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# Business cycle signals

Results of the SNB company talks

## Second quarter of 2022

Report submitted to the Governing Board of the Swiss National Bank for its quarterly monetary policy assessment.

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and company managers throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 241 company talks were conducted between 12 April and 30 May.

### 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

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- Companies saw continued turnover growth in the second quarter. Growth is increasing in the services sector now that the measures to contain the pandemic have ended. In manufacturing, by contrast, the strong pace of growth has slowed somewhat. Overall, companies expect further increases in turnover though much higher levels of uncertainty for the coming quarters.
- As in the last quarter, only a few companies are seeing their business directly affected by the war in Ukraine. Company representatives primarily talked about the impact on the energy and raw materials markets.
- The additionally tight supply situation, primarily due to China's zero-COVID strategy, higher energy prices resulting from the war in Ukraine, and higher inflation internationally, are leading to significant increases in purchase prices. In the majority of cases companies are able to pass rising costs on to their customers.
- Staff shortages worsened in the second quarter. Companies want to employ significantly more staff in the coming quarters. Against this backdrop, many companies see recruitment difficulties as a considerable risk.
- As a result of higher inflation, staff shortages and the generally robust development of the economy, wage growth is stronger but remains moderate overall. Companies expect wages to increase further in the coming year.

Chart 1

### TURNOVER COMPARED TO PREVIOUS QUARTER



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

Source(s): SNB

Chart 2

### CAPACITY UTILISATION

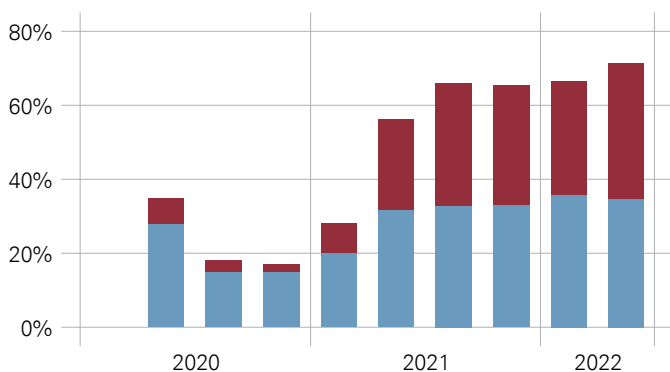


Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

Chart 3

### PROCUREMENT SITUATION



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

Source(s): SNB

### CURRENT SITUATION

#### Sustained growth in turnover

Turnover continued to increase in the second quarter at slightly higher pace (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). So far the uncertainty resulting from the war in Ukraine has slowed the development of turnover only slightly overall.

Increased sales momentum can be observed in the services sector in particular. Following the lifting of measures to contain the coronavirus pandemic, companies in the hospitality industry in particular, and to a certain extent also in trade, have benefited from strong demand, which can now be satisfied locally again without restriction.

In manufacturing, by contrast, sales momentum has weakened somewhat after two quarters of very strong growth. China's zero-COVID strategy is exacerbating the procurement problems. There are also signs of a weakening in demand from China. Demand from Europe and the US, however, remains robust.

In construction, the positive development seen in the previous quarter continued. The order situation is underpinned by a combination of robust public sector demand and a sustained high level of demand for residential space.

#### Production capacity slightly underutilised

There was a further improvement in technical capacity utilisation (cf. chart 2). However, it remains below the usual levels, in the services sector in particular. Many companies expect the proportion of homeworking to remain higher than before the pandemic and therefore report overcapacity in their current office space.

Utilisation in manufacturing, on the other hand, is at normal levels. Given that building projects postponed during the pandemic can now be realised, technical capacity in the construction sector is even slightly overutilised.

#### Procurement bottlenecks continue

The challenges of procuring intermediate products have further worsened. The proportion of companies affected by supply difficulties has grown to more than two-thirds (cf. chart 3). It has become even more difficult to procure IT and electronic components especially, but also other intermediate and semi-finished products. This particularly affects products procured from the Asian region. In addition to increasing pressure on prices, this is also impairing the efficiency of production processes. Whenever possible, companies are endeavouring to increase their inventories to improve their resilience to supply chain delays. Some companies suspect that this precautionary increase in inventories is responsible for part of the demand and is thus exacerbating supply bottlenecks. In addition, some companies report that because of the uncertain global supply situation, orders

are increasingly being shifted back to Switzerland and the surrounding areas, a situation from which these companies are profiting.

