

Detailed results

KOF Business Tendency Surveys, January 2024

Zurich, 7 February 2024, 9am

Business Situation Indicator continues to fall but firms expect to see improvement soon

Business activity in the Swiss private sector continues to slow at the beginning of the year. This means that the starting point for the current year is much less encouraging than it was in January 2023, although there is a silver lining on the horizon: firms are much more confident about the next six months than they were previously. For the time being, however, the Swiss economy remains weak.



The direction of the Business Situation Indicator varies from sector to sector. The situation in manufacturing industry remains challenging. More than half of companies in this sector are complaining about a lack of demand. Exchange-rate movements – the further strengthening of the Swiss franc against both the euro and other currencies – are potentially a negative factor. Indeed, firms are seeing their competitiveness abroad come under pressure. However, this pressure is nowhere near as strong as it was in the first few months of 2015, for example, after the Swiss franc floor was lifted. Moreover, companies in the manufacturing sector are currently more confident about their export prospects and, therefore, about stimulus from foreign business than they were back in the autumn.

In addition to manufacturing firms, wholesalers, the hospitality industry and financial and insurance service providers have also reported a dip in their fairly strong business activity. The business situation in the construction, project engineering and retail sectors has hardly changed. Business in other services has improved slightly.

Firms are becoming more confident about business trends over the next six months. The outlook is more positive than it was before – particularly in manufacturing and among other service providers. Wholesalers are also becoming less sceptical. By contrast, the retail trade and financial and insurance service providers are becoming more cautious.

Firms expecting gross wage growth of less than 2 per cent

Although companies still intend to hire additional staff, they are planning to increase their headcount much less frequently than at the beginning of 2023. Nevertheless, firms are still reporting difficulties in finding suitable workers. Although complaints about staff shortages are no longer quite as widespread as they were at the beginning of 2023, the problem has not eased any further in any of the sectors surveyed in January compared with autumn 2023. As far as jobseekers are concerned, the labour market may have become slightly tougher, but their chances remain good.

Companies are assuming that wages will rise slightly less sharply over the next twelve months. However, the barely noticeable decline in forecasts from a 1.9 per cent wage increase in October 2023 to 1.8 per cent in January 2024 follows the downward trend observed throughout 2023. In January 2023, firms were expecting to see wage rises of 2.3 per cent over the subsequent twelve-month period. After forecasts fell below 2 per cent for the first time in 2023 in October, they are now stabilising within this range.

Mixed price signals

In line with the slight downward adjustment in wage forecasts, firms expect general inflation to remain lower over the next twelve months. The decline in projections is more pronounced here than for wages. In October, companies were expecting to see inflation of 2.4 per cent over the next twelve months. In January, they were forecasting an inflation rate of 1.9 per cent for the following twelve months. However, firms' planned price rises for their own services are not aligned with the levels of inflation expected in general consumer prices. Companies as a whole – and other services, manufacturing and construction in particular – are again forecasting more frequent price increases in their projected sales prices than in the entire second half of 2023. In this respect it is not clear whether the upward price trend among Swiss producers will abate in the short term.

Business situation sector by sector

Business in manufacturing has continued to deteriorate compared with December, although firms are much more upbeat about future trends. The business situation in the manufacturing sector has deteriorated again. Companies are reporting weak business activity overall. The Business Situation Indicator for the chemical and pharmaceutical sectors in particular has recently been on the decline. Utilisation of technical capacity in manufacturing as a whole is below average on a medium-term comparison but has recently decreased only slightly. Significantly more than half of those surveyed complained about a lack of demand. Their competitive position abroad is coming under pressure more frequently than it did in autumn 2023, which is probably partly due to the further strengthening of the Swiss franc. In this respect, however, the situation is very different from the highly challenging period following the lifting of the Swiss franc floor in 2015. Firms' expectations are becoming increasingly optimistic. Order intake is forecast to accelerate and companies intend to expand their production more frequently. To this end, they are planning to order more intermediate products. Businesses are



increasingly considering price rises as their earnings remain under pressure. They are only being cautious about their recruitment plans.

Capacity utilisation has recently increased in the building-related sectors of the economy, while the outlook is stable and encouraging. Business activity in the project engineering and construction sectors, which are both related to building activity, is fairly stable at the beginning of the year. The Business Situation Indicator for the construction industry has fallen marginally, while in the project engineering sector it has remained at roughly the same level as in the previous month. The business situation in the *project engineering sector* has thus remained virtually unchanged since autumn 2023. However, project engineering firms have recently expanded their service volumes significantly, and their earnings performed better towards the end of 2023 than they had done previously. Although these firms are somewhat more confident about the levels of demand going forward, they believe that they will no longer be able to impose price increases as frequently as in the past. The business situation in the *construction industry* has also remained virtually unchanged since November of last year. However, capacity utilisation has recently increased significantly. Although firms are more satisfied with their order books, they do not intend to expand their production more frequently in the near future. Companies are levying surcharges for their construction services more frequently than they did in the autumn of last year.

