Business cycle signals

Results of the SNB company talks

Second 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 241 company talks were conducted between 18 April and 6 June.

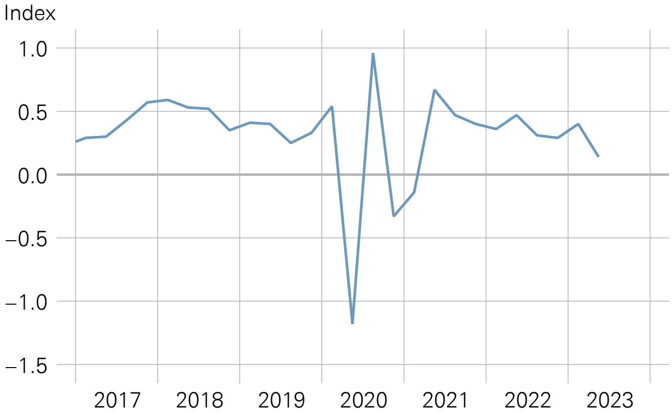
Regions	Delegates
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Marco Huwiler

Key points

- After strong growth at the beginning of the year, turnover increased only modestly in the second quarter.
- Despite the weakening in growth, most companies are satisfied with business activity. Utilisation of technical capacity and infrastructure remains good, for example. Despite concerns about the global economy in the coming quarters, companies anticipate a return to robust turnover growth.
- Companies assess staff shortages as somewhat less pronounced than in the previous quarter, however the staffing situation is still the main concern for many.
- Supply chains have largely normalised. Only in isolated cases do long delivery times still represent an obstacle to production.
- Companies anticipate stable purchase prices over the next six months. Some foresee further increases in sales prices, although with price competition having reportedly picked up again, these are likely to be less pronounced than in previous quarters.

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

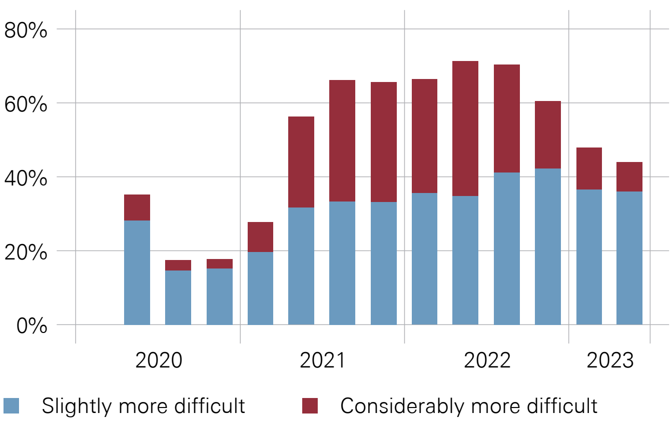
CAPACITY UTILISATION

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

Growth in turnover weak

Real turnover growth, in other words turnover growth adjusted for price changes, weakened significantly in the second quarter (cf. chart 1). There have been hardly any further increases in turnover in manufacturing and construction. Momentum in the services sector has also weakened by comparison with the previous quarter, although it remains positive overall.

Export-oriented companies are experiencing waning momentum in their sales markets. Demand from Europe in particular has been weak, and especially from Germany, where an inflation-related loss of household purchasing power is weighing on demand for consumer goods and higher financing costs are reducing demand for capital goods. Many customers are also reducing inventory levels, which is curbing orders temporarily. Order intake from China is also turning out to be disappointing. On the other hand, companies describe turnover in the US as comparatively robust. Demand from Latin America and the Middle East is also reported to be quite solid.

As regards the domestic economy, momentum has been mixed. IT companies and domestically-oriented financial services providers continue to enjoy robust demand. In these industries the shortage of staff is the key limiting factor. Construction is benefiting from sustained demand for energy-efficient renovations. However, some construction companies and their suppliers are noticing signs of a slowdown in new projects and extensions in the building construction field. A noticeable growth slowdown is also evident in consumer-related industries, with retailers, logistics companies and producers of durable consumer goods reporting weak demand. The food services industry also experienced a rather weak quarter owing to a prolonged spell of poor weather.

