

Swiss Construction Index

Index as of Q3 2023: 161 points

Change on previous quarter: +5.0%

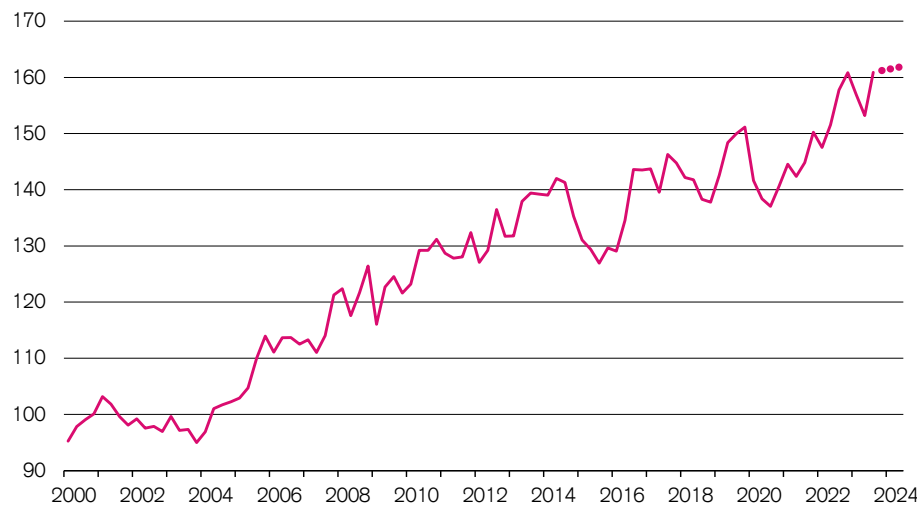
Change on same quarter in previous year: +2.0%



Q3 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 third quarter of 2023, the SCA quarterly survey provides detailed information on the second quarter of 2023.

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Temporary recovery of construction economy

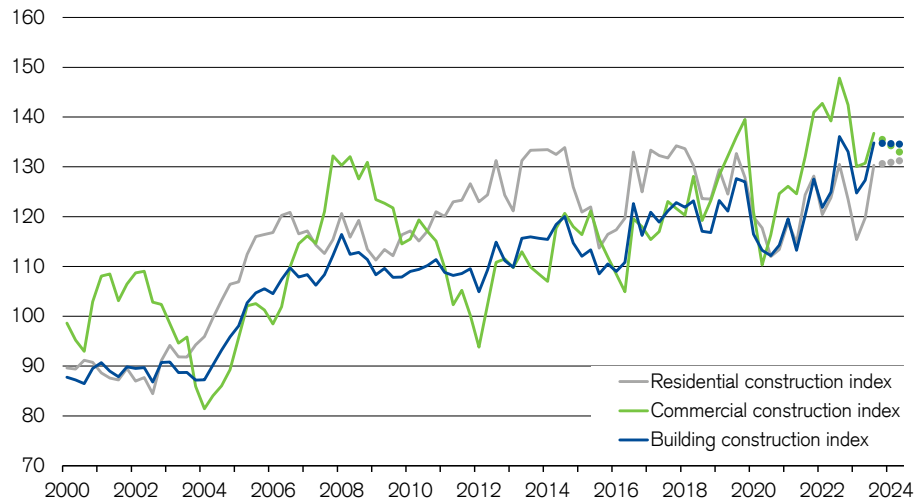
In the third quarter of 2023, the Construction Index has recorded a year-on-year rise of 2.0%. When adjusted for seasonal and calendar effects, this means the sales of the main construction trade are expected to rise by as much as 5.0% compared to the prior quarter. However, when viewed on an annual basis only civil engineering is likely to record a rise (+5.0%), whereas building construction sales are unlikely to match the prior-year level (-0.9%) despite prices rising until recently. That said, construction price inflation is gradually receding, and growth stimuli are likely to prove on the weak side over the coming quarters too. The Swiss economy has also cooled noticeably, and growth is likely to be well below potential in the current year (GDP forecast 2023: +0.9%). In addition, no rapid return to cheaper financing terms looks to be on the horizon, with the Swiss National Bank likely to raise interest rates once again to 2.0% in September. Real estate has lost some of its appeal as an asset class, given higher financing and construction costs on the one hand and the rise in bond yields on the other. At the same time, the need for investment in construction is considerable, particularly in the housing and infrastructure areas. In the first half of 2023, for example, Switzerland recorded its strongest net immigration for 15 years.