**Continued tight staffing levels and more challenging recruitment**

Difficulties related to recruitment and staff shortages continue to worsen (cf. chart 4). In general, companies are seeing an additional deterioration in the availability of personnel with a medium to high degree of specialisation. This is increasingly extending to less specialised occupations as well. The search for IT specialists remains persistently difficult. Recruitment of personnel in logistics, and particularly in the hotel and food services industries, also remains a challenge: Finding staff is only possible with great effort and in some cases high starting wages.

**Sustainable profit margins and stable liquidity situation**

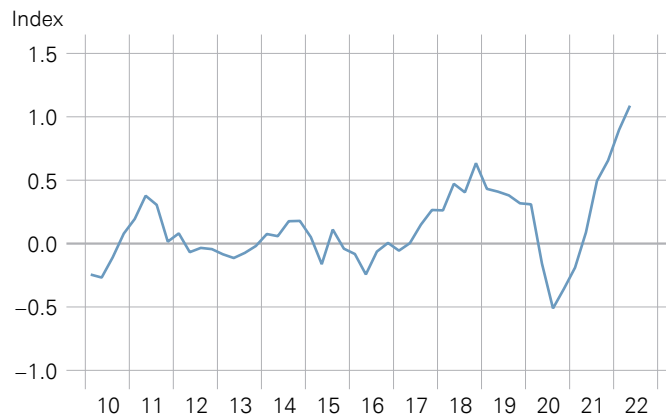
In most cases profit margins are at a solid level. Thanks to the lifting of coronavirus measures, for the first time since the outbreak of the pandemic the majority of companies in the services sector are reporting sustainable margins again. In manufacturing, by contrast, margins are tightening slightly. On the one hand, margins are underpinned by the positive order situation, and companies that are having to limit production because of supply bottlenecks are tending to turn down low-margin orders in favour of lucrative business. On the other hand, these developments are outweighed by cost increases due to more inefficient production processes as a result of supply chain delays.

Companies report that given the general price dynamics, higher sales prices are easier to push through. However, this room for manoeuvre is only being used to increase margins in isolated cases. Furthermore, higher purchase prices are having a curbing effect at companies that cannot fully or immediately pass the increases through to sales prices. Reasons for this can be intense competition, contractual agreements or the preservation of long-term customer relationships.

The liquidity situation remains unproblematic for the vast majority of companies (cf. chart 5). Around two-thirds describe the current liquidity situation as comfortable to very comfortable. Around one-fifth describe it as sufficient. Fewer than 5% of companies report a slightly or significantly tight liquidity situation.

Chart 4

**RECRUITMENT DIFFICULTIES**

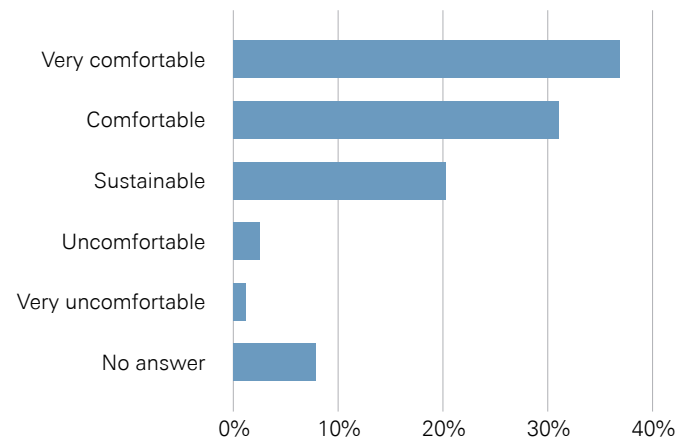


A positive (negative) index value signals more (less) pronounced recruitment difficulties than normal.

