

The economic situation from the vantage point of the delegates for regional economic relations

Summary report to the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2004

The Swiss National Bank's delegates for regional economic relations are constantly in touch with a large number of companies from the different industries and economic sectors. Their reports, which contain the subjective evaluations of these companies, are an important additional source of information for assessing the economic situation. In the following, the main results of the talks held from June to August 2004 on the current and future economic situation are summarised.

Summary

One year following the economic trough in summer 2003, talks held with almost 150 companies have revealed quite a favourable picture. The economic recovery has strengthened further in recent months. Nevertheless, the companies believe that it has failed to gather any additional momentum, and continue to describe it as moderate.

Overall, investment activity increased only negligibly. On the whole, the companies limited themselves to the necessary replacement investment and invested in expansion only where the order intake had increased markedly. Numerous companies still have sufficient free capacity. At the same time, however, the cost pressure, which is making itself constantly felt, seems to hinder investment activity.

The economic outlook for the coming months has brightened further. Over a medium-term horizon, however, uncertainty seems to have grown somewhat. The sharp rise in oil prices and the stronger competition from abroad are seen as reasons for this insecurity.

1 Production

Manufacturing

Most of the industrial companies surveyed saw improved capacity utilisation in recent months and considered their order backlog for the next few months as secured. The main stimuli again emanated from abroad, notably from Asia (China and India), while demand from the US and Europe (Germany and Italy) was assessed differently from one sector to another.

In particular, companies in the field of generic drugs and biotechnology reported excellent levels of business activity. Moreover, companies oriented to the semi-conductor industry experienced a marked recovery in demand. The strong dependence on this industry in particular, however, was regarded as problematic since it is feared that this sector will gradually move from Europe to Asia in the near future. Predominantly positive news came from the electrical industry, where mainly suppliers in the field of building infrastructure expect rising orders. The machinery industry, by contrast, showed a mixed picture. Overall, its development was rather low-key. Business performance remained good for the manufacturers of textile machines. In the consumer goods sector, textile manufacturing benefited from the upswing in home textiles and industrial textiles in the wake of vigorous housing construction in Switzerland and rising demand from the transport industry. Due to a continuously high level of export demand, the watchmaking industry was able to reduce its stocks of intermediate products – which had increased markedly in recent years – to a normal level.

Services

With demand from abroad picking up, the situation in the hospitality trade has brightened in the past few months. Particularly noteworthy was the return of visitors from Asia and the US, which mainly benefited central Switzerland (Lucerne). Tourism from within Europe, however, continued to exhibit muted growth. In Ticino, the situation stabilised after two exceedingly difficult years but, as demand from Germany remained hesitant, growth fell short of expectations. The hospitality trade in urban centres benefited from the uptrend in cultural and business tourism. By contrast, mainly because of slack domestic demand, alpine tourist areas did not achieve the excellent results of the previous year when weather conditions had been ideal. Nevertheless, the outlook for the coming months was judged cautiously optimistic.

In the highly diverse field of corporate services, too, the business situation seems to be gradually improving. The demand for ICT services in the retail trade and banking sectors picked up. Large-scale projects, however, were still few and far between, and prices remained under considerable pressure. Other areas such as the cleaning trade have so far seen little improvement in business activity.

Overall, the banks reported favourable business activity despite losing some of their momentum after an excellent start to the year. The regional banks surveyed were able to increase both customer deposits and lendings, but emphasised that competition for good credit risks was becoming increasingly stiff. The corporate loans segment continued to develop at a sluggish pace. In addition to low demand for new loans, repayments were brought forward in many cases. Asset management, which suffered from the weak stock market and the modest inflow of foreign funds, was also rather torpid. Competition in this segment, too, is described as tough.

The retail trade continued to develop at a leisurely pace, even if the demand for consumer durables (furniture, electronics) has been boosted by dynamic residential construction. Moreover, in Ticino and the Lake Geneva region, retail trade profited from the declining appeal of prices in the Italian and French cross-border shopping areas, while in northern Switzerland it continued to be exposed to fierce competition from Germany and Austria. In general, customers continued to be extremely price-conscious and selective. While the major retail chains were able to maintain their turnover due to aggressive pricing policies, margins came under severe pressure. Small retail stores are still in a difficult position; so far, they have hardly felt the effects of the economic upswing.

Construction

The construction industry proper and numerous ancillary companies benefited from vigorous growth in housing construction in the last few months. Prices in this sector are thus firming slightly.

Commercial construction is beginning to stabilise due mainly to robust building activity in the retail sector. In the other sectors, companies were still reluctant to invest in new construction projects. Civil engineering continued to suffer from cost-cutting pressures in the public sector, except for the large-scale road- and rail-related projects associated with the new transalpine rail link (NEAT) and Rail 2000.

2 Labour market

Some of the companies surveyed increased their staff numbers in the last few months; in particular, these include companies in the chemical and pharmaceutical segments, the metal industry and the service sector. Overall, however, companies showed restraint in employing additional staff even if their order position was good. Production bottlenecks were still frequently overcome with the aid of external partners, with temporary work or overtime. The reasons named by the companies surveyed included uncertainty as to whether the upturn will be sustained and, in particular, the outsourcing of production abroad.

3 Prices, margins and earnings situation

Owing to stronger demand and productivity increases, a number of companies were able to improve their margins. For most industries, the possibilities of raising sales prices or passing on the higher costs remained very limited. This applied both to the manufacturing and the service sector, and especially to the retail trade. The main reasons given were the strong price competition from abroad as well as the sluggish growth in demand. In many cases, therefore, the sharp price increases for raw materials led to narrower margins. As a result of the rise in the heavy vehicle fee (HVF), many of the companies surveyed expect a further wave of cost increases at the beginning of 2005, which are unlikely to be offset through price hikes.

The export industry and the tourist trade are happy with the euro's current exchange rate. Generally, these industries regard a rate of CHF 1.50 to the euro as the critical limit. The current dollar rate is hampering exports to the US and Asia, and in some cases makes it necessary to grant currency discounts. However, an appreciation of the dollar would entail a drastic rise in material costs for some sectors.