

Swiss Construction Index

Index as of Q2 2022: 152 points

Change on previous quarter: +2.7%

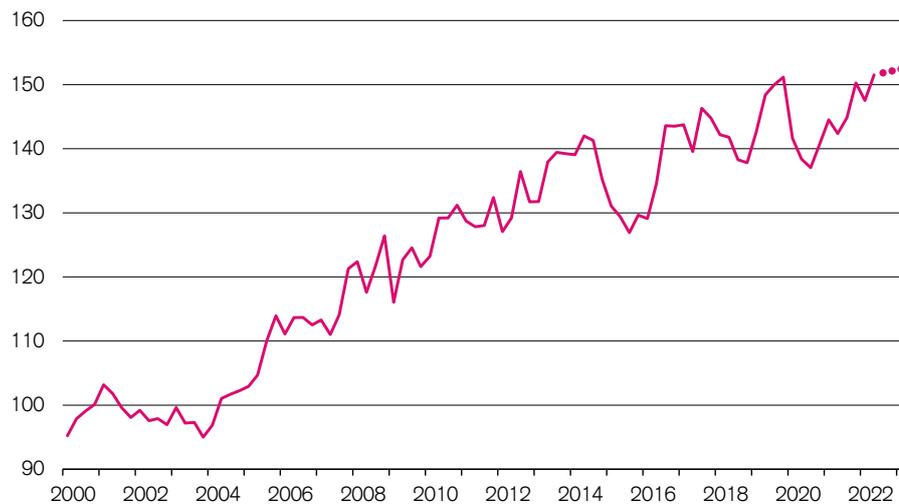
Change on same quarter in previous year: +6.4%



Q2 2022

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 second quarter 2022, the SCA quarterly survey provides detailed information on the first 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/ch/en/unternehmen/unternehmen-unternehmer/publikationen.html>

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>

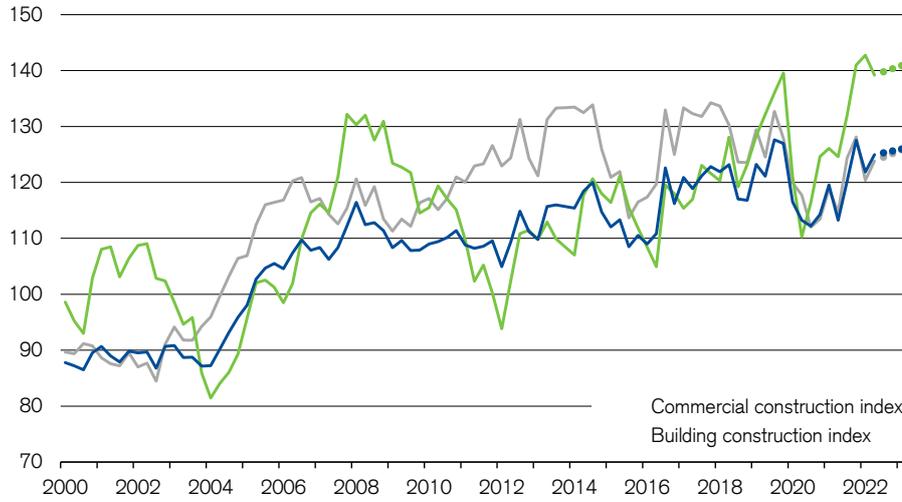
Construction material prices and interest rates as greatest challenges

The construction index has risen in the second quarter of 2022. When adjusted for seasonal and calendar effects, we are expecting the sales of the main construction trade to have recorded a quarter-on-quarter increase of 2.7%. New orders remain at high levels, and the recovery from the coronavirus crisis is continuing. However, a significant proportion of the sales increase is likely to be attributable to higher construction prices rather than any increase in production. The war in Ukraine and lockdowns in China have made a variety of building materials both scarcer and costlier. Developers who cannot pass these additional costs on to their clients are threatened with an erosion of profit margins. At the same time, current geopolitical developments and the sharp rise in energy costs could further strengthen the current refurbishment and renovation boom. There has also been plenty of movement in the interest rate landscape over the last few weeks. Due to rising inflationary pressure worldwide, the yield curve has steepened in Switzerland too, and fixed mortgage interest rates have risen sharply since the start of the year. In the wake of this development, the Swiss National Bank could raise its key interest rate as soon as December this year and follow up with two further rate hikes in 2023. In the medium term, this could weigh on the current high price growth of residential property and reduce the appeal of real estate investments.

