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# Business cycle signals

Results of the SNB company talks

## Third 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 210 company talks were conducted between 20 July and 7 September.

### Regions

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

### Delegates

Astrid Frey  
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Fabio Bossi  
Roland Scheurer  
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Fabian Schnell

## Key points

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- The Swiss economy continued to recover in the third quarter. Turnover increased both in the services sector and in manufacturing and construction.
- Despite the positive development, infrastructure utilisation remains low, especially in the services sector. The fact that international travel is still subject to major restrictions is having a hindering effect. Utilisation in manufacturing, on the other hand, is slightly higher than average, underpinned by robust global economic demand. Utilisation in the construction sector is described as normal.
- Procurement bottlenecks, already seen as a major challenge last quarter, have continued to become more pronounced, becoming more widespread and increasingly leading to restrictions and delays in production.
- The margin situation remains unchanged overall. While the impact of increasing turnover is positive, profitability is being curbed by higher purchase prices and less efficient production processes owing to delivery delays.
- Companies report staff numbers as being on the low side, and intend to take on more personnel in the coming quarters. Growing demand for labour is reflected in increasing difficulties when it comes to hiring.
- Companies anticipate continued improvement in business activity in the coming two quarters. The further course of the pandemic remains a major source of uncertainty.

## CURRENT SITUATION

### Further recovery of Swiss economy

The Swiss economy continued to recover in the third quarter. Real turnover in all three sectors – services, manufacturing and construction – increased significantly compared with Q2 2021 and Q3 2020, both of which had been affected even more seriously by the pandemic (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report).

In the services sector, the additional easing of measures to manage the pandemic is facilitating further recovery, particularly at companies affected directly. This is supporting growth overall. Added to this is the sustained positive development in many industries less affected by the pandemic.

Manufacturing is profiting from what continues to be dynamic export business. Demand from European countries is picking up, with positive signals from Germany and Scandinavia in particular. Most notably, there are signs of lively demand from the public sector, for example from the defence, transport and energy industries. Companies are also seeing an increase in sales to the US. The signals they register from Asia, by contrast, are mixed. In particular, companies feel that the development of demand from China is no longer quite as dynamic as in previous quarters. Sporadic outbreaks of coronavirus and strong countermeasures appear to have slowed momentum there.

Procurement bottlenecks are having a curbing effect in manufacturing, in some cases leading to delays in production. However, there is support from construction sector demand, which remains robust.

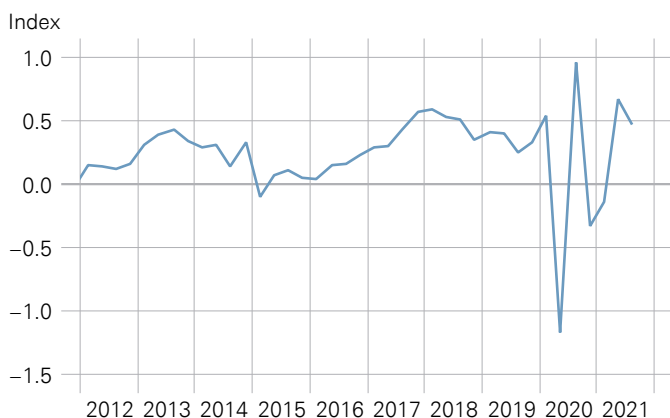
Despite the continued recovery, the majority of representatives still say the overall impact of the coronavirus pandemic on their business has been negative. Just under 60% of the companies take this view (cf. chart 2). Around 20% of the companies surveyed reported that the effect had been supportive of business activity, with a further 20% saying the positive and negative effects had cancelled each other out or that the pandemic had had no tangible impact.

### Production capacity underutilised

Despite rising turnover, the level of technical capacity utilisation is below average overall (cf. chart 3). This underutilisation is primarily due to the situation in the services sector. In particular, the lack of international travel is still having a hindering effect. In addition to this, many companies expect the proportion of people working from home to remain higher, meaning that overcapacity is increasingly likely in the case of office space. By contrast, capacity utilisation in manufacturing is slightly above average overall, and thus markedly higher than pre-coronavirus levels. Capacity utilisation in the construction sector is described as normal.

