

Swiss Construction Index

Index as of Q3 2020: **137 points**

Change on previous quarter: **-1.0%**

Change on same quarter in previous year: **-8.6%**



Q3 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 third quarter 2020, the SCA quarterly survey provides detailed information on the second quarter of 2020.

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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>

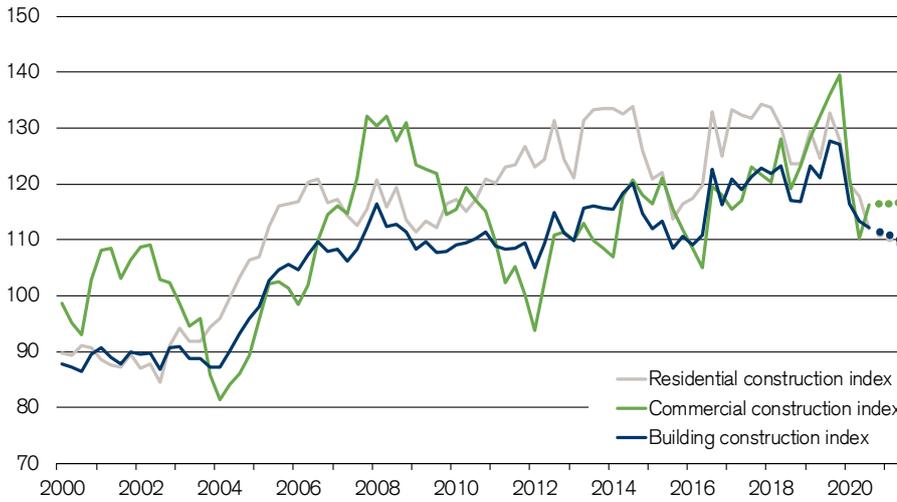
Construction economy should soon stabilize

The construction index loses a further percentage point in the third quarter of 2020, putting it 8.6% below the level of the prior-year quarter. In other words, even Switzerland's main construction trade is not going to be able to dodge the coronavirus crisis. For the first time since 2016, construction sales are unlikely to reach the 20 billion threshold. Thus far, the building construction segment has lost significant momentum: factors contributing to the downturn here include the economic slump and the accompanying uncertainty, but also declines in productivity on building sites due to intensified hygiene and social distancing rules. A correction here was actually overdue, as – long before the coronavirus crisis hit – parts of both the commercial and above all the residential construction sectors had reached levels that could no longer be considered sustainable, given the level of end user demand in the corresponding real estate markets. The COVID-19 pandemic was, ultimately, only the catalyst. On the other hand, assuming the gradual economic recovery continues and no further lockdown is imposed, the construction trade looks set to stabilize over the next few quarters. A major source of support is likely to be civil engineering, where order backlogs remain at a high level. However, planning activity in the building construction sector also appears to be recovering already following the reversal suffered in the months of March and April. Viewed overall, the decline in planning applications over the last 12 months works out at a manageable 4%.

Year:	2018		2019				2020			Forecast turnover growth compared to	
	III	IV	I	II	III	IV	I	II	III	2nd Q 2020	3rd Q 2019
Construction index	138	138	143	148	150	151	142	138	137	-1.0% ↓	-8.6% ↓
Building construction index	117	117	123	121	128	127	117	113	112	-0.9% →	-12.1% ↓
Residential construction	124	124	129	125	133	128	120	118	112	-4.9% ↓	-15.6% ↓
Commercial construction	119	123	128	132	136	140	121	110	116	+5.5% ↑	-14.5% ↓
Civil engineering index	169	168	171	188	182	186	178	175	173	-1.0% ↓	-5.1% ↓

