Business cycle signals

Results of the SNB company talks

Third quarter of 2024

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

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and members of management at companies throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 216 company talks were conducted between 23 July and 10 September.

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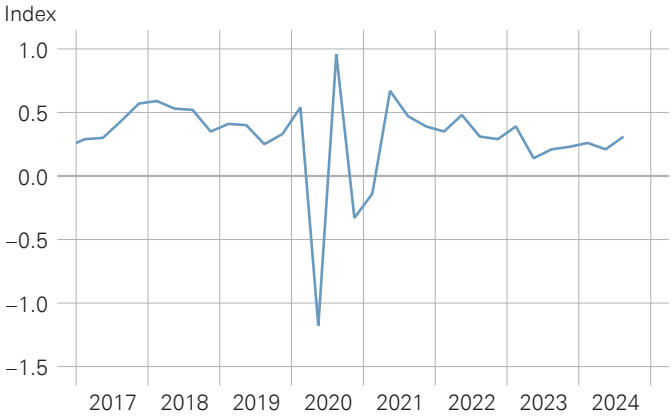
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Marco Huwiler

Key points

- In the third quarter companies expect slightly stronger growth than in the previous quarter. Turnover in the services sector saw a robust increase after weak growth in the second quarter. In manufacturing, by contrast, the recovery that was becoming apparent in the second quarter lost momentum.
- Persistently low capacity utilisation and the appreciation of the Swiss franc are putting profit margins at some manufacturing companies under strong pressure. In services and construction, on the other hand, margins are healthy in the majority of cases.
- Companies consider staff levels to be adequate overall. Recruitment is no longer seen as considerably more difficult.
- Given the fall in inflation and an easing in the situation on the labour market, companies expect wage growth to slow to less than 2% for the coming year.

Chart 1

TURNOVER



Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

CAPACITY UTILISATION

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

Source(s): SNB

CURRENT SITUATION

Solid growth in services and construction, upturn in manufacturing slowed

The Swiss economy recorded slightly stronger growth overall in the third quarter than in the second (cf. chart 1). Services and construction companies in particular have seen solid growth. After a weak second quarter, consumer-related industries in the services sector such as retail and food services have seen business activity improve again. Financial, consulting and IT services continue to be pillars of growth, even if a certain slowdown can be observed in some areas of these industries.

In manufacturing, the recovery that became apparent in the previous quarter has lost momentum, particularly at companies operating in mechanical engineering, metal processing and the manufacture of plastic components. Demand from Europe, and notably Germany, is recovering more slowly than anticipated. Development in demand from the US, by contrast, has largely been robust, benefiting the life sciences industry above all. Asia, too, remains a growth market. Business with China, however, has been unable to match the pace of earlier years. The watchmaking industry is clearly feeling the effects of weak demand on the part of Chinese customers.

Overall improvement in technical capacity utilisation

Technical capacity is still underutilised overall, albeit to a lesser degree than in the second quarter (cf. chart 2). Thanks to solid growth in demand, capacity utilisation was appreciably higher than in the previous quarter, particularly in the services sector. It has also increased in the construction sector and is slightly above the usual level for this time of year. In manufacturing, by contrast, production capacity remains underutilised owing to the delayed recovery.

Staff utilisation and recruitment almost normal

Companies consider staff levels to be adequate overall (cf. chart 3). There are, however, differences between the sectors. At some services and construction companies staffing remains fairly tight, while manufacturing companies are somewhat more likely to view staff levels as too high. A few manufacturing companies have now resorted to short-time working.

Overall, the effort required to recruit new staff is at a normal level. Vacancies in manufacturing are rather easy to fill. While in the services sector hiring difficulties are no longer as widespread as they were immediately after the pandemic, recruitment is still described as slightly more difficult than usual. There is still strong demand for specialist staff, for example those in IT with a knowledge of cybersecurity or artificial intelligence. Construction companies report significant difficulties in recruitment. It is particularly difficult to fill managerial positions requiring a background in a skilled trade or technical field.

