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 2015

First quarter of 2015

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 from the middle of January to the beginning of March 2015 with 225 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 GDP (excluding agriculture and public services).

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SUMMARY

The performance of the Swiss economy in the first quarter and the discussions conducted with managers and entrepreneurs from the middle of January to the beginning of March were shaped to a large degree by the discontinuation of the minimum exchange rate against the euro on 15 January 2015. According to this survey, which does not factor in the public sector, economic growth came to a standstill in the quarter under review. Margins worsened significantly for many companies, causing firms to resort to a wide range of countermeasures.

The new exchange rate situation poses a considerable challenge for many respondents, who say they first have to undertake an in-depth analysis of what repercussions it has for their companies. Such a reassessment takes time, and there is consequently a great deal more uncertainty about business trends going forward.

The outlook for real turnover growth in the coming months is visibly bleaker, especially in the manufacturing industry. Viewed across all sectors, however, it does not point to a contraction. Headcounts are expected to go down slightly overall and the investment volume will be lower than in the corresponding period in 2014.

BUSINESS ACTIVITY

Turnover maintained

In the manufacturing industry, real turnover generally stagnated against the previous quarter in most sectors, with the exception of the pharmaceutical industry. Year-on-year, however, a slight increase in sales was recorded.

The US as well as Asian and Arab countries are among the export markets enjoying relatively high momentum. Demand in Europe remains stable overall. A number of sectors are feeling the restrictive effects of the Russia-Ukraine crisis.

The construction sector reported slightly lower turnover (seasonally adjusted) than in the previous quarter. Compared to the year-back quarter, the decline in sales was significantly steeper, as the winter in early 2014 was unusually mild. Momentum appears to be levelling off further in the residential construction segment.

Business was rated as sluggish overall in the services sector as well. The retail, vehicle trade and catering sectors all reported a fairly substantial slowdown in business. The vehicle trade in particular practically ground to a halt in the days following the discontinuation of the minimum exchange rate. Business was rekindled by the announcement of large euro discounts, triggering substitution effects as demand shifted from second-hand vehicles to new ones. The retail trade faces a renewed increase in cross-border shopping by Swiss consumers.

The new exchange rate situation is causing a moderate decline in bookings in the hotel and catering trade; cancellations have remained limited so far. Sustained strong demand from tour groups from Asia is helping to cushion the negative effects. An increase in traveller numbers from the US and, to some degree, the UK was also observed.

CAPACITY UTILISATION

Similarly to previous periods, the companies surveyed rated production capacity as generally only slightly underutilised, reflecting the favourable order situation to date.

Just under 40% of responding companies in the manufacturing industry reported an underutilisation of capacity. Practically all sectors rated their capacity as slightly or even significantly lower than normal. Capacity utilisation was assessed as significantly lower than normal by producers of electrical equipment as well as in the chemical and food industries. By contrast, the metalworking companies surveyed stated that capacity utilisation was higher than normal thanks to a solid backlog of orders. In the watchmaking industry, capacity utilisation was reported as stabilising at a slightly lower level than in the preceding quarters owing to lower demand from China.

In the construction industry, utilisation of technical capacity was still rated as slightly higher than normal overall, due solely to the structural engineering sector. Though order books remained well filled, there are increasing signs that the slowdown is persisting. The vote to curb second-home ownership is having an increasingly noticeable impact at regional level.

In the services sector, utilisation of infrastructure (i.e. primarily office and retail space as well as transport capacity) was reported to be marginally lower than normal overall. The IT sector was an exception, rating infrastructure utilisation as slightly higher than normal.

DEMAND FOR LABOUR

Slight decrease in demand for staff
The discontinuation of the minimum exchange rate against the euro triggered numerous staffing policy measures, including hiring freezes, longer working hours for the same pay, and pay freezes – in some cases even after increases had already been communicated. A small proportion of companies are planning to reduce headcounts.

Respondents in the manufacturing industry reported that staff numbers were slightly too high. By comparison, the construction sector still considered headcounts to be appropriate. Within the services sector, retailers and transport companies rated headcounts as slightly too high. Most IT companies, on the other hand, are continuing to seek more staff.

