
Business cycle signals

Results of the SNB company talks

Second 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 245 company talks were conducted between mid-April and the beginning of June.

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

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

Delegates

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Key points

- The spread of coronavirus and the measures implemented to combat it – in particular the lockdown – led to a severe downturn in economic activity in the second quarter.
- According to the information from the talks, which were held between 15 April and 2 June, the declines in turnover, capacity utilisation and margins have been exceptionally strong and have affected virtually all industries.
- Companies have reacted with a broad range of measures, such as working from home and short-time work. The focus is on employee health and on ensuring liquidity.
- With the easing of containment measures that has been phased in since May, the situation has improved – above all in the services sector – albeit at a low level.
- Uncertainty about the future outlook remains exceptionally high. The focus is on the impact of a possible second wave of infections, the threat of a protracted recession, and a further appreciation of the Swiss franc.
- The bridging loans offered by the federal government are seen as a helpful measure (for more details, cf. page 32).

CURRENT SITUATION

Exceptionally strong economic downturn

After a solid start to the year, many companies suffered an unprecedented decline in activity from the beginning of March. This downward trend was exacerbated from mid-March by the closure of businesses across Switzerland by government order.

According to most of the representatives, the low point in terms of business activity came in April. Around 75% of companies said they had been negatively affected by the pandemic in the second quarter, most of them clearly so (cf. chart 1). 12% reported a positive impact, and the same proportion said the positive and negative effects had cancelled each other out. Since May the federal government has phased in an easing of the containment measures, and this has led to a gradual improvement in the business environment.

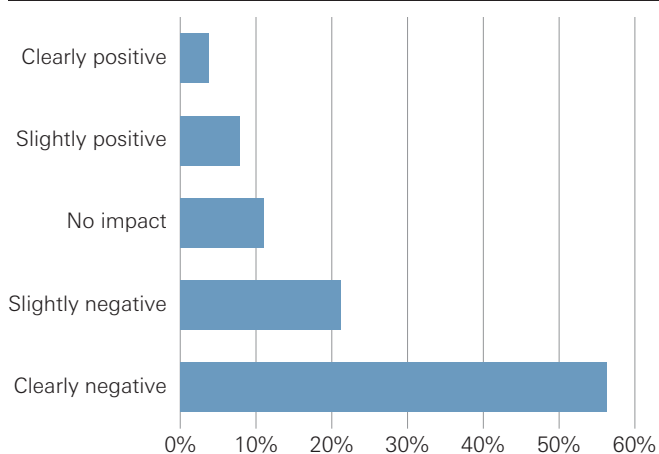
There was a massive decline in real turnover in the second quarter (cf. chart 2; for guidance on interpreting the charts, refer to the relevant section at the end of this report). This was the case for the services, manufacturing and construction sectors alike, with the latter showing significant regional differences. The export business was also hit hard by falling demand worldwide and the lockdowns in many countries. While business with China and other Asian countries has been gradually returning to normal since April, the signals with regard to the US and in particular southern Europe remain mostly negative.

Production capacity substantially underutilised

As a result of the severe economic downturn and the business closures ordered by the authorities, technical capacity was substantially underutilised in all sectors (cf. chart 3). Furthermore, complying with the hygiene measures is also hindering efficient production.

Chart 1

OVERALL EFFECT OF CORONAVIRUS CRISIS



Source: SNB

Significant sales obstacles – only minor procurement bottlenecks

Just under 40% of the companies reported bottlenecks and delays in deliveries, above all from Asia but also from Italy and France. 60% said that procurement was not more difficult. Correspondingly, only 11% of the companies have implemented measures to achieve greater diversification in purchasing (markets, suppliers, products); a further 7% are evaluating such measures.

The companies initially faced significantly larger challenges with regard to sales. 52% were unable to deliver their products and services for a number of reasons, such as their own business premises or those of their customers being closed, customers no longer wanting to accept delivery, and a lack of transport capacity. 10% of the companies are therefore diversifying with regard to sales (markets, products, distribution channels), with an additional 6% looking into such alternatives. There has been a marked upturn in online sales.

The problems with regard to procurement and sales decreased over the course of the quarter.