Chart 1

### TURNOVER COMPARED TO PREVIOUS QUARTER

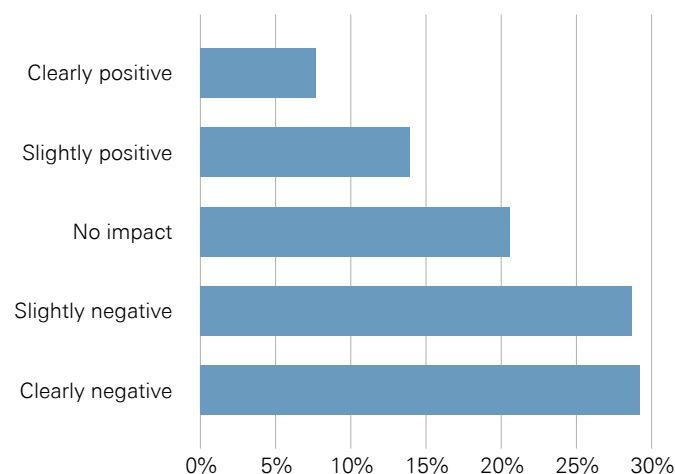


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

### OVERALL EFFECT OF CORONAVIRUS CRISIS



Source(s): SNB

### Procurement bottlenecks more pronounced

Difficulties in the procurement of intermediate products were already widely observed last quarter, and this has become increasingly pronounced. More than half of the companies had already been affected by supply difficulties in Q2 2021. There has been a further increase since, and the figure now stands at around two thirds (cf. chart 4). A frequently mentioned reason was reduced capacity at production facilities in Asia, exacerbated further by limits on the availability of freight capacity. The attendant delays, particularly in the case of raw materials, and in electronic components especially, are in some instances interrupting entire value chains and are delaying the production of a wide range of goods. The prices have risen as a result, in some cases significantly so. Added to this, the efficiency of production processes is often being impaired by delays, in some cases reducing or even halting production.

### International travel restrictions remain an obstacle

There is now hardly any mention of delivery problems within Switzerland. In the hospitality and hotel industries, the regulations are now only described as slightly restrictive, although the implications of the extended certificate requirement were not yet at the forefront of discussions at the time of the talks. International travel restrictions are continuing to have a substantial impact, however, dampening demand in the hotel trade, and also preventing exporting companies from delivering their products and spare parts as usual since on-site presence is often required for installation and training. Acquiring new customers is also still proving difficult.

### Staff levels somewhat too low

For the first time since the beginning of the coronavirus crisis, companies see personnel resources as being somewhat too low. This also applies to the services sector, which in previous quarters had still reported that staff levels were rather too high. Significant increases in demand for personnel in the healthcare, auditing and hotel industries are contributing to this. Demand for staff is also rising substantially in the hospitality industry, but levels are still viewed as being somewhat too high. Staff levels in the ICT industry are described as persistently too low.

### Hiring more challenging

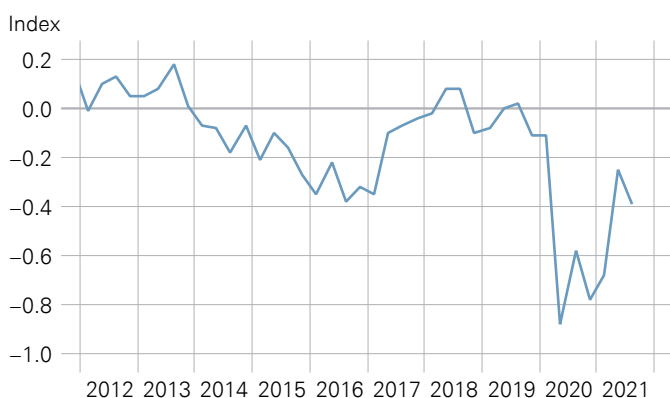
Increasing demand for staff has once more posed greater difficulties for companies when it comes to hiring. They are again describing the situation as similar to before the outbreak of the pandemic. Accelerated digital transformation has further exacerbated the shortage of IT specialists in particular. Restaurants and hotels are also experiencing noticeable difficulties, and are having to make considerable efforts and offer significantly higher pay to find staff. The reasons cited are the reorientation of skilled workers to other industries during the pandemic, greater difficulty in recruiting from abroad, and in certain cases short-time working, which is said to reduce people's willingness to change jobs.

