

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 June 2005

The Swiss National Bank's delegates for regional economic relations are constantly in touch with a large number of enterprises 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 most important results of the talks held from March to May 2005 on the current and future economic situation are summarised.

Summary

The talks held with the delegates for regional economic relations with about 140 representatives of different business sectors and industries revealed a basically favourable picture. As compared to the previous round of talks, the general impression was one of economic improvement rather than deterioration. However, large variations from one industry to another persisted.

While a majority of exporters and construction companies were satisfied with business developments and prospects, the situation in services remained mixed. Slack consumer demand and falling prices continued to create difficulties for retailers. By contrast, the tourism industry and various areas within company-related services were more upbeat. This was particularly true of the transportation and logistics industries as well as IT services.

Although the business situation was satisfactory, investments remained restrained. Plans to invest in expansion were few and far between, and the same applied with respect to employment. Very few companies planned to increase staff numbers, although there was also very little mention of laying off staff either.

1 Production

Manufacturing

Almost all of the strongly export-oriented manufacturing companies surveyed reported good sales results for the period from March to May. In some cases these results exceeded expectations; indeed they appeared to have gained a little additional momentum towards the end of the period under consideration. Asia, the US and Eastern Europe remained the most important sources of this momentum, although a slowdown in the stimulus emanating from Asia was noted here and there. Most companies rated business with European countries, especially with Germany and France, as modest to poor.

Export activities remained firm across a broad range of sectors. Exports from the watchmaking, chemical/pharmaceutical and medical industries remained particularly brisk. Business results in the special machinery and metalworking sectors were extremely good, as were those recorded by electrical engineering companies, which benefited from the substantial increase in world production of electricity. Companies in the textile industry expressed grave concerns about Switzerland as a manufacturing location, and were considering outsourcing these activities abroad – in many cases to Asia. Some representatives of the food industry were also facing increasing competition from abroad.

Services

The retail industry experienced a poor start to the year. Survey respondents described buyer behaviour as reticent, selective and extremely price-conscious with no more than the occasional sign of a gradual upturn in consumer demand. Pressure from competitors forced major retail chains to reduce the prices of substantial portions of their product ranges, but this did not generate any appreciable increase in overall demand. Most respondents were gloomy in their assessment of future prospects, with both the lack of any sense of direction in consumption patterns and the strong pressure for structural adjustment causing concern. The favourable results obtained in the luxury sections of food products, beverages and tobacco, as well as the successful watch and jewellery fairs in Basel and Geneva represented a marked contrast to the depressed mood in the retail industry.

The improvements in the tourism industry that were beginning to become apparent in the previous round of talks were confirmed in the most recent interviews. A majority of survey respondents in the hotel business were optimistic about the winter sports season. Most catering and hotel businesses in towns reported increased numbers of guests and higher spending, especially among companies. However, the talks also revealed that the high-price segment is the main area to benefit from the economic upturn and that capacity utilisation in other businesses continues unsatisfactory. Establishments located outside town centres suffered considerable pressure on margins following the reduction in maximum permissible blood-alcohol levels for drivers under Swiss law.

The transportation industry registered excellent business results. This applied to both passenger travel and freight. For the first time in quite a while the IT sector, too, was more optimistic. Investments appear to be picking up gradually, a development that had been expected for some time because of the pressing need for replacements. As a result, both IT wholesalers and IT consultants benefited. The willingness to embark on additional investments in new technologies – such as broadband technology – has also grown in the past few months.

Banks were satisfied with business developments. While commercial loans remained sluggish and many credit lines were not used, mortgage business grew substantially. Once again, the waning risk consciousness of banks was a topic that was frequently mentioned. This was reflected in higher lending levels and rising appraisals. Asset management companies surveyed described business developments as good although competition is very tough and this – together with a higher level of customer price-consciousness – is placing commissions under considerable pressure.

Construction

A majority of construction companies surveyed regarded the business situation as sound although this favourable assessment still applied only to residential construction, which is growing strongly. Survey respondents continued to describe the situation in other sectors of the construction industry as flat. Most companies expected that impulses derived from residential construction would gradually wane and that other areas of construction would be unable to fill the gap.

2 Labour market

There were scarcely any signs of improvement in the labour market. Most companies from the manufacturing and service sectors surveyed had sufficient staff and were not planning to hire any more personnel. Those companies intending to recruit staff often failed to find candidates with the right qualifications. There was a hesitant improvement in the demand for management staff. Survey respondents were asked about the free movement of labour between Switzerland and the EU countries. Here the hospitality industry, in particular, reported marked improvements in the staff situation due to the availability of a large supply of well-qualified staff – especially from neighbouring countries.

3 Prices, margins and earnings situation

The pressure on prices remained strong in all industries and although survey respondents from manufacturing still saw the earnings situation in a positive light, retailers were recording lower margins because of price reductions. In addition to flat consumer demand, stiff price competition in retailing is due, in particular, to the imminent entry of German discounters into the Swiss market, but also fewer trade barriers. The construction sector also reported continued strong pressure on prices. Pricing pressure on construction-related industries seems to have mounted. This is because a growing number of foreign workers from neighbouring countries are offering their services at considerably more favourable conditions than the local trade.

The euro did not give any cause for concern. After the dollar had rallied again in the last few months, uneasiness surrounding a weak greenback slipped into the background somewhat. This notwithstanding, many industries still cite the dollar exchange rate as a major worry.