Business cycle signals

Results of the SNB company talks

Third 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 212 company talks were conducted in the period from 21 July to 8 September.

In light of current events, the delegates addressed several additional issues, including specific questions on the liquidity situation and credit demand (for more details, cf. page 32).

Regions	Delegates
Central Switzerland	Gregor Bäurle
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Fabian Schnell

Key points

- After a severe economic downturn in the previous quarter, the third quarter saw a marked but only partial recovery.
- According to the information from the talks, real turnover is substantially higher quarter-on-quarter. Particularly in manufacturing, however, turnover is still significantly lower year-on-year. There are very big differences between industries and from company to company.
- In the services and manufacturing sectors, production capacity and infrastructures remain substantially underutilised. Profit margins have improved somewhat but remain below the levels considered normal.
- Against the backdrop of the economic situation, staff numbers are still described as being too high, particularly in manufacturing. So far, however, short-time working has enabled many companies to avoid redundancies.
- The procurement bottlenecks and obstacles to the delivery of goods and services seen in the second quarter have largely disappeared. Companies' liquidity situation has also noticeably improved.
- Uncertainty about the future outlook remains exceptionally high. The focus is on the impact of a possible second wave of infections and the associated threat of persisting weakness in global growth.
- The bridging loans offered by the federal government are seen as a very helpful and effective measure.

CURRENT SITUATION

Marked counter-reaction to previous quarter's severe economic downturn
After the severe economic downturn caused by the pandemic in the second quarter, with a nationwide closure of businesses in some instances, the quarter under review saw a marked but only partial recovery.

In the third quarter, real turnover in all three sectors – services, manufacturing and construction – saw a strong increase, and was substantially higher quarter-on-quarter (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). In manufacturing and parts of the services sector, however, turnover was still significantly lower year-on-year.

As regards exports, business with China, Japan and other Asian countries has continued to recover. Business with Europe was described as being very mixed. Signals with regard to the US and Latin America, by contrast, remain mostly negative. Medtech exporters are feeling the effects of muted demand from countries that have prohibited non-urgent surgery. The civil aviation sector continues to face major problems, which is having an impact on all suppliers. A factor lending support, on the other hand, is international defence sector demand.

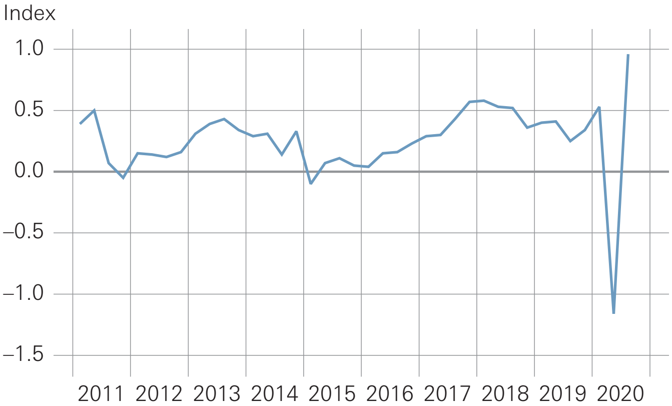
The assessment of the overall effect of the coronavirus crisis so far is somewhat less negative than it had been in Q2: in the quarter under review two-thirds of companies said that they had been negatively affected by the pandemic, most of them clearly so (cf. chart 2). Of the companies surveyed, 13% reported a positive impact, and 21% said the positive and negative effects had cancelled each other out.

Production capacity substantially underutilised
As a result of the crisis, technical capacity in manufacturing and infrastructure in the services sector remain substantially underutilised (cf. chart 3). In the services sector, this underutilisation was less pronounced than during the previous quarter. Representatives in the construction sector reported a slight overutilisation.

Few procurement bottlenecks remaining – only minor sales obstacles
Just under 80% of the companies said that they were no longer having difficulties procuring raw materials and intermediate products, which is comparable to the situation before the coronavirus crisis began. Of the companies surveyed, 17% reported that there were still bottlenecks and delays in deliveries from suppliers.

