Business cycle signals

Results of the SNB company talks

Third 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 209 company talks were conducted between 19 July and 6 September.

Regions	Delegates
Central Switzerland	Astrid Frey
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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

- Turnover growth weakened in the third quarter but remained positive. Momentum slowed primarily in the services sector, which in the previous quarter had still been benefiting from catch-up effects following the lifting of coronavirus measures. A slight weakening in growth has also been evident in the construction sector. Turnover growth in manufacturing has remained stable at an average level.

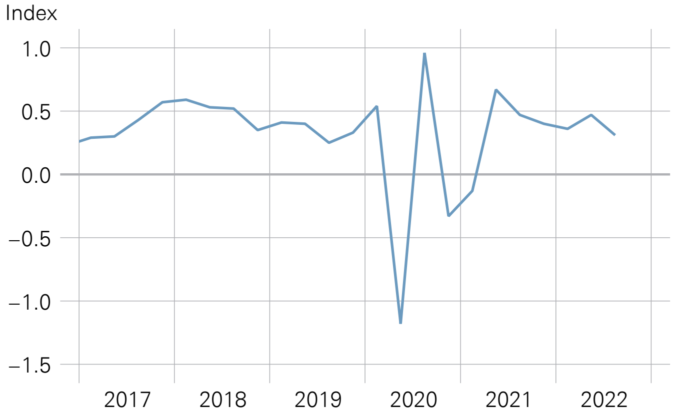
- Companies expect turnover to increase in the coming quarters as well. However, the outlook is subject to many uncertainties. Geopolitical flashpoints could affect the availability of energy and again aggravate the procurement situation. Moreover, given the recent appreciation of the Swiss franc, exchange rate developments are once again increasingly being viewed with concern.

- Despite the positive development in turnover, companies are observing a deterioration in their margin situation. Rising purchase prices, especially for energy, cannot always be fully passed through to sales prices.

- Staff shortages are intensifying and recruitment difficulties are rated as the biggest challenge by many companies. The tight labour market and elevated inflation are leading to higher wage demands

Chart 1

TURNOVER COMPARED TO PREVIOUS QUARTER

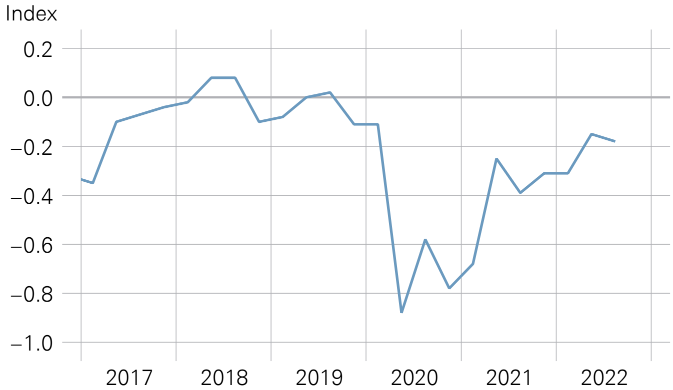


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

CAPACITY UTILISATION

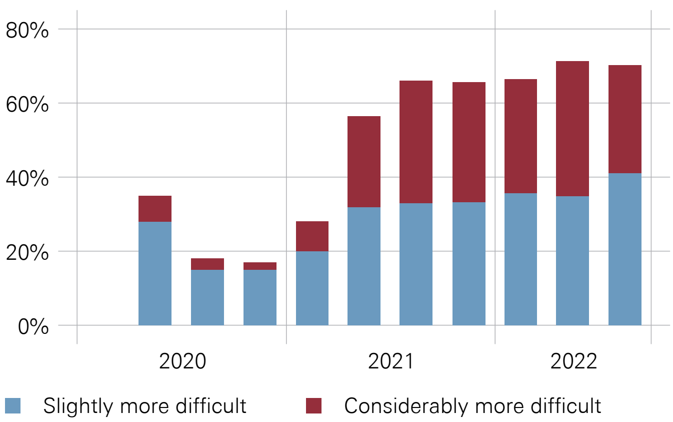


Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

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

Lower but nevertheless positive turnover growth

Real turnover growth, in other words turnover growth adjusted for price changes, weakened in the third quarter, but remained positive (cf. chart 1). This weakening in growth was primarily due to the services sector, which in the previous quarter had still been benefiting from catch-up effects following the lifting of coronavirus measures.

