

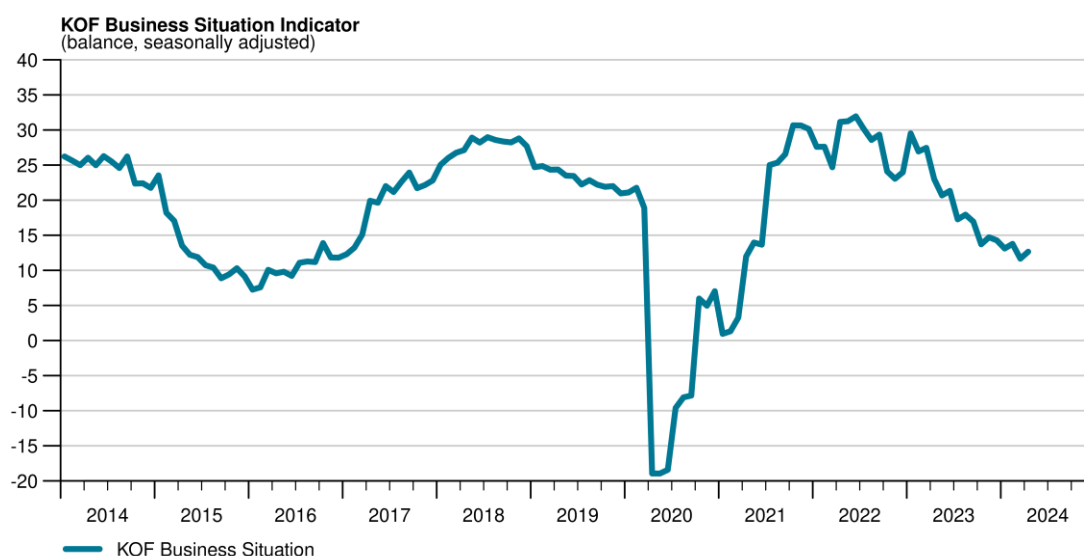
Detailed results of KOF's Business Tendency Surveys, April 2024

Zurich, 6 May 2024, 9am

KOF Business Tendency Surveys from April: modest recovery in the business situation

The KOF Business Situation Indicator for the Swiss private sector improved slightly in April and thus did not deteriorate any further after the significant deterioration in the previous month. Companies' business outlook for the next six months remains positive. The challenges facing the Swiss economy are diminishing somewhat.

The persistently tough business situation – particularly in manufacturing industry – eased in April. Business also improved in financial and insurance services and in the retail trade. This was already the third slight increase in the Business Situation Indicator for the retail trade in a row. Firms engaged in other services are also reporting a gradual improvement. In contrast, business in the project engineering and construction sectors – both of which are associated with building activity – deteriorated slightly, while in the hospitality and wholesale sectors it deteriorated significantly. The improvement in the retail and manufacturing sectors – particularly in consumer goods production – as well as the weaker but still fairly encouraging business situation in the hospitality industry together indicate that private consumption could provide stimulus to the Swiss economy.



Companies' inflation concerns easing

Firms expect to see moderate levels of general consumer price inflation in Switzerland going forward. As far as trends over the next twelve months are concerned, company reports indicate an average inflation forecast of 1.6 per cent. Expected inflation over this time horizon fell below 2 per cent for the first time to 1.9 per cent in January. Inflation of 2.6 per cent had been forecast for the next twelve months in April 2023. Over an extended time horizon – i.e. the inflation rate in five years' time – firms' forecasts fell to an average of 1.9 per cent and thus below 2 per cent for the first time in April. As far as companies' policies with regard to their own sales prices are concerned, the upward pressure on prices, which picked up at the beginning of the year, is now subsiding again. The pressure on firms' earnings situation has eased. Companies expect their average gross wages to increase by 1.6 per cent over the next twelve months. This means that expected wages are lower than they were in January (1.8 per cent) and are on a par with firms' average inflation forecasts.

Business situation sector by sector

The competitive situation in manufacturing is no longer under as much pressure as it was and there are signs of hope for this sector going forward. Business in the manufacturing sector is no longer quite as challenging as it was in March. The situation is improving for export-led companies in particular. While consumer goods manufacturers are breathing a sigh of relief, capital goods producers remain on a downward spiral. Overall dissatisfaction with existing order books is decreasing slightly in the manufacturing sector, although new orders are arriving more slowly. However, firms have not reduced the capacity utilisation of their machinery and equipment. The pressure on the competitive position is easing both domestically and in international markets across the EU and beyond. Accordingly, the earnings situation is now encouraging. Companies expect demand for their products to pick up both domestically and internationally in the near future. They are therefore planning to expand their production. Consumer goods manufacturers are particularly confident in this regard.

