

Swiss Construction Index

Index as of Q1 2023: 157 points

Change on previous quarter: -2.4%

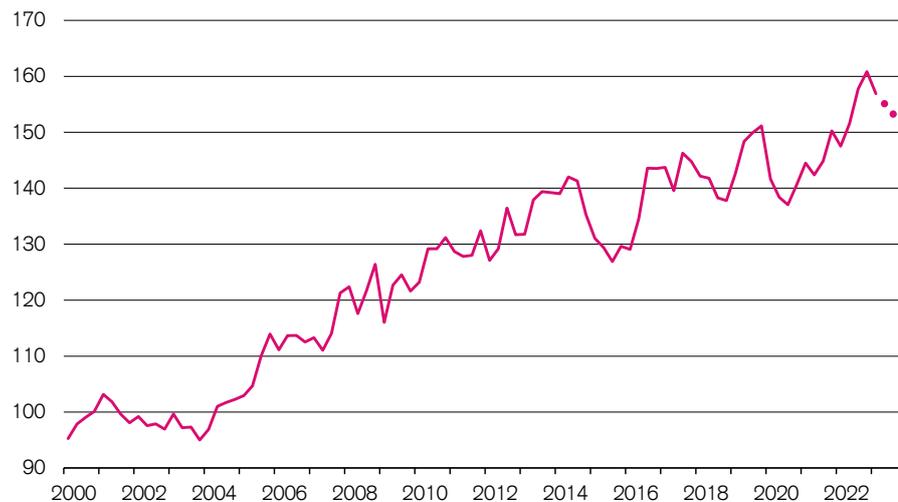
Change on same quarter in previous year: +6.4%



Q1 2023

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 of 2023, the SCA quarterly survey provides detailed information on the fourth quarter of 2022.

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The Construction Index appears on a quarterly basis. It can be obtained from Credit Suisse free of charge: <https://www.credit-suisse.com/swissrealestate>

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>

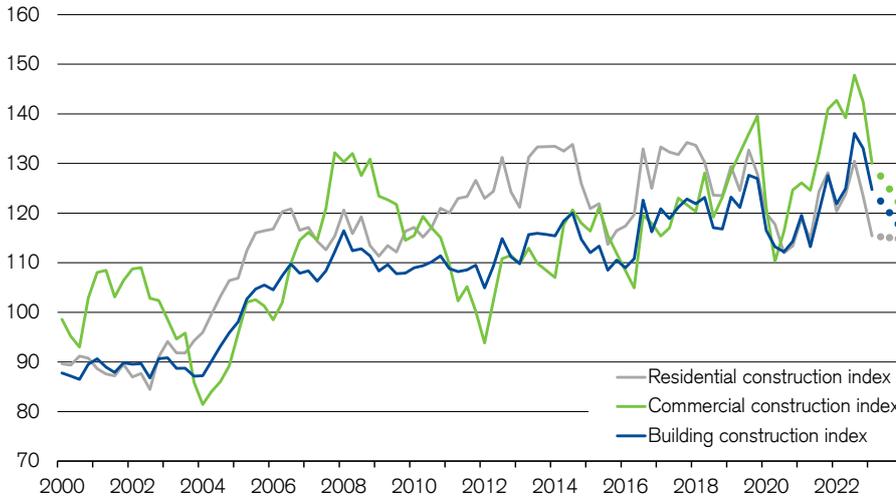
Main construction trade likely to slip off growth trajectory in 2023

In the first quarter of 2023, the Swiss Construction Index records a decline for the first time in the last 12 months. When adjusted for seasonal and calendar effects, we expect the sales of the main construction trade to fall by 2.4% compared to the prior quarter. This is attributable to developments in both commercial and residential construction. In 2022, newbuild projects with a volume of 38,000 apartments were approved for construction – the lowest figure for 20 years. At the same time, rising financing costs, the economic slowdown, and the restraint shown by companies in planning new office space are also weighing on commercial construction sales. For the current year, Credit Suisse expects Swiss GDP growth to weaken to 1.0% and the Swiss National Bank to increase key rates further to a level of 1.75%. Nonetheless, construction work involving existing building stock and civil engineering activity are helping to keep order backlogs and new orders at high levels. Moreover, the anticipated decline in sales is attributable not just to weaker production, but also to normalization of construction prices. In the medium term, strong population growth can be expected to have a positive impact on construction demand. Switzerland recorded a total of 78,000 net immigrants in 2022 and the strongest increase in the number of asylum-seekers for many years. Pressure on the housing market and infrastructure is therefore likely to increase at least temporarily over the next few years.