Chart 1

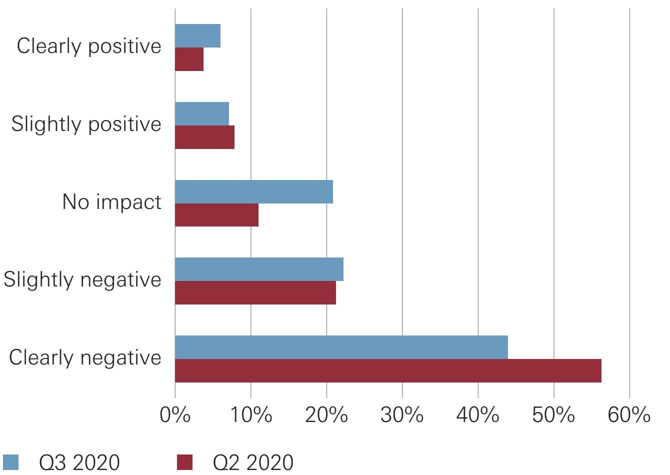
TURNOVER COMPARED TO PREVIOUS QUARTER



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

Chart 2

OVERALL EFFECT OF CORONAVIRUS CRISIS



Source: SNB

The sales situation at companies has also significantly improved. Only 18% reported difficulties in delivering their products and services as usual. The main reasons they gave were compliance with protective measures and travel restrictions. By way of comparison, in the second quarter 52% of companies were unable to deliver their products and services, either entirely or to some degree. There were a number of reasons for this (own premises or customer operations closed, deliveries refused, lack of transport capacity).

Various companies continue to report higher air freight costs.

Staff levels too high

After the outbreak of the coronavirus pandemic, representatives said their staff levels were much too high. Businesses reacted quickly with a range of measures, particularly short-time working. Thanks to the latter, larger-scale redundancies have thus far been prevented. However, in the quarter under review 37% of companies still said their staff numbers were too high. People leaving on account of natural fluctuations are in most cases not being replaced. Companies want to avoid redundancies for as long as possible, not least so as to avoid losing specialist know-how.

Companies have made the health of their employees a high priority. For this reason many continue to opt for home working and dividing teams.

Hiring significantly easier

Companies that were looking for new staff reported a strong increase in both responses to job advertisements and unsolicited applications, and said that hiring was significantly easier than is normally the case. They also said that the quality of applicants was higher than average.

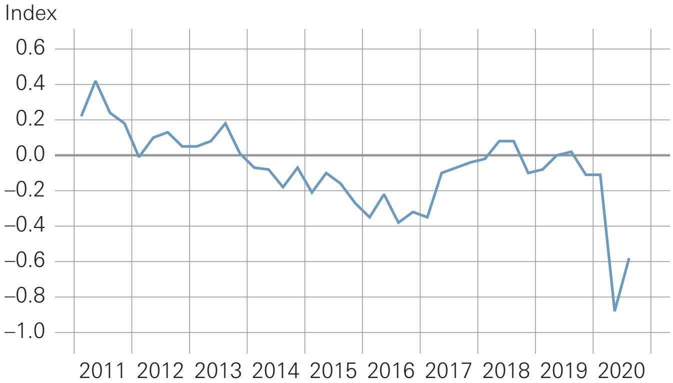
There are more specialists available again on the labour market, and a lack of specialised staff was only mentioned occasionally as a problem. There continues to be strong demand for IT experts in particular.

Improved profit margins

After the strong decline in profit margins for a large proportion of companies in the second quarter, the situation started to ease in the third quarter. While margins are still described as tighter than usual, thanks to the measures taken representatives said they were back at sustainable or comfortable levels. The availability of short-time working contributed significantly to this development. There are still very large differences between the industries and from company to company.

Chart 3

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

Liquidity situation and demand for credit

Since the outbreak of the coronavirus crisis, securing sufficient liquidity has been among the most pressing challenges facing companies. In response, the SNB included several additional questions on this issue in its company talks.

