

## All sectors will feel coronavirus hit but some will recover quicker than others

The effects of the coronavirus are now being felt in almost all sectors. Some will probably bounce back more easily than others



European sectors were affected by disruptions to supply chains and travel restrictions in Asia, and these effects increased with the arrival of the coronavirus in Europe. Tourism, hospitality and aviation are facing sharp falls in demand, with little chance of catching up later on. Retail trade in non-food products faces a similar period of low demand, but some purchases that have been postponed will happen once a recovery is underway. Transportation, manufacturing and wholesale trade have good chances of catching up once supply chains are restored, subject to supply constraints. The sectors least directly affected are agriculture, construction and business services, but they too are reliant on an available and healthy workforce, so no sector is completely safe.

### Uneven impact

It's too soon to quantify the impact of Covid-19, but as cases of the virus have begun to multiply in Europe, the effects are reaching a larger number of sectors (Table 1). The European tourism, transportation, manufacturing and wholesale trade sectors were already seeing the effects of disrupted supply chains and travel restrictions in Asia. Now that governments and businesses are responding to the virus in Europe, the retail and hospitality sectors are facing sharp falls in

demand, having been closed in many countries. Workers are having to stay home and juggle caring responsibilities in countries where schools have closed. Demands on the health sector are increasing. Supply restrictions and shortages have pushed up some input costs, but lower oil prices have also helped to reduce transportation costs.

## Table 1: Supply and demand impacts on sectors

### Negative impacts for all sectors

Demand, supply and price effects for European sectors

	Demand	Input costs	Supply
Agriculture	-	+	-
Construction	-		-
Retail	+/-	-	-
Wholesale	-	+/-	-
Tourism & hospitality	-		-
Manufacturing	-	+/-	-
Transportation	-	+	-
Business services	-		-
Health	+		-

- = Negative effect
- + = "Positive" effect
- +/- = Both "positive" and negative effects

Source: ING

Sectors differ in their ability to respond flexibly to supply disruptions and falls in demand (Table 2). Business as usual can continue for professional services if their workforce logs on from home, but this is not an option in most other sectors. Where staff are employed on temporary or zero-hours contracts, sectors can reduce their staffing costs while demand is down, but in most cases these costs are a small proportion of running costs.

Once a global recovery gets underway, industrial production and wholesale trade might be able to catch up some of the lost ground. There will also be some catch up for retail trade as some purchases that were postponed are finally made. But seasonal products will have missed their moment, and events, journeys and meals out may have been cancelled rather than postponed. Consumer confidence may take time to recover, and consumers may have drawn on savings during the period where they were unable to work. In the construction and health sectors, supply capacity will limit how much of the pent-up demand can be met.

**Table 2: Resilience of sectors**

	Ability to work from home	Scope for rebound	Use of temporary employment contracts
Agriculture	-	-	
Construction	-	-	+
Retail	-	+	+
Wholesale	+	+	+
Tourism & hospitality	-	-	+
Manufacturing	-	+	
Transportation	-	+	+
Business services	+	+	
Health	-	-	

- = Little/no adjustment possible  
+ = Adjustment possible

Source: ING

Credit markets have been **responding** to the increased risks for some sectors, and yields have risen dramatically since the beginning of February. Most sectors have already issued debt to around 20%-30% of their refinancing needs for 2020, but the large increases in refinancing costs are worrying in highly leveraged sectors, and those with large refinancing needs, including the energy, health, and car-making industries.

### Tourism and hospitality: fewer tourists and more uncertainty

With most governments advising Europeans to limit travel to a minimum, and travel into the Shengen area closed off, the travel, tourism, leisure and food services industries are facing an unprecedented reduction in demand. Uncertainty about how long travel restrictions will continue is likely to lead to a slump in demand for summer holiday bookings. A lost 'season' of holidays, events and meals out – and the cost of cancellations and refunds – will be difficult for the sector to recoup once a recovery is underway.

### Aviation: flights cancelled, air freight at a premium

The cancellation of most flights between China and European airports was quickly followed by government restrictions on travel to Italy, then transatlantic flights, and finally most intra-European air traffic. Major airlines Air France-KLM, Lufthansa, and British Airways expect a drop of 70%-90% in flight activity in March and April following the spread of the virus.

The reduction in passenger flights has had a knock-on effect on air freight, half of which normally is transported in passenger-carrying planes. With capacity reduced, and increased demand to make up for delays in sea transport, air freight rates have increased sharply. Some airlines are considering using passenger aircraft as freighters and authorities are providing extra slots for freight business. Airlines are trying to compensate for the lost flights with extra staff training and maintenance of aircraft, but (temporary) workforce reductions may be necessary to survive. Jet

fuel costs are lower on the back of the fall in oil prices, but these costs are typically partly hedged by airlines.

