



Press release

Date

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Coronavirus shrinking the economy

Economic forecast by the Federal Government's Expert Group – spring 2020

The Expert Group expects Switzerland to plunge into recession in 2020. The spread of the new coronavirus in Switzerland and abroad is temporarily bringing parts of the economy to a standstill. Provided that the coronavirus situation stabilises, the economy should gradually recover from the second half of the year onwards. This would lead to high GDP growth in 2021, which, however, would still not allow the previously anticipated GDP level to be reached. Forecasting uncertainty is currently extraordinarily high.

The Federal Government's Expert Group predicts a **-1.5%** decline in **sport event adjusted GDP** for 2020 (December 2019 forecast: +1.3%). Taking account of the international sporting events still currently planned, this corresponds to a GDP drop of **-1.3%**.

The Swiss economy is being affected by the spread of the novel coronavirus through **various channels**. On the one hand, the virus and the associated policy measures are having a significantly negative impact on key trading partners in the first half of 2020. The upturn in the global economy that had previously been expected has now been abruptly interrupted. Swiss industries vulnerable to this development, such as tourism and transport, but also manufacturing sectors sensitive to the economic cycle, have thus been affected by severely **declining turnover**. Moreover, production outages in other countries and tougher transport conditions are expected to negatively affect international **supply chains**. The Swiss franc has tended to appreciate since the start of the year in light of the extremely high level of uncertainty. Overall, the Expert Group forecasts that **exports** will fall sharply for the first time since 2009.

On the other hand, Switzerland is also being **affected by the coronavirus directly**. Rising numbers of cases in the country have necessitated health protection measures that are **severely impairing parts of the economy** – and the virus is expected to spread further. Many companies have to temporarily reduce or stop operations, particularly in accommodation and food services and in other service sectors. As a result, spending on leisure, travel, but also on durable goods has temporarily slumped. Despite certain catch-up effects in the further course of 2020, a decline in **private consumption** is expected for the whole year. Because of the uncertain environment and the declining capacity utilisation, companies may severely cut back on their **investments** and reduce employment. At the same time, **unemployment** is expected to rise significantly (yearly average: 2.8%, December forecast: 2.4%).

It is currently very hard to assess the scale of the spread of the virus in Switzerland and other countries and how it will progress over time. Provided that the coronavirus situation stabilises in the course of 2020, the Expert Group expects an economic **upturn** in the second half of the year and in the coming year. Economic activities and supply chains that had been temporarily

interrupted could be largely resumed; exports would benefit from growing demand from abroad; employment, consumption expenditure and spending on investments would increase again, causing Switzerland's GDP to grow again.

With the significantly lower GDP level in 2020 as a starting point, **economic growth** in 2021 would be stronger than expected in the previous forecast: **+3.3%**, with the 2021 growth rate unaffected by sport event effects (December forecast: 1.6% adjusted for sporting events). The Expert Group expects that, despite catch-up effects, GDP would be lower than the level that would have been expected without the coronavirus by the end of 2021. Strong effects can also be expected on unemployment throughout the entire forecast horizon (2021 yearly average: 3.0%, December forecast: 2.6%).

Economic risks

Forecast uncertainty is currently extraordinarily high. Should the virus spread further and thus necessitate even more severe restrictions on economic activity in the short term than anticipated, an even more drastic economic **slump** would be expected in 2020. In this case, however, there should also be stronger catch-up effects in 2021. Conversely, it is conceivable that deferred consumer spending will be made up for more in the course of 2020 than assumed in the forecast.

Should very drastic measures become necessary over a longer period of time to protect the population, however, **severe economic consequences** would have to be expected throughout the entire forecast horizon. Low demand from abroad and longer interruptions in supply chains would have prolonged follow-up effects in various sectors of the economy. The recovery would most likely set in later and follow a more halting course. The economy's potential output would accordingly be hit harder.

The global spread of the coronavirus is also considerably magnifying several **existing economic risks**. In particular, given high levels of government and corporate debt, the risks facing the stability of the financial system could be intensified should the pandemic trigger widespread liquidity problems and defaults on loans around the world, particularly in the corporate sector. In addition, the risk of upheaval on the financial markets and further upward pressure on the Swiss franc is elevated.

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Overview

Selected forecasts, Swiss economy				
Comparison of forecasts of March 20 and December 19				
Year-to-year variation in %, quotas				
forecasts for:	2020		2021	
date of forecasts:	March 20	Dec. 19	March 20	Dec. 19
GDP sport event adjusted ¹	-1.5%	1.3%	3.3%	1.6%
GDP ¹	-1.3%	1.7%	3.3%	1.2%
Consumption expenditure:				
Personal Consumption	-0.5%	1.3%	2.4%	1.2%
Government Consumption	1.6%	0.9%	1.0%	0.7%
Construction Investment	0.4%	0.6%	0.6%	0.4%
Investment in Equipment and software	-5.0%	1.6%	7.5%	2.5%
Exports ²	-4.9%	3.0%	7.2%	2.6%
Imports ²	-5.8%	2.8%	7.5%	2.9%
Employment (full time equivalents)	-0.5%	0.8%	1.1%	0.8%
Rate of unemployment	2.8%	2.4%	3.0%	2.6%
Consumer price index	-0.4%	0.1%	0.2%	0.4%

¹ Forecasts, seasonally and calendar adjusted

² Without valuables

Source: Federal Expert Group on Business Cycles

Exogenous assumptions

	2019	2020	2021
GDP ³			
USA	2.3%	-0.7%	3.3%
Euro area	1.2%	-1.7%	3.2%
Germany	0.6%	-1.9%	3.0%
Japan	0.7%	-1.3%	1.9%
BRIC-Countries ⁴	5.1%	2.4%	7.2%
China	6.1%	2.8%	7.8%
Price of crude oil (\$/barrel Brent)	64.3	50.3	59.8