Capacity utilisation solid

Despite weak growth in turnover, companies report that utilisation of their technical production capacity and infrastructure remains at a close to normal level overall (cf. chart 2). The improved procurement situation is providing support to some manufacturers, allowing them to now work off accumulated order backlogs. Services companies also report normal utilisation of their infrastructure. Only a few firms still say they have too much office space owing to homeworking. At the same time, homeworking is enabling some companies to expand their workforce without coming up against limits in terms of space.

Further easing regarding procurement
The procurement situation continues to ease. While around one-third of companies say they are still having to contend with a difficult procurement situation (cf. chart 3), the proportion facing serious supply problems has declined from around one-third in summer 2022 to well below 10% most recently. There are hardly any supply problems any more for raw materials such as steel and timber. However, the supply situation remains problematic for certain metal parts and electronic components, especially from Asia. Owing to the tight supply situation, many companies have increased their inventories of procured goods and materials in recent quarters to make their production less vulnerable to supply bottlenecks. As the situation on the procurement side eases, companies are now drawing these high inventories back down again somewhat.

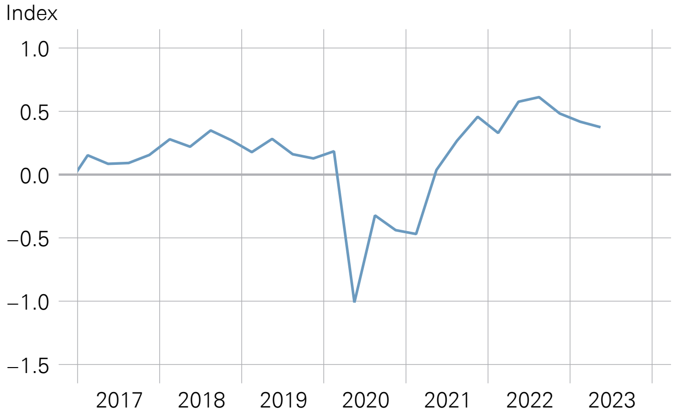
Slight reduction in staff shortages
Companies assess staff shortages as somewhat less pronounced than in the previous quarter (cf. chart 4). Even so, this continues to be the main concern for many, with around 40% of companies still describing their staffing levels as too tight. Recruitment difficulties remain substantial and often hinder stronger workforce expansion. When it comes to technical professions such as engineering, but also specialised staff in industrial manufacturing, the hiring situation has even worsened somewhat recently. In construction it remains difficult to find specialists to plan and carry out energy-efficient renovations.

On the other hand there are signs of a slight easing in the availability of IT specialists. Downsizing at the big tech firms is helping to fill vacancies a little faster in some areas. This applies chiefly to companies offering attractive conditions for highly qualified IT specialists. A certain easing can also be observed in the recruitment of commercial staff. The difficulties in recruiting unskilled workers have also eased.

Largely robust profit margins and stable liquidity situation
For the vast majority of companies, margins are still sufficient to conduct business and make the necessary investments (cf. chart 5). Some of these companies also have a certain buffer. Only about one in six firms describes its margins as not being sustainable. This share has risen slightly compared to the previous quarter. The margin situation is primarily a problem for companies where a weakening in demand coincides with significant increases in costs. In the services sector, wage increases are putting pressure on margins, while scope for price increases is limited. In manufacturing, on the other hand, margins are improving, partly thanks to declining purchase prices.

Chart 4

STAFF SHORTAGES

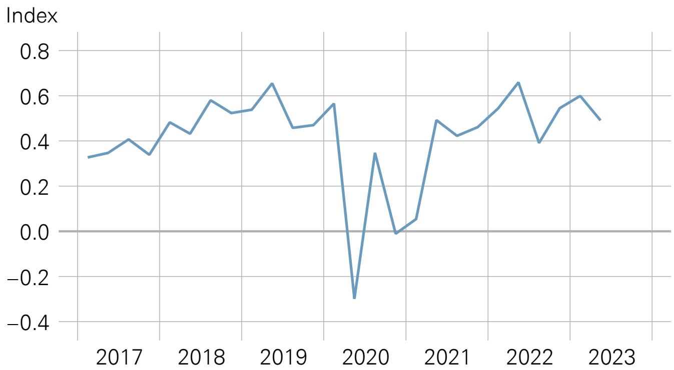


Assessment of current staff numbers. Positive (negative) index values signal staff numbers that are lower (higher) than necessary.