## Retail: some purchases now, leaving some for later

Fear of shortages is causing consumers to stock up on food products and other items. But for most non-food retail, falling consumer confidence is weighing on demand. Concerns about contracting the virus and uncertainty about incomes, not to mention the compulsory closure of some shops, are all contributing to quieter shopping streets. For major purchases and luxury consumer goods, demand may be postponed until shoppers (including tourists) return to high streets. For sellers of seasonal products that are now in the shops, there is less chance of catching up on sales once a recovery is underway.

Retailers' supplies are somewhat affected by capacity limitations in container and air transport between China and Europe. For some retailers, it is possible to rely on stocks or switch to alternative suppliers. Smaller retailers, and those shipping products directly, are more likely to encounter difficulties with their supply chains than the larger retail companies supplied via wholesalers.

## Freight transport and logistics: slump in volumes

The measures taken in China and South Korea to contain the virus's spread are having a direct effect on European freight transport and logistics. In normal times, one in four containers in the ports of Rotterdam and Hamburg originate from China. The low volumes of containers being handled in ports and transported within mainland Europe, and to and from the UK will continue for a number of weeks with the downscaling of industrial and trade activity, although container ships have started to depart from China again. Once a recovery is underway worldwide, the transport and logistics sector is likely to experience some catch up demand as goods which have been stuck along supply chains are delivered. In the meantime, lower fuel costs have been providing some relief.

## Manufacturing: delayed deliveries

Manufacturing has suffered delays in the supply of raw materials and intermediate goods, which are damaging because supply chains are set up to use just-in-time deliveries and minimal inventories. The textiles, electronics, machinery and car making industries are most dependent on inputs from China, South Korea and Italy and therefore [vulnerable](#) to disruption. On the other hand, the chemical and steel industries in Europe have benefited from supplying to markets which would normally source from China.

European manufacturing has also been affected by falls in demand in China and South Korea, which are important markets for European industrial products, high-tech products and cars. Volkswagen sold 25% fewer cars in February. Faced with a drop in demand, the sector can reduce running costs by temporarily shortening working hours. Once production resumes, a catch up in sales depends on a recovery in consumer confidence.

## Wholesale trade: reliant on imports and energy prices

Wholesale trade is down as consignments from Asia of electronics, furniture, clothing, toys, machines and cars destined for Europe have been delayed. Some catch up will happen once a

global recovery is underway. Raw material wholesalers can expect turnover for the first half of 2020 to be very low, in line with the fall in oil prices.

## Energy: demand at weekend levels

Major restrictions on work, production and travel are resulting in weekly electricity and gas demand dropping to levels seen at weekends and during vacation periods, around 30% less than normal. This is in line with China where coal consumption during the period of supply reductions and quarantine fell to levels usually seen around the celebration of the Chinese New Year.

## Business services: operations continue, support services affected

Business services are able to continue operations to a large extent, with more working from home. With offices closed, demand falls for the cleaning, catering and security services which normally support them. At the same time, more intensive use of web applications increases the demand for data centre services, and providers of video conferencing software.

## Construction: labour shortages worsen

Construction was initially one of the less affected sectors by the Covid-19 virus. It is not a large exporting sector, and the sector also imports relatively little. Supply chain disruption is relevant for some materials and products, mostly electronics for the installation sector and solar panels.

Until recently, there was too much work in the sector in many European countries rather than too little. In February, 25% of construction companies in the EU indicated that they had staff shortages, and since then, many of the East European workers that firms rely on have returned to their home countries. The construction sector will see a hit to demand if business investment in new business premises is postponed. Because construction companies have little or no overcapacity, there is little ability for the sector to catch up once a recovery is underway.

## Agriculture: depending on European demand

The bulk of European agricultural products are exported within Europe, so the sector faces a fall in demand. Sales have fallen of agricultural and horticultural products, including veal and flowers, and finding alternative markets is difficult. The sector may suffer from labour shortages if travel restrictions impede the movement of seasonal workers.

The outlook for different products and prices varies. If the virus is still weighing on European demand during the second quarter, this will coincide with higher dairy production during this period and cause prices to fall. Various major European dairy producers have already adjusted their sales targets down. Pork prices are likely to remain higher thanks to demand from China. Prices on the futures market for corn, soy and sugar have fallen sharply due to the lower oil price. For some arable farmers this means lower yields, for livestock farmers the lower yields can be partly compensated by lower feed costs.

## Health: capacity pressures

Hospitals are playing a pivotal role in the treatment of the virus and are key to any sort of normal economic activity continuing. Policy responses are aimed at managing the demands on hospital

staff and equipment, by 'flattening the curve' of infection. Demand pressures are increasing across the sector, as people are making more contact with their doctors, and laboratories are testing for the virus. Health services are tracing the contacts of people who have the virus, as well as contributing to public information campaigns about the virus's effects and prevention methods.

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