

Press Release

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KOF Business Tendency Surveys for April 2020: Business Situation Indicator in Freefall – Historic Challenge for Service Providers

The KOF Business Situation Indicator fell extraordinarily sharply in April. In the face of the COVID-19 pandemic, companies reckon that their business is faring even worse than during the 2009 financial crisis, and they expect this situation to deteriorate further in the coming months. The coronavirus continues to have the economy firmly in its grip.

Business situation by sector

The COVID-19 pandemic is hitting all sectors of the economy hard. Nevertheless, the exact situation varies from one sector to another. **Manufacturing industry** continues to draw some benefit from its encouraging performance in the first few months of this year. Despite a sharp downward correction the business situation here is not yet as bad as during the financial crisis of 2009, although the demand and production outlook for the near future is very negative. In the **construction industry** and at **project engineering firms** the Situation Indicator is falling more sharply than ever before month on month. Nevertheless, the adverse business situation is not predominant here; at least as many companies are reporting a healthy situation as a bad one. The same applies to the **financial sector**. In the **hospitality and retail sectors** the Business Situation Indicator has collapsed and the situation is very difficult. However, **other service providers** are also facing a historic challenge. Overall, business in this sector is faring significantly worse than during the financial crisis.

Responses to **specific questions** from selected sectors indicate that the slump in demand is considered to be more serious than restrictions on a company's own production or service provision owing to staffing restrictions or a lack of preliminary products. In addition, companies in Italian-speaking and French-speaking parts of Switzerland are reporting adverse effects significantly more frequently than firms in German-speaking parts of the country.

The results sector by sector

Although the manufacturing sector continues to draw some benefit from its encouraging performance at the beginning of the year, the outlook is poor. The Business Situation Indicator has fallen significantly in this sector. However, the situation is currently not as challenging as it was during the financial crisis in 2009, and companies are likely to continue to benefit somewhat from their strong performance in the first two months of this year. Capacity utilisation changed only slightly on average in the first quarter. Dissatisfaction with the existing volume of orders on hand has increased only slightly, which suggests that there have not yet been large amounts of cancellations. However, new orders are likely to come in only infrequently. The outlook for incoming orders in the near future is gloomier than during the financial crisis. The same applies to production plans.

Responding to a specially added question on the demand-related effects of the COVID-19 pandemic, 51 per cent of companies stated that demand was significantly reduced. However, the chemical and pharmaceutical industry is somewhat of an exception here and is complaining much less often about a sharp drop in demand. The restrictions that companies see in the organisation of their own production processes are also considerable, but not as pronounced as the demand-related problems. 12 per cent of companies state that the availability of preliminary products, operating materials and so on is a major

constraint. These complaints about a lack of inputs are particularly pronounced among manufacturers of textiles, clothing and footwear. Moreover, companies in French-speaking and Italian-speaking parts of Switzerland are complaining about such production restrictions more frequently than those in German-speaking parts of the country. This regional pattern also applies to the issue of staff deployment: companies in French-speaking and Italian-speaking parts of Switzerland are reporting more frequently than companies in German-speaking areas that staff cannot be deployed.

The pandemic is hitting the retail and wholesale sectors hard, and companies do not expect any improvement in the near future. In the retail trade, conventional business has come to a standstill in many business lines. Accordingly, the Business Situation Indicator has fallen to its lowest level in more than 15 years. A stable sales development is expected for food. Otherwise, the sales outlook is very negative overall. Earnings have already collapsed, and goods are piling up in the warehouses. Nevertheless, retailers are hoping at the moment that no downward spiral in selling prices will be triggered. The situation in the wholesale trade is also considerably less encouraging than at the beginning of the year.

Responding to the specially added question on the pandemic effects, 55 per cent of companies are already reporting that their sales of goods have been significantly reduced. With regard to the procurement of merchandise, 28 per cent of wholesalers report that the availability of such goods is severely impaired. However, there is a difference between wholesalers who partly source their goods from Asia or Europe and those who do not. Only 11 per cent of the companies that include goods from Asia and Europe in their product ranges report no impairment in availability. Of the remaining firms, however, a significantly larger proportion – namely 27 per cent – see no problems now. Overall, the wholesale trade expects demand to fall in the near future. This assessment is particularly pronounced in the wholesaling of producer goods. The demand outlook for this segment is more negative than during the financial crisis of 2009. The demand outlook for the wholesale trade in consumer goods is also negative, although currently not as low as in 2009.

