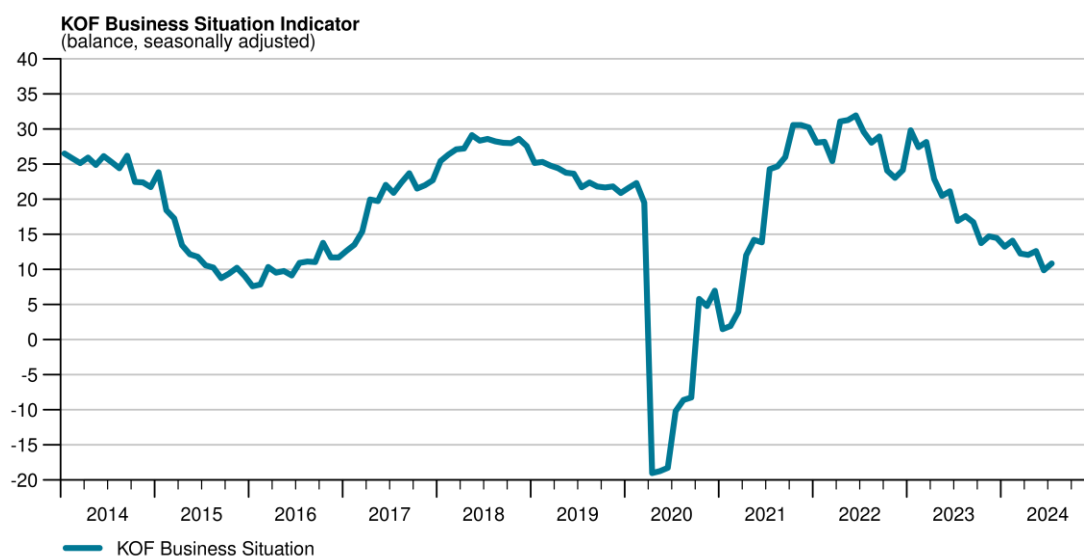


Detailed results of the KOF Business Tendency Surveys, July 2024

Zurich, 7 August 2024, 9am

KOF Business Tendency Surveys for July: slight improvement despite adverse weather conditions in part

The KOF Business Situation Indicator rose in July after falling even more sharply in the previous month. Companies are similarly confident about their business expectations for the coming six months as they were in the previous month. The Swiss economy is recovering slightly during the summer.



The improvement in business in July was mainly due to developments in manufacturing industry. This is remarkable as manufacturing in particular has been suffering from weak activity for some time. This month, however, it has managed to turn a corner. Project engineering firms are reporting a modest improvement on the previous month, although their overall business situation has remained fairly stable for several months. Business activity in the hospitality industry is virtually unchanged.

The business situation is deteriorating in all other sectors surveyed: primarily in retail but also in wholesale, construction and financial and insurance services as well as – very slightly – in other services.

All in all, it was manufacturing that provided a ray of hope at the beginning of the summer quarter during an otherwise moderate trend. However, economic activity was also hampered in part by the weather conditions. Firms in the construction and food-service sectors, for example, reported a fairly unusual number of weather-related problems for the time of year.

Companies see short- and medium-term consumer price inflation within the Swiss National Bank's target range

Although firms are planning to raise their sales prices slightly more frequently on balance than before, the overall price increase will be significantly lower than in the winter of this year and even less than in 2022. In July, companies in the manufacturing and retail sectors are planning to raise their prices slightly more frequently than before. By contrast, the tendency to raise prices in the hospitality industry is declining significantly, while in the other services sector it is decreasing slightly. A scenario of sharply rising services prices therefore appears to have become less likely. When asked about their expectations for general consumer price inflation over the next twelve months, firms' average response was 1.6 per cent – as in the previous quarter. Companies expect inflation to be below 2 per cent over the next five years. They therefore predict that consumer price inflation in Switzerland will remain below the 2 per cent target defined by the Swiss National Bank (SNB) as the upper limit for price stability in the short and medium term.