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:		III	IV	I	II	III	IV	I	II	III	I	II	III	2nd Q 2023	3rd Q 2022
Construction index			145	150	148	152	158	161	157	153	161				+5.0%	+2.0%
Building construction index			120	128	122	125	136	133	125	127	135				+5.9%	-0.9%
Residential construction			124	128	120	124	130	123	115	120	130				+8.8%	-0.1%
Commercial construction			132	141	143	139	148	142	130	131	137				+4.6%	-7.5%
Civil engineering index			180	183	185	190	189	201	203	191	199				+4.2%	+5.0%

Development of the sub-indicators

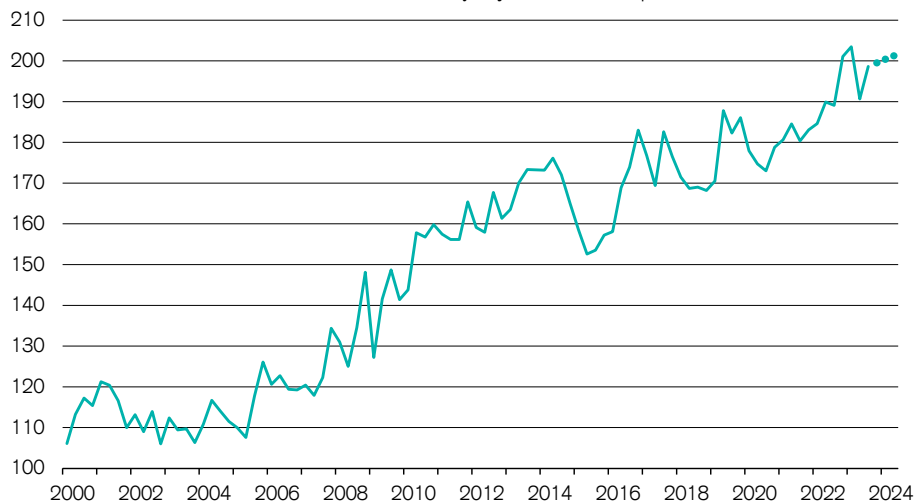
Building construction index Q1 1996 = 100, seasonally adjusted, nominal, points = trend outlook



Public sector building construction as prop

In the third quarter of 2023, the building construction index recorded a quarter-on-quarter rise of 5.9%. Both residential (+8.8%) and commercial construction (+4.6%) are therefore likely to register quarter-on-quarter increases. Public-sector building construction sales can be expected to stagnate at a high level, with many large projects still being initiated. For example, on July 4 the ground-breaking ceremony was held for the new Bern Police Center in Niederwangen (municipality of Köniz), which will house 1,400 personnel from 2028. Building costs are expected to come in at around CHF 370 million. Brisk construction planning activity also remains evident in the education and healthcare spheres. The anticipated increase in the volume of residential construction is due to strong demand in refurbishment and renovation, as well as higher construction prices. In the case of commercial construction, stimuli continue to come above all from specific property types such as logistics and data centers, whereas activity remains subdued in the office and retail property segments.