Turnover growth in manufacturing has remained at an average level. Demand from the US and large parts of Europe continued to develop positively, although many companies reported a significant weakening in demand from Germany and the UK. There is still little impetus from China.

Momentum in the construction sector weakened slightly in the third quarter. However, turnover remained significantly above the previous year's level. The order situation is underpinned by the sustained high level of demand for residential space. In addition to this, commercial construction is benefiting from high demand for storage and production space in certain industries.

Production capacity and infrastructure utilisation close to normal

Utilisation of technical capacity and infrastructure was close to normal levels (cf. chart 2). The proportion of homeworking means that the available office space is somewhat overgenerous at some companies in the services sector. However, firms affected have started to reduce office space to achieve a better level of utilisation. Capacity utilisation in manufacturing and construction is in most cases satisfactory.

First signs of easing in procurement

More than 70% of companies say they are still having to contend with a difficult procurement situation (cf. chart 3). Towards the end of the period during which the talks were conducted, however, there were increasing signs that the situation was easing. The proportion of companies whose production is severely limited by supply bottlenecks, for example, is declining. For one thing, measures taken by many companies, such as building up their inventories, appear to be having an impact. For another, supply bottlenecks are increasingly confined to specific products – e.g. only certain types of metal or timber – rather than the entire supply chain. As a result, the supply situation in construction has again eased. Added to this, the availability of certain electronic components seems to be improving somewhat. This means that the problems with the supply of goods whose manufacture requires these components are less pronounced. In this segment the procurement of photovoltaic systems remains difficult, as does the procurement of household appliances, for example, which are enjoying extremely robust demand thanks to the high level of extension and renovation activity.

Continued tight staffing levels and challenging recruitment

The shortage of staff and the recruitment situation remain a big challenge for many companies (cf. chart 4). In particular, companies in healthcare, logistics and large parts of the hospitality industry report pronounced difficulties. Finding staff is only possible with great effort and in some cases high starting wages. In the financial industry and parts of manufacturing, by contrast, the recruitment difficulties have diminished slightly. A few companies also report that the effort involved in recruiting IT specialists is not as great as in previous quarters.

Lower but still sustainable profit margins

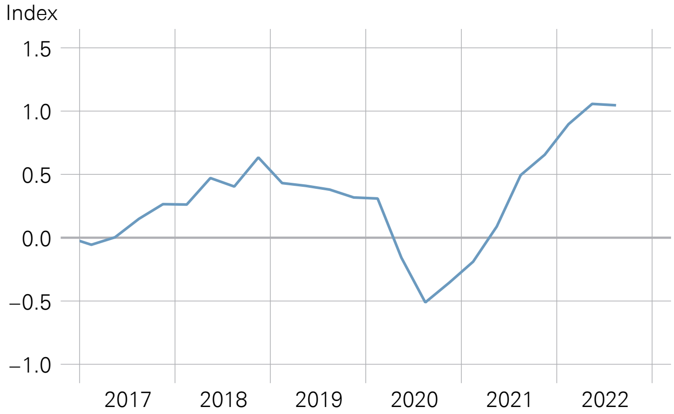
Despite the positive development in turnover, companies are observing a decline in margins (cf. chart 5). Rising purchase prices, especially for energy, higher wages and the additional time required owing to procurement difficulties cannot always be fully passed on to sales prices. Construction companies are particularly affected, reporting intense competition as well as fearing that clients will not always be able to bear the increased costs. For export-oriented companies and those exposed to strong competition from imports, the latest appreciation of the Swiss franc has also increased the pressure on margins. Despite these curbing factors, it is still only a small proportion of companies that describe the margin situation as not being sustainable.

Liquidity situation stable in the majority of cases

The liquidity situation remains unproblematic for the vast majority of companies. Just under one tenth describe the situation as tight. The reason given for this is in most instances not a decline in the inflow of liquidity, but a financially more costly increase in inventory or, in some cases, extraordinary investment requirements.

