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# Business cycle signals

Results of the SNB company talks

## First quarter of 2021

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 238 company talks were conducted between 19 January and 9 March.

In light of the coronavirus crisis, the delegates addressed several additional issues, and asked 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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Jean-Marc Falter  
Fabio Bossi  
Roland Scheurer  
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## Key points

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- In the wake of the lockdown, the economy has shrunk quarter on quarter, albeit to a much less pronounced extent than in spring last year. There are still exceptionally large differences between industries, and even within industries themselves.
- Real turnover has declined primarily in the services sector, while manufacturing has seen slight growth.
- Production capacity and infrastructures remain substantially underutilised, except in the construction sector, where utilisation has been largely normal.
- Difficulties with procurement and delivery are again increasingly cited as a problem.
- The margin and liquidity situation at companies varies widely from industry to industry. Thanks to measures taken by governments and by companies themselves, these figures have improved slightly overall. Margins nevertheless remain substantially below the levels that would be considered normal.
- Staff numbers are seen as too high. Given the greater need for staff expected in the coming quarters, companies are mostly avoiding making redundancies, with short-time working also helping in this regard.
- Companies anticipate a significant improvement in their business in the coming quarters. The vaccination campaign is a major factor in this confidence. The indeterminate duration of the pandemic remains the biggest risk factor. There are growing signs of 'pandemic fatigue'.

## CURRENT SITUATION

### Economy shrinks slightly owing to pandemic

Economic developments in the quarter under review were shaped by the ongoing pandemic and the measures to contain it. Overall the economy shrank by comparison with the previous quarter, although significantly less so than in the first wave in spring 2020. Contributory factors include the fact that companies have been able to adjust to the restrictions better, fewer industries overall are directly affected, and international demand is holding at a higher level.

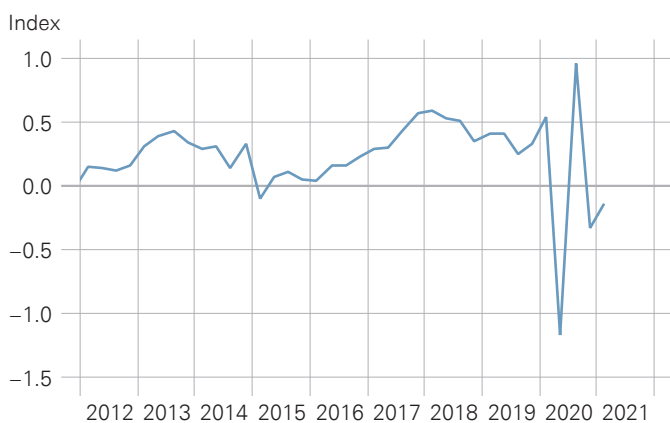
Closures ordered by the authorities and other restrictions are having a curbing effect on the services sector above all. By contrast, the development of real turnover in manufacturing points to a slight improvement in business activity. Overall, these differing developments have resulted in a slight quarter-on-quarter decline in economic output (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). Turnover remains significantly lower year-on-year. The differences within individual sectors, between industries, and even within industries themselves, have increased.

Business with European countries is still described as very sluggish. The signals regarding sales in the US are mixed but all in all point to a slight improvement. By contrast, the development of exports to Asia, in particular China, has been dynamic. Demand for medtech and pharmaceutical products in connection with pandemic management continues to be a driver. The civil aviation industry still faces major problems, which is having a negative impact on many suppliers.

The assessment of the overall effect of the coronavirus crisis to date has hardly changed from last quarter, with around 70% of companies saying in Q1 2021 that they had been negatively affected by the pandemic, most of them clearly so (cf. chart 2). Of the companies surveyed, 16% reported a positive impact, and 17% said the positive and negative effects had cancelled each other out or that the pandemic had had no tangible impact.

