



Press release

Date

23 April 2020

GDP set for sharpest fall in decades

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

The Expert Group has updated its economic forecast outside of the normal schedule. It is expecting GDP to fall very sharply in 2020 in the wake of the measures being taken to contain the coronavirus. Furthermore, the economy is only likely to recover slowly in 2021.

The Expert Group on Economic forecasts is expecting **GDP adjusted for sporting events** to fall by **6.7%** in 2020 (March 2020 forecast: -1.5%) and unemployment to average 3.9% over the year as a whole. This would make it the biggest slump in economic activity since 1975.

Rising numbers of Covid-19 cases in Switzerland necessitated far-reaching health policy **containment measures** in mid-March. Many companies in sectors including hospitality, retail, culture and leisure were forced to restrict or completely suspend their business activities, triggering an abrupt decline in production and private consumer expenditure. At the same time, the **international environment** has deteriorated rapidly, with some international **supply chains** disrupted. A very sharp fall in GDP is expected for the first half of 2020.

A modest recovery should set in with the planned relaxation of health policy measures. However, **losses of income** caused by an increase in short-time working and rising unemployment as well as the considerable economic uncertainty will limit the amount of lost ground that private consumption will be able to make up in the second half of the year. **Precautionary measures** imposed by the authorities, businesses and the public to prevent coronavirus infections are likely to further dampen appetite for consumption. Overall, private consumption could fall even more sharply than GDP in 2020.

The Expert Group is also expecting the **global economy** to mount only a sluggish recovery in subsequent quarters, with key trading partners, chiefly the major southern European countries, facing a particularly fierce battle against lasting consequences of the coronavirus crisis. This will hit the segments of Swiss **foreign trade** that are sensitive to the economic cycle particularly hard. All in all, production capacity in Switzerland is likely to be significantly underutilised and uncertainty extremely high, resulting in a very sharp decline in **investments** as well as **job losses**.

Assuming that the health policy measures can be eased further, that further strong waves of the pandemic necessitating similarly restrictive measures do not materialise and that the second-round economic effects in the form of lay-offs, defaults on loans and corporate bankruptcies remain limited, the Swiss economy should continue its **fragile recovery** in 2021. Production activities and supply chains that were temporarily suspended are likely to be resumed little by little, while exports will benefit as demand from abroad slowly returns to normal levels. There

should also be a gradual recovery in consumption expenditure and spending on investments within Switzerland.

The Expert Group is expecting Swiss GDP to grow by 5.2% in 2021 (March forecast: 3.3%). This would be a relatively slow rise from a very low starting point, meaning that the level of GDP seen at the end of 2019 would not yet have been reached by the end of the forecast period. An improvement to the situation on the labour market is also expected to be hesitant at best: unemployment is set to rise further to 4.1% in 2021, with employment only likely to see a minimal rise.

Economic risks

For March and April, few hard data are yet available, hence it remains difficult to quantify precisely the decline in economic activity. For the further course, forecast uncertainty is extraordinarily high.

On the one hand, the economy could recover faster than the forecast assumes, if, for instance, Swiss consumers prove to be less unsettled by the coronavirus or other countries make up lost ground more strongly than anticipated. On the other hand, the pandemic and associated containment measures could last longer than predicted, which would slow the recovery significantly. There could also be more severe second-round effects such as veritable waves of layoffs and bankruptcies, which would have major economic consequences throughout the entire forecast period.

The Covid-19 pandemic is also magnifying existing economic risks. In particular, government debt is rising rapidly around the world as a result of the stabilisation and bridging measures required. The debt ratio of companies is also rising sharply. With many countries already heavily in debt and the poor economic prospects, the risk of defaults on loans and insolvencies of companies is increasing, which could threaten the stability of the financial system. In addition, there is a significantly greater risk of upheaval on the financial markets and further upward pressure on the Swiss franc. Finally, the risk of corrections in the Swiss real estate sector is also rising.

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Appendix to the SECO's press release of 23 April 2020

Figures 1 and 2 and Table 1 illustrate the current economic forecast compared with the forecast from 19 March and the economic scenarios of SECO from 8 April.¹ In **scenario 1**, the shutdown continues until around the end of May both in Switzerland and abroad, then it is repealed completely: the economy starts to experience a rapid recovery in the second half of the year. In **scenario 2**, the shutdown only eases gradually from June on and economic second-round effects such as mass lay-offs or high numbers of corporate bankruptcies or defaults on loans will occur. The recovery is only sluggish. In its **April forecast**, the expert group assumes, based on current information, that GDP will lie between the two scenarios from the second half of 2020.

