

# Swiss Construction Index

Index as of Q3 2022: **158 points**

Change on previous quarter: +4.1%



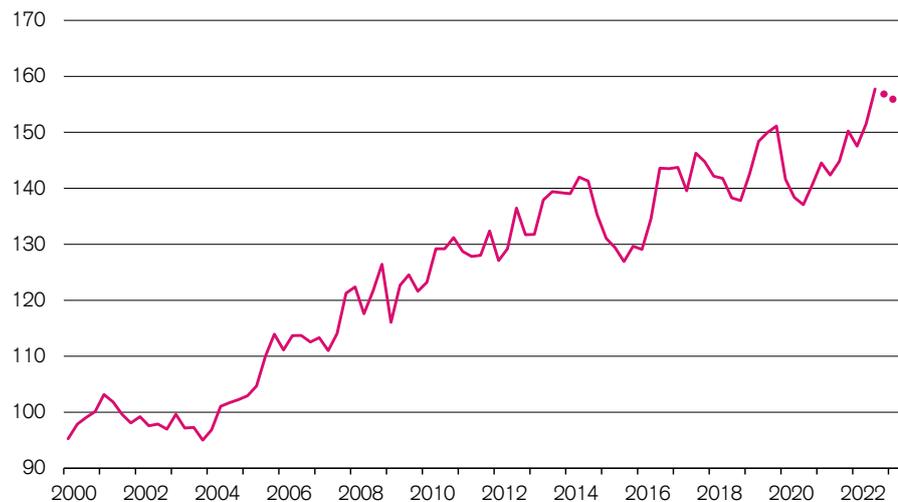
Change on same quarter in previous year: +8.9%



Q3 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 third quarter 2022, the SCA quarterly survey provides detailed information on the second 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>

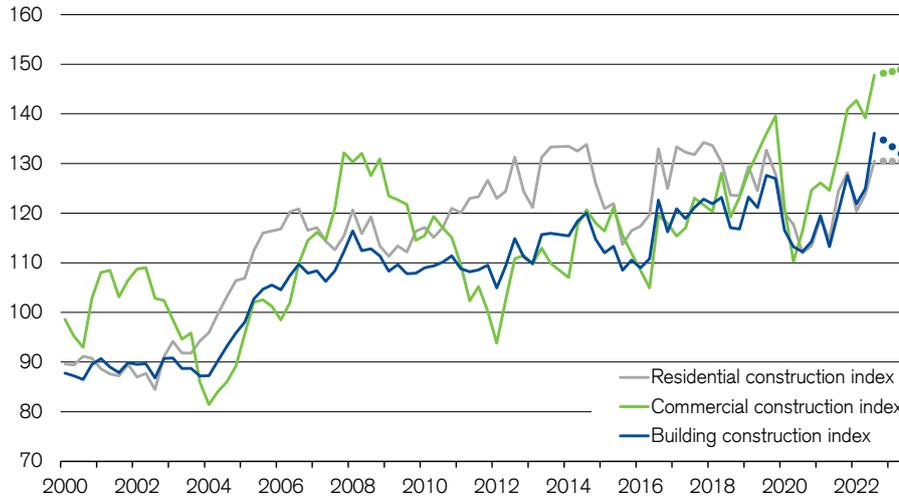
## Record-high construction inflation drives sales growth

In the third quarter of 2022, the construction index has recorded a further rise to a new high of 158 points. 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 4.1%. However, this significant increase glosses over the economic situation of the industry. On the one hand, sales in the volatile public building construction segment look to have been exceptionally high. On the other, a large proportion of sales growth is due to higher construction prices rather than higher production. Accordingly, medium-term sales growth will also depend heavily on the further development of construction material prices, which have continued to rise strongly recently. That said, there are now signs that price momentum is weakening for certain raw materials and base metals. The global economic downturn could therefore weaken the development of construction prices somewhat over the coming quarters. Furthermore, the Swiss National Bank increased its key rate from -0.75% to -0.25% in June, earlier than expected, and the negative interest rate era could be over before the year is out. Interest rate rises trigger a dampening effect on construction demand, as financing costs rise and real estate yields become less appealing relative to other asset classes. At the same time, the need for residential and infrastructure investment remains high – not least because immigration from abroad has recently surged once again.