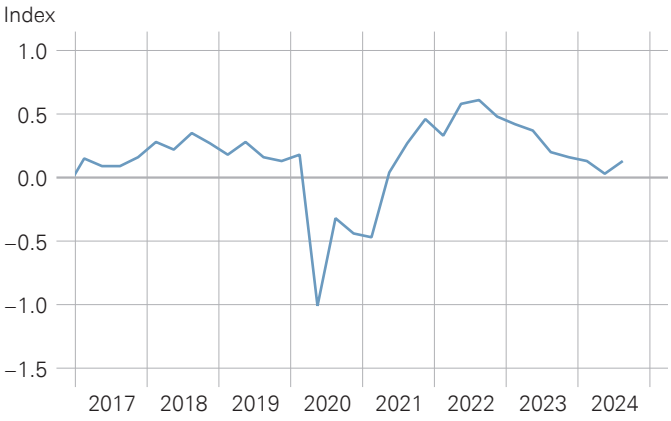
Margin situation mixed

Overall, profit margins remain at a solid level (cf. chart 4), although there are significant differences between the sectors. In services and construction, margins are healthy in the majority of cases. However, the situation in broad sections of manufacturing is described as extremely challenging. Low capacity utilisation is leading to pronounced pressure on margins, which has now persisted for several quarters. Companies cite the strong Swiss franc as an additional challenge.

The large majority of companies, including those in manufacturing, view the liquidity situation as unproblematic. Nevertheless, in the context of project financing, a number of companies regret the loss of Credit Suisse as an important corporate banking partner.

Chart 3

STAFF SHORTAGES

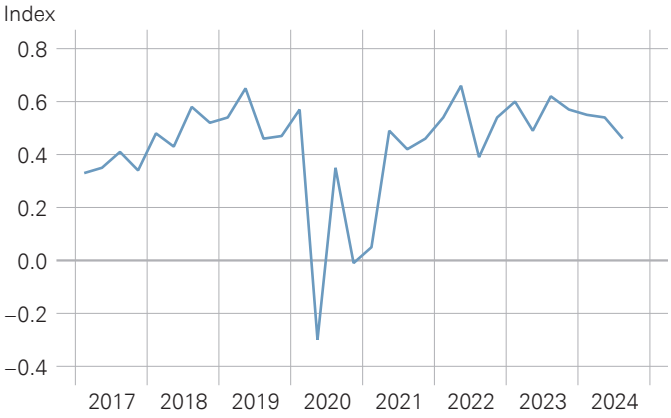


Assessment of staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

Source(s): SNB

Chart 4

CHARACTERISATION OF MARGINS



Characterisation of the margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Disappointing growth in various manufacturing industries

Companies in broad sections of manufacturing saw disappointing growth in sales. Demand from the German automotive industry has remained weak, and there has likewise been little impetus from the German construction sector. Growth at companies operating in mechanical engineering, metal processing and the manufacture of plastic components has lagged expectations. The exception has been companies that produce goods for the expansion of transport infrastructure and for aviation, energy generation and defence.

Furthermore, for several quarters the watchmaking industry has been struggling with declining demand, particularly from China. High inventory levels are putting additional strain on watchmakers.

On the other hand, there have been positive signals from life sciences companies. Medical technology and pharmaceuticals are benefiting from a global increase in demand.

Improved business activity in trade despite continued price pressure

Demand in retail has largely recovered after a weak start to the summer due to adverse weather and calendar effects. However, customers are still switching to cheaper product lines or increasingly using online providers abroad. Swiss providers are endeavouring to reduce their costs to remain competitive. The motor vehicle trade is also under heavy price pressure owing to high inventory levels and reluctant customers.

The situation in wholesale and logistics is mixed. Demand from manufacturing and construction remains rather subdued, while there has been an increase in the volumes of foods and pharmaceuticals traded and transported.

Stable developments in tourism and food services

Hotels and tourist transport operators are benefiting from a high number of holidaymakers, particularly from the US, but also from the Middle East and parts of Asia. By contrast, the number of guests from Switzerland and neighbouring countries is stagnating, with the appreciation of the Swiss franc seen as a challenge. The development of business travel has also been rather subdued. Weather-related fluctuations aside, the business situation in food services remains stable.