Year:	2021				2022				2023	Forecast turnover growth compared to	
	Quarter:	I	II	III	IV	I	II	III		IV	4th Q 2022
Construction index	145	142	145	150	148	152	158	161	157	-2.4%	+6.4%
Building construction index	120	113	120	128	122	125	136	133	125	-6.2%	+2.4%
Residential construction	119	115	124	128	120	124	130	123	115	-6.5%	-4.1%
Commercial construction	126	125	132	141	143	139	148	142	130	-8.7%	-8.9%
Civil engineering index	181	185	180	183	185	190	189	201	203	+1.2%	+10.2%

Development of the sub-indicators

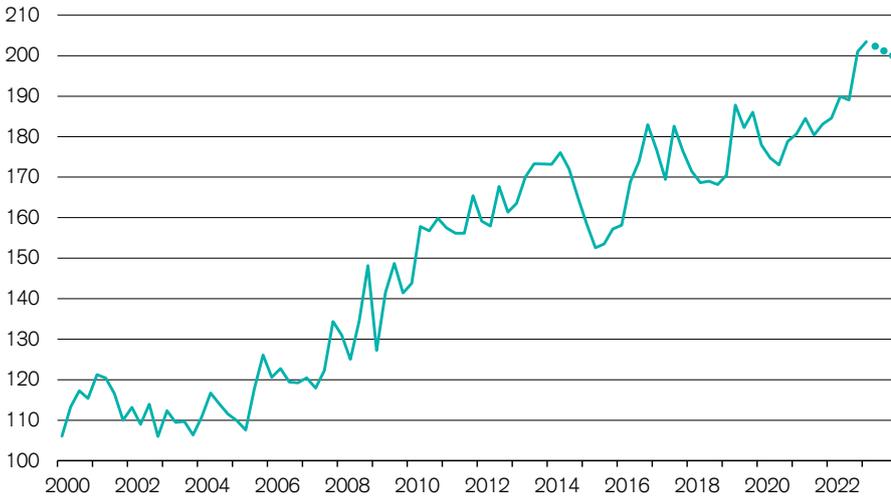
Building construction index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



Building construction: peak passed for now

In the first quarter of 2023, building construction is set to decline by 6.2% compared to the prior quarter. The decline is likely to be most pronounced in commercial construction (-8.7%), while residential construction is likely to recede by 6.5%. Public-sector building construction sales are likely to stagnate at a very high level, with a number of large projects still being initiated. For example, the construction of the new campus of Bern University of Applied Sciences in Bienne (planned investment volume: CHF 264 million) is likely to start this year after a delay of many years due to legal proceedings. Since public building construction sales are likely to normalize and price growth has probably peaked, we are anticipating a medium-term decline in building construction sales. By contrast, work on existing residential housing stock (particularly energy-related renovations) and in commercial construction (above all industrial and logistics properties, but also data centers) should bump up the figures.