The building-related sectors of the economy are slowing but are able to draw on their order books. Business in project engineering and construction – the areas associated with building activity – has been on the decline for several months, and this trend more or less continued in April. Demand in both sectors is rising more slowly than before. Earnings continue to improve, however, and a weaker – albeit not negative – trend is expected in the near future. Capacity utilisation in the *construction industry* has fallen but remains just above average. Although no increase in construction output is expected in the near future, the outlook is no longer as gloomy as it was. Complaints about a lack of demand are growing. Nevertheless, companies are hoping that demand will not fall any further. *Project engineering firms* are expecting to expand their services more slowly in the coming months than they did previously. The time period for which existing order books will be sufficient has recently increased again. However, the sums involved in newly signed construction contracts are no longer rising.

Although the situation in the retail trade eased in the spring and there are no signs of a new wave of price increases, the position in the wholesale sector remains challenging. Business in the retail trade improved in April for the third month in a row. Although the situation is less encouraging than it was in April of last year, the improvement this spring is still clearly visible. Supermarkets and department stores in particular, as well as the retail trade in data-processing equipment and software, are currently experiencing an upturn. In contrast, the mail-order business and parts of the retail sector that operate without sales outlets are slowing considerably. Overall sales of goods in the retail trade are no longer



performing as poorly as they were. The pressure on earnings is easing considerably. Companies are still only planning to raise their prices in isolated cases. Survey respondents are confident about their future sales, although they are no longer quite as optimistic as they were in the previous month and in April of last year. *Wholesale* business activity continues to deteriorate. Although the Business Situation Indicator is falling in both the wholesaling of consumer goods and the wholesale trade in producer goods, the situation in the latter case is particularly challenging. The Business Situation Indicator for the wholesaling of machinery and equipment, for example, has fallen significantly. Although inventories in the wholesale trade tend to be too high overall, survey respondents no longer expect demand to fall. Delivery times are therefore unlikely to decrease any further.

Although business activity in the hospitality industry is weakening across the board, most firms expect demand to remain the same or even increase. The Business Situation Indicator for hospitality is falling again. Business is now as buoyant as it was before the pandemic but no longer as exuberant as it was between the second half of 2022 and large parts of 2023. This downturn is affecting both the accommodation and food-service sectors. All tourism areas are being affected: mountain regions, lake regions, and major towns and cities. Revenue has barely increased compared with last year. Earnings are no longer improving on balance. The number of overnight stays by domestic guests has not been rising for some time, while the number of overnight stays by foreign tourists is now increasing less frequently. A lack of demand is becoming more important as a constraining factor in the food-service industry, whereas staff shortages are losing relevance. Looking ahead to the next three months, restaurateurs no longer expect demand to increase, while accommodation providers remain positive in this regard.

The situation for financial and insurance service providers is improving, while banks are confident about their fee and commission business but pessimistic about their lending and deposit-taking activities. Business in the financial and insurance services sector is improving slightly following a downturn in the previous month. Survey respondents are also more confident than before in their expectations regarding the performance of their business over the next six months. However, earnings growth – particularly among banks – has recently slowed. For *insurance companies*, on the other hand, it has been more buoyant than before. Gross premiums from insurance policies are likely to rise in the current quarter. According to the *banks*, the creditworthiness of their private customers is improving while that of their corporate clients is deteriorating only marginally. Nevertheless, they expect new lending – particularly to corporate clients – to be sluggish. While banks' fee and commission business is more profitable than it was before, their lending and deposit-taking is now slowing considerably. Looking ahead to the next three months, banks are highly sceptical about the success of their lending and deposit-taking activities.

Although other service providers' business is recovering slightly, the increase in staffing levels is likely to slow. Business activity in the *other services* sector improved slightly in April. At least the situation is continuing to improve a little after hitting a low point in autumn 2023, but companies' business forecasts for the next six months are slightly more cautious than they were before. Although demand has picked up recently, capacity utilisation remains virtually unchanged. Staffing levels are no longer considered too low by survey respondents as frequently as they were previously. Additional staff are therefore being sought less often. There are currently no plans to increase staffing levels in the personal services sub-sector on balance. However, companies' earnings situation has been performing well over the past three months. Business-related services in particular have reported an encouraging trend. Earnings are also recovering in the transport, information and communication sectors. Inflation in the services sector is likely to slow slightly in the near future compared with the previous quarter.



