Business cycle signals

Results of the SNB company talks

Second 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 236 company talks were conducted between 13 April and 31 May.

Regions	Delegates
Central Switzerland	Gregor Bäurle
	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	Fabian Schnell

Key points

- In the second quarter the Swiss economy gained a foothold and picked up pace again. This was helped by the easing of containment measures and the favourable global economic situation.
- In the services, manufacturing and construction sectors there were significant increases in real turnover on both a year-on-year and quarter-on-quarter basis. However, it should be taken into account that in some cases the comparison periods were characterised by considerable pandemic-related restrictions.
- There was a marked worsening with regard to procurement difficulties and the related price increases for raw materials and intermediate products.
- Technical capacity utilisation increased further. Overall, however, technical capacity is still underutilised, primarily due to the services sector.
- Thanks to the upturn in business activity and the measures taken, the margin situation has improved further.
- Staff numbers are currently considered to be in line with needs. Companies intend to employ significantly more staff in the coming quarters.
- Companies anticipate continued improvement in business activity in the coming quarters. Uncertainty around ongoing developments on the procurement markets, and the emergence of virus mutations, are among the most significant risk factors. Company representatives also mention the longer-term structural consequences of the pandemic.

CURRENT SITUATION

Significant improvement in economic situation
In the second quarter the Swiss economy gained a foothold and picked up pace again. The easing of measures to contain the pandemic and the favourable international economic situation were contributory factors. Real turnover in all three sectors – services, manufacturing and construction – increased significantly on both a year-on-year and a quarter-on-quarter basis (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report).

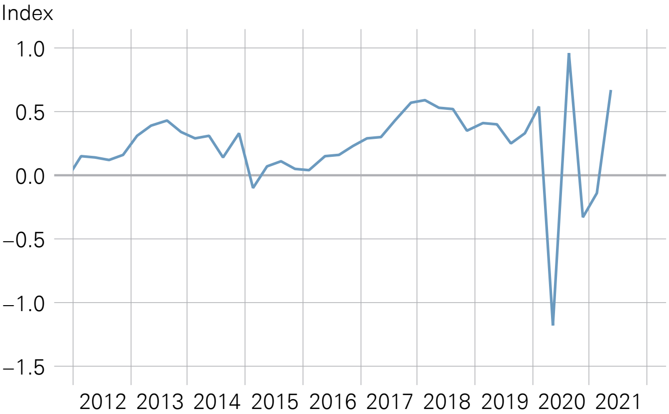
Exports to Asia, in particular China, are described as markedly dynamic. Sales to the US and the Middle East are also developing favourably. Business with European countries is characterised as sluggish and mixed. Demand is broadly based in terms of product groups. Activity in the automotive sector is picking up and there are initial signs of a slight increase in demand from the aviation sector.

When asked to assess the overall effect of the coronavirus crisis so far, just under 60% of companies said they had been negatively affected by the pandemic (cf. chart 2). Around 20% of the companies surveyed reported a positive impact, and another 20% said the positive and negative effects had cancelled each other out or that the pandemic had had no tangible impact. The overall picture has thus continued to improve by comparison with the previous quarters.

Production capacity slightly underutilised
Utilisation of technical capacity increased further (cf. chart 3), but it remains underutilised overall. This is due primarily to the services sector, which continued to be affected by closures and restrictions ordered by the authorities. Capacity is slightly overutilised in broad sections of the manufacturing and construction sectors. Manufacturing companies are increasingly returning to multiple shifts and in some cases weekend operations.

Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER

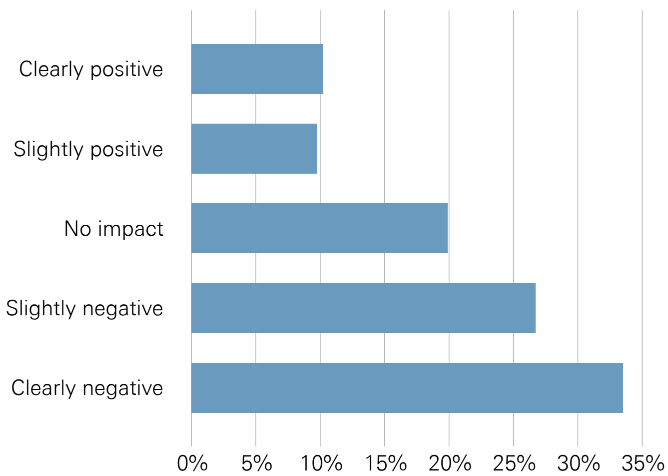


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

OVERALL EFFECT OF CORONAVIRUS CRISIS



Source(s): SNB

Significant worsening in procurement bottlenecks
There was a significant worsening with regard to procurement bottlenecks for raw materials and components versus the previous quarter. Company representatives describe the situation as tighter than at any time since the outbreak of the pandemic (cf. chart 4). In the second quarter, 56% of companies were affected by bottlenecks and delays, in some cases massive, in deliveries from suppliers. There were many reasons for this, including reduced capacity at production facilities in Asia, persistent or even exacerbated bottlenecks in the availability of freight capacity, and extremely high demand from China and the US. Many different raw materials, inputs and components are affected by shortages. The situation regarding the availability of timber is precarious. Some companies are having to adjust their production plans.