Although sales are currently weak in the retail and wholesale sectors, firms are hoping that demand and revenue will, at least, not fall any further. Business activity in the *retail sector* is virtually unchanged compared with December. Although the situation is considered to be encouraging on balance, it was much more positive at the beginning of 2023. Customer footfall in shops is currently significantly lower than it was during the same period last year. Earnings continue to decline. Retailers are still trying to impose price increases, albeit no longer as frequently as in December. They expect to be able to boost their sales in the near future. However, they plan to be cautious about hiring additional staff. The Business Situation Indicator in the quarterly *wholesale trade* survey fell for the fourth quarter in a row. The wholesale trade in producer goods is responsible for the renewed decline. The wholesaling of consumer goods, on the other hand, has initially turned the corner, with the business situation in this sector brightening. The number of goods sold in the consumer-goods sector was similar to that of a year ago, while the number of goods sold in production-related trade was again significantly lower. Overall, wholesale delivery periods have shortened and are likely to stabilise in the near future. According to survey respondents, demand will soon stop falling and sales prices are likely to rise slightly.

The situation in the hospitality industry is encouraging despite the slowdown, although food-service businesses are having more trouble holding their own than accommodation providers. The Business Situation Indicator for the *hospitality sector* has fallen slightly. This means that although the business situation is no longer quite as buoyant as it was at the beginning of 2023, it remains very strong overall. From a regional perspective, business in the mountain regions is excellent this winter, while it is cooling in the major towns and cities. Business activity in the accommodation sector is holding up better on the whole than in the food-service sector. Earnings in the *accommodation sector* continue to grow, with foreign guests ensuring an increase in the number of overnight stays. The room occupancy rate is rising slightly again. In the *food-service* sector, on the other hand, earnings are coming under pressure, with food and beverage sales growing only marginally. However, demand forecasts remain positive in both segments of the hospitality industry – accommodation and food services – albeit less obviously than before in the food-service sector.

Business in financial and insurance services has deteriorated a little, with firms no longer expecting the situation to improve. Business activity in *financial and insurance services* is cooling slightly but remains very buoyant overall. On balance, however, these institutions no longer expect their situation to improve in the next six months. *Banks* in particular are concerned about their business going forward. They are anticipating a fairly negative earnings trend following the very positive trend over the



past three months. Their scepticism about the future performance of their earnings is primarily due to the fact that the prospects for their lending and deposit-taking business, which has been a mainstay in recent months, are now seen as fairly bleak. Income from proprietary trading and from fees and commissions, on the other hand, should continue to perform well. *Insurance companies* are confident about their business going forward. In the current quarter they expect to boost their income from gross premiums written and to grow their net investment income. According to survey respondents, however, the latter is unlikely to be as broadly encouraging as it was in the autumn of last year.

Other service providers managed to halt the downward trend in their business and are now more confident about the future than they were. Business in *other services* stabilised at the beginning of the year, having been slightly under pressure until the autumn. However, this trend is currently unevenly distributed. The business situation in business-related services is improving, in personal services it is virtually unchanged, while in transport, information and communications the trend is still downwards. Mirroring this pattern, capacity utilisation in January rose in business-related services and fell in information and communications in particular. Overall, service companies are becoming more confident about their business prospects for the next six months and are increasingly anticipating growing demand for their services. They are also planning to raise the prices for their services more frequently.

KOF Business Situation Indicator for Switzerland (net balances, seasonally adjusted)

Sector	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24
Private sector (total)	29.9	27.5	27.6	22.8	20.4	21.2	17.0	17.7	17.0	13.6	14.7	14.3	13.0
Manufacturing	29.3	17.7	13.9	6.1	-1.2	-1.3	-7.2	-3.4	-6.7	-15.5	-11.3	-13.1	-18.0
Construction	48.6	48.3	49.5	46.1	40.9	45.5	41.8	42.7	43.2	43.5	42.1	42.8	42.3
Project engineering	54.8	54.8	55.5	54.8	50.1	55.7	54.3	55.3	55.1	57.3	51.4	51.6	51.4
Retail	16.1	13.2	15.5	11.6	7.6	7.2	11.1	11.1	8.2	7.1	9.0	6.5	6.7
Wholesale	50.1			38.8			20.5			13.9			11.6
Financial services	34.5	36.9	42.9	39.5	38.0	41.7	41.2	39.7	40.8	46.0	47.9	48.8	47.9
Hospitality	30.6			26.0			24.5			15.6			14.3
Other services	20.0			17.7			16.0			15.2			16.1

Responses to the question 'Would you rate your current business situation as good, satisfactory or poor?' The net balance is the percentage of 'good' responses minus the percentage of 'poor' responses.

