank's delegates for regional economic relations are constantly in touch with a large number of enterprises from the different economic sectors and industries. Their reports, which contain subjective evaluations by these companies, are a valuable source of information for assessing the economic situation. The following pages contain a summary of the most important results of the talks held in April and May 2011 with 211 representatives of various industries on the current and future situation of their companies and the economy in general. The selection of companies is made according to a model that reflects Switzerland's production structure; the companies selected differ from one quarter to the next. The reference parameter is GDP excluding agriculture and public services.

Region	Delegate
Geneva	Marco Föllmi
Italian-speaking Switzerland	Mauro Picchi
Mittelland	Anne Kleinewefers Lehner Martin Wyss (acting delegate)
Northwestern Switzerland	Hans-Ueli Hunziker (acting delegate)
Eastern Switzerland	Jean-Pierre Jetzer
Vaud-Valais	Aline Chabloz
Central Switzerland	Walter Näf
Zurich	Markus Zimmerli

Summary

After a slight slowdown in the first quarter of 2011, the pace of the economy accelerated again somewhat in the second quarter. The trend was broadly based in terms of the various sectors, but was most apparent in construction. Overall, the demand for labour increased further.

Respondents remain confident as regards developments in the near future. Expectations for the months ahead point to continued growth in turnover in manufacturing, services and, to a lesser extent, construction. All sectors are planning to increase investment. Technical production capacity utilisation in the Swiss economy is normal to very high in all three sectors and looks set to continue growing at a more or less unchanged pace in the months ahead.

Despite the positive trend in business activity, a number of concerns remain. The greatest of these is clearly the debt crisis in Europe and the possible adverse repercussions this may have on the financial markets and the real economy. The export industry is suffering from the heavy pressure that exchange rates are exerting on margins. The environmental disaster in Japan has so far not had any significant impact on the Swiss economy.

As in the previous quarters, reactions to the appreciation of the Swiss franc vary considerably according to sector; overall, the pressure on business has changed little, though it has become more pronounced in the manufacturing industry (cf. 'Exchange rate survey: Effects of Swiss franc appreciation and company reactions', pp. 38–43).

1 Business activity

Manufacturing

The favourable economic situation in the manufacturing industry continued in the second quarter of 2011. Turnover in real terms rose both year-on-year and quarter-on-quarter. The quarter-on-quarter improvement was quite striking, and resulted in a reversal of the slight slowdown in the pace of growth seen in the first quarter.

As in the previous quarter, the sectors that saw above-average gains year-on-year were those that only started to benefit from the economic upturn after a delay. These include watchmaking, metal processing, machinery and machine tools. The electrical and electronic components production sector also performed well.

The robust economic situation is based on continuingly strong stimuli from both the domestic and foreign markets. The export sector is still benefiting from exceptionally strong demand from the emerging economies of Asia and from eastern Europe and the Middle East. The stimuli from the US and South America have strengthened again. Demand from Germany remains brisk, as does that – albeit to a lesser extent – from France, whereas demand in a number of southern European countries fell significantly.

Construction

The rapid pace of business growth in the construction industry that has already been evident for quite some time has continued: turnover has improved considerably on a 12-month perspective but especially quarter-on-quarter. The mild winter and fine spring were of great benefit to construction activity. Turnover remains strong in residential construction and also in the finishing trade. The positive overall trend still looks set to continue.

Once again a number of respondents expressed their concern about real estate market risk. In places, the strong demand for residential properties is now also becoming apparent outside the metropolitan areas, where there have been no such signs of this up to now. Persistently low interest rates are described as ‘not without their dangers for the construction industry’. In many places, capacity in construction-related industries, too, is being pushed to the limit; order books are ‘as full as they have ever been’ in some areas.

Services

In the services sector, turnover figures were higher both year-on-year and quarter-on-quarter. The pace of growth has increased slightly.

