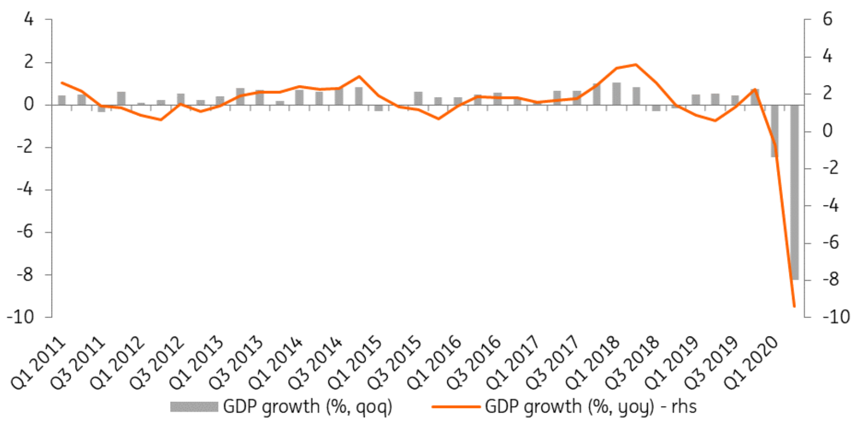
Switzerland: Historic fall but not as bad as elsewhere

Swiss GDP plunged by the most on record in the second quarter, but the fall was less severe than that seen by its neighbours in Europe

An historic fall

Swiss GDP fell by 8.2% quarter-on-quarter in the second quarter, the worst fall in history. In the first quarter, GDP had already fallen by 2.5% QoQ, implying that the coronavirus led to a cumulative drop in production in the first half of the year of 10.5% compared to the end of 2019.

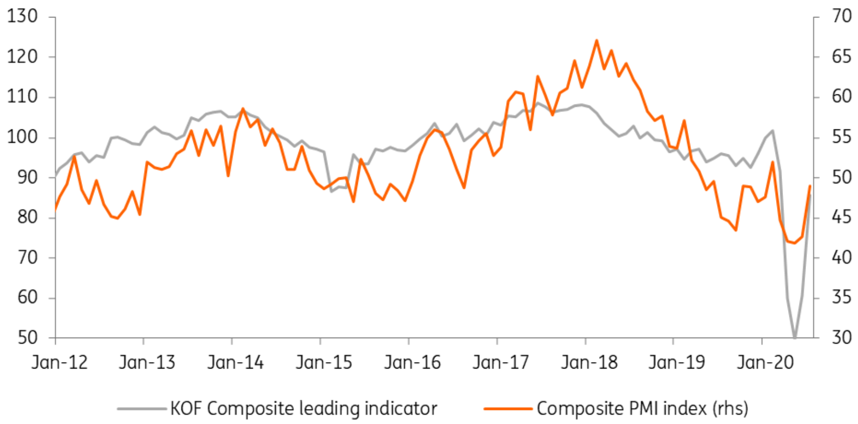
The fall in GDP is explained by almost all components of demand. Private consumer spending has been sharply curbed (-8.6% QoQ) due to the closure of shops, restaurants and travel restrictions. Investment in construction (-4.0% QoQ) and capital goods (-11.7% QoQ) also fell sharply, while exports and imports of services plummeted (-15.9% and -22.2% QoQ, respectively).



Source: Thomsons Reuters, ING Economic Research

The situation is better than in neighbouring countries

While the decline in Swiss GDP is historic, it is less sharp than that observed in neighbouring countries in the second quarter (Germany -9.7% QoQ; Italy -12.4% QoQ; France -13.8% QoQ). This is mainly due to a different sectoral structure of the economy in Switzerland than in its European neighbours. In particular, the pharmaceutical sector occupies a very important place in the Swiss economy. And this sector managed to increase sales in the second quarter, while the rest of the manufacturing industry collapsed due to the global recession and lockdowns in many countries. Secondly, Switzerland is less dependent on tourism than its European neighbours. Production collapsed in this sector (-54.0% QoQ) and in the transport and communication sector (-21.7%). However, this collapse has affected Switzerland less than in neighbouring countries, as tourism accounts for a lower share of GDP. Finally, Swiss trade experienced a moderate decline (-3.6%) due to an increase in transit trade and relatively robust retail trade.



Source: Thomsons Reuters, ING Economic Research

A rebound does not mean that the crisis is over

Since the low point of lockdown, the economic situation in Switzerland has improved thanks to the gradual lifting of restrictions. Confidence indicators recovered strongly in June and July. For example, the KOF indicator, the most important leading indicator in Switzerland, rose very sharply by 25.1 points in July, from 60.6 in June to 85.7. The observed rebound is therefore impressive and points to good figures for GDP growth in the third quarter.

Nevertheless, this does not mean that the crisis is over. Second round effects will continue to be present until 2021. For example, 14% of Swiss companies currently consider their existence to be threatened, despite the rebound in June and July. Bankruptcies and job losses could therefore occur in the last quarter of 2020 and in 2021. In addition, the disease is not under control and Switzerland saw a sharp increase in the number of new coronavirus infections in August. This means that further restrictions cannot be ruled out, and that consumer and business confidence is likely to remain low as long as a vaccine is not available.

All in all, the smaller fall in GDP in Switzerland compared to other European countries in the second quarter means that the figures for the year 2020 as a whole are likely to be less catastrophic in Switzerland than elsewhere. We forecast a 5% contraction in GDP in 2020. Nevertheless, the economic horizon remains very uncertain and the Swiss economic recovery will be slow. It will probably take until 2022 for GDP to return to its pre-crisis level.

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