

## Detailed Results

# KOF Business Tendency Surveys, July 2022

Zurich, 5 August 2022, 9 am

## **KOF Business Tendency Surveys for July: Swiss economy still in good shape, but situation and outlook deteriorating**

**The KOF Business Situation Indicator for Swiss companies fell slightly in July. However, it is still higher than at the beginning of this year, and the last time the situation was more encouraging than at present was in July 2011. Although the pandemic may have changed the relevant benchmarks for the longer term, companies' current condition can still be classified as good. Firms are clearly less optimistic than before about their business prospects over the coming six months. The headwinds facing the Swiss economy are therefore likely to strengthen in the near future.**

The business situation in the majority of the sectors surveyed tended to worsen in July. This was particularly noticeable in the retail sector, where the Business Situation Indicator is now clearly trending downwards after more than a year of highs. This decline is less pronounced in financial and insurance services, wholesaling and manufacturing. Business in other services, the project engineering sector and the construction industry is showing modest signs of deterioration. The business situation in the hospitality industry is clearly improving, thereby bucking the widespread weakening trend.

The problem of shortages of materials and intermediate products has not worsened since the spring despite the war in Ukraine and the pandemic-related measures imposed in parts of Asia. Although many companies continue to complain about a shortage of intermediate products, the very worst seems to be behind them for the time being. Manufacturing firms have also been able to restock their inventories of intermediate products to some extent, and wholesalers are less likely than before to expect delivery times to increase. However, this slight easing of the situation is probably also due to the fact that businesses are now less frequently expecting demand for their own products to grow.

Although price rises remain very high, they are no longer increasing. Price trends vary from sector to sector. The hospitality industry and other service providers, for example, are planning further price increases, while prices in manufacturing and wholesaling are no longer projected to rise quite as sharply as before. This heterogeneity could also indicate that the pace of price increases will, at least, no longer grow as strongly overall.

KOF's regular Business Tendency Surveys for July included questions on companies' expectations of wage growth in their own organisations and on inflation trends (of the consumer price index). In future, these questions will be asked again every three months. The latest results are still *experimental* and therefore preliminary. They indicate that firms expect gross wages to be increasing by slightly more than 2 per cent on average in a year's time. The survey respondents thus believe that gross wage rises will tend not to keep pace with inflation during this period. Expectations around wage growth reveal differences between sectors. Companies in financial services and insurance and in the retail sector are planning below-average wage increases, while expectations in the hospitality industry and in the project engineering sector point to above-average rises.

## Business situation sector by sector

**Although business in the manufacturing sector remains buoyant, it is likely to be less dynamic going forward.** In July the *manufacturing sector* could not quite sustain its excellent business performance of the previous month. Nevertheless, the situation was better than in the first five months of this year. However, the recent setback is being felt quite widely; the business situation among intermediate-goods manufacturers, capital-goods producers and consumer-goods producers is no longer quite as outstanding as it was in June. Although order books are still fairly full, new orders – especially those from abroad – are no longer as plentiful as they were previously. Production in July was no longer increased as frequently, and capacity utilisation decreased slightly. However, capacity utilisation is clearly above average on a medium-term comparison in line with the consistently encouraging business situation. More than half of firms are still complaining about a shortage of intermediate products. However, the percentage of such businesses is no longer growing and, at the same time, companies are continuing to gradually replenish their inventories of intermediate products. Complaints about the availability of labour, on the other hand, have increased, with almost a third of respondents claiming to be affected by this. Although the Swiss franc has recently appreciated against the euro, domestic companies are not feeling a strong loss of competitiveness in the EU market. Nevertheless, both export-led and domestically focused firms do not expect demand to pick up any further. Accordingly, production schedules are less optimistic than they were at the beginning of the year. Business expectations for the coming six months are no longer as confident as they have been in recent months. Although growth is therefore likely to slow noticeably, a significant downturn is not expected.

**The situation in the building-related segments is virtually stable, and prices are expected to rise unabated.** The business situation in the sectors associated with building activity – *project engineering* and *construction* – changed little in July. Although business in both cases was predominantly strong, it was much better in the first few months of the year. Capacity utilisation in the *construction industry* is declining slightly but remains at a high level. There are very few reports of disruption caused by the weather. Construction companies expect demand to remain fairly stable and therefore plan to continue production on a similar scale as before. Their propensity to raise their prices further and thus stabilise their earnings situation to some extent remains unchanged. *Project engineering firms* are looking to increase their prices and thus slightly strengthen their earnings. They continue to expect the services that they provide to expand in the near future.

