

# Business cycle trends

## SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2013

### First quarter of 2013

The Swiss National Bank's delegates for regional economic relations are constantly in touch with companies from the different economic sectors and industries. Their reports, which contain 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 January and February 2013 with 238 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 industrial structure. The reference parameter is GDP excluding agriculture and public services. The companies selected differ from one quarter to the next.

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## Summary

Economic activity revived in the first quarter of 2013 according to this survey. This development was supported above all by an improvement in manufacturing and – to a lesser extent – the services sector.

The differences between the sectors have once again become less pronounced. The export industry experienced a renewed weakening in demand, particularly from southern Europe, whereas the more favourable economic situation in other parts of the world and in Switzerland had a stimulating effect. The significance of the minimum

exchange rate for the Swiss franc against the euro was once again stressed by many respondents.

Although the pressure on margins persisted, it has weakened somewhat. Many implemented process optimisations, cost reductions, and measures to improve efficiency are beginning to bear fruit. Overall, demand for labour remained unchanged from the previous quarter.

The outlook for real growth in turnover over the next few months has brightened further in all sectors. The demand for staff is likely to increase slightly.

Latent uncertainty about developments in Europe remains, but has receded somewhat.

# 1 Business activity

## Manufacturing

Business activity in manufacturing has improved. Real turnover was up quarter on quarter, but also recorded a significant year-on-year increase. The better overall situation compared to the previous company survey is broadly supported across different industries.

In addition to the chemical, watchmaking, electrical equipment and food industries, all of which recorded sales increases in the previous quarter too, companies in the pharmaceutical, plastics and textile industries have now also reported an upturn in business. Real turnover in the machinery industry remained on a par with the previous quarter; by contrast, the metals processing industry recorded a quarter-on-quarter decline in turnover.

The export sector once again felt the effects of the recession in southern Europe, and recorded either a decline in sales or a complete absence of demand. The austerity measures pursued in the public sector were felt particularly keenly. Demand from Asia, the US, South America, the Middle East and Russia had a stimulating effect, as did domestic demand.

## Construction

In construction, real turnover remained at the level of the previous quarter. However, quarterly sales were still significantly higher than a year before. The persistently strong construction economy, more favourable weather conditions, and the need to make good the backlog from last year were all conducive to business development. A number of companies are now looking to consolidate their business.

The finishing trade segment developed robustly. By contrast, turnover in civil engineering was slightly below that of the previous quarter, which in many cases can be attributed to the completion of major projects. Unlike residential construction, commercial-industrial construction remained subdued.

There was sporadic mention of real estate market risk; institutional investors were in some cases mentioned as the principal drivers of the momentum in residential construction and the related price surge. On the other hand, oversupply in a number of market segments also resulted in some price falls, such as rents for luxury apartments in urban areas. The lending policies of banks were not particularly spotlighted, but a number of delegates did refer to greater restraint on the part of banks in mortgage lending.

## Services

In the services sector, real turnover overall proved moderately above the level of the previous quarter, as well as – somewhat more markedly – above the level of the previous year. The situation has improved further compared to the last survey.

Business activity developed dynamically in the travel industry and IT, as well as in services connected with facility management and maintenance. Retailing recorded a further improvement. Cross-border shopping remained a concern, but was not emphasised as strongly as in previous surveys. Business activity for banks and wholesalers was only slightly up on the previous quarter. A number of industries are feeling the effects of operational cost-cutting measures implemented by banks.

In the hotel industry, turnover stagnated at the level of the previous quarter. Hotels in holiday regions again complained of the absence of guests from other European countries, particularly Germany, the Netherlands and the UK.

## 2 Capacity utilisation

Overall, utilisation of production capacity and infrastructure was judged to be normal. The differences between the individual sectors have continued to narrow, but within the sectors themselves the capacity utilisation picture remains very heterogeneous.

Companies in manufacturing rated their overall capacity utilisation as slightly lower than normal, whereas capacity utilisation was comparatively high among producers of electrical appliances, in the automotive construction industry, and in pharmaceuticals. By contrast, capacity utilisation in the machinery and metals processing industries was low or even very low. Underutilisation was also reported by plastics processing firms and companies in the printing and paper industry.

In construction, technical capacity utilisation was slightly higher than is normal for this time of year. Whereas companies in structural engineering and the finishing trade were working to healthy capacity, civil engineering companies were suffering from capacity underutilisation.

In the services sector, infrastructure utilisation was normal overall. A relatively high level of capacity utilisation was again registered by architectural and engineering firms, as well as by providers of facility management services. The automotive industry and IT industries likewise reported fairly high capacity utilisation. By contrast, hotels once again recorded low occupancy rates. The reasons cited were the continually low numbers of foreign tourists, greater cost awareness on the part of companies, and the restructuring of the banking sector. Nevertheless, a slight upturn was apparent in business travel, while a number of regions reported the return of guests from Germany. The robust demand from Swiss guests made a positive contribution to capacity utilisation.

