

Swiss Construction Index

Index as of Q2 2023: 153 points

Change on previous quarter: -2.4%

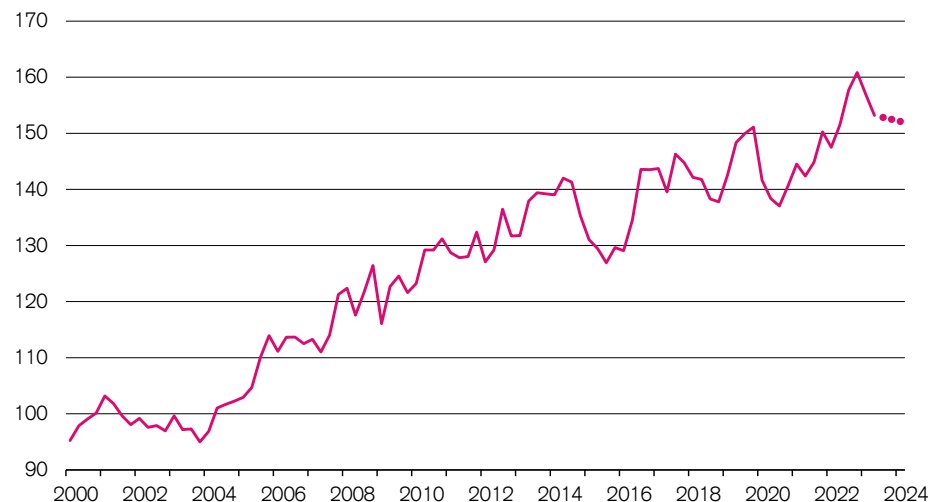
Change on same quarter in previous year: +1.1%



Q2 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 second quarter of 2023, the SCA quarterly survey provides detailed information on the first quarter of 2023.

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Peak of sales development passed for now

In the second quarter of 2023, the Construction Index has recorded a slight year-on-year rise of 1.1%. When adjusted for seasonal and calendar effects, however, we expect the sales of the main construction trade to have fallen a further 2.4% compared to the prior quarter. This is due to civil engineering, which is likely to have receded by 6.3% from a high level. Viewed on an annual basis, residential construction is also likely to have declined. Building material prices, which greatly inflated nominal sales over the last few quarters, have recently fallen below their prior-year level. By contrast, the shortage of specialist labor, which is now likely to be the greatest obstacle to construction industry performance, shows no sign of abating. The financing of construction projects should also become more expensive over the coming months, as we expect the SNB to push through further interest rate rises in June and September, potentially taking the key rate to 2.25%. There is still no trend reversal apparent in new apartment construction, which is increasingly unable to keep step with demand. As a result, a widespread shortage of housing is looming, and this issue is now a red flag at all political levels. Measures are needed that can make residential construction more attractive once again and accelerate the required densification trend, particularly in urban centers and their surrounding areas. However, it is likely to be quite a while before any concrete measures are taken and their effect is felt.

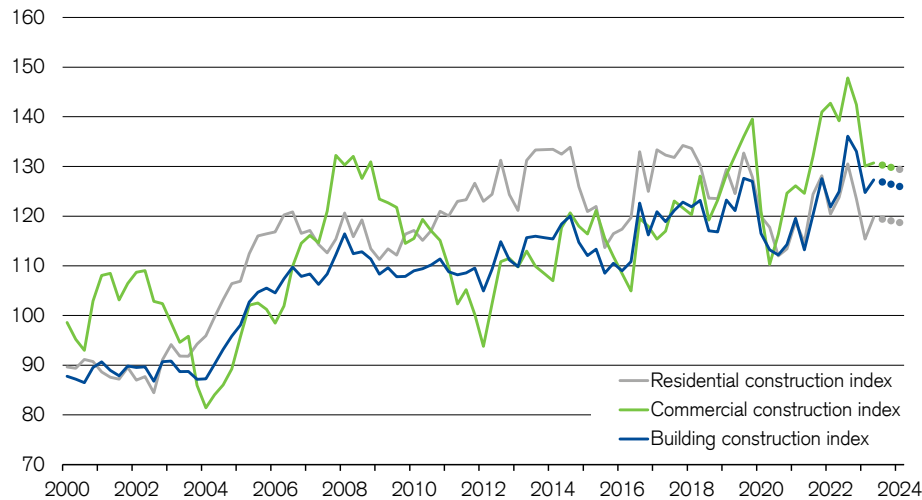
The Construction Index appears on a quarterly basis. It can be obtained from Credit Suisse free of charge:
<https://www.credit-suisse.com/swissrealestate>