KOF Business Situation Indicator for Switzerland (net balance, seasonally adjusted)

| Sector | Apr 23 | May 23 | Jun 23 | Jul 23 | Aug 23 | Sep 23 | Oct 23 | Nov 23 | Dec 23 | Jan 24 | Feb 24 | Mar 24 | Apr 24 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Private sector (total) | 23.0 | 20.7 | 21.3 | 17.3 | 17.9 | 16.9 | 13.7 | 14.7 | 14.3 | 13.1 | 13.8 | 11.7 | 12.7 |
| Manufacturing | 5.7 | -1.5 | -1.5 | -7.2 | -3.4 | -6.7 | -15.4 | -11.3 | -13.2 | -17.8 | -18.7 | -22.3 | -16.5 |
| Construction | 46.6 | 41.2 | 45.2 | 41.9 | 42.9 | 43.3 | 43.5 | 42.0 | 42.5 | 41.7 | 40.9 | 40.8 | 39.6 |
| Project engineering | 55.1 | 50.4 | 56.0 | 54.5 | 55.4 | 55.2 | 57.4 | 51.5 | 51.4 | 51.2 | 51.7 | 50.4 | 47.9 |
| Retail trade | 11.4 | 7.8 | 7.6 | 11.2 | 11.2 | 8.1 | 7.0 | 8.9 | 6.2 | 5.5 | 7.1 | 8.7 | 9.4 |
| Wholesale trade | 39.1 | | | 20.6 | | | 15.4 | | | 10.2 | | | 1.2 |
| Financial services | 41.9 | 40.7 | 42.8 | 43.1 | 40.8 | 39.7 | 45.7 | 47.4 | 48.3 | 48.0 | 55.4 | 44.0 | 48.4 |
| Hospitality | 25.9 | | | 25.3 | | | 15.8 | | | 14.6 | | | 4.8 |
| Other services | 17.7 | | | 16.2 | | | 15.0 | | | 16.9 | | | 18.3 |

Responses to the question: we rate our business situation as good/satisfactory/poor. The net balance is the percentage of 'good' responses minus the percentage of 'poor' responses.

Source: KOF Business Tendency Surveys

Firms' expectations for inflation and wages in April 2024

| Sector | Changes in gross wages up to one year from now (%) | Inflation rate (consumer price index) in the next twelve months | Inflation rate (consumer price index) in five years' time |
|------------------------|--|---|---|
| Private sector (total) | 1.6 | 1.6 | 1.9 |
| Manufacturing | 1.5 | 1.7 | 1.9 |
| Construction | 1.6 | 1.6 | 2.2 |
| Project engineering | 1.9 | 1.5 | 2.1 |
| Retail trade | 1.6 | 1.4 | 1.6 |
| Wholesale trade | 1.4 | 1.5 | 1.7 |
| Financial services | 1.6 | 1.6 | 1.6 |
| Hospitality | 2.9 | 2.2 | 3.4 |
| Other services | 1.5 | 1.6 | 1.9 |

Arithmetic mean values of the quantitative responses to questions on inflation and wages. The data are subjected to an outlier adjustment and aggregated. Firms' responses on wages are weighted with the number of employees at the respective firm (full-time equivalents), while their responses to inflation questions are aggregated without any company-specific weights.

Source: KOF Business Tendency Surveys



Firms' expectations for wages up to one year from now (%)

| Sector | Apr 23 | Jul 23 | Oct 23 | Jan 24 | Apr 24 |
|------------------------|--------|--------|--------|--------|--------|
| Private sector (total) | 2.2 | 2.0 | 1.9 | 1.8 | 1.6 |
| Manufacturing | 1.9 | 1.5 | 1.4 | 1.6 | 1.5 |
| Construction | 2.4 | 2.0 | 2.3 | 2.0 | 1.6 |
| Project engineering | 2.9 | 2.2 | 2.3 | 2.4 | 1.9 |
| Retail trade | 1.4 | 2.0 | 1.6 | 1.5 | 1.6 |
| Wholesale trade | 1.9 | 1.6 | 1.3 | 1.6 | 1.4 |
| Financial services | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 |
| Hospitality | 4.1 | 3.7 | 3.5 | 3.5 | 2.9 |
| Other services | 2.0 | 1.9 | 1.9 | 1.6 | 1.5 |

Arithmetic mean values of the quantitative responses to questions on changes in gross wages up to one year from now (%). The data are subjected to an outlier adjustment and aggregated. Firms' responses on wages are weighted with the number of employees at the respective firm (full-time equivalents).