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

For the most part, companies' liquidity situation also remains comfortable thanks to robust margins. Although the cost of financing investments has risen in line with the general increase in interest rates, there are otherwise virtually no signs of a change in the banks' lending conditions.

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Disappointing sales volumes in retail

Turnover growth in retail has been weak. A number of retail companies report that consumers have reacted more strongly than expected to price increases. Added to this, the rainy weather at the beginning of the second quarter curbed appetite for leisure-related purchases, for example sports or gardening equipment. In connection with leisure in particular, companies also mention that a certain degree of normalisation after the pandemic-related boom is limiting turnover growth.

While the motor vehicle trade was able to increase sales in the second quarter, as it was possible to deliver vehicles delayed by supply bottlenecks, the intake of orders was disappointing. In addition to reduced purchasing power, the uncertainty as to which drive technology will prevail as well as higher lease instalments owing to increased interest rates were cited as dampening factors.

Turnover growth in wholesale was also weak. With demand in many industries weaker than expected, inventories increased. Companies have been responding by reducing orders, which has curbed sales in wholesale and logistics. This has been accompanied by increasing price pressure.

Mixed signals from hospitality industry

In the hotel industry, numbers of guests from abroad are still below the record pre-pandemic levels. The full return of Chinese guests has been delayed, in part because of limited flight and visa availability. However, this shortfall has largely been made up for by travellers from other regions of Asia, the US and the Middle East. This clientele is seen as being wealthy, and various establishments have endeavoured to position their offering accordingly.

The positive development of the hotel industry is also reflected in solid demand at food services establishments geared to tourism. At the same time, some reported lower turnover compared with the previous quarter, particularly owing to rainy weather at the beginning of the period during which the talks were conducted. Companies also seem to be restraining spending on corporate events.

Financial and ICT industries see mixed development

Momentum in the financial industry during the reporting period was mixed. Domestically-focused financial services providers report that business developed well, highlighting their interest income in particular. Banks with significant international asset management business, by contrast, are observing some caution among their clients in an uncertain economic and monetary policy environment.

Turnover growth in the ICT industry remains high due to the digital transformation taking place at many companies and the pronounced need for cybersecurity solutions.

Utilisation good but outlook subdued in construction

Order books in construction remain solid overall. Demand is underpinned by the great need for energy-efficient renovations and the general shortage of residential space. However, there are growing signs of a slowdown in the coming quarters. Private clients, for example, seem to be increasingly restrained when it comes to extension plans, with higher construction costs likely having a dampening effect. In general, companies report increased competition for new contracts. The availability of building land and obstacles associated with obtaining building permits are also cited as limiting factors.

Slowdown in broad sections of manufacturing

Broad sections of manufacturing are affected by a slowdown, although in some cases there are pronounced differences between industries. Many companies in the mechanical engineering, electrical engineering and metals industries, for example, report significant weakening. They include some companies involved in the manufacturing of metal products. There was frequent mention of customers reducing inventory, which is curbing demand. By contrast, manufacturers of goods required for the energy transition continue to see robust demand. This also applies to suppliers to the construction industry, for example those that manufacture products for energy-efficient renovations or energy infrastructure. Other suppliers to the construction industry are simultaneously witnessing a decline in their volume of business; this is often explained by the fact that interest rates have risen.

Business is also subdued for suppliers of consumer goods. Companies are experiencing restrained demand for durable goods as well as for high-price foods. Some watch manufacturers, by contrast, have been able to significantly increase turnover and thus escape the general slowdown in growth. While demand remains strong globally, watchmakers, like companies in other industries, are reporting disappointing sales in China.

OUTLOOK

Confidence largely intact
Despite the recent slowdown in growth, most companies remain optimistic about the next two quarters and anticipate robust turnover growth (cf. chart 6). Manufacturers in particular are in most cases confident that the effects of inventory reductions will fade as the year progresses or that they will be able to overcome the present dip with better market positioning and innovative products. Services companies also expect their business to regain momentum on a broad basis.

In line with the positive outlook and current staff shortages, they plan to expand staff numbers (cf. chart 7). Owing to the difficult recruitment situation and higher inflation, companies have increased wages by an average of 2.7% this year. For 2024, companies currently expect wages to increase by 1.9%. However, in many cases they point out that the development of their business and inflation measured at the time of wage negotiations will have a considerable influence on the agreements reached.

