

Swiss Construction Index

Index as of Q1 2021: 145 points

Change on previous quarter: +2.7%

Change on same quarter in previous year: +2.0%



Q1 2021

Swiss Construction Index: The state of the construction industry at a glance

Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



The Swiss Construction Index is published jointly by Credit Suisse and the Swiss Contractors' Association (SCA) each quarter. It serves as a leading indicator for the state of Switzerland's construction sector by forecasting the turnover in the main construction trade in the current quarter as well as the trend for the next few quarters. The indicator, which is computed by Credit Suisse, is based primarily on the quarterly survey conducted by the SCA among its members. Additional data are sourced from the Swiss Federal Statistical Office and the Baublatt. Whereas the construction index provides an outlook for the first quarter 2021, the SCA quarterly survey provides detailed information on the fourth quarter of 2020.

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The Construction Index appears on a quarterly basis. Free subscriptions are available from Credit Suisse. To subscribe, please send your email address to: realestate.swisseeconomics@credit-suisse.com.

Detailed results of the SCA quarterly survey, which is published at the same time as the construction index, together with further facts and figures on the main construction trade, can be found at <http://www.baumeister.ch/de/politik-wirtschaft/wirtschaftsdaten>

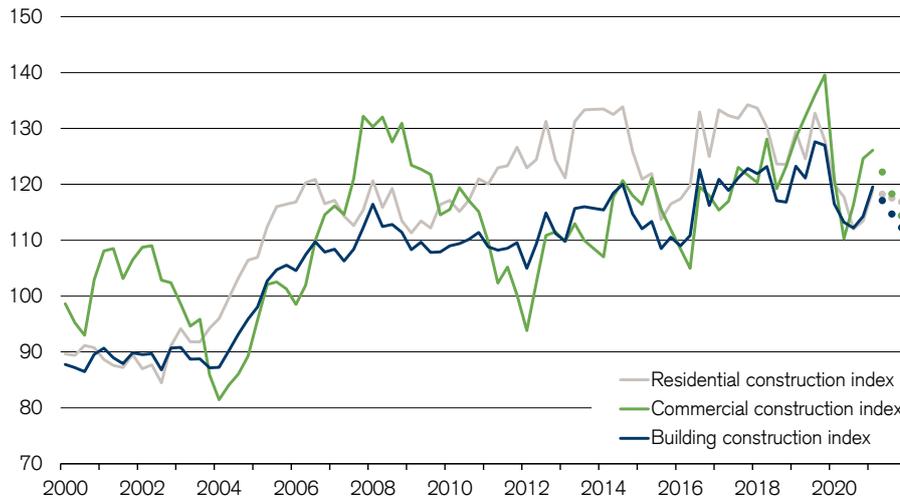
Pleasing start to the year, slight sales increase expected for 2021

After a difficult 2020 in which sales declined by 5.8%, the construction index is continuing on its path of recovery in the first quarter of 2021. Seasonally-adjusted sales of the main construction trade should be 2.7% higher than in the prior quarter. Despite a fall in new orders, the order backlog in building construction at the year-end was 2.5% above the prior-year level. This is likely to be the result of pandemic-related declines in productivity, as well as the temporary wait-and-see stance adopted by many developers. In expectation of an economic recovery over the course of 2021 (forecast: GDP growth of +3.5% in 2021), developers appear to be regaining a certain amount of confidence, and existing projects are once again being more briskly implemented. At the same time, major uncertainties remain over the further development of the pandemic. For example, delays in the ongoing vaccination campaign and a serious third wave of the pandemic driven by coronavirus mutations could threaten the economic recovery. Even without this imponderable, the order situation in the building sector is likely to deteriorate gradually, as the data for building permit issuance in 2020 reveals a decline of 5.6% in planned construction expenditure. At the same time, a number of project suspensions are threatened due to the financial problems of developers (e.g. SBB) or the evident decline in demand for office and retail property. Overall, while sales of the main construction trade should recover in 2021 (+1.5%), they should still remain below the threshold of CHF 20 billion.

