Business cycle signals

Results of the SNB company talks

First quarter of 2023

Report submitted to the Governing Board of the Swiss National Bank for its quarterly monetary policy assessment.

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and members of management at companies throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 221 company talks were conducted between 17 January and 7 March. The announcement of the takeover of Credit Suisse by UBS on 19 March was thus not during the reporting period.

Regions	Delegates
Central Switzerland	Astrid Frey
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	Marco Huwiler

Key points

- Turnover growth in the first quarter of 2023 was robust overall. While the services sector is displaying somewhat stronger momentum, turnover growth in manufacturing continues to weaken.

- Companies are more confident than in the previous quarter and expect turnover to increase significantly in the coming quarters. The reasons they cite for their growing confidence are reduced concerns about the energy situation, the solid development in new orders, especially in domestic business, and a less pessimistic outlook for the global economy. The crisis surrounding Credit Suisse was not yet to the fore at the time of the talks.

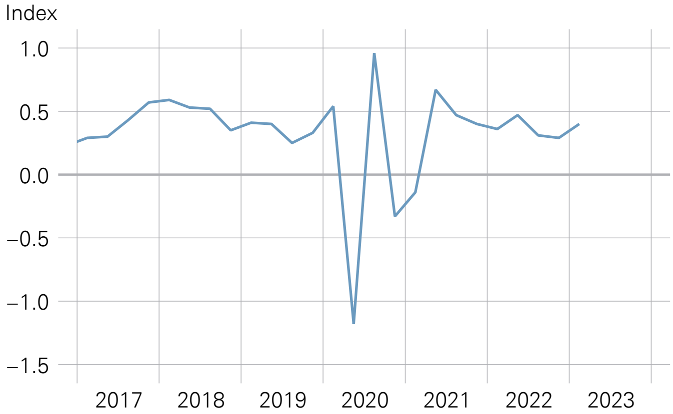
- Recruitment difficulties remain a big challenge for many companies. The tight labour market and the increased rate of inflation are leading to higher wage growth in 2023.

- The supply chain situation continues to ease gradually. While delivery times and prices remain elevated for many goods, in only a few cases are these factors now curbing production.

- Companies expect to see a slowing down in the hitherto strong increases in purchase and sales prices. The expected slowing in growth is somewhat less pronounced for sales prices than for purchase prices, owing mainly to attempts to cushion the existing pressure on margins resulting from past cost developments.

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(s): SNB

Chart 2

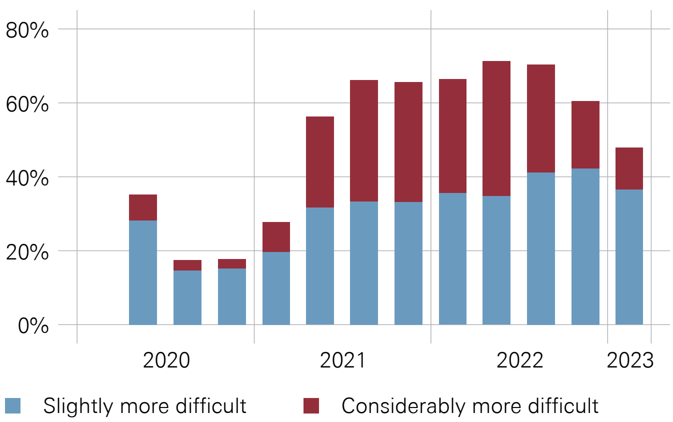
CAPACITY UTILISATION

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(s): SNB

Chart 3

PROCUREMENT SITUATION



Share of companies facing a more difficult procurement situation as compared to a normal situation.

Source(s): SNB

CURRENT SITUATION

Sustained growth in turnover

Real turnover growth, in other words turnover growth adjusted for price changes, increased slightly in the first quarter (cf. chart 1). Especially in the services sector there is somewhat stronger momentum. Growth in construction also remains solid. In manufacturing, by contrast, growth continues to weaken. Manufacturing companies are observing weaker momentum in foreign demand, especially from Europe. Companies often mention that in Germany in particular, declining purchasing power is curbing demand. At the same time, orders from the US and from emerging economies such as those in Latin America and the Middle East remain robust. While the improved procurement situation is also providing support to the manufacturing sector, staff shortages are restricting growth in some cases.

