

# Press Release

Zurich, 4 February 2021, 10am

## **Business situation under pressure again; economic recovery slowed down**

**Having risen at the end of 2020, the KOF Business Situation Indicator fell in January. The second wave of the pandemic is clearly acting as a drag on some sectors. The proportion of companies that consider their survival to be at risk increases strongly in the hospitality sector. More than half of businesses in the hospitality industry are worried about possible bankruptcy. KOF expects to see a GDP growth of 2.1 per cent this year but no return to pre-crisis levels until the end of 2021.**

The business situation of Swiss companies at the beginning of this year is less encouraging than it was last autumn. The service sectors in particular are again being hit by the pandemic: firms in the hospitality industry, the wholesale trade and other services reported a deterioration in their situation in the January Business Tendency Surveys. In manufacturing, on the other hand, levels of business activity have hardly changed despite the tightening of restrictions since 13 January.

The situation in construction, project engineering, and financial and insurance services actually continued to improve in January. The situation also improved in the retail sector, although the shop closures ordered in mid-January are probably not fully reflected in these results.

All in all, divergent trends are evident at the beginning of the year: while the business situation in the goods-producing sectors is stable to positive, some service industries in particular are struggling. The pandemic is driving a wedge between the trends in various sectors of the economy.

### **Threat to firms' survival rises**

Since May 2020 the KOF Business Tendency Surveys have been supplemented with specific questions on the coronavirus crisis. Around 60 per cent of the firms surveyed in January said that the pandemic had reduced their revenues last year, while about 9 per cent of companies reported a positive impact. The hospitality industry has been hit particularly hard, with its annual revenues likely to have plummeted by about 37 per cent in 2020, and almost one-third of businesses suffered a decrease of more than 50 per cent. Within this sector, hotels – whose revenue plunged by 46 per cent – have been more seriously affected than restaurants, whose revenue fell by 33 per cent.

The proportion of businesses that consider their survival to be at risk increased in January. Here, too, the hospitality industry stands out, with 56 per cent of businesses claiming that their survival is either seriously or very seriously at risk. Across all sectors, 14 per cent of firms are worried about potential bankruptcy. Almost 60 per cent of the companies surveyed also say that they are suffering from a decline in demand.

## **KOF Forecast: Second lockdown dampens economic recovery**

The restrictions imposed at the federal level in Switzerland have recently been significantly tightened further. Restaurants and the arts and entertainment sector have been closed again since the end of December 2020, while shops classified as non-essential retail have also had to remain shut for the time being since mid-January 2021. The more contagious virus variants already spreading in Switzerland are impairing the effectiveness of the measures taken. Although the current restrictions are already translating into lower infection rates, they are likely to continue until the second quarter of 2021 and will only be lifted gradually to prevent a renewed surge. Whilst several vaccines are now being used in the fight against the pandemic, the vaccination campaign has got off to a slow start and it will probably take until June before all people from the at-risk groups who are ready to be vaccinated have been immunised.

Given this situation, KOF has updated its economic scenario. This year it expects to see growth of 2.1 per cent (latest forecast for December 2020: baseline scenario of 3.2 per cent, negative scenario of 0.6 per cent). KOF expects GDP to grow by 3.6 per cent next year (latest forecast: baseline scenario of 2.6 per cent, negative scenario of 2.8 per cent, as the recovery appears stronger after the sharper decline). Economic activity should thus return to pre-crisis levels by the end of 2021.

In addition to those sectors directly affected by closures, such as restaurants for example, the transport industry and hotels are likely to be hit particularly hard in the first quarter of 2021. While the current weakness of the global economy is being strongly influenced by the service sector, the performance of manufacturing is fairly stable compared with the spring of 2020. In addition, the ramping-up of vaccine production should provide a stimulus to the domestic pharmaceutical industry. Although KOF reckons that individual restrictions will remain in place during the second quarter, we should nevertheless see a significant recovery in many sectors. Given the growing vaccine coverage, a broader-based economic normalisation can be expected to materialise in the autumn.

### **Risks to economic growth**

However, depending on how the pandemic develops, other economic developments are also possible. For example, the vaccination campaign could gather momentum, which would make the more rapid easing of restrictions conceivable. On the other hand, further delays in vaccine delivery are possible. In addition, the spread of new virus variants could progress faster than currently assumed, and the emergence of further variants also poses risks.

The findings of the latest KOF Business Tendency Surveys from January 2021 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 60 per cent.

A detailed article on the coronavirus special issues will appear in the KOF Bulletin on Friday, 5 February 2021:

<https://kof.ethz.ch/en/news-and-events/news/kof-bulletin.html> →

The detailed results of the KOF Business Tendency Surveys from October (incl. charts and tables) can be found here:

[https://ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Konjunkturumfragen/2021/DetailedResults\\_BusinessTendencySurvey\\_2021Q1.pdf](https://ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Konjunkturumfragen/2021/DetailedResults_BusinessTendencySurvey_2021Q1.pdf) →

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> →

Graphics and table for the forecast update can be found here:

[https://ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2021/Grafikblatt\\_Prognoseupdate\\_en\\_2021\\_Q1.pdf](https://ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2021/Grafikblatt_Prognoseupdate_en_2021_Q1.pdf) →

Further information on the KOF Economic Forecasts can be found here:

<https://kof.ethz.ch/en/forecasts-and-indicators/forecasts/kof-economic-forecast.html> →

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