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# Business cycle signals

Results of the SNB company talks

## Second 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-April and the end of May.

### Regions

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

### Delegates

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## Key points

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- The Swiss economy grew solidly in the second quarter with normal utilisation of production capacity. The tendency towards a slowdown observed in the second half of 2018 did not continue.
- Personnel shortages are ongoing and difficulties persist in recruiting specialist staff.
- Overall, profit margins are at comfortable levels.
- For the next two quarters, company representatives expect further growth, albeit somewhat more moderate. This applies to services, manufacturing and construction.
- Companies are planning to hire new staff and intend to spend more on equipment investment and buildings.
- The main risks come from the effects of trade barriers. Many company representatives voiced concerns about the situation on the real estate market.

## CURRENT SITUATION

### Robust economic growth

The robust expansion of the Swiss economy continued in the second quarter. Company representatives reported growth in real turnover, i.e. turnover adjusted for changes in sales prices, as being similar to the previous quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). The decline in momentum observed during the second half of 2018 in particular is thus confirmed to have halted. However, the heterogeneity in company performance appears to have become somewhat larger.

The favourable economic developments relate to both domestically focused and export-oriented business. In the case of the US and Asia (including Japan) business is dynamic, whereas China in particular is sending out very mixed signals. Trade with Europe is largely positive, but the picture is more varied with regard to Germany. Sales of medtech and biotech goods, chemical and pharmaceutical products, parts for the aviation industry as well as luxury goods remain dynamic.

### Utilisation of production capacity normal

Utilisation of technical production capacity remains at a normal level (cf. chart 2). Just under half of the companies interviewed rated their technical capacity utilisation as normal, with the remainder being spread evenly between reporting underutilisation and overutilisation. In manufacturing, the problems cited in recent quarters with occasional supply bottlenecks and long delivery times have eased.

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

### Staff shortages persist

Company representatives continue to view their staff numbers as being somewhat on the low side. Staff levels were described by 33% of representatives as being slightly or much too low at present. In manufacturing, this proportion was 41%.

All industries considered recruiting to be more difficult than usual. This is partly due to a lack of applicants but also to higher qualification and skill requirements in job profiles. The shortage of specialists thus continues to be one of the main concerns for many companies. There is a dearth of applications for open positions. IT specialists are among the professions in greatest demand. Company representatives from a range of industries are feeling the effects of the strong demand for such specialists in the financial sector in particular. Various respondents report that IT skills are essential in an ever broader range of professions. Engineers and technical specialists are likewise highly sought after. Several companies also report difficulties in filling apprenticeships.

### Margin situation generally unchanged

Although overall profit margins continue to sit just below levels company representatives consider normal, they are still well within comfortable limits. In manufacturing, margins are favourable, while construction companies continue to experience the strongest margin pressure.

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

Real turnover in trade was slightly higher than in the previous quarter. This applies to wholesale, retail and vehicle trade. In the retail trade, however, infrastructure is still considerably underutilised, though there are some signs that crossborder shopping is continuing to taper off.

Sales trends and capacity utilisation at transport and logistics companies are rather less favourable.

Banks, insurance companies and asset managers report continued dynamic business performance, although margins in the financial sector are falling short of the levels considered normal. This is partially explained by the further decline in net interest margins, and also by the costs involved in implementing regulation and digitalisation. These falling margins are only partly offset by the growth in customer deposits.

Sales in the hospitality industry are higher than in the previous quarter. Capacity utilisation and margins are at normal levels in the case of both hotels and restaurants.

Companies in the ICT industry are reporting continued favourable business activity with rising turnover and margins within the normal range. Digital transformation and cyber security are important drivers. Strong demand for IT services is being observed in manufacturing, the financial sector and also the public sector.

Sales momentum remains high for engineering and architecture firms, as well as facility management services providers, although the latter cite strong margin pressure caused by fierce competition.

In manufacturing, almost all industries recorded higher turnover quarter-on-quarter. Business is particularly dynamic for pharmaceutical firms, plastics manufacturers, precision instrument makers, metal-processing firms and energy suppliers. Production capacity utilisation is at a normal level in most industries, with the exception of mechanical engineering companies. Suppliers in the automotive industry are experiencing the effects of catching up on the drop-off in orders in previous quarters. The watchmaking industry is exhibiting solid business performance overall although this varies considerably between companies. Companies within the energy industry report lower than normal margins despite rising turnover.

Business performance in the construction sector is dynamic. In seasonally adjusted terms, turnover is up on the previous quarter and markedly higher year-on-year, while production capacities remain slightly overutilised. These developments apply to structural engineering, civil engineering and the finishing trade. By contrast, pressure on margins persists despite the healthy order situation. There are few signs of a significant slowdown in construction and, in some cases, the backlog is actually markedly higher than normal.