Sales obstacles still discernible
The supply problems on the sales side have eased slightly. Nevertheless, around 40% of companies reported difficulties in delivering their products and services as usual. The main reasons for this were the existing travel restrictions as well as specific industries being affected by the pandemic. Acquiring customers is still proving difficult.

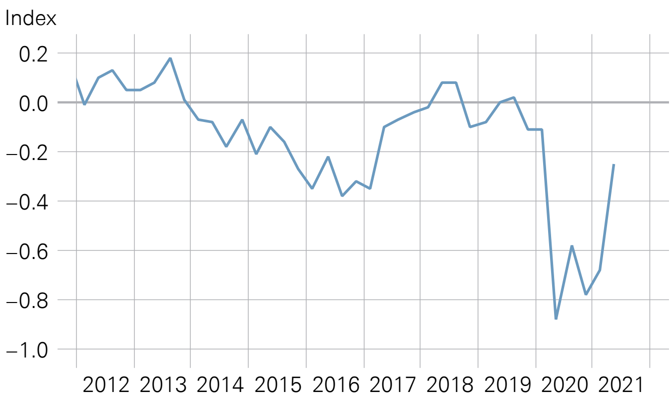
Appropriate staff levels
Overall, personnel resources are currently considered to be in line with needs. The situation has improved significantly compared with the previous quarter, when they were viewed as being too high; however, the situation continues to vary widely depending on the sector. While staff levels are considered to be slightly too low in manufacturing and construction, in the services sector they are still too high. Some companies continue to operate short-time working. Around 20% of companies consider their current staff numbers to be too high, versus 40% the previous quarter.

Hiring situation within normal limits
Companies that have been looking for staff report that hiring has gradually become more challenging again. However, the situation is still perceived as being slightly more relaxed than before the beginning of the pandemic. It is mentioned somewhat more frequently than before that specialists in some occupational groups – namely IT, engineers, lab technicians and drivers – are very difficult to find. Even companies that still have short-time working are in some cases looking for staff to be prepared in good time for an improvement in the demand situation.

Appreciable improvement in profit margins
Profit margins, which had been under heavy pressure in recent quarters, have seen a significant recovery. While they are still considered to be lower than usual in the services and construction sectors, in manufacturing they have returned to levels that are considered normal. Business measures taken in past quarters, such as investment freezes and cost reductions, as well as government support mechanisms such as short-time working and hardship compensation in specific cases, are having an effect. This can be seen in the further decline in the percentage of companies describing their margins as not being sustainable. The margin situation in service sector industries directly affected by pandemic-related restrictions remains unfavourable.

Chart 3

CAPACITY UTILISATION



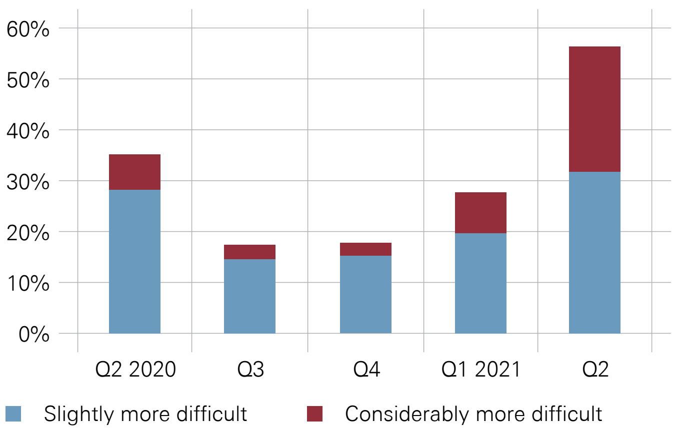
Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

Chart 4

PROCUREMENT SITUATION

Share of companies facing a more difficult procurement situation as compared to pre-COVID 19



Source(s): SNB

Liquidity situation continues to ease

Companies' liquidity situation has eased further, and is now more favourable than at any time since the outbreak of the pandemic. Around 30% of companies characterise the situation as more relaxed than before the outbreak of the crisis (cf. chart 5), while 15% regard it as tighter. Around half the companies describe the liquidity situation as being the same as before the coronavirus crisis.

