

Press Release

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Business Situation Eases; Second Coronavirus Wave Could, However, Trigger A Further Sharp Drop in GDP

The business situation in most sectors has improved slightly. This is shown by the KOF Business Situation Indicator, which has risen significantly for the first time since April. However, the situation remains challenging. 14 per cent of companies believe that their survival is at risk. In terms of economic performance, KOF expects GDP to decline by 4.9 per cent this year. If a second wave of COVID-19 were to occur, GDP would be expected to fall by 6 per cent this year.

The outbreak of the COVID-19 pandemic has triggered the most dramatic slump in Switzerland's economic activity for over four decades. Even though the business situation is easing, with the KOF Business Situation Indicator having recently risen more significantly, the position remains challenging. Around 60 per cent of the companies participating in the KOF Business Tendency Surveys claim that the decline in demand as a result of the pandemic is seriously affecting their business activities. However, the severity of this impact is decreasing. Despite signs that the situation is easing, around 14 per cent of companies currently believe that their survival is at serious or even very serious risk.

In April the business situation reached its lowest point during the coronavirus crisis to date in most sectors, i.e. in project engineering, retail, wholesale, financial and insurance services, and other services. The improvement started somewhat later in manufacturing and the construction industry. Both sectors expect their sales to decline by around 10 per cent this year owing to the pandemic. By contrast, the hospitality sector has not yet bottomed out. The business situation here is currently considerably worse than it was at the beginning of 2020 and, for the year as a whole, the hospitality sector is expecting its revenue to plummet by almost 40 per cent. Accordingly, the firms in this sector are the most fearful for their survival. But even for the other service providers, which are usually accustomed to success, there is still a very long way to go before the Business Situation Indicator reaches the level it was at around the beginning of the year. Companies in this sector expect the pandemic to cost them around 15 per cent of their sales. Only in the retail sector has the Business Situation Indicator managed to replicate the values that it achieved in January and February.

Swiss economy coming through the crisis relatively intact

The performance of the Swiss economy will continue to be heavily dependent on how the pandemic evolves. Based on updated scenarios, KOF expects economic output to contract by 4.9 per cent this year. This forecast is based on the assumption that there will be a further rise in new infections during the winter months but that this increase will be relatively easy to contain. June's forecast was still predicting a decline of 5.1 per cent in gross domestic product (GDP) for this baseline scenario. Despite this sharp downturn the Swiss economy is coming through the crisis in relatively good shape compared with the rest of Europe. For 2021, the KOF expects a GDP growth rate of 4.1 per cent (June forecast: 4.3 per cent). However, GDP at the end of 2021 will still not have reached where it was at the end of 2019.

The outlook for the Swiss labour market has improved slightly. The first available figures on the number of short-time working hours registered are lower than advance notifications suggested. Moreover, the unemployment figures since May have been better than forecast. The rate of registered unemployed will thus average 3.3 per cent this year. For 2021, we expect the annual average rate of registered unemployed to be 4.1 per cent. The internationally comparable unemployment rates as defined by the International Labour Organization (ILO) are likely to reach 5.0 per cent and 5.7 per cent respectively.

Second wave could cause GDP to fall by 6 per cent this year

If Switzerland were to experience a second wave of COVID-19 infections (with a reproduction number of around 2), further slumps in demand, lockdowns and closures of individual business sectors would be expected. Based on past experience of dealing with coronavirus to date, KOF expects less drastic restrictions in this scenario but, owing to the higher risk of infection during the winter half of the year, these restrictions would last longer. For the Swiss economy this would mean that GDP would decline by 6.0 per cent overall in 2020. Owing to the weakness of the economy at the beginning of the following year, the increase in aggregate economic output for 2021 would probably amount to a GDP growth rate of 2.9 per cent. In this scenario the rate of registered unemployed according to the State Secretariat for Economic Affairs (SECO) would amount to an annual average of 3.7 per cent in 2020 (ILO: 5.3 per cent). An average rate of 4.7 per cent (ILO: 6.3 per cent) would be expected for 2021.

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.

The detailed findings of the KOF Business Tendency Surveys can be found here:

https://www.kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Konjunkturumfragen/2020/DetailedResults_BusinessTendencySurvey_2020Q3.pdf →

The background report on the updated economic scenarios (in German) can be found here:

https://www.kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Publications/No_154_Konjunkturszenarien_August_2020.pdf →

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