**Business is slowing markedly in the retail sector and marginally in the wholesale industry, while both sectors are now becoming more cautious about the level of demand going forward.** The Business Situation Indicator for the retail sector has fallen significantly. The situation especially among large companies in July was no longer as strong as it had been previously. The number of customers and, consequently, sales of goods decreased more and more. Since retailers do not expect to see their sales grow significantly in the near future, they do not intend to expand their own orders of goods either. However, they still plan to increase their sales prices. At least this will limit their loss of earning power. Overall, optimism has largely disappeared from business expectations for the coming six months. The business situation in *wholesale* in July was not quite as encouraging as it was at the beginning of the second quarter. Business in this sector has been excellent for the past nine months. The situation in the wholesale trade in goods used for production is now deteriorating slightly, while it is improving somewhat in the trade in consumer goods. However, hardly any further increases in demand are expected in either of these segments. Although prices are still likely to rise further, upward pressures on prices will at least decline slightly rather than continuing to grow. The same applies to delivery periods, which are not expected to increase as much as before. Moreover, warehouses are stocked with more goods than they were in the same quarter of last year.

**The situation in the hospitality industry is improving significantly, with business picking up sharply in the major towns and cities in particular.** The Business Situation Indicator for the *hospitality* sector has risen again. Both accommodation and food-service businesses are reporting a further improvement. In particular, firms in the major towns and cities are now bouncing back. Business in the lake regions is also buoyant, whereas it has not been possible to sustain the excellent situation in the mountain regions. Overall, companies' earnings are clearly improving. Room occupancy in the *accommodation* sector rose sharply, with foreign guests in particular staying overnight more frequently than before. Despite the fact that the Swiss franc has appreciated against the euro, survey respondents expect to see a stronger increase in foreign guests than previously. However, less growth is expected among domestic visitors. Reservations for the current quarter have already risen sharply in the major towns and cities. Lack of demand is hardly an issue any more for *food services*. On the other hand, the shortage of staff has once again been clearly accentuated.

**Financial and insurance service providers are reporting a downturn in business and more or less stagnating earnings.** Business activity in the *financial and insurance services* sector is increasingly slowing. The Business Situation Indicator has fallen for the third time in a row. Earnings growth is stagnating, and little momentum in earnings is forecast for the near future as well. Overall, business expectations have been revised downwards significantly. The indicator for the business outlook in the sub-group of *banks* has slipped back into negative territory for the first time since November 2020 – and by a substantial margin. On balance, considerably more institutions expect the situation to worsen rather than improve over the next six months. Banks expect to see fairly weak demand for lending from corporate customers. However, they also reckon that the creditworthiness of this customer group has clearly deteriorated. This is a warning sign that banks expect to encounter more problems in the corporate sector. For a long time, fees and commissions provided banks with a guaranteed source of income. This situation has changed. Profits from fees and commissions and from trading activities are tending to stagnate, while stimulus is expected to come from interest-earning business.

**Although capacity utilisation in other services is considerably higher than it was in the spring, the outlook is no longer as encouraging as it was.** The Business Situation Indicator for the *other services* sector has fallen slightly. The recovery that has been ongoing since the beginning of the year is thus grinding to a halt. However, the level of demand over the past three months has remained more or less as strong as before, and capacity utilisation has risen widely. The information and communication sub-sector, business-related services and personal services are now all reporting higher capacity utilisation levels than the average for the two pre-crisis years 2018 and 2019. Only the transport sector has failed to reach this level but has managed to close the gap slightly. Service providers are being hindered by staff shortages. More businesses than at any time since the relevant question was introduced in 2008 reckon that their staffing levels are too low on balance. The proportion of companies that see their activities as being impaired by staff shortages has recently risen sharply to 45 per cent of respondents. Although firms' overall business expectations for the coming six months remain positive, they are significantly less optimistic than they were back in the spring.

The results of the KOF Business Tendency Surveys for July 2022 include the responses of around 4,500 firms from manufacturing, construction and the major service sectors. This equates to a response rate of around 56 per cent.