Production capacity and infrastructure utilisation close to normal

Utilisation of companies' technical production capacity and infrastructure has deteriorated slightly, although overall it remains at close to normal levels (cf. chart 2). However, technical capacity in export-oriented manufacturing industries, which are particularly hard hit by the global economic slowdown, is in part underutilised.

Further easing regarding procurement

The procurement situation continues to ease. While around half of companies say they are still having to contend with a difficult procurement situation (cf. chart 3), the proportion reporting considerable supply problems has declined from around one-third in the summer of 2022 to a little over 10%. There are hardly any supply problems any more for raw materials such as steel and timber. The supply situation for high-quality metals, packaging materials and electronic components, by contrast, is still problematic. Many companies have increased their inventories of procured materials to make their production less vulnerable to supply bottlenecks.

Recruitment situation remains tight

The staffing situation is giving many companies cause for concern, with almost half of company representatives describing their staffing levels as too tight. Recruitment difficulties remain pronounced (cf. chart 4) and often hinder a stronger expansion in staffing levels. When it comes to specialists in technical professions, such as engineers, but also specialised manufacturing staff, the shortages have even worsened somewhat recently. This means that manufacturing is particularly hard hit by recruitment difficulties. IT specialists also remain in great demand. Whether the job cuts at international IT companies will lead to an easing in the supply of labour in Switzerland is still difficult to assess at present. Meanwhile, a certain easing can be observed in the recruitment of commercial staff. Recruitment in the construction industry is also somewhat less difficult than in previous quarters.

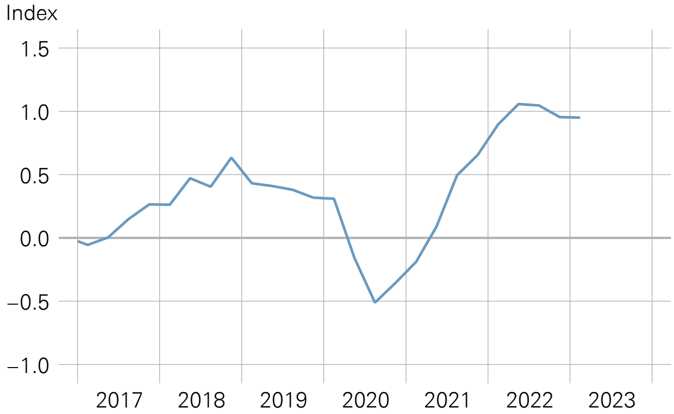
Largely robust profit margins and stable liquidity situation

The margin situation at the majority of companies remains robust (cf. chart 5). However, higher prices for intermediate goods and energy, as well as wage increases, are putting pressure on margins. For this reason, companies are adapting their sales prices to the increased costs. They are also continuing to implement measures to improve efficiency. Some companies say that they intend to use the general increase in prices to improve their margins. Increasingly, however, producers of consumer goods report that dwindling purchasing power is restricting their room to manoeuvre in pricing.

With the development of turnover positive in most cases and the margin situation robust, the liquidity situation also remains comfortable for the vast majority of companies. A few companies report that difficult business development in combination with high investment requirements or the repayment of COVID-19 loans is weighing on their liquidity.

Chart 4

RECRUITMENT DIFFICULTIES

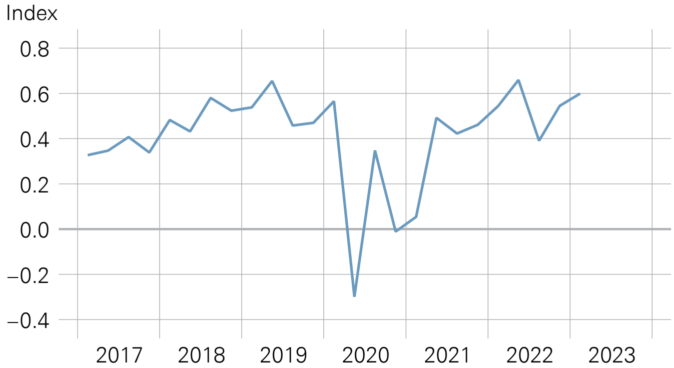


Difficulties in recruiting new staff. Positive (negative) index values signal a worsening (easing).

