

Press Release

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KOF Business Tendency Surveys of April 2019: Companies' Situation Is Becoming More Difficult

In April, the business situation slowed down again. The Business Situation Indicator declined for the fifth consecutive month. With the exception of construction and project engineering sectors, all other sectors have been struggling to sustain their business situation since the beginning of 2019. However, the companies' expectations for the next six months have not deteriorated any further and are moderately confident. Nevertheless, Swiss economy is facing a difficult environment.

Business situation by sector

In April, the different sectors presented a mixed picture. The slowdown of the preceding months continued in the manufacturing, wholesale and hotel and catering industries and among the other service providers. A slight rise in the Business Situation Indicator was recorded in the project engineering sector, while retail, financial and insurance services and construction saw the Indicator rise sharply. However, compared to the beginning of 2019, construction and project engineering were the only sectors to record a positive trend. Up until now, all other sectors have been generally under pressure this year.

Focus on individual sectors

Demand and capacity utilisation decline in the manufacturing industry. International business expected to provide less momentum.

The business situation in the manufacturing industry is still on the decline, thus slowing down for the fifth consecutive month. Both domestic and export-oriented companies are less satisfied with their business situation than before. Although output expanded on a very small scale, order books are shrinking and finished goods inventories are rising. This pattern is suggestive of weaker demand. Accordingly, the share of companies complaining about a lack of demand is on the rise. Utilisation of machinery has declined; however, corporate earnings have not been affected.

Although the competitive situation on the international markets has not changed in the past few months, the companies anticipate lower momentum in their foreign business. With respect to incoming orders and output, the companies' expectations are less positive than in the previous spring, but they still foresee further increases. Hence, enterprises are preparing for a further decline in business dynamics, although they are not expecting any abrupt slowdown or even a contraction. This outlook is also reflected by the fact that they are currently not planning any significant changes in their staff numbers.

Construction bucks the general downward trend and expands business activities.

The building-related construction and project engineering sectors reported an improvement of their business situation in April. With the **construction industry** recording brisk demand, the companies are more satisfied with their order books than before. Building activities have expanded while the rate of machinery and equipment utilisation has not changed. Increasingly, companies are complaining about a lack of specialised personnel. Corporate earnings are under less pressure than before and the companies are hoping for stable earnings in the near future.

The business situation of the **project engineering firms** has improved slightly, although demand for their services increased at a slower pace than before. There was no further rise in total construction costs under new contracts compared to the previous quarter. By contrast, total construction costs in the industrial-commercial segment dropped. In terms of demand, companies once again anticipate a stable development. The firms intend to expand their provision of services, although they believe that they will have to accept lower prices for their services.

The situation in the retail trade is easing off for the first time in four months. Wholesale distribution of consumer goods is following a stable trend. However, wholesalers of industrial goods are doing less well.

The business situation in the **retail trade** has improved for the first time in four months. Sales volumes have been stable and there have been some reductions of excessive inventories. Nevertheless, earnings remain under slight pressure. Retailers are now more confident about their turnover trend in the near future. However, they still follow a conservative approach to new goods orders.

Wholesalers have adjusted their business situation assessment downwards for the second consecutive quarter. Although the situation for wholesale distributors of consumer goods remains unchanged, the situation for wholesale distributors of production goods is slowing down. Delivery times have shortened substantially in the later segment, indicating a weaker demand situation. All in all, the companies are still moderately confident when it comes to their outlook on future demand.

The business situation in the hotel and catering sector is slightly less favourable than six months ago, although the outlook remains positive.

For a second consecutive quarter, the hotel and catering sector recorded a slight slowdown of its business situation. This is due to the assessments of the **catering companies**, which have rated their business situation as just about satisfactory. Compared to the previous year's quarter, turnover is no longer on the rise and corporate earnings have recently been under slight pressure. Catering enterprises are more confident in respect of their future business trend, although they expect no more than a small increase in food and drink sales.

The favourable business situation in the **hotel sector** has changed very little. Although the number of overnight stays rose somewhat slower and the occupancy rate dropped slightly, the need for price reductions is still on the decline and corporate earnings continue to improve. According to the respondents, the number of overnight stays should rise substantially in the near future. Current reservations already exceed the respective volume in the previous year.

The situation in the financial and insurance services sector is recovering, but not as favourable as last year. Business expectations are positive, albeit to a lesser degree than in the previous year.

In April, the business situation of the **financial and insurance services** sector improved again. The situation is predominantly good, albeit no longer as positive as at the beginning of 2019 or in spring of the preceding year. Just recently, demand for the sector's services has been picking up again. With operating expenses no longer on the rise, the erosion of corporate earnings is no longer accelerating. Expectations of the corporate earnings trend are now more confident and companies increasingly plan to raise their headcount.

In the **banking segment**, the business situation with domestic and international customers is improving. Nevertheless, business with both customer groups is less brisk than in the same period of the previous year. In the near future, the institutes expect a substantial rise in demand among domestic companies and domestic private customers. Compared to the previous quarter, they are more optimistic about the success of their commission business and slightly less optimistic where their interest business is concerned. However, their assessment of the outlook for the trading business remains as positive as before.

The situation in the other services sector is less favourable. Corporate earnings are stagnating and optimism regarding the expected demand has declined slightly.

The business situation in the other services sector is slowing down for the second consecutive quarter, with the Indicator declining specifically in the transport, information and communication segments. However, all in all the business situation of the service providers remains predominantly favourable. Capacity utilisation is at a similar level to a year ago. There has been no change in terms of corporate earnings and demand continues to rise.

With regard to the coming three months, the companies anticipate a further rise in demand although they had been more optimistic on this count in the past few quarters. While transport, information and communication enterprises had not reduced their demand expectations again in April, economic services providers had scaled down their expectations of demand growth. Despite the slightly less optimistic demand expectations, general confidence among service providers is reflected in their HR plans, which provide for increased recruitment.

The results of the current KOF Business Tendency Surveys of April 2019 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 61%.

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> →

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

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

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