## 3 Demand for labour

As in recent quarters, overall demand for labour remained virtually unchanged. In the manufacturing industry, the surveyed companies once again assessed their staff numbers as being slightly too high. They continue to exercise restraint in their personnel policy; departing employees are often not replaced, although short-time working was not a widespread theme. In addition, various measures such as longer working hours for the same salary were rescinded at the start of the year. Pharmaceutical companies and manufacturers of precision instruments in particular reported staffing levels in keeping with their requirements.

In construction, staff numbers were generally assessed as being appropriate. Headcount in the finishing trade was deemed to be somewhat on the low side, whereas in civil engineering it was felt to be rather high. While specialists remain extremely rare on the job market, the problem of recruiting staff generally has abated somewhat.

In the services sector, staff levels were considered appropriate overall. The need to recruit was seen as fairly acute by architectural and engineering firms, as well as by IT companies. The hotel industry reported appropriate staffing levels, whereas in the previous quarter these had been too high. Banks and fiduciary companies deemed their headcount as slightly too high.

Overall, the surveyed companies considered the process of recruiting staff to be as challenging and time-consuming as ever. In certain areas they identified a marked increase in spontaneous applications, particularly from abroad. A significantly larger number of applicants are responding to recruitment advertisements. As before, however, the profiles of job-seekers frequently failed to meet the requirements of companies. Many industries continue to point out that they can only source the personnel they require abroad. Companies in the MEM industries, retailers, banks and some pharmaceutical companies were finding the process of recruitment somewhat easier than usual. By contrast, recruitment was perceived as rather more difficult in the case of insurers and IT companies.

## 4 Prices, margins and earnings situation

Overall, the margin situation was deemed by companies across all sectors to have improved slightly compared to the previous quarter. Whereas margins in manufacturing and in the services sector continued to be rated as weaker than usual, representatives of the construction industry considered their margins to be normal. Companies are experiencing continued pressure to optimise costs and boost efficiency. Persistent marketing efforts are made in an intensive search for new markets, products and client segments. In many cases, companies are looking to differentiate themselves from their competitors by providing additional services.

Numerous companies from all three sectors of the economy stressed the importance of the minimum exchange rate against the euro for their companies over the last 18 months. On average, companies in all three sectors are now expecting stable or slightly rising purchase prices over the next few months.

Representatives of the manufacturing industry once again emphasised the problem of squeezed profit margins. A great many branches of industry are affected, particularly the metals processing and machinery industries, as well as companies that process wood, paper and plastics. The situation also appeared rather problematic for various companies in automotive construction and textiles. By contrast, pharmaceutical companies reported a relatively normal margin situation. Although the exchange rate problem is no longer quite the focus it was for the manufacturing sector, it remains a challenge.

In construction, representatives of the civil engineering segment in particular reported below-average margins; in structural engineering these were assessed as normal, and in the finishing trade slightly higher than normal. According to respondents, the market presence of foreign companies or companies from outside the region was now also an increasingly prevalent phenomenon in the main lines of construction business. Nonetheless, construction prices are expected to rise more strongly than purchase prices, which should see margins improve further.

In the services sector, the majority of business areas found themselves confronted with unusually low margins. The worst-affected industries were once again the hotel industry, transport and logistics companies, banks, wholesalers and retailers. Representatives of the transport industry cited the current overcapacity in their business as the principal reason behind the slump in prices. IT companies and insurers considered the margin situation to be within the normal range, while margins reported by estate agents were above the long-term average.

## 5 Outlook

Uncertainty over future developments has noticeably decreased since the last survey. In terms of global risks, fears over a resurgence of the European debt crisis remain in the foreground, albeit less prominently. Also causing a degree of uncertainty are the subdued economic prospects for Europe, whereas there is confidence surrounding the development of demand from other parts of the world.

In all three sectors, turnover expectations for the next six months are actually a little more optimistic than in the previous quarter. This is also reflected in recruitment plans, with companies expecting to increase their headcount slightly over the same period.

In manufacturing, the overall commercial outlook of companies has brightened further in comparison to the previous quarter. Representatives of almost all industry sectors are anticipating slight rises in sales over the next six months. By contrast, companies in the metals processing industry expect turnover to stagnate. Representatives from the pharmaceutical, chemical, plastics processing and textile industries are fairly optimistic with respect to future sales development.

In construction, seasonally adjusted turnover should continue to rise slightly over the next few months, as should capacity utilisation. This industry is exuding optimism and expects no significant slowdown in 2013. A slight increase in headcount is anticipated.

In general, companies in the services sector are upbeat about their business prospects for the next six months. Most industries in this sector now expect to see a slight increase in turnover. The hotel industry in particular is looking to the future with more confidence than in the previous quarter, and the outlook for automotive retailers and wholesalers has also improved. Both capacity utilisation and headcount can be expected to rise slightly in the services sector over the next few months.

As to the investment plans of companies, the current level of equipment investment and investment in buildings is expected to remain largely unchanged in all three sectors. This results less from an assessment of economic developments than from a certain caution exercised by companies.

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