

Detailed Results

Zurich, 7 November 2017, 9:00 a.m.

Results of the KOF Business Tendency Surveys, October 2017

Muted Business Situation

The KOF Business Situation Indicator has fallen slightly. However, the business situation is significantly better than it was throughout most of the first half of 2017. The slightly less buoyant situation is attributable largely to the financial and insurance services as well as other service providers. Whilst the business situation remains good in these sectors, the positive mood is less pronounced. Nevertheless, the economic situation and the outlook remain positive overall.

Significant easing of tension in the manufacturing sector

The Business Situation in the **manufacturing sector** is on an upward trajectory once again. For the ninth time in a row, businesses consider the situation to be more positive than it was the previous month. However, this month it is only considered slightly better. Since the start of 2017 the situation has therefore eased significantly in this area of the economy. Following a recovery during the first half of the year essentially by export-oriented businesses, firms targeting the internal market are now making up some ground. The improvement is thus gaining a broader foothold. Whilst stocks of finished goods have been significantly reduced and production expanded slightly, order books are nonetheless at similar levels to the previous month. Capacity utilisation of machinery and equipment climbed to almost 83 per cent, and is thus close to the average figure for the last ten years. In parallel with the heightened capital utilisation, businesses have been increasingly expanding their technical capacities. Businesses have been able to maintain their competitive position nationally and even to improve it within the EU. Survey participants expect a further upturn in incoming orders in the near future and thus no longer intend to reduce the workforce.

Continuing positive situation in the construction sector, although without any significant additional dynamic

In the two building-related sectors of **construction and project engineering**, the business situation is good. It improved further slightly in October. However, businesses are not really expecting any further improvement. Businesses in the **construction sector** remain satisfied with orders on hand. However, as demand has not increased further, production has been cut back somewhat and capacity utilisation of machinery and equipment has fallen. Earnings performance once again came under pressure, having almost stabilised over the spring and summer. Since firms generally expect construction prices to fall, they are also fairly sceptical concerning the future development of earnings. Compared to the years 2015 and 2016, prices have generally come under less pressure over the course of this year. Demand for the services of **project engineering firms** has risen, and designers have been expanding their services. With brimming order books, firms also intend to increase their services further into the near future, even though they are not projecting demand to increase yet further. However, design firms are slightly sceptical regarding the development of earnings. Whilst fee rates are not dropping as strongly as they were during the summer, they are still declining.

Sluggish development in the retail sector

Retailers continue to report difficulties in reversing the negative mood. The business situation worsened further slightly following previous improvements for two months in a row. Overall, the situation is satisfactory. Customer footfall has stabilised and sales volumes increased slightly. Although retailer warehouses are well stocked, they

do not want to limit orders of goods any further. It is likely that the main reason for this was their expectation of a slight increase in turnover. However, as they do not expect any scope for price increases, they do not anticipate the business situation to change in the near future.

The business situation in the **wholesale sector** improved further, and is overall good. Goods are currently selling at a more lively rate than one year ago and delivery periods are rising once again. Wholesalers are forecasting sustained lively demand over the coming three months and are looking to take on additional staff.

Accommodation and food service sector moving further along the path to recovery

The situation in the **accommodation and food service sector** eased once again in October. Demand increased further and earnings remained stable for the second quarter in a row. The business situation is once again more satisfactory above all in the **accommodation sector**. The number of overnight stays is higher than it was one year ago for both Swiss and foreign travellers. Overall occupancy rates have risen further. Coming on the back of positive signals on the booking front, businesses are expecting overnight stays to increase also over the coming three months. Thanks to this revival of demand, businesses no longer consider themselves forced to offer discounts quite as frequently as previously. Following the significant easing during the previous quarter, the business situation in the **restaurant sector** did not improve further. Whilst sales are barely unchanged compared to last year, concerns at insufficient demand are starting to be voiced again more widely. Restaurateurs are expecting sales to remain stable or to increase slightly in the near future. Some slight confidence may thus be discerned within the business expectations.

Situation worsens for providers of financial services and insurers...

In October, the very positive business situation for financial service providers and insurers cooled somewhat. In particular insurers no longer consider their business situation to be as good as it previously was. However, overall demand for financial services and insurance developed more positively than in previous months, and operators are more optimistic than before also as regards the future trajectory of demand. As survey participants are continuing to expect increases in business expenses and income, they forecast earnings to remain stable. The assessment of the business situation barely changed for the sub-group of banks: it is regarded as being largely good, as previously. Demand from national private customers and corporate customers increased significantly over the last three months. The banks are hoping to benefit from a surge in demand also in the near future, in particular from corporate clients. As regards the performance of trading and commission business, survey participants are confident regarding the coming three months, although not as optimistic as previously. They remain sceptical regarding interest-related business.

...whilst the position for other service providers is also less buoyant

Amongst other service providers the business situation is no longer as good as in the previous quarter. This cooling is clearly quite widespread throughout the individual service segments. The situation is no longer classified as positively as it was previously in the sub-sectors of transportation, information, communication as well as economic services. However, expectations regarding demand are more optimistic than previously in all three areas. Firms are also increasingly looking to hire extra staff. In addition, fewer are expecting that they will have to cut the prices for their services. Thus, in spite of the fact that the current business situation is less buoyant, business expectations for the coming six months have improved further.

The results of the current KOF business tendency surveys from October 2017 incorporate the answers provided by more than 4,500 private sector businesses from industry, construction and the major service sectors. This corresponds to a response rate of around 59 per cent.

Graphs and tables of the KOF Business Tendency Surveys can be found here:

<https://www.kof.ethz.ch/en/news-and-events/media/press-releases/2017/11.html> →

Further information concerning the KOF business tendency surveys is available at:

<https://www.kof.ethz.ch/en/surveys/business-tendency-surveys.html/> →