Source(s): SNB

Chart 5

**LIQUIDITY SITUATION**



Assessment of current liquidity situation.

Source(s): SNB

## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

The trade industry has seen strong increases in turnover. Wholesale in particular is profiting from the recovery in the hospitality industry and robust demand from construction. Retail sales figures are also developing positively overall. The fact that consumer habits are returning to normal now that the pandemic has subsided is, however, creating both winners and losers within the industry. The losers include companies that are again facing increased competition from neighbouring countries. While demand in the motor vehicle trade remains brisk, supply bottlenecks are a major challenge for these companies in particular, with the result that not all orders can be met in full.

Hospitality continues to recover, supported by the lifting of Switzerland's entire coronavirus measures. Turnover in food services is seeing a marked increase thanks to robust domestic demand. The hotel industry is seeing a steady recovery in bookings from Europe, North America and the Arab region. Guests from China, on the other hand, remain absent. Against the backdrop of a significant overall increase in demand, companies consider staff levels to be too low and see recruiting new staff as a major challenge. The reasons cited by companies are the reorientation of skilled workers to other industries during the pandemic and greater difficulty in recruiting from nearby foreign countries. Because of persistent recruitment difficulties, some companies have little confidence that they will be able to increase staff levels to the desired extent in the coming quarters.

Growth momentum has slowed slightly in the financial industry. While turnover at banks has seen a slower pace of development, insurers are recording robust increases in turnover. Negative developments on the stock markets have resulted in a decline in commissions in the trading business at some banks, although they have been partially able to offset this with additional revenues from the mortgage business and new client money. The insurance industry reports that rising interest rates have led to greater interest in pension and retirement saving solutions.

Turnover in the ICT industry has increased again. However, the shortage of IT specialists has continued to worsen this quarter, meaning that vacancies remain unfilled and growth is impaired. Nevertheless, with demand remaining high thanks to digital transformation and the increase in cybersecurity requirements, the ICT industry has great growth potential. There is heightened uncertainty about the coming quarters among telecommunications companies, which rely on electronic components and are therefore harder hit by procurement bottlenecks.

Business is developing positively in many manufacturing industries despite a slowdown in momentum due to increasing supply bottlenecks. In particular, companies in life sciences as well as in the mechanical engineering, electrical engineering and metals industries have recorded strong growth in turnover. Supply bottlenecks are a serious concern for manufacturing, particularly for manufacturers of electrical equipment and machinery requiring electronic components. Affected companies are avoiding production losses by way of stocking up inventories, long-standing customer relationships and substituting individual intermediate goods where possible. An increasing number of companies, however, are unable to fully prevent delays or even stops to production.

Construction continues to benefit from a persistently good order situation. In particular, building construction as well as completion and finishing companies are recording strong turnover growth, thanks primarily to sustained high demand for residential space. The rising need for energy-efficient renovations and robust demand from the public sector are providing additional support. Despite the good order situation, increases in the price of materials are putting growing pressure on margins. Companies are increasingly indexing prices by means of inflation clauses in order to cushion the negative effect on margins. In isolated cases, construction projects are also being postponed by clients because of the rise in costs. Staff shortages are likewise cited as a challenge in construction, although the problem is less acute here than in other industries. Despite uncertainties, construction companies expect turnover to continue to develop positively in the coming quarters.

## OUTLOOK

### Companies remain confident despite high level of uncertainty

Despite staff shortages and procurement difficulties, companies anticipate growing turnover in the next two quarters (cf. chart 6). Their confidence is based on the positive overall momentum of the global economy and the fact that domestic demand remains robust. Uncertainty, however, remains high (cf. chart 7). Around 60% of companies report greater uncertainty with regard to the development of their business in the next two quarters. The war in Ukraine and the fact that the procurement situation is even tighter because of China's zero-COVID strategy are particularly unsettling. Some company representatives point out that the coronavirus pandemic could flare up again. By contrast, around 25% of companies describe the level of uncertainty as normal. Around 15% perceive a lower level of uncertainty, mostly because they are profiting from committed orders to a greater extent than usual or because they deem the risks around the coronavirus pandemic to be lower.