Year:	2021								2022		Forecast turnover growth compared to		
	Quarter:								I	II	1st Q 2022	2nd Q 2021	
	II	III	IV	I	II	III	IV						
Construction index	138	137	141	145	142	145	150	148	152	+2.7%	↗	+6.4%	↗
Building construction index	113	112	114	120	113	120	128	122	125	+2.5%	↗	+10.4%	↗
Residential construction	118	112	113	119	115	124	128	120	124	+2.8%	↗	+7.9%	↗
Commercial construction	110	116	125	126	125	132	141	143	139	-2.5%	↘	+11.7%	↗
Civil engineering index	175	173	179	181	185	180	183	185	190	+2.9%	↗	+2.9%	↗

Development of the sub-indicators

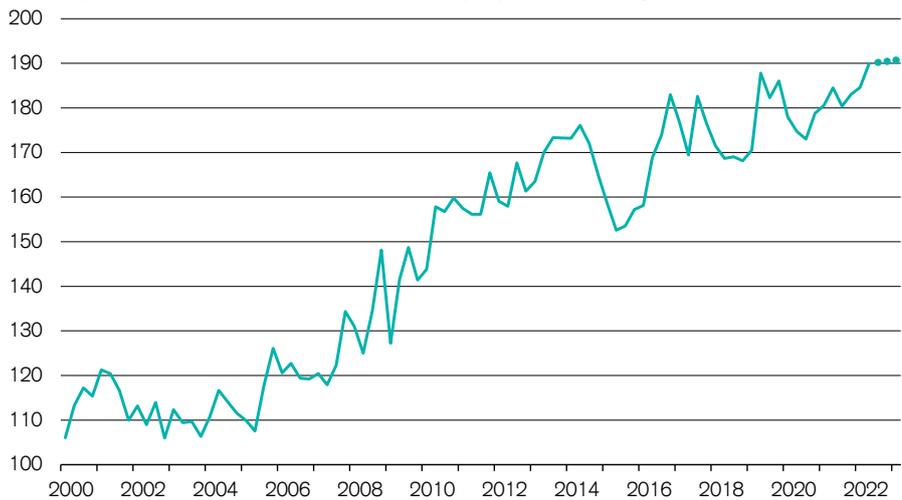
Building construction index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



Refurbishment projects prop up residential construction

In the second quarter of 2022, the building construction index is set to record a 2.5% quarter-on-quarter increase. The key drivers of this rise are residential construction (+2.8%) and public sector building construction (+14.9%), whereas commercial construction should fall back slightly (-2.5%), albeit from a high level. We are expecting slightly positive momentum for both residential and commercial construction in the medium term, although this is likely to be driven mainly by rising construction prices rather than rising production volumes. By contrast, the newbuild business continues to decline. Over the last 12 months, 6% fewer residential buildings received construction approval than in the preceding year. However, this decline is being at least partly compensated by rising volumes of construction work involving existing buildings. Furthermore, an imminent rise in the number of planning applications for new single-family homes is apparent after many years of decline.