### Little change in profit margins

Profit margins remain at a similar level to the previous quarter. In manufacturing, larger production volumes are having a positive impact, while higher purchase prices and less efficient production processes resulting from delivery

Chart 3

### CAPACITY UTILISATION



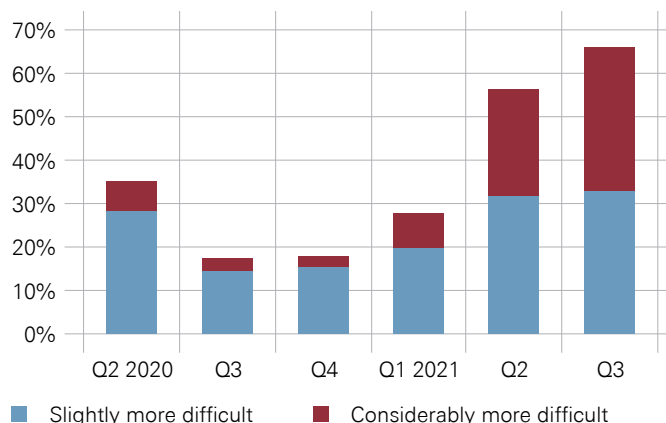
Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

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

delays are increasing production costs and eroding margins. In the services sector, despite the easing of measures and the resulting recovery in demand, the margin situation remains very unfavourable, particularly in industries directly affected by pandemic-related restrictions. The margin situation in the construction sector improved versus the previous quarter. The higher prices of intermediate products can increasingly be passed through to sales prices.

**Liquidity situation largely stable**

The liquidity situation remains stable at the majority of the companies, with just under half describing it as currently being the same as before the coronavirus crisis (cf. chart 5). Around 30% of the companies even say their liquidity situation is more relaxed. Besides the improvement in business activity, government support mechanisms are continuing to have a positive effect on the liquidity situation. So, too, are the measures taken by companies especially in the past year (specifically, conservative dividend payments and reduced capital expenditure).

At 17% of the companies the situation is tighter than before the coronavirus crisis; this marks a slight increase versus the previous quarter. In some cases the liquidity concerns have been triggered by delays in payment on the part of customers. Some companies report that government support mechanisms are no longer sufficient to cover the ongoing losses.

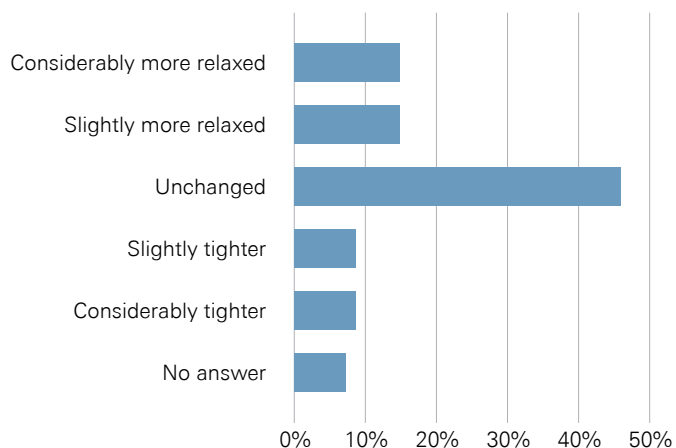
**Little change in lending conditions for most companies**

Most representatives assess the banks' lending conditions as similar to previous quarters. 90% of the companies surveyed have not noticed any problems with lending – either because they see lending conditions as being normal or even relaxed, or because they do not require bank loans (cf. chart 6). On the other hand, just under 10% regard conditions as being more restrictive. Representatives of industries that have been hard hit by the pandemic and whose prospects remain uncertain are still experiencing greater restraint on the part of the banks when it comes to matters of financing. Some manufacturing companies report a lower appetite for risk with regard to project financing.