Business activity in financial industry mostly solid

The insurance business is growing steadily. In addition to the traditional property and casualty insurance business, demand for pension solutions is contributing to growth. The banks' interest business is developing solidly, even though it has no longer been able to match the high revenues of last year. The turbulence on the stock markets is unsettling clients in asset management, which is tending to lead to fewer transactions and thus to lower commission income.

Momentum in ICT industry and management consulting slowing

Despite the continued high level of investment in cybersecurity, digitalisation and artificial intelligence, momentum in the ICT industry is slowing somewhat. Cost-cutting efforts in manufacturing, healthcare and public administration are having a curbing effect on IT spending. Growth has also slowed in some areas of management consulting, with consulting firms seeing a certain reluctance on the part of clients when it comes to larger transformation projects as well as mergers and acquisitions.

Improved business activity in construction

The order situation in construction improved in the third quarter. There is still a lack of major projects on the part of private investors and incoming orders for new residential construction remain sluggish overall. However, construction companies are benefiting from persistently strong demand in infrastructure construction, i.e. construction related to railways, roads, hydroelectric power and electricity grids. The ongoing need for renovation, particularly energy-efficient renovations, is also boosting demand. In addition, timber construction companies are benefiting from the trend towards sustainability.

OUTLOOK

Continued confidence

Companies anticipate solid growth in turnover over the next two quarters (cf. chart 5). Manufacturing companies, which in some cases saw disappointing turnover growth in the third quarter, also remain optimistic. They are confident that demand will gather momentum, albeit somewhat later than hoped.

While the outlook may be positive, it is subject to significant risks. These include geopolitical developments such as China's industrial policy and the direction of US economic policy after the elections. Other challenges mentioned were exchange rate fluctuations, the shortage of specialists and increasing regulatory complexity in Switzerland and Europe.

Moderate rise in investment and further increases in staff levels

Companies intend to increase capital expenditure moderately over the next twelve months. Services companies are often focusing on expanding their IT infrastructure in the context of digitalisation projects. Manufacturers are investing in optimising production processes to counter ongoing cost pressures. Expanding capacity is not a priority, however, given that utilisation is often low.

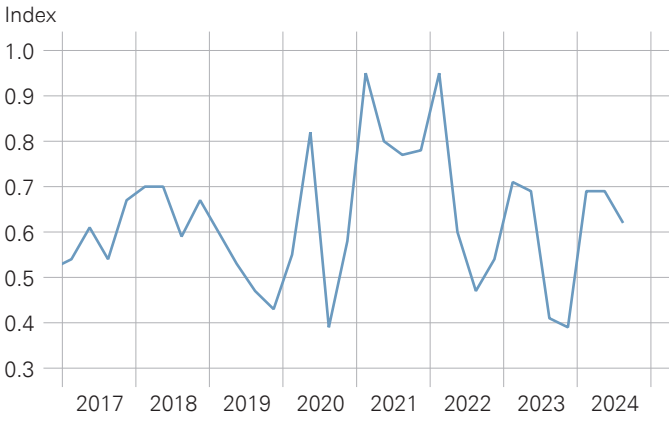
Companies in all sectors are planning to increase their workforce in the coming quarters (cf. chart 6). In line with their respective capacity utilisation levels, services and construction companies are planning to hire slightly more staff than manufacturers. Even though the recruitment situation is returning to normal, companies emphasise that employment growth is only possible if sufficient specialists with the right qualifications are available.

Slowing in wage growth

Given the fall in inflation and an easing in the situation on the labour market, companies anticipate a slowing in wage growth. They expect wages to rise by an average of 2.1% in 2024, compared to 2.3% last year. For 2025, they predict wage growth to weaken again to around 1.6% (cf. chart 7). Owing to lower inflation, companies expect that wage rises will increasingly be granted on an individual basis again.