In addition to an improvement in business activity, the short-time working mechanism, the federal government's bridging loans and measures undertaken by companies are having a positive impact on the liquidity situation, and in some cases have led to 'excess' liquidity. According to the company representatives, there are hardly any delays in payment on the part of customers or bad debt losses. Nevertheless, the situation still varies widely from sector to sector and company to company.

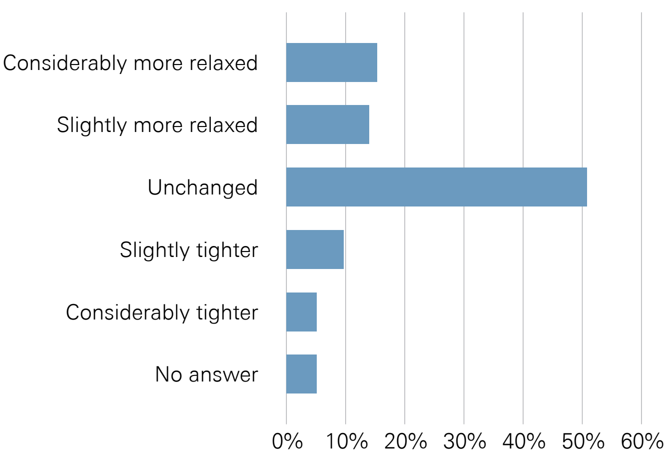
Lending conditions essentially unchanged

Representatives assess the banks' lending conditions as similar to previous quarters. Around one-third of representatives had the impression that the banks' lending conditions were 'normal' (cf. chart 6). Of the representatives interviewed, 15% characterised the banks' lending conditions as relaxed and 6% as restrictive. Just under half of the companies were unable to answer this question as they do not require loans or, if so, have not approached banks. Representatives of industries that have been hard hit by the pandemic are experiencing greater restraint on the part of the banks when it comes to matters of financing.

Chart 5

LIQUIDITY SITUATION

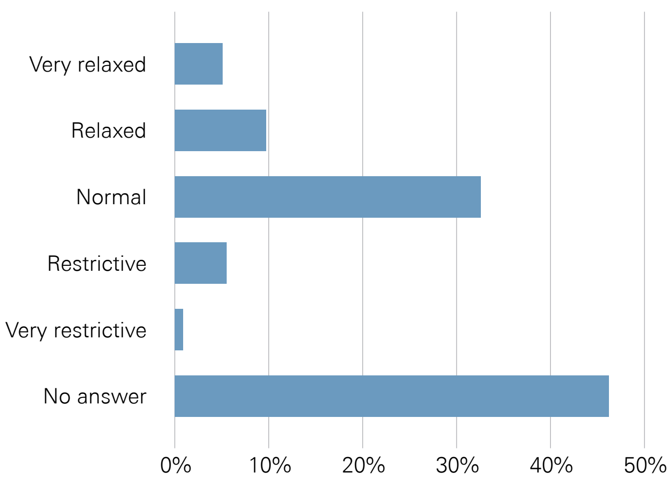
As compared to pre-COVID 19



Source(s): SNB

Chart 6

LENDING CONDITIONS



Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business activity in the trade industry has improved considerably. Real turnover in all segments (wholesale, retail and vehicles) is higher than both the previous quarter and the previous year's level. However, the infrastructures of bricks-and-mortar retailers remain underutilised. Online distribution channels, by contrast, are in strong demand. With the exception of bricks-and-mortar retail, representatives consider margins to be higher than usual.

Tourism and hospitality have been particularly affected by the effects of the pandemic, although the situation is improving as the authorities relax measures. In the course of the second quarter, restaurants were initially able to reopen outdoor seating areas, then followed by indoor areas. Accordingly, real turnover in the industries concerned was significantly higher on both a quarter-on-quarter and a year-on-year basis. Given the precautionary measures in place, however, capacity remains markedly underutilised. In addition, there are still major differences between hotel and catering establishments depending on their clientèle and locality. The fact that there continues to be hardly any business travel or international tourism is hitting city hotels particularly hard. Representatives of the industry fear permanent structural change in this segment of the market.

The entertainment and leisure industry is still among the segments most affected by the pandemic. It will only be possible to hold events again on a limited basis towards the end of the second quarter. Accordingly, infrastructure utilisation and margins are below normal for companies in these industries. The situation also appears similarly unfavourable for companies in the media industry.

