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 2016

First quarter of 2016
The Swiss National Bank's delegates for regional economic relations are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted from the beginning of January to the end of February 2016 with 239 managers and entrepreneurs on the current and future situation of their companies and on 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 composition of GDP (excluding agriculture and public services).

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SUMMARY

According to this survey, real turnover remained on a par with the previous quarter overall. Margins continue to be strained for many companies, although the situation has not deteriorated further.

Despite a subdued course of business in the current quarter, expectations regarding real turnover in the coming months reflect greater confidence than was the case in the previous quarter. Companies are counting on somewhat stronger foreign demand, and the measures taken to improve efficiency are gradually taking effect, promising better margins.

Staff numbers are once again likely to recede slightly in manufacturing, but should increase a little in the services sector. Willingness to invest is marginally higher than in the past few quarters.

BUSINESS ACTIVITY

Turnover remains stagnant
Real turnover in manufacturing remained at the level of the previous quarter. Producers of machinery recorded higher real turnover overall, although the situation varies greatly from one segment to another. Turnover was noticeably lower in companies contacted in the food and plastics industries. All other lines of manufacturing recorded little change. Signals from the watchmaking industry increasingly point to a slowdown in demand. Demand for pharmaceutical products, by contrast, is consistently good.

As to foreign trade, sales to the US and to Germany remain fairly dynamic. Business with the UK is also reported to be good. Demand from Japan and Scandinavia has, in some cases, increased. By contrast, many industries continue to feel the effects of the unfavourable economic situation in Russia as well as the slowdown in China and in the Middle East.

In construction, business activity ranged from stable to slightly weaker, although momentum remains at a high level.

In the services sector, real turnover overall was unchanged against the previous quarter. The picture varies between sectors: while information and communications technology (ICT), insurance and facility management services recorded increases in turnover, respondents from car dealers, wholesale trading, the transport industry and banks reported lower turnover. Retailing also presented a heterogeneous picture, albeit with a slightly upward trend overall. Cross-border shopping and the shift to online shopping, which continues to experience strong growth, present a challenge to a large number of companies.

For banks, it is mainly the weak start to the year on the stock markets that is having a dampening effect on business. Restructuring at banks is impacting other parts of the economy – such as the IT, hotel and facility management industries – in the form of lower demand. This applies in particular to the cantons of Geneva and Ticino.

CAPACITY UTILISATION

Ongoing underutilisation

Production capacity at the companies surveyed remains considerably underutilised. However, the situation has not deteriorated further in comparison with the previous quarter. More than 40% of the survey respondents rated their utilisation as lower than usual.

Around half the responding companies in manufacturing reported a slight to significant underutilisation of capacity, with most industries being affected. Capacity utilisation was rated as normal by the chemical and pharmaceutical companies surveyed.

In construction, seasonally adjusted utilisation of technical capacity was somewhat lower than in the previous quarter. This applies both to the main lines of construction and to construction-related industries. Lower-lying regions continue to notice greater competitive pressure from the mountain regions. The reason usually cited is lower capacity utilisation in the mountain areas as a result of the vote to curb second-home ownership (‘Zweitwohnungsinitiative’). Stronger price pressure from public authorities is also noticeable.

In the services sector, most segments reported a slight to significant underutilisation of infrastructure (office and retail space as well as IT and transport capacity). This is especially pronounced in the case of hotels and banks, as well as transportation and logistics companies. By contrast, infrastructure utilisation in ICT is described as good to very good.

Mountain hotels report very low utilisation rates, predominantly due to a further decline in the number of European guests, which can only partly be compensated by the increase in numbers from Asia, the US and Switzerland. Weather and snow conditions in the first half of the winter season also had an unfavourable impact.

DEMAND FOR LABOUR

Staff numbers somewhat too high

As in the past few quarters, staff numbers tend to be seen as too high overall. This applies particularly to manufacturing, where most industries – with the exception of pharmaceutical companies and producers of electrical appliances – report headcounts as being somewhat too high. In construction, staff numbers are also considered slightly higher than needed, especially in the case of civil engineering companies. Regarding the services sector, respondents from transport and hospitality indicate that headcounts are also somewhat too high. In contrast, ICT, fiduciary and auditing companies are recruiting more staff.

Staff numbers are reduced mainly by not replacing departing employees or by employing fewer temporary workers. In some cases, however, employees are dismissed. Other measures implemented or currently under discussion include longer working hours for the same pay and short-time working.

Overall, respondents find staff recruitment somewhat easier than before. Many companies received a comparatively high number of spontaneous job applications.

PRICES, MARGINS AND EARNINGS SITUATION

Margin pressure stabilised
Margins remain strained in all three sectors, but the situation has not deteriorated further. Over half the companies surveyed rated their margins as lower than usual. One-third reported that margins were within the normal range. The cost reduction measures implemented are gradually proving effective. Only very rarely is there room for price increases; if at all, then mostly abroad.

Considerable margin pressure still prevails in manufacturing, where respondents from all industries considered their margins to be lower or even significantly lower than usual.

Expectations regarding price developments suggest an ongoing downward trend in purchase prices and – somewhat less pronounced than in the previous quarter – in sale prices.

OUTLOOK

Cautious optimism
The outlook for the near future remains characterised by caution and predictability of business performance is deemed to be comparatively low. Despite the risks, a slight increase in real turnover is expected for the coming months in all three sectors. Most company representatives are therefore anticipating slightly higher utilisation of production capacity. Optimism is somewhat more marked than in the past quarter. Reasons for this include the current exchange rate conditions, anticipated economic developments abroad and the impact of the measures taken to raise efficiency and innovation. This constellation is expected to gradually lead to higher margins.

As to employment plans, the situation has improved slightly compared to the previous quarter. The improvement, however, is entirely on the services sector side. Respondents from the manufacturing and construction industries expect further slight reductions in staff numbers.

Investment plans for the coming 12 months point to a slight upturn in certain instances.

Companies' inflation expectations (as measured by the consumer price index) average –0.3% over the short term of 6–12 months (previous quarter: –0.4%). Expectations over the longer-term horizon of 3–5 years are 0.7% (previous quarter: 0.6%).

Concerns expressed by respondents include accelerated structural transformation in Switzerland, potentially negative consequences of the implementation of the initiative against mass immigration, greater geopolitical risks, the refugee problem, further slowing of growth in China, and the limited room for manoeuvre for central banks in the case of another crisis. Respondents also express the hope that the Swiss franc does not appreciate again. The current interest rate environment is viewed critically with regard to the long-term outlook for pension funds.

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