Chart 3

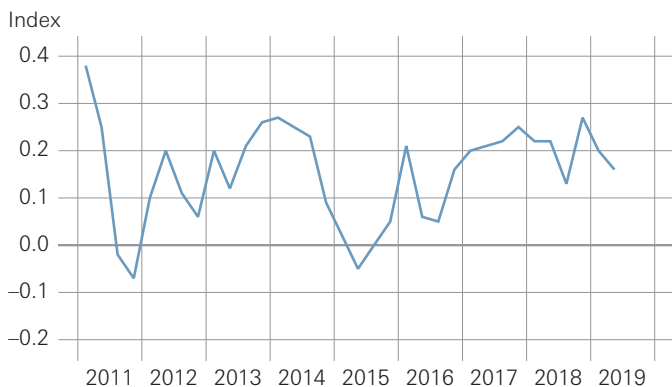
**EXPECTED TURNOVER**



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**

**Predominantly confident**

Company representatives remain positive about their business prospects. Overall, they expect slightly higher real turnover in the next two quarters, although their expectations are somewhat more cautious than in 2018 (cf. chart 3). Potential opportunities exist in tapping into new sales markets and in the launch of new products. The outcome of the referendum on corporate tax reform is contributing to the optimistic assessment.

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

The good capacity utilisation and the persistently low interest rate environment are still having a favourable impact on investment projects. In both the services and manufacturing sectors, companies are planning to slightly increase investment expenditure for equipment and buildings over the coming 12 months. The situation in the individual industries, however, is very mixed. As in the previous quarters, just over a third of companies say equipment investment will lead to an expansion in production capacity.

**Stable price expectations**

Company representatives anticipate purchase and sale prices to remain more or less stable over the next two quarters. Only representatives from manufacturing are expecting a slight rise in purchase prices. The upward pressure previously observed on raw material and preliminary product prices, as well as the recent high level of capacity utilisation among suppliers, are no longer noticeable.

**Further expansion in staff numbers**

Company representatives are planning to increase staff numbers further in the next two quarters (cf. chart 5). This reflects, on the one hand, the current personnel shortages and, on the other, the consistently favourable business outlook. Only a few textile firms, retailers and financial institutions are planning to reduce staff numbers. Many representatives are still prioritising in-house training and maintaining their appeal as an employer in an effort to attract and retain staff.

**Slight rise in aggregate wages**

The average wage increase for 2019 is approximately 1.2%. Almost 90% of the companies interviewed have agreed salary increases. Companies are noticing a tendency towards higher salary demands among job applicants.

## ENVIRONMENT AND RISKS

There has been little change in the perceived international risks since the previous quarter. Representatives primarily mention trade barriers and the potential impact, be it direct or indirect, on their companies. Chief concerns in this regard are the US-China trade dispute and Brexit. Other risks cited stem from high levels of public and private debt.

Domestically, the challenge most commonly referred to continues to be the shortage of specialised staff. The framework agreement between Switzerland and the EU was also addressed. Many company representatives raised the issue of the situation on the real estate market where construction activity is continuing despite high numbers of vacant apartments in some regions. They also often mention the risks for pension schemes arising from the persistently low interest rate environment. Although renewed appreciation of the Swiss franc is identified as a risk, the current exchange rate conditions are considered manageable. The extent to which regulation is weighing on a wide range of areas remains a recurring theme.

Digitalisation is being intensively explored in many industries. While the majority of projects in this area are already bearing fruit, isolated cases reveal the substantial scale of the strategic and financial risks that can arise.

### About this report

#### Approach

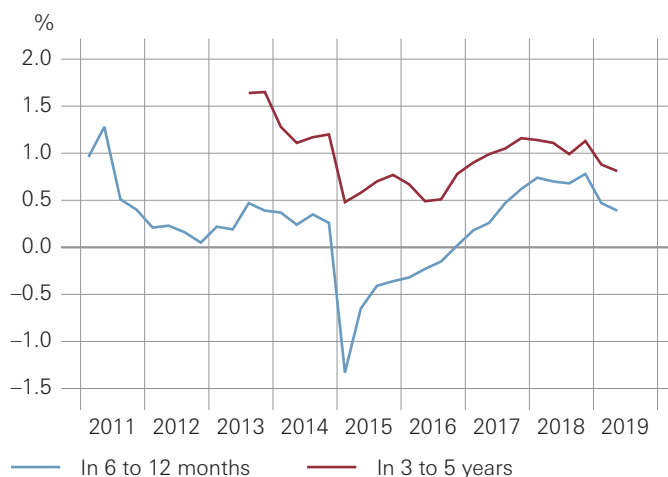
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

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 slightly lower, in both the short and long term. The average for the next six to twelve months (blue line in chart 6) is 0.4%, compared to 0.5% 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 0.8% (Q1 2019: 0.9%). This decline, which has been an observable trend for several quarters, primarily reflects the 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*.

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