Year:	2019				2020				2021	Forecast turnover growth compared to			
	Quarter:	I	II	III	IV	I	II	III	IV	I	4th Q 2020	1st Q 2020	
Construction index	143	148	150	151	142	138	137	141	145	+2.7%	↗	+2.0%	↗
Building construction index	123	121	128	127	117	113	112	114	120	+4.6%	↗	+2.6%	↗
Residential construction	129	125	133	128	120	118	112	113	119	+4.8%	↗	-0.9%	↔
Commercial construction	128	132	136	140	121	110	116	125	126	+1.2%	↗	+4.2%	↗
Civil engineering index	171	188	182	186	178	175	173	179	181	+1.0%	↗	+1.5%	↗

Development of the sub-indicators

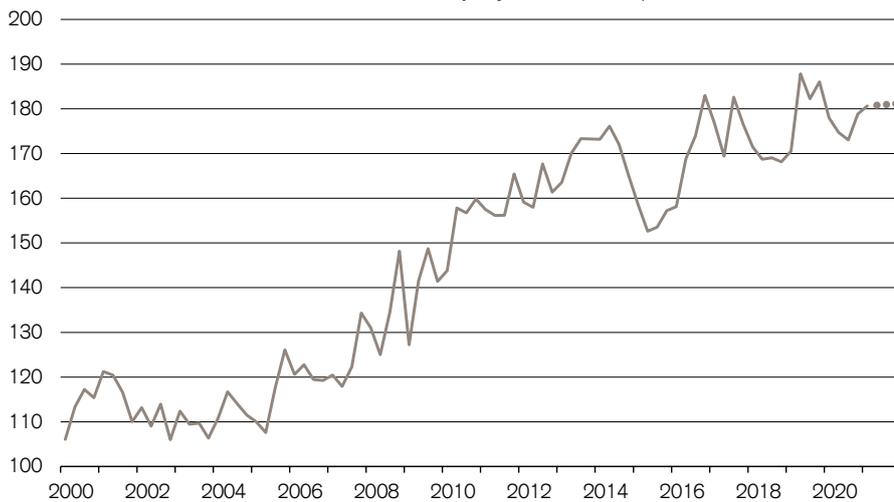
Building construction index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



Building construction in recovery for the time being

In the first quarter of 2021, the building construction index is set to record a further quarter-on-quarter rise of 4.6% (residential construction: +4.8%, commercial construction: +1.2%). In other words, building construction sales are likely to remain – for now at least – on the recovery trajectory that first became apparent in the final quarter of 2020. Viewed over the last 12 months, however, building construction has suffered a painful decline in sales of 10.8%. For the current year we are expecting a slight sales rise overall, but without this rise being anywhere near enough to propel sales back to pre-crisis levels. Reasons to expect stabilization in the residential construction segment include a slight increase in building permit issuance and the order backlog. Commercial construction may have recorded a significant increase in planning applications in 2020, but in view of the current uncertainty over the future demand for office and retail space, there is plenty of reason to doubt whether all of these projects will actually be implemented in the long term.

Civil engineering index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook

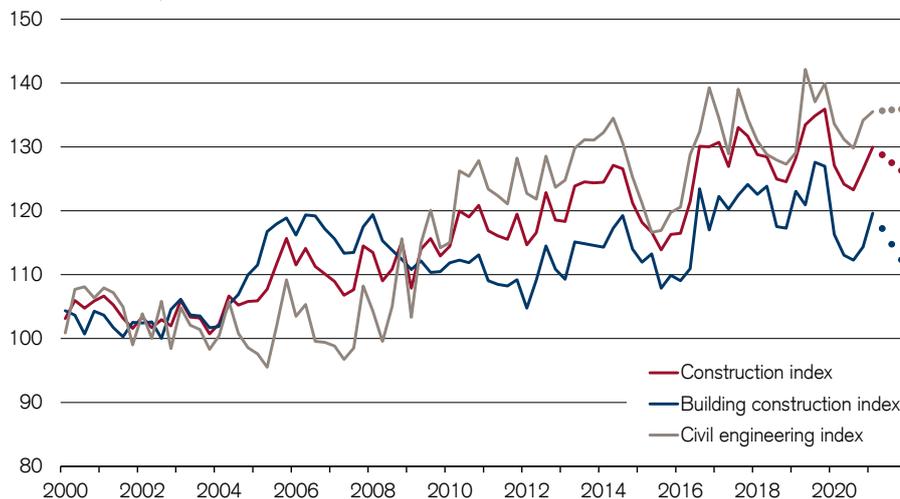


Civil engineering shrugs off coronavirus crisis

Seasonally-adjusted civil engineering sales are likely to record a further slight increase in the first quarter of 2021 (+1.0%) compared to the previous quarter. In other words, civil engineering remains largely unaffected by the pandemic, with only sales in the private sector of this segment having recorded a slight decline. In contrast to public sector building construction, where many a project is at risk of falling victim to cost-cutting programs (see next page), a significant proportion of public sector civil engineering projects (rail and road) are secured – at least in the medium term – through special financing arrangements. According to a recent market study commissioned by Infra Suisse, tunnel construction should weaken at least somewhat following completion of another large-scale project in the form of the Ceneri base tunnel. Overall, however, we expect a slight increase in sales for civil engineering in 2021, with the main stimuli coming from road construction.