Source(s): SNB

Chart 5

CHARACTERISATION OF MARGINS



Characterisation of the current margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Little momentum in the trade industry
Volumes in the trade industry are growing modestly overall. Retail companies are noticing a shift in demand from products in higher price segments towards cheaper alternatives. Company representatives suspect that this is due to price increases and lower purchasing power. In addition, the uncertain economic situation is seen as a curbing factor for durable consumer goods. This is also affecting the motor vehicle trade, where prices and leasing rates have been raised significantly recently. Uncertainty about the future development of electricity prices is also leading people to delay decisions to purchase electric vehicles. However, in the wake of an ongoing easing in the supply chain situation a catch-up effect can still be observed, meaning that vehicle sales are still rising quite significantly. Turnover in wholesale and logistics are increasing, albeit to varying degrees depending on the product and sales market. The robust domestic economy, especially construction, is proving to be a support.

Mixed situation in hospitality
Turnover in food services was slightly higher overall than in the previous quarter. In many cases, however, capacity utilisation has not yet returned to pre-pandemic levels. Some establishments have noticed a continued restraint when it comes to company events, and a reduction in business during the day owing to homeworking and the reduced on-site presence of employees.

In the hotel industry, occupancy is increasing significantly thanks to higher numbers of guests from English-speaking countries and the Middle East. While guests from China are still largely absent, tourist regions expect a substantial catch-up effect in the quarters to come. The number of overnight stays by domestic guests remains at a high level. In some cases, however, hotel establishments have noticed that people have become more price-conscious than they were last year. The fact that travelling abroad is now possible again without further complication means that competition is intensifying. In addition, a lack of snow at low altitudes has put pressure on guest numbers in the establishments concerned.

Robust growth in the financial and ICT industries
The financial industry enjoyed sustained growth during the reporting period. This positive development is mainly due to the fact that the interest business is more profitable again. Added to this, solid demand for residential property is underpinning the mortgage market despite higher interest rates. The development of the asset management business has been somewhat subdued. Many clients are acting cautiously in the current environment.

Turnover in the ICT industry has continued to increase strongly. Thanks to digital transformation and the great need for cybersecurity, this industry still has high growth potential.

Development in manufacturing subdued
The development of business in manufacturing is subdued overall. Especially at export-oriented companies, order intake is weakening and companies are working off a solid order backlog. Manufacturers of metal products, electronic devices and chemical products, for example, are seeing momentum slow appreciably. Order volumes from the German automotive industry in particular are subdued. Food producers attribute the muted development in their volumes to a decline in purchasing power in many countries. In the watchmaking industry, too, extremely strong demand has given way to a slight decline. Turnover in the life sciences industry is returning to normal following extraordinary business activity during the pandemic.

Domestically oriented companies, by contrast, are seeing robust growth. The level of new orders for suppliers to the construction industry, for example, remains gratifyingly high. Building renovation and services related to higher energy efficiency continue to be in particularly high demand.

Order situation in the construction industry remains good
Companies in the construction industry are seeing hardly any signs of a slowdown. They point to a persistently high order backlog in infrastructure projects and lively demand in residential construction. A supporting factor is strong demand for energy-efficient renovations. It is still difficult for companies to assess how higher interest rates on the one hand and robust population growth on the other will affect construction activity on balance. The availability of building land and obstacles when it comes to obtaining building permits are also cited as limiting factors.

OUTLOOK

Growing confidence
Companies expect robust turnover growth in the next two quarters and are thus more confident than at the end of last year (cf. chart 6). Their growing confidence is based in most cases on a solid order book. It is evident that domestic demand is developing robustly, a situation that the majority of companies expect to continue in the coming quarters. In addition to this, export-oriented companies' concerns about the development of the global economy have eased somewhat and business is expected to pick up. In particular, demand from China is expected to increase following the lifting of the zero-COVID policy. However, this opening is also likely to be accompanied by growing competition in procurement and sales markets.