Source: KOF Business Tendency Surveys



Firms' expectations for wage growth over the next twelve months (%)

Sector	Jan 23	Apr 23	Jul 23	Oct 23	Jan 24
Private sector (total)	2.3	2.2	2.0	1.9	1.8
Manufacturing	2.2	1.9	1.5	1.4	1.6
Construction	3.1	2.4	2.0	2.3	2.0
Project engineering	3.7	2.9	2.2	2.3	2.4
Retail	1.8	1.4	2.0	1.6	1.5
Wholesale	2.3	1.9	1.6	1.3	1.6
Financial services	1.7	1.8	1.8	1.7	1.7
Hospitality	4.1	4.1	3.7	3.5	3.5
Other services	2.1	2.0	1.9	1.9	1.6

Arithmetic mean values of quantitative responses to questions on the change in gross wages up to one year from now (%). The data are subjected to an outlier adjustment and aggregated. Firms' responses on wage levels are weighted according to the number of employees at the firm concerned (full-time equivalents).

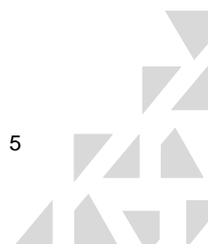
Source: KOF Business Tendency Surveys

Firms' expectations for inflation (consumer price index) over the next twelve months

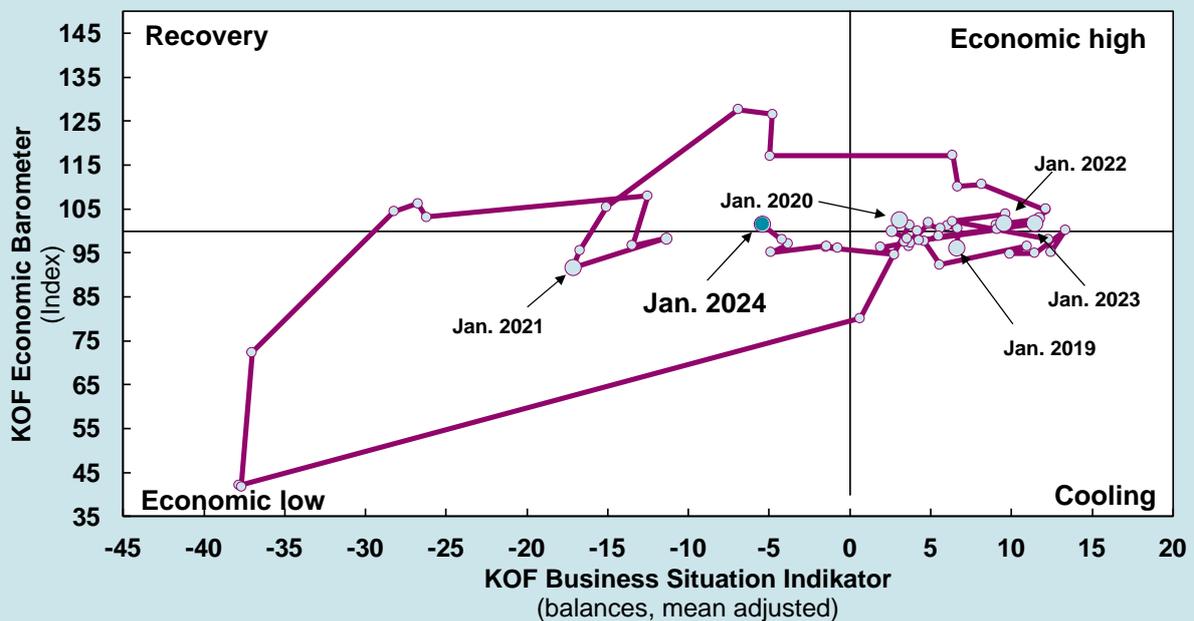
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Manufacturing	2.2	1.9	1.5	1.4	1.6
Construction	3.1	2.4	2.0	2.3	2.0
Project engineering	3.7	2.9	2.2	2.3	2.4
Retail	1.8	1.4	2.0	1.6	1.5
Wholesale	2.3	1.9	1.6	1.3	1.6
Financial services	1.7	1.8	1.8	1.7	1.7
Hospitality	4.1	4.1	3.7	3.5	3.5
Other services	2.1	2.0	1.9	1.9	1.6

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Source: KOF Business Tendency Surveys



KOF Business Cycle Clock: Relationship between the KOF Business Situation and the KOF Economic Barometer



The results of the KOF Business Tendency Surveys from January 2024 include the responses of around 4,500 firms from manufacturing, construction and the major service sectors. This equates to a response rate of around 62 per cent.

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