Staff levels clearly too high – short-time working widespread

Representatives said their staff levels were much too high after the outbreak of the coronavirus pandemic. Businesses therefore reacted quickly and implemented a range of measures. 58% of the companies visited have introduced or applied for short-time working, and a further 7% are considering doing so (cf. chart 4). Thanks to this measure, large-scale redundancies have thus far been prevented. Nevertheless, 16% of the companies are reducing their staff numbers, above all in the case of temporary employees. People leaving on account of natural fluctuations are often not being replaced. Added to this, around a quarter of the companies have introduced

Chart 2

TURNOVER COMPARED TO PREVIOUS QUARTER



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

Source: SNB

a hiring freeze, while half are having employees reduce overtime or their remaining holiday allowance. In some cases, planned wage increases have been postponed or the pay round cancelled.

As regards operational measures to safeguard employee health, the most commonly used are working from home and dividing teams, which nearly 90% of the companies have introduced. The representatives said that in terms of maintaining productivity, their experience with working from home has been better than expected.

Hiring easier

Given the lower demand for staff, an extraordinarily high proportion of companies – more than 30% – did not hire any new employees in the reporting period. Companies that were looking for new staff reported a strong increase in both responses to job advertisements and unsolicited applications, and said that hiring is easier than is normally the case.

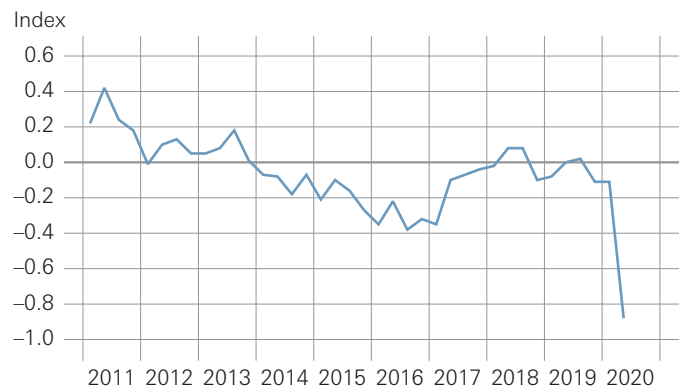
There was less mention of the lack of specialised staff as a problem, this having been very frequently cited as a key challenge in previous quarters. IT specialists and engineers remain in demand. Companies are also experiencing difficulty in finding specialists in the chemicals and pharmaceuticals areas, and laboratory assistants.

Decline in profit margins

The strong decline in sales volume in all three sectors resulted in a marked decrease in profit margins for a large proportion of companies. Margins are described as being considerably tighter than usual, and were said to be at an uncomfortable or very uncomfortable level. The strength of the Swiss franc is putting additional pressure on margins for many companies.

Chart 3

CAPACITY UTILISATION

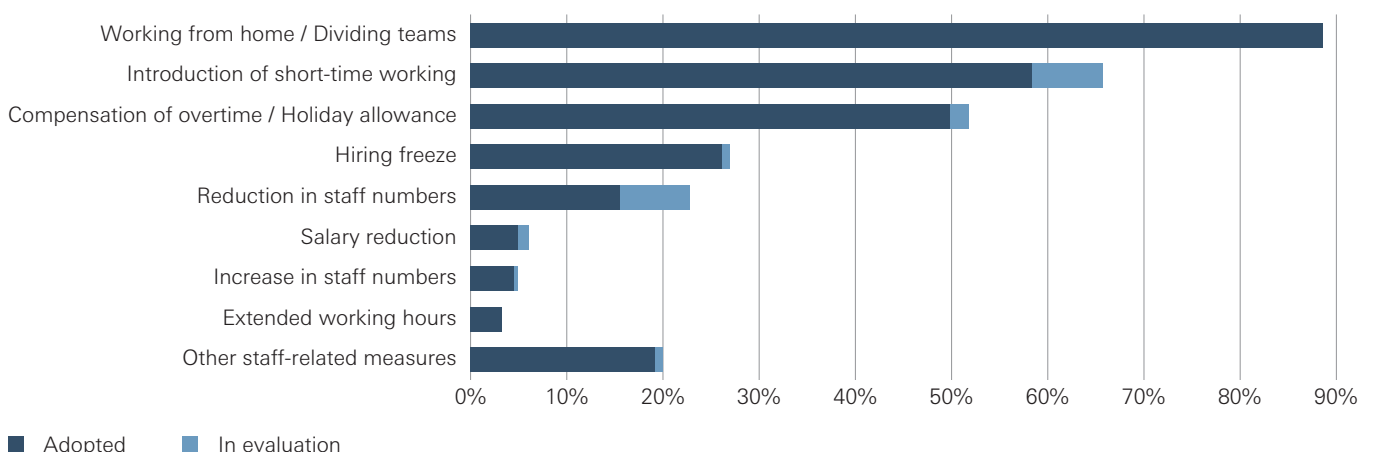


Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.
Source: SNB

Chart 4

MEASURES TAKEN WITH REGARD TO STAFF

Multiple answers possible



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 in the second quarter.