Development of the sub-indicators

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

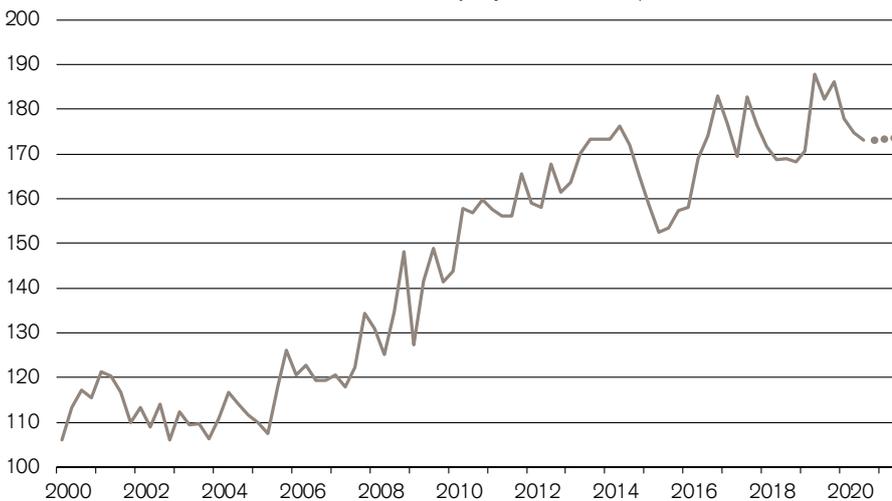


Downturn decelerates

In the third quarter of 2020, the building construction index is set to decline only slightly compared to the previous quarter (-0.9%). Commercial construction, which experienced a sharp correction from a very high level in previous quarters, is likely to stabilize for the time being (+5.5%). In spite of new orders exhibiting a regressive trend in previous quarters, order backlog is still 40% higher than the average of the last ten years. Over the medium to long term, trends such as working from home and the displacement of bricks-and-mortar retailing hang over commercial construction like a Sword of Damocles. On the other hand, the persistently low interest rate environment and further strong demand from the public sector will continue to act as sources of support.

Residential construction looks set to continue its downward trend in the third quarter of 2020 too (-4.9%). Even before the onset of the coronavirus crisis, investors had started to slow down, as the trend of rising vacancy rates dating back many years has had the effect of dampening investor interest outside of urban agglomerations.

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

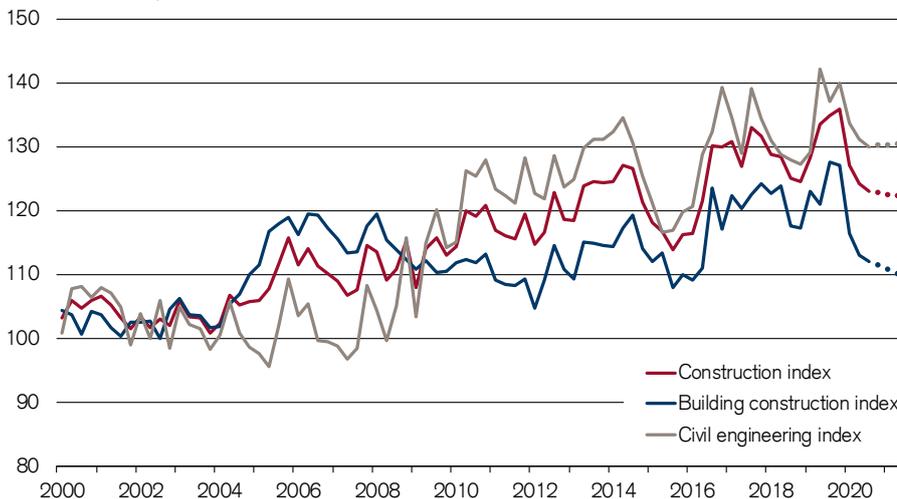


Civil engineering as anchor of stability

Seasonally adjusted civil engineering sales are also likely to decline slightly in the third quarter of 2020 as compared to the previous year (-1.0%). Nonetheless, civil engineering companies can look at the future with confidence: both new orders and order backlog remain at a high level. Even in private sector civil engineering, which accounts for only a quarter of all civil engineering sales when viewed as a long-term average, the trend of declining building construction sales has yet to be seriously felt. Furthermore, even the serious hole in public finances resulting from the COVID-19 pandemic is unlikely to jeopardize civil engineering activity in the short to medium term, and particularly in rail and road construction, thanks to the special funding arrangements that apply in this area (NAF, BIF).