Source: KOF Business Tendency Surveys

Firms' expectations for the inflation rate (consumer price index) in the next twelve months

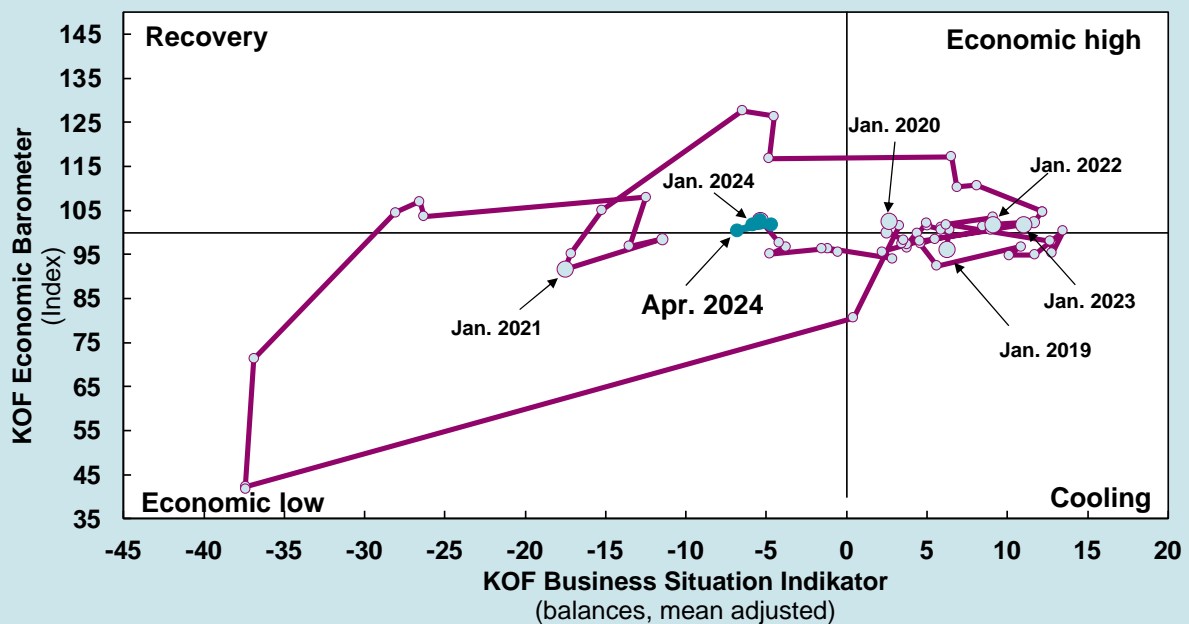
| Sector | Apr 23 | Jul 23 | Oct 23 | Jan 24 | Apr 24 |
|------------------------|--------|--------|--------|--------|--------|
| Private sector (total) | 2.6 | 2.5 | 2.4 | 1.9 | 1.6 |
| Manufacturing | 2.5 | 2.2 | 2.3 | 1.8 | 1.7 |
| Construction | 2.5 | 2.4 | 2.5 | 2.0 | 1.6 |
| Project engineering | 2.8 | 2.9 | 2.4 | 1.8 | 1.5 |
| Retail trade | 2.5 | 2.9 | 2.1 | 1.8 | 1.4 |
| Wholesale trade | 2.5 | 2.6 | 2.4 | 1.8 | 1.5 |
| Financial services | 2.4 | 2.2 | 2.1 | 1.8 | 1.6 |
| Hospitality | 3.8 | 3.6 | 3.4 | 3.0 | 2.2 |
| Other services | 2.6 | 2.7 | 2.6 | 1.9 | 1.6 |

Arithmetic mean values of the quantitative responses to questions on the inflation rate (consumer price index) in the next twelve months. The data are subjected to an outlier adjustment and aggregated. Firms' responses to inflation questions are aggregated without any 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 from April 2024 include responses from around 4,500 firms from the manufacturing, construction and major service sectors. This equates to a response rate of around 61 per cent.

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