

Detailed results of the KOF Business Tendency Surveys for July 2021

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KOF Business Tendency Surveys for July: most companies have overcome the effects of the pandemic

The KOF Business Situation Indicator rose sharply in July. For the first time, Swiss companies' business activity is now better than it was at the start of 2020. Survey respondents are confident about developments going forward and see fewer uncertainties than they did at the beginning of the year. The pandemic is becoming less concerning in economic terms.

The KOF Business Situation Indicator rose in all sectors surveyed in July. The economy is thus recovering across the board. However, the various sectors differ considerably in terms of how far advanced this improvement is – at least if a comparison with the situation before the pandemic is used as a benchmark. Business in manufacturing, retail, wholesale and financial and insurance services is currently much more encouraging than it was at the start of 2020. The recovery from the trough has been very strong in these sectors. Business activity in construction and project engineering is now as buoyant as it was before the pandemic. In contrast – despite the easing of restrictions – the situation in hospitality and other services is still nowhere near pre-crisis levels. These two sectors have not yet overcome the crisis.

KOF's survey results also show that higher demand and the continued disruption to supply chains are making the availability of intermediate products and materials a problem. Companies in wholesaling, construction, manufacturing and retailing are widely complaining that a shortage of inputs is hampering their activities. This issue became even worse in July. Wholesalers expect delivery times to continue to increase, which is an indication that this problem could drag on for a while.

Business situation sector by sector

The manufacturing sector continues to improve, with almost all sub-sectors showing a recovery.

Business in the *manufacturing sector* has strengthened once again. Following the fifth consecutive rise in the indicator, the situation is now better than it has been since 2008. Against the backdrop of the coronavirus-related slump last year, however, survey respondents' benchmarks may have changed, so historical comparisons of business activity levels should be interpreted with caution. Nevertheless, it is noteworthy that the outlook for both export-led and domestically focused firms is very encouraging. Even differentiated by size category – i.e. small, medium-sized or large firms – the situation is fairly good across the board, although 2018's levels have not been exceeded in all cases. In addition to the improvement in their current situation, companies are indicating that uncertainty about their business going forward is no longer quite as great as it was at the beginning of this year. Order books are growing and firms are satisfied overall with their existing volumes of orders. Capacity utilisation continues to increase. At 84 per cent it is currently fairly good by historical standards. Earnings are also improving and financial restrictions are now hardly affecting companies any more. A significant problem, on the other hand, is the shortage of materials and intermediate products. Although firms are upbeat about their short-term prospects, their optimism has not increased any further recently. Production plans, export forecasts and business projections in general are all encouraging but have not improved any

more in the past three months. As the recovery intensifies, companies are looking to hire more staff. However, this is creating turmoil for firms' price forecasts. Rising demand as well as continued supply-chain disruption and the resulting problems with the availability of intermediate products are pushing up companies' expected purchase prices and sales prices.

Although the situation in the building-related sectors is improving, construction prices are likely to rise sharply. Business in the *construction* and *project engineering* sectors, which are linked to building activity, improved in July, albeit only slightly in the construction sector. The Business Situation Indicators in both sectors are close to their pre-crisis levels. Uncertainty about business prospects is declining in each case, and both the construction industry and project engineering firms are expecting earnings to remain almost stable. However, this will probably require significant price increases in the *construction industry* – especially in the finishing trade. This is because the availability and, consequently, the prices of intermediate products are posing a problem. Recently, however, construction activity has continued to grow, as has the utilisation of machinery and equipment. Looking ahead to the coming months, construction companies increasingly expect building activity to pick up. On the other hand, no sharp rise in output is expected. The total amounts of commercial construction activity recently agreed by *project engineering firms* are now no longer negative. As these firms plan to increase their service provision, they are often looking for staff to expand their capacity.

