**Business cycle signals**

Results of the SNB company talks

**Fourth quarter of 2019**

Report submitted to the Governing Board of the Swiss National Bank for its quarterly assessment.

The appraisals presented here are based on discussions between the SNB’s delegates for regional economic relations and company managers throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 241 company talks were conducted between mid-October and the end of November.

**Regions**
- Central Switzerland
- Eastern Switzerland
- Fribourg/Vaud/Valais
- Geneva/Jura/Neuchâtel
- Italian-speaking Switzerland
- Mittelland
- Northwestern Switzerland
- Zurich

**Delegates**
- Gregor Baurle
- Urs Schönholzer
- Aline Chabloz
- Jean-Marc Falter
- Fabio Bossi
- Roland Scheurer
- Daniel Hanimann
- Rita Kobel
Key points

- The Swiss economy resumed its moderate expansionary course in the fourth quarter. There was no further slowdown in real turnover growth.

- Overall, utilisation of technical capacity and infrastructure were at normal levels. In manufacturing, capacity utilisation is slightly below average.

- The labour market situation has eased. Headcounts are approximately in line with needs, and recruitment problems have waned somewhat.

- The pressure on profit margins has increased slightly. For the most part, however, profit margins are reported as being ‘sustainable’ to ‘comfortable’.

- Looking to the next two quarters, company representatives expect moderate growth in turnover, staff levels and investment.

- There is considerable uncertainty with regard to future developments. The impact of trade policy tensions and a further slowdown in the global economy are mentioned as being among the main risks.
CURRENT SITUATION

No further slowing
According to the SNB’s company talks in Q4 2019, the slowing observed in the preceding quarters did not continue. There is considerable uncertainty, however, as to how the situation will develop.

Real turnover grew a little more strongly than in the preceding quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). This tallies with the assessment of many company representatives, who mentioned the second or third quarter of 2019 as marking the low point for new orders and turnover growth.

Export-oriented companies are emphasising the fact that business with the US remains favourable. Exports to emerging economies are also developing well overall. At the same time, business with China has been mixed, with some companies feeling the impact of the US–China trade dispute and the protests in Hong Kong more than others. Exports to Germany continue to suffer as a result of German economic weakness. Companies in the pharmaceuticals, medtech and air transport industries have performed especially well.

Utilisation of production capacity normal
Utilisation of technical capacity remains at a normal level overall (cf. chart 2). Capacity utilisation is reported as being normal in the services sector and it remains above average in the construction sector. Capacity is slightly underutilised in manufacturing, however, where the supply bottlenecks cited at the start of the year no longer exist.

Appropriate staffing levels
According to the company representatives, staff numbers are now roughly in line with needs, whereas in the preceding quarters they had been rated as on the low side. Some companies have reduced the number of temporary positions.

Although many sectors are still finding it difficult to recruit personnel, the situation in this regard has eased. There was less mention of the lack of specialists. However, demand remains strong for IT and other technical specialists. Many of the representatives say their companies are giving high priority to in-house training and to enhancing their appeal as employers.

Increased pressure on profit margins
The pressure on profit margins has increased slightly. For the most part, however, margins are reported as being at ‘sustainable’ to ‘comfortable’ levels.

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Chart 1

**TURNOVER COMPARED TO PREVIOUS QUARTER**

Index

Index values signal an increase (decrease).

Source: SNB

Chart 2

**CAPACITY UTILISATION**

Index

Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source: SNB
DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

According to the company talks, real turnover in the trade sector was up on the previous quarter. In retail, however, infrastructure remains underutilised and profit margins below usual levels. Online sales channels are reporting high growth rates overall.

In the financial sector – i.e. among banks, insurers and asset managers – business volumes have increased both quarter-on-quarter and year-on-year. Profit margins, however, are lower than the levels considered to be normal. Banking infrastructure is underutilised. Both the interest margin business and the competitive environment remain challenging.

Business performance in the hospitality industry remains robust, driven by rising demand from US visitors. Demand from Asia also continues to provide support, though the number of Chinese guests is slightly lower at present.

Turnover in the ICT industry is significantly higher than a year ago. This development is the result of digital transformation, a trend towards cloud-based services, cybersecurity requirements and rising demand from the fintech area. Specialist staff remain in short supply in this industry.

Companies in the healthcare sector report dynamic business performance.

In manufacturing, many industries are reporting higher turnover than in the previous quarter. Turnover has risen substantially in the pharmaceuticals industry in particular, with both capacity utilisation and margins also higher than usual. Although mechanical engineering is reporting slightly higher turnover compared with the previous quarter, profit margins are under considerable pressure. By contrast, turnover is flat in metal processing and among producers of electrical equipment. Suppliers in the automotive industry are continuing to feel the impact of the uncertainties stemming from technological change and heightened environmental awareness.

In construction, seasonally adjusted turnover stagnated at the level reported for the preceding quarter. Utilisation of production capacity remains high in all three segments (structural engineering, civil engineering and the finishing trade).

