

---

# Business cycle signals

## Results of the SNB company talks

### **First 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. A total of 243 company talks were conducted between mid-January and the beginning of March.

#### **Regions**

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

#### **Delegates**

Gregor Bäurle  
Urs Schönholzer  
Aline Chabloz  
Jean-Marc Falter  
Fabio Bossi  
Roland Scheurer  
Daniel Hanimann  
Rita Kobel

## Key points

---

- The Swiss economy was stable in the first quarter, with growth broadly based across various industries and markets. The tendency towards a slowdown observed in recent quarters did not continue. Many companies can look back on 2018 as a record year.
- All in all, utilisation of technical production capacity and business infrastructure continues to be at a normal level. In manufacturing, there are slightly fewer bottlenecks discernible than has been the case, although difficulties in recruiting specialists persist.
- Overall, profit margins are just below the levels considered normal. There are, however, marked differences between the various industry segments.
- Company representatives are still confident when looking to the next two quarters, although uncertainty has increased somewhat.
- Companies are planning to hire more staff and intend to spend more on equipment investment and buildings.

## CURRENT SITUATION

### Stable economic growth

The economy was in robust shape in the first quarter. Company representatives reported growth in real turnover, i.e. turnover adjusted for changes in sales prices, as being on a par with the previous quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). Consequently, the decline in momentum seen in the second half of 2018 did not continue.

Turnover remains pleasing, both domestically and on the export front. Demand is still broadly based in geographic terms, and business with Asia (specifically China, India, Japan, South Korea and Indonesia) as well as with the US is strong. There are largely positive signals with regard to Europe, too, and they are also more heterogeneous than before in the case of Germany, France and the UK in particular. Capital goods trade remains dynamic, as do sales of medtech goods and chemical and pharmaceutical products.

### Utilisation of production capacity normal

Utilisation of technical production capacity and business infrastructure has held at around normal for two years now (cf. chart 2). This is the case for just under half of the companies interviewed, with the remainder being spread evenly between reporting underutilisation and overutilisation. In the manufacturing sector, there were certain instances of supply bottlenecks, and long delivery times continued to be problematic for some companies.

### Staff numbers still rather low

Company representatives view their staff numbers as being slightly on the low side. However, the situation has eased somewhat quarter-on-quarter, in the services sector in particular. Staff levels were described by 26% of representatives as being slightly or much too low at present, compared to 32% in the previous quarter.

Many companies continue to cite the lack of specialists as being among their primary concerns. With the exception of the financial sector, all industries considered recruiting to be more difficult than usual. In this context, it was noted that the number of unsolicited applications has dropped and staff turnover has increased. Response rates to job advertisements are extremely low. IT specialists and engineers are among those in greatest demand. IT skills are essential in an ever broader range of professions.

### No change with regard to margins

There has been scarcely any change in profit margins. They continue to sit just below levels company representatives consider normal. Hardly any differences remain in this respect between the manufacturing and services sectors. In construction, however, margins are still lower than in the other two sectors. One reason for the pressure on margins are cost increases that cannot be fully passed on to customers.

Chart 1

### TURNOVER COMPARED TO PREVIOUS QUARTER



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

Chart 2

### CAPACITY UTILISATION



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

## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

As regards trade, real turnover was slightly higher than in the previous quarter. This is attributable to wholesale trade, and the vehicle trade in particular. In Q4 2018, delivery difficulties experienced by the German automotive industry had impacted sales for vehicle dealers. In the retail trade, the sales trend is flat and business infrastructure still clearly underutilised. Bricks-and-mortar retailers are feeling the strong competition from online rivals, which is putting pressure on margins.

Transport operators and logistics companies are showing very good business performance with high sales growth and good capacity utilisation. They have not yet observed the dip in demand that some companies in this industry usually expect in the first quarter.

Banks are profiting from the stock market recovery, although their margins are well short of the levels considered normal. This can be partially explained by the further decline in net interest margins, and also by the costs involved in implementing regulation and digitalisation.

2018 was a very good year for the hospitality industry. Thanks to particularly good weather and excellent snow conditions, turnover for the first quarter was at the same level as in the previous quarter. Margins are above the usual levels for both hotels and restaurants. Hotels and mountain railways are reporting slightly higher numbers of foreign guests. However, demand in the seminar hotel business seems to be faltering.

Companies in the ICT industry are reporting very favourable business activity with a sharp rise in turnover and margins on a par with normal. There is marked demand from manufacturing, banks and the public sector. In addition to the implementation of digitalisation, cybersecurity measures are an important driver in the IT business.

Sales momentum remains positive for engineering and architecture firms, travel companies and facility management services providers. However, the latter are facing fierce competition and their margins are well below usual levels as a result.