Year:	2020		2021				2022			Forecast turnover growth compared to			
	Quarter:	III	IV	I	II	III	IV	I	II	III	2nd Q 2022	3rd Q 2021	
<b>Construction index</b>	137	141	145	142	145	150	148	152	<b>158</b>	<b>+4.1%</b>		<b>+8.9%</b>	
<b>Building construction index</b>	112	114	120	113	120	128	122	125	<b>136</b>	<b>+8.9%</b>		<b>+13.1%</b>	
Residential construction	112	113	119	115	124	128	120	124	<b>130</b>	<b>+5.4%</b>		<b>+4.9%</b>	
Commercial construction	116	125	126	125	132	141	143	139	<b>148</b>	<b>+6.2%</b>		<b>+11.9%</b>	
<b>Civil engineering index</b>	173	179	181	185	180	183	185	190	<b>189</b>	<b>-0.4%</b>		<b>+4.8%</b>	

**Development of the sub-indicators**

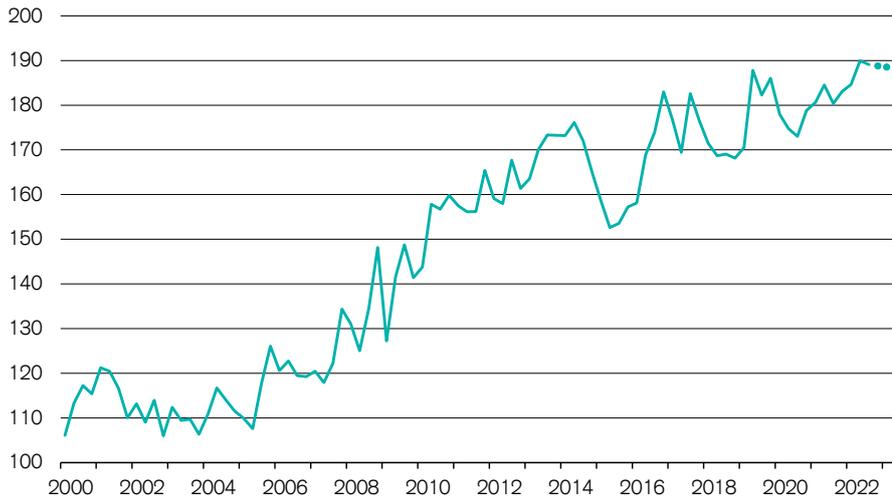
**Building construction index** Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



**Sales driven by infrastructure projects**

In the third quarter of 2022, the building construction index is set to record a high 8.9% quarter-on-quarter increase. In the large residential and commercial construction segments, sales are likely to increase by 5.4% and 6.2% respectively. At 30%, the rise in the volatile public building construction segment is even greater – and new orders have recently risen strongly here. The largest public building projects to receive official approval so far this year include the newbuild for a Cantonal School in Pfäffikon SZ (CHF 82.5 million), a newbuild for a federal administration center on Bern’s Guisanplatz (CHF 96 million), and the renovation and expansion of Brig Hospital (CHF 130 million). Since the volume of public building construction sales is likely to normalize, we are anticipating a slight medium-term decline in building construction sales. By contrast, both commercial construction (including industrial and logistics properties, as well as data centers) and work on existing residential buildings are likely to have a positive effect.