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>

| Year: | 2021 | | | 2022 | | | | 2023 | | Forecast turnover growth compared to | | |
|-----------------------------|------|-----|-----|------|-----|-----|-----|------|-----|--------------------------------------|------------|--|
| Quarter: | II | III | IV | I | II | III | IV | I | II | 1st Q 2023 | 2nd Q 2022 | |
| Construction index | 142 | 145 | 150 | 148 | 152 | 158 | 161 | 157 | 153 | -2.4% ↘ | +1.1% ↗ | |
| Building construction index | 113 | 120 | 128 | 122 | 125 | 136 | 133 | 125 | 127 | +2.1% ↗ | +1.9% ↗ | |
| Residential construction | 115 | 124 | 128 | 120 | 124 | 130 | 123 | 115 | 120 | +3.8% ↗ | -3.3% ↘ | |
| Commercial construction | 125 | 132 | 141 | 143 | 139 | 148 | 142 | 130 | 131 | +0.5% → | -6.1% ↘ | |
| Civil engineering index | 185 | 180 | 183 | 185 | 190 | 189 | 201 | 203 | 191 | -6.3% ↘ | +0.4% → | |

Development of the sub-indicators

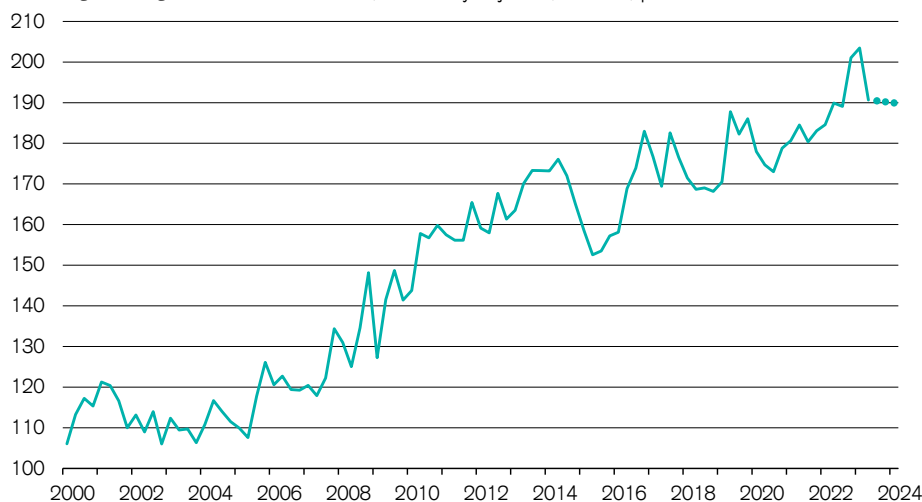
Building construction index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



Public sector building construction as prop

In the second quarter of 2023 the building construction index is set to record a quarter-on-quarter rise of 2.1%. The key driver here is residential construction (+3.8%). Public-sector building construction sales are likely to stagnate at a high level, with a number of large projects still being initiated. For example, construction approval was issued in April for a new children's hospital/women's clinic at Lucerne Cantonal Hospital. With an investment volume of around CHF 190 million, this project is due to complete in 2026. There is still little momentum in new apartment construction. In commercial construction, the main stimuli continue to come from special properties such as logistics and data centers. At the same time, the 12-month total for building permits for new office space has slumped to a 20-year low. By contrast, the trend for investment in existing housing stock is upward. The key drivers here are likely to be the increasing focus on sustainability, along with changed requirements of office space in an era of multilocational working.

