
Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2014

Second quarter of 2014

The Swiss National Bank's delegates for regional economic development are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted in April and May 2014 with 241 managers and entrepreneurs on the current and future situation of their companies and the economy in general. The selection of companies differs from one quarter to the next. It reflects the industrial structure of the Swiss economy, based on the breakdown of the GDP (excluding agriculture and public services).

Regions

Central Switzerland
Eastern Switzerland
Geneva
Italian-speaking Switzerland
Mittelland
Northwestern Switzerland
Vaud-Valais
Zurich

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SUMMARY

According to this survey, the Swiss economy continued growing soundly in the second quarter of 2014. Healthy domestic demand had a beneficial impact. Increased demand from the US, in particular, favourably affected exports. Margins were still generally somewhat lower than the levels considered by respondents to be normal.

The outlook for real turnover growth in the months ahead remains optimistic. The construction sector is expected to slow down at a high level. Companies are still largely cautious with their recruitment and investment plans.

Respondents believe that a number of political developments in Switzerland (including the acceptance of the mass immigration initiative) could potentially impair operating conditions. While companies continue to be aware of the structural risk factors still in evidence in Europe, they no longer see them as a key concern.

BUSINESS ACTIVITY

Manufacturing: Momentum marginally higher

The momentum of manufacturing activity was somewhat greater than in the previous quarter. About half of the companies surveyed reported a rise in turnover, while a further 45% recorded no quarter-on-quarter change.

The most noticeable changes in real turnover were registered by food producers and the machinery industry. Plastics and precision instruments manufacturers witnessed slight increases.

Domestic demand remained high. Various regions – depending on the industry – were cited as export drivers. Among the export markets experiencing high growth are the US, the BRIC countries, Asia and Oceania. Demand from Europe, especially Germany, is still sound. Broken down by industry, there is sustained strong demand from the automobile and medtech industries.

Construction: Stable turnover at a high level

In construction, following several very strong quarters, turnover was marginally below the high level reported for the preceding quarter. However, due to significantly more favourable weather conditions this year, turnover still increased markedly compared to the same quarter a year earlier. Structural engineering work saw particularly robust growth in turnover.

Services: Sustained moderate growth

The services sector continued to report moderate growth. While a good third of the companies surveyed achieved a quarter-on-quarter increase in turnover, 45% reported that turnover had stagnated.

Transport and IT companies registered comparatively dynamic business activity. Retailers recorded a similarly favourable trend. Business was rather flat in the financial, wholesale and staff recruitment industries. Various retailers expressed the view that cross-border shopping activity had remained stable. They stated that it was very difficult to get consumers to break with this practice. Another major challenge highlighted by quite a number of retailers was the structural change towards a growing proportion of online purchases.

The only sector to report a negative quarter-on-quarter trend in turnover was the hotel industry. In a year-on-year comparison, business activity was flat. While hoteliers noted reticence among guests from the euro area, they reported encouraging visitor numbers from Asia, the Arab region and the US.

CAPACITY UTILISATION

Overall, production capacity persists at a level assessed as 'normal' by respondents, although there are still considerable differences from one industry to another.

Companies in practically all areas of manufacturing rated capacity utilisation as somewhat lower than normal, on the whole. Existing production capacity thus contains considerable reserves to respond to unexpected hikes in demand.

In the construction industry, utilisation of technical capacity was generally much higher than usual for the time of year in structural and civil engineering as well as the finishing trade. This was mainly due to relatively favourable weather conditions. Although large numbers of orders were processed, order books are still well filled.

In the services sector, overall utilisation of infrastructure (i.e. primarily office and retail space as well as transport capacity) was again reported to be at a normal level. Architecture and engineering firms, wholesalers, transport companies and facility management service providers indicated that capacity utilisation was on the high side. Utilisation was normal in the financial sector and the retail trade, while hotel and restaurant operators reported underutilised capacity.

DEMAND FOR LABOUR

Demand for staff remains steady

Demand for labour again showed only a marginal quarter-on-quarter increase according to the survey. Changes in staffing policy were barely referred to. There are still quite considerable differences between the different industries in their assessment of how appropriate staffing levels are.

