

# Swiss Construction Index

Index as of Q3 2021: 145 points

Change on previous quarter: +1.7%

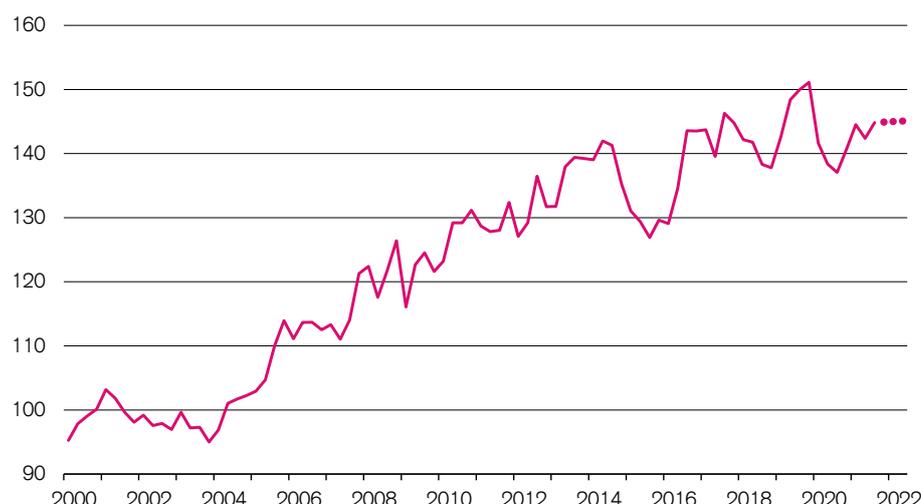
Change on same quarter in previous year: +5.7%



Q3 2021

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

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



## Recovery trend apparent despite obstacles

In the third quarter of 2021, the construction index is continuing its recovery trend. When adjusted for seasonal and calendar effects, we are expecting a sales increase of around 1.7% compared to the prior quarter. The main drivers of this growth are currently residential construction (+8.4%) and commercial construction (+6.0%). Both segments are currently exhibiting well-filled order books – not least because a backlog is likely to have built up as a result of restrictions and slumps in productivity during the pandemic. The healthy order situation points to a continuation of the recovery trajectory for the time being. In the medium term, however, the volume of planning applications – particularly for apartment block newbuilds – points to a decline, whereas renovation projects can be expected to prove increasingly popular. The scarcity of a number of key construction materials remains the greatest risk factor. This is now also reflected in construction prices, which according to the Swiss Federal Statistical Office have now risen by 1.2% year on year, following almost a decade of stagnation. In a number of areas, such as timber construction, price increases have even been significantly greater. As the situation has recently become rather more problematic, the trend of higher costs and construction delays is likely to continue for now. This presents the construction industry with the challenge of passing on these additional costs to avoid further erosion of what are already low profit margins, despite fierce competition.

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 third quarter 2021, the SCA quarterly survey provides detailed information on the second quarter of 2021.

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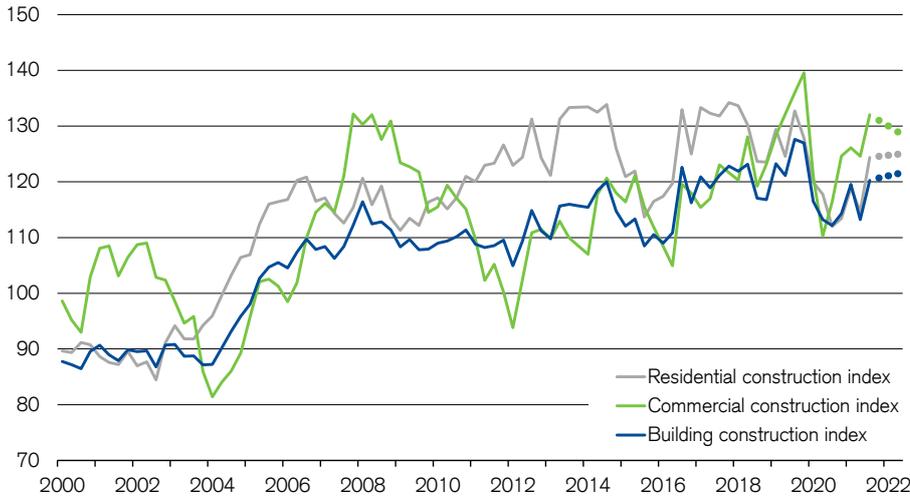
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Detailed results of the SCA quarterly survey, which is published at the same time as the construction index, together with further facts and figures on the main construction trade, can be found at <http://www.baumeister.ch/de/politik-wirtschaft/wirtschaftsdaten>