The liquidity situation has become more relaxed by comparison with the previous quarter. Just 25% of companies view their liquidity situation as tighter than it was before the outbreak of the coronavirus pandemic, down from 40% in the second quarter (cf. chart 4). On the one hand, there has been a quarter-on-quarter improvement in the earnings situation. On the other hand, the federal government's bridging loans, the introduction of short-time working and various other measures undertaken by companies to secure liquidity have had a stabilising effect. Half of the companies consider their liquidity situation to be unchanged, and 20% say it is now even better than before the outbreak of the crisis. This is in part attributable to optimised accounts receivable management. Most companies reported that they had experienced practically no bad debt losses. Added to this, representatives said that there had hardly been any delays in payment, whether on the part of their own companies or on the part of their customers.

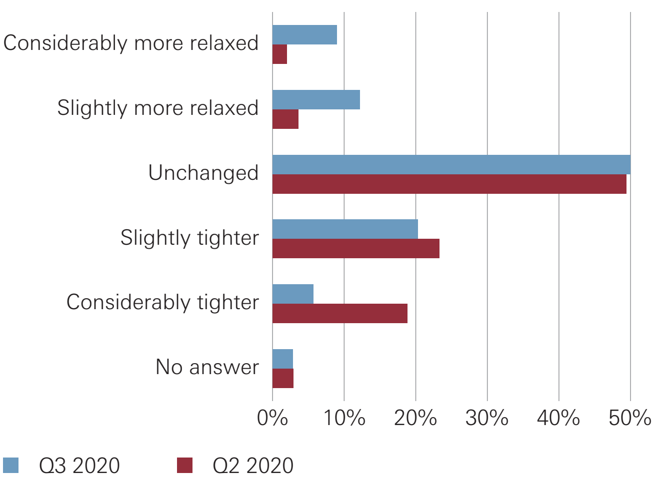
Demand for credit saw a significant quarter-on-quarter decline. While in the second quarter around one-third of the companies surveyed had applied for credit – whether bridging loans with full or partial joint and several guarantees from the federal government, or other loans – in the quarter under review only 2% of companies did so. Some companies applied for COVID-19 loans as a precautionary measure but have not yet drawn on them.

A large number of representatives (39%) who were able to answer this question had the impression that the banks' lending conditions had not changed due to the coronavirus crisis (cf. chart 5). Equal proportions of representatives characterised the banks' lending conditions as either being tighter or more relaxed than before the crisis (around 7% in each case). In some cases, the banks themselves approached their clients to offer them loans and other assistance. Companies who had been in contact with the banks found them very cooperative.

The quick and unbureaucratic implementation of the federal government's bridging loans, coupled with short-time working, have generally received a lot of praise in business circles. These measures have played a significant role in building confidence.

Chart 4

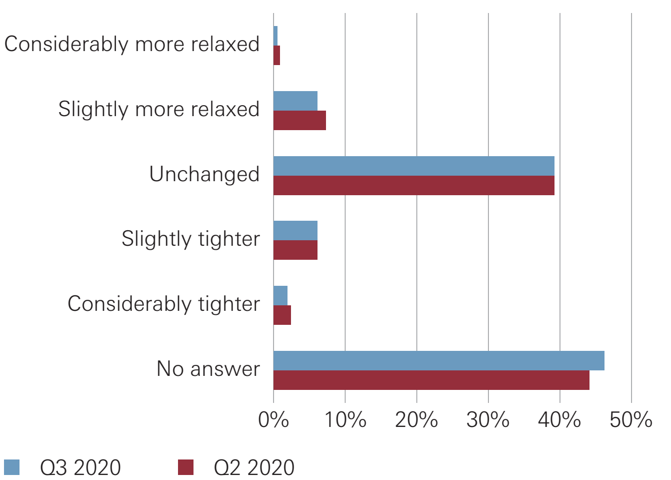
LIQUIDITY SITUATION



Source: SNB

Chart 5

LENDING CONDITIONS



Source: SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Thanks to strong 'catch-up' effects, real turnover in the trade industry saw a significant quarter-on-quarter increase overall and is now back at 2019 levels. Bricks-and-mortar retail in particular recorded dynamic business activity, but turnover in the wholesale trade and trade in motor vehicles remains lower than last year. Infrastructures are still slightly underutilised. Online distribution channels have become much more important than before coronavirus and are seeing accelerated expansion. The retail trade was also supported by the fact that cross-border shopping activity remained modest.