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

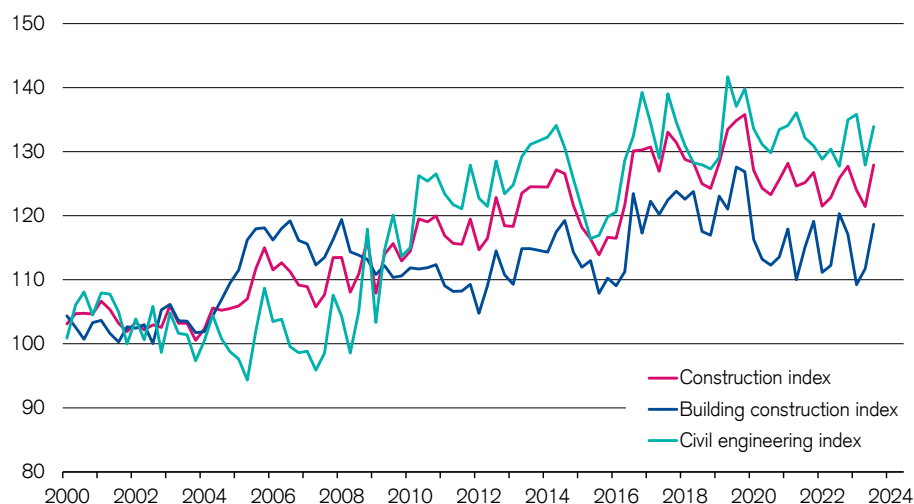


Civil engineering records further rise

Seasonally adjusted civil engineering sales are set to record a quarter-on-quarter rise in the third quarter of 2023 (+4.2%). Both order intakes and construction planning activity are heralding an upward trend, although higher construction prices put an exaggerated gloss on the figures in civil engineering too. In the longer term, the need for investment remains particularly strong in transport infrastructure, with strong growth in traffic having led to numerous bottlenecks in recent years. One such problem has been partially alleviated with the recent opening of the third tube of the Gubrist motorway tunnel. Numerous railway infrastructure projects are also being planned in this context, such as the "through station" project in Lucerne, which has an estimated total cost of CHF 3.3 billion and a construction period of up to 13 years. A pilot project was completed in the spring.

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

Q1 1999 = 100

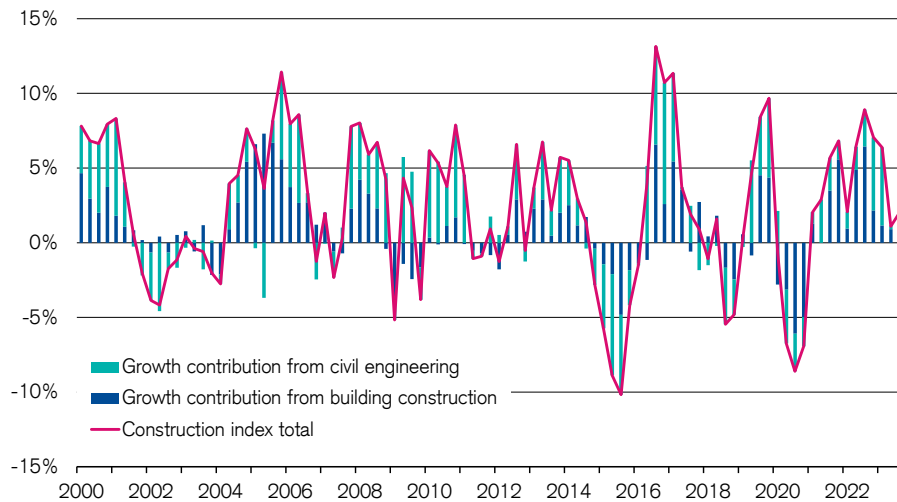


Construction price inflation gradually recedes

Adjusting the construction index to take account of construction price inflation since 1999 (FSO) neutralizes trends attributable to price-related turnover increases. In April 2023, construction prices were up 4.3% year-on-year (building construction: +4.2%, civil engineering: +4.5%), whereas six months previously the increase had been more than 8%. The reduction of strains on global supply chains and the ailing global economy have recently led to a further weakening in the development of prices for key building materials (e.g. metal products and bitumen). According to the KBOB, material costs for building construction were 2.7% below the prior-year level in June 2023. The equivalent decline in civil engineering was as much as 5.5%. Construction price growth can therefore be expected to weaken further.