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

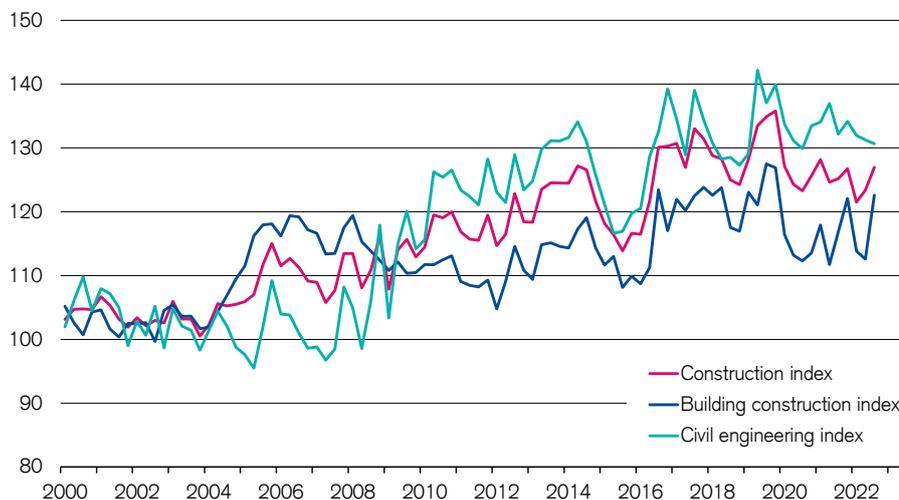


**Sideways movement expected in civil engineering**

Seasonally-adjusted civil engineering sales are likely to trend sideways in the third quarter of 2022 (-0.4%). The order intake has recently slowed slightly from a high level. Construction prices have also risen strongly in the civil engineering segment recently (+6.4% year-on-year). This has been driven not just by increases in the prices of fuels and metal products, but also by a 22% year-on-year rise (up to June 2022) in the price of bitumen, which is particularly important in road-building. According to the KBOB material prices index, the prices of construction materials for civil engineering have risen by 12.5% over the last year (building construction: 16.2%).

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

Q1 1999 = 100

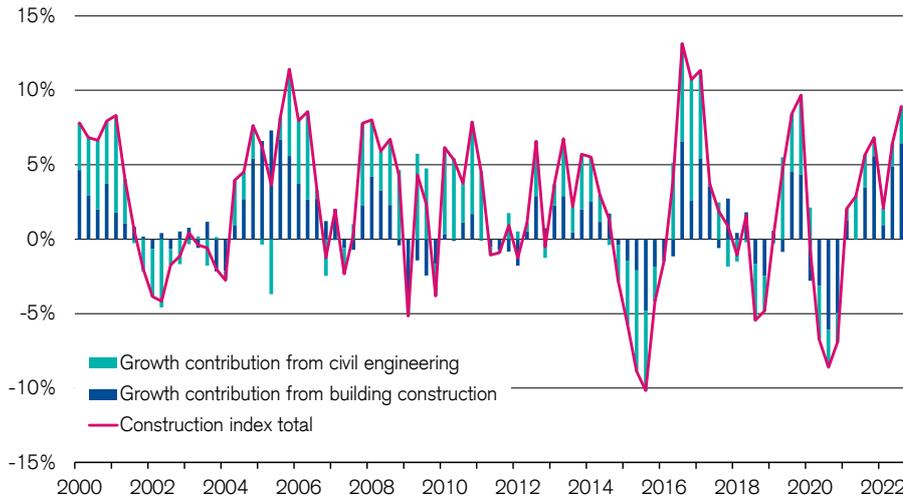


**Record-high construction price inflation**

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 April 2022 construction prices saw a record year-on-year rise of 7.7% (building construction: +8.2%, civil engineering: +6.4%). This also means that actual construction production is developing much more feebly than the sales growth figures would suggest, as the latter are primarily driven by rising construction material costs. The latest movements in the prices of certain key basic commodities (metals, crude oil) suggest the situation is improving slightly, above all due to a cooling global economy. On the supply side, however, the war in Ukraine and China’s zero-COVID policy continue to leave their mark, which in turn can be expected to slow the normalization of construction prices.

**Construction index year-on-year**

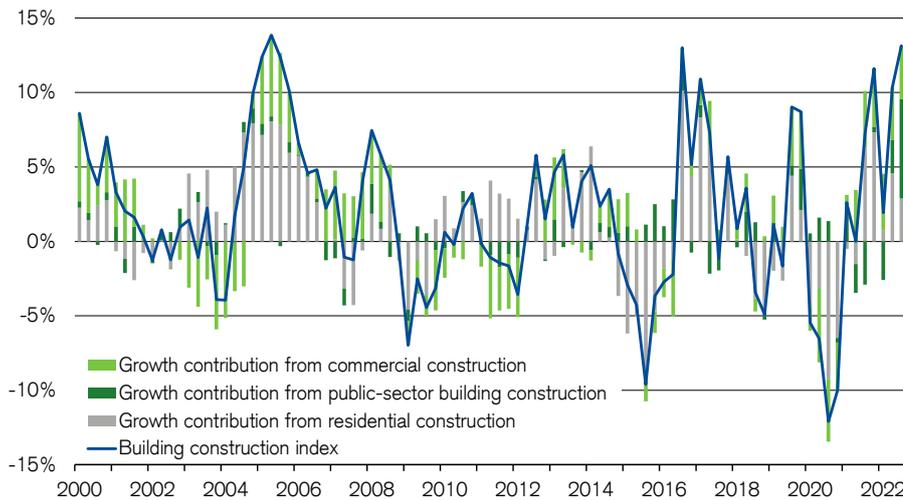
**Construction index**, seasonally adjusted, growth rates versus same quarter in previous year