In the financial sector, business volumes have increased further, with all business areas faring well. Contributory factors include the fact that mortgage business remains dynamic, coupled with favourable stock market developments and inflows of new money. Margins are at levels representatives consider to be normal. There has been a further decline in customer visits to branches, prompting some banks to reduce their branch networks.

Real turnover in the ICT industry has continued to increase. The most important drivers in this business are persistently high demand for fast, secure IT infrastructure, and the trend toward online commerce. Turnover at healthcare companies is also higher quarter-on-quarter and compared with 2020.

Business in the manufacturing industries is developing very positively. On the one hand this is due to a pick-up in demand; on the other hand it should be taken into account that in some cases turnover was very low in the reference periods. The development of turnover has been particularly dynamic for the pharmaceutical industry, food producers, the mechanical engineering, electrical engineering and metals industries, and manufacturers of precision instruments. International travel restrictions are having a negative impact in terms of the supply of machinery, the execution of service and maintenance work, and customer acquisition. The signs of an upturn in the watchmaking and automotive industries have strengthened further.

Business continues to go well in the construction sector. Seasonally-adjusted turnover was significantly above the levels of last quarter and last year. Margins are still slightly below the levels that would be considered normal. The sector is profiting from lively demand in public infrastructure construction and a high level of residential investment. Additions, extensions and renovations are serving as drivers of the business. Order books are well filled in most places. Business activity has also been favourable for architectural, engineering and planning firms.

When asked about the situation on the real estate market, respondents in some regions continued to raise the issue of high vacancy rates for rental properties and rising prices for investment properties. Companies are also considering the question of their own office space requirements in future.

OUTLOOK

Confidence strengthens

Companies in all three sectors expect real turnover to continue increasing significantly in the next two quarters (cf. chart 7). Their confidence is based on the one hand on good global economic demand and, on the other, on the effect of vaccination programmes and the reopening steps decided by the Federal Council.

As confidence grows, the percentage of companies saying turnover will not return to pre-crisis levels this year has declined from around 26% to 18% (cf. chart 8). Around 27% of companies had already seen turnover return to pre-crisis levels in the course of last year, and 9% in the first half of 2021. Another 11% of companies expect to return to this level in the further course of this year.

The representatives anticipate an appreciable increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 9). However, the anticipated 'catch-up' effect is no longer as pronounced as it was in the first quarter.

Expansion of investment

There has been a tangible increase in companies' appetite for investment. In the next twelve months they are planning higher investment in both equipment and buildings. A large part of the investment projects involve expanding and modernising IT. Many companies invested only very cautiously last year or only made the necessary replacement investments. Given the significant improvement in the outlook, a relatively large percentage (38%) are now investing with the aim of expanding production capacity.

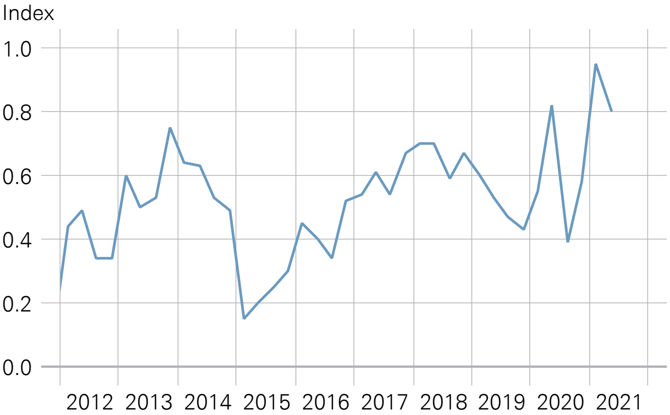
Purchase and sales prices rising significantly

The increase in both expected purchase and sales prices that began in the previous quarter has continued at an accelerated pace. Representatives from all three sectors are expecting significant increases in prices for the next two quarters. Judging by the experience of these talks with companies, there have never been such clear expectations of price increases as in the second quarter.

While in the previous quarter it was mainly metals, plastics and electronic components that were affected by price increases, now a wide range of raw materials and products are cited as becoming more expensive. Higher transport costs resulting from capacity bottlenecks are still a contributory factor in price increases. Wherever possible, companies are passing on higher purchase prices to their customers.