	Year:		2019				2020				2021			Forecast turnover growth compared to	
	Quarter:		III	IV	I	II	III	IV	I	II	III	2nd Q 2021	3rd Q 2020		
<b>Construction index</b>	150	151	142	138	137	141	145	142	<b>145</b>	<b>+1.7%</b>	↗	<b>+5.7%</b>	↗		
<b>Building construction index</b>	128	127	117	113	112	114	120	113	<b>120</b>	<b>+6.2%</b>	↗	<b>+7.2%</b>	↗		
Residential construction	133	128	120	118	112	113	119	115	<b>124</b>	<b>+8.4%</b>	↗	<b>+11.1%</b>	↗		
Commercial construction	136	140	121	110	116	125	126	125	<b>132</b>	<b>+6.0%</b>	↗	<b>+13.5%</b>	↗		
<b>Civil engineering index</b>	182	186	178	175	173	179	181	185	<b>180</b>	<b>-2.2%</b>	↘	<b>+4.2%</b>	↗		

**Development of the sub-indicators**

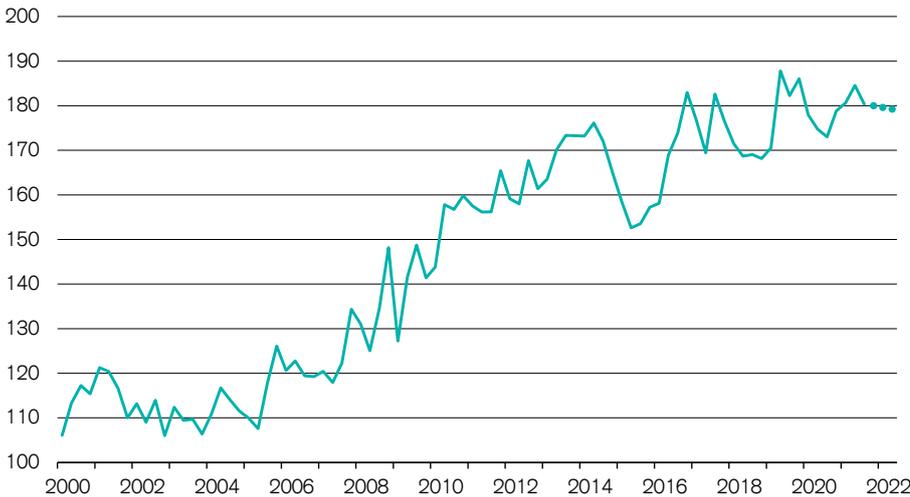
**Building construction index** Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



**Recovery trend continues**

In the third quarter of 2021, the building construction index increases by 6.2% compared to the prior quarter, and is being held back only by negative growth in public sector building construction (-3.4%). We are expecting significant sales increases in both residential construction (+8.4%) and commercial construction (+6.0%). As order books are bulging, it is very likely that this recovery trend will continue over the next few quarters. Supply problems and price increases in a number of construction materials have emerged as a particular risk recently. This risk is likely to continue to hover over the industry, since global supply chains continue to face restrictions and demand has picked up sharply as the post-pandemic recovery continues. According to the survey conducted by the KOF Swiss Economic Institute in June 2021, a majority of construction companies (58%) are now facing a shortage of construction materials.