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

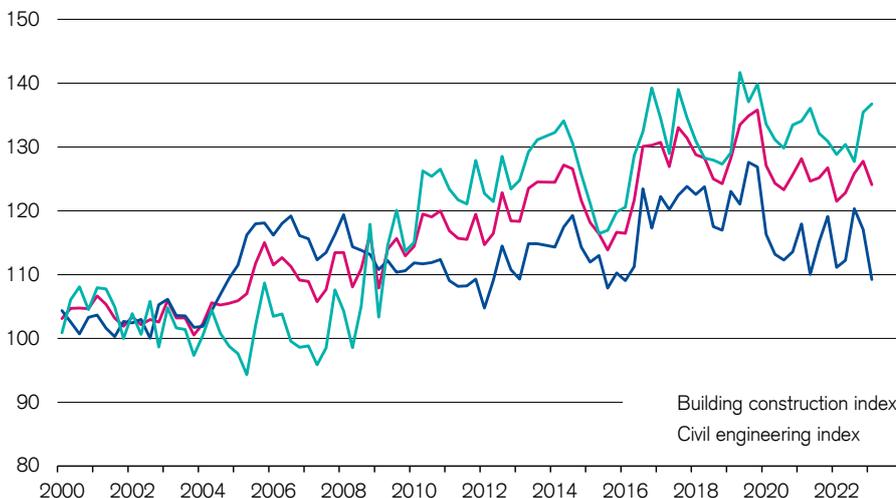


Civil engineering still enjoying a tailwind

The seasonally adjusted sales of the civil engineering sector are set to record another slight quarter-on-quarter increase in the first quarter of 2023 (+1.2%). Both new orders and the order backlog are at very high levels, which is essentially attributable to sharp increases in construction prices. According to the KBOB, however, construction material prices (e.g. bitumen products and fuels) for civil engineering have fallen back 5.8% from their peak in May last year, but are still 3.5% higher than at the end of 2021. One project that could – if implemented as planned – boost civil engineering volumes for many years to come is the subterranean logistics system “Cargo sous terrain” (CST). Preliminary work (test drilling, measuring) for the first stretch of the line from Härkingen to Zurich got underway at the start of the year. A total of CHF 3 billion is to be invested in this project between now and planned completion in 2031.

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

Q1 1999 = 100

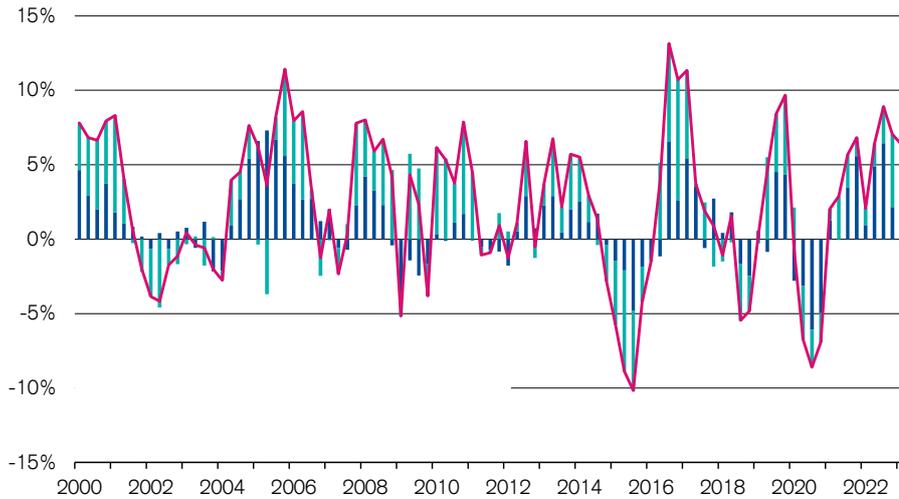


Construction price inflation cools

Adjusting the construction index to take account of inflation in construction prices recorded since 1999 (Federal Statistical Office) neutralizes trends attributable to price-related turnover increases. In October 2022 construction prices saw a record year-on-year rise of 8.3% (building construction: +8.2%, civil engineering: +8.5%). This means that actual construction production is developing much more feebly than the sales figures would suggest, as the latter are primarily driven by rising construction material costs. There has recently been a significant improvement in the global supply chain situation, however, which has seen price developments stabilize for various key building products and consumables such as metals and fuels. According to the KBOB, however, building material costs were still 5.1% above the prior-year level at the end of 2022. The equivalent increase in civil engineering was 3.5%.

Construction index year-on-year

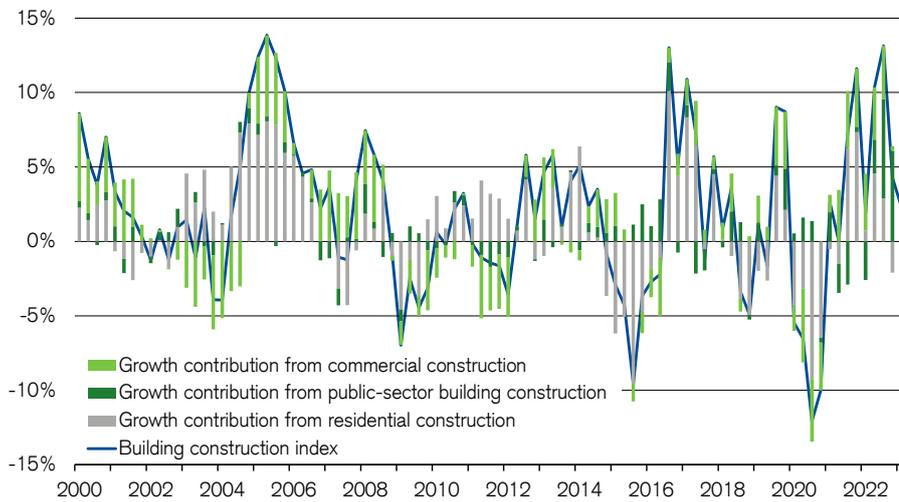
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Construction prices driving sales growth