Construction index year-on-year

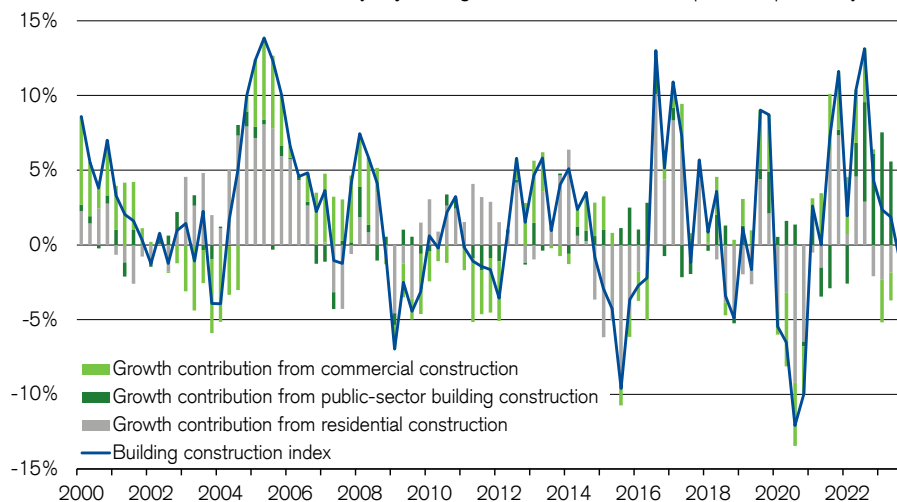
Construction index, seasonally adjusted, growth rates versus same quarter in previous year



Civil engineering and inflation drive sales growth

The construction index is set to record a 2.0% year-on-year increase in the third quarter of 2023. While we are expecting nominal sales growth of 5% for civil engineering, building construction sales should decline slightly (-0.9%). However, this picture conceals the true state of the construction economy, as the sales increase of the main construction trade is likely to be wholly attributable to the development of construction prices, which were rising until recently (cf. above). Order backlogs are at healthy levels in both segments, and new orders have also risen somewhat recently. However, the apparent normalization of construction price development as a result of lower global demand for construction materials and basic commodities could act as a drag on nominal sales development over the next few quarters.

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

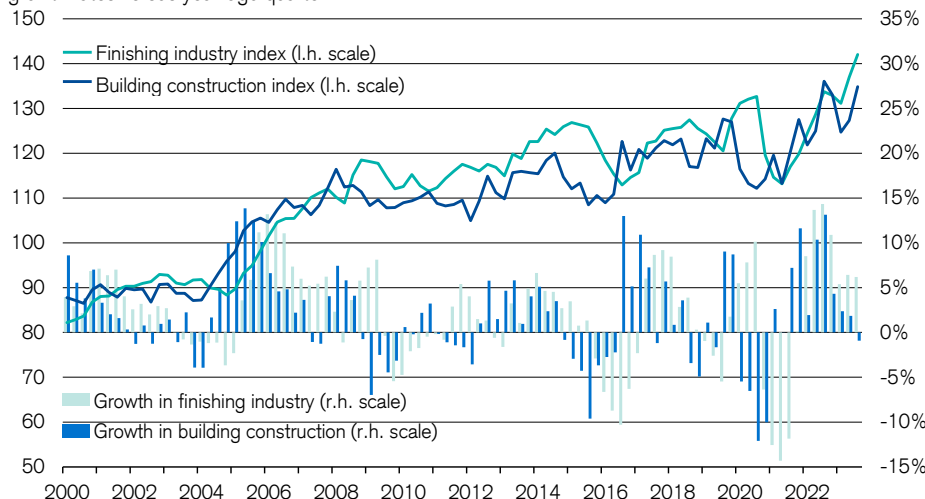


Few growth stimuli in building construction

In the third quarter of 2023, the building construction index is slightly lower than in the prior-year quarter (-0.9%). The decline is wholly attributable to commercial construction (-7.5%), whereas for residential construction we are expecting stable sales development, and for public sector building construction even an increase of 8.8%. The picture going forward looks solid based on the volume of building projects to have received construction approval (+4.4%) or for which planning applications have been submitted (+1.2%) over the last 12 months, but no major growth stimuli are evident. Barely any medium-term growth stimuli are apparent in the traditional props of building construction. This is true not just of residential construction, where building permit issuance as a proportion of planned investment is 4.3% below the prior-year level, but also of office and retail construction. 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