Chart 1

### TURNOVER COMPARED TO PREVIOUS QUARTER

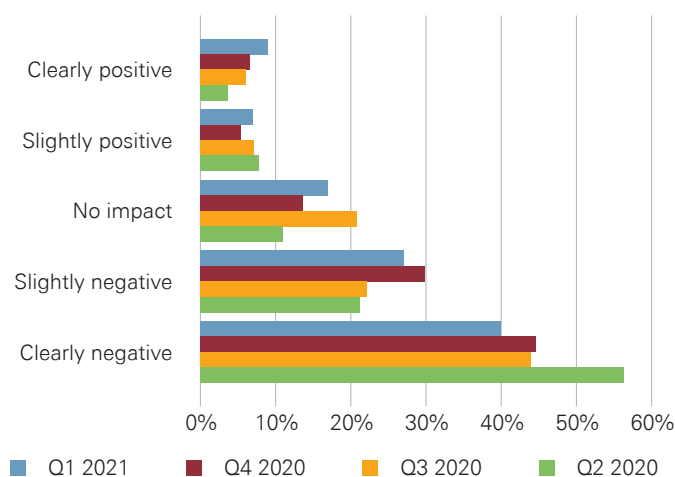


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source: SNB

Chart 2

### OVERALL EFFECT OF CORONAVIRUS CRISIS



Source: SNB

### Production capacity underutilised

As a result of the coronavirus crisis, technical capacity in manufacturing and infrastructure in the services sector remain substantially underutilised (cf. chart 3). Underutilisation in the services sector has become more pronounced. By contrast, utilisation in the construction sector is largely at normal levels.

### Growing number of procurement bottlenecks – sales obstacles discernible

Around two-thirds of the companies surveyed said that they were not having difficulties procuring raw materials and intermediate products, which is comparable to the situation before the coronavirus crisis began. However, 28% of companies report bottlenecks and delays in deliveries from suppliers. This has to do with the fact that some production facilities abroad are manufacturing less as a result of the pandemic, as well as the fact that there are bottlenecks in the availability of freight containers in Asia. In addition to metals, electronic components are particularly prone to shortages.

Problems with regard to sales have become more pronounced: just under half the companies reported difficulties in delivering their products and services in the normal manner. While the situation is not as serious as in the second quarter of last year, it is much more problematic than in the fourth quarter. The main reasons given were travel restrictions, business closures and compliance with precautionary measures.

### Staff levels too high

In many cases personnel resources are substantially underutilised. Over 40% of the companies view their current staff levels as too high. Besides short-time working, which is still widespread, companies are reducing overcapacity by not replacing people leaving on account of natural turnover.

### Hiring significantly easier

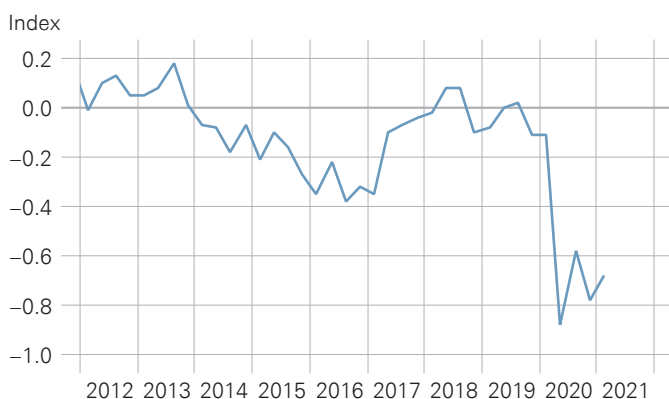
Companies that have been looking for new staff reported an above-average number of responses to job advertisements as well as many unsolicited applications. Recruitment is said to be easier than is normally the case owing to availability on the market and the quality of applicants being higher than average. However, the fact that hiring has to be conducted predominantly online is often found to be a disadvantage. Specialists in certain areas, including IT, chemicals, engineering and construction site management, remain in strong demand.