Business situation sector by sector

Although the business situation in manufacturing is improving, capacity utilisation is still well below average and no major stimulus is expected. The *manufacturing sector* made considerable progress in July. The impetus for this came from the chemical and pharmaceutical sector, which had previously been ailing. Without this stimulus the Business Situation Indicator for the manufacturing sector would not have risen. The improvement within the chemicals and pharmaceuticals sector is evident at small, medium-sized and large firms alike. Overall, incoming orders in the manufacturing sector are picking up again and orders on hand are falling less frequently. Nevertheless, many companies still consider demand for their products to be problematically low. Production has not been ramped up and utilisation of technical capacity has hardly changed compared with the previous quarter. Capacity utilisation is still below average when viewed over the medium term. Firms are no longer expecting incoming orders to accelerate as frequently as before. Their production plans are cautiously optimistic. Their plans for producer prices in the next three months are also virtually unchanged and indicating slightly upwards. On balance, however, companies no longer intend to reduce their staffing levels.

Although the situation among project engineering firms is stable, the construction industry is in decline. The business fortunes of the project engineering and construction sectors – which are both linked to building activity – differed considerably in July. While they improved slightly in the project engineering sector, they continued to deteriorate sharply in the construction industry. This means that the downward trend in *construction*, which has been ongoing since the beginning of the year, continued in July. Although demand for construction services is more or less stable, utilisation of machinery and equipment at construction companies has declined further. Earnings are once again under pressure. However, construction activity has often been hampered by weather conditions, which is unusual for the time of year. Civil engineering firms in particular hope to be able to ramp up production significantly in the near future. Overall, demand expectations in the construction industry for the next three months are no longer as sceptical as before. However, this is not sufficient to boost planned production across the board. The business situation in the *project engineering sector* suffered a setback as early as last autumn and has remained more or less stable, with one or two fluctuations, since then. Although demand for project engineering services has recently picked up slightly, the provision of such services has not increased any more. This could be partly due to the fact that firms have become slightly less confident about future levels of demand. As project engineering firms are hoping to be able to impose price increases a little more frequently than before, they are expecting to see earnings strengthen.



Although the summer quarter has got off to a disappointing start in retail and wholesale, firms are fairly optimistic about business going forward. Business activity in the *retail trade* suffered a severe setback in July. The business situation deteriorated especially for large retailers but not quite as much for small retailers and just a little for medium-sized retailers. Customers are generally staying away from the shops, and sales of goods have clearly fallen. The weather may be partly responsible for this weakness. Staffing levels are increasingly seen as being too high, and earnings are once again coming under greater pressure. However, retailers are still quite confident about sales growth in the near future, albeit not quite to the same extent as in the previous month. Although price increases were more likely to be planned in July than in the previous month, price rises remain low overall. Business activity in *wholesale* continues to cool. In July the Business Situation Indicator for the wholesaling of consumer goods fell, while business in the wholesaling of producer goods was similarly weak as in the previous quarter. A small ray of hope is provided by the wholesale trade in machinery and equipment and by the wholesaling of information and communication technology, where the business situation has eased slightly in both cases. Wholesalers are more confident about future trends than they were previously. Expectations about demand levels over the next three months and general business forecasts for the six-month horizon are noticeably more upbeat than before. Delivery times are no longer likely to decrease and could actually start to increase.

The business situation in the hospitality industry in July was unchanged compared with the previous quarter, although the weather had a dampening effect. The Business Situation Indicator for the hospitality sector remained unchanged in July compared with April. However, the trends in the two sub-sectors diverged. The Business Situation Indicator for accommodation continued to fall, while business in food services improved slightly. Compared with the level of business activity in the summer of last year, however, both sub-sectors recorded significant declines. Overall, the Business Situation Indicator for the hospitality industry is continuing to decrease in the major towns and cities, while it is not falling any further in the mountain and lake regions. The room occupancy rate in the *accommodation* sub-sector is similar to that in the previous quarter and has now remained almost unchanged for a year. There is little momentum in the numbers of overnight stays by both residents and non-residents; the situation going forward is expected to be characterised by fairly stable numbers of overnight stays by residents and modest potential for growth among non-residents. The *food-service* industry is suffering pretty frequently from adverse weather conditions for the time of year. Staff shortages are becoming less of a problem, while lack of demand is causing growing concern. On balance, very few firms intend to increase their staffing levels. Price rises are being planned much less frequently than before in both the food-service and accommodation sub-sectors. Although the hospitality industry remains generally confident about business over the next six months, its optimism has diminished noticeably compared with the previous quarter.

