
Business cycle signals

Results of the SNB company talks

First quarter of 2020

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 throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. 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 talks were held between 15 January and 2 March. The spread of coronavirus only became an issue in the discussions during the final week of February, and there was then a correspondingly marked increase in the level of uncertainty expressed by company representatives. However, there was no discernible impact on turnover at that point.
- According to the information from the discussions, the Swiss economy gained momentum somewhat through to the end of February.
- Thanks to higher turnover volumes, the pressure on profit margins eased back slightly.
- Overall, utilisation of technical capacity and of infrastructure was at normal levels through to the end of February. In manufacturing, capacity utilisation remained slightly below average.
- Up until the last week of February, representatives expected moderate growth in both turnover and staff levels for the next two quarters. Coronavirus fears subsequently cast a pall over the assessments. The fragile global economy and exchange rate developments also gave rise to uncertainty.
- Addendum: Additional talks held with companies and associations between 10 and 13 March revealed that coronavirus had led to a dramatic deterioration in the situation in certain industries in a very short period of time. Other industries not directly affected expected there to be a marked worsening in business in the coming weeks (see further information on the additional survey regarding the impact of coronavirus on page 31).

CURRENT SITUATION

Solid economic development until coronavirus outbreak

Numerous companies reported that business was faring well at the beginning of the year. Information from the discussions with representatives through to the beginning of March showed that the Swiss economy had gained momentum somewhat in the first two months of 2020. However, as coronavirus spread worldwide, uncertainty over developments going forward increased markedly as the period covered by the talks drew to a close.

To the surprise of some representatives, real turnover grew more strongly in the initial months of the year than in the preceding quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). The year-on-year comparison was also positive, and this was the case for the services, manufacturing and construction sectors alike.

Companies focused on the domestic market reported a discernible improvement in consumer sentiment in the period under review. As regards exports, representatives said business remained good with the US and also with Europe. Exports to the emerging economies likewise developed well. However, business with China was hit hard by the coronavirus epidemic and the protests in Hong Kong.

Utilisation of production capacity normal

Utilisation of technical capacity was at a normal level overall in the initial months of the year (cf. chart 2). Utilisation remained above average in the construction sector, but capacity was said to be still underutilised in manufacturing.

Some companies expected bottlenecks and delays in deliveries from China or other countries affected by coronavirus at that time.

Appropriate staffing levels

According to the company representatives, staff numbers were roughly in line with needs, with levels reported as being somewhat low in the construction and services sectors.

In many industries and in most regions, recruitment was still said to be difficult. The lack of specialists was mentioned roughly as frequently as in the previous quarter, and posed a key challenge for many companies. Demand remained particularly strong for IT and other technical specialists, and for building site managers. Many of the representatives attach great importance to in-house training.

Improved profit margins

Pressure on profit margins eased at the beginning of the year, this being attributable to higher turnover volumes coupled with cheaper components, intermediate products and raw materials. For the most part, margins were reported as being at 'sustainable' to 'comfortable' levels. That said, certain companies mentioned that their margins were suffering on account of the stronger Swiss franc.

Chart 1

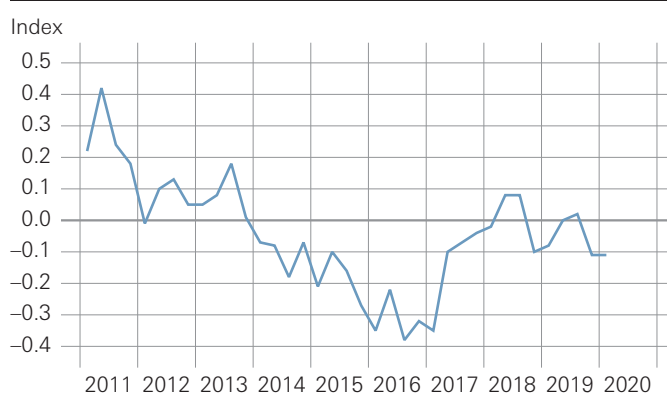
TURNOVER COMPARED TO PREVIOUS QUARTER



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 / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.
Source: SNB

Additional survey conducted from 10 to 13 March 2020 on the impact of coronavirus

In light of the rapid developments associated with coronavirus, the delegates for regional economic relations conducted additional talks with some 100 companies and associations between 10 and 13 March. These discussions thus took place before the Federal Council's decision on 16 March to close businesses nationwide.

The talks confirmed that the business situation in the sectors already hardest hit by the coronavirus crisis had drastically deteriorated within a very short time. Furthermore, the impact is also increasingly being felt by sectors that had previously been unaffected. Given this environment, companies are watching the development of the exchange rate with great concern.