The tourism and hospitality industries likewise recorded substantial quarter-on-quarter gains in real turnover. However, the situation varies extremely widely depending on the region and customers targeted. As regards hotels, there is a marked difference between those in tourism regions geared to Swiss guests, which often reached the limits of their capacity over the summer, and those in towns and cities that are geared to international guests, which saw a marked decline in turnover year-on-year. There continues to be hardly any business travel. Industry representatives believe there is a risk that some companies might carry on encouraging staff to work from home and use videoconferencing to some extent due to travel restrictions, and that this could result in a lasting decline in turnover.

Restaurant turnover remained lower year-on-year. The reasons for this are restrictive hygiene measures, the absence of larger events, persistently low demand for lunch catering, and a general mood of caution among consumers. Restaurateurs are looking ahead with concern to the time when they will only be able to serve guests indoors.

The entertainment and leisure industry, as well as conferences and trade fairs, are still among the segments most affected by the pandemic, this being reflected in a correspondingly pronounced decline in turnover, infrastructure utilisation and margins.

The financial industry reported higher business volume both year-on-year and quarter-on-quarter. In particular, business involving direct contact with customers returned to normal. The issuance of COVID-19 loans has become much less frequent. In the low interest rate environment, the interest margin business is still seen as a challenge. Margins are below the levels considered normal, and infrastructure utilisation remains low. For this reason, various banks intend to further reduce their branch networks.

The ICT industry saw significant increases in real turnover both on a quarter-on-quarter and year-on-year basis. Customers are gradually resuming projects that had been put on hold. Customer contact is increasingly possible again, and the need for fast, functioning and secure IT infrastructure is driving demand.

Business has returned to normal for healthcare companies, especially now that non-urgent surgery and treatments can be performed again. Turnover was significantly higher quarter-on-quarter and slightly higher year-on-year. Capacity was slightly overutilised.

In manufacturing, all industries recorded a moderate to strong quarter-on-quarter increase in real turnover. With the exception of pharmaceuticals and construction-related manufacturing, however, they all reported a year-on-year decline in turnover. Business activity at companies in the mechanical engineering, electrical engineering and metals industries was significantly lower year-on-year. Production capacity remains underutilised practically everywhere, and profit margins are below the levels that would be considered normal.

There is still a marked weakness in the watchmaking, automotive and aviation industries, which is also impacting the sectors that supply them. Various industries reported positive impetus from investments in road and rail infrastructure.

In construction, seasonally adjusted turnover was higher on both a quarter-on-quarter and year-on-year basis. All three industries in the sector – building construction, civil engineering and the finishing trade – recorded dynamic business activity. There are now essentially no regional differences, these having been particularly pronounced in the second quarter. In all areas, the hygiene and distancing rules continue to restrict productivity somewhat. Construction industry representatives expect business to slow in the coming quarters.

When asked about the situation on the real estate market, many respondents raised the issue of rising vacancy rates for rental properties. There was mention of discernible pressure on commercial property leases.

OUTLOOK

Cautious optimism amid a high level of uncertainty
Companies expect to see a continued, albeit weaker, increase in turnover in the coming two quarters (cf. chart 6).

One-fifth of companies anticipate a return to pre-crisis levels in the coming year; a further 20% do not expect this to happen until 2022 or later (cf. chart 7). Just under 60% of companies say turnover will have returned to pre-crisis levels this year already or will no longer be showing a decline. In general, however, uncertainty remains very high. The availability of a vaccine plays an important role in companies' assessment of various future scenarios.