In line with the expected turnover growth and despite the pronounced uncertainty, companies' appetite for investment continues to develop positively. A key driver seems to be the shortage of staff, which various companies are addressing by investing more in automation. They are also increasingly taking measures to reduce energy costs.

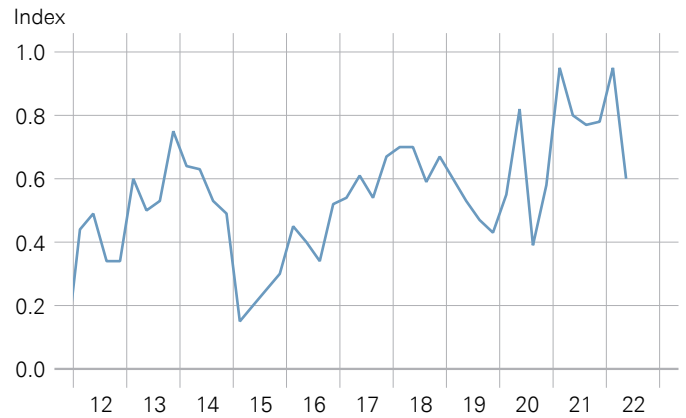
### Only moderate increases in wages despite increased demand for personnel

There are plans to increase staff numbers significantly in the next two quarters (cf. chart 8). These plans are based on the one hand on the fact that business prospects remain favourable and on the other on the fact that many companies consider current staffing levels to be too low – the latter being attributable to both strong growth in orders as well as recruitment difficulties. The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, life sciences, mechanical engineering, electrical engineering and metals, as well as architecture and engineering firms. Added to this, companies in retail, logistics and food services plan to increase staff levels.

Against a backdrop of muted wage developments last year, an increasingly tight labour market and growing inflation, companies report growth in wages will pick up somewhat this year but will remain moderate. Companies are raising wages by an average of 1.6% after increases of 0.8% last year. Similar to the recent past, wages for particularly sought-after specialists are rising the most in ICT, and now also in the hotel industry. In light of higher inflation and the tight labour market situation, companies anticipate continued growth in wages for the coming year.

Chart 6

### EXPECTED TURNOVER

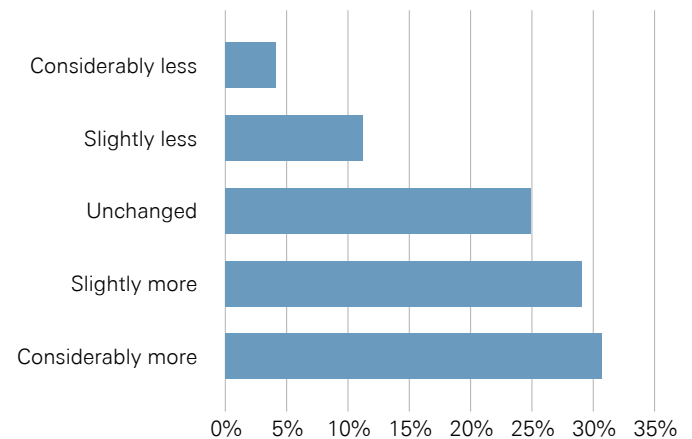


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

### UNCERTAINTY



Uncertainty about development of business over the next two quarters.

Source(s): SNB

Chart 8

### EXPECTED EMPLOYMENT



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

Source(s): SNB

### **Sustained upward pressure on purchase and sales prices**

Given sustained robust demand, the continuing tight supply situation as well as higher transport and energy costs, company representatives anticipate further increases in the purchase prices of a broad range of intermediate and semi-finished products in the next two quarters. In particular, the scarcity of electronic components will result in a further rise in their prices. While there were certain signs at the beginning of the year that developments in energy and raw material prices were flattening off, the war in Ukraine put a stop to this incipient return to normal. Towards the end of the period during which the talks were conducted, however, companies were reporting that prices, especially for raw materials, have probably peaked.