### Continued pressure on profit margins

The pressure on profit margins remains high. In all three sectors – manufacturing, services and construction – profit margins are viewed as being lower than usual. However, there are signs that the implemented measures – such as short-time working, investment freezes and cost reductions – are having an effect. This is reflected in the fact that in Q1 2021 fewer representatives described their company's margins as not being sustainable. There are still very large differences between 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 lending conditions

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

A quarter-on-quarter comparison of the liquidity situation reveals a similar picture (cf. chart 4). Just under half the companies describe the situation as being the same as before the coronavirus crisis. Around 25% of the companies see the liquidity situation as tighter than before the outbreak of the crisis, and around 25% see it as more relaxed. There have, however, been extraordinarily marked differences between industries depending on the extent to which they have been affected by the second wave of infection. Hospitality is one of the industries particularly affected by the problem of liquidity.

The short-time working mechanism, the federal government's bridging loans and measures undertaken

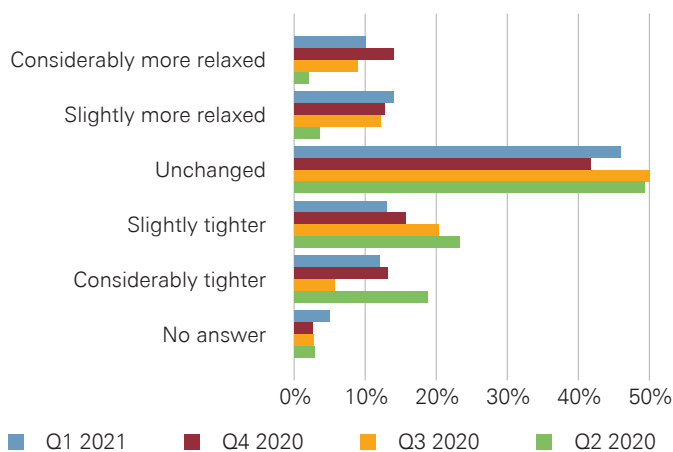
by companies to secure liquidity have had a stabilising effect. A frequently used measure is strict receivables management. A large number of companies continue to report that there have thus far been hardly any delays in payment on the part of their customers and practically no bad debt losses. In some instances, companies have even had customers seeking to pay earlier than normal.

As in the previous quarter, around one-third of representatives had the impression that the banks' lending conditions were 'normal' (cf. chart 5). Of the representatives interviewed, 15% characterised the banks' lending conditions as loose and 9% as tight. Representatives of industries that have been hard hit by the coronavirus crisis are experiencing greater restraint on the part of the banks when it comes to matters of financing. Companies who had been in contact with banks generally found them very cooperative. 41% of the companies were unable to answer this question as they do not require loans or, if so, have not approached banks.

Chart 4

### LIQUIDITY SITUATION

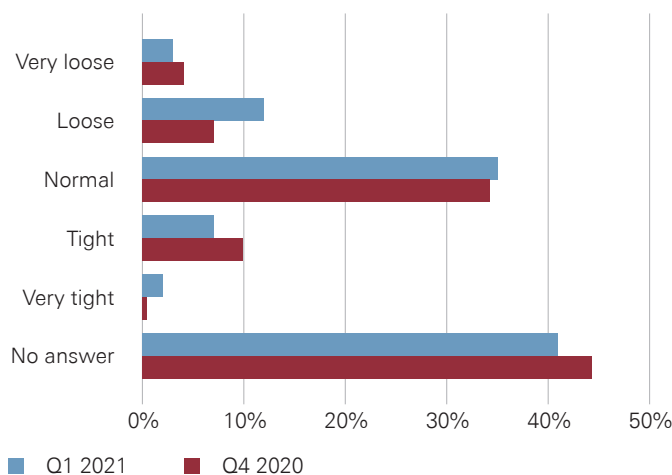
vs pre-COVID 19



Source: SNB

Chart 5

### LENDING CONDITIONS



Source: SNB

## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

The trade industry continues to be impacted by restrictions due to the pandemic. Real turnover has declined quarter-on-quarter, and was also lower on a year-on-year basis. The infrastructures of bricks-and-mortar retailers, particularly in non-food, have often been markedly underutilised. Online distribution channels, on the other hand, remain in strong demand.