Chart 5

**LIQUIDITY SITUATION**

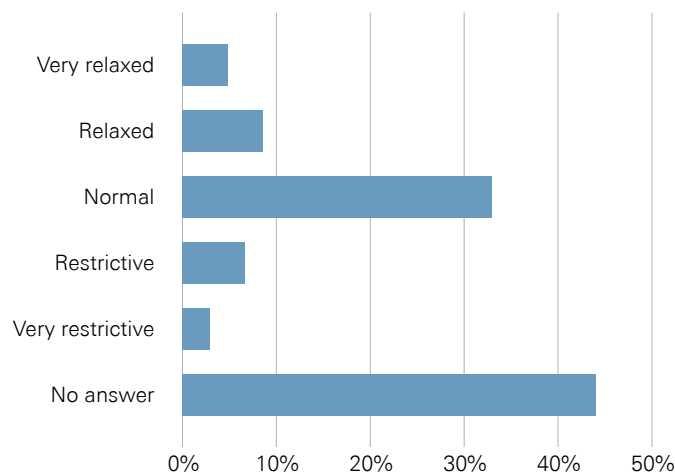
As compared to pre-COVID 19



Source(s): SNB

Chart 6

**LENDING CONDITIONS**



Source(s): SNB

## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business activity in the trade industry was lacklustre in the third quarter. Overall, real turnover was at around the same level as the previous quarter. On the one hand, some wholesale operations are profiting from the upswing in manufacturing or continued robust demand from construction. On the other hand, motor vehicle dealers are having to contend with delivery problems, which are being directly reflected in lower turnover. Added to this, retailers that profited from changes in demand during the closures are reporting declines in turnover, saying they are unable to maintain the strong levels recorded in Q3 2020 now that shopping trips abroad are picking up, hospitality establishments are reopening, and the volume of foreign holidays increased this summer.

Tourism and hospitality, as well as the entertainment and leisure industry, are still particularly hard hit by the effects of the pandemic, although the situation is improving as measures are eased. Turnover in the affected industries is thus up significantly overall quarter-on-quarter, this despite unfavourable weather conditions with July having been particularly affected by rain. Owing to the distancing rules, however, in many cases it is impossible to make adequate use of the available capacity. Another factor holding back development is the persistently low level of demand for seminars and conferences. In addition, business travel and international tourism are largely absent, which is having a particularly serious impact on city hotels, but also means that transport services geared to this type of business are poorly utilised.

The financial industry continued the positive development seen in previous quarters, with all business areas faring well. Contributory factors are sustained growth in the mortgage business, dynamic stock market developments, and, increasingly, the resumption of face-to-face client contact in branch offices. The representatives are optimistic in their expectations regarding these developments continuing in the coming quarters. They see the recruitment of specialist financial staff as a challenge.

The positive development of turnover in the ICT industry has continued. The most important driver is digitalisation, with persisting growth in demand for fast, secure IT infrastructure and a sustained trend towards online commerce.

Business in the manufacturing industries is developing very positively. Manufacturing is profiting from robust demand from the domestic construction sector, and in particular from the continued positive development of foreign demand. The development of turnover has been especially dynamic for food producers, the mechanical engineering, electrical engineering and metals industries, and manufacturers of precision instruments. Demand has picked up particularly in parts of the watchmaking industry and among suppliers to the automotive industry. Purchases of goods from the automotive industry were dampened in some instances owing to production difficulties triggered by supply bottlenecks, especially at European car manufacturers. However, these difficulties are unlikely to result in a lasting interruption in the upward trend. Companies in the chemicals and pharmaceuticals industry also fared well.

Thanks to the positive development in previous quarters, utilisation of technical capacity in manufacturing is appreciably higher than pre-pandemic levels overall. However, international travel restrictions are having a hindering effect, hampering the delivery of machines and spare parts, the provision of services, and customer acquisition.

Business activity has continued to develop positively in the construction sector. Seasonally adjusted turnover rose again quarter-on-quarter, and is significantly higher than in the same period in 2020. Order books are well filled in most places. Construction companies, as well as architecture, engineering and planning firms, are profiting from lively demand in public infrastructure construction and a high level of residential investment. Additions, extensions and renovations in particular are providing support. In connection with this, landscaping companies are also reporting steady levels of high demand. However, owing to continued increases in the prices of raw materials, supply bottlenecks, challenges in logistics and what is still described as intense competition, construction companies' margins remain slightly below what is considered normal.