Although the situation in the retail sector is excellent, retailers are no longer quite so optimistic about developments going forward. *Retailers* report a further improvement in their already encouraging business situation. Small, medium-sized and large firms all rate their business activity as above average, with large firms being particularly upbeat. In the online retail and mail-order business there is a noticeable slowdown, contrary to the general trend. Overall, however, sales of goods in the retail sector continue to increase, and inventories are clearly less likely to be considered too high than they were before. Staffing levels are also no longer deemed to be too high. Many firms are looking to hire additional staff, and sales forecasts can be considered cautiously positive. Business projections in general are no longer quite as optimistic as they were previously. However, sales prices are still expected to rise significantly. The Business Situation Indicator for the *wholesale sector* is rising sharply. Fortunes in the wholesale trade in consumer goods have turned around completely compared with April. Whereas the situation then was reported to be challenging, it is now mostly encouraging. Food and beverage wholesaling is likely to have benefited from the opening of restaurants and catering services, for example. But the already strong level of business in the wholesale trade in goods used for production continues to improve as well. However, the wholesale sector overall has some bad news for customers too: delivery times are likely to lengthen further in the near future and prices will rise. For wholesalers' customers there are no signs that the relevant legacy issues will ease any time soon.

Financial and insurance service providers are doing well for the most part and the outlook remains upbeat. The already encouraging business situation of *financial and insurance service providers* continues to improve. Their earnings trend remains positive, and the outlook for both their earnings and their business in general is considered to be promising. The success of the subgroup of banks continues to be driven by their strong fee and commission business. Although their interest-earning and trading operations have performed less convincingly, they are not acting as a drag on growth. Banks reckon that fees and commissions are likely to remain a mainstay of their business over the coming months and that their trading activities should recover significantly. The banks surveyed claim that the creditworthiness of their corporate clients is improving. However, the easing of the coronavirus pandemic is not expected to substantially boost corporate clients' demand for loans for the time being.

The hospitality industry is gradually emerging from its COVID-induced trough, but uncertainty about the future remains high. The business situation in the *hospitality sector* is improving somewhat. However, it is still predominantly challenging and still far from where it was during the years before the pandemic. Business in the tourism segment of towns and cities – where overseas and business tourism play an important role – is still less buoyant than in the two tourism segments of mountains and lakes. However, there is at least a noticeable improvement in towns and cities for the first time since the outbreak of the pandemic. The low point has therefore been passed in all three tourism segments for the time being. Ticino plays a special regional role; the business situation here is actually fairly encouraging on a historical comparison. Across Switzerland, however, bed occupancy rates in the *accommodation sector* are still quite low. Overnight stays by domestic guests are expected to increase during the current quarter and pessimism about foreign guests is decreasing. Establishments complaining about staff shortages are in the minority in both the food-service and accommodation sectors. The strong demand forecast, especially for *food services*, will ensure that additional staff are hired. Although firms in the hospitality industry are now generally more confident about their business prospects than they were previously, the level of uncertainty remains high.

Other service providers are only partially recovering from the pandemic but expect to achieve rapid progress in the near future. The recovery among *other services* has been rather sluggish. Although the Business Situation Indicator for these services is rising for the second quarter in a row, the situation is nowhere near as good as it was before the pandemic. Capacity utilisation remains especially low in the transport sub-sector and has risen noticeably in both personal and business services but has not quite reached the levels of the end of 2019. However, demand forecasts and business projections in general are very optimistic overall and are even more positive compared with the previous quarter. Many service providers therefore expect to be able to overcome the effects of the pandemic soon. For this reason, and because their earnings are now performing well, service firms are increasingly considering expanding their workforce. Business service providers in particular are on the lookout for additional staff. However, complaints about not being able to find suitable skilled workers are already becoming more frequent.

The findings of the latest KOF Business Tendency Surveys for July 2021 include the responses of more than 4,500 firms from industry, construction and the major service sectors. This equates to a response rate of around 61 per cent.