Chart 4

RECRUITMENT DIFFICULTIES

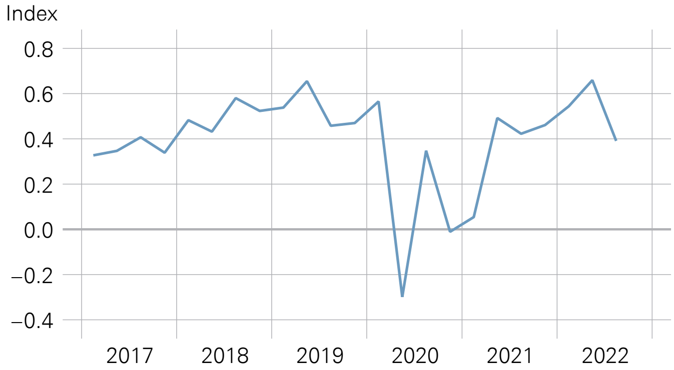


Difficulties in recruiting new staff. Positive (negative) index values signal a worsening (easing).

Source(s): SNB

Chart 5

CHARACTERISATION OF MARGINS



Characterisation of the current margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business in the trade industry is lacklustre. Although many companies are seeing increases in nominal turnover as a result of higher prices, real turnover adjusted for price developments is stagnating overall. This is due, among other things, to wholesale trade feeling the impact of waning impetus from the global economy in some cases. On the other hand, trade in goods used in domestic construction has continued to grow. In retail the reopening of restaurants and, increasingly, the reduction in purchasing power brought about by inflation are having a curbing effect on the food industry. The situation in the motor vehicle trade has not yet returned to normal. Supply problems at automakers continue to have a heavy impact on trade in new vehicles, and turnover remains low. This is partially offset by the more intensive maintenance required for existing vehicles and the sale of used vehicles.

Tourism and hospitality have seen real turnover stabilise at a solid level. This comes after previous quarters were characterised in particular by the positive impact of catch-up effects following the lifting of coronavirus measures and the recovery of business in food services and international tourism. At the same time, domestic tourism has been unable to repeat the record results of last year, when demand from Swiss residents was underpinned by limitations on travel.

Growth momentum in the financial industry remains moderate. The mortgage market is being helped by the fact that demand for residential property, despite rising interest rates, has so far been solid.

Turnover in the ICT industry has continued to increase. Thanks to digital transformation and the mounting need for cybersecurity, this industry still has high growth potential. However, the high level of demand cannot always be fully met because in some cases vacancies are still unfilled. The fact that the recruitment situation remains tight is also leading to higher wage costs and is having a dampening effect on margins.

Business in most manufacturing industries continues to develop positively. This applies in particular to the watchmaking and pharmaceutical industries, but the majority of manufacturers of machines and electronic equipment also report that the order situation remains good. Development among suppliers to the automotive industry is varied. On the one hand, these companies are particularly hard hit by the shortage of semiconductors, and the resulting uncertainty is curbing their appetite for investment. On the other hand, rapid advances in drive technologies are also creating opportunities for Swiss companies, as they benefit from investment in new production lines in the automotive industry.

Despite rising volumes, manufacturing companies are feeling the pressure on margins. On the cost side, higher prices for intermediate inputs and raw materials in particular, as well as higher energy costs, are leading to lower margins. Companies at the beginning of the value chain – for example those operating in the energy-intensive processing of materials such as steel or, to some extent, plastics – are particularly affected by rising energy costs. On the revenue side, the rapidly strengthening Swiss franc is narrowing margins, particularly at companies whose options for adjusting prices are limited in the short term.

Construction continues to benefit from a persistently good order situation. Building construction as well as completion and finishing companies in particular are seeing very good levels of utilisation thanks to continuing high demand for residential space. The rising need for energy-efficient renovations is providing additional support. However, the construction industry is particularly hard hit by the rising price of materials. The margin situation in building construction, for example, has deteriorated significantly despite inflation clauses. Some construction companies are also concerned that further increases in the costs of construction could lead to a decline in demand.

OUTLOOK

Increasing staff levels despite declining confidence in development of turnover

While companies expect turnover to rise further in the next two quarters (cf. chart 6), confidence has declined owing to weaker growth in global economic demand. At the same time, there is still support from the fact that domestic demand has so far been robust and the order situation is good.