Not factoring in the bridging loans provided by the federal government, over 40% of companies surveyed view their liquidity situation as tighter than usual (cf. chart 5). Half of the companies consider their liquidity situation to be unchanged, since many of them have undertaken numerous measures to secure liquidity. Such measures include registering for short-time working, negotiating with landlords, postponing plans for investment and raising additional capital.

In this environment, around one-third of the companies surveyed have applied for credit – whether bridging loans with full or partial joint and several guarantees from the federal government, or other loans – or have sought to extend existing credit limits. 96% relied on existing credit relationships. Their creditors approved 88% of such applications in full, and 4% were partially approved. At the time of the company talks, an additional 7% (approximately) of applications were

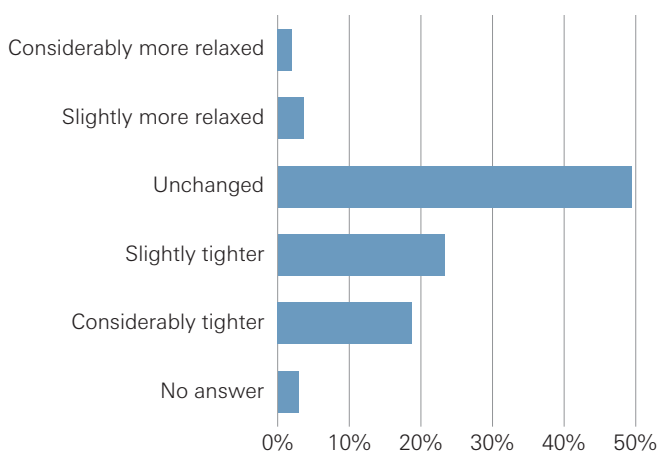
still being processed. Many companies applied for bridging loans as a precautionary measure and have not yet drawn on them.

A large number of representatives (39%) had the impression that the banks' lending conditions had not changed due to the coronavirus crisis (cf. chart 6). Equal proportions of representatives characterised the banks' lending conditions as either being tighter or more relaxed (8% in each case). In some cases, the banks themselves approached their clients to offer them loans and other assistance.

Various companies experienced delays in payment, whether on their own part or on the part of their customers. According to the company representatives, it has nevertheless been possible in almost all cases to avoid bad debt losses so far, although some companies expect an accumulation of delays in payment and defaults among their customers in the coming months. Only a few firms have experienced a critical liquidity situation to date. In addition to short-time working, the federal government's bridging loans have helped alleviate the liquidity situation. These measures, and their quick and unbureaucratic implementation, have generally met with broad approval in business circles.

Chart 5

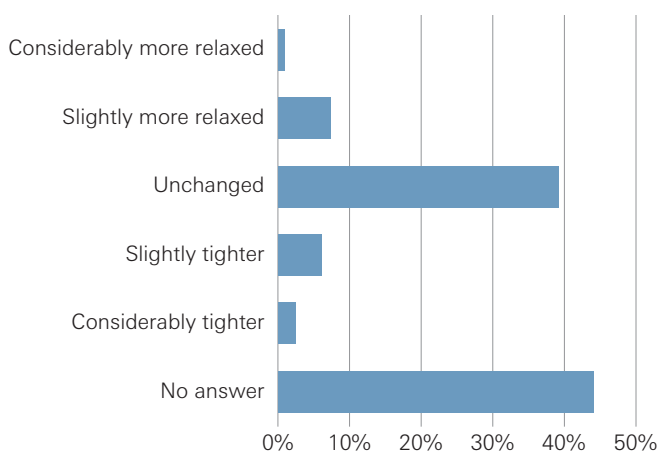
CURRENT LIQUIDITY SITUATION



Source: SNB

Chart 6

LENDING CONDITIONS



Source: SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

The coronavirus crisis has had an exceptionally strong impact on the trade industry overall. Turnover has declined dramatically in real terms, both year-on-year and quarter-on-quarter, and infrastructure is underutilised. Retail trade initially experienced a massive increase in demand for food, protection and hygiene items, and medicines. As regards the other non-food articles, however, business came to a halt for several weeks owing to the lockdown. Online distribution channels are experiencing a significant upturn and accelerated expansion. The retail trade was also supported by cross-border shopping no longer being possible following the closure of the borders. Since the reopening of non-food retail, there has been discernible pent-up demand on the consumption side.