Development in real terms: seasonally and price-adjusted construction index

Q1 1999 = 100, points = trend outlook

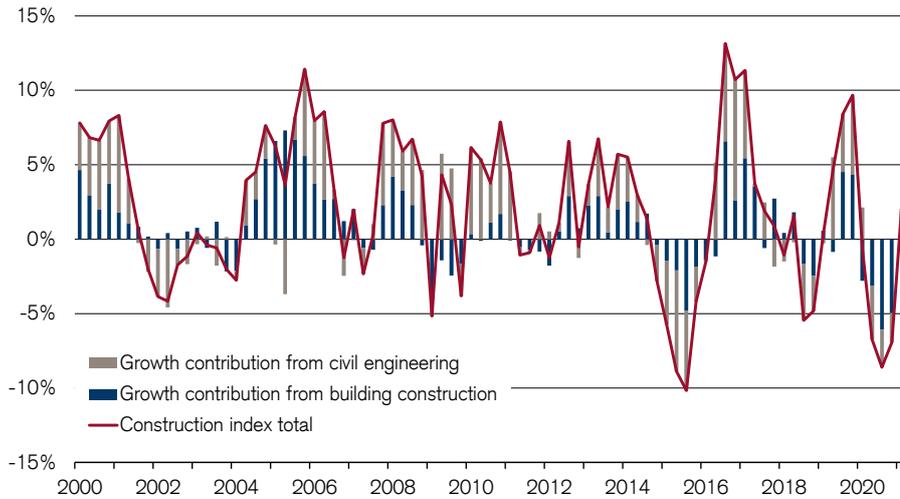


Construction prices stagnate

Adjusting the construction index to take account of inflation in construction prices recorded since 1999 (Swiss Federal Statistical Office) neutralizes trends attributable to price-related turnover increases. In a year-on-year comparison, construction prices have moved sideways. Whereas building construction prices declined by 0.1%, civil engineering companies have been able to increase their prices slightly (+0.2%). Overall, the deviation between real and nominal index development remains minimal. Building construction prices in particular have barely changed at all over the last decade. Accordingly, many construction firms are operating on low profit margins. Not much is likely to change here in the near future.

Construction index year-on-year

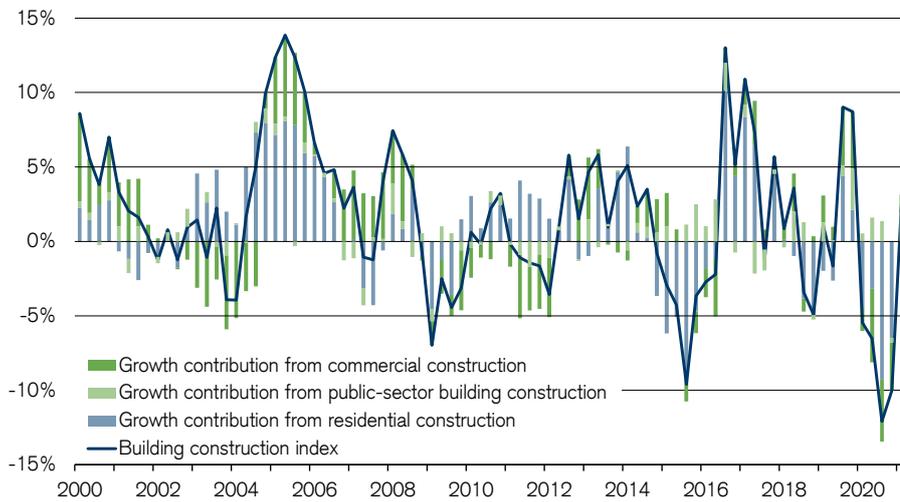
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Building construction claws back some lost ground

The construction index in the first quarter of 2021 is 2.0% higher compared to the prior-year quarter, suggesting that the growth dip of the prior year has been left behind for the time being. Civil engineering, which has so far been little affected by the consequences of the pandemic, is set to rise by 1.5%, whereas for building construction we are anticipating sales growth of 2.6%. For 2021 overall, we are anticipating a slight rise in sales. However, sales are likely to fall well short of levels recorded during the boom construction period in 2019. Where building construction is concerned, building permit issuance actually points to a decline in sales in the medium term. That said, as orders on hand remain healthy in all segments, any decline is likely to be some way off.