## OUTLOOK

### Companies remain confident

Companies in all three sectors expect real turnover to increase significantly in the next two quarters (cf. chart 7). This confidence is based on good global economic demand and the fact that domestic demand remains robust, especially from the construction sector.

The majority of the companies expect to see turnover reach pre-coronavirus levels by the end of this year at the latest. Just over 50% of the companies did not suffer a decline in turnover or already returned to pre-coronavirus levels in the course of 2020 (cf. chart 8). Around 20% of the companies say they will reach this level in the course of this year. On the other hand, nearly 30% of the companies do not expect to see turnover return to pre-coronavirus levels until next year at the earliest.

The representatives anticipate an appreciable increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 9). Against this backdrop, companies' appetite for investment also continues to grow. Compared with the past twelve months – which admittedly were characterised in part by a strong decline in investment activity – companies are planning higher capital expenditure on both equipment and construction in the coming twelve months.

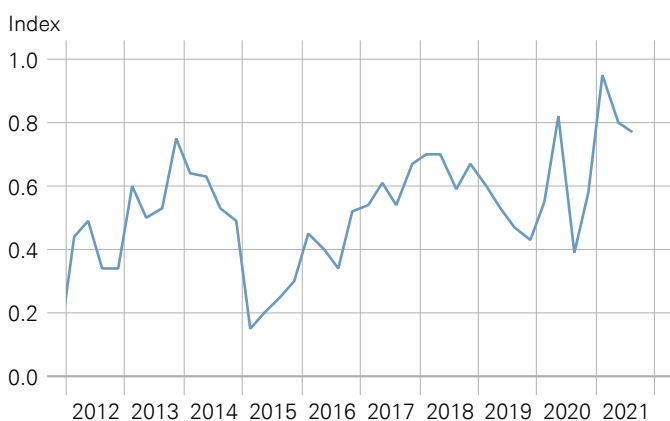
At the same time, they also intend to substantially increase staff numbers in the next two quarters (cf. chart 10). This is due on the one hand to more favourable business prospects and on the other to the fact that, owing to staff reductions in the last few quarters, many companies consider staffing levels to be too low. The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, healthcare, personnel recruitment, auditing and management consulting. There is also relatively high demand for personnel in the construction sector, and in particular in the finishing trade.

### Purchase and sales prices rising significantly

Given the continuing supply bottlenecks and the fact that capacity bottlenecks have increased transport costs, the increase in expected purchase and sales prices will continue. Although most representatives expect the development of prices to normalise in the coming year, they still anticipate significantly higher prices for a broad range of commodities and products in the coming two quarters. The exception is companies in the construction sector, which after substantial increases in prior quarters do not expect any further increases in purchase prices overall. However, in the construction sector too, sales prices – which until now could not be adjusted owing to contractual agreements – are increasingly being made to reflect high purchase prices.

Chart 7

### EXPECTED TURNOVER

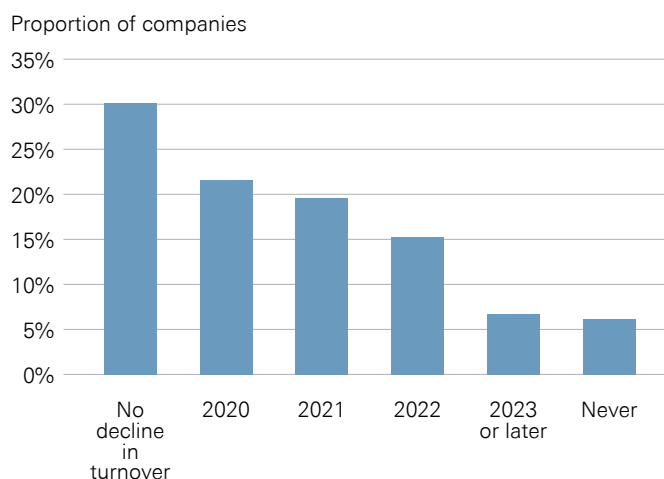


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 8

### RETURN TO PRE-CRISIS TURNOVER LEVELS



Source(s): SNB

## ENVIRONMENT AND RISKS

In the current quarter, two issues dominate companies' perception of risks: procurement bottlenecks and the further course of the coronavirus pandemic.