Tourism, hospitality, entertainment and leisure, the watchmaking industry and bricks-and-mortar non-food retail all experienced a pronounced slump in turnover. As an initial measure, many companies are looking to introduce short-time working in order to counter impending liquidity bottlenecks. Further steps include reducing temporary staff, overtime and holiday

entitlement. Some companies have also introduced a hiring freeze and are reviewing or postponing investment projects. Working from home has been broadly implemented and is being expanded.

The retail trade is seeing a massive increase in the demand for food, protection and hygiene items, as well as fuel. Online distribution channels are experiencing a significant upturn and increased expansion. Pressure on the healthcare sector has grown considerably. By contrast, large sections of the manufacturing, construction and services sectors are, for the time being, only indirectly or slightly affected.

Supply and delivery bottlenecks have not yet been reported on a broad basis, with the exception of some antiviral protective items as well as, in certain instances, electronic components and metal deliveries from Asia. Companies which operate or work together with factories in China are, however, noticing that production there is gradually picking up again.

The closure of schools and borders is exacerbating the situation for companies with regard to staff management.

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

According to the company talks, real turnover in the trade sector was up on the previous quarter, particularly in retail, yet infrastructure remained underutilised in wholesale and retail trade alike. Online sales channels mostly showed high growth rates, and there was increased willingness to use or expand these. Certain companies said cross-border shopping had risen again slightly owing to the strong Swiss franc.

In the financial sector – i.e. among banks, insurers and asset managers – business volumes were markedly higher both quarter-on-quarter and year-on-year. Banks profited from market volatility and the attendant increase in transaction volumes. The interest margin business and the competitive environment were still regarded as being challenges.

Infrastructure was underutilised in the tourism and hospitality industries. Certain regions reported bookings being cancelled by Asian tour groups on account of coronavirus. The companies expected that business development would be impacted by the cancellation/postponement of a wide range of events.

Turnover in the ICT industry was said to be clearly higher both quarter-on-quarter and year-on-year, this driven by digital transformation, cybersecurity requirements and rising demand from the fintech area. Specialist staff were still in short supply. ICT companies were already experiencing delays in hardware deliveries from China.

Companies in the healthcare sector reported dynamic business performance.

In manufacturing, turnover was higher in all industries with the exception of machinery. Companies in the plastics production and processing, pharmaceuticals, and metals manufacturing and processing industries fared particularly well in this regard. In the case of machinery manufacturers, however, turnover stagnated. Utilisation in the machinery industry was lower than normal, and profit margins were under considerable pressure. In the watchmaking industry, demand was down markedly on account of coronavirus. Suppliers to the automotive industry continued to feel the impact of the uncertainties stemming from technological change and heightened environmental awareness.

In construction, seasonally adjusted turnover was higher quarter-on-quarter, this being in part due to weather-related factors. Business was particularly dynamic in the finishing trade and civil engineering, but turnover declined in the case of building construction.

The talks held during the current quarter indicate continuing signs of an impending slowdown in new residential building activity. Rising vacancy rates in the case of new-build apartments are also driving demand for the renovation of older buildings. A number of building construction and civil engineering companies are increasingly shifting the focus of their activities towards civil engineering as well as infrastructure projects with a view to improving margins.

OUTLOOK

Cautious optimism despite high level of uncertainty

Through towards the end of the review period, companies still said they expected turnover to be higher in the coming two quarters (cf. chart 3). However, in the final week there were increasing concerns over the impact of coronavirus. The representatives indicated that the rapid developments in connection with this epidemic were making it difficult to assess the outlook.

That said, the impact of coronavirus was unanimously regarded as being a temporary phenomenon. Companies said they expect there to be catch-up effects in certain instances.

In keeping with the slightly improved turnover expectations, through to the end of the quarter company representatives anticipated increased utilisation of their technical production capacity and infrastructure (cf. chart 4).

Caution regarding investment

Companies' willingness to invest remained modest. Firms in the manufacturing and services sectors intended to leave their expenditures on equipment investment and construction at existing levels in the next twelve months. For their part, construction firms planned to increase their spending slightly. Just under 30% of the companies surveyed said they intend to use their investments primarily to expand their production capacity. The low interest rate environment is continuing to support investment, which is focused above all on rationalisation projects as well as the expansion and modernisation of IT.

Stable price expectations

Representatives from the manufacturing and services sectors said they expected purchase and sales prices to be stable over the next two quarters, whereas construction firms anticipated declines. However, the companies had difficulty in assessing the impact the coronavirus epidemic will have on purchase prices. On the one hand, prices could rise as a result of shortages, but on the other they could fall as a result of a slowing global economy.