**Construction prices driving sales growth**

The construction index is set to record an 8.9% year-on-year increase in the third quarter of 2022. We are expecting higher nominal sales in both civil engineering (+4.8%) and building construction (+13.1%). Both new orders and the order backlog are at promising levels, particularly in building construction, and in the area of public sector building construction they have risen significantly. For the main construction trade, the order backlog is only slightly higher than a year ago, which points to a sideways trend for sales over the next few quarters. However, medium-term development also depends heavily on movements in construction prices. Even if higher construction 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. A normalization of construction price development as a result of lower global demand for construction materials and basic commodities could therefore act as a drag on nominal sales development.

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

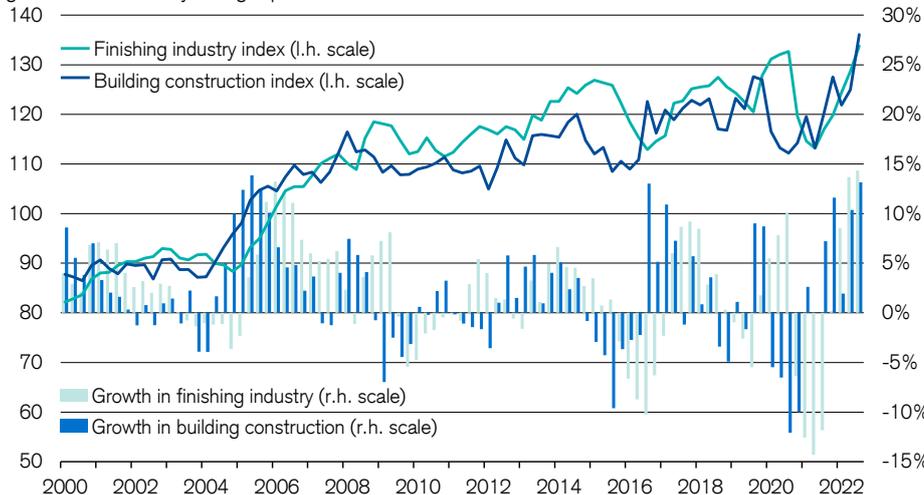


**Growth thanks to existing building construction**

The building construction index is 13.1% up year-on-year in the third quarter of 2022. This growth can be seen in all three construction segments: commercial (+11.9%), residential (+4.9%), and public sector buildings (+60.0%). In the medium term, there is no reason to expect a trend reversal. Overall, the volume of approved building construction projects has risen by 3% over the last 12 months, with the rise in newly submitted planning applications being as high as 7%. 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 14.0 billion – the highest level since the first survey in 1995. Work on existing buildings is a major prop right now, particularly in residential construction, while the number of approved newbuild apartments over the last 12 months has declined by 9%.