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

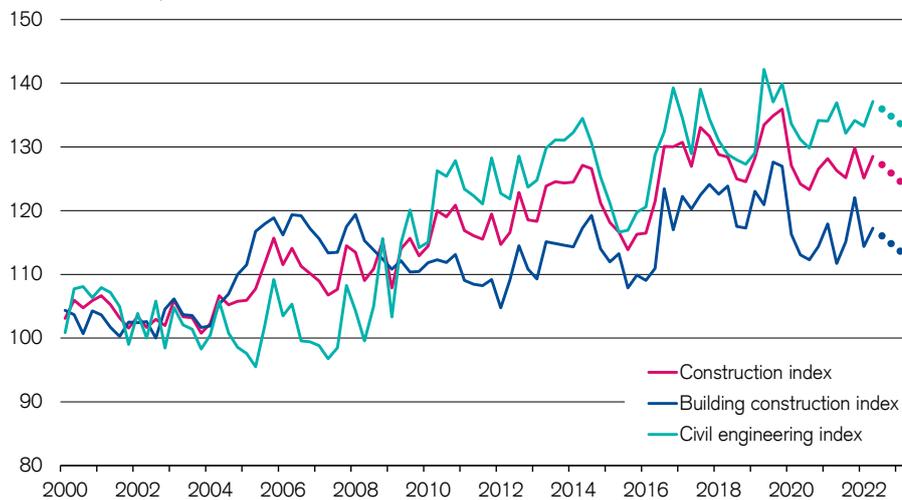


Construction prices rise in civil engineering too

Seasonally-adjusted civil engineering sales are likely to record a quarter-on-quarter rise of 2.9% in the second quarter of 2022. New orders for new civil engineering projects are currently at a high level, with major fluctuations exhibiting a sideways trend overall. Construction price inflation, which had less of an impact on civil engineering than on building construction last year, is likely to become an increasing theme, resulting in sales growing more strongly than production. Due to the war in Ukraine, various key products for civil engineering such as bitumen (price growth of 31% in last year), fuel (+35%), and metals have appreciated strongly recently. According to the KBOB material prices index, the prices of construction materials for civil engineering can be expected to have risen by 16% over the last year (building construction: 18%).

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

Q1 1999 = 100, points = trend outlook

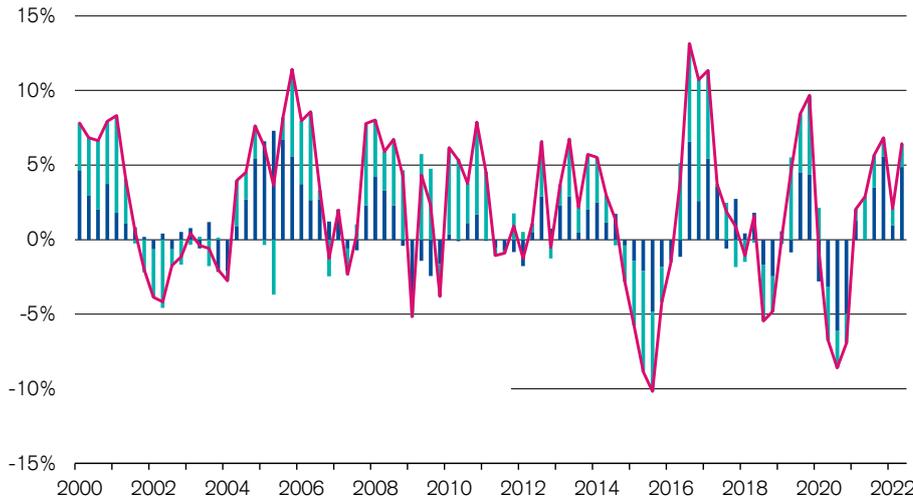


Unbroken rise in construction prices

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 2021 construction prices recorded a year-on-year rise of 4.1% (building construction: +4.6%, civil engineering: +2.4%) – the strongest rise since record-keeping began in 1998. Moreover, there is no relaxation of construction price inflation in sight. Quite the opposite: Large-scale coronavirus lockdowns in China and the war in Ukraine have intensified supply chain problems further, and the prices of various construction materials have shot into the stratosphere. For example, the price of reinforcing steel has risen by 136% since 2019. Strong price rises have also been recorded recently for other metal products, fuels, and bitumen. The inflation of construction prices can be expected to continue this year. The growth in sales (nominal development) is therefore currently much greater than the increase in actual production (real development).

Construction index year-on-year

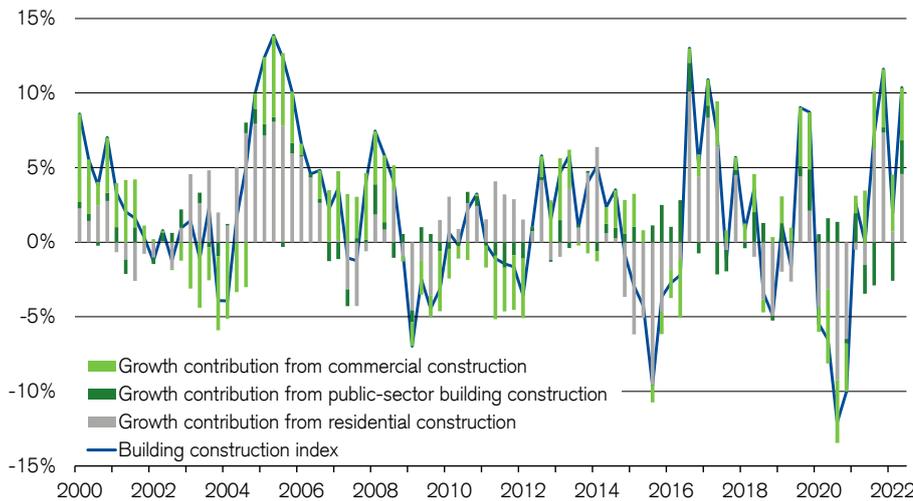
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Powerful nominal sales growth