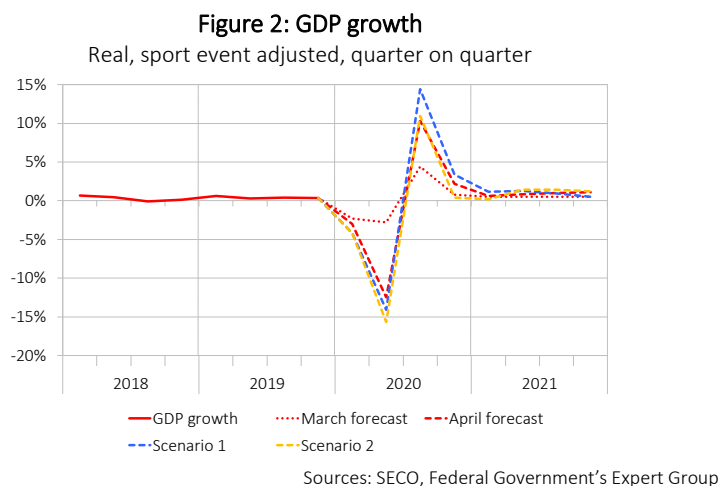
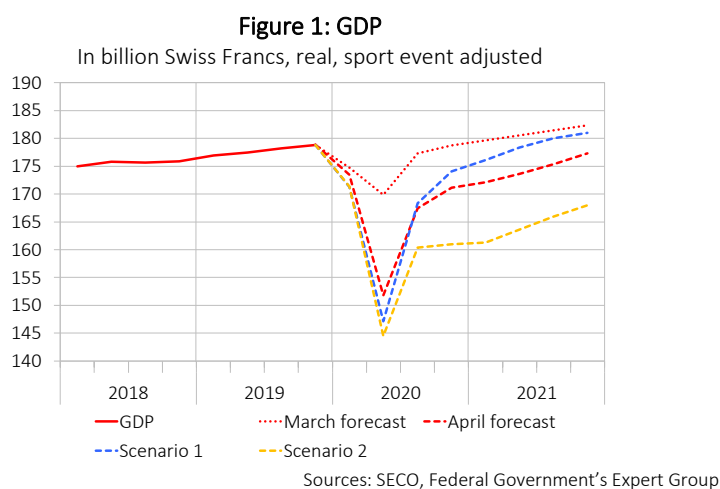


Table 1: Forecasts and scenarios

	2018	2019	March forecast		April forecast		Scenario 1		Scenario 2	
			2020	2021	2020	2021	2020	2021	2020	2021
GDP growth in % *	2,3	1,4	-1,5	3,3	-6,7	5,2	-7,1	8,3	-10,4	3,4
Unemployment rate in %	2,5	2,3	3,7	3,0	3,9	4,1	4,0	3,7	4,5	6,0
Value added lost**	-	-	24	10	62	41	65	24	88	83

* real, sport event adjusted
** nominal, in billion CHF, in comparison to the December 2019 forecast
sources: FSO, SECO, Federal Government's Expert Group

¹ www.seco.admin.ch/economic-forecasts, <https://www.news.admin.ch/newsd/message/attachments/60928.pdf>

Overview

Selected forecasts, Swiss economy				
Comparison of forecasts of April 20 and March 20				
Year-to-year variation in %, quotas				
forecasts for:	2020		2021	
date of forecasts:	April 20	March 20	April 20	March 20
GDP sport event adjusted ¹	-6.7%	-1.5%	5.2%	3.3%
GDP ¹	-6.7%	-1.3%	5.6%	3.3%
Consumption expenditure:				
Personal Consumption	-7.5%	-0.5%	6.5%	2.4%
Government Consumption	2.0%	1.6%	0.7%	1.0%
Construction Investment	-1.5%	0.4%	0.0%	0.6%
Investment in Equipment and software	-16.0%	-5.0%	3.0%	7.5%
Exports ²	-10.7%	-4.9%	9.6%	7.2%
Imports ²	-12.7%	-5.8%	8.4%	7.5%
Employment (full time equivalents)	-1.5%	-0.5%	0.2%	1.1%
Rate of unemployment	3.9%	2.8%	4.1%	3.0%
Consumer price index	-1.0%	-0.4%	-0.5%	0.2%

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%	-6.3%	5.3%
Euro area	1.2%	-8.2%	5.2%
Germany	0.6%	-7.0%	5.2%
Japan	0.7%	-5.4%	3.2%
BRIC-Countries ⁴	5.1%	-0.2%	8.0%
China	6.1%	0.8%	9.2%
Price of crude oil (\$/barrel Brent)	64.3	38.5	40.3

