

# Detailed Results

## KOF Business Tendency Surveys, July 2020

Zurich, 5 August 2020, 10am

### Business Situation Eases

**The KOF Business Situation Indicator has risen significantly for the first time since April. This suggests that companies' fortunes are gradually improving. Nevertheless, their position remains very challenging. Only in the retail sector is the level of business activity already normalising and returning more or less to the encouraging situation that it was in at the beginning of the year. On the whole the Swiss economy has embarked on the lengthy process of recovering from the depths of the coronavirus crisis.**

Responding to specially added questions on the effects of the pandemic, around 60 per cent of the companies surveyed claim that the decline in demand is having a severe impact on them. This is similar to the number in May, when this question was asked for the first time. According to these companies, however, the effect of the pandemic has decreased in recent months. Its impact in most sectors declined particularly sharply in May, after the lockdown restrictions had been gradually eased from the end of April onwards. However, this impact mainly continued to decrease in the following months. Consequently, the business situation in almost all sectors of the Swiss economy improved in July. Only the hospitality industry has not yet bottomed out. It is the only sector in which business activity continued to deteriorate in July.

In most sectors, April marked the lowest point in the business cycle during the coronavirus crisis to date. This was the case for project engineering, retail, wholesale, financial and insurance services, and other service providers. In the manufacturing and construction sectors this improvement was fairly protracted. By contrast, the hospitality sector has not yet bottomed out. The business situation here is now considerably worse than it was at the beginning of 2020. But even for the 'other services' sector, which is usually accustomed to success, there is still a long way to go before it attains the sort of indicator value that it had at the beginning of the year. The retail sector is the only one that has so far been able to replicate the Situation Indicator values that it achieved in January and February.

A specially added question on the expected decline in annual sales confirms the sectoral pattern of the business situation: the hospitality industry fears by far the sharpest slump. For the year as a whole this sector is expecting sales to fall by almost 40 per cent. The other service providers are also expected to be hit hard, with the pandemic costing them around 15 per cent of their sales for the year as a whole. However, these service providers were even slightly more pessimistic in May, when they were forecasting a decline of around 20 per cent. It is possible that the easing of the lockdown restrictions may have caused their estimates to be revised slightly. Since April, manufacturing firms have fairly consistently been expecting their annual sales to fall by more than 10 per cent. The construction sector is forecasting a decline of around 10 per cent, while the contraction in the project engineering sector is likely to be even smaller. Financial and insurance service providers expect the pandemic to have only a very slight impact on their annual sales.

Around 14 per cent of the companies surveyed currently believe that their survival is at serious or even very serious risk. The firms most concerned are in the hospitality sector. The proportion of companies

fearing for their survival has changed very little overall since May. Any decline in the number of firms in a precarious situation is most likely to occur in the retail sector.

### **Business situation sector by sector**

**Manufacturing industry is starting to bottom out and hopes to see its business recover in the near future.** Although business in the manufacturing sector remained fairly poor in July, the situation had eased slightly compared with the previous month. The Business Situation Indicator for both domestically oriented and export-led companies has now passed its lowest point. On balance, only a few firms are still cutting their output. Following the production cutbacks of recent months, however, capacity utilisation is now very low. Consequently, the capacities available are mainly considered to be too large. Since companies' earnings are also deteriorating, they are reluctant to invest. As far as demand and output levels going forward are concerned, however, companies are no longer quite as pessimistic as in recent months. They expect to see a substantial revival in new orders. They believe that exports should also pick up. Output is then likely to be ramped up again slightly. The production outlook is positive across the board for manufacturers of intermediate products, consumer goods and, to a lesser extent, producers of capital goods. On the whole, therefore, manufacturing companies are now more confident about their future business prospects.

**The retail sector has made huge progress towards normalising its business situation. The recovery among wholesalers is more sluggish.** Business in the **retail sector** is recovering strongly. It has now returned to the encouraging position that it was in at the beginning of the year. Customer footfall in shops has picked up, and sales of goods have stabilised. Department stores are the main beneficiaries, and their business situation is now encouraging. Earnings generally remain under pressure but not to the same extent as before. Looking ahead to the coming months, retailers expect to see stable sales and no major price rises. Although inventories are no longer considered to be excessively high, firms remain fairly cautious about ordering new goods. Business in the **wholesale sector** remains predominantly weak but is no longer viewed quite as pessimistically as it was at the beginning of the second quarter. Sales of goods are still significantly lower than they were at the same time last year. Wholesalers are no longer expecting sharply rising delivery periods, and they are evidently managing to get hold of goods.

**Although business in construction is recovering partially, earnings are likely to grow only sluggishly.** In July the Business Situation Indicator rose in the construction and project engineering sectors associated with building activity. Although the situation is still very challenging compared with the last decade, the majority of companies describe the situation as satisfactory or good. 16 per cent of construction companies and only 8 per cent of project engineering firms are complaining that their situation is unsatisfactory. In both areas, demand has recently not contracted quite as sharply as before, and the volume of orders on hand is again increasing slightly. Staffing levels are therefore no longer considered to be far too high, particularly as companies believe that the worst is now behind them for the time being: they are less likely to expect a drop in demand or output than before. The past few months have left their mark on earnings, which is particularly noticeable among companies in the construction industry. The recovery here is likely to be sluggish.