There are plans to expand staff numbers in the next two quarters (cf. chart 7), as many companies consider their current levels to be too low. Added to this, the anticipated growth in turnover will tend to increase the need for staff. Due to the tight situation on the labour market and the elevated level of inflation, the companies visited are planning to raise wages next year by an average of 2.4%. This year's average increase is 1.7% (cf. chart 8).

The good utilisation of technical capacity, the higher demand for storage space and the continued need to expand IT infrastructure are driving a further increase in planned investment activity. Company leaders say that a key driver is the shortage of staff, which various companies are addressing by investing more in automation. They are also increasingly taking measures to reduce energy costs.

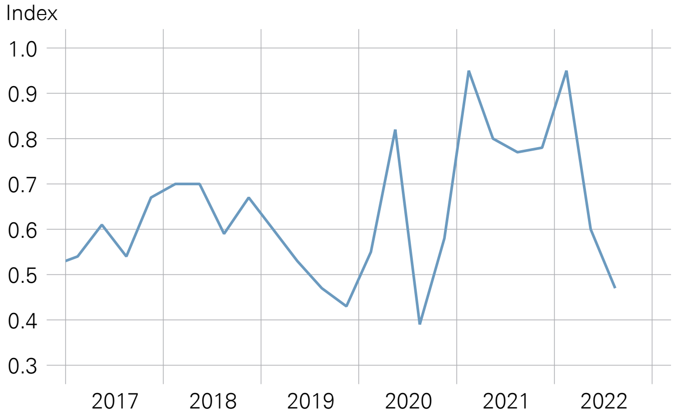
Increases in purchase and sales prices levelling off slightly

Given the slight easing in the procurement situation, companies are still expecting purchase prices to increase significantly, albeit not as sharply as in previous quarters. However, expectations vary depending on the product group. While sustained strong growth in procurement prices for fuels and certain electronic products is anticipated, companies do not expect the price of raw materials such as steel and timber to increase further, or even expect prices to fall.

There are also signs that the rise in sales prices is weakening slightly. Companies say the reason for this lies in intense competition and declining demand because households are losing purchasing power. This applies especially to retailers. However, a large proportion of companies will still have to pass increased costs through to sales prices in order to stabilise margins.

Chart 6

EXPECTED TURNOVER

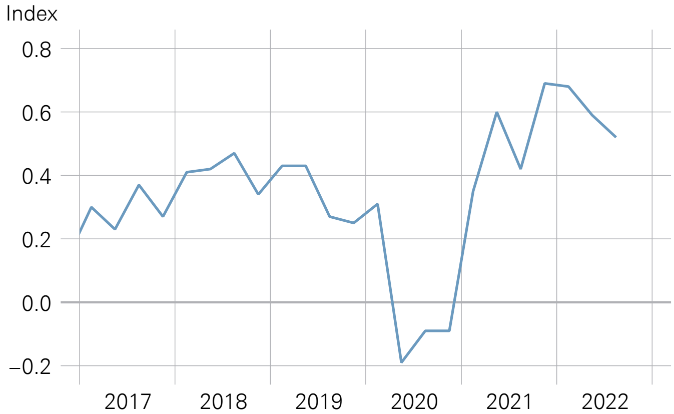


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 7

EXPECTED EMPLOYMENT

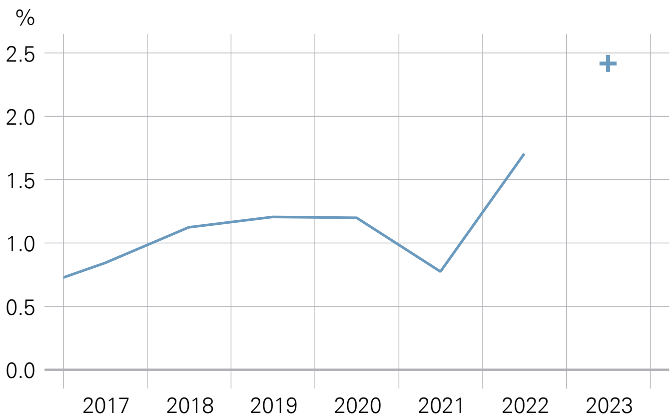


Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).

