

Swiss Construction Index

Index as of Q2 2020: **138 points**

Change on previous quarter: **-2.3%**

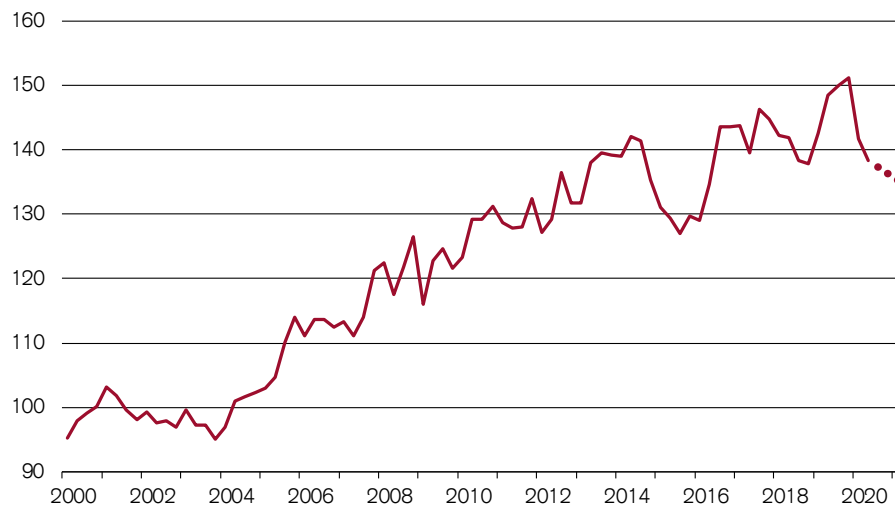
Change on same quarter in previous year: **-6.7%**



Q2 2020

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 2020, the SCA quarterly survey provides detailed information on the first quarter of 2020.

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The Construction Index appears on a quarterly basis. Free subscriptions are available from Credit Suisse. To subscribe, please send your email address to: realestate.swisseeconomics@credit-suisse.com.

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>

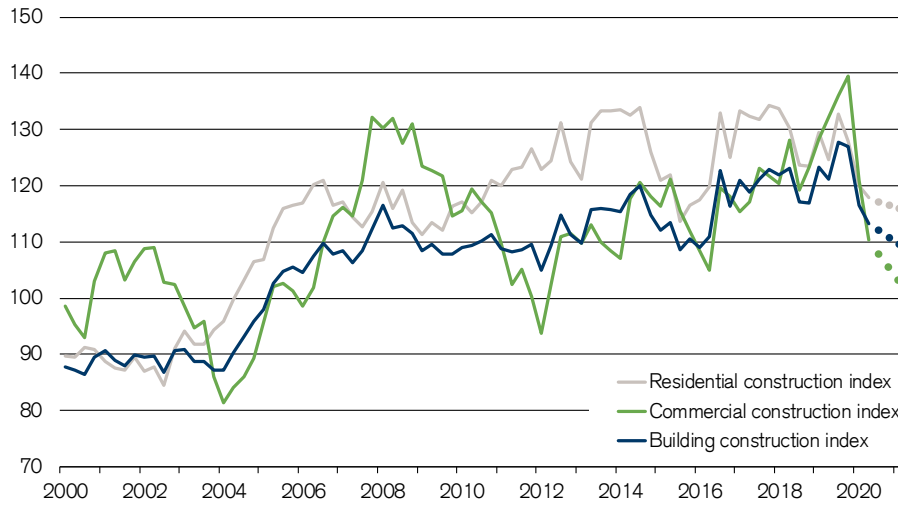
Construction economy defiant in face of coronavirus

In the second quarter of 2020, the construction index lost a further 2.3% and now stands at 138 points, 6.7% below the level of the prior-year quarter. The uncertainty built into this forecast is high, however, as the coronavirus crisis has triggered significant dislocations in the economic system. As a result of the COVID-19 pandemic, a deep recession is looming in Switzerland – we are currently expecting gross domestic product to decline by at least 3.5% for 2020 as a whole. Consumer sentiment has nosedived, with an application for short-time working having been submitted to the corresponding cantonal authorities for more than a third of employed persons – including by many construction companies. This sector will not be spared the fallout from the coronavirus crisis. Corrections can be expected over the next few quarters, first of all in the cyclically sensitive area of commercial construction. Overall, however, there is evidence to suggest that construction will not be one of the hardest-hit sectors in this crisis. With a few exceptions, such as Canton Ticino, construction sites have remained open during the lockdown, and the decline in submitted planning applications in regions where these are still published has so far proved relatively modest (–10% in March and April). Record numbers of order backlogs are being reported in civil engineering, and negative interest rates remain an important driver of activity, as well as a source of support for residential construction for the time being.