Data and an interactive chart on the KOF Business Situation Indicator are available here:
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-business-situation-indicator.html> →

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Graphics and table

KOF Business Situation Indicator
(balance, seasonally adjusted)



KOF Business Situation for Switzerland
(balance, seasonally adjusted)

	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21
Private sector (overall)	-9.4	-8.5	-8.3	3.7	2.8	5.6	2.2	2.8	4.6	13.3	15.2	15.4	25.2
Manufacturing	-21.6	-19.4	-17.3	-7.5	-12.3	-0.5	-4.4	0.8	3.5	20.6	23.6	25.3	31.8
Construction	10.9	15.7	15.1	19.0	19.7	22.0	25.3	27.0	31.8	33.3	35.0	33.8	35.0
Project engineering	35.4	36.3	34.3	37.1	38.8	39.2	40.9	38.3	43.2	45.0	48.4	48.8	53.4
Retail trade	5.9	13.1	12.0	15.5	13.7	16.5	15.8	1.2	10.6	21.4	26.3	26.7	29.3
Wholesale trade	-19.2	-	-	-2.0	-	-	-3.2	-	-	24.9	-	-	51.0
Financial services	29.0	25.7	25.4	33.8	35.2	34.2	38.2	38.7	41.8	36.3	43.7	42.0	55.6
Hotel and catering	-66.1	-	-	-50.2	-	-	-72.8	-	-	-72.2	-	-	-46.4
Other services	-20.4	-	-	-0.1	-	-	-6.8	-	-	-2.6	-	-	5.4

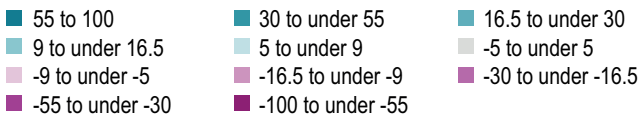
Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of 'good' answers minus the percentage of 'bad' answers.

KOF Business Situation in the Private Sector

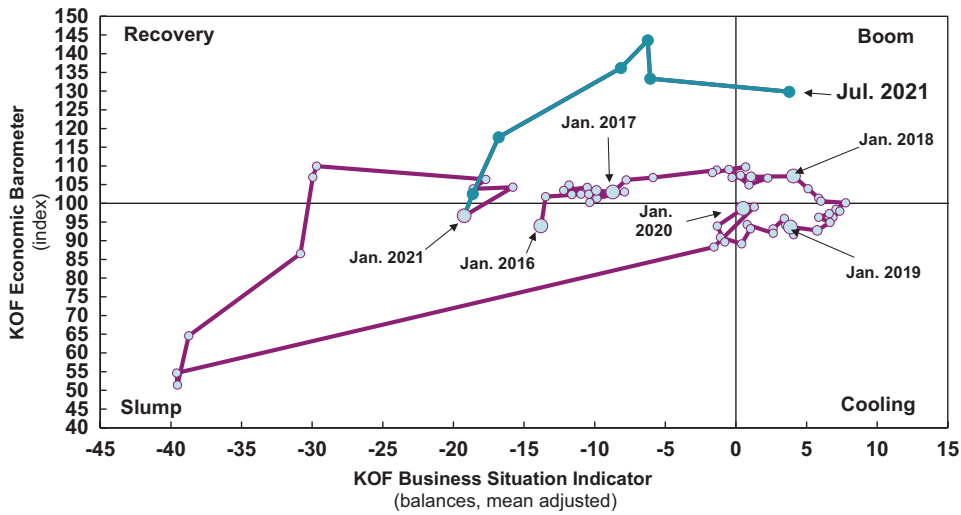


The angle of the arrows reflects the change in the business situation compared to the previous month

Net balances



KOF Economic Clock: Correlation between the KOF Business Situation and the KOF Economic Barometer
(Seasonally adjusted figures)



Real GDP in Switzerland
(Index, 2019 Q4 = 100)