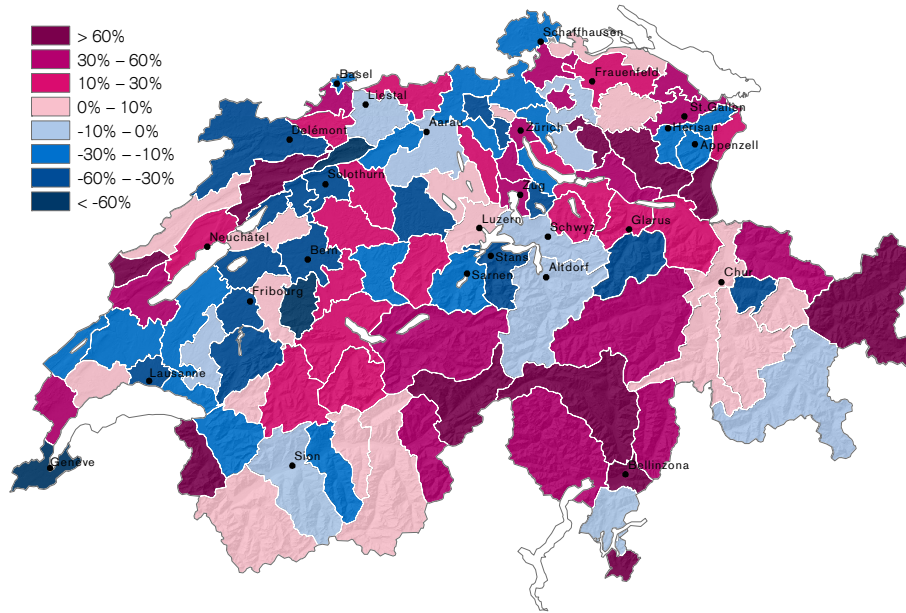


Sustainability as driver

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 third quarter of 2023, the finishing index is set to record a 3.7% quarter-on-quarter rise, putting it 6.2% above the level of the prior-year quarter. The 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 accepted on June 18, 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

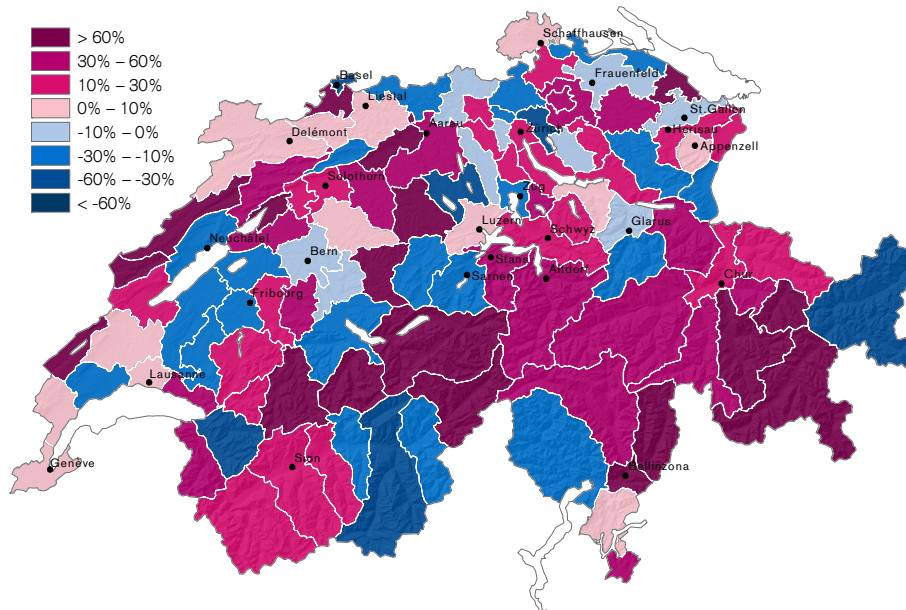
Applications for newbuild projects: deviation in the volume of planning applications submitted in last 6 months from 10-year average, by economic region*



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 18.8 billion, or 3.3% above the 10-year average. Nonetheless, 47 of Switzerland's 110 economic regions recorded below-average investment volumes. Four of Switzerland's five major centers also belong to these regions. The exception is the city of Zurich, where planning applications for the replacement or new construction of more than 4,000 apartments have been submitted over the last 12 months. An acceleration of construction activity is urgently required given the backdrop of a pronounced scarcity of housing in Switzerland's largest city (2022 vacancy rate: 0.07%). The situation is rather different in Canton Ticino, where project planning is also on the rise after a temporary slowdown that will likely delay any further decline in what remains a very high vacancy rate.

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 7.0 billion, 15.5% higher than the 10-year average. A majority of 74 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 rose once again in the second quarter of 2023, above all in Graubünden and the Upper Valais. 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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