Year:	2018			2019				2020		Forecast turnover growth compared to	
	II	III	IV	I	II	III	IV	I	II	1st Q 2020	2nd Q 2019
Construction index	142	138	138	143	148	150	151	142	138	-2.3%	-6.7%
Building construction index	123	117	117	123	121	128	127	117	113	-2.8%	-6.5%
Residential construction	130	124	124	129	125	133	128	120	118	-1.8%	-5.4%
Commercial construction	128	119	123	128	132	136	140	121	110	-8.9%	-16.6%
Civil engineering index	169	169	168	171	188	182	186	178	175	-1.8%	-7.0%

Development of the sub-indicators

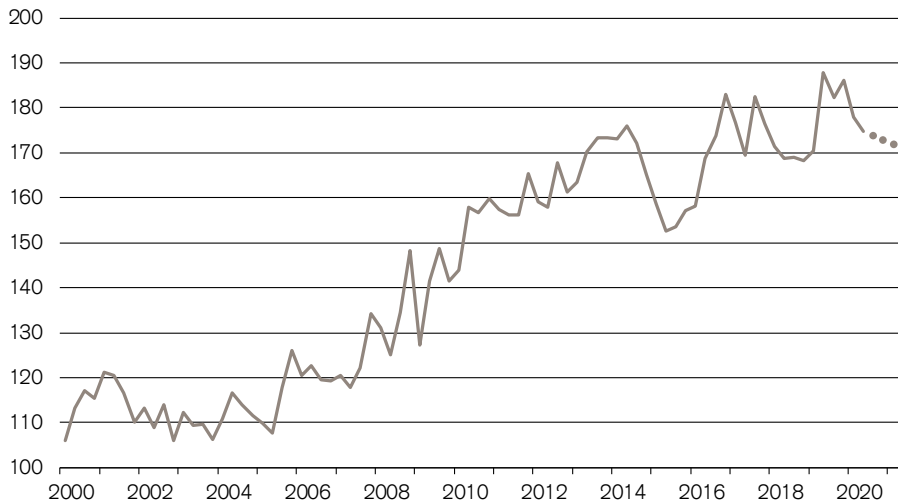
Building construction index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



Coronavirus exacerbates downturn

In the second quarter of 2020, the building construction index fell by 2.8% compared to the previous quarter. A particularly sharp correction is likely to be evident first of all in commercial construction (-8.9%), whereas residential construction should decline by only 1.8%. The reason why the building construction index is not declining more strongly is attributable to two factors: Firstly, it has now become clear that the decline in the first quarter was exaggerated, hence a portion of the downturn has already been factored in. Secondly, public sector building construction is proving to be robust, and is actually set to rise by 5.9%. The extent to which the coronavirus will hold back building construction remains fairly unclear from today's standpoint. Despite the vacancy problem, which is likely to become even more acute, we are nonetheless much more optimistic over the outlook for residential construction in the medium term than we are for the cyclically sensitive commercial construction segment.