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

Q1 1999 = 100, points = trend outlook

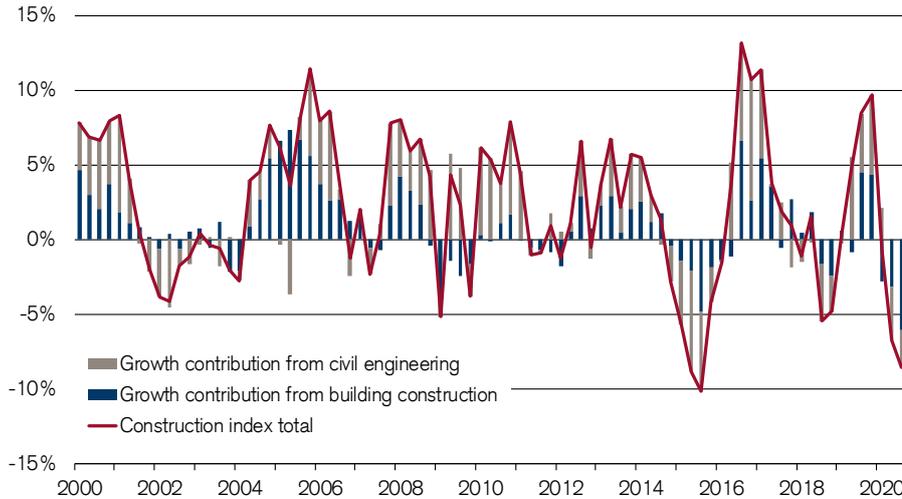


Construction prices move sideways

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. At +0.2% in a year-on-year comparison, construction prices have risen only minimally overall. Whereas building construction prices have stagnated, civil engineering companies have been able to increase their prices slightly (+0.8%). Overall, the deviation between real and nominal index development remains manageable. The ongoing strength of the Swiss franc and the construction economy slowdown should only lead to minimal price growth over the next few quarters.

Construction index year-on-year

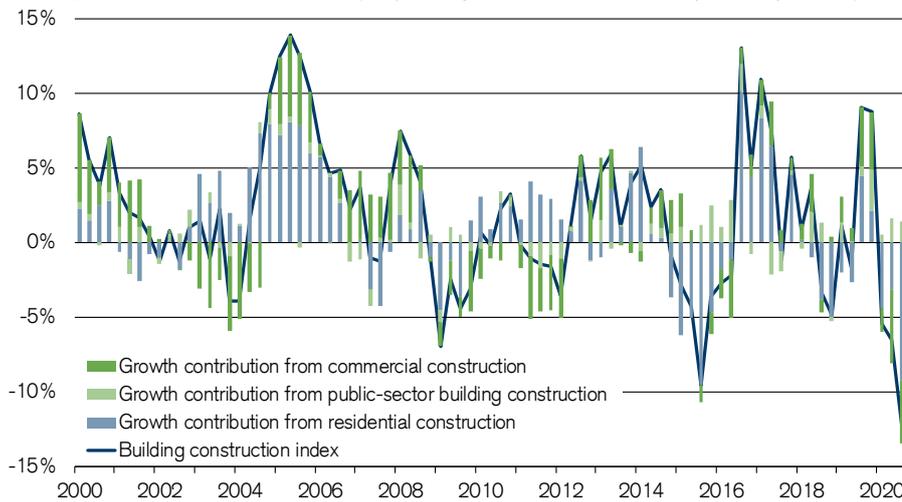
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Sharp decline in building construction sales

The construction index is once again set to fall slightly in the third quarter of 2020, taking it well below the level of the prior-year quarter (-8.6%). This decline is attributable to civil engineering (-5.1%) but above all to building construction (-12.1%). In other words, even without a strong second wave of infections materializing and the economic recovery persisting, the record-high sales level of the previous year is most unlikely to be reached in 2020. That being said, analysis of planning applications reveals a silver lining in the area of project activity. Whereas the volume of building planning applications submitted in March and April was as much as 19% below prior-year level, the figure for May and June approximated the 2019 equivalent (-2%). Moreover, thanks to its persistently starting position, civil engineering should have a stabilizing effect.