The talks held during the current quarter indicate that there are signs of a slowdown in new residential building activity. Construction firms, however, see the growing demand for renovation and refurbishment of buildings and infrastructure as offering possibilities for offsetting this. Fairly high vacancy rates are additionally driving the demand for renovation of older buildings. Moreover, some construction companies are seeking to shift the focus of their activities towards civil engineering and infrastructure projects.
OUTLOOK

Cautious optimism
Companies expect turnover to continue rising in the next two quarters (cf. chart 3). This reflects a certain degree of optimism with regard to the business outlook. In light of global uncertainties, however, since mid-2018 companies have increasingly tended towards caution in their predictions of turnover growth.

In keeping with the slightly improved turnover expectations, company representatives anticipate utilisation of their technical production capacity and infrastructure to increase slightly (cf. chart 4).

Persisting caution regarding investment
Companies’ willingness to invest remains modest. In all three sectors (manufacturing, construction and services), they envisage small increases in expenditure on equipment and construction in the next twelve months. A quarter of the firms in the sample intend to use these investments to expand production capacity; until recently, this figure was in the region of 30%. The low interest rate environment is continuing to support investment, which is focused above all on the expansion and modernisation of IT. A significant proportion of this can be attributed to digitalisation projects.

Stable price expectations
For the next two quarters, representatives from all three sectors are expecting purchase and sales prices to remain stable. The upward pressure on raw material and preliminary product prices still visible in the spring has since dissipated. Capacity utilisation among suppliers was high until recently, but the situation has since normalised.

Planned expansion in staff numbers
Representatives say their companies are planning to further increase staff numbers over the coming two quarters, albeit not to the same extent as in recent quarters (cf. chart 5). Somewhat more than a third of the companies want to hire more staff. Headcount increases are planned in the IT industry as well as in auditing, accountancy and engineering offices in particular.

Based on the answers available, companies are planning to increase wages by an average of 1.1% in 2020.
ENVIRONMENT AND RISKS

The company representatives consider the international environment to be relatively uncertain. They see the main risks as being the US–China trade dispute, protectionist tendencies, the unrest in Hong Kong and other threats of a geopolitical nature. In addition, a large number of other political and structural problems are clouding the general risk perception. Companies regard the challenging position still faced by central banks – and the persisting low interest rate environment resulting from this – with concern. At the same time, companies are welcoming the low interest rates as they facilitate investments and help counter the Swiss franc’s tendency to appreciate.

On the whole, companies are devoting more attention to their positioning in terms of sustainability, with many recognising potential for new fields of business amid this structural trend.

Digitalisation efforts are under way in many areas and are, for the most part, seen as an opportunity. At the same time, many companies point to growing cyber risks.

INFLATION EXPECTATIONS

The delegates also ask company representatives about their short and long-term inflation expectations as consumers.

INFLATION EXPECTATIONS

Chart 6

EXPECTED INFLATION

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Source: SNB

Short-term inflation expectations – measured in terms of the consumer price index – have decreased slightly. The average for the next six to twelve months is 0.3% (blue line in chart 6), compared to 0.5% in the previous quarter. Inflation expectations for the medium term – i.e. for a time horizon of three to five years (red line in chart) – also fell marginally, to an average 0.7% as against 0.8% in the previous quarter. In this regard, numerous company representatives expressed their conviction that price levels in Switzerland must continue to converge with those abroad.

About this report

Approach

Each quarter, the SNB’s delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the ‘Business cycle signals’ report.

Approximately 240 companies are visited every quarter. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while the public sector and agriculture are not taken into consideration. Different companies are visited from one quarter to the next.

In the talks, the SNB’s delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade part of the qualitative information received according to a numeric scale. This enables the results to be aggregated and represented graphically.

The five-tier scale ranges from ‘substantially higher’ or ‘much too high’ (+2), ‘slightly higher’ or ‘somewhat high’ (+1), ‘the same’ or ‘normal’ (0), ‘slightly lower’ or ‘somewhat low’ (–1), to ‘substantially lower’ or ‘much too low’ (–2).

Interpreting the charts

The charts are to be regarded as a numeric summary of the qualitative information received. The index value shown represents the average of the findings from all companies visited. When interpreting the curves, particular relevance should be attached to their overall development, rather than to their numeric level or individual changes.

Additional information

Acknowledgements

The SNB would like to thank the representatives from around 900 companies that have consented to take part in interviews with the delegates for regional economic relations during the course of 2019. In doing so, they have made a significant contribution to the evaluation of economic developments. The companies listed below have agreed that their names may be published:

A

B

C

D


**SCH**


**ST**


**T**


**U**


**V**


**W**


**Y**

Ypsomed AG.

**Z**


**2**

25hours Hotel Company Zürich AG.

**II**

II-VI Laser Enterprise GmbH.
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