

Detailed results

KOF Business Tendency Surveys, July 2023

Zurich, 7 August 2023, 9am

KOF Business Tendency Surveys for July: Swiss economy struggling

The KOF Business Situation Indicator for the Swiss private sector fell significantly in July. Business activity is less buoyant than it has been for two years. Companies' expectations about developments, trends and the near future are fairly average, with neither a slump nor strong stimulus expected. The Swiss economy is weakening.

The business outlook in the majority of sectors surveyed clouded over in July. In manufacturing this was already the sixth month in a row that this sector was on a downward trajectory. The services sector also suffered a setback. Moreover, the Business Situation Indicator for the financial and insurance services, construction and project engineering sectors declined slightly. In contrast, the consumer-led sectors retail and hospitality performed well in July.

Inflation expectations continue to weaken

Price rises continue to slow in almost all sectors. Relatively sharp price increases are planned in the hospitality industry and in business-related services. Price growth in the other sectors is likely to remain low in the near future. The construction industry even expects the prices of its services to fall. Companies' forecasts for the level of the consumer price index – over and above their own price setting – are slightly lower than before. Firms now expect consumer prices to rise by 2.5 per cent over the next twelve months. In April they were assuming an increase of 2.6 per cent. Inflation in five years' time is currently expected to be 2.3 per cent after 2.5 per cent in April.

Labour shortage remains a problem but is becoming less acute

Although companies in Switzerland are still looking to recruit additional staff overall, their hiring plans are no longer quite as expansive as they were. Consequently, labour shortages continue to be a very urgent problem for firms, but they are becoming less acute in manufacturing, construction and wholesaling than they were. In manufacturing and the wholesale trade, concerns about weak demand are currently more pressing than those about a lack of staff.

Business situation sector by sector

Manufacturing can't gain a foothold as demand is too weak. The *manufacturing sector* is on a veritable downward trajectory. The Business Situation Indicator fell for the sixth month in a row. This is the first time since January 2021 that the indicator has been in negative territory. This downward trend is particularly pronounced among export-led firms. However, the domestically focused ones are also on a downward trend. Inventories of orders continue to decrease, and companies' production plans are becoming less upbeat. Survey respondents are therefore becoming increasingly reticent about ordering intermediate products. The capacity utilisation of machinery and equipment has continued to fall in the past three months and is now about average on a medium-term comparison. The shortage of inputs across almost all sectors remains less of an issue – with the exception of food and beverage producers, where complaints are on the increase. Overall, concerns about a lack of demand are rising. Labour

shortages are taking a back seat to demand issues. Plans for workforce expansion are increasingly becoming less common.

The situation in the sub-sectors associated with building activity remains encouraging, and this sector is tending to contribute to the stabilisation of the Swiss economy. The Business Situation Indicator for the sub-sectors associated with building activity – project engineering and construction – fell slightly in both cases in July. Although the indicator for the *construction sector* has suffered a significant decline since the start of the year, business in both sub-sectors can still be classified as encouraging. The volume of orders on hand remains quite large in both project engineering and construction. However, since demand in the construction industry has increased less sharply over the past three months, the growth of construction activity is more restrained than before and the utilisation of technical capacity is declining. There are hardly any plans for price rises overall and, in the main construction trades, there is actually downward pressure on prices. *Project engineering firms* are preparing for a less substantial expansion of their service provision in the near future. Earnings performance is also no longer likely to be as strong. All in all, however, project engineering firms continue to expect business to be fairly encouraging, while the construction industry expects it to remain more or less stable.

The business situation in the trade sectors varies, improving in retailing and deteriorating in wholesaling. Business activity in the *retail trade* is recovering slightly. The easing of the situation is due in particular to the food sector. By contrast, online retail – which includes mail order, for example – is on a downward trajectory. Overall, goods sales in the retail trade are no longer performing as poorly as before, and there is also less pressure on earnings. The retail sector expects sales to mainly continue to increase in the near future. In *wholesaling*, on the other hand, business activity is slowing for the second quarter in a row. Business in both the wholesale trade in producer goods and, to a somewhat lesser extent, wholesaling in consumer goods is less buoyant than it was in the summer of last year. Sales of goods are weakening, although delivery times – primarily in the wholesale trade in producer goods – have decreased considerably. Although wholesalers expect demand over the next three months to be less pronounced, they could meet it quickly.