Chart 5

EXPECTED TURNOVER

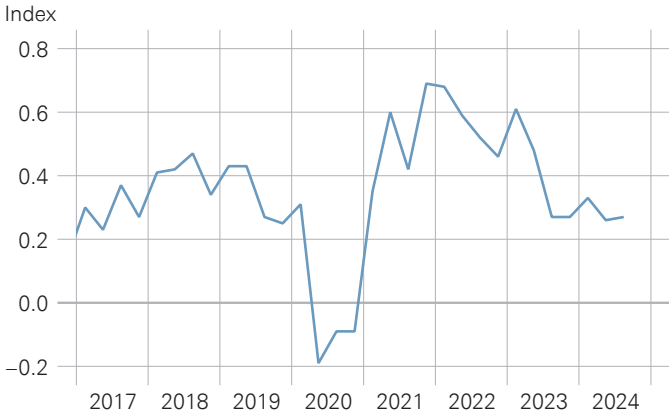


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 6

EXPECTED EMPLOYMENT

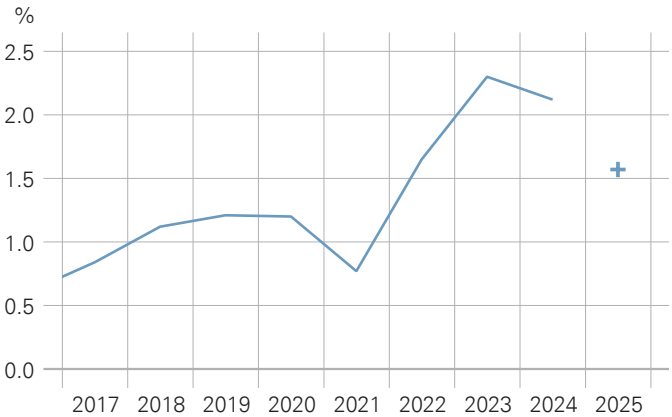


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 7

WAGE INCREASES

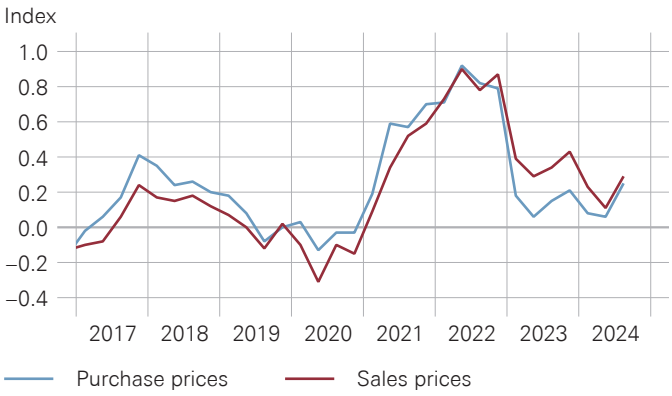


Expected average wage increase for the coming year (cross) and agreed annual wage increases (line).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES



Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 9

EXPECTED INFLATION

Source(s): SNB

Small rise in purchase and sales prices in most cases

For the next two quarters, the majority of companies expect purchase and sales prices to remain stable or rise slightly (cf. chart 8). While in the previous quarter manufacturing companies were still more often predicting a decline in purchase prices, they are now expecting prices of some raw materials and intermediate products to rise again. However, the appreciation of the Swiss franc is having a curbing effect. The main factor in purchase prices for services companies is the rising cost of software licences. Some companies are planning to adjust sales prices at the turn of the year to take account of increased wages. However, it is often pointed out that the scope for price increases is limited.

INFLATION EXPECTATIONS

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

Short-term inflation expectations as measured by the consumer price index have fallen slightly: The average for the next six to twelve months (cf. chart 9) is 1.3%, compared with 1.4% in the previous quarter. Inflation expectations over a three to five-year horizon remain unchanged at 1.4%.

About this report

Each quarter, the SNB's delegates for regional economic relations hold more than 200 talks with company executives. 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 public administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. The sample changes each quarter.

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. 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). The index values shown in the charts represent the average of the findings from all companies visited.

Further information can be found in the 'Business cycle signals' reports at www.snb.ch, The SNB/Regional economic relations.

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