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

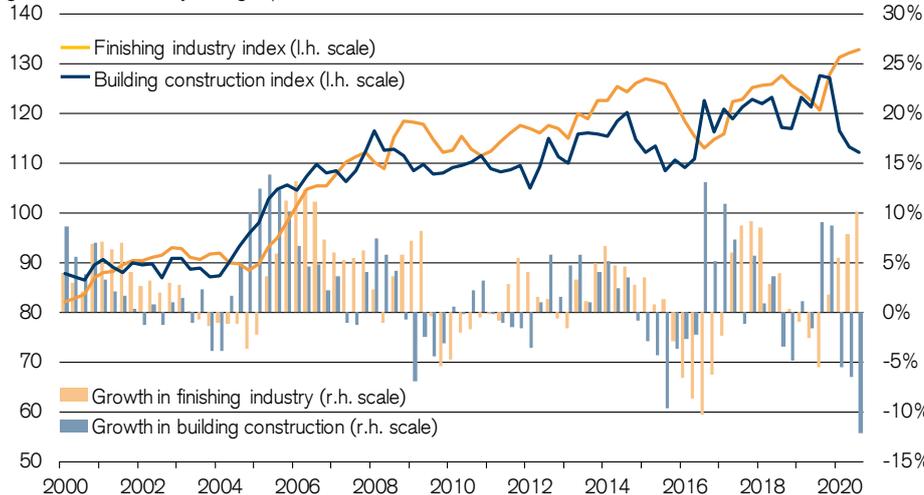


Commercial construction beset by structural change

In a year-on-year comparison, the building construction segment is set to record negative growth of 12.1% in the third quarter of 2020. Sales are likely to be far below those of the prior-year quarter in both commercial (-15.6%) and residential construction (-14.5%). Where the former is concerned, the structural change evident in retailing – which has only been accelerated by the coronavirus crisis – and the trend toward working from home can be expected to weigh on demand even when the crisis is over. In our main scenario we are anticipating a long-term decline in demand for office space of 15% due to the shift toward home working. Analysis of real estate funds and shares reveals that investors are increasingly snubbing investments that focus on commercial premises in favor of residential real estate. But here too developers appear hesitant, particularly as the economic slump and declining immigration are weighing on demand for residential property. In contrast to the commercial property situation, however, this is primarily an economic effect, and the outlook for residential real estate in the longer term remains positive.

Situation in the finishing industry

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

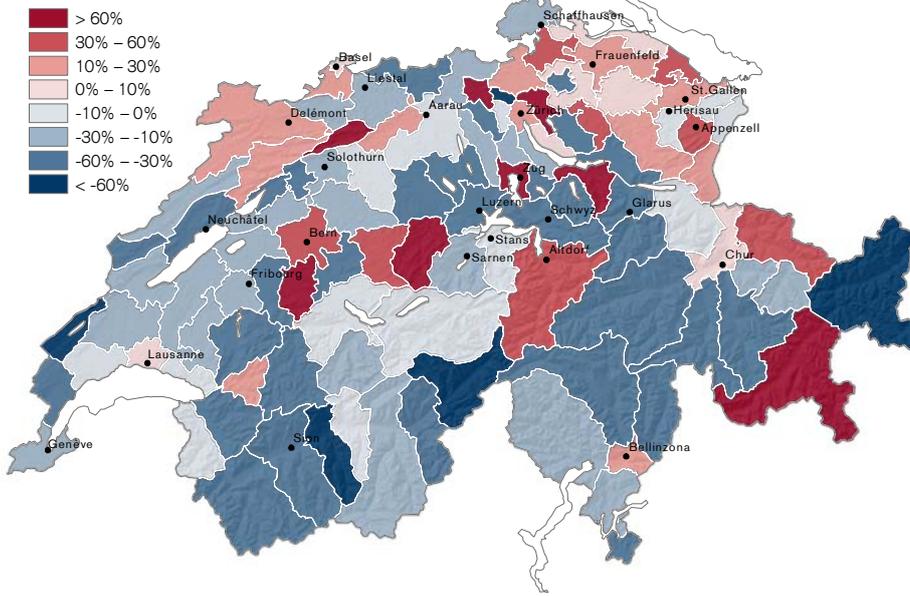


Finishing industry to experience correction

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 2020, the finishing industry index lies 0.5% above the prior-quarter level and 10.1% higher than the prior-year quarter. The finishing industry thus continues to benefit from the strong construction economy of the previous year. However, the latter's negative growth trajectory should soon spread over to the finishing trade as well. On the other hand, we can discern a number of factors that should prevent any significant slump in the finishing industry over the longer term. 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