Business activity in the hospitality industry is excellent and firms cannot complain about demand. The Swiss *hospitality sector* is at a stable high, with the business situation continuing to be rated very positively. Both accommodation and food service businesses are very satisfied with their situation. Business is even better than before, especially for firms in the major towns and cities. The room occupancy rate in hotels remains good. The number of overnight stays by domestic guests remains high, while those by foreigners are tending to increase, although not as much as before. Businesses in the major towns and cities have once again achieved a large increase in reservations for the current quarter. The mountain and lake regions, on the other hand, are no longer reporting any such increase. Although the firms in the hospitality industry are not complaining about a lack of overall demand, they often continue to report a lack of staff.

The situation among financial and insurance service providers is encouraging and their earnings are improving. Although the Business Situation Indicator for the financial and insurance services sector declined very slightly in July, business activity overall has been fairly stable since the spring of this year. Earnings are again performing well, a trend that the survey respondents believe will continue in the near future. The *banks'* asset management operations and securities business for clients have started to recover. They again expect to report strong lending business with private clients. Looking ahead, they see good prospects for their lending and deposit-taking business as well as better chances of success for their business in fees and commissions and in proprietary trading. *Insurance companies* will again struggle to achieve any increase in insurance policies and, frequently, in gross premiums. However, the growth in their net investment income is more encouraging than before.

Other service providers are no longer quite so busy, and demand is increasing more slowly than before. The business outlook in other services is clouding over for the second quarter in a row. Demand for business-related services is no longer growing as strongly as before, and capacity utilisation is declining slightly. Nevertheless, the level of capacity utilisation among service providers is holding up better than in manufacturing. The demand outlook for the next three months remains cautiously optimistic. As workforces are still considered to be slightly too small, further hiring is planned. Companies' complaints about the lack of skilled workers are on the rise again. The earnings situation varies from one service sector to another: in transport, information and communications it is improving more frequently than before; in business-related services it is performing less well than in the previous quarter; and in personal services it is under pressure.

The results of the KOF Business Tendency Surveys for July 2023 include responses from around 4,500 firms in the manufacturing, construction and major service sectors. This equates to a response rate of around 59 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>

Further information on the KOF Business Tendency Surveys is available here:
<https://www.kof.ethz.ch/umfragen/konjunkturumfragen.html>

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Graphics and table

KOF Business Situation Indicator
(balance, seasonally adjusted)



KOF Business Situation for Switzerland
(balance, seasonally adjusted)

	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23
Private sector (overall)	29.4	28.2	28.6	20.9	19.9	20.8	28.9	26.8	26.8	23.4	21.1	21.8	16.6
Manufacturing	29.9	22.2	21.3	16.2	11.6	13.7	23.6	13.6	9.2	8.0	1.7	0.9	-2.9
Construction	42.4	41.4	43.2	44.0	43.8	47.2	48.9	47.8	49.7	46.7	41.3	46.3	41.3
Project engineering	50.4	54.4	58.3	51.6	48.1	52.7	54.5	54.7	55.4	54.8	50.3	56.0	55.1
Retail trade	4.7	12.8	14.5	12.4	10.4	13.4	16.3	13.7	16.1	12.1	8.0	7.3	11.1
Wholesale trade	51.8	-	-	40.4	-	-	51.0	-	-	39.2	-	-	20.2
Financial services	27.1	27.8	31.3	22.9	24.5	24.5	35.3	38.0	44.1	40.6	38.6	42.2	41.1
Hotel and catering	32.9	-	-	18.3	-	-	30.6	-	-	30.2	-	-	32.4
Other services	22.1	-	-	12.8	-	-	19.9	-	-	17.5	-	-	12.9

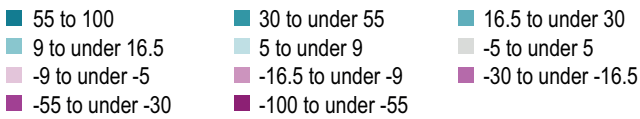
Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of 'good' answers minus the percentage of 'bad' answers.

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)