Respondents in all three categories – manufacturing, construction and services – indicated that the lack of specialists had become somewhat less acute. Many companies continued to report that the level of spontaneous job applications was still high to very high, above all in Ticino. Job advertisements also frequently attract a large number of applications.

PRICES, MARGINS AND EARNINGS SITUATION

Margins under pressure
In all three categories, margins overall were reported as being under serious pressure compared to the previous quarter. Many segments saw prices being pushed down sharply following the discontinuation of the minimum exchange rate. Price benefits are being passed on to counter the risk of losing customers.

60% of the respondent companies assessed their margins as lower than usual, while a further 30% of firms stated that margins were within the usual range. Numerous measures are being implemented to counter the tougher competitive situation.

In all sectors of the manufacturing industry, profit margins at the time of the survey were judged to be lower or even significantly lower than usual. In the construction industry, the companies surveyed reported margins to be lower than usual in both the main and ancillary segments, due in part to a falloff in regional demand as well as to projects being put on hold in the public sector.

Companies in the services sector also rated margins as lower than usual overall. The car trade, retailers and banks had to contend with particularly low margins. Numerous retailers were quick to offer price concessions in response to the discontinuation of the minimum exchange rate. In the banking sector, the appreciation of the Swiss franc led to a decrease in commission income, and margins are being impacted by the negative interest rates.

OUTLOOK

Stagnation expected
Overall, the exchange rate situation has resulted in greater uncertainty about the future development of the economy. Respondents' concerns were especially pronounced in the days immediately following the discontinuation of the minimum exchange rate.

Real turnover is expected to stagnate on the whole over the coming months, whereas in the preceding quarters companies were still projecting moderate growth. There are, however, considerable differences from one sector to another. Many respondents need to conduct a thorough reassessment of the situation in light of the more volatile exchange rate scenario, and this takes time. The majority of measures introduced to improve margins are therefore temporary.

Respondents in all categories are predicting a marked fall in purchase and sales prices. Where feasible, however, companies are not reducing their selling prices as sharply as the drop in purchase prices in order to improve their margins again at least to a certain extent.

While survey participants in the manufacturing industry anticipate staff reductions, representatives of the services and construction sectors expect headcounts to remain unchanged. The sectors reporting the highest demand for staff are IT, legal and tax consultants, and auditors.

A lot of companies imposed an immediate freeze on investments following the discontinuation of the minimum exchange rate and now plan to thoroughly review their capital expenditure. Overall, planned investments in equipment as well as buildings are being scaled back substantially. Capital expenditure within Switzerland is incurred primarily to increase efficiency or to meet replacement needs rather than to expand capacity.

Respondents' inflation expectations – measured by the consumer price index – were considerably lower, dropping to –1.3% over the short term (6–12 months), as against around 0.3% in the previous survey. And at 0.5%, expectations over the longer time horizon of 3–5 years are also lower than in the last survey (1.1%).

With companies focusing primarily on the tight margin situation, concerns over geopolitical tensions have receded somewhat to the background, but are present nevertheless. The changes in operating conditions in Switzerland as a consequence of political initiatives and developments are still giving rise to critical comments, albeit to a lesser degree. Despite the current highly challenging exchange rate situation, discussions also revealed a measure of confidence in the adaptability of the Swiss economy.

Published by
Swiss National Bank
Economic Affairs
Börsenstrasse 15
P.O. Box
CH-8022 Zurich

Design
Interbrand Ltd, Zurich

Typeset and printed by
Neidhart + Schön AG, Zurich

Language versions:
The *Quarterly Bulletin* is available
in printed form in
German (ISSN 1423–3789) and
French (ISSN 1423–3797).

The *Quarterly Bulletin* can also be downloaded from the SNB website in the following language versions:
English: www.snb.ch, *Publications, Quarterly Bulletin* (ISSN 1662–257X)
German: www.snb.ch, *Publikationen, Quartalsheft* (ISSN 1662–2588)
French: www.snb.ch, *Publications, Bulletin trimestriel* (ISSN 1662–2596)
Italian (Business cycle trends):
www.snb.ch, *Pubblicazioni, Pubblicazioni economiche, Bollettino trimestrale*

Website
www.snb.ch