The construction index is set to record a 6.4% year-on-year increase in the first quarter of 2023. We expect higher nominal sales in both civil engineering (+10.2%) and building construction (+2.4%). In both segments, order backlogs and new orders remain at promising levels. For the main construction trade, the order backlog is close to last year's level, suggesting a sideways trend for sales over the next few quarters. However, medium-term development also depends heavily on construction prices, which are very volatile. Even if higher material prices cannot be fully passed on to clients in all cases, they are still likely to explain a significant proportion of the latest sales rises. The apparent normalization of construction price development as a result of lower global demand for construction materials and basic commodities should therefore act as a drag on nominal sales development.

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

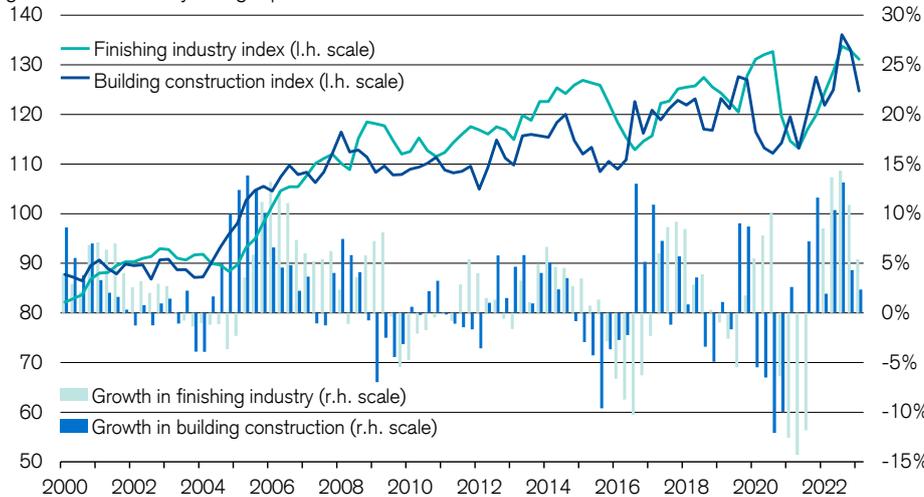


Sales driven by public building construction

In the first quarter of 2023, the building construction index is still 2.4% higher than in the prior-year quarter. This increase is almost wholly attributable to public-sector building construction (+64.4%), whereas a decline is expected for commercial (-8.9%) and residential construction (-4.1%). The picture going forward looks solid based on the volume of building projects to have received construction approval (+1.6%) or for which planning applications have been submitted (-0.6%) over the last 12 months, but no major growth stimuli are evident. Prospects for the apartment newbuild sector – where construction permits are some 7.6% below the prior-year level based on planned investment volumes – remain gloomy. By contrast, the volume of planning applications submitted for refurbishment, finishing, and renovation in 2022 amounted to some CHF 14.5 billion – the highest level since the first survey in 1995.