Source(s): SNB

Chart 8

WAGE INCREASES

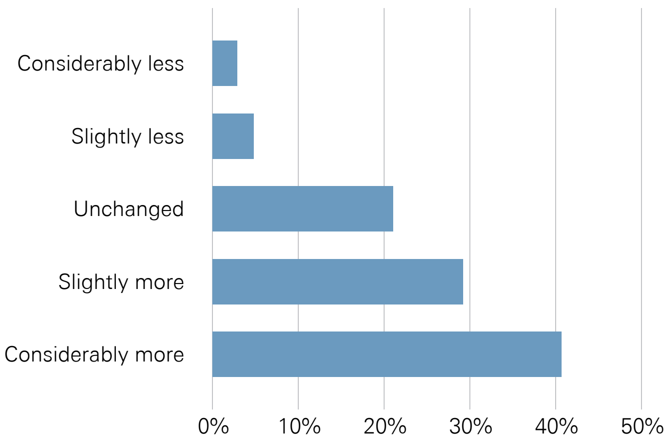


Expected average wage increase for the coming year (cross) and agreed annual wage increases (line).

Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.
Source(s): SNB

Multiple challenges and a high degree of uncertainty

The fundamentally favourable sales outlook is clouded by multiple challenges and imponderables. Companies see an extraordinarily high level of uncertainty with regard to the future development of their business, with around 70% of the companies surveyed describing uncertainty for the next two quarters as elevated (cf. chart 9).

The risk of energy shortages has now entered the focus of many companies. This applies not only to those with high energy requirements. All manufacturing and services companies anticipate major difficulties in the event of power cuts, especially if they occur unexpectedly.

The fact that inflation has risen significantly internationally is also causing uncertainty. This renders pricing more difficult and makes it harder to plan with any certainty. Companies also fear that pronounced declines in real incomes could curb demand for consumer goods and lead to a widespread weakening in global demand.

The exchange rate situation has also moved further to the fore. Export-oriented companies and those exposed to heavy competition from imports are viewing with concern the speed at which the Swiss franc has appreciated.

Added to this are imponderables that had already been giving companies major grounds for concern in previous quarters. There is still a great deal of uncertainty with regard to the development of the global economy. In this connection, companies often point to the fragility of international value chains against a backdrop of geopolitical tension. An escalation in the conflict between Taiwan and China, for example, could have massive implications for the availability of electronic components. The tight labour market also remains a great challenge for companies. The majority do not expect the situation to ease in the coming quarters and are therefore uncertain as to whether they will be able to put their personnel plans into practice. Finally, some company representatives point out that the coronavirus pandemic could flare up again.

INFLATION EXPECTATIONS

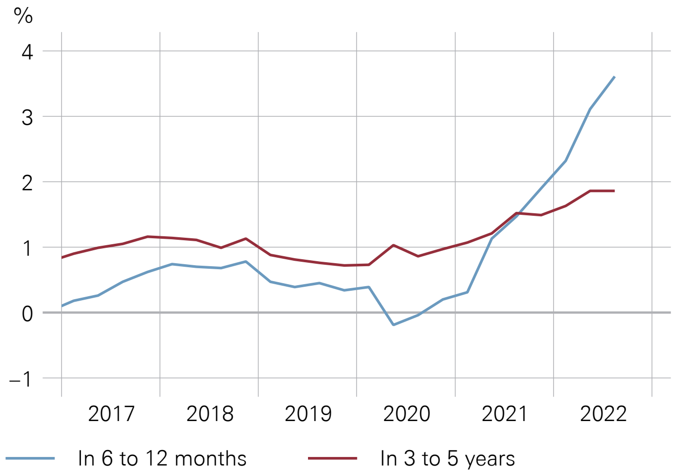
The delegates also ask company representatives about their short and long-term inflation expectations.

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 10) is 3.6%, compared with 3.1% in the previous quarter. The renewed rise is due on the one hand to the significantly higher inflation observed in recent months. Added to this, rising energy prices and sustained increases in producer prices are likely to also continue to be passed through to consumer prices.

However, company representatives still expect inflation to level off again in the medium term. Their inflation expectations over a three to five-year horizon are stable at 1.9%, in other words within the range that the SNB equates with price stability. Company representatives emphasise the important role of the central banks in ensuring price stability in the medium term.

Chart 10

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, The SNB/SNB regional network.

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