

Detailed Results

KOF Business Tendency Surveys, October 2020

Zurich, 4 November 2020, 9am

Firms' business situation improving at the beginning of autumn

The KOF Business Situation Indicator rose significantly in October. After companies' business hardly changed over the summer months, it has recently improved noticeably. When considering their prospects going forward, however, some sectors became more cautious over the course of the month. Most of the responses to the latest surveys were received before the relevant restrictions were tightened further on 28 October.

All sectors surveyed are gradually emerging from the crisis at the beginning of autumn. The Business Situation Indicator for the **retail sector** was already exceeding its pre-crisis levels back in the summer. It is the only sector whose situation is now more encouraging than it was both at the beginning of this year and in October of last year. The Business Situation Indicator for **financial and insurance services** is close to its pre-crisis levels. In the other sectors surveyed – **manufacturing, construction, project engineering, wholesale, and other services** – the situation also improved in October but is still much less encouraging than it was either at the beginning of this year or in October of last year. In addition, the **hospitality industry** is still in the process of emerging from the doldrums. However, the shortfall compared with last year's business situation remains particularly large.

The pandemic increasingly returned to Switzerland as well during the course of October. This prompted the Federal Council to tighten the relevant restrictions – for example on 18 October, when it decided to extend the obligation to wear masks and again recommended working from home. This therefore poses the question of whether companies that responded to the KOF survey somewhat later in the month are more pessimistic about the prospects for their business than those that responded early in the month. Since these restrictions were tightened further on 28 October, however, only isolated responses to the surveys have been received. The very latest developments are therefore hardly captured at all in the results. In the manufacturing, hospitality, wholesale and other services sectors there is no indication from the responses given that there has been any significant, negative change of opinion about the current business situation. For example, manufacturing firms tended to report an improvement in operating conditions over both halves of the month. The late reports submitted in the construction industry reveal a certain tendency to assess the situation less positively compared with the previous month.

It is possible that the acceleration of the pandemic may not yet have a significant impact on the current business situation, but it may have an impact on companies' expectations for their business going forward. Firms' demand expectations should react sensitively to such changes in prospects. In hospitality – a sector that is once again likely to be severely affected by the pandemic – the outlook for demand throughout the month was already being seen as less encouraging than it had been in the previous quarter. In the manufacturing, other services, project engineering, wholesale, and financial and insurance services sectors, late reporters have a certain tendency to revise their demand expectations downwards on the previous month in comparison with early reporters. Overall, the responses by some sectors are therefore more cautious in the second half of the month. So far, however, these responses do not point to the sort of slump that we saw back in the spring.

Business situation sector by sector

The manufacturing industry is gradually emerging from the doldrums. Business in *manufacturing* continues to recover. After hitting its lowest point so far in June, the Business Situation Indicator has now risen for the fourth time in a row. Although the situation is thus improving noticeably, it remains predominantly challenging. This sector is therefore not out of the woods yet. Dissatisfaction with the volume of orders received remains high but has abated somewhat. Production activity and, therefore, capacity utilisation are increasing slightly. Capacity utilisation rates remain well below normal. However, companies expect the upward trend to continue: they believe that their export opportunities and order intake should continue to improve, and they intend to increase production. As a result, job cuts are no longer expected to be as frequent as in previous months.

The business situation in the retail sector remains encouraging and sales are expected to pick up in the near future. The wholesale sector is also getting back on its feet. Business in the *retail sector* improved again in October. It is seen as being more encouraging than at any time since 2014, with large companies in particular reporting a buoyant situation. Business at small and medium-sized firms is not yet as strong as it was before the crisis. Overall sales in the retail sector continued to rise, albeit not quite as sharply as in the previous two months. By contrast, earnings performed better. Inventories have been reduced and, as retailers are expecting sales to rise, they are also planning to order more goods themselves. On the whole, companies are confident about their business prospects. *Wholesalers* are still in the process of recovering from the coronavirus shock. However, the wholesale trade in goods used for production is doing better than the wholesale trade in consumer goods. The situation is particularly encouraging in the so-called 'other wholesale' sector, which deals in items such as fuels, metals, chemicals and building materials. The improvement of the situation in manufacturing could play a role here. Overall, wholesalers' revenues are no longer down as sharply year on year as they were in the previous quarter. The demand outlook for the coming months has also continued to improve slightly.

The situation in the construction sector is not as encouraging as it was before the pandemic, and demand is likely to increase only slowly. Business in the *construction* and *project engineering sectors* associated with building activity has not yet fully recovered from the coronavirus slump in the spring. Despite having improved further in October, the situation is still not as good as it was before the pandemic. In the construction industry, on the other hand, dissatisfaction with existing order books is diminishing and capacity utilisation has increased. However, demand is unlikely to pick up much in the coming months, so there are no signs of any significant expansion of production in the near future. Nevertheless, pressure on prices is easing slightly, which means that construction firms are no longer taking such a negative view of future earnings trends as they have to date. Project engineering firms do not expect to see any major change in demand in the near future either. The range of services provided is not expected to change significantly for the time being, and staffing levels should remain relatively stable. Compared with the situation before the pandemic, however, prices are under greater pressure.

Business in the hospitality sector is no longer as bad as it was in the spring, and the situation is improving, especially in alpine areas. However, demand could slow again in the coming months. The business situation in the *hospitality sector* remains bleak. At least it was not quite as unsatisfactory in October as it had been in the previous two quarters – mainly as a result of the marked improvement in mountain regions. On the other hand, the situation in hospitality in the major towns and cities has not improved. This discrepancy between alpine areas and urban locations is evident in both the food-service and accommodation segments, with the latter mainly lacking foreign visitors, which the survey respondents believe are likely to stay away over the coming months. All in all, businesses in the mountain regions are currently reporting booking figures similar to last year's, while those in towns and cities are falling far short of these levels. Businesses are sceptical about their prospects going forward.

In view of the fact that the number of infections is rising again, both food-service and accommodation providers see the outlook for demand more pessimistically than they did back in the summer.

The situation for financial and insurance service providers is almost as good as it was before the crisis, and the prospects are encouraging. Business in the *financial and insurance services sector* is improving again. It is now almost as buoyant as it was back in February before the financial market turbulence triggered by the pandemic. Demand has picked up increasingly. Earnings have performed slightly better than before, and survey respondents have also become more confident about the earnings outlook. The banking sector reports a stronger increase in demand from domestic retail and corporate customers. As business with foreign clients is sluggish, however, they expect overall demand to grow less sharply in the near future. Nevertheless, the banks are confident that they will be able to increase their earnings again.

Although the situation for other service providers is improving somewhat, the demand outlook is no longer as positive as it was in the summer. The business situation in *other services* is also continuing to improve. However, it is still far from being as buoyant as it was before the pandemic. In particular, many companies in the transport, information and communications segment continue to complain about a challenging situation. However, they are experiencing an overall increase in demand and are seeing their earnings stabilise. Companies in the transport, information and communications segment as well as providers of personal and business services unanimously expect demand to continue to rise. On the whole, however, demand expectations were slightly more positive in the previous quarter. Companies no longer intend to reduce their staffing levels. Over the coming months, however, firms do not expect to see a similar increase in the number of jobs as they did last year.

The findings of the latest KOF Business Tendency Surveys from October 2020 include the responses of more than 4,500 private-sector firms from industry, construction and the major service sectors. This equates to a response rate of about 59 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>



Further information on the KOF Business Tendency Surveys can be found here:
<https://kof.ethz.ch/en/surveys/business-tendency-surveys.html> →

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