The representatives anticipate a slight increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 8), in line with higher turnover expectations. Individual companies anticipate further 'catch-up' effects as their customers resume projects that had been postponed.

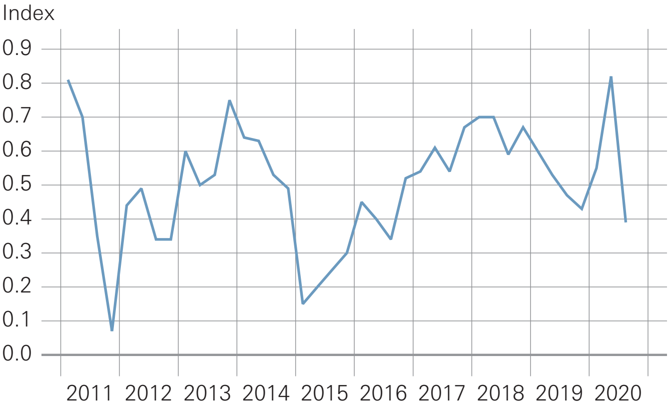
Caution regarding investment
Against the backdrop of persisting uncertainty, most companies remain cautious with regard to investment given the need to secure liquidity and in light of muted demand. Representatives from all three sectors – services, manufacturing and construction – said they intend to slightly reduce their expenditure on equipment and construction in the next twelve months.

Only 25% of the companies planning to invest said they intended to use their investment primarily to expand their production capacity. The focus is above all on projects to increase efficiency as well as the expansion and modernisation of IT. Low interest rates continue to support such investment.

Stable prices expected
Representatives anticipate stable purchase and sales prices for the next two quarters. By comparison with the second quarter, where the price-dampening effects of a weaker global economy dominated, the situation has stabilised. Relatively stable commodity prices and exchange rates are likewise contributing to this easing.

Chart 6

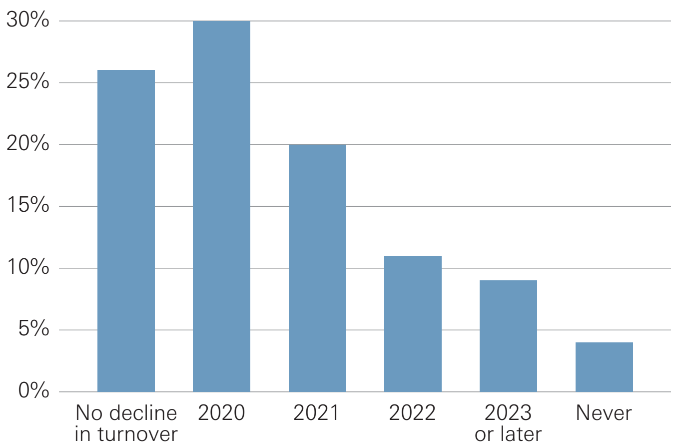
EXPECTED TURNOVER



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 7

RETURN TO PRE-CRISIS TURNOVER LEVELS



Source: SNB

Planned reduction in staff numbers
Representatives said their companies intended to slightly reduce staff numbers in the next two quarters (cf. chart 9). Unlike the previous quarter, when this was the plan in all three sectors, in the third quarter it was primarily the manufacturing sector, where 37% of companies plan to cut back their staff.

By contrast, the ICT industry, auditing, consulting and architecture firms, and healthcare companies plan to increase staff numbers.

ENVIRONMENT AND RISKS

Uncertainty remains extraordinarily high on account of coronavirus. Representatives see the biggest risk in a second wave of infections and the possibility of another lockdown. There are also fears of a continued rise in unemployment and persisting weakness in global growth.