Somewhat contrary to expectations, the procurement problems have become more pronounced this quarter. Against this backdrop, companies are less confident that the situation will return to normal soon. These problems are likely to persist well into next year, and when it comes to electronic components in particular the situation is expected to ease only gradually. While price increases caused by shortages can usually be passed through to sales prices with a slight lag, inefficiencies resulting from delays in delivery put an immediate strain on the margin situation.

In addition, the optimism that was still widespread in the last quarter regarding a sustained calming of the coronavirus pandemic has been somewhat dampened in view of the rising number of cases. Although the majority of the companies do not expect to see renewed, severe restrictions on economic and social activity, uncertainty has increased noticeably again.

In addition to these challenges, which dominated many of the discussions, representatives again increasingly see a shortage of specialist staff as curbing the economic upturn.

Thus far, companies in the medical technology, pharmaceutical and energy trading industries have noticed immediate effects of the breakdown in negotiations on the framework agreement between Switzerland and the EU. In the medium term, other companies exporting to the EU also fear increasing costs in the form of administrative expenses.

Companies are increasingly talking about the structural consequences of the pandemic, including in particular a growing trend toward digitalisation. This is widely seen as an opportunity, but the associated investment costs and operational risks, some of which are difficult to quantify, also represent a challenge.

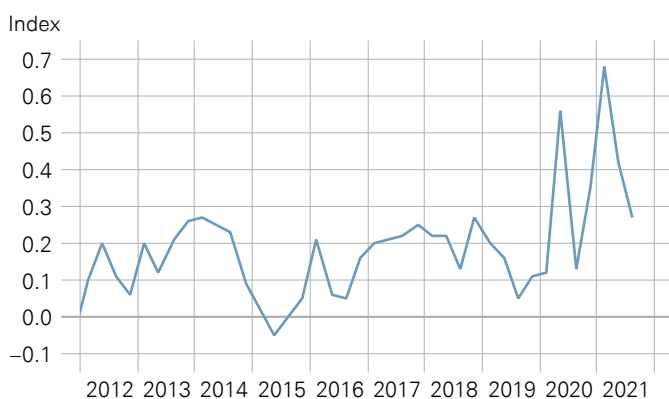
With a somewhat longer forecast horizon, climate change and the trend to sustainability are also seen as opportunities for new business models – particularly in the broad field of energy efficiency. Providers of products perceived as being less sustainable view the same trend as a risk, however.

The companies appreciate the stability of the Swiss franc; at the same time they mention a strong appreciation of the franc as a risk.

Given higher inflation rates and the situation on the real estate market, representatives are also increasingly talking about the interest rate outlook.

Chart 9

### EXPECTED CAPACITY UTILISATION

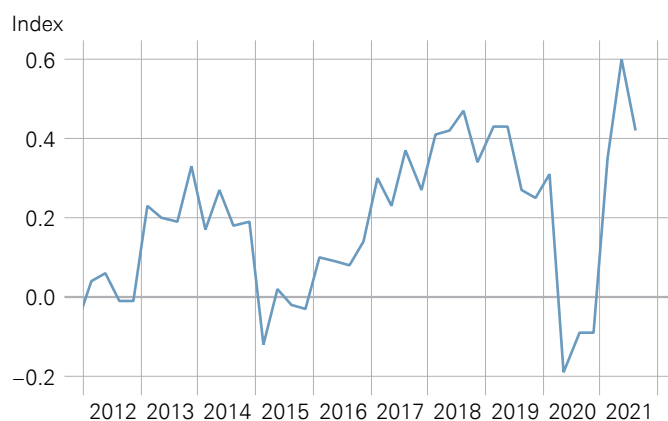


Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).

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



**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 an increase in short-term inflation expectations as measured by the CPI: The average for the next six to twelve months is 1.5%, compared to 1.1% in the previous quarter (cf. chart 11). A reason frequently given for this is widely observed increases in producer prices, which, according to representatives, will gradually be reflected in consumer prices.

There is growing expectation that after rising in the short term, inflation will not immediately level off again and that it will remain slightly higher. Inflation expectations over a three to five year horizon have thus risen from 1.2% to around 1.5%.

**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.

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, 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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