

# Detailed Results

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## KOF Business Tendency Surveys from January 2019: Swiss Companies Facing Headwinds

**The KOF Business Situation Indicator has started the new year in negative territory, falling for the second consecutive month. Firms' expectations about their business going forward are less optimistic than they were. Nonetheless, they are predominantly confident about their future operating performance. Although the Swiss economy therefore remains in good shape at the beginning of 2019, companies are facing increasingly strong headwinds.**

**Although the pace of growth in manufacturing has slowed since the summer of 2018, business in this sector remains encouraging. Order books are sufficiently full, and firms are largely optimistic about their business going forward.**

The Business Situation Indicator for the manufacturing sector at the beginning of the year is continuing the previous month's negative trend. On the whole, however, business has not changed significantly since the summer of 2018. The Indicator is currently higher than it was at the beginning of 2018. The volume of orders on hand has changed very little recently, and most firms are describing the size of their order books as normal. In the summer of last year, however, many more survey respondents were reporting significant order backlogs. Although firms continued to raise their output in January, some of their products remained in the warehouse. Because their manufacturing capacity was increased in line with their output, the level of capacity utilisation remained virtually unchanged. At a seasonally adjusted 83.8 per cent, companies' capacity utilisation is slightly above its historic average. Since firms have often had to offer discounts on their selling prices, their earnings have come under pressure. Looking ahead, companies expect their volumes of new orders to grow more slowly than previously. The outlook for their exports is much less positive than in recent quarters, partly because Swiss firms' competitiveness in EU markets has slightly deteriorated. On the whole, however, manufacturing firms remain predominantly confident about their business over the next six months.

**Business in construction and project engineering – the sectors involved in building activity – remains encouraging. Capacity utilisation in the construction industry has risen, while project engineering firms are now looking to hire additional staff.**

Project engineering firms are reporting increasingly strong demand and have further expanded the services that they provide. The prices agreed in new contracts for civil engineering projects have remained unchanged on the previous quarter. The prices agreed in residential construction contracts are no longer falling as sharply as they have recently. Planners in this sector expect demand to remain stable in the near future and are looking to recruit more staff. However, they often complain how difficult it is to find suitable candidates. Capacity utilisation in the construction industry has risen significantly on a seasonally adjusted basis. The main building trades in particular are now more satisfied with their order books than they were. The construction sector as a whole is describing its current order backlogs as normal. Firms expect demand to remain stable in the near future. As construction prices are likely to come under growing pressure, however, the earnings outlook is slightly less encouraging than it has been.

**The situation in the retail sector is deteriorating slightly, more goods are remaining in the warehouse, and firms' sales forecasts are now less optimistic than they were.**

Business in the retail sector is deteriorating slightly for the second consecutive month. Customer footfall at the beginning of this year was lower than at the start of 2018. Consequently, sales of goods have declined marginally and warehousing pressures have grown. As retailers' sales projections are no longer as upbeat as they were, they plan to be more cautious when ordering new goods. Moreover, these companies do not expect to be able to impose any more price increases. On the whole, therefore, they are not as confident about their business as they were.

**Although business in the wholesale sector remains encouraging, it is not quite as robust as in the previous quarter. Demand is not expected to grow any further.**

Business in the wholesale sector is weakening for the first time in six months. The fall in the Business Situation Indicator relates to the wholesale trade in both consumer goods and producer goods. Overall demand and sales of goods have increased only slightly. Because wholesalers reckon that demand will grow only modestly

in the near future, they expect delivery periods to remain stable. Purchase prices and selling prices are likely to rise less sharply over the coming months than they have to date.

**Business in the accommodation and food service sector has changed only marginally and earnings remain stable. The business outlook is predominantly seen as encouraging.**

Although business in the accommodation and food service sector is slightly less impressive than in the previous quarter, the situation on the whole remains satisfactory. Demand has continued to grow modestly and sales are higher than a year ago. Firms' earnings have changed only marginally on balance. Slightly more survey respondents are reporting that their earnings have improved rather than deteriorated. In the accommodation sector the number of overnight stays – by both domestic and foreign guests – has not risen as sharply as in previous quarters. The room occupancy rate is in line with the two preceding quarters. However, the current number of reservations is slightly down on the corresponding period of last year. Nonetheless, accommodation providers expect the numbers of overnight stays to rise, particularly as a result of additional overnight stays by domestic guests. Revenue in the food service sector is slightly higher than in the same period of last year. However, sales of food and beverages remain virtually unchanged. Looking ahead, food service providers expect to see further modest growth in demand.

**Although business at financial service providers and insurers remains encouraging, earnings have recently been sluggish. Business prospects are bright, albeit not as promising as at the end of last year.**

Business in financial services and insurance is virtually as buoyant as in the previous month. Hardly any institutions are complaining about business being weak. Nonetheless, their operating expenses have risen more often than their operating income over the past three months, which has meant that their earnings have been disappointing for the first time in quite a while. Because institutions no longer expect demand to grow quite as strongly as it has to date and, in addition, they do not expect their operating income to increase, very few of them expect to see any improvement in their earnings. Although the Business Situation Indicator for the banks sub-group fell slightly short of the previous month's high level, business in this segment remains encouraging. Demand from foreign customers has weakened and banks do not expect these clients to provide any stimulus in the near future either. Demand from domestic customers is likely to continue to grow, albeit less strongly than to date.

**In January, business in the 'other services' sector was not quite as impressive as in the previous quarter, and earnings came under pressure. Nonetheless, the business outlook remains predominantly optimistic and employers are looking to recruit additional staff.**

The Business Situation Indicator for other services fell slightly in January. Demand for the services provided in this sector has not grown quite as strongly in the past three months as it had previously. Because there is currently little scope for raising prices, earnings have come under pressure. Although the outlook for demand going forward is slightly less upbeat, it remains fairly encouraging. Service providers are therefore still looking to recruit further staff.

The results of the latest KOF Business Tendency Surveys from January 2019 are based on responses from more than 4,500 private companies in industry, construction and key service sectors. This constitutes a response rate of roughly 59 per cent.

**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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