The strongest rates of growth were recorded by recruitment firms, transport, hospitality and the IT sector. Here, turnover was considerably higher than in the previous quarter. Auditors, fiduciary companies, the financial sector and wholesalers also showed a robust business performance. By contrast, the retail trade was still very volatile. In many places, consumer sentiment remains muted. In this respect, the situation appears to be particularly difficult in food, sporting goods and multimedia. Whereas in border regions this may be explainable in part at least by the exchange rate, retailers in other regions are frequently mystified. Owing to the weakness of the euro, the popularity of ‘cross-border shopping’ by Swiss residents has increased again, especially for big-ticket purchases.

2 Capacity utilisation

Having fallen slightly in the first quarter, the degree of technical capacity utilisation rose substantially again. The increase was particularly strong in manufacturing and construction. In manufacturing, utilisation was rated as normal to high and in the construction sector as high to very high. As in the previous quarter, some companies did, however, report a conflict between utilisation and profitability, which had even forced a few of them to turn down orders.

Capacity utilisation was very high in watchmaking, and on the high side among manufacturers of electronic components and chemicals. Underutilisation was reported by some food industry businesses.

The construction industry saw a continued increase in technical capacity utilisation from the previous quarter. All the respondent firms were very satisfied with utilisation of their capacity, and some of them would have liked their business to be proceeding at a somewhat slower pace. Company representatives expect capacity utilisation to rise again in the months ahead; there are no signs of any weakening.

In the services sector, capacity utilisation was normal – as in the preceding quarters. The areas with the highest levels of utilisation were staff recruitment, engineering companies, architectural practices and consulting firms. The transport sector and software manufacturers also reported relatively high capacity utilisation. Utilisation was normal in the financial sector, while the hotel trade and retailers complained of slight underutilisation.

3 Demand for labour

In manufacturing, the favourable trend in business activity continued to have a positive impact on the demand for labour. Overall, representatives of manufacturing companies considered their manpower levels to be on the low side. Compared with the first quarter, there was an increase in the amount of extra labour needed. Companies are tending to be less cautious in hiring new staff. A marked shortage of manpower was reported in the machinery and machine tools industry, the electrical and electronic sector and watchmaking.

In the construction industry, too, the demand for labour rose slightly. Although the majority of respondent companies were satisfied with the size of their current workforce, the difficulties that a number of them are experiencing in recruiting suitable employees have intensified. In some instances, a lack of adequate personnel resulted in bottlenecks.

In the services sector, staff levels were generally considered appropriate to a little too low. IT firms reported a considerable need to recruit personnel. Staff levels were also seen as being on the low side by architectural practices, engineering consultants and planning offices. The hotel industry is still slightly overstaffed.

Difficulties in hiring labour have increased further in all sectors, which reflects the growing tightness of the labour market. This phenomenon was particularly pronounced in electronics, machinery, transport and IT firms. Generally speaking, it was still proving rather hard to find specialists and well-qualified staff. As before, however, the retail and hotel trades are not experiencing any significant recruiting problems.

Per capita labour costs continued to rise in most business sectors. In some industries, higher demand for personnel and the tight labour market were pushing up costs. Moreover, fluctuation rates were on the rise in some areas. In this connection, companies often mention the considerable advantages of the free movement of persons. Companies in the food, electronic and machinery industries and in watchmaking, in particular, were faced with higher per capita labour costs. The construction sector continued to be hit by wage pressure. In the services sector, it was mainly IT firms, property companies, consultancies, transport companies and banks that reported higher labour costs.

4 Prices, margins and earnings situation

Overall, the margins situation remained unfavourable in the second quarter as well, i.e. below the levels regarded as normal. This can be ascribed mainly to the strength of the Swiss franc and rising commodity prices. Where possible, businesses are trying to counter the pressure on margins by changing their product mix (i.e. switching to products generating more added value) or expanding the related services they offer. In the euro area, moreover, rising inflation means that prices can be raised somewhat.