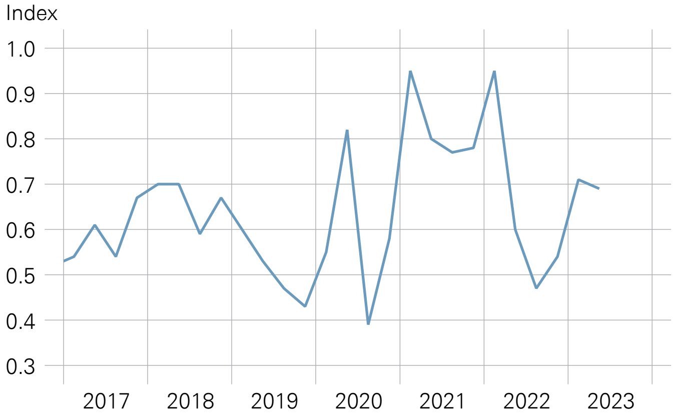
Compared to the previous quarter, companies expect the increase in investment activity to be somewhat lower over the coming 12 months. Some have recently completed major investments and are therefore now being more restrained. The pent-up demand after the pandemic is dwindling. Companies continue to favour investments in automation and IT infrastructure as a means of countering staff shortages.

Increase in purchase and sales prices slows
Given the easing in the supply chain situation, lower commodity prices and intensifying competition in the wake of the global economic slowdown, companies expect hardly any further increases in purchase prices (cf. chart 8). Some representatives from manufacturing and construction even anticipate declines – in some cases of a significant magnitude. This applies in particular to raw materials such as timber and steel. The services sector, by contrast, expects purchase prices to increase further, albeit moderately, citing increased wage and energy costs at suppliers.

On the other hand, there are more frequently plans to increase sales prices further. Companies say this is due to their having been unable to fully pass on increases in wage and procurement costs and that there is still some need to catch up in this respect. While price increases met with unusually low resistance in some cases in recent quarters, the competitive situation now means such moves are frequently becoming difficult again.

Chart 6

EXPECTED TURNOVER

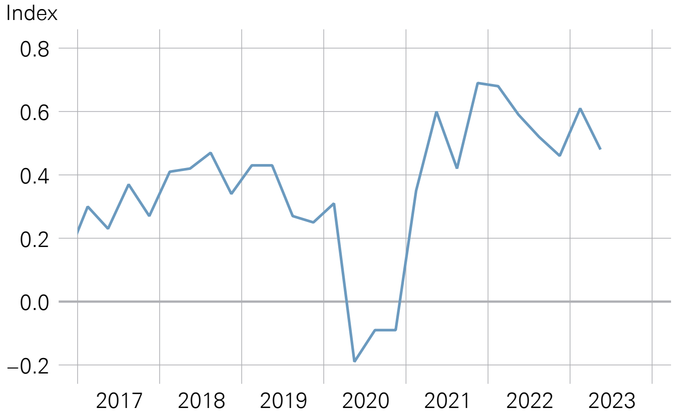


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

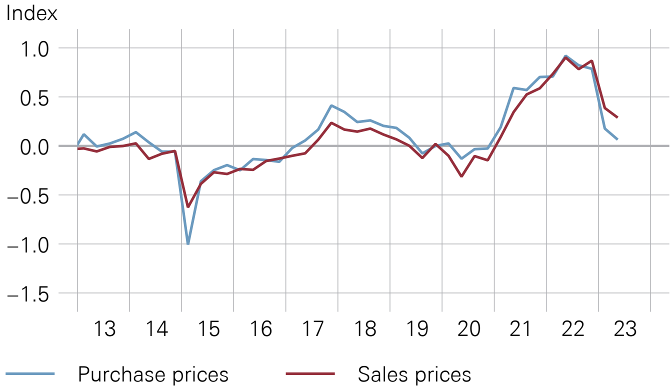


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

EXPECTED CHANGE IN PURCHASE AND SALES PRICES

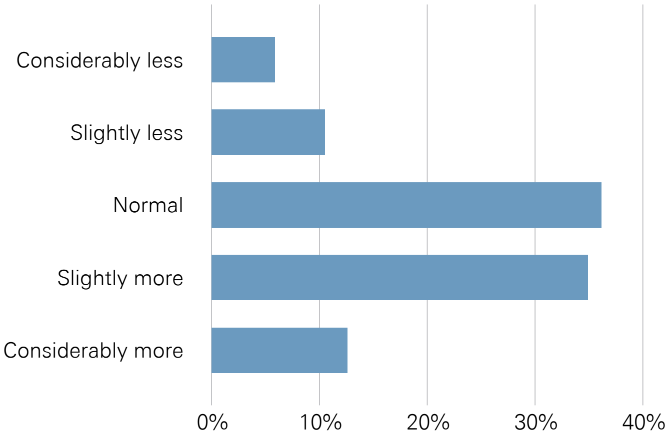


Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.

Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.
Source(s): SNB

Uncertainty remains heightened

Compared to last year, companies perceive uncertainty about the future course of business to be somewhat less pronounced. Concerns about the supply of energy are currently no longer in the foreground, although an energy shortage is still seen as a risk for the coming winter. An easing in the supply chain situation is also helping to make it easier to plan.

However, a number of imponderables means uncertainty is still above what is considered a normal level for almost half of companies (cf. chart 9). They are voicing concerns about the economic outlook, for example. Even though most representatives expect business to pick up again, they are unsettled by the current weakening in demand. They are still finding it difficult to assess the impact of inflation and higher interest rates. The geopolitical situation, especially the war in Ukraine and the tensions between China and Taiwan, are also cited as sources of uncertainty. Some companies also see their sales prospects jeopardised by increased protectionism from China.

Owing to the turmoil in the US banking industry and the crisis at Credit Suisse, financial stability was mentioned as an additional risk by some companies, especially at the beginning of the period during which the talks were conducted. The medium-term effects of UBS's acquisition of Credit Suisse are an issue for companies providing services to these banks. In addition, medium-sized companies in particular want to diversify their banking relationships and work with multiple banks. There is also concern that competition in the corporate banking business could weaken due to UBS's acquisition of Credit Suisse.

Staff shortages are still frequently cited as a risk factor. Some companies doubt that it will be possible to implement planned increases in staff numbers. The labour shortage is no longer seen merely as 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.

While digitalisation is seen as an opportunity, especially against the backdrop of staff shortages, the threat of cyberattacks remains undiminished.

Another challenge is the trend towards sustainability. Many companies are seeking to reduce their environmental footprint by, for example, fitting their roofs with photovoltaic systems. Changing customer preferences, but also the increasing sensitivity of investors, are prompting companies to adapt their business models.

And finally, some companies see the increasingly complex, dense or uncertain regulatory environment as a challenge. In addition to environmental protection, this pertains above all to product safety as well as to noise and building regulations.

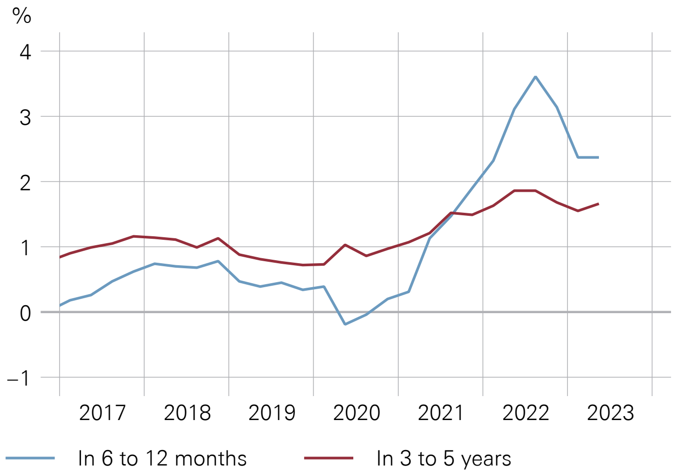
INFLATION EXPECTATIONS

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

Short-term inflation expectations as measured by the consumer price index remain stable: The average for the next six to twelve months remains unchanged at 2.4% (cf. chart 10). In the medium term, 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 1.7%, a somewhat higher 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.

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

Design
Interbrand Ltd, Zurich

Typeset
NeidhartSchön 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
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The Quarterly Bulletin can also be downloaded from the SNB website in the following language versions:
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French: www.snb.ch, Publications/Publications économiques/Bulletin trimestriel (ISSN 1662-2596)
Italian: www.snb.ch, Pubblicazioni/Pubblicazioni economiche/Bollettino trimestrale (ISSN 2504-480X)

Website
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