Building construction index, seasonally adjusted, growth rates versus same quarter in previous year

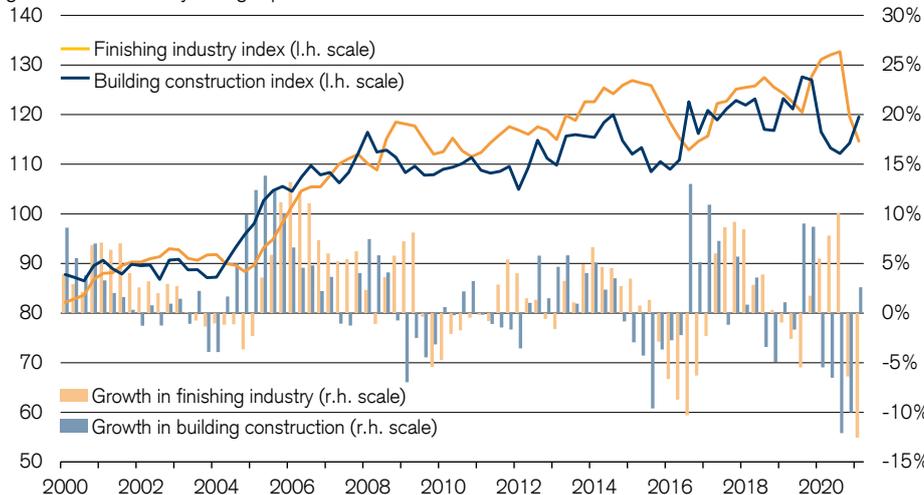


Public sector building construction looks shaky

Commercial construction (+4.2% year on year) and residential construction (-0.9%) can be expected to continue the recovery trend as the year gets under way. Moreover, public sector building construction continues to defy the coronavirus crisis, and is set to record a year-on-year rise of 14.8% in the first quarter. Going forward, however, public sector building construction is also likely to slow. For example, at the end of January SBB announced that it would be suspending various real estate projects not yet at the construction stage, with these construction expenditure cuts being the result of a "very strained" financial situation. These measures should reduce budgeted expenditure by some CHF 700 million by 2025. Most of the projects affected are in the Zurich or Lake Geneva regions. There is a risk that other public sector developers may follow SBB's lead, leading to a severe decline in public sector building construction sales over the coming years.

Situation in the finishing industry

Finishing industry and building construction index: Q1 1996 = 100, seasonally adjusted, nominal; growth rates versus year-ago quarter

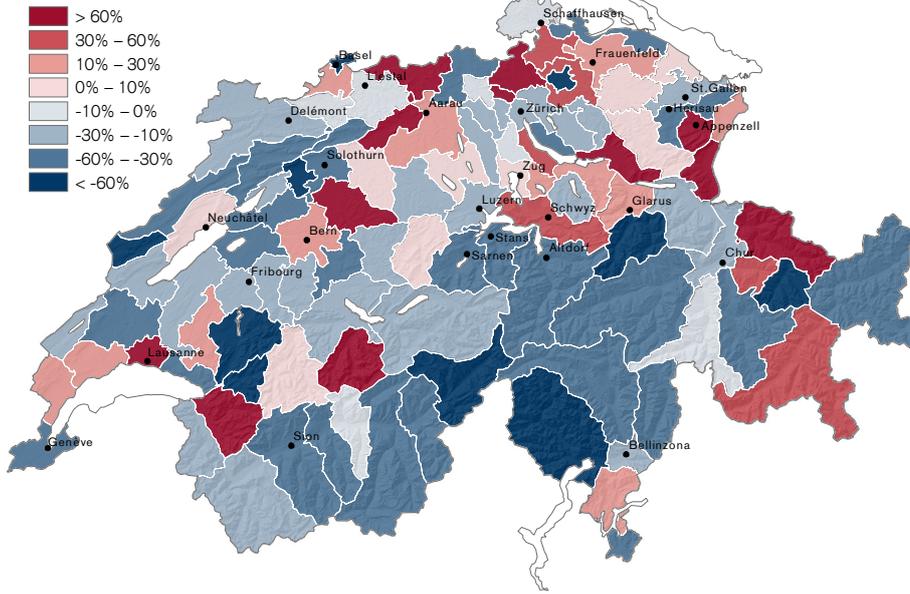


Finishing index slides further

The finishing index estimates turnover in the finishing industry in the current quarter and lags the building construction index by two to four quarters. In the first quarter of 2021, the finishing index points to a quarter-on-quarter decline of 4.1%, leaving it 12.6% below the level of the prior-year quarter. The latest decline in building permits issued for refurbishment, finishing, and renovation projects also points to a decline in sales over the next few quarters. The approved construction volume here over the last 12 months stands at CHF 8 billion, 17% below that of the prior-year period. By contrast, we are expecting a healthy order situation along the northern Jura arc and in the Alpine regions (see next page). Moreover, in the longer term we envisage a number of stimuli preventing any overly excessive slump in the finishing industry. In particular, the issue of energy-related renovation will gain a further boost, as the Swiss electorate is set to vote on the complete revision of the CO2 Act on June 13, 2021.