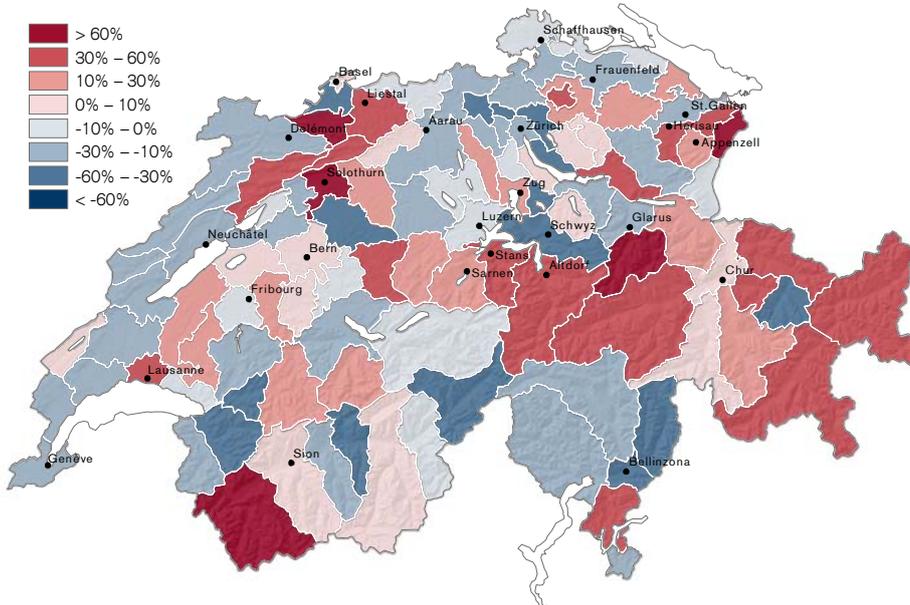
Applications for new-build projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



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 over the last six months equates to a volume of CHF 17.4 billion. In other words, the volume of submitted planning applications in the building construction trade has recovered recently, although it still remains 5.3% below the prior-year period and 5.5% below the 10-year average. Planned activity remains below average in a clear majority (75) of the 110 Swiss economic regions. This is particularly true of much of French-speaking and Italian-speaking Switzerland. As an additional factor, a number of cantons ceased to submit planning applications in the months of March and April for pandemic-related reasons. It therefore remains unclear whether or not planning activity has already fully recovered. A number of regions have reported a high level of planned construction volumes over the last six months, including parts of Canton Zurich and a number of regions in eastern and northwestern Switzerland. In particular, a number of projects in German-speaking urban agglomerations should prevent any real collapse in overall planned investment activity in Switzerland. However, this should not obscure the fact that construction volumes look relatively weak in a clear majority of regions.

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 5.8 billion, which is 2.3% below the 10-year average. Building redevelopment has proved more robust in the face of the coronavirus crisis than the newbuild business. Nevertheless, the volume of planned activity in refurbishment and renovation remains below average in a majority (59) of the 110 regions. Greater activity can be discerned in a number of regions of northwestern Switzerland as well as large parts of the Swiss Alps and the foothills of the Alps. A number of these regions could prove long-term beneficiaries of the trend toward home working. Office workers could also decide to accept greater commuting distances on the back of increased acceptance of working outside of the office. As a result, second homes in Alpine regions are set to become more attractive to the Swiss. At the same time, however, Switzerland's Second Homes Act should ensure that building redevelopment remains the focus, rather than new home construction. The extent to which the effects of this are felt will only become gradually apparent over time, however.

*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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