The construction index is set to record a 6.4% increase in the second quarter of 2022 compared to the prior-year quarter. We are expecting higher nominal sales in both civil engineering (+2.9%) and building construction (+10.4%). Both new orders and the order backlog are therefore at promising levels, particularly in building construction, and in the area of public sector building construction they have risen significantly. Overall, the sales are likely to rise further over the next few quarters, not least due to the striking price increases of various construction materials. However, the repercussions of price growth for sales cannot be precisely quantified on the basis of new orders and the order backlog. As the prices of many construction materials remain binding for only a very short time, the degree to which higher costs can be passed on will depend on (among other things) the fine print of agreements between building contractors and their clients.

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

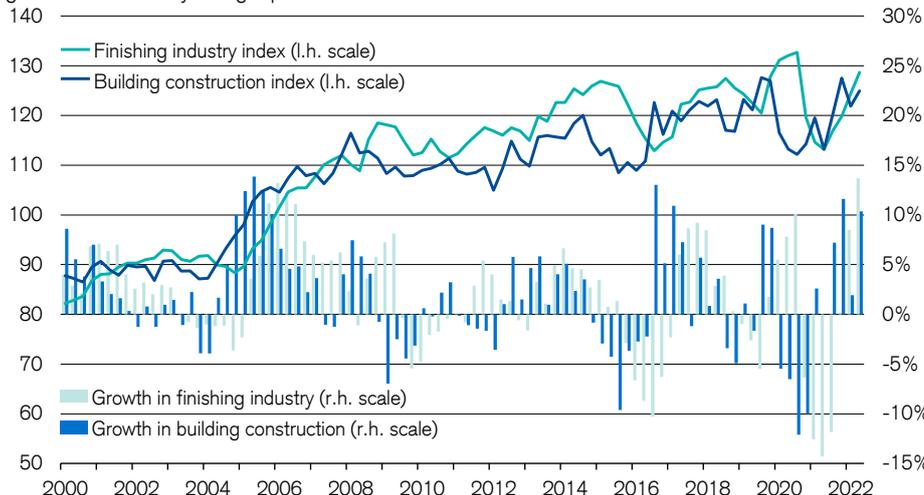


Growth thanks to existing building construction

The building construction index is 10.4% up year-on-year in the second quarter of 2022. This growth can be seen in all three construction segments: commercial (+11.7%), residential (+7.9%), and public sector buildings (+18.5%). In the medium term, there is no reason to expect a trend reversal. Overall, the volume of approved building construction projects has risen by 5% over the last 12 months, with the rise in newly submitted planning applications being as high as 6%. Much of this rise is due to work on existing buildings. The volume of planning applications submitted for refurbishment, finishing, and renovation amounted to some CHF 13.7 billion – the highest level since the first survey in 1995. The number of logistics real estate projects being planned remains striking. Due to the sharp growth of online trading as a result of the pandemic, many retailers and logistics companies need more space. In December, for example, Swiss Post submitted an application for the construction of a new logistics center in Villmergen, Aargau (construction cost: CHF 63 million).