Tourism and hospitality have been particularly affected by the effects of the pandemic and the lockdown. Real turnover in the industries in question was significantly lower on both a quarter-on-quarter and a year-on-year basis, irrespective of target customers. The fact that there is practically no more business travel is having serious consequences for city hotels, and representatives fear permanent structural change in this segment of the market.

The entertainment and leisure industry, as well as conferences and trade fairs, are still among the segments most affected by the pandemic. Events cannot be held. Companies in these industries thus face a correspondingly serious situation as regards turnover, infrastructure utilisation and margins. Business activity in the media industry has also been weak.

The financial industry reported higher business volume both year-on-year and quarter-on-quarter. Favourable stock market developments and inflows of new money have been contributory factors. Margins are at levels representatives consider to be normal. Infrastructure utilisation remains low. This has prompted some banks to further reduce their branch networks.

Real turnover in the ICT industry has continued to increase. A powerful driver of demand is the need for fast and secure IT infrastructure and digitalisation.

Healthcare companies have recorded a decline in turnover and utilisation, both quarter-on-quarter and year-on-year. This still has to do with the postponement of non-urgent surgery and treatments. More frequent quarantine also means that fewer staff are available for such procedures. These factors are weighing heavily on margins.

Business in manufacturing has varied widely depending on the industry. Activity and margins remain weak in the case of food manufacturers, owing primarily to a decline in catering industry sales. By contrast, business activity in the chemicals and pharmaceuticals industry has been very dynamic.

In the mechanical engineering, electrical engineering and metals industries, manufacturers of precision instruments and plastics have seen a slight improvement in real turnover. However, production capacity remains underutilised in large sections of these industries, and profit margins are often below the levels that would be considered normal. Travel restrictions are having a negative impact in terms of the supply of machinery, the execution of service and maintenance work, and customer acquisition.

There have been stronger signs of an upturn in the watchmaking and automotive industries. On the other hand, suppliers in large sections of the civil aviation industry are still experiencing markedly weak demand.

The construction sector continued to be a mainstay of the economy in the quarter under review. Seasonally-adjusted turnover was only just below last quarter's level, and roughly on a par year-on-year. The hygiene and distancing rules have limited productivity and thus put pressure on margins, this being compounded by the highly competitive market environment. However, the industry is profiting from a generally high level of investment in residential housing. Business activity has also been favourable for architectural, engineering and planning firms, where public infrastructure construction in particular has been a driver.

When asked about the situation on the real estate market, respondents in some regions raised the issue of high vacancy rates for rental properties.

## OUTLOOK

### Growing confidence

Companies in the services and manufacturing sectors expect to see a significant increase in real turnover – albeit from very low levels in some cases – in the coming two quarters (cf. chart 6). This confidence stems from the efficacy of vaccines and from the experience of last year, when large sections of the economy recovered rapidly after the lockdown.

Even so, a substantial proportion of representatives still anticipate a protracted difficult phase: 23% of the companies surveyed foresee a return to pre-crisis levels in 2021, although most do not expect this to happen until the second half of the year. Around 25% of companies do not expect a return to pre-crisis levels until 2022 or even later (cf. chart 7). Just under half of the companies had returned to this level in the course of last year already or did not suffer any decline in turnover in the first place.

The representatives anticipate an appreciable 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 expect ‘catch-up’ effects as their customers resume projects that had been postponed.

### Slight rise in investment

Having invested only very cautiously last year, many companies are planning somewhat higher investment again for the coming twelve months. However, they often foresee only a slight increase in expenditure on both construction and equipment. Added to this, only 28% of the companies planning to invest said they intended to use their investment primarily to expand their production capacity. For the others the focus, if any, is on investment to meet replacement and modernisation needs. The majority of investment projects involve expanding and modernising IT.

### Purchase and sales prices rising slightly

While expectations regarding purchase and sales prices were indicating a decline in Q4 2020, the situation has now changed. Representatives anticipate a slight increase in purchase prices for the next two quarters. This is attributable to the corresponding assessments in manufacturing and construction.