Companies expect their sales prices to also increase further. In all sectors, the higher costs are continuously being passed through to sales prices. Construction companies in particular are now indexing their prices on a broad basis, enabling them to pass on price increases of their raw materials almost in full. In addition to this, prices in the hospitality industry, which has been hard hit by the pandemic, are expected to return to normal as demand recovers.

## **ENVIRONMENT AND RISKS**

### **Recruitment a major challenge**

The fact that recruitment difficulties continue to worsen poses a major challenge for companies. Increasingly, they report that they can no longer keep up with the high volume of orders in full and can thus not accept all work. The majority of companies do not expect the situation to ease in the coming quarters. Accordingly, a certain degree of uncertainty prevails as to whether plans to increase staff numbers at many companies will be entirely successful.

### **Procurement difficulties a source of concern**

Many companies are also concerned about the procurement situation with a view to the coming quarters. They do not expect the situation to ease in the short term. Companies believe that further developments will depend on factors such as the duration of the coronavirus lockdowns in China and the course of the war in Ukraine. On the one hand, new lockdowns in China could, in particular, further delay the supply of electronic components and cause production losses. On the other hand, the war in Ukraine could lead to problems with energy supply or even greater difficulties in procuring raw materials.

### **War in Ukraine causing uncertainty**

Companies describe the war in Ukraine as a substantial risk to what is in itself a positive business outlook. In addition to the turmoil on the energy and commodity markets, global economic developments, which are difficult to assess, are causing uncertainty. Companies in the tourist industry also expect enthusiasm for travel to Europe to remain low, especially among Asian tourists.

### **Concerns around global rise in inflation**

Companies are observing with concern the significant worldwide increase in inflation. This makes pricing more difficult and generally makes it harder to plan with any certainty. There are also fears that a decline in real incomes will curb demand for consumer goods. In construction in particular, concerns are being voiced that significant increases in the costs of construction and higher interest rates will dampen demand from residential construction.

### **Digitalisation and sustainability trend as opportunity and risk**

The majority of companies see ongoing digitalisation as an opportunity to make production processes more efficient. At the same time, closer interconnectedness – including via online sales channels – means that cybersecurity is becoming an ever-greater challenge.

With a somewhat longer forecast horizon, the trend to sustainability resulting from climate change is also seen by many companies as an opportunity for new business models. This particularly applies to the broad field of energy efficiency. However, some aspects of the trend to sustainability are viewed critically, especially when it comes to its impact on the supply of energy. Increasing regulation and the additional investment this necessitates are also perceived as a significant cost factor by some companies.

## INFLATION EXPECTATIONS

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

There has been a further increase in short-term inflation expectations as measured by the consumer price index: The average for the next six to twelve months (cf. chart 9) is 3.1%, compared with 2.3% in the previous quarter. The increase is often explained in terms of rising producer prices, particularly the price of energy, which company representatives believe will be passed through to consumer prices.

Representatives still expect inflation, which has risen in the short term, to gradually decline again, although they do believe this might happen somewhat more slowly than originally anticipated. Inflation expectations over a three to five-year horizon have thus risen from 1.6% to 1.9%.

Chart 9

### EXPECTED INFLATION



Source(s): SNB

## About this report

### Approach

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

Over 200 companies are visited every quarter. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while the public administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. Different companies are visited from one quarter to the next.

In the talks, the SNB's delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade part of the qualitative information received according to a numeric scale. This enables the results to be aggregated and represented graphically.

The five-tier scale ranges from 'substantially higher' or 'much too high' (+2), 'slightly higher' or 'somewhat high' (+1), 'the same' or 'normal' (0), 'slightly lower' or 'somewhat low' (-1), to 'substantially lower' or 'much too low' (-2).

### Interpreting the charts

The charts are to be regarded as a numeric summary of the qualitative information received. The index value shown represents the average of the findings from all companies visited. When interpreting the curves, relevance should be attached to their overall development, rather than to their numeric level or individual changes.

### Additional information

Further information on the 'Business cycle signals' report is available at [www.snb.ch](http://www.snb.ch), The SNB/SNB regional network.



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