Business cycle trends

SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of September 2015

Third quarter of 2015

The Swiss National Bank's delegates for regional economic development are constantly in touch with companies from different areas of the economy. This report is based on discussions conducted from mid-July to early September 2015 with 182 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 breakdown of GDP (excluding agriculture and public services).

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SUMMARY

According to this survey, the economy showed weak signs of recovery in the quarter under review following the sharp appreciation of the Swiss franc due to the discontinuation of the minimum exchange rate on 15 January 2015. Recent exchange rate developments helped to ease the situation somewhat, as did the measures implemented by the entrepreneurs. These measures primarily resulted in cheaper conditions for procurement in Switzerland and abroad (cf. the separate exchange rate survey, pp. 32–37). Overall, real turnover was maintained at the level of the previous quarter; nominal turnover, however, continued to decline because of developments in selling prices. Margins were therefore still strained for many companies.

The outlook for real turnover growth in the months ahead has improved marginally. Companies are focusing their efforts on bringing margins back to a sustainable level. The headcount will continue to decrease slightly in the manufacturing industry, whereas investment activity is likely to remain at the current level overall.

BUSINESS ACTIVITY

Marginal improvement
In manufacturing, real turnover is roughly unchanged against the previous quarter, but there has been a marginal improvement. In nominal terms, however, turnover is in many instances still far lower than in the previous period because of low sales prices.

The machinery industry continues to register lower real turnover against the previous quarter. Plastics processing companies generated slightly higher real turnover, as did the food industry. The pharmaceutical industry is showing robust growth. The watchmaking industry, notably its suppliers, has experienced a noticeable slowdown.

As to foreign trade, sales to the US remain dynamic. An increase in demand from some European countries is also becoming more apparent, with Germany again as the driving force. Demand from the Arab region is also holding up well. The automotive industry is still a major contributor, as is the medtech industry. Many industries are registering a marked slowdown in business activity with Russia, but also with India and Brazil. Signals from China are mixed depending on the industry concerned.

Construction recorded a quarter-on-quarter decline in seasonally adjusted turnover, which still remains at a high level. This effect was observed both in structural and civil engineering. By contrast, momentum in the finishing trade is still strong.

In the services sector, real turnover is slightly higher than in the previous quarter. The picture remains mixed between sectors: higher turnover was generated by the transport industry, car dealers, information and communications technology (ICT) and, in some cases, the hotel industry. Passenger transport companies attribute this development mainly to the good weather. In the hotel industry, the large number of Asian tour groups coupled with higher domestic demand has helped to dampen the negative effects of the strong Swiss franc.

Retailers registered a noticeable drop in turnover. They attribute this development to cross-border shopping, among other factors. Shopping centres close to the border continue to report that they are empty at the weekend.

CAPACITY UTILISATION

The companies surveyed again rated production capacity as marginally underutilised overall. A total of 40% of responding companies assessed their capacity utilisation as lower than usual.

In manufacturing, almost half of the responding companies reported an underutilisation of capacity, with most industries being affected. Machinery manufacturers, the metals processing industry and some of the plastics processing firms considered their production capacity to be significantly underutilised. The machinery industry, in particular, has thus experienced a marked deterioration compared to the previous quarter.

In construction, utilisation of technical capacity is higher than normal overall, despite occasional signs of cooling; this is particularly true for the finishing trade.

In the services sector, most industries recorded a slight to significant underutilisation of infrastructure (primarily office and retail space as well as transport capacity). Passenger transport business was an exception, as it benefited from high numbers of day tourists taking advantage of the good weather.

DEMAND FOR LABOUR

Demand for staff unchanged

Overall, staff numbers are currently considered more or less adequate, however, manufacturing did indicate that staff numbers are slightly too high. This is particularly true for producers of electrical appliances and for the plastics processing industry. In construction, staff numbers are adequate. Within the services sector, headcounts in the catering and retail industries are slightly too high. By comparison, ICT companies tend to be looking for more staff.

The discontinuation of the minimum exchange rate against the euro has triggered a variety of personnel measures including hiring freezes and longer working hours for the same pay. A few companies laid off staff, with temporary employees being affected in particular (cf. information contained in the special survey below, pp. 32–37).

PRICES, MARGINS AND EARNINGS SITUATION

Margins still under severe pressure

The overall margin situation has improved somewhat compared with the previous quarter. However, margins remain under severe pressure in all three sectors of the economy. The pressure on prices triggered by the discontinuation of the minimum exchange rate is being felt. Over the past few months, many companies have lowered prices in order to remain competitive. In some instances, the measures implemented are already having an effect, and many industries are seeing signs of a recovery in margins. Among other factors, this can be attributed to the significant expansion of procurement abroad. By contrast, only rarely is there room for price increases.

A total of 55% of the respondent companies assessed their margins as being lower than usual, half of them even as significantly lower. Almost 30% of companies reported that margins were within the normal range. These percentages have not changed from the previous quarter. Numerous measures are currently being implemented to counter the tougher competitive situation (cf. results of the special survey below).

With the exception of the pharmaceutical industry, profit margins were judged to be lower or even significantly lower than usual in all branches of manufacturing.

Companies in the services sector also rated margins as narrower than usual overall. Wholesalers and catering companies had to contend with particularly narrow margins. By contrast, the banks' margin situation has improved somewhat.

OUTLOOK

Slightly brighter outlook

Uncertainty about the future development of the economy remains high. Nevertheless, real turnover is expected to increase marginally overall in the months ahead in all three sectors of the economy. The slightly improved economic situation in Europe and the more favourable exchange rate conditions against the euro and the US dollar will contribute to this development. Respondents in the services sector are the most confident in terms of the expected development of real turnover.

In all sectors of the economy, purchase and sales prices are expected to decline further, though to a lesser extent than in the previous quarter.

As to employment plans, the survey respondents in manufacturing anticipate further slight staff reductions, whereas the services sector and construction industry expect no changes.

Many companies imposed an immediate freeze on investment following the discontinuation of the minimum exchange rate. Overall, investment plans for the next twelve months show no signs of recovery. Only a few of the plans that were put on hold are now being implemented.

Respondents' inflation expectations – measured by the consumer price index – are still within negative territory, at –0.4% over the short term (6–12 months), compared to around –0.6% in the last survey. Expectations over the longer-term horizon of 3–5 years are 0.6%, as against 0.5% in the last survey.

Respondents' main concern is still the tight margin situation. At the same time, they are perceptibly relieved that the exchange rate situation has eased somewhat. Some of the discussions revealed fears that further effects from the strength of the Swiss franc may yet be felt in the economy over the coming months. In manufacturing, respondents are concerned about an accelerated and irreversible structural change. The implementation of the initiative against mass immigration has again shifted somewhat more prominently into the focus of entrepreneurs. Criticism was levelled at excessive regulation and an increasing bureaucratic burden. With regard to the international environment, the recent weak growth in China has raised some uncertainty.

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