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

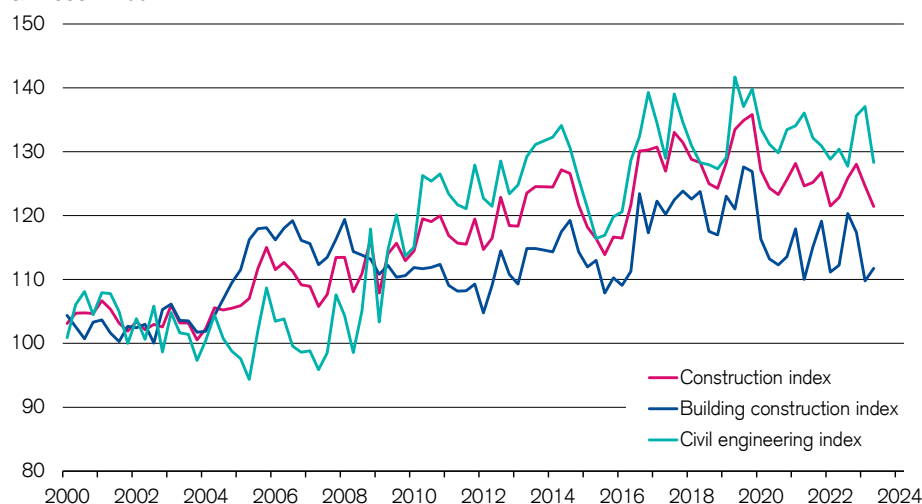


Civil engineering loses steam

The seasonally adjusted sales of the civil engineering sector are set to record a quarter-on-quarter decline in the second quarter of 2023 (-6.3%). New orders have weakened slightly recently, but the pipeline remains well filled. However, much of the sales growth of recent quarters was down to rising prices. That said, construction price inflation is likely to have now peaked (cf. below). The longer-term need for investment remains high, particularly for infrastructure. According to official road traffic projections, in the absence of countermeasures, 20% of the national road network is at risk of being regularly overburdened by 2040. At the same time, the deterioration of public finances in the wake of the pandemic is increasing the pressure to make savings. For example, the Federal Council has proposed a temporary reduction in railway infrastructure fund contributions. As things stand, however, the financing of impending major projects in rail and road networks does not look under threat.

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

Q1 1999 = 100

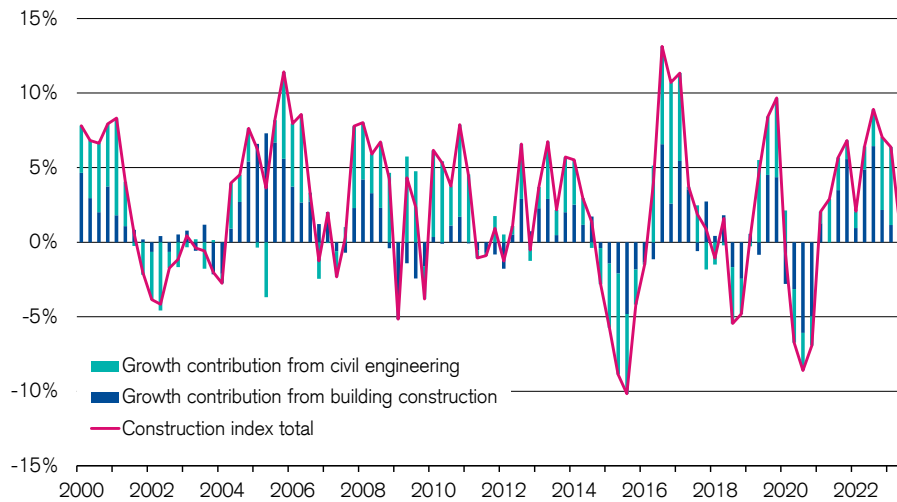


Construction prices set to ease

Adjusting the construction index to take account of construction price inflation since 1999 (FSO) 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. However, easing global supply chain problems and the ailing global economy have weakened the momentum of prices for key construction materials (e.g. metal products and bitumen). According to the KBOB, material costs for building construction were 1.8% below the prior-year level in April 2023. The decline in civil engineering was as much as 3.8%.