³ 2020-2021: assumptions, seasonally and calendar adjusted

⁴ Weighted average of Brazil, Russia, India and China (GDP at PPP, according to IMF)

Source: Federal Expert Group on Business Cycles

Monetary assumptions

	2019	2020	2021
Three month LIBOR interest rate	-0.7%	-0.9%	-1.0%
Return on Swiss federal bonds (10 years)	-0.5%	-0.7%	-0.6%
Real exchange rate index, trade weighted	0.3%	1.3%	0.1%
Consumer price index	0.4%	-0.4%	0.2%

Source: Federal Expert Group on Business Cycles

Labor market forecasts

	2019	2020	2021
Employment (full time equivalents) ⁵	1.1%	-0.5%	1.1%
Rate of unemployment	2.3%	2.8%	3.0%

⁵ Without sector 1

Source: Federal Expert Group on Business Cycles

Evolution of Gross Domestic Product, expenditure approach (ESA 2010)

	Real values, in Mio CHF (at prices of preceding year) ¹								Nominal values, in Mio CHF (at current prices) ¹								Evolution of prices ¹			
	Growth rates				Levels				Growth rates				Levels				Growth rates			
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Total consumption	0.8%	1.1%	-0.1%	2.1%	443,864	453,483	453,868	462,316	1.9%	1.3%	-0.4%	2.4%	448,702	454,397	452,644	463,498	1.1%	0.2%	-0.3%	0.3%
Personal consumption ²	1.0%	1.0%	-0.5%	2.4%	363,093	370,964	369,367	376,719	2.1%	1.1%	-0.9%	2.6%	367,250	371,223	367,889	377,472	1.1%	0.1%	-0.4%	0.2%
Government consumption ²	0.3%	1.3%	1.6%	1.0%	80,771	82,519	84,501	85,598	1.1%	2.1%	1.9%	1.5%	81,452	83,174	84,754	86,026	0.8%	0.8%	0.3%	0.5%
Fixed investment	1.1%	0.6%	-3.0%	4.8%	165,371	167,754	163,188	170,707	1.9%	0.9%	-3.2%	5.0%	166,721	168,205	162,850	170,921	0.8%	0.3%	-0.2%	0.1%
Construction	1.2%	0.4%	0.4%	0.6%	61,873	62,428	63,082	63,524	1.7%	1.0%	0.5%	0.6%	62,194	62,831	63,145	63,524	0.5%	0.6%	0.1%	0.0%
Equipment and Software	1.1%	0.8%	-5.0%	7.5%	103,498	105,326	100,105	107,183	2.1%	0.8%	-5.4%	7.7%	104,527	105,374	99,705	107,397	1.0%	0.0%	-0.4%	0.2%
Final domestic demand	0.9%	0.9%	-0.9%	2.8%	609,235	621,237	617,055	633,023	1.9%	1.2%	-1.1%	3.1%	615,422	622,602	615,494	634,419	1.0%	0.2%	-0.3%	0.2%
inter alia: changes in inventories ³	0.6%	-0.8%	-0.3%	0.0%	-2,936	-12,355	-11,100	-9,821					-7,100	-9,003	-9,821	-9,007				
Domestic demand ⁴	1.6%	0.1%	-1.2%	2.9%	606,299	608,881	605,956	623,203	1.9%	0.9%	-1.3%	3.3%	608,322	613,599	605,673	625,412	0.3%	0.8%	0.0%	0.4%
Exports ⁴	4.5%	2.5%	-4.9%	7.2%	378,873	396,784	374,208	397,513	6.7%	1.7%	-5.8%	7.8%	386,918	393,549	370,898	399,993	2.1%	-0.8%	-0.9%	0.6%
Exports of goods ⁴	5.9%	4.7%	-4.9%	7.7%	253,171	271,148	254,289	270,907	8.3%	3.3%	-5.9%	8.5%	258,899	267,319	251,458	272,881	2.3%	-1.4%	-1.1%	0.7%
Exports of services	1.6%	-1.9%	-5.0%	6.0%	125,703	125,636	119,919	126,606	3.5%	-1.4%	-5.4%	6.4%	128,019	126,231	119,440	127,112	1.8%	0.5%	-0.4%	0.4%
Imports ⁴	2.4%	1.3%	-5.8%	7.5%	297,215	309,716	290,461	309,831	5.4%	0.9%	-6.5%	7.9%	305,695	308,442	288,248	310,965	2.9%	-0.4%	-0.8%	0.4%
Imports of goods ⁴	6.2%	1.7%	-6.5%	8.0%	198,720	206,384	191,723	204,990	8.5%	1.0%	-7.4%	8.4%	203,009	205,051	189,805	205,810	2.2%	-0.6%	-1.0%	0.4%
Imports of services	-4.3%	0.6%	-4.5%	6.5%	98,495	103,331	98,739	104,841	-0.2%	0.7%	-4.8%	6.8%	102,686	103,391	98,443	105,156	4.3%	0.1%	-0.3%	0.3%
GDP	2.8%	0.9%	-1.3%	3.3%	687,958	695,950	689,703	710,885	3.0%	1.3%	-1.5%	3.8%	689,545	698,706	688,323	714,439	0.2%	0.4%	-0.2%	0.5%

¹ 2018: SFSSO; 2019: SECO; 2020-2021: forecasts, seasonally and calendar adjusted (Federal Expert Group on Business Cycles)

² National concept

³ Changes in inventories and statistical discrepancies; contributions to GDP-growth

⁴ Without valuables