ETH zürich KOF

Press Release

Zurich, 27 August, 2 p.m.

KOF Forecast Update: Historically Deep Recession - Return to Pre-crisis Level in 2022 at the Earliest

As expected by KOF, the Swiss economy experienced a deep red 2nd quarter, even if the slump was less severe by international standards. However, the situation is very uneven between and within the individual sectors. The consequences of the crisis are also clearly evident in the labour market - the low point has probably not yet been reached. KOF is leaving its forecast for GDP growth in 2020 almost unchanged at -4.7%. In 2021, it expects a plus of 3.7%.

The pandemic plunged the global economy into a deep hole in March and April 2020. In the first half of the year, global production slumped far more sharply than during the global financial crisis of 2008. Although global industrial production and world trade have recently declined to a similar extent as during the financial crisis. But while private consumption was a stabilising factor in 2008, it has pulled the global economy down massively in recent months.

Since the lifting of the lockdowns and the resumption of consumer activity, global economic activity has been growing strongly again. Catch-up effects also play an important role in this regard. However, global output is currently still well below its pre-crisis level and is unlikely to return to this level in the forecast period. Rather, KOF is assuming a weak economic development after the end of the current rebound. One reason for this is that the crisis is accompanied by a loss of purchasing power. In addition, investments are negatively affected by the collapse in profits and the high level of uncertainty. Structural adjustments are thus becoming more difficult, which also continues to dampen economic momentum. However, the economic stimulus packages adopted by many countries are providing some countermeasures. The central banks are also providing large amounts of liquidity and supporting the economy in the short to medium term by buying up securities.

Switzerland: Return to growing value added expected after deep red 2nd quarter

The Swiss economy is currently in the midst of the worst recession in 45 years. The figures published today by the State Secretariat for Economic Affairs (SECO), which show a collapse in gross domestic product (GDP) in the second quarter of 8.2% (not annualised), confirm the latest forecast of the KOF (-8.4%). The slump affects almost the entire economy and the end is not yet in sight. Although the KOF expects a return to growing value added in the current 3rd quarter after the deep red result of the 2nd quarter, the KOF is still expecting a return to growth in the current 3rd quarter. But the level of the end of 2019 is unlikely to be reached again before 2022. In its basic scenario, the KOF currently assumes a 4.7% decline in GDP for 2020 (last forecast: -4.9%). Next year GDP growth of 3.7% is expected (last forecast: 4.1%). Should there be a second wave, the KOF continues to expect GDP to fall by almost 6% this year.

In the second quarter, transport and the hospitality sector, among others, suffered particularly badly. A prolonged period of weakness is becoming apparent in the severely restricted air traffic. These sectors will therefore dampen further economic development more than previously assumed. The construction industry also recorded a weak 2nd quarter. However, the slump here is likely to be rather temporary. The pharmaceutical industry stabilised the Swiss economy in the first half of the year and is likely to continue to do so. Despite this stabilisation, there has been a severe slump in the manufacturing sector, which will continue due to the international economic situation. Retail trade is slowly returning to normal, while transit trade grew strongly in the second quarter. However, the situation in certain sectors is very uneven. In the retail sector, for example, larger department shops and online retailing are benefiting from the current situation, while specialist retailers continue to suffer.

Labour market: Many people are withdrawing from the labour market

The latest figures show that the Corona crisis hit the labour market with full force. Seasonally adjusted, there were about 58,000 fewer jobs in the second quarter than at the end of 2019, and the number of people in employment even fell by 106,000 during this period. At the same time, short-time work has been introduced for more than a quarter of all employees since the beginning of the crisis. Only about half of the sharp decline in employment was reflected in an increase in unemployment figures. This is due to a phenomenon that was surprising in its extent: In the second quarter, a large number of the labour force withdrew from the labour market. Many who would like to work stopped actively looking for a job.

At present, the labour market is therefore still in a state of significant under-utilisation. Many companies are still using short-time work for part of their workforce, which allows them to ramp up their activities without hiring new staff. The number of vacancies is correspondingly low. In addition, further plant closures and mass redundancies are likely to be reported in the coming months. People who have discouragedly withdrawn from the labour market are also likely to resume their job search. KOF therefore assumes that seasonally adjusted unemployment figures will continue to rise slightly in the second half of the year and that the peak in unemployment will not be passed until early 2021.

You can also find the press release on our website:
http://www.kof.ethz.ch/en/news-and-events/media/press-releases.html →

An overview of previous KOF publications on coronavirus and current figures and data can be found here:
https://kof.ethz.ch/en/research/coronavirus.html →

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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