Construction index year-on-year

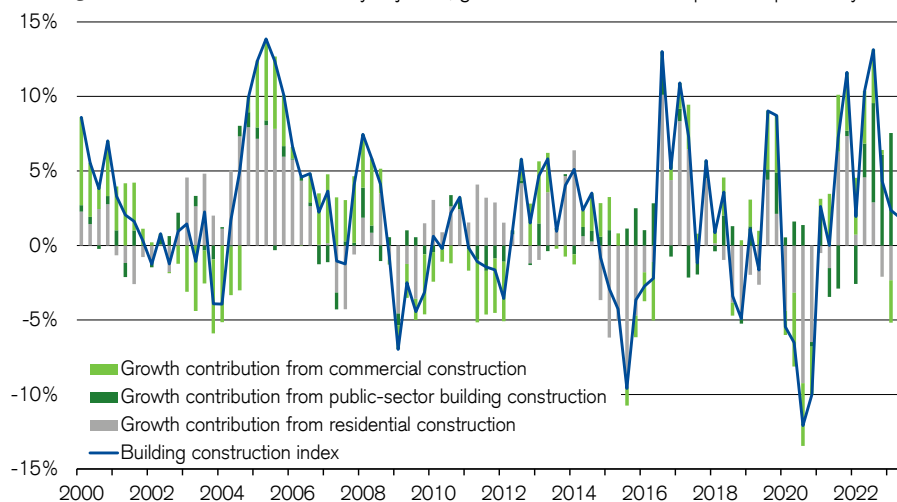
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Sales growth wanes

The construction index is set to record a further 1.1% year-on-year increase in the second quarter of 2023. We expect higher nominal sales in both civil engineering (+0.4%) and building construction (+1.9%). Order backlogs remain at healthy levels in both segments, whereas new orders have fallen back somewhat recently. 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 though not all price rises will have been passed on to clients fully, construction material prices are likely to explain a significant proportion of the sales growth of recent quarters. 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

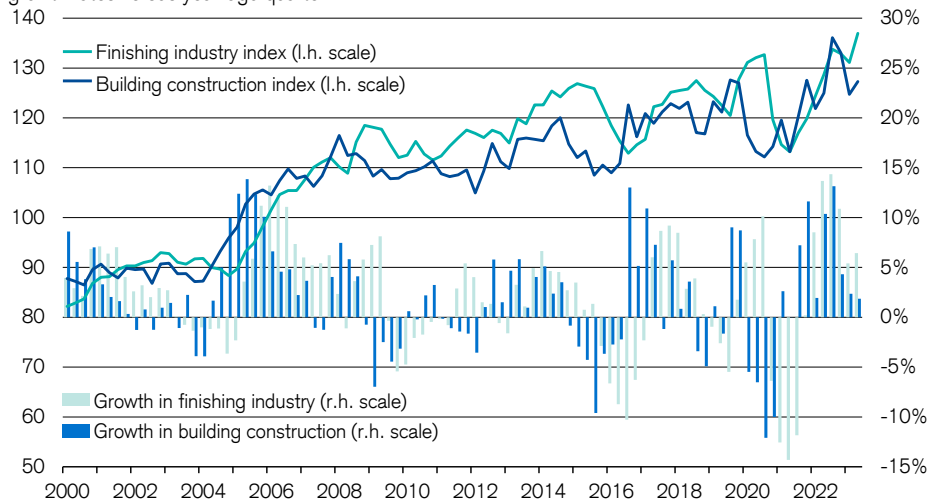


Sales driven by public building construction

In the second quarter of 2023, the building construction index is still 1.9% higher than in the prior-year quarter. This increase is wholly attributable to public-sector building construction (+42.5%), whereas a decline is expected for commercial (-6.1%) and residential construction (-3.3%). The picture going forward looks solid based on the volume of building projects to have received construction approval (+3.6%) or for which planning applications have been submitted (+3.7%) over the last 12 months, but no major growth stimuli are evident. Prospects for the apartment newbuild sector – where construction permits are some 6.4% below the prior-year level based on planned investment volumes – remain gloomy. For the time being, the main props for building construction will remain public sector buildings and the refurbishment, finishing, and renovations area (cf. below).