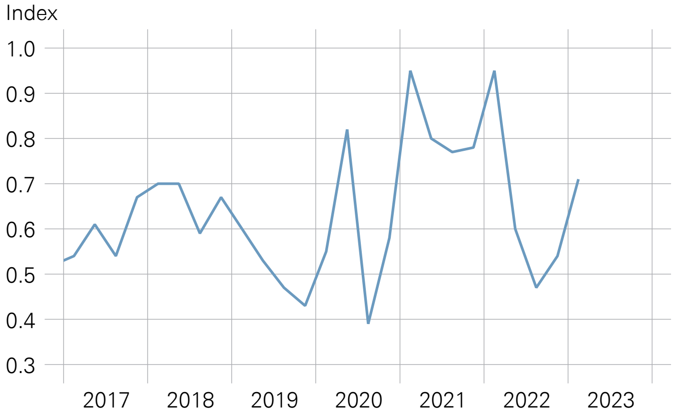
In line with the positive outlook and the strained personnel resources at many companies, there are plans to further expand staff numbers (cf. chart 7). Owing to the tight recruitment situation and higher inflation, companies have decided to increase wages by an average of 2.6% this year. In many cases they are raising lower wages by a higher percentage than high wages in order to specifically counteract the decline in purchasing power. For 2024, they expect wage growth to fall back below 2%. However, companies often point out that the development of their business and inflation measured at the time of wage negotiations will have a significant influence.

Companies expect investment activity to be somewhat higher overall in the coming 12 months than it was last year. They are favouring investment in automation and IT infrastructure as a means of countering shortages of staff. Some companies are stepping up measures to reduce their energy costs. For some time now, for example, there has been a growing trend to install solar panels on the roofs of buildings.

Slowed increase in purchase and sales prices
Thanks to an easing in the supply chain situation and lower wholesale prices for raw materials and energy, companies now expect increases in purchase prices to be significantly lower (cf. chart 8). In many cases representatives of companies in manufacturing and construction even expect purchase prices to fall. This applies in particular to raw materials such as timber and steel. The services sector, by contrast, expects purchase prices to rise further, albeit moderately, citing higher wage and energy costs at suppliers.

Chart 6

EXPECTED TURNOVER

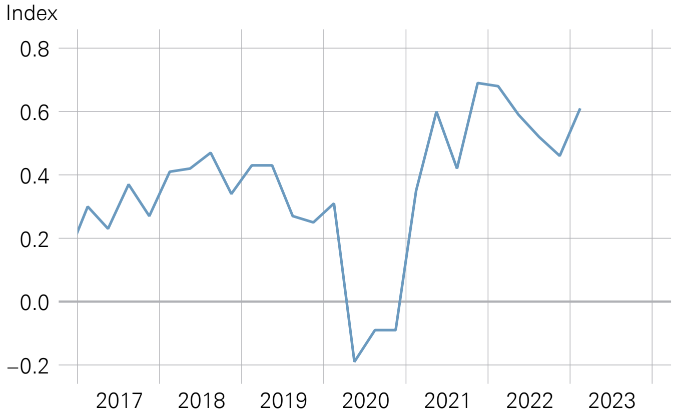


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

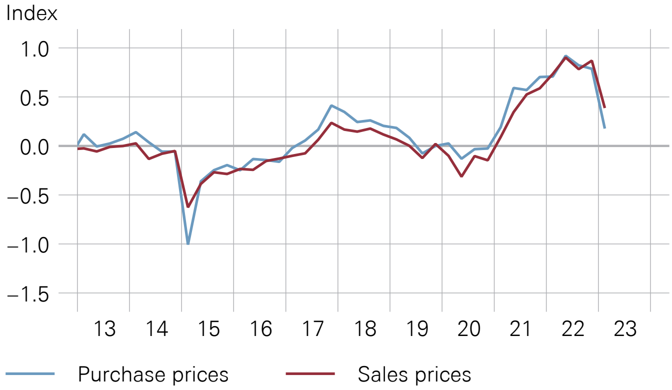


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES

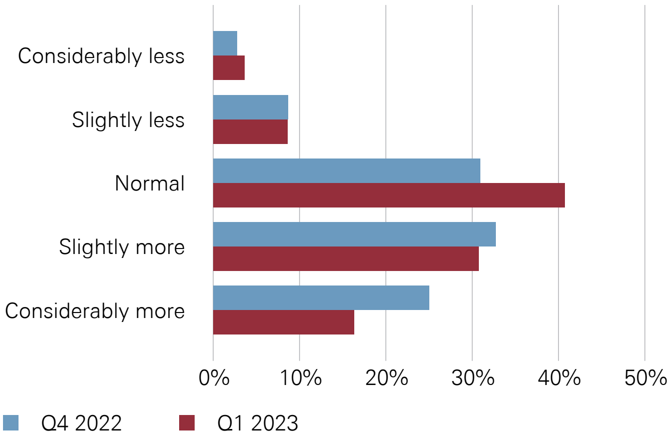


Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.