**Situation in the finishing industry**

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

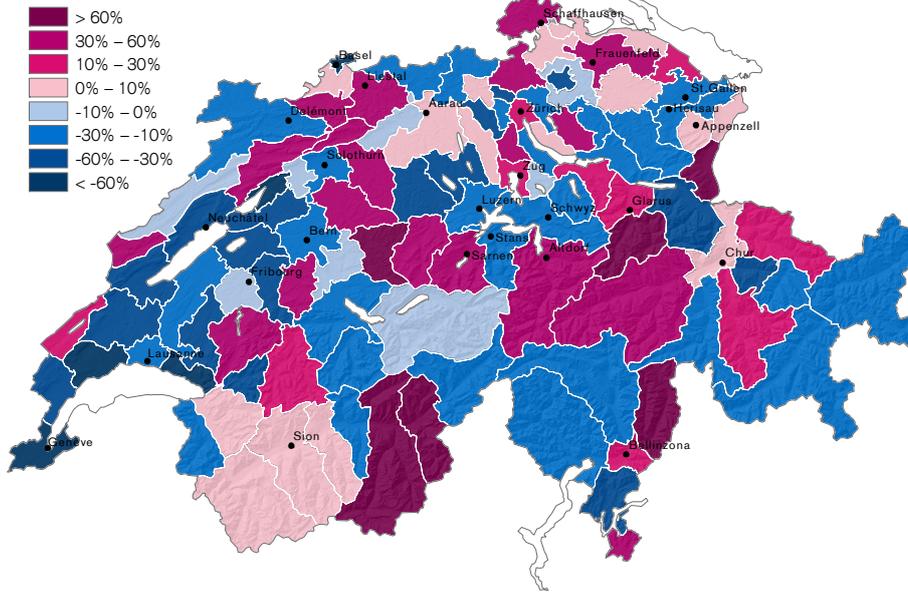


**Higher energy costs give a boost to renovations**

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 third quarter of 2022, the finishing index exhibits a quarter-on-quarter rise of 3.9%, leaving it 14.3% 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. A particularly striking development is the boom in heat pumps, which can be expected to persist for the time being. Furthermore, political initiatives that seek to remove bureaucratic and regulatory barriers (approval procedures, noise protection) to the replacement of heating systems are pending in various cantons (as well as at federal level).

**Regional demand focus in building construction**

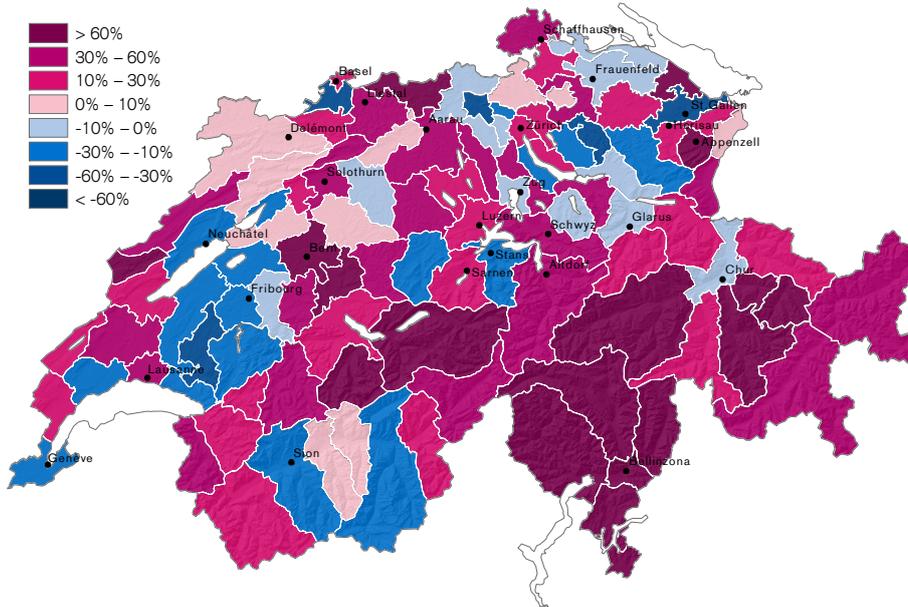
**Applications for new-build projects:** deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region\*



**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 17.2 bn, 6.9% below the ten-year average, with 60 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. By contrast, there is evidence of above-average planning activity in areas such as the Valais, the Thurgau-Schaffhausen region, and Canton Basel-Country. The largest new projects, each with a planned investment volume of more than CHF 100 million, include the future headquarters of asset manager Partners Group in Baar, a wellness hotel in St. Moritz, and a site redevelopment on Zurich's Seebacherstrasse involving more than 200 apartments.

**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 7.3 billion in total over the last six months, which is 21.7% above the 10-year average. Refurbishment, expansion, and renovation projects have therefore accounted for almost 30% of all newly planned construction volumes recently – the highest figure for a quarter of a century. The volume of planned activity in conversion and renovation projects has exhibited above-average growth in 76 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 and prices in many places are continuing to grow at double-digit rates. 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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