Banks reported higher business volume compared with the same quarter in 2019, but the figure was lower compared with Q1 2020, which had been particularly strong. Although there was considerable business connected with the issuing of COVID-19 loans, many other areas were negatively impacted as a result of direct contact with customers temporarily no longer being possible. In the low interest rate environment, the interest margin business is still seen as a challenge. Insurers and asset managers are reporting a stagnation in business activity.

Tourism, hospitality, entertainment and leisure, as well as conferences and trade fairs are among the areas most affected by the pandemic, this being reflected in a correspondingly pronounced decline in turnover, infrastructure utilisation and margins. These industries are now concentrating more on domestic customers wherever possible. Industry representatives see a certain degree of risk in companies continuing to use working from home and videoconferencing to some extent, resulting in a lasting decline in turnover from business travel and lunch catering. Many companies in the hospitality industry are also reporting difficulty in covering costs while operating under the current requirements.

The ICT industry was able to essentially maintain its turnover levels, both on a quarter-on-quarter and year-on-year basis. It has been subject to two contradictory effects: while demand has been bolstered by the need for functioning, quick and secure IT infrastructure, there has also been the negative impact of business closures and customer contact no longer being possible. Some customers have stopped or postponed projects.

Healthcare companies reported a significant decline in real turnover until the ban on non-essential medical procedures was lifted. Some hospitals have even introduced short-time working.

In manufacturing, virtually all industries reported a strong decline in orders, a decrease in real turnover and weak utilisation. The marked weakness in the watchmaking, automotive and aviation industries is also impacting on business activity in other areas. In the case of suppliers in the automobile industry, the coronavirus crisis has exacerbated an already difficult situation. The medtech industry has also been affected in some instances, since many operations were banned. However, many industries reported positive impetus from rail infrastructure. Pharmaceutical companies recorded dynamic business activity, with real turnover up quarter-on-quarter and utilisation bordering on full capacity in specific instances. The only industries to describe profit margins as being at a comfortable level were chemicals and pharmaceuticals, producers of electrical appliances, and energy suppliers.

In construction, seasonally adjusted turnover was lower quarter-on-quarter, this being the case for building construction, civil engineering and the finishing trade alike. The regional differences are particularly pronounced due to building sites in Ticino and Geneva having been closed for several weeks while those in other cantons mostly remained open. The hygiene and distancing rules have restricted productivity across Switzerland, however. The situation with regard to orders is becoming a problem due to projects being postponed. According to representatives, this could result in a dip in the autumn. The construction sector continues to regard the low interest rate environment as being helpful.

Chart 7

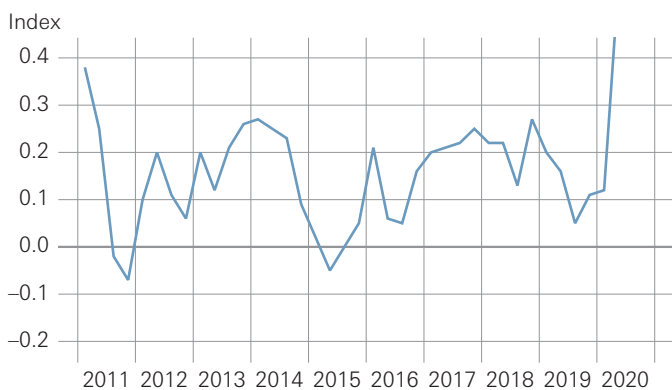
EXPECTED TURNOVER



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 8

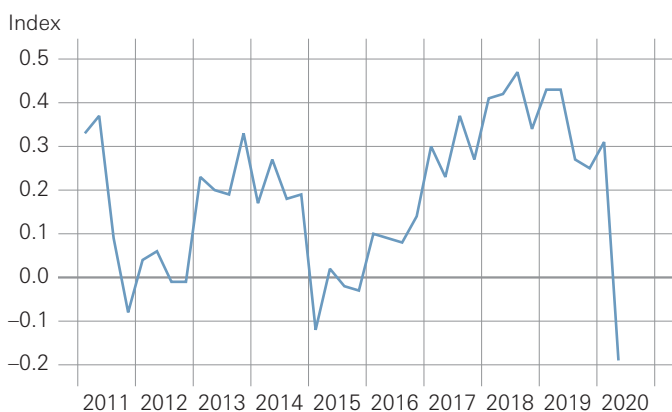
EXPECTED CAPACITY UTILISATION



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

OUTLOOK

Tentative optimism despite high level of uncertainty

Companies in all sectors expect to see a significant increase in turnover in the coming two quarters from the low level recorded in Q2 2020 (cf. chart 7). Few anticipate a return to pre-crisis levels over this period, however, and many expect to see this only from 2021. In general, uncertainty remains very high.