Source(s): SNB

There are also signs of a certain easing in sales price increases. However, the anticipated increases in sales prices are higher than for purchase prices, and remain above the long-term average. Companies say the reason for the planned increases in sales prices is that so far it has not been possible to fully pass on the higher costs and that there is thus a need to catch up. A few companies report that they are planning price increases in order to improve their margins.

Uncertainty decreases

Uncertainty about the future course of business is still seen as high, but not quite as pronounced as last year. There has been an appreciable decline in the proportion of companies that are less able than usual to assess the development of turnover in the next two quarters (cf. chart 9). However, the crisis surrounding Credit Suisse was not yet to the forefront of discussions during the reporting period.

The reduced uncertainty was mainly due to the fact that the risk of immediate electricity shortages has receded into the background and the procurement of intermediate goods is causing fewer difficulties. Added to this, the solid development of orders in the domestic economy in particular is making it easier to plan.

The development of the international economy also tends to be viewed as somewhat less uncertain. However, it remains difficult for companies to assess the impact of high inflation and rising interest rates. Geopolitical imponderables are also still contributing to the uncertainty even though their impact has not worsened any further.

Staff shortages are frequently cited as a risk factor. Some companies doubt that it will be possible to implement the planned increases in staff numbers. The shortage of labour is increasingly seen as more than just a short-term challenge. As society ages, more and more people are going into retirement, and the trend will accelerate further. Companies are therefore trying to make themselves more attractive as employers. They are also stepping up investment in digitalised or automated business processes to mitigate the effects of staff shortages.

The majority of companies see digitalisation as an opportunity, but dealing with cyber risks remains an ongoing challenge. The trend towards sustainability is similar. Many companies are benefiting from the investments they have made and are identifying new areas of business. At the same time, regulations related to sustainability and, above all, changing customer preferences, are forcing companies to adapt their business models.

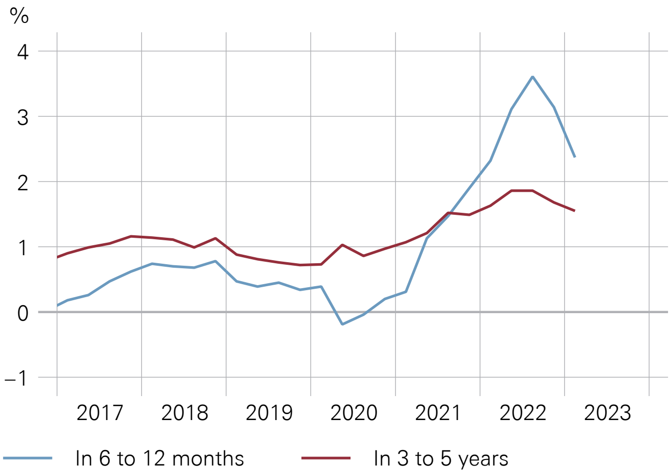
INFLATION EXPECTATIONS

The delegates also ask company representatives about their short and medium-term inflation expectations.

There has been a further decline in short-term inflation expectations as measured by the consumer price index: The average for the next 6 to 12 months (cf. chart 10) is 2.4%, compared with 3.1% in the previous quarter. This significant decline can be explained by the fall in energy and raw material prices in recent months. In the medium term, company representatives expect inflation to level off to within the range that the SNB equates with price stability. Their inflation expectations over a three to five-year horizon are 1.5%, a somewhat lower figure than the previous quarter. Company representatives emphasise the important role of the central banks in ensuring price stability in the medium term.

Chart 10

EXPECTED INFLATION



Source(s): SNB

About this report

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

Over 200 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 administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. 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, 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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