

Press Release

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KOF Business Tendency Surveys from July 2019: Downturn Halted for the Time Being

Swiss companies' business situation did not change in July compared with the previous month. Having fallen seven times in succession, the Business Situation Indicator now remains at the prior month's level. Although the Swiss economy is no longer on a downward trajectory, the economic environment remains challenging.

Business situation by sector

Although the business situation overall remains unchanged, the individual sectors have experienced varying fortunes. Companies operating in financial services and insurance, in the hotel and catering sector, and in other services are reporting that their business situation has improved. On the other hand, the business situation in retail and construction has slightly come under pressure. More substantial challenges are evident in project engineering and in wholesale. The Business Situation Indicator for manufacturing continues on its downward trajectory, declining for the eighth month in succession. Switzerland's industrial companies have been hit especially by the sluggish performance of the international economy.

The results sector by sector

The business situation and earnings in the manufacturing sector have come under pressure, while the business outlook for the coming months is cautious. Business in manufacturing continues to slow noticeably. The situation in July 2019 looked much less promising than it did in the last summer. The volume of orders on hand has recently contracted significantly, and firms are increasingly complaining that their order books are too small. Because companies have already scaled back their production, the capacity utilisation of their machinery and equipment is declining. The current 80.1% utilisation of their capacities is below average on a longer-term comparison. In addition, their earnings have been hit more frequently than in the previous quarter. Although Swiss companies' competitiveness has not changed much either domestically or internationally, they plan to respond to the shortage of demand by cutting their prices slightly. They are hoping to increase their exports and stimulate new orders in the near future. On the whole these companies are cautiously optimistic about their business activities over the coming months. According to their own projections, staffing levels at these companies could fall slightly.

In the retail sector there are few signs of growth, while in the wholesale sector demand from production firms in particular is weakening. As in previous months, the business situation in retail in July could be described as satisfactory to good. Companies' earnings remained slightly under pressure. Customer footfall and sales revenues have not increased for months. Because retailers are not expecting to see any significant increase in revenue, they remain cautious about ordering new goods. Although the situation in the wholesale sector is encouraging, it continues to deteriorate. In July the Business Situation Indicator for both the wholesale trade in consumer goods and for the wholesale of producer goods fell. Whereas the wholesale of consumer items sold more goods than it had done a year ago, this was no longer the case for the wholesale trade in producer goods. The anticipated levels of

demand also differ: whereas wholesalers of consumer goods expect demand to continue to rise more slowly, wholesalers dealing with production firms reckon that demand will decline in the near future.

The situation in the construction sector is encouraging despite a slight slowdown, and staffing levels are set to rise. Business in construction and project engineering – the sectors involved in building activity – is currently good. However, these sectors did not quite manage to match the high Business Situation Indicator scores that they had achieved in the spring. Although capacity utilisation of machinery and equipment in the construction sector is declining, demand for building firms' services has been buoyant in recent months. As these firms do not expect demand to weaken, they are forecasting a modest uptick in construction activity for the near future. These companies therefore reckon that their staffing levels are probably too low and they are concerned about the availability of additional skilled labour. In particular the finishing trade, which mainly comprises small firms of skilled tradesmen, is looking to recruit more staff in order to meet slowly but steadily rising demand. The demand for, and volume of, services provided by project engineering firms are no longer growing quite as fast as in previous months. However, the services that they provide are likely to continue to increase in the near future, so planners in this sector are looking to recruit more staff. Taken together, project engineering firms and the construction sector both expect their level of business to remain fairly stable over the next six months.

The situation in the hotel and catering sector is improving, and accommodation providers are even seeing more scope for raising their prices. The business situation in the hotel and catering sector is improving this summer and is therefore more encouraging than last year. Accommodation providers are increasingly reporting a positive situation. However, food service providers are also becoming more optimistic and are increasingly describing their situation as satisfactory. The catering sector believes that the current weather conditions are more favourable than they were last year. Demand is growing and revenue is higher than it was in the summer of 2018. Earnings are also improving slightly. Food service providers expect demand to grow steadily over the coming months. Accommodation providers are seeing their room occupancy rates rise. The number of overnight stays by both domestic and foreign guests is exceeding last year's figures. Because accommodation providers expect these numbers to continue to rise, they see scope in terms of pricing and are increasingly considering raising their prices.

Financial services providers and insurers are more satisfied with their situation and expect their earnings to grow in the near future. The findings of surveys among financial services providers and insurers suggest that their business situation has recently improved slightly. However, the situation was much better a year ago. Demand for these institutions' services intensified in July compared with previous months. Because their operating expenses have hardly risen recently and their operating income has grown more than previously, their earnings position is no longer deteriorating. These companies are now more optimistic than in recent months about their business going forward. Demand from banks' domestic corporate customers in particular is more buoyant. However, banks are now more sceptical than they used to be in their assessment of these clients' credit standing. Over the coming months they do not expect their lending business to grow quite as strongly as it has. Nonetheless, their earnings are set to rise more sharply. Banks are especially optimistic about their fee and commission business, which has not performed particularly well in recent months.

The situation in the 'other services' sector has improved, earnings are performing slightly better and demand is set to grow over the coming months. The business situation in 'other services' is improving. Demand is rising more sharply, although firms' capacity utilisation is no higher than it was this time last year. Earnings grew slightly more than in the previous quarter. The number of people employed in this segment is set to rise further. Providers of business services in particular are revising their recruitment plans upwards because they are more optimistic than they were about the future growth

in demand. On the whole, service companies now expect to see greater demand stimulus than in the previous quarter. In the last summer, however, these companies were even more optimistic about future growth in demand.

KOF Business Situation for Switzerland (seasonally adjusted balances)

	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19
Private sector (overall)	28.9	28.6	28.3	27.9	29.0	28.1	25.9	25.7	24.5	23.5	22.8	22.3	22.3
Manufacturing	27.6	28.7	26.2	22.2	26.7	25.8	22.9	21.1	19.5	14.7	13.3	10.8	8.3
Construction	28.8	27.3	27.5	29.5	28.6	28.9	27.6	29.8	30.0	34.8	35.3	34.4	33.8
Project engineering	45.4	46.5	45.8	46.4	45.2	46.0	47.0	49.7	52.3	51.6	51.1	55.1	52.2
Retail trade	9.6	7.7	9.1	6.8	8.0	6.4	6.5	5.8	4.5	7.0	7.3	7.9	7.3
Wholesale trade	33.0	-	-	33.7	-	-	27.9	-	-	24.3	-	-	18.2
Financial services	40.9	38.7	40.1	40.6	40.9	37.1	35.2	35.4	29.5	34.2	31.5	31.5	33.9
Hotel and catering	8.0	-	-	8.5	-	-	6.5	-	-	6.1	-	-	10.0
Other services	26.9	-	-	27.8	-	-	26.7	-	-	24.9	-	-	28.9

Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of 'good' answers minus the percentage of 'bad' answers.

The results of the latest KOF Business Tendency Surveys from July 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 57%.

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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