The situation among financial and insurance service providers in July was less encouraging than it had been previously, while earnings remained sluggish. The Business Situation Indicator for the *financial and insurance services* sector fell in July. The business of banks and insurance companies alike deteriorated, with earnings in both sub-sectors performing less encouragingly than before. While insurance companies are fairly upbeat about their earnings going forward, however, scepticism continues to grow among banks. Although *banks* were able to increase their volume of assets under management, net interest income is once again performing worse than before. The contribution from fee and commission business remains positive. Banks expect to see similar patterns in both lending and deposit-taking and in their fee and commission business over the next three months. Their assessment of the creditworthiness of their corporate customers is more encouraging than it was previously. In addition, they are no longer as sceptical about lending to these clients. *Insurance companies* have managed to increase the number of their insurance contracts in the past three months. Gross premiums written in the last quarter were increasingly higher than in the same period of last year, while companies are also expecting



to achieve significant growth in the current quarter. However, they are also anticipating higher gross payments.

The business situation of other service providers has changed very little, while business-related services in particular are expecting to see more momentum in the near future. Companies in the *other services* sector are reporting a virtually stable business situation; the Business Situation Indicator here has fallen only minimally compared with the previous quarter. Although demand for firms' services is no longer rising quite as sharply as before, capacity utilisation is increasing slightly. Capacity utilisation in business-related services and transport services is growing. In the personal services sector, capacity utilisation has remained unchanged compared with the previous quarter. In contrast, capacity utilisation in the information and communication sub-sector is falling. Expectations about the levels of demand in the latter going forward are also more cautious than they were. Business-related services, on the other hand, are anticipating strong growth in demand. They are also increasingly looking to hire additional staff. A fairly uniform pattern can be observed among other services with regard to their pricing intentions: price rises here are being planned even less frequently than before.

KOF Business Situation for Switzerland (balance, seasonally adjusted)

Business sector	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24
Private sector (overall)	16.9	17.6	16.7	13.7	14.7	14.5	13.2	14.1	12.3	12.1	12.6	9.9	10.8
Manufacturing	-7.7	-4.0	-7.4	-16.0	-11.9	-13.3	-17.7	-18.3	-21.5	-15.1	-14.2	-24.6	-8.9
Construction	42.7	43.4	43.9	43.9	42.2	42.6	41.6	40.6	40.4	38.9	38.0	36.7	32.0
Project engineering	54.3	55.3	55.1	57.3	51.3	51.3	51.2	51.9	50.7	48.7	50.7	49.8	51.6
Retail trade	11.2	11.7	8.2	7.4	9.0	6.2	5.4	6.8	8.2	7.2	7.2	3.1	-8.3
Wholesale trade	21.3			14.7			10.2			-1.8			-8.0
Financial services	42.2	40.4	40.3	46.0	47.8	49.3	48.6	57.2	47.7	45.8	48.7	49.0	45.0
Accommodation	24.7			15.6			15.1			4.9			4.6
Other services	15.5			15.5			17.0			17.9			15.8

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.

Source: KOF Business Tendency Surveys



Business expectations for the inflation rate (for the consumer price index) in the coming twelve months

Business sector	Jul 23	Oct 23	Jan 24	Apr 24	Jul 24
Private sector (overall)	2.5	2.4	1.9	1.6	1.6
Manufacturing	2.2	2.3	1.8	1.7	1.6
Construction	2.4	2.5	2.0	1.6	1.6
Project engineering	2.9	2.4	1.8	1.5	1.6
Retail trade	2.9	2.1	1.8	1.4	1.3
Wholesale trade	2.6	2.4	1.8	1.5	1.5
Financial services	2.2	2.1	1.8	1.6	1.5
Accommodation	3.6	3.4	3.0	2.2	1.7
Other services	2.7	2.6	1.9	1.6	1.6

Arithmetic mean values of the quantitative answers to the questions on the inflation rate (for the consumer price index) in the next twelve months. The data are subjected to an outlier adjustment and aggregated. The company responses to the inflation questions are aggregated without company-specific weights.