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

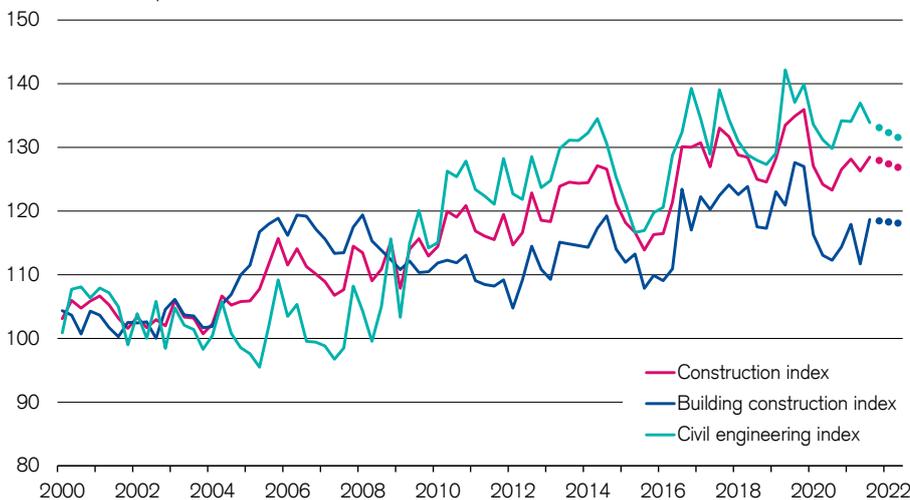


**Civil engineering looks solid**

Seasonally-adjusted civil engineering sales are likely to record a slight quarter-on-quarter decline in the third quarter of 2021 (-2.2%). However, the civil engineering industry has proved robust overall against the backdrop of the pandemic. Furthermore, public sector civil engineering continues to look healthy, as the need for newbuild investment and infrastructure maintenance remains high, and funding is to a large extent secured in this area by special financing arrangements. Transport infrastructure remains a key driver in this regard: For example, June 2021 saw the start of the total renovation of the main station in Lausanne, where around CHF 1.3 bn is due to be invested over the coming decade. Delays and price increases due to the shortage of certain construction materials have also been apparent in civil engineering, however. According to the construction price index published by the Swiss Federal Statistical Office, construction prices in the area of road-building, for example, have risen by 1.7% within a year.

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

Q1 1999 = 100, points = trend outlook

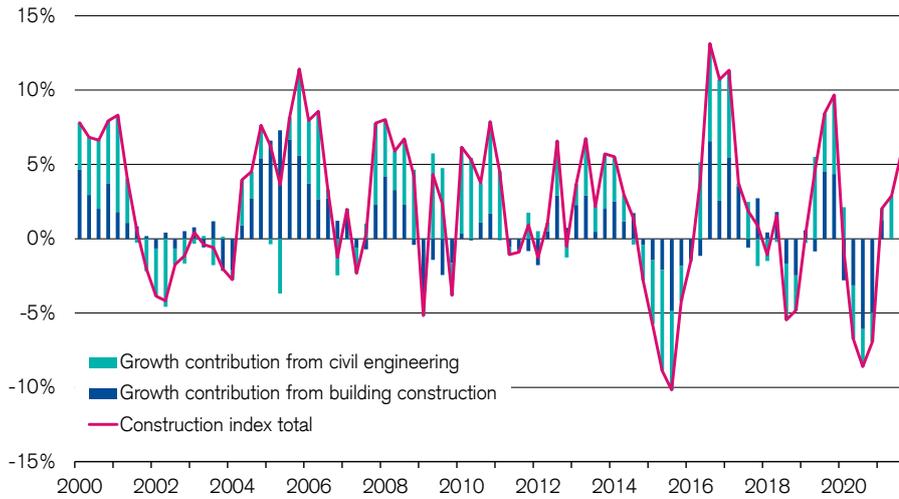


**Construction prices pick up**

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 increased by 1.2% overall – a rate not seen since 2011. Building construction and civil engineering projects have been equally affected by price rises. The main reason for the latest increases in construction prices, which come after many years of stagnation, is the global scarcity of certain building materials – a problem that has become accentuated in recent months and is likely to persist for a while. Timber construction and roofing projects have been particularly hard-hit. As a consequence, the development of production volume is currently proving rather weaker than sales growth. As profit margins in the main construction trade are low generally, the higher prices will have to be passed on to clients, at least in part.

**Construction index year-on-year**

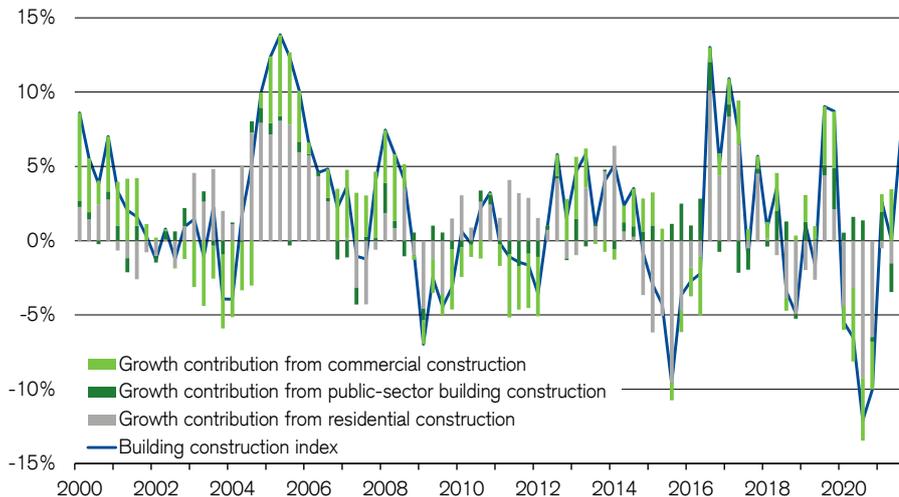
**Construction index**, seasonally adjusted, growth rates versus same quarter in previous year