**Relevant data and an interactive chart for the KOF Business Situation Indicator can be found here:**  
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-business-situation-indicator.html>  
→

**Further information on the KOF Business Tendency Surveys can be found here:**  
<https://kof.ethz.ch/en/surveys/business-tendency-surveys.html> →

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# Graphics and table

**KOF Business Situation Indicator**  
(balance, seasonally adjusted)



**KOF Business Situation for Switzerland**  
(balance, seasonally adjusted)

	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22
<b>Private sector (overall)</b>	24.9	24.4	25.8	28.1	27.9	28.3	29.6	29.6	26.9	32.5	32.0	33.2	30.5
<b>Manufacturing</b>	30.0	32.2	32.4	27.5	29.2	30.0	29.8	31.5	31.0	29.9	29.4	35.8	31.7
<b>Construction</b>	36.1	38.4	38.4	38.1	36.8	40.9	42.0	44.3	42.8	42.1	41.4	41.1	40.9
<b>Project engineering</b>	54.1	52.7	56.1	53.7	54.1	55.6	57.4	59.7	57.5	56.7	56.6	52.5	52.1
<b>Retail trade</b>	30.8	16.2	15.9	17.2	22.2	20.4	21.5	22.2	22.5	19.8	15.3	19.0	8.7
<b>Wholesale trade</b>	50.0	-	-	53.9	-	-	53.6	-	-	56.4	-	-	51.4
<b>Financial services</b>	55.8	52.4	63.3	48.2	41.9	41.6	53.0	48.1	26.3	39.6	38.5	36.0	30.5
<b>Hotel and catering</b>	-43.4	-	-	-14.0	-	-	-15.2	-	-	3.8	-	-	19.8
<b>Other services</b>	5.3	-	-	15.1	-	-	15.0	-	-	24.6	-	-	23.4

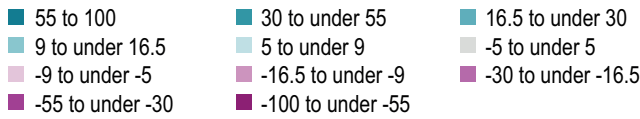
Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of 'good' answers minus the percentage of 'bad' answers.

**KOF Business Situation in the Private Sector**



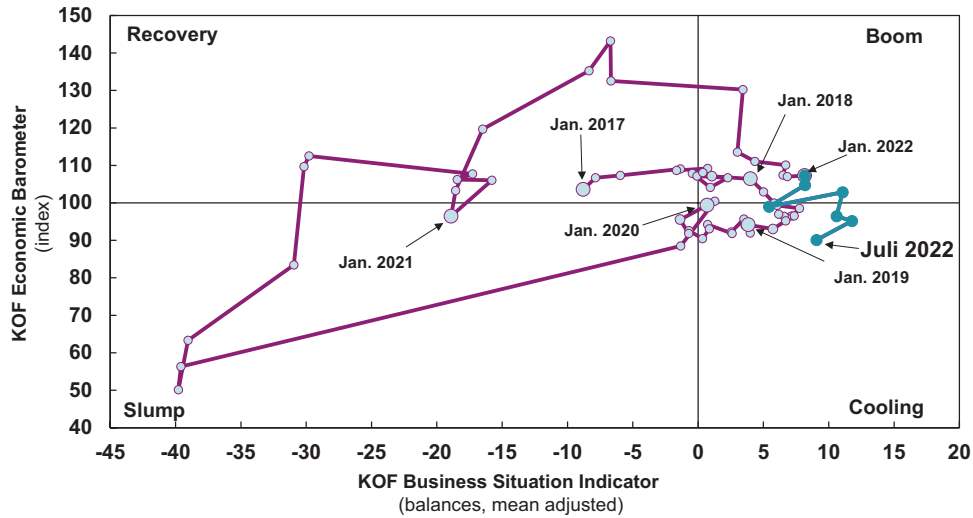
The angle of the arrows reflects the change in the business situation compared to the previous month

**Net balances**



**KOF Economic Clock: Correlation between the KOF Business Situation and the KOF Economic Barometer**

(Seasonally adjusted figures)



## Experimental statistics

Business expectations for inflation and wage development in July 2022		
	Change in gross wages until in one year in %	Inflation rate (for the consumer price index) in the next twelve months
Private sector (overall)	2.2	3.4
Manufacturing	2.2	3.3
Construction	2.3	4.6
Project engineering	2.9	3.7
Retail trade	1.6	3.6
Wholesale trade	2.1	3.4
Financial services	1.5	2.8
Hotel and catering	4.4	5.1
Other services	2.1	3.4

Arithmetic mean values of the quantitative answers to the questions on inflation and wage development. The data are subjected to an outlier adjustment and aggregated. The company responses on wage development are weighted with the number of employees of the respective company (full-time equivalents), the responses to the inflation questions are aggregated without company-specific weights.