**The hospitality sector is currently suffering more than any other industry from the pandemic, and the coming months are unlikely to bring a major turnaround.** The hospitality sector continues to look bleak, with businesses reporting an even worse situation than at the beginning of the second quarter. Sales have slumped compared with last year and earnings are deteriorating dramatically. Many beds in **hotels** remain empty. Although there are no signs of a turnaround yet, at least the demand outlook for the coming months is no longer as pessimistic as before. Reservations for the current quarter

remain low, however. Only in the mountain regions does the downturn seem to be slowing noticeably. Because the hospitality sector as a whole is considered to have much too large a workforce, cuts are planned.

**The situation for financial and insurance service providers is predominantly encouraging and their earnings are virtually stable.** Business in the financial and insurance services sector recovered slightly in July. Following the abrupt slowdown in April the business situation improved significantly in May. Since then it has changed very little overall. Operating income and operating expenses declined somewhat, which meant that earnings tended to grow slightly. There has thus not yet been any erosion of earnings, as was feared at the beginning of the second quarter. These institutions now no longer expect their earnings to deteriorate significantly. The demand outlook is once again cautiously optimistic. According to the **banks** surveyed, demand from private customers in particular is likely to grow more strongly going forward. They are, however, concerned about the creditworthiness of corporate customers.

**Although the other service providers' business activity remains unusually weak owing to the pandemic, they expect demand to pick up.** The Business Situation Indicator for 'other services' rose modestly in July following its unprecedented fall in April. Compared with business activity in the past, however, it is still very low. Demand for corporate services has remained weak and earnings have deteriorated dramatically. Capacity utilisation is significantly lower than in the corresponding quarter of last year. However, these service providers are seeing light at the end of the tunnel: they expect demand to pick up in the near future and therefore do not plan to reduce their workforce any further. The demand outlook in the sector of placement and hiring of workers, which includes for example temporary employment agencies, is remarkably positive. This is a hopeful sign for the Swiss economy because short-term staffing requirements are often covered by temporary employment in various sectors.

The findings of the latest KOF Business Tendency Surveys from July 2020 include the responses of more than 4,500 private firms from industry, construction and the most important service sectors. This equates to a response rate of about 58 per cent.

**Relevant data and an interactive chart for the KOF Business Situation Indicator can be found here:**  
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-business-situation-indicator.html>  
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**Further information on the KOF Business Tendency Surveys can be found here:**  
<https://kof.ethz.ch/en/surveys/business-tendency-surveys.html> →

**Contacts:**

Klaus Abberger | phone +41 44 632 51 56 | [abberger@kof.ethz.ch](mailto:abberger@kof.ethz.ch)

KOF Corporate Communications | phone +41 44 633 99 48 | [kofcc@kof.ethz.ch](mailto:kofcc@kof.ethz.ch)

# Graphics and table

**KOF Business Situation Indicator**  
(balance, seasonally adjusted)



**KOF Business Situation for Switzerland**  
(balance, seasonally adjusted)

|                                 | Jul 19 | Aug 19 | Sep 19 | Oct 19 | Nov 19 | Dec 19 | Jan 20 | Feb 20 | Mar 20 | Apr 20 | May 20 | Jun 20 | Jul 20 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Private sector (overall)</b> | 22.5   | 22.8   | 21.9   | 21.0   | 21.2   | 20.6   | 21.8   | 22.3   | 19.6   | -18.9  | -18.6  | -18.3  | -10.1  |
| <b>Manufacturing</b>            | 9.7    | 8.9    | 6.0    | 4.1    | 1.7    | -1.4   | 0.0    | 3.6    | -2.3   | -14.3  | -23.8  | -26.9  | -21.9  |
| <b>Construction</b>             | 32.9   | 31.3   | 33.2   | 29.3   | 31.5   | 31.6   | 34.0   | 38.3   | 34.1   | 3.8    | 2.8    | 3.1    | 9.3    |
| <b>Project engineering</b>      | 52.0   | 53.6   | 51.1   | 51.6   | 56.2   | 52.0   | 51.8   | 52.6   | 48.1   | 24.2   | 26.7   | 25.0   | 36.4   |
| <b>Retail trade</b>             | 7.9    | 15.5   | 7.4    | 4.4    | 7.2    | 7.3    | 8.8    | 3.6    | 5.8    | -26.3  | -24.6  | -4.0   | 7.4    |
| <b>Wholesale trade</b>          | 17.2   | -      | -      | 17.0   | -      | -      | 19.0   | -      | -      | -31.8  | -      | -      | -20.0  |
| <b>Financial services</b>       | 36.1   | 36.5   | 38.1   | 39.8   | 42.4   | 43.9   | 41.9   | 39.6   | 32.0   | 10.0   | 27.0   | 25.9   | 28.7   |
| <b>Hotel and catering</b>       | 10.0   | -      | -      | 6.8    | -      | -      | 5.9    | -      | -      | -62.0  | -      | -      | -67.0  |
| <b>Other services</b>           | 27.9   | -      | -      | 27.3   | -      | -      | 29.7   | -      | -      | -34.2  | -      | -      | -22.1  |

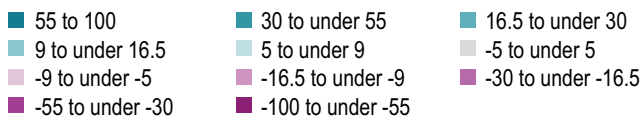
Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of 'good' answers minus the percentage of 'bad' answers.

**KOF Business Situation in the Private Sector**



The angle of the arrows reflects the change in the business situation compared to the previous month

Net balances



**KOF Economic Clock: Correlation between the KOF Business Situation and the KOF Economic Barometer**  
(Seasonally adjusted figures)