**Construction economy gathers momentum**

In the third quarter of 2021, the construction index increases by 5.7% compared to the prior-year quarter. The civil engineering segment, which was little affected by pandemic-related declines in sales in the previous year, rose by 4.2%, while we are anticipating a year-on-year sales increase of 7.2% for building construction. Overall, it is likely that the sales threshold of CHF 20 bn will once again be reached in 2021, though the pre-coronavirus level of CHF 20.7 bn (2019) looks to be out of reach for now. Where building construction is concerned, building permit issuance actually points to a slight decline in sales in the medium term (H1 2021: -2% compared to prior-year period). That said, as orders on hand remain healthy in all segments, any decline is likely to be some way off. Moreover, newly projected building construction volumes (mainly in the renovation area) have recently increased somewhat (cf. next page).

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

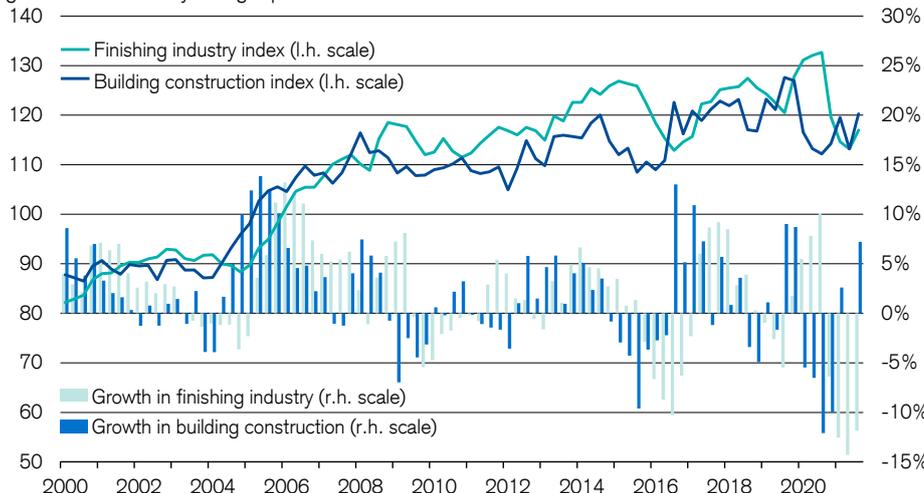


**Interim high in residential construction**

Within the resurgent building construction segment (+7.2% compared to prior-year quarter), the recently ailing residential construction area in particular has rebounded (+ 11.1%). This growth is likely to be partly due to catch-up effects: As a result of the pandemic, there were delays to construction approval processes and project planning. Project pipelines are therefore full to overflowing. However, the medium-term and long-term trend is downward: The value of planned construction volumes as per planning applications over the last 12 months is 4.8% below the level of the prior-year period. The decline is particularly attributable to developments in rental apartment newbuilds, where developers are gradually scaling back their ambitions after years of over-production. While the recovery trajectory is likely to continue in commercial construction too in the near future (+13.5%), public sector construction is declining sharply (-19.6%). That said, healthy-looking order books suggest that the latter is set to recover: For example, work commenced on the new main building of Aarau Cantonal Hospital in August, where CHF 563 mn is to be invested between now and 2025.