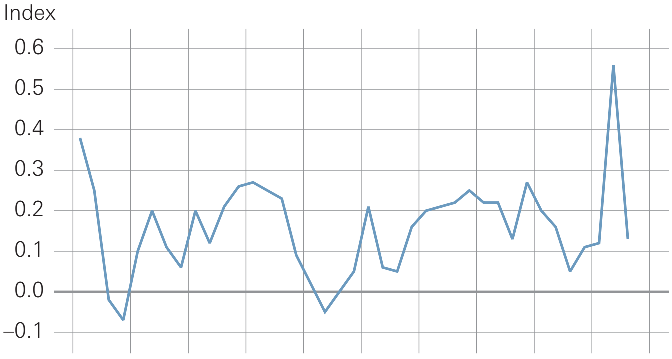
Representatives are also troubled by the increase in sovereign debt worldwide. Furthermore, they see a certain degree of risk in the longer term in the additional debt taken on by the federal government and companies alike.

In light of the potential for inflation, the representatives are keeping a critical eye on ultra-loose monetary policy around the world. The US dollar's volatile price and tendency to weakness were frequently mentioned. While concerns about the strength of the Swiss franc against the euro have faded somewhat into the background, the stability of this exchange rate is still seen as important. Against this backdrop, there is understanding for negative interest as a means of curbing Swiss franc appreciation. The independence of the SNB is important to the representatives.

The widespread use of working from home has given a significant boost to digitalisation efforts. The representatives said they also saw this development as an opportunity.

Chart 8

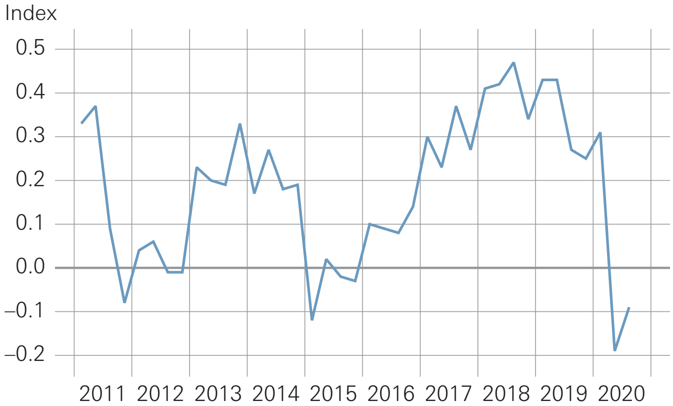
EXPECTED CAPACITY UTILISATION



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 9

EXPECTED EMPLOYMENT



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

INFLATION EXPECTATIONS

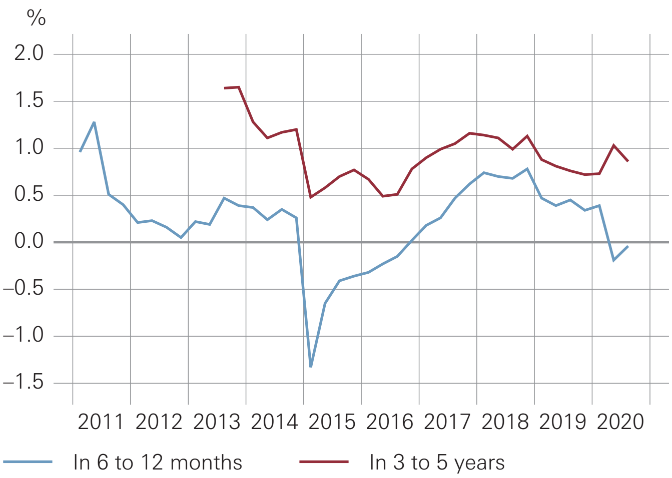
The delegates also ask company representatives about their short and long-term inflation expectations as consumers.

Short-term inflation expectations – measured in terms of the consumer price index – have increased slightly. The average for the next six to twelve months is 0% (blue line in chart 10), compared to –0.2% in the previous quarter. Over the longer term – i.e. with a time horizon of three to five years (red line in chart) – the average has declined from 1.0% to 0.9%.

The reasoning behind these expectations often lies in prices remaining stable over the short term owing to low demand and strong competition, while in the longer term the expansionary monetary policy and state support measures are more likely to lead to inflation.

Chart 10

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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