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

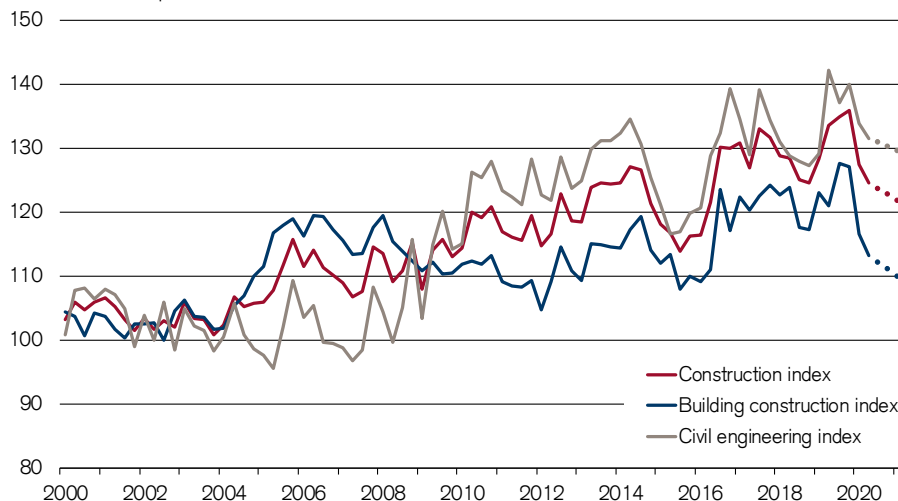


Civil engineering coping better with COVID-19

Seasonally-adjusted civil engineering sales are also likely to record a year-on-year decline in the second quarter of 2020 (-1.8%). However, the coronavirus pandemic has struck at a time when civil engineering is in very good shape. At CHF 9.3 billion, order backlogs are at a record-high level. That said, due to delays in the planning process and at building sites a combination of corona-related measures and personnel absences, a temporary downturn should be anticipated in civil engineering too. While this downturn can be expected to persist in private sector civil engineering, we are expecting public sector civil engineering to bounce back due to the healthy backlog of new orders. The financing of road and rail infrastructure projects looks to be secure for now thanks to the special financing solutions earmarked for these areas (FABI, NAF). However, the coronavirus crisis is tearing a hole in the Confederation's public finances to the tune of some CHF 50 billion (2020), which should weigh on the freedom of financial maneuver in the infrastructure area in the long term.

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

Q1 1999 = 100, points = trend outlook

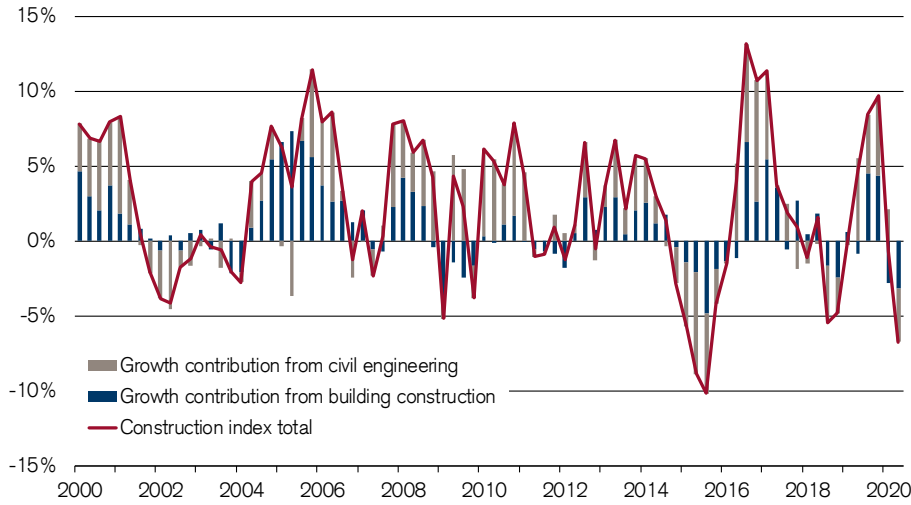


Prices edging up in building construction and civil engineering

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. Construction prices are extending their mild uptrend with an expected +0.5% year-on-year increase. Civil engineering companies have been able to raise prices rather more strongly (+0.7%). Overall, the deviation between real and nominal index movements remains manageable. The Swiss franc, which has appreciated sharply against the euro once again over the last few months, and the slowdown in the construction economy should mean only minimal price growth over the next few quarters.

Construction index year-on-year

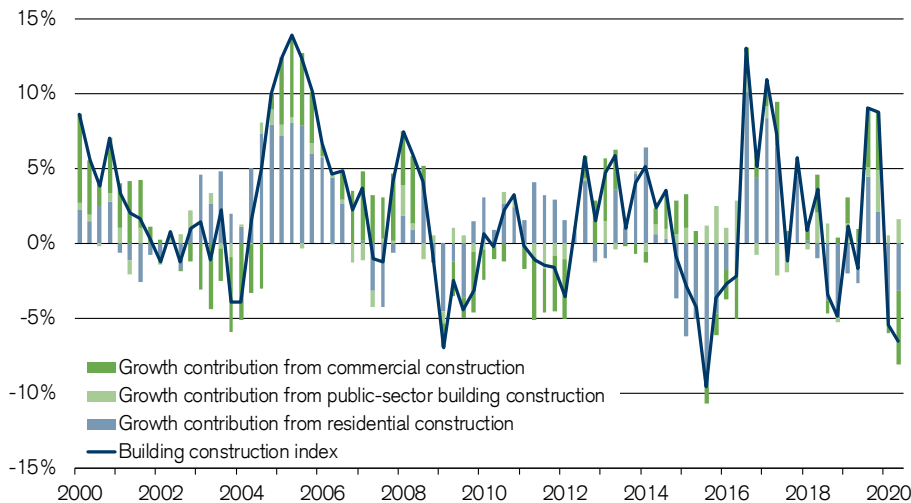
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Sharp decline in sales imminent

The construction index records a significant decline in the second quarter of 2020, and is now well below the level of the prior-year quarter (-6.7%). This decline is attributable to both civil engineering (-7.0%) and building construction (-6.5%). Even in the positive scenario of no second wave of infections and a rapid economic recovery in the second half of 2020, the sales level of the prior year is unlikely to be matched. In building construction, the volume of planning applications in March and April was 22% below prior-year level. The real decline in projected activity is likely to be less, however, as the municipalities of certain French-speaking cantons and Ticino have temporarily stopped publishing planning applications. If these cantons are excluded, the decline amounts to just -10%. When viewed over the last 12 months, planning applications have even risen by 2%. It is still too early to evaluate the extent to which the pandemic has slowed the construction process.

