

Detailed Results

Zurich, 5 August 2016, 10:30 a.m.

Results of the KOF Business Tendency Surveys, July 2016

Improved Business Situation, Minor Impact of Brexit Vote

Following a decline in the preceding month, the KOF Business Situation Indicator for the Swiss private economy perked up slightly in July. The indicator's general upward trend since spring was not even interrupted by the Brexit vote. In July, KOF asked additional questions on the subject of Brexit. Up until now, the new situation has not had any effect on the business conducted by Swiss companies. The majority of enterprises report no or hardly any noticeable insecurity following the result of the UK referendum. However, even the business situation assessments of the companies reporting a more insecure environment do not vary much from the other companies.

Small setback in manufacturing, stable situation in construction

In the **manufacturing industry**, the business situation slowed down slightly in July. Hence, the small signs of improvement in the last few months did not survive. The Business Situation Indicator declined both among export-oriented and domestically-oriented companies. In the light of current events, KOF asked the enterprises about their UK export shares. It was found that the development in the business situation of companies with significant UK export shares was not much different than that of other companies.

All in all, order books stabilised. Only a small percentage of companies reported production levels below the previous month and finished goods inventories were reduced further. Capacity utilisation of machinery and equipment dropped once again. At a seasonally adjusted 80.6%, the capacity utilisation rate is also slightly lower than in the previous year's period. However, downward pressure on selling prices has eased off slightly and companies are complaining less about shrinking margins. Careful optimism still predominates with respect to foreign business in the coming months. All in all, as in the preceding month, the companies expect a slight recovery of their order books. In the context of the forward-looking question on incoming orders, KOF also investigated any systematic difference between companies with a significant UK export share and other companies. Once again, there was no noticeable difference in the response behaviour. Hence, companies generally plan a further small rise in production. Their HR projections, though, remain on the cautious side.

The construction-related **building trades** and **project engineering sector** reported no change in their business situation in July. In both sectors, the situation has been relatively stable since spring and the respondents do not expect any major change in the coming six months. Nevertheless, capacity utilisation in the construction sector has declined slightly and is now lower than at the same time last year. Since the companies also do not expect a revival of demand, production plans are on the restrained side. As a consequence, competitive pressure is high and pricing power is low. The companies fear that further price concessions may become necessary and are sceptical when it comes to their future profit situation. Accordingly, HR plans are envisaging staff cuts rather than increases. Although the project engineering offices anticipate a slight drop in demand in the near future, they plan to keep their service volume stable. Consequently, they see no need to adjust their staff numbers. Pressure on their rates is now less high than in the preceding month and the companies expect an almost stable development in their profit situation.

Deterioration in retailing and hotel and catering sectors

The **retailers'** assessment of their business situation is less favourable than in the preceding month. They still consider customer frequency figures to be lower than in the same month of the previous year. On top of this, a small majority of companies still assess their goods inventories as too high. The profit situation has corroded noticeably among smaller enterprises. In contrast, medium-sized and big companies reported a less negative profit situation than before. Revenue expectations among retailers remain modest and plans for new product orders in the next three months are more restrained than in the past.

The situation among **wholesalers** has eased further. All in all, the companies now consider their business situation to be satisfactory. Excess inventories have been reduced slightly and the erosion of the profit situation has stopped. Wholesalers view their business development in the coming six months with restrained optimism.

Following a slight improvement in the previous quarter, the situation in the **hotel and catering industry** has slowed down again. Companies stated that turnover was significantly weaker than in the same period of last year. The unfavourable weather in spring and early summer may have played a role. A less favourable business situation was reported by all tourist regions, including mountain, lake, big city and other regions. The less auspicious assessment of the situation was predominantly due to the **catering sector** which recorded substantially lower revenue than in the preceding year. Less food and fewer drinks were sold than last year. However, the catering companies are anticipating a stabilisation of their business situation in the coming three months. **Hotels** only made a very slight downward adjustment to their business assessment. On a seasonally adjusted basis, room occupancy increased to some extent and slightly exceeded the previous year's period. The development in overnight stays by domestic guests received a less negative assessment than before. However, hotels retain a more sceptical outlook on the coming development in overnight stays.

Slight improvement in business situation of banks and insurers as well as other service providers

Banks and insurance companies reported a slightly better business situation in July than in the previous month, although their profit situation has suffered. Although the institutions still expect demand for their services to increase in the coming three months, they anticipate a smaller rise than before. Slightly lower future demand is expected not only by the companies that regard the Brexit vote as an element of uncertainty but also by the other companies. Banks reported a more favourable business situation in respect of both domestic and foreign customers, with private domestic customers making up the lion's share of the higher demand. The corporate business is following a stable course. Banks are increasingly anticipating stronger demand by corporate customers in the near future. The institutions are also optimistic when it comes to their trading business.

The business situation of the **other service providers** improved slightly. Again, the responses by companies that consider Brexit as an element of uncertainty and the answers given by other companies do not differ substantially. Corporate service providers described little change in their business situation while transport, information and communications businesses reported a slight improvement. The situation for communications companies, however, remains comparably weak. Since service providers are expecting a rise in demand in the near future, they are increasingly planning to raise staff numbers.

The results of the current KOF Business Tendency Surveys of July 2016 are based on the answers of over 4,500 companies in industry, construction and the main service sectors. The response rate was approximately 56%.

Further information concerning the KOF business tendency surveys is available at:

<http://kof.ethz.ch/en/surveys/business-tendency-surveys/> →