Chart 3

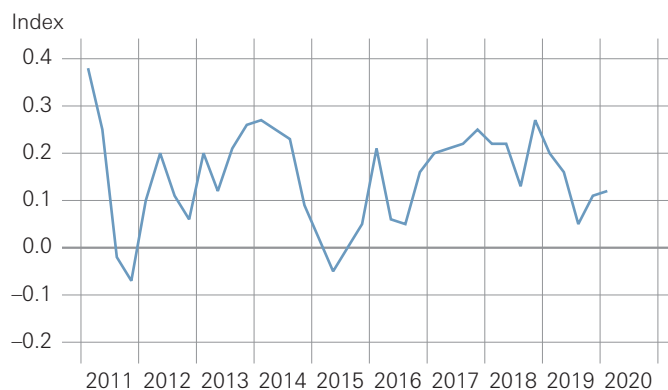
EXPECTED TURNOVER



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

Chart 4

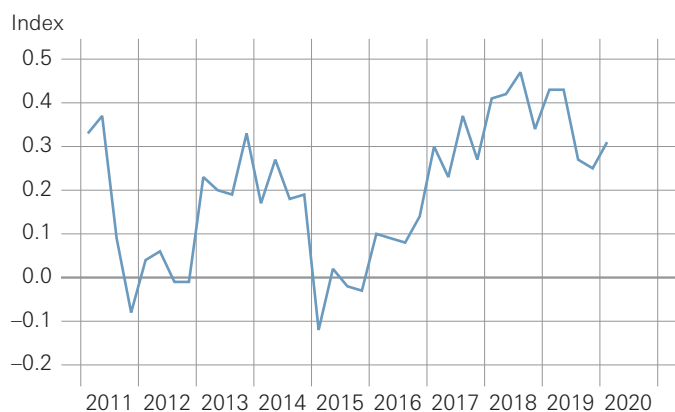
EXPECTED CAPACITY UTILISATION



Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).
Source: SNB

Chart 5

EXPECTED EMPLOYMENT



Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source: SNB

Planned expansion in staff numbers

Representatives said their companies intend to further increase staff numbers over the coming two quarters (cf. chart 5). Just under 40% of companies planned to hire more staff. These included, in particular, firms in areas such as ICT, architecture and engineering, real estate, facility management services, healthcare, pharmaceuticals and the finishing trade. Meanwhile wholesale companies said they planned to reduce staff levels slightly.

Based on the answers available, companies have increased wages by an average of 1.25% this year or plan to do so.

ENVIRONMENT AND RISKS

The uncertainty is currently very high on account of coronavirus. When the company talks were conducted, representatives had difficulty in assessing the implications. Concerns over the strength of the Swiss franc also increasingly came back to the fore.

Representatives remained concerned about the fragile global economy, protectionist tendencies and regulatory changes, as well as the persisting low interest rate environment. However, the low interest rates are also welcomed as they facilitate investment and help counter the Swiss franc’s tendency to appreciate. Uncertainty was fuelled further by delays in drawing up the institutional framework agreement with the EU and by the imbalances in the housing market.

The issue of sustainability was also brought up in many discussions. Companies recognise potential for new fields of business and are seeking to position themselves accordingly.

Many firms are engaging in digitalisation efforts aimed at rationalising and modernising their operating procedures. Numerous companies stressed the significance of cyber risks.

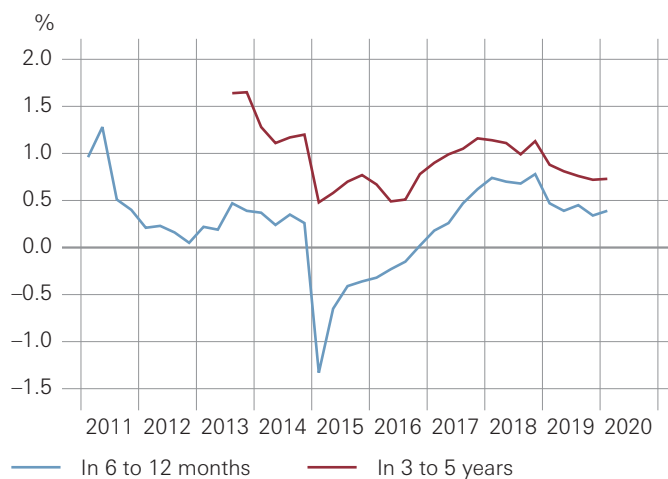
INFLATION EXPECTATIONS

The delegates also ask company representatives about their short and long-term inflation expectations as consumers.

Short-term inflation expectations – measured in terms of the consumer price index – were essentially unchanged. The average for the next six to twelve months is 0.4% (blue line in chart 6), compared to 0.3% 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 unchanged at 0.7%.

Chart 6

EXPECTED INFLATION



Source: SNB

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.

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, *The SNB*, *SNB regional network*.

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