It was manufacturing once again which suffered most from the depressed profit margins. On the one hand, margins are being squeezed by the higher Swiss franc exchange rate; on the other, competition remains fierce and has intensified in some areas. Margins are also likely to remain under pressure, since companies expect purchase prices to continue rising but are hardly able to increase Swiss franc selling prices to the same extent. All the same, the upward pressure on purchase prices is expected to be a little less strong than in the previous quarter.

In construction, as in the previous quarter, profit margins were judged to be close to normal. Company representatives expected the growth in commodity purchase prices to accelerate. Moreover, businesses felt there was a greater possibility of achieving higher selling prices than in the previous quarter. Their margins situation might therefore improve further in the coming months.

In general, respondents in the services sector regarded their profit margins as largely normal. The overall result was still being adversely affected by the clearly unsatisfactory margins of the banks – a consequence not only of low interest rates but also of exchange rate movements, which depressed asset management income. Recruitment firms, fiduciary companies, consultancies, IT firms and hotels also rated their profit margins as relatively unsatisfactory. By contrast, travel agencies, real estate management companies and retailers reported a relatively normal margins situation.

As in the previous quarters, companies in the April/May 2011 survey were again asked about the impact that the Swiss franc's appreciation has had on their business. Even though the exchange rate situation has deteriorated further since the last survey, overall, there was little change from their assessment in the first quarter of 2011: 48% of firms stated that they were experiencing negative effects overall; 37% of businesses were unaffected by the appreciation; and 15% reported positive effects. Once again it was manufacturing that was worst hit by the strength of the Swiss franc; compared to the previous quarter, pressure on this sector had increased somewhat (cf. 'Exchange rate survey: Effects of Swiss franc appreciation and company reactions', pp. 38–43).

5 Outlook

The outlook for business activity, employment and investment remains positive overall. Many company representatives remain cautiously optimistic.

The majority of manufacturing company representatives anticipate continuing growth in turnover and higher capacity utilisation in the next six months. Compared to the previous quarter, more hiring is planned.

Companies in the construction industry remain largely optimistic: the positive trend in both turnover growth and intended employment is strengthening. The expected increase in capacity utilisation, however, is not estimated to be quite as large as in the first quarter. Order books are generally full for many months to come.

In the services sector, too, companies rate their business prospects in the next six months favourably overall and are anticipating a further increase in the corresponding figures. Turnover growth is projected to be minimally lower than in the previous quarter, however. Representatives of hospitality businesses and the IT sector rate their turnover prospects very optimistically indeed. Travel agents and recruitment firms are also positive. Many retailers are hoping that consumer spending will rise in the coming months. The hotel trade is taking a rather cautious but by no means negative view of future prospects. However, the sector has been performing much better in cities than in the mountain regions.

With regard to international risks, attention has shifted back a little more to the possible adverse repercussions of the European debt crisis. Quite a few industries are still faced with rising commodity prices. The Fukushima disaster could have an impact in the coming months in the form of supply bottlenecks and price rises for certain categories of product. The future development of energy prices is a further source of concern. So far, no risks to the Swiss economy have emanated from the political unrest in North Africa and the Middle East.

Business representatives are also concerned, in particular, about the erosion of margins, increasing labour shortages and a further appreciation of the Swiss franc. Since the respondents expect purchase prices to increase less strongly in the months ahead than they did in the previous quarter but think they can achieve higher selling price mark-ups, their margins could improve a little. As in previous quarters, some respondents expressed unease about the continued low level of interest rates. As regards the further development of the economic situation, uncertainty has declined somewhat overall.

Capital spending continued to show an upward trend in all three sectors. The manufacturing industry in particular is proposing a further increase in equipment investment. The construction sector, too, is reporting further capital expenditure requirements. In real estate investment, it is mainly the services sector that is projecting higher expenditure. However, among some manufacturing companies, there is talk of gradually cutting back investment in Switzerland in favour of new investment abroad.