Chart 7

EXPECTED TURNOVER

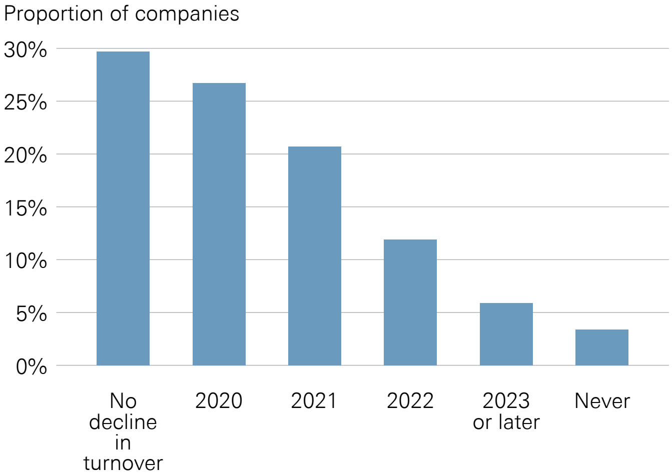


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 8

RETURN TO PRE-CRISIS TURNOVER LEVELS



Source(s): SNB

Continued increase in staff levels

In the first quarter many representatives had – for the first time since the outbreak of the pandemic – expected staff numbers to increase. This development continued in the second quarter. In all three sectors – services, manufacturing and construction – companies plan to substantially increase staff numbers in the next two quarters (cf. chart 10). This reflects more favourable business prospects and the fact that, owing among other things to staff reductions in the last few quarters, many companies no longer consider staffing levels to be too high.

The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, hospitality, retail and insurance. There is also relatively high demand for personnel in the pharmaceutical and metal industries.

Given the difficult situation last financial year, companies see little scope for substantial wage increases on a broad scale: On the basis of the responses given, wages will increase by an average of 0.7% in the coming year, mostly by way of structural adjustments or performance-related wage rises.

ENVIRONMENT AND RISKS

The difficult procurement situation, which according to representatives could persist at least until the end of the year, is a primary concern for many companies. Price increases resulting from shortages are putting pressure on margins.

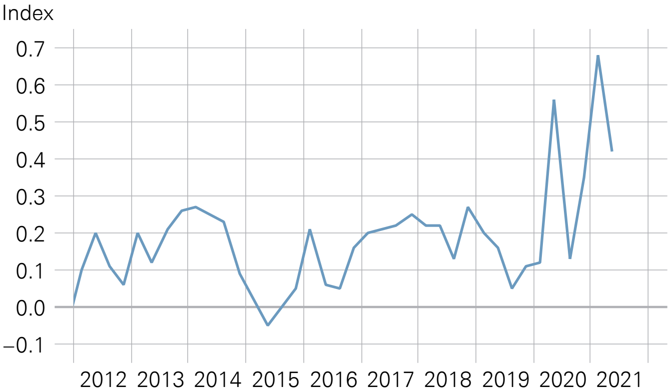
The uncertainty resulting directly from the pandemic has receded into the background somewhat. Representatives see a risk in further mutations of the virus. More often than before, long-term structural consequences of the pandemic are raised as factors of uncertainty. Concerns about the sharp rise in government debt internationally have become more acute. In this context the issue of increasing inflation rates is also raised more frequently.

Companies appreciate the stability of the Swiss franc against the euro; otherwise the exchange rate situation hardly gave rise to comment.

The independence of the SNB is important to the representatives.

Chart 9

EXPECTED CAPACITY UTILISATION

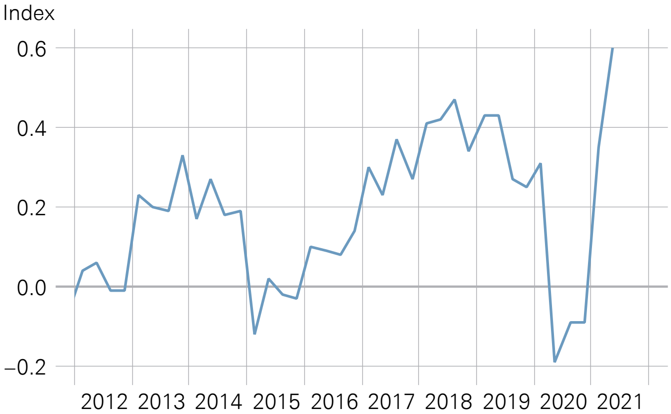


Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).

Source(s): SNB

Chart 10

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 11

EXPECTED INFLATION

Source(s): SNB

INFLATION EXPECTATIONS

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

There has been a significant increase in short-term inflation expectations as measured by the CPI: The average for the next six to twelve months (blue line in chart 11) is 1.1%, compared to 0.3% in the previous quarter. A reason frequently given for this is price increases for raw materials and components, which, according to representatives, will gradually be reflected in consumer prices.

On the other hand there has been little change in longer-term inflation expectations – i.e. with a time horizon of three to five years (red line in chart) – which average around 1.2% (Q1 2021: 1.1%).

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, *The SNB*, *SNB regional network*.

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