There are also signs of a slight upward trend in sales prices, since companies are trying wherever possible to pass on higher purchase prices to their customers. In this regard, there is particularly frequent mention of marked increases in the price of steel and other metals, as well as in the case of plastic granules and electronic components. Higher transport costs due to capacity bottlenecks are also contributing to higher prices.

Chart 6

### EXPECTED TURNOVER

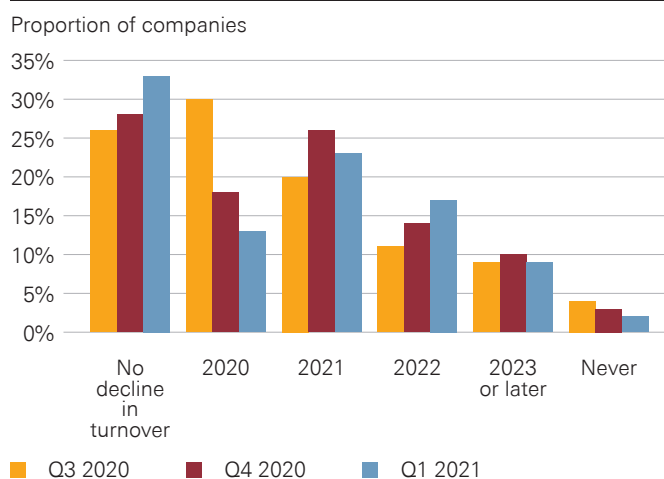


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source: SNB

Chart 7

### RETURN TO PRE-CRISIS TURNOVER LEVELS



Source: SNB

### Planned increase in staff numbers

Having anticipated staff cutbacks in previous quarters, companies are now planning to increase staff numbers in the next two quarters (cf. chart 9), especially in the manufacturing and services sectors. This is because of the more favourable outlook and the fact that staff numbers had already been adjusted down in the previous quarters.

The following industries are planning very pronounced increases in staff numbers: information and communications technology, pharmaceuticals, precision instrument manufacturing and logistics. Civil engineering companies and manufacturers of electrical equipment, by contrast, intend to cut back staff.

Given the difficult situation at present, companies see little scope for wage increases on a broad scale. On the basis of the responses given, wages will increase by an average of 0.5% in the coming year, mostly by way of structural adjustments or performance-related wage rises.

### ENVIRONMENT AND RISKS

While uncertainty exists, still primarily concerning the further course of the pandemic, it is less pronounced than in Q4 2020 thanks to the launch of the vaccination campaign and the improved business outlook. Concerns about increasing municipal debt have increased, as this could mean a reduction in public sector investment.

Representatives increasingly mention the threat posed by the long-term social and societal consequences of the pandemic. They also raise the problem of a certain 'pandemic fatigue' among the workforce. Widespread working from home continues to bolster digitalisation efforts. The impact of working from home on efficiency and corporate culture is also the subject of debate.

Companies appreciate the stability of the Swiss franc against the euro. The strength of the franc was mentioned only rarely as a problem, owing among other things to it depreciating towards the end of this round of interviews. With a view to the potential for inflation and the stability of the financial system, the representatives are observing the ultra-loose monetary policy around the world with concern, and to some extent see a decoupling of the financial markets from the real economy.

The independence of the SNB is important to the representatives.

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.

While some representatives expect to see demand stimulated with aggressive price cuts after the lockdown, a larger proportion assumes that once the pandemic has subsided, positive demand effects coupled with supply remaining inelastic in the short term will lead to rising prices.

Overall, however, there has been little change in short-term and longer-term inflation expectations as measured by the consumer price index. The average for the next six to twelve months (blue line in chart 10) is 0.3%, 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 is around 1.1% (1.0% in the previous quarter). Many representatives are surprised that substantial expansion in the money supply has so far not led to higher 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 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, 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](http://www.snb.ch), *The SNB*, *SNB regional network*.

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