

Detailed Results

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KOF Business Tendency Surveys, July 2018: Swiss Economy Currently on the Ascent – Outlook Less Optimistic

The KOF Business Situation Indicator rose once again in July and more than made up the slight decline of the preceding month. The Indicator thus reverted to the upward trend it embarked on in spring 2016. Nevertheless, the companies' business expectations are no longer quite as positive as they were in the first half of the year. The Swiss economy is enjoying a summer boom with just a few clouds on the horizon.

Manufacturing still on the ascent, outlook slightly more moderate

In July, the business situation in the **manufacturing** sector improved once again and is now predominantly favourable. However, the expansion may flatten out to some extent in the near future. At present, the companies' satisfaction with their current order books has gone up and corporate earnings have taken a small step forward. Production volumes have expanded. Nevertheless, capacity utilisation has declined slightly in the past three months. At a seasonally adjusted figure of 82.6%, it is now close to the long-term average. This slight decline is actually due to investments and the expansion of technical capacities, which companies are currently implementing to meet rising demand in the near future. Given the consistent expansiveness of their production plans, companies believe that even their extended technical capacities may be insufficient. All in all, the companies are confident about the business trend in the near future, albeit slightly less so than in the past six months. They expect slightly lower dynamics in their export business than before. As regards their order books, the surveyed companies anticipate a smaller overall increase than in the preceding months. On top of this, they fear a rise in purchase prices, which they cannot fully pass on via selling prices. The expansion in the manufacturing sector may therefore lose some momentum in the coming months.

Stable boom in the construction industry

In the **construction-related building and project engineering** sectors, the business situation remained predominantly positive in July. However, in contrast to the preceding month, the trends in the two sectors took different directions. While the business situation improved once again in the building industry, the project engineering sector reported a slight decline. Nevertheless, the project engineering offices managed to slightly expand their service provision without changing their staff numbers. For the next three months, they expect stable demand. The new contracts that have been concluded show that construction sums in the industrial-commercial segment have risen slightly while construction sums in the residential segment are under pressure. All in all, the share of new buildings in construction sums is declining while the share of renovations and maintenance is rising. In the building sector, the business situation improved slightly in July but on balance has not changed much since mid-2017. Although order books are generally considered to be at a normal level, machine utilisation was reduced to some degree. The erosion of corporate earnings has slowed down. Since the companies expect the price dive to become less steep in the coming months, they also hope for a smaller decline in corporate earnings in the near future. All in all, both construction companies and project engineering offices anticipate a more or less stable business trend in the coming six months.

Upswing finally arrives in retail trade

The **retail trade** is increasingly benefiting from the upswing. The business situation has improved and is now substantially more favourable than in the preceding summer. Customer frequency is no longer on the decline and sales volumes have gone up. Earnings also followed a slightly positive trend. With retailers anticipating a further recovery of turnover in the coming months, they intend to be less restrained when it comes to ordering goods. For the first time in more than three years, they plan to order more goods than before.

The Business Situation Indicator in the **wholesale trade** continued its upward trend in July. Demand picked up again and delivery times were extended. Although purchase prices have risen faster than selling prices, corporate earnings have improved. In the near future, the respondents anticipate a further increase in demand and a slight slowdown in the rise of purchase prices.

Recovery continues in the hotel and catering sector

The **hotel and catering industry** is still on the up and up. In July, the business situation improved for the eighth consecutive quarter. Both the hotel and the catering segments reported a more favourable business situation. The number of overnight stays recorded by hotel businesses increased again, albeit at a slower pace than in the winter months. Nevertheless, the room occupancy ratio continued to rise and is clearly higher than a year ago. The hotel businesses are confident about their future business trend, although they are no longer quite as positive as before. In the catering sector, the negative trend in drink sales has improved slightly and food sales continued to rise. The surveyed companies expect a further increase in turnover in the coming three months, although they had been more optimistic in the previous quarter. All in all, the business situation remained more or less stable in the hotel and catering sector. Staff numbers are now considered appropriate and no further staff cuts are planned.

Favourable situation for financial and insurance services

Following a slowdown in the previous month, the business situation recovered slightly in the **financial and insurance** sector. All in all, the situation is favourable in this sector and has changed little since the beginning of the year. Operating income has gone up substantially in the past three months while the rise in operating expenses has slowed down, leading to improved corporate earnings. However, the institutions are no longer quite as optimistic about the further earnings trend as they were before. Now, their expectations in this area are just about positive. With companies considering their staff numbers more or less adequate, they are not planning any major changes in their workforce. The banking segment reported an improved business situation both in its domestic and its foreign business. While the respondents increasingly expect demand among foreign customers to pick up, they anticipate a slightly slower rise in turnover generated with domestic customers. In specific, growth opportunities in the private domestic customer group are considered less positive than before. By contrast, banks anticipate rising demand among domestic corporate customers and also expect lending activities to pick up in this segment.

Other service providers report more or less stable situation and seek to employ more staff

The business situation among the other **service providers** was slightly less favourable in July than in the previous quarter. Nevertheless, the trend in demand remained lively and the service providers are anticipating a further rise in demand in the future. Thanks to the stable pick-up in demand, capacity utilisation has risen and more and more companies believe that their workforces are too small. Consequently, growing numbers of service providers want to raise their headcount but increasingly complain about a dearth of qualified staff.

The results of the current KOF Business Tendency Surveys of July 2018 are based on the replies of over 4,500 private companies active in industry, construction and the main service sectors. The response rate was approximately 58%.

Further information concerning the KOF Business Tendency Surveys is available at:

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

Data and graph of the KOF Business Situation Indicator is available at:

<https://www.kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-business-situation-indicator.html> →

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