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

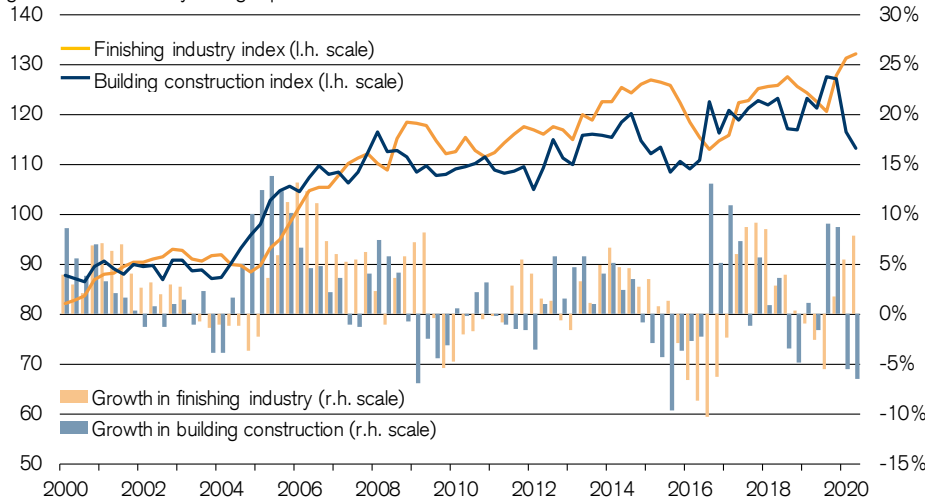


Commercial construction under pressure

In a year-on-year comparison, the building construction segment is set to record negative growth of 6.5% in the second quarter of 2020. If the positive contribution of public sector building construction (+13.8%) is excluded, the decline would be even greater. Sales of the prior-year quarter are unlikely to be reached in residential construction (-5.4%) and can be expected to decline even more in commercial construction (-16.6%). While residential demand reacts less sensitively to economic fluctuations and multi-family dwellings are likely to remain popular as investment properties in the persistently negative interest rate environment, the outlook for commercial construction is less favorable over a longer time horizon. The starkest impact of the pandemic is evident in the area of retail and hotel properties. Here the recession will only exacerbate the existing structural problems of these industries. The office property segment is likewise threatened by a decline in demand, not least because the lockdown is also likely to give an ongoing boost to the phenomenon of working from home.