In manufacturing, the majority of industries recorded higher turnover quarter-on-quarter. One exception is the cardboard and packaging industry. Business is particularly dynamic among chemicals and pharmaceuticals firms as well as in the metalworking segment. With the exception of precision instrument makers and a few watch industry suppliers, the manufacturing companies visited reported normal capacity utilisation. Suppliers in the automotive industry are experiencing the effects of catching up on the decline in orders in previous quarters.

The construction sector is showing rather dynamic business performance and turnover is up on the previous quarter in seasonally adjusted terms. This is attributable to developments in structural engineering and the finishing trade. Production capacities remain slightly overutilised in civil engineering and the finishing trade, but this is no longer the case in structural engineering. Pressure on margins persists despite the healthy order situation. Some company representatives are concerned about the fact that construction activity is continuing although housing vacancy rates are already high in some regions.

Chart 3

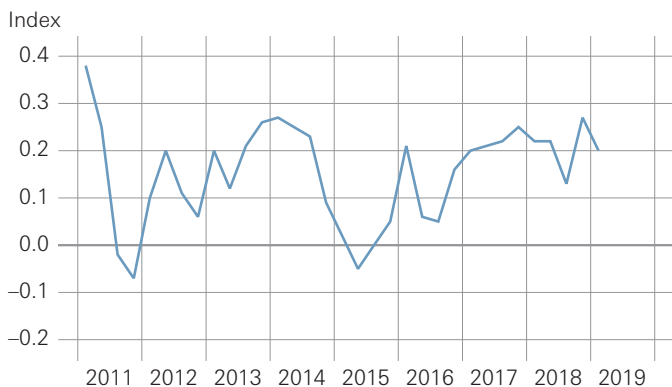
**EXPECTED TURNOVER**



Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate higher (lower) turnover expectations. Source: SNB

Chart 4

**EXPECTED CAPACITY UTILISATION**



Expected developments in utilisation of technical capacity and business infrastructure over the coming two quarters. Positive (negative) index values indicate higher (lower) utilisation expectations. Source: SNB

Chart 5

**EXPECTED EMPLOYMENT**



Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate higher (lower) expectations. Source: SNB

**OUTLOOK**

**Cautious optimism for 2019**

Company representatives are positive about their business prospects for the next two quarters on the whole, but expectations are somewhat more cautious than in previous quarters. This is partly due to the fact that somewhat greater risks are in the offing over the medium term. Meanwhile, companies also consider their prospects of being able to maintain last year’s very dynamic business performance as unrealistic. A certain degree of slowdown would therefore even be appreciated by some.

Overall, companies expect real turnover to rise (cf. chart 3). This confidence is based on the economic situation both internationally and domestically, which is still regarded as being favourable, coupled with a steady to above-average order situation and production capacities streamlined for efficiency. Potential opportunities exist in tapping into new sales markets and in the launch of new products.

With regard to the next two quarters, company representatives expect utilisation of technical production capacity and business infrastructure to be slightly higher than at present (cf. chart 4).

The persistently low interest rate environment encourages investment. Companies across all industries are planning to slightly increase investment expenditure for equipment over the coming 12 months or at least to maintain the current level. As in the previous quarters, just under a third of companies say equipment investment will lead to an expansion in production capacity. Companies in the services sector in particular also intend to increase their investment in buildings.

**Slightly higher purchase prices expected**

Company representatives anticipate a slight rise in purchase prices in the next two quarters, but barely any increase in sales prices. The strongest price momentum is expected in manufacturing. The rise in purchase prices is attributable to raw material prices being marginally higher as well as to good capacity utilisation among suppliers. By contrast, the retail trade expects prices to decline slightly, for purchases and sales alike.

**Further expansion in staff numbers**

The prospects of business activity remaining favourable, combined with the personnel shortages, are bolstering recruitment plans – companies are planning to increase staff numbers further in the next two quarters (cf. chart 5). There is no indication of staff cuts in any of the industries surveyed. Many firms are placing greater emphasis on in-house training and maintaining their appeal as an employer in an effort to attract and retain staff.

### Notable wage demands in certain instances

Companies are noticing a tendency towards higher salary demands among job applicants. Of the wage increases already announced for 2019, the average is some 1%.

### ENVIRONMENT AND RISKS

Uncertainty about future developments has increased somewhat. The risks mentioned by the company representatives primarily include threats of a geopolitical nature. Specific mention is made of trade disputes and their potential direct or indirect impact on companies. Other risks cited include Brexit, a sharp downturn in the global economy and increasing public and private debt.