The manufacturing companies surveyed rated their staff numbers as being in line with requirements. Within construction, only individual businesses in the finishing trade indicated that they were understaffed. Headcounts in both civil and structural engineering are considered appropriate. Companies in the services sector stated that their staff levels were marginally too low. This group includes transport and logistics firms, IT companies, as well as architectural and consulting offices. The banking industry is still marginally overstaffed.

In all three economic sectors, the process of recruiting staff was generally assessed to be roughly as challenging and time-consuming as usual. Respondents complained in particular about a lack of specialists. Some companies indicated that they were still taking on temporary staff because suitable personnel could not be found for permanent positions. However, many companies reported that the level of spontaneous job applications was still high, above all in regions close to the border. Individual respondents stated that the catchment area for cross-border commuters had become even larger.

A number of companies increased salaries by slightly more than one percentage point in the first half of the year.

PRICES, MARGINS AND EARNINGS SITUATION

Little change in margins

A total of 45% of companies reported that margins were within the normal range. Nonetheless, margins overall were rated as somewhat lower than usual, with approximately 40% of companies surveyed reaching this assessment.

Profit margins were rated lower than usual in almost all areas of manufacturing, above all in plastics, metalworking and machinery. Businesses surveyed in the chemicals, pharmaceuticals and precision instruments industries reported margins to be 'normal'. Manufacturing companies expect purchase prices to remain stable and sales prices to go down slightly in the coming months. However, machinery companies are projecting that purchase prices will tend up, while sales prices will fall.

In the construction industry, the companies surveyed reported margins to be generally normal, but better than in the previous quarter. While margins in the finishing trade were somewhat more favourable, those in civil engineering were slightly below average. A decrease in construction raw material prices and construction prices is expected in the coming months.

In the services sector, margins were still rated as lower than normal. The banking and hospitality industries again faced rather low margins. In addition to the persistently low interest rates, bank representatives frequently cited the cost of implementing regulatory requirements as the main cause. Numerous auditors also reported unusually low margins as a result of extreme pressure on prices. Traders in general rated margins as normal; this also applied to IT and insurance companies,

Where improvements in margins in recent months were achieved, they were attributed to cost savings, an optimised product mix and increased sales volumes. Companies from all three sectors of the economy continue to be appreciative of the current stable exchange rate against the euro. However, exporters exposed to the US dollar and the Japanese yen are concerned about the recent depreciation of these two currencies.

OUTLOOK

Business activity remains strong

Companies remain confident about the business outlook for the coming months. In all industries – with the exception of construction, which is predicting stagnation at a high level – respondents expect turnover to rise in the next six months.

A slight increase in headcounts is also envisaged over this time horizon, in particular in the services sector.

While the previous quarterly survey generally pointed to slightly more expansionary investment plans at companies in all three sectors, respondents in the present survey are somewhat more restrained. Expenditure on capital and construction investment is expected to remain unchanged in the coming 12 months. While this may reflect a continuing mood of caution, it may also be connected with the conclusion of larger investment cycles at the companies visited for the survey.

Potential changes to operating conditions in Switzerland – as a consequence of numerous political initiatives – and the increasingly complex regulatory and bureaucratic environment remain a prime concern among the SNB's respondents. They remain conscious of the structural problems which are still unresolved in Europe, but no longer see these as the main concern.

IMPACT OF MASS IMMIGRATION INITIATIVE AND COMPANY REACTIONS

As part of the company survey for the second quarter of 2014, the SNB delegates for regional economic relations examined the acceptance of the mass immigration initiative (MII) in greater detail with company representatives. They examined the respondents' assessments of the implications of the MII for their own companies, but also for the Swiss economy as a whole.

The responses suggested that acceptance of the MII has resulted in a tangible increase in uncertainty. Overall, 37% of the companies surveyed reported that uncertainty had risen for them slightly (25%) or significantly (12%) as a result of the acceptance of the MII. In contrast, the level of uncertainty was unchanged for 58% of respondents.

The vast majority of companies had not yet decided to take either staffing or investment measures, since the manner in which the initiative will be implemented is not yet clear.

Respondents who expected a negative impact on their companies were most concerned about greater difficulties in recruitment, but they were also worried that a decrease in immigration numbers will mean a lower customer basis. Additional factors of some importance were fears of higher wage costs, more difficult market access or the EU imposing more export restrictions.

Somewhat more than half of respondents expected negative economic consequences for their own company and approximately two-thirds expected negative economic consequences for Switzerland as a whole in the medium and long-term.

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