Situation in the finishing industry

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

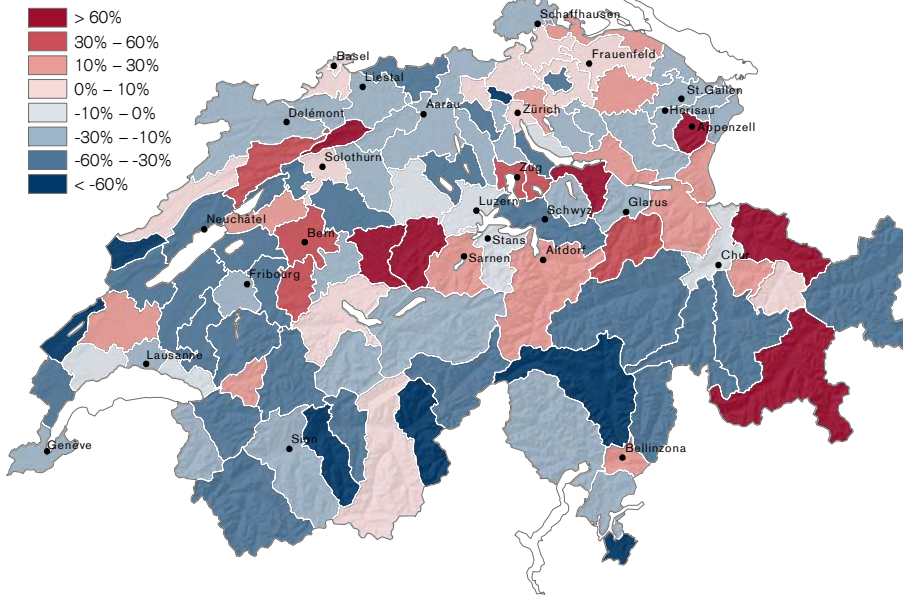


Zenith reached

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 2020, the finishing industry index is 0.7% above the prior-quarter level and 7.8% higher than the prior-year level. The finishing industry continues to benefit from the strong construction economy of the previous year. The key question, however, is how significantly the processing of the high order backlog will be delayed by the pandemic – be it through construction site delays or the postponement of projects. In the longer term we envisage a number of stimuli preventing an overly excessive slump in the finishing industry. As the themes of energy-related improvements and greater density of urban living are a rising political priority, these stimuli will be felt particularly in the areas of improving the energy footprint of buildings and finishing/additional floors/replacement newbuilds.

Regional demand focus in building construction

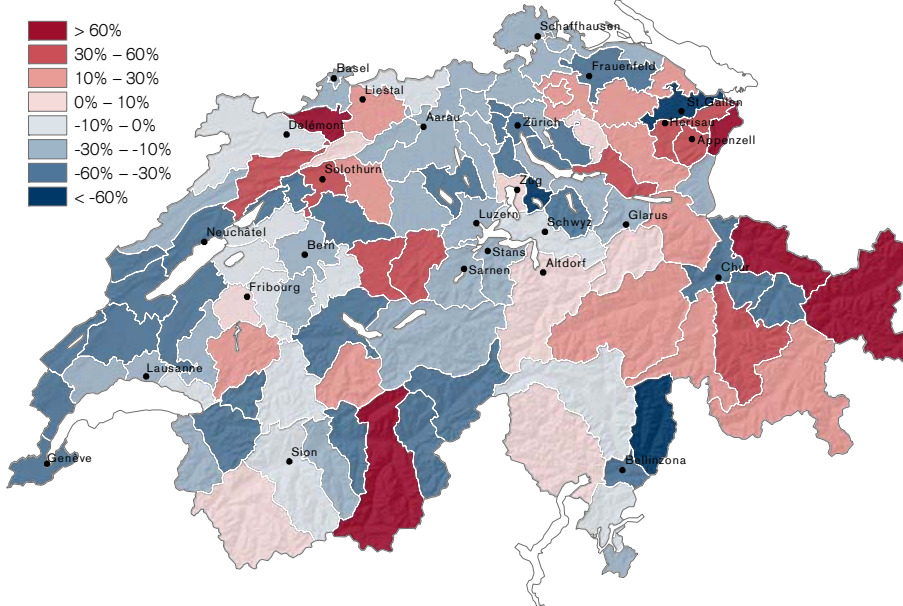
Applications for new-build projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



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 has declined to a volume of CHF 16.3 bn over the last six months, and is now 11.4% below the 10-year average. However, this decline is likely to be exaggerated: As a result of the coronavirus pandemic, the municipalities of Ticino and the French-speaking cantons of Geneva, Vaud, Neuchâtel, and Fribourg have reported only some or even none of the planning applications received in the months of March and April. Accordingly, these regions have for the most part reported project volumes that are dramatically below average. Above-average projected activity is still apparent in 39 of Switzerland's 110 regions. For the most part these relate to areas located in central Switzerland, as well as in Bern and the surrounding areas. As things stand, the extent to which COVID-19 will actually result in delays to projected activity or even project cancellations remains largely unclear. Such effects are most likely to be felt in the areas of French-speaking Switzerland and Ticino that have been particularly hard-hit by the epidemic.

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 over the last six months amounted to CHF 5.1 billion, which is 15% below the 10-year average. In the area of refurbishment and renovation projects too, a sharp decline in projected activity is apparent due to the discontinuation of the reporting of planning applications in French-speaking Switzerland and various regions of Ticino. Above-average momentum is still evident in 34 more rural regions – predominantly in the cantons of Graubünden, St. Gallen, the two Appenzells, and north-western Switzerland. Overall, we are expecting the refurbishment and renovation area to exhibit greater resilience in the face of the economic downturn than the newbuild area. For one thing, investments in the fabric of existing buildings predominantly depend on the life cycles of those buildings, and can only be deferred to a limited extent. In addition, building redevelopment is a particularly significant area of activity in the urban centers, and even a prolonged recession is unlikely to lead to any oversupply of residential space. Thirdly, the measures to encourage energy-based renovations as part of the Confederation's Energy Strategy 2050 remain a source of support.

*Credit Suisse has defined these economic regions on the basis of 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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