Domestically, the challenge most commonly referred to was the distinct shortage of specialised staff. The institutional agreement between Switzerland and the EU, as well as the forthcoming corporate taxation reforms were also discussed. Renewed appreciation of the Swiss franc is also identified as a risk. Company representatives also raised the issue of increasing vacancy rates for apartments and the continuing high level of construction activity in this area. The extent to which regulation is weighing on a wide range of areas remains a recurring theme.

Digitalisation is a hot topic in many industries. It is now being seen more as an opportunity than a risk. The high requirements in terms of both investment and expertise remain key aspects.

### About this report

#### Approach

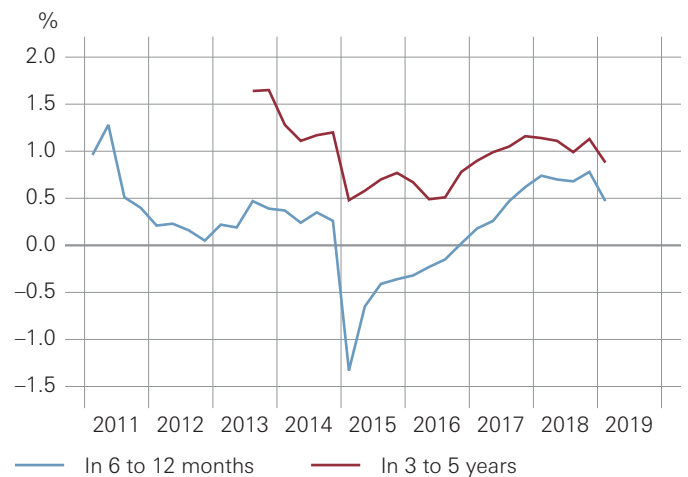
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

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.

Chart 6

### EXPECTED INFLATION



Source: SNB

### INFLATION EXPECTATIONS

As part of the exchange of views, the delegates also ask company representatives about their short and long-term inflation expectations as consumers, as measured by the consumer price index.

Inflation expectations are lower, in both the short and long term. The average for the next six to twelve months (blue line in chart 6) is 0.5%, compared to 0.8% in the previous quarter. Over the medium term – i.e. with a time horizon of three to five years (red line in chart) – the average is 0.9% (Q4 2018: 1.1%) This decline is likely to reflect a somewhat more cautious assessment of the general economic outlook.

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

Further information on the 'Business cycle signals' report is available at [www.snb.ch](http://www.snb.ch), *The SNB, SNB regional network*.

**Published by**

Swiss National Bank  
Economic Affairs  
Börsenstrasse 15  
P.O. Box  
CH-8022 Zurich

**Design**

Interbrand Ltd, Zurich

**Typeset and printed by**

Neidhart + Schön AG, Zurich

**Language versions:**

The *Quarterly Bulletin* is available in printed form in German (ISSN 1423-3789), French (ISSN 1423-3797) and Italian (ISSN 2504-3544), either as single copies or on subscription, from: Swiss National Bank, Library  
P.O. Box, CH-8022 Zurich  
Telephone +41 58 631 11 50  
Fax +41 58 631 50 48  
Email: library@snb.ch

**The *Quarterly Bulletin* can also be downloaded from the SNB website in the following language versions:**

English: [www.snb.ch](http://www.snb.ch), *Publications, Economic publications, Quarterly Bulletin* (ISSN 1662-257X)

German: [www.snb.ch](http://www.snb.ch), *Publikationen, Ökonomische Publikationen, Quartalsheft* (ISSN 1662-2588)

French: [www.snb.ch](http://www.snb.ch), *Publications, Publications économiques, Bulletin trimestriel* (ISSN 1662-2596)

Italian: [www.snb.ch](http://www.snb.ch), *Pubblicazioni, Pubblicazioni economiche, Bollettino trimestrale* (ISSN 2504-480X)

**Website**

[www.snb.ch](http://www.snb.ch)

**Copyright ©**

The Swiss National Bank (SNB) respects all third-party rights, in particular rights relating to works protected by copyright (information or data, wordings and depictions, to the extent that these are of an individual character).

SNB publications containing a reference to a copyright (© Swiss National Bank/SNB, Zurich/year, or similar) may, under copyright law, only be used (reproduced, used via the internet, etc.) for non-commercial purposes and provided that the source is mentioned. Their use for commercial purposes is only permitted with the prior express consent of the SNB.

General information and data published without reference to a copyright may be used without mentioning the source.

To the extent that the information and data clearly derive from outside sources, the users of such information and data are obliged to respect any existing copyrights and to obtain the right of use from the relevant outside source themselves.

**Limitation of liability**

The SNB accepts no responsibility for any information it provides. Under no circumstances will it accept any liability for losses or damage which may result from the use of such information. This limitation of liability applies, in particular, to the topicality, accuracy, validity and availability of the information.

© Swiss National Bank, Zurich/Berne 2019