The business situation in construction is also deteriorating sharply, with existing orders no longer securing production for as long as previously. Business in the project engineering and construction sectors associated with building activity is slowing very sharply. As a result, the business situation in the construction industry is considered to be less encouraging than at any time since 2004 – after a monthly decline on an unprecedented scale. Despite this extreme correction, however, a seasonally adjusted 77 per cent of companies still rate their current business situation as either good or satisfactory. 23 per cent of construction companies reckon their situation is bad. This means that the construction industry is still in a relatively strong position compared with other sectors. However, the existing volume of order books has contracted in the case of both construction companies and planners. In both areas the survey participants are pessimistic about their business prospects. They expect demand to fall sharply despite substantial price cuts. Consequently, construction output is likely to decline significantly in the coming months.

The hospitality industry has been devastated by the pandemic and business has collapsed. After business in the hospitality sector had been fairly stable for almost two years, the coronavirus has caused it to crash. Tourism is very limited and in many places has come to a complete standstill. In response to the specially added question on the impact of the pandemic on business activity, almost all accommodation providers and all food service providers say that it has been significantly reduced. At the moment, these providers see no hope of any improvement. The demand outlook is clearly negative.

Although financial and insurance service providers are revising their business situation assessments sharply downwards, fairly few companies are in a bad business situation. Business in financial and insurance services slowed noticeably as early as March against the backdrop of sharp corrections in financial markets. In April this downward trend continued. Banks also consider their situation to be much less encouraging than at the beginning of 2020. On the one hand, they expect a significant increase in lending business with corporate customers. This will be boosted by the government's support measures, as these institutions reckon that the creditworthiness of corporate customers has deteriorated considerably. On the other hand, they expect to see slower growth in lending business with private customers. The outlook is now also negative for profits from fee and commission business and from trading. All in all, institutions in the financial and insurance services sector expect their earnings to deteriorate in the near future.

Service providers, which are usually fairly robust, are already suffering greatly from the pandemic, the level of demand going forward is also viewed pessimistically. The Business Situation Indicator for other services has fallen sharply. These service providers are facing a historic challenge: the situation is significantly worse than it was during the financial crisis of 2009, demand has already plummeted and service companies are highly pessimistic about the level of demand going forward.

In response to the additional question about the explicit demand effect of the pandemic, 55 per cent of companies state that demand for their services has declined significantly. Moreover, the weakness of demand is affecting large parts of the sector. The demand outlook is more negative than during the financial crisis, both in the sub-sector of transport, information technology and communications and in personal and business services. Complaints about the pandemic are particularly pronounced in the arts, entertainment, recreation, transport, warehousing and other business services sectors, which include travel agencies, temporary employment agencies and gardening and landscaping. When asked about the restrictions imposed by the ability to deploy their own staff, 36 per cent of companies state that they are severely affected by this. Again, these complaints are particularly common in the arts, entertainment, recreation, healthcare and social services. Overall, however, the slump in demand seems to outweigh the disruptions to their own operations.

KOF Business Situation for Switzerland (seasonally adjusted balances)

	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20
Private sector (overall)	23.9	23.0	23.0	23.1	23.3	22.4	21.3	21.5	20.9	21.6	22.2	19.1	-17.0
Manufacturing	15.1	13.3	11.8	9.8	9.2	6.3	4.3	1.7	-1.3	0.3	3.9	-2.4	-12.7
Construction	33.7	35.0	33.7	33.3	31.7	33.5	29.2	31.7	31.7	34.1	38.4	34.1	4.9
Project engineering	51.8	51.1	54.9	51.9	53.5	50.9	51.5	56.0	51.9	51.8	52.6	49.4	24.6
Retail trade	9.5	8.2	8.0	7.9	15.0	7.6	5.3	7.4	7.5	10.2	3.7	5.3	-22.1
Wholesale trade	24.6	-	-	18.0	-	-	17.6	-	-	18.5	-	-	-28.1
Financial services	35.4	32.2	34.6	37.1	37.1	38.4	39.9	42.3	43.9	41.7	40.5	31.1	11.9
Hotel and catering	6.1	-	-	9.4	-	-	6.6	-	-	6.0	-	-	-45.6
Other services	25.0	-	-	28.8	-	-	27.8	-	-	28.7	-	-	-34.4

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.

The findings of the latest KOF Business Tendency Surveys from April 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 55 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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