Situation in the finishing industry

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

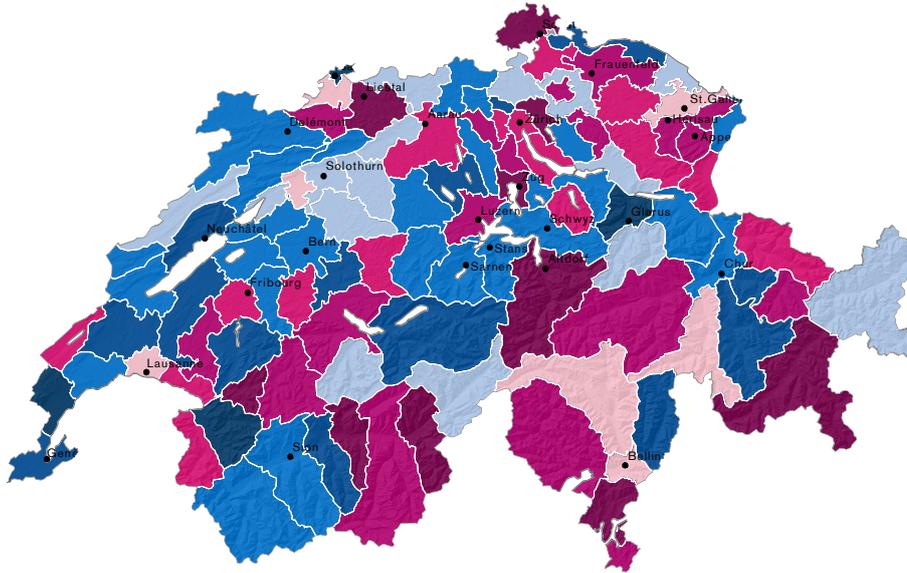


Work on existing housing stock to act as prop

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 2023, the finishing index is set to record a 1.3% quarter-on-quarter decline, but remains 5.4% above the level of the prior-year quarter. The evident slowdown in the construction of new residential and commercial property is increasingly likely to feed through into the sales of the finishing trade. At the same time, we are expecting persistently high demand for refurbishments, extensions, and renovation (cf. next page). Energy-related renovations in particular can be expected to remain popular. A particularly striking development is the boom in heat pumps and photovoltaic systems. According to industry associations, more than twice as many heat pumps were sold in 2022 compared to five years ago, while the sales of photovoltaic modules are likely to have increased almost fourfold.

Regional demand focus in building construction

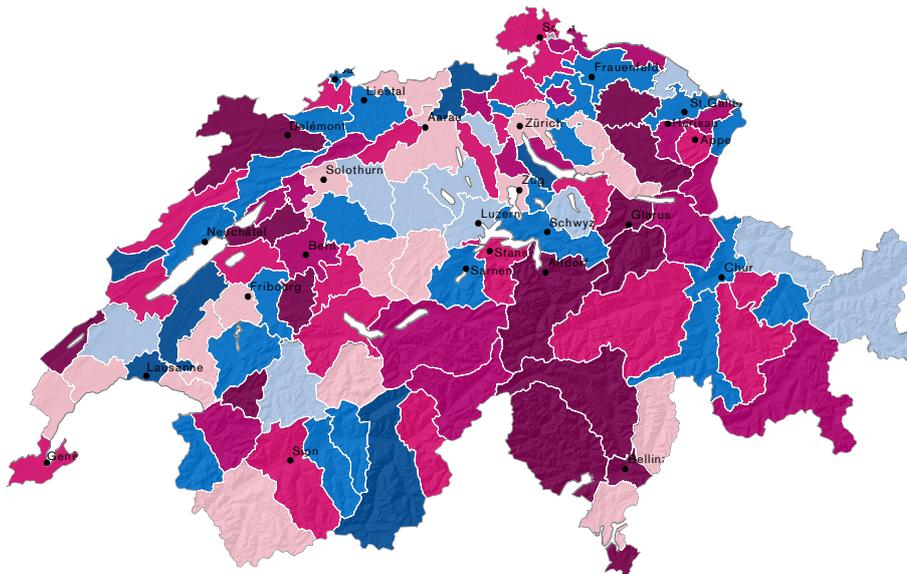
Applications for new-build projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



Newbuild projects: spatial focus

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. Project planning activity across Switzerland as a whole over the last six months encompassed a volume of CHF 18.9 billion, or 3.5% above the 10-year average. Nonetheless, a narrow majority of 59 of Switzerland's 110 economic regions recorded below-average investment volumes. One striking development is the low level of activity along the Jura arc from Delsberg to Geneva. By contrast, above-average planning activity is apparent in the Zurich and Basel conurbations, the Upper Valais, and – following a temporary decline – Ticino. In October 2022, the planning application was submitted for a major project involving mixed use as part of the “Nuovo Quartiere Cornaredo” district planning in Lugano (planned investment volume: CHF 350 million). Further growth is also likely in the Swiss Alps Resort in Andermatt, where CHF 155 million is to be invested in a further hotel project.

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



Refurbishment projects: spatial focus

The volume of refurbishment applications submitted over the last six months, amounted to CHF 7.0 billion, 14.9% higher than the 10-year average. A majority of 70 of the 110 regions saw above-average levels of planning activity in connection with refurbishment and renovation projects. As the supply of newbuild properties remains low and incapable of meeting demand, considerable investment is being channeled into existing housing stock. This effect is particularly pronounced in certain tourist regions. As Switzerland's Second Homes Act greatly restricts the supply of vacation homes, existing properties are often refurbished for this purpose, which at the same time drives up prices. For example, a number of regions in Canton Graubünden and in central Switzerland recorded double-digit price growth for both principal and second homes. Another driver of construction volumes in the area of refurbishment and renovation is that of energy-related renovations, which have become a more urgent issue for many homeowners in view of the dramatic increases in energy prices. The data derived from planning applications is even likely to be underestimating demand here, not least because replacement heating systems do not always require official approval, depending on the situation and the municipality.

*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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