Based on the reduced capacity utilisation in the reporting period, the representatives anticipate a significant increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 8), this being in keeping with the higher turnover expectations. Certain companies also expect there to be discernible ‘catch-up’ effects.

Freeze on investment

With a view to securing liquidity and the expectation of weaker demand, most companies have halted their investments wherever possible. Representatives from all three sectors said they also intend to reduce their expenditure on equipment and construction in the next twelve months.

Only 20% of the companies which nonetheless plan to invest said they intend to use their investments primarily to expand their production capacity. The focus is above all on rationalisation projects as well as the expansion and modernisation of IT. The low interest rate environment continues to support such investment.

Prices expected to decline

In all sectors, the representatives said they anticipate a slight decline in purchase prices in the next two quarters, and a somewhat stronger decrease in sales prices. Higher prices are expected for certain goods and services; goods transport costs are rising, for instance, especially in the case of air freight. In terms of the overall impact on prices, however, these factors are being outweighed by the dampening effects of a weaker global economy, the available overcapacities and the full inventories in some cases.

Planned reduction in staff numbers

Representatives said their companies intend to reduce staff numbers further in the next two quarters (cf. chart 9). This applies to 30% of the companies. The hospitality industry is particularly affected by this. By contrast, the pharmaceuticals and IT industries plan to hire new staff.

ENVIRONMENT AND RISKS

Uncertainty remains very high on account of coronavirus. The primary concern is the risk of a second wave of infections and a further lockdown. There are also fears of a pronounced recession with high unemployment. When the company talks were conducted, representatives found it difficult to assess the medium-term impact the crisis would have on demand from customers and consumers. A stronger focus on regional value chains is presenting an opportunity for some companies.

However, the representatives are troubled by the fragile global economy, pronounced protectionist tendencies, and increasing sovereign debt worldwide. Concerns over the strength of the Swiss franc have also heightened. 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.

The representatives regard the independence of the SNB as a major issue. They remain uneasy about the persistent low interest rate environment, but welcome it as a means of containing the appreciation of the Swiss franc.

The widespread use of working from home during the crisis has given a significant boost to digitalisation efforts. The companies also see an opportunity in this respect.

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 fallen markedly. The average for the next six to twelve months is -0.2%

About this report

Approach

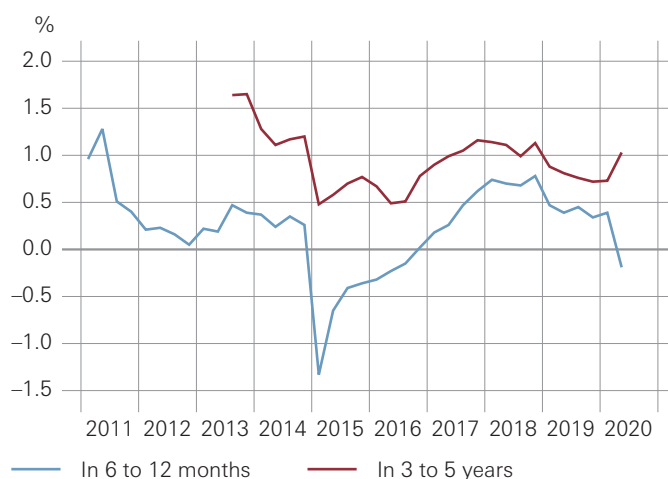
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

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 10

EXPECTED INFLATION



Source: SNB

(blue line in chart 10), compared to 0.4% 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 risen from 0.7% to 1% . This scissors-like divergence in expectations can often be explained by prices falling in the short term owing to low demand and cheaper imports, while over the longer term the state support measures and expansionary monetary policy are more likely to lead to inflation.

The relatively high level of uncertainty regarding the assessment of inflation going forward is reflected in a broader range of expectations and a comparatively low response rate.

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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