

# Press Release

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## KOF Economic Forecast, autumn 2020:

### Fragile recovery; two scenarios for the economy going forward

**The easing of the pandemic situation in the summer improved the outlook for economic activity. However, the rising number of new infections has heightened uncertainty again. KOF has therefore constructed two scenarios for the economy going forward. Under its baseline scenario it expects GDP to contract by 3.6 per cent this year (2021: growth of 3.2 per cent). If the pandemic situation continues to deteriorate, however, GDP is forecast to fall by 4.9 per cent (2021: growth of 1.5 per cent).**

Following the severe recession in the first half of the year the Swiss economy staged a partial recovery in the third quarter of 2020. In many sectors - such as the retail trade - the situation eased during the summer. Nevertheless, most sectors are still suffering from the exceptional situation, especially the hospitality sector or transport (traffic). The sharp rise in the numbers of current infections is also heightening uncertainty about the economic impact of the pandemic. KOF has therefore constructed two scenarios for the economy going forward.

The baseline scenario predicts that the numbers of new infections in the autumn and winter months will be higher than they were in the summer and that the restrictions will be tightened. At the same time it is assumed that although the economic recovery will falter, we will not see the kind of broad-based slump that occurred in the spring. Under this scenario KOF is expecting gross domestic product (GDP) for 2020 to decline by 3.6 per cent (forecast update August: decrease of 4.7 per cent). GDP is then forecast to grow by 3.2 per cent in 2021 (3.7 per cent). It will not return to its pre-crisis levels until at least the end of 2021. The fact that the forecast for 2020 in particular has been sharply revised upwards can be attributed to newly calculated official figures for past trends and to a more positive assessment of the third quarter of 2020.

KOF's negative scenario assumes that the pandemic will return in a much more severe form in the autumn and winter and will continue into the spring of 2021. In order to prevent the health service from being overwhelmed under this scenario there will be partial lockdowns and the closure of individual business lines. It is assumed that weaker economic activity both domestically and internationally will cause a renewed slump in demand, which will impact adversely on output. Under its negative scenario KOF expects GDP to fall by 4.9 per cent in 2020. Next year's recovery, which will see growth of 1.5 per cent, will be much weaker than that under the baseline scenario. GDP will not return to its pre-crisis levels until at least 2023.

#### **International economic activity: recovery in global output is slowing**

The euro area saw its GDP slump by almost 12 per cent (on a non-annualised basis) in the second quarter of this year, which impacted accordingly on Swiss exporters. The global economy has been recovering rapidly since the early summer as infection numbers have come down and restrictions have been eased. Nonetheless, KOF estimates that global output (aggregated based on Swiss export weightings) at the end of September was still around 4 per cent lower than it had been prior to the recession. Moreover, the recovery has slowed recently. Under its baseline scenario KOF predicts that overall output in the euro area will contract by 6.8 per cent this year but will then grow by a substantial 4.5 per cent next year. The growth rates forecast for the United States are minus 4.2 per cent (2020) and a positive 3.7 per cent (2021), while growth in the United Kingdom is expect to amount to minus 9.6 per cent (2020) and a positive 6.2 per cent (2021).

### **Swiss pharmaceutical sector continues to grow while manufacturing is hit hard**

The fact that the Swiss economy has so far proved to be more resilient than many other countries is likely to be partly attributable to its widely used support measures (short-time working, income support and COVID-19 loans). A further factor is that merchanting and the chemical and pharmaceutical sectors, all of which are not unaffected much by economic volatility, account for a sizeable proportion of Swiss industry. Chemicals and pharma achieved non-annualised growth of 0.3 per cent in the second quarter of 2020. Manufacturing, on the other hand, was hit really hard, with output in this sector shrinking by 10.3 per cent. Swiss industry's recovery overall will depend primarily on the situation in its major export markets. If KOF's baseline scenario materialises, production will shrink by almost 5 per cent this year and increase by around 4 per cent in 2021.

The construction industry recovered for the most part in the second half of the year. In the course of next year, KOF expects construction output to practically stagnate. Even in the absence of the pandemic we would have seen a slowdown in this sector, especially given the fairly low levels of residential construction activity. The coronavirus crisis is now likely to act as a drag on commercial construction as well.

### **Private consumption no longer acting as a support; households' saving rate rising sharply**

Business in the retail sector improved significantly during the summer and at least remained flat in September. KOF's Business Tendency Surveys suggest that the current situation is more or less as satisfactory as it was before the pandemic. However, fortunes within the retail sector are diverging sharply. Whereas supermarkets, department stores, mail order and online retail are faring much better than they did prior to the crisis, other segments such as pure food retailers remain in the doldrums. The hospitality sector is also some way from returning to normal. Although the numbers of overnight stays in the alpine regions in particular staged a partial recovery in the summer thanks to domestic tourists, they failed to compensate for the loss of guests from abroad. As travel warnings are currently on the increase again, few foreign guests are likely to travel to Switzerland during the autumn and winter. There are signs that the airline industry too is likely to remain in the doldrums until the end of the forecasting period.

Investment has traditionally fallen sharply during past crises owing to the higher levels of uncertainty, and this is what is currently happening. Private consumption, on the other hand, has often acted as a support in previous recessions. It has been unable to perform this function during this year's recession. Households simply did not have the opportunity to consume and spend on the usual scale during the lockdown. Private consumption is therefore likely to contract by 4 per cent overall this year. Most of the consumer spending that does not materialise will be saved. The saving rate (excluding pension entitlements) is therefore forecast to jump from 13.8 per cent in 2019 to 18.7 per cent this year.

### **Labour market: fallout from the crisis not visible until next year**

The full force of the pandemic hit Switzerland's labour market in the second quarter of this year. The number of people in work declined by a seasonally adjusted 2 per cent compared with the previous quarter. The fall in unemployment during the summer therefore came as a surprise. The main reason for this is probably the effectiveness of short-time working schemes. However, we are not out of the woods yet. The number of employees on short-time working arrangements remains high, and some firms benefited from one-off effects during the summer – such as parts of the retail sector, which was able to rely on catch-up effects in consumer spending. Because these one-off effects are coming to an end and we are likely to see redundancies among employees who are currently on short-time working schemes, unemployment is expected to rise slightly. KOF is forecasting an unemployment rate – as defined by Switzerland's State Secretariat for Economic Affairs (SECO) – of 3.2 per cent this year and 3.6 per cent next year.

As far as wages are concerned, the crisis will probably not be felt until 2021. This year many workers are benefiting from the fact that the pay negotiations held last autumn took place at a time when the economic outlook was still fairly promising. In addition, falling consumer prices are providing households with considerable gains in purchasing power. Consequently, real wages as defined by the Swiss Wage Index (SWI) are forecast to rise by 1.1 per cent this year. These wages will virtually stagnate next year, edging up just 0.1 per cent.

**Charts and further information on KOF's economic forecast, autumn 2020 are available here:**  
<https://kof.ethz.ch/en/forecasts-and-indicators/forecasts/kof-economic-forecast.html> →

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