

Building materials

Business performance in 2007 certainly lived up to the previous year's. Thanks to a continuing boom in construction, on average survey participants actually reported slight increases in both sales and earnings compared with their 2006 levels. In addition, the healthy state of order books at present and the shortage of many raw materials has in fact led to slight inflationary pressure on the prices of many building materials. In line with the general trend in Switzerland, the sector increased its staffing levels, although this was more the case at big companies than at small ones. The picture is the same for capital spending, which is expected to be at around the same level this year as it was in 2007. By contrast, the general business trend is expected to be flat. With construction set to slow, the sector sees the year ahead as a period of consolidation. All in all, the outlook is not bad, considering the high level prevailing in the building materials sector following the good results of recent years.

Swiss timber value chain increasingly in the spotlight

The gulf between supply and demand for timber in Switzerland widened further in 2007. The association of Swiss forestry companies (Verband der Schweizerischen Forstunternehmer, VSFU) estimates that domestic timber supply increased by around 5–10% in the space of a year, whereas demand shot up by a substantial 20–50% in the same period. Timber prices rose as a result, with the increase more or less in step with the growth in demand. The general view within the sector is that timber will become an even more sought-after commodity in the coming months, particularly when the cheap timber imports from Germany and the Czech Republic triggered by Hurricane "Kyrill" (January 2007) start to dry up. The expected surge in prices is likely to act as an added incentive to (private) forest owners to harvest their timber since the costs of timber felling even in less accessible forests will now be covered. The main beneficiaries are likely to be sawmills with new, expanded capacity. In October 2007, for instance, the big sawmill in Domat/Ems opened, which in future will have cutting capacity of 800,000 m³. To give an idea of the scale involved here, the total volume of timber (softwood only) cut at all Swiss sawmills was just 2.1 million m³ in 2006. In order for the Swiss timber industry to meet future demand, a huge increase in exploitation of domestic forests coupled with a reduction in the volume of exports (2006: 1.2 million m³) would be required. However, it is precisely this need to reduce exports that makes it more crucial than ever to further optimize the Swiss timber value chain, so that the industry here can narrow the competitive gap with its foreign rivals.

Building materials groups go shopping

For some time now, leading building materials groups in the international markets have been reaffirming their diversification and internationalization strategies by making targeted acquisitions. One of their main aims is to counter the pressure on margins in the construction industry caused by persistent overcapacity problems. In Switzerland, too, building materials companies have been among the targets on the radars of large domestic and foreign groups, and some major mergers and acquisitions have taken place. In our view, the trend is likely to continue this year, as the amount of capacity that companies have (economies of scale are crucial) and the utilization of that capacity, along with efficiency gains, are likely to remain the key success factors in this sector in future. ■