Source: KOF Business Tendency Surveys

Business expectations on the inflation rate (for the consumer price index) in five years

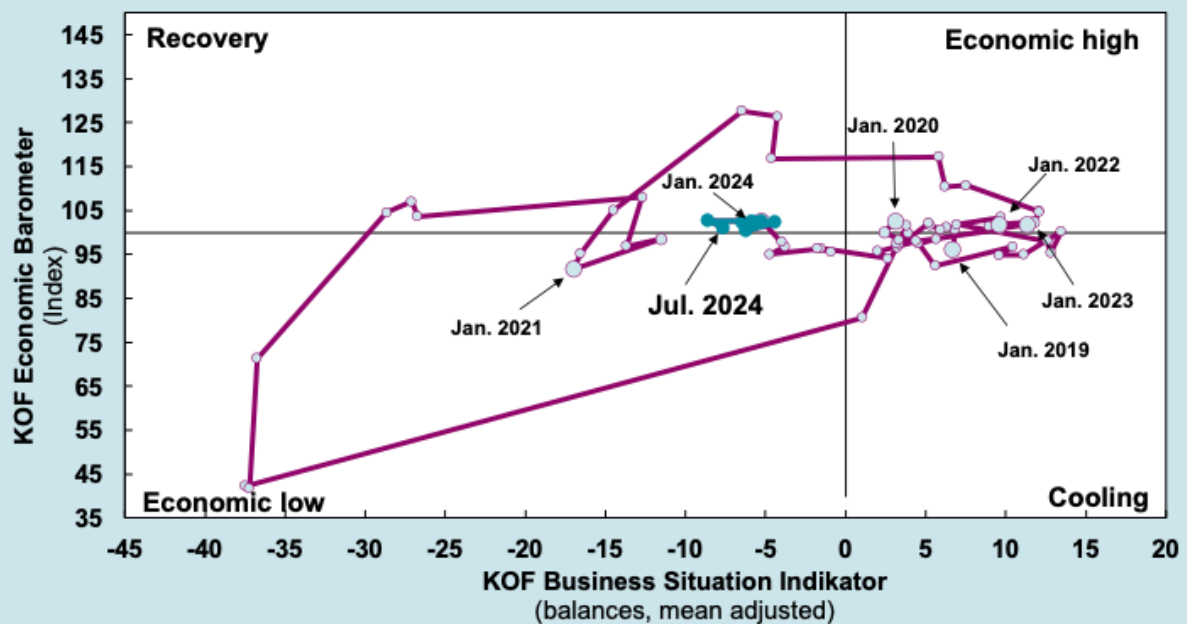
Wirtschaftsbereich	Jul 23	Oct 23	Jan 24	Apr 24	Jul 24
Private sector (overall)	2.3	2.3	2.1	1.9	1.8
Manufacturing	2.2	2.0	1.9	1.9	1.7
Construction	3.5	3.5	2.9	2.2	2.2
Project engineering	2.4	2.6	2.3	2.0	1.8
Retail trade	2.3	3.6	2.0	1.6	1.7
Wholesale trade	2.3	2.2	2.1	1.7	1.6
Financial services	1.7	1.5	1.6	1.6	1.5
Accommodation	4.2	4.1	3.9	3.5	3.8
Other services	2.3	2.2	2.2	1.8	1.9

Arithmetic mean values of the quantitative answers to the questions on the inflation rate (for the consumer price index) in the next twelve months. The data are subjected to an outlier adjustment and aggregated. The company responses to the inflation questions are aggregated without company-specific weights.

Source: KOF Business Tendency Surveys



KOF Business Cycle Clock: Relationship between the KOF Business Situation and the KOF Economic Barometer



The results of the KOF Business Tendency Surveys for July 2024 include responses from around 4,500 firms from the manufacturing, construction and major service sectors. This equates to a response rate of around 59 per cent.

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