**Situation in the finishing industry**

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

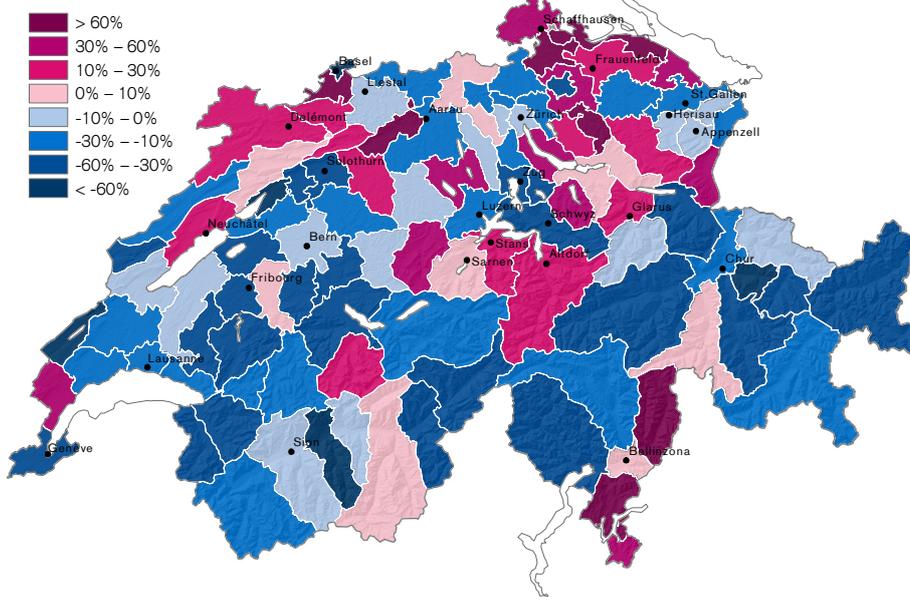


**Recovery reaches finishing trade**

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 third quarter of 2021, the finishing index points to a quarter-on-quarter rise of 3.4%, which still leaves it 11.8% below the prior-year quarter. The recovery can be expected to continue over the next few quarters, above all due to the recent resurgence in planning applications for projects in the area of refurbishment, finishing, and renovation (cf. next page). Energy-related renovations can also be expected to remain in demand in the longer term, despite the electorate's rejection of the total revision of the CO<sub>2</sub> Act.

**Regional demand focus in building construction**

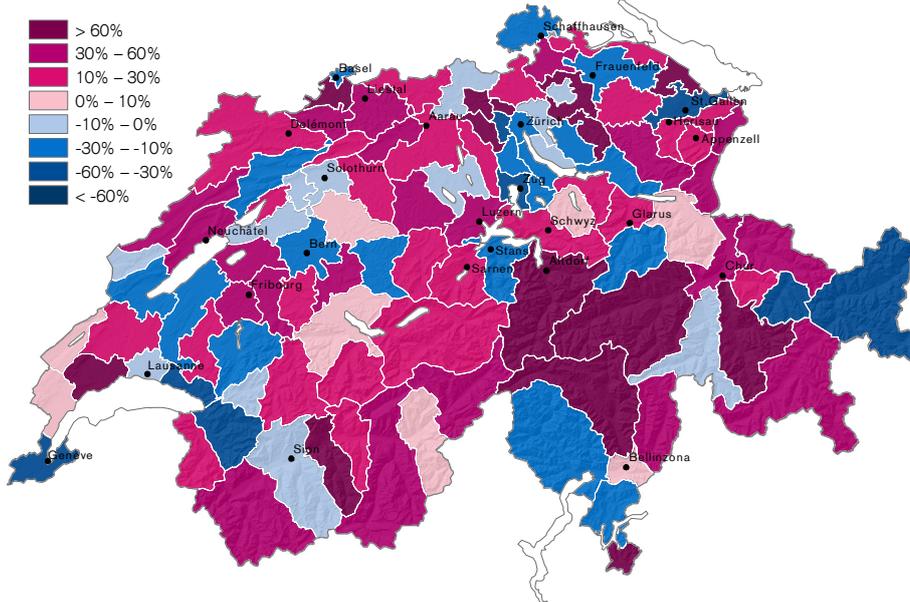
**Applications for new-build projects:** deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region\*



**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 across Switzerland over the last six months equates to a volume of CHF 17.6 bn. Although this figure is slightly above the level of the prior-year period (+0.5%), it is 4.4% below the average of the last 10 years. A striking aspect here is the low recent volume of planned newbuilds in and around a majority of Switzerland's large and medium-sized centers. A decline in commercial construction planning is likely to be one of the drivers of this development – the volume of submitted planning applications for new office space recorded a year-on-year decline of 24% in the first semester. By contrast, planning activity appears to be brisk in parts of the north-western Mittelland, Cantons Schaffhausen and Thurgau, on Lake Zurich, as well as in a number of central Swiss regions and parts of Ticino.

**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 recently increased significantly. This amounts to CHF 6.6 billion over the last six months, which is 10.9% higher than the 10-year average. The volume of planned activity in refurbishment and renovation projects was above average in 70 of the 110 regions. Notable exceptions here include the regions that are home to the main urban centers, but also the Lake Zug/Lake Zurich area. By contrast, a number of rather less centrally located regions such as the north-west Mittelland and the Jura are currently experiencing increased demand for refurbishment and finishing work. This is likely to be attributable in part to the coronavirus crisis: In the wake of the pandemic, demand for residential property has risen. At the same time, the greater proportion of time spent working from home means that many buyers can increase their search radius. But as the supply of newbuild properties remains very modest, considerable investment is likely to find its way into existing stock. This effect is even more pronounced in a number of tourist regions, where the Second Homes Act limits the supply of newbuilds. This is partly also reflected in the strong price growth of owner-occupied property. In a number of regions of Graubünden, for example, prices of residential property have risen by as much as 10% year-on-year or more

\*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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