Situation in the finishing industry

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

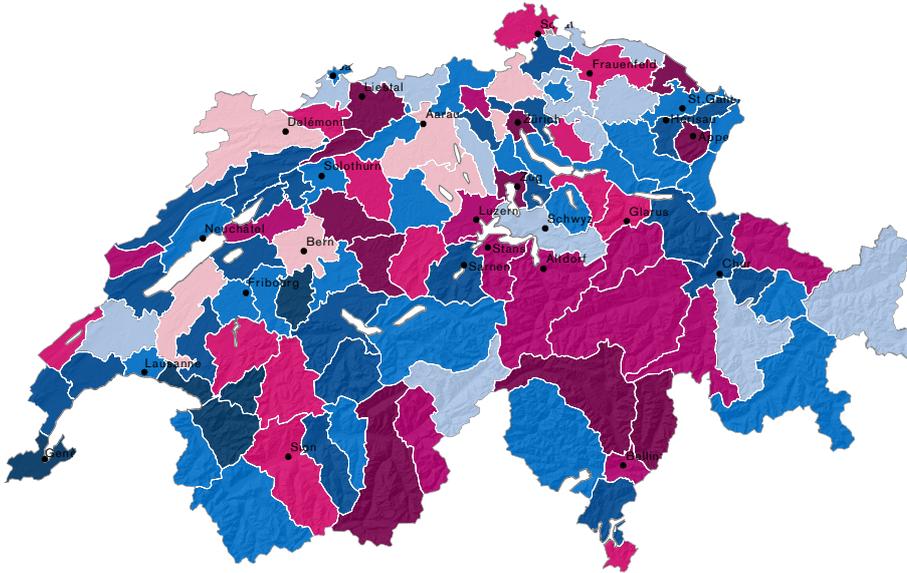


Higher energy costs give a boost to renovations

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 second quarter of 2022, the finishing index exhibits a quarter-quarter rise of 3.4%, leaving it 13.7% above the level of the prior-year quarter. The upward trend can be expected to continue over the next few quarters, above all due to high investment volumes in planning applications for projects in the area of refurbishment, finishing, and renovation (cf. next page). Energy-related renovations in particular can be expected to remain popular. With the ongoing war in Ukraine and the associated sharp rise in energy costs, the commercial imperative for such investments is rising, as is the idealistic urge to reduce the use of fossil fuels and build up energy self-sufficiency.

Regional demand focus in building construction

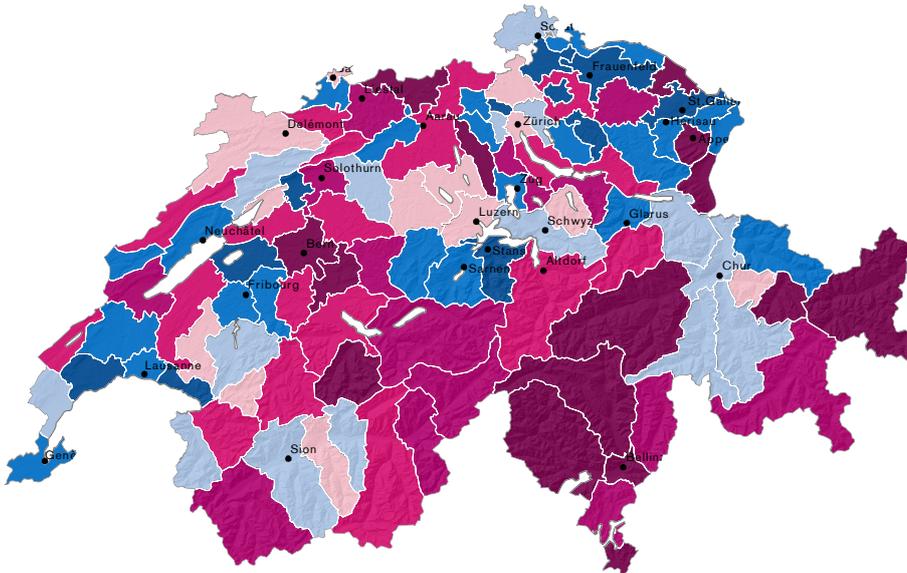
Applications for new-build projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



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. Projected activity across Switzerland over the last six months has declined to a volume of CHF 18.1 bn, 2.2% below the ten-year average, with 67 of Switzerland's 110 economic regions recording below-average investment volumes. The dearth of planning activity is particularly striking to the north of Lake Geneva, although many projects have been implemented here in recent years, some of which are yet to complete. Hotspots in this respect include the municipalities to the west of Lausanne. In the municipality of Prilly in particular, another large project is being realized: The Tilia Tower, to be built at the cost of CHF 109 million, will comprise not just 221 apartments but also a hotel and various commercial and leisure premises.

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 submitted refurbishment applications amounted to CHF 6.5 million in total over the last six months, which is 8.7% above the 10-year average. The volume of planned activity in conversion and renovation projects has exhibited above-average growth in 63 of the 110 regions. Even a number of rather less centrally located regions such as the north-west Mittelland and the Jura arc are currently experiencing increased demand for refurbishment and finishing work. As the supply of newbuild properties remains subdued and unable to meet demand, many investments are being channeled into existing stock. This effect is particularly pronounced in tourist regions, where the Second Homes Act restricts the supply of newbuild property. This is also reflected in the strong growth of owner-occupied property prices. The surge in second home prices has been particularly striking. Over the last 12 months, condominiums used as second homes in the Alpine region recorded price growth of 13.9%, with the prices of single-family homes rising by as much as 17.5%. 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.

*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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