Regional demand focus in building construction

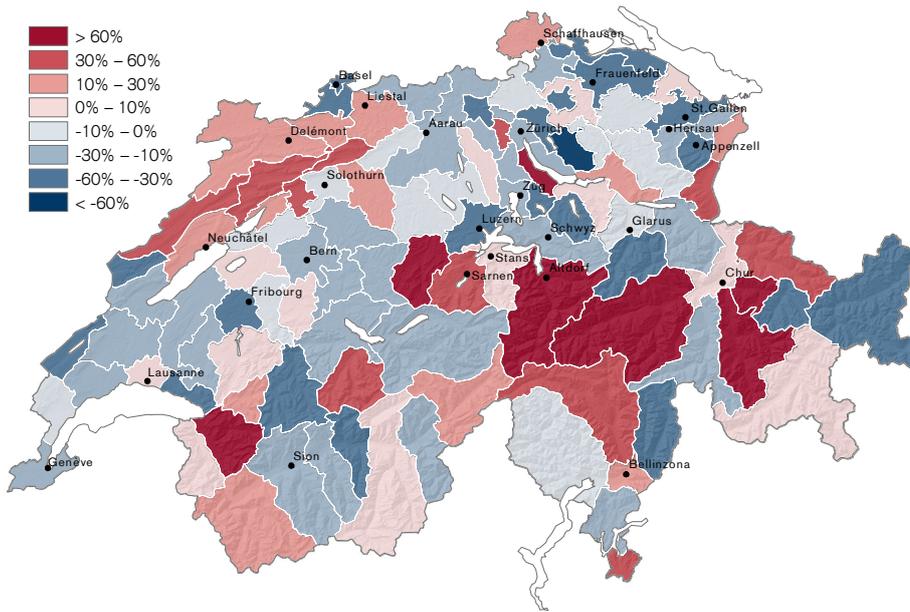
Applications for new-build projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



Focus of new-build projects

The investment volume of building permit applications indicates regional demand for construction services. In the economic regions marked in red, plans for new-build projects exceed the average for the last ten years; in the regions marked in blue, planning is below this average. Projected activity over the last six months equates to a volume of CHF 17.7 billion. In other words, the volume of submitted planning applications in the building construction trade has recovered somewhat and is now 2.5% above the prior-year period, albeit still 4.1% below the 10-year average. Planned activity remains below average in a clear majority (71) of the 110 Swiss economic regions. Notable areas here include large tracts of southern Switzerland, western Switzerland, as well as the Alps and their foothills. By contrast, a high volume of construction planning has been reported in the last six months by the northern part of Canton Zurich, various regions touching Lake Geneva, as well as regions along the Aarau-Bern axis.

Applications for refurbishment projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



Focus of refurbishment work

The volume of submitted refurbishment applications has further decreased in recent months. This amounts to CHF 5.4 billion over the last six months, which is 8.8% lower than the 10-year average. The volume of planned activity in refurbishment and renovation projects was below average in 66 of the 110 regions. The main exceptions here are the regions along the Jura arc between Liestal and Neuchâtel. Moreover, an increasing number of refurbishment projects continue to be initiated in a number of regions of the Alps and their foothills. This trend can be expected to continue for a while, as evaluations of property website search registrations show the demand for homes in tourist regions has risen since the start of the COVID-19 pandemic. Many of these home-seekers are clearly expecting to be able to spend large chunks of their working time away from the office even when the pandemic has receded. This would allow them to benefit from lower real estate prices and/or proximity to attractive recreation areas further away from the office. At the same time, however, Switzerland's Second Homes Act should ensure that building redevelopment remains the focus, rather than new home construction. How sustainable these effects prove to be will only become apparent gradually, however.

*Credit Suisse has defined these economic regions based on the Mobilité Spatiale regions used by the Swiss Federal Statistical Office. Political borders play less of a role in the definitions than economic phenomena, geographical and demographic features, and mobility patterns. Consequently, some of these economic regions straddle cantonal borders.

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