Situation in the finishing industry

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

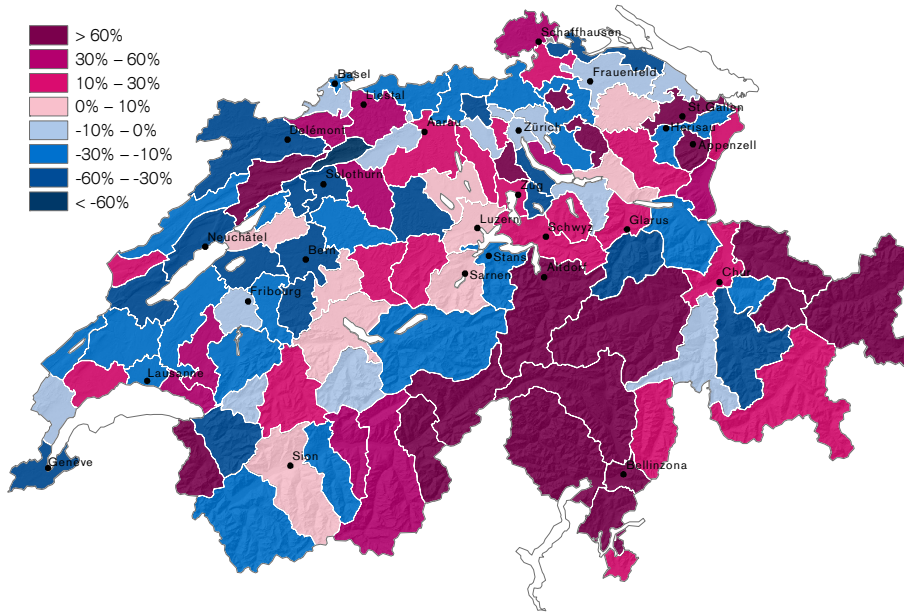


Sustainability as driver

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 2023, the finishing index is set to record a 4.4% quarter-on-quarter rise, putting it 6.4% 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). The Climate Protection Act, which the Swiss electorate is set to vote on in mid-June, could provide additional stimulus here. Among other things, this legislation envisages additional subsidies for energy-related renovations and heating system replacements. An acceleration of renovation cycles is urgently required if the target of climate-neutral housing stock in Switzerland by 2050 is to be met.

Regional demand focus in building construction

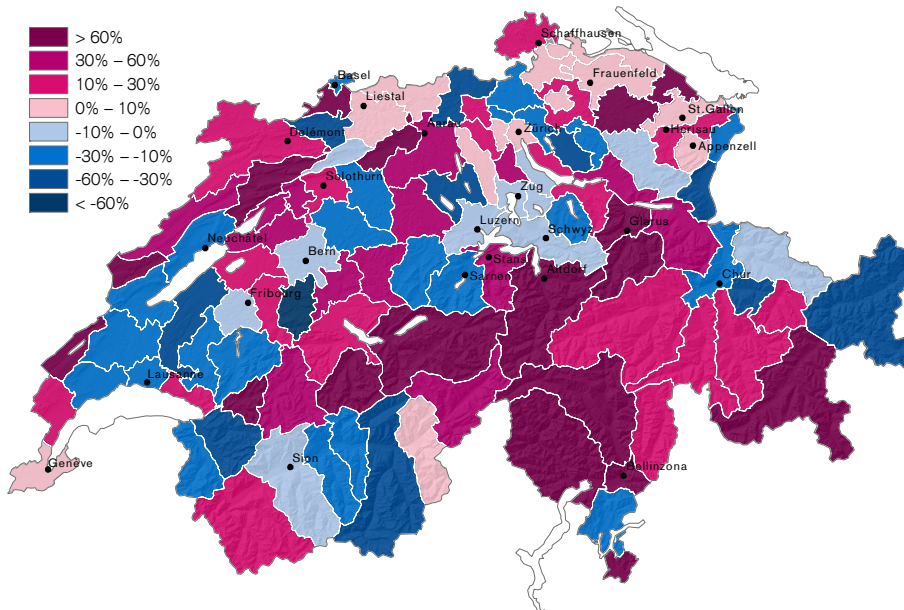
Applications for new-build projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



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 19.7 billion, or 8.5% above the 10-year average. Nonetheless, 54 of Switzerland's 110 economic regions recorded below-average investment volumes. One striking aspect is the low level of planning activity in large parts of French-speaking Switzerland. There have also been fewer recent applications submitted for newbuild projects in many areas of the region between Zurich and Basel. By contrast, above-average planning activity is evident in Ticino and the Upper Valais, as well as parts of Graubünden and central Switzerland. In February 2023, SBB submitted a planning application for a new maintenance center in Castione near Bellinzona. This major project, which encompasses an area of 62,000 m², is to be implemented by 2026, with a planned investment volume of CHF 580 million.

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 7.1 billion, 16.2% higher than the 10-year average. A majority of 65 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. Although price growth has slowed recently in many tourist regions too, prices exhibited above-average strength in tourist municipalities once again in the first quarter of 2023. 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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