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%	-0.7%	-0.7%
Return on Swiss federal bonds (10 years)	-0.5%	-0.5%	-0.4%
Real exchange rate index, trade weighted	0.3%	3.1%	0.3%
Consumer price index	0.4%	-1.0%	-0.5%

Source: Federal Expert Group on Business Cycles

Labor market forecasts

	2019	2020	2021
Employment (full time equivalents) ⁵	1.1%	-1.5%	0.2%
Rate of unemployment	2.3%	3.9%	4.1%

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%	-5.8%	5.3%	443,864	453,483	428,214	447,724	1.9%	1.3%	-6.5%	5.1%	448,702	454,397	425,034	446,619	1.1%	0.2%	-0.7%	-0.2%
Personal consumption ²	1.0%	1.0%	-7.5%	6.5%	363,093	370,964	343,381	362,044	2.1%	1.1%	-8.4%	6.1%	367,250	371,223	339,947	360,596	1.1%	0.1%	-1.0%	-0.4%
Government consumption ²	0.3%	1.3%	2.0%	0.7%	80,771	82,519	84,833	85,680	1.1%	2.1%	2.3%	1.1%	81,452	83,174	85,087	86,023	0.8%	0.8%	0.3%	0.4%
Fixed investment	1.1%	0.6%	-10.6%	1.8%	165,371	167,754	150,403	152,573	1.9%	0.9%	-10.9%	1.9%	166,721	168,205	149,933	152,754	0.8%	0.3%	-0.3%	0.1%
Construction	1.2%	0.4%	-1.5%	0.0%	61,873	62,428	61,888	61,950	1.7%	1.0%	-1.4%	0.0%	62,194	62,831	61,950	61,950	0.5%	0.6%	0.1%	0.0%
Equipment and Software	1.1%	0.8%	-16.0%	3.0%	103,498	105,326	88,514	90,623	2.1%	0.8%	-16.5%	3.2%	104,527	105,374	87,983	90,804	1.0%	0.0%	-0.6%	0.2%
Final domestic demand	0.9%	0.9%	-7.1%	4.4%	609,235	621,237	578,616	600,297	1.9%	1.2%	-7.7%	4.2%	615,422	622,602	574,968	599,373	1.0%	0.2%	-0.6%	-0.2%
inter alia: changes in inventories ³	0.6%	-0.8%	0.0%	0.0%	-2,936	-12,355	-9,003	-7,496					-7,100	-9,003	-7,496	-5,656				
Domestic demand ⁴	1.6%	0.1%	-7.2%	4.5%	606,299	608,881	569,613	592,801	1.9%	0.9%	-7.5%	4.6%	608,322	613,599	567,472	593,717	0.3%	0.8%	-0.4%	0.2%
Exports ⁴	4.5%	2.5%	-10.7%	9.6%	378,873	396,784	351,554	380,432	6.7%	1.7%	-11.8%	10.2%	386,918	393,549	347,017	382,436	2.1%	-0.8%	-1.3%	0.5%
Exports of goods ⁴	5.9%	4.7%	-9.5%	9.2%	253,171	271,148	241,985	260,328	8.3%	3.3%	-10.8%	9.9%	258,899	267,319	238,326	261,851	2.3%	-1.4%	-1.5%	0.6%
Exports of services	1.6%	-1.9%	-13.2%	10.5%	125,703	125,636	109,568	120,104	3.5%	-1.4%	-13.9%	10.9%	128,019	126,231	108,692	120,585	1.8%	0.5%	-0.8%	0.4%
Imports ⁴	2.4%	1.3%	-12.7%	8.4%	297,215	309,716	269,175	288,898	5.4%	0.9%	-13.6%	8.8%	305,695	308,442	266,410	289,765	2.9%	-0.4%	-1.0%	0.3%
Imports of goods ⁴	6.2%	1.7%	-13.2%	8.1%	198,720	206,384	177,984	189,707	8.5%	1.0%	-14.4%	8.4%	203,009	205,051	175,492	190,276	2.2%	-0.6%	-1.4%	0.3%
Imports of services	-4.3%	0.6%	-11.8%	9.1%	98,495	103,331	91,191	99,191	-0.2%	0.7%	-12.1%	9.4%	102,686	103,391	90,918	99,489	4.3%	0.1%	-0.3%	0.3%
GDP	2.8%	0.9%	-6.7%	5.6%	687,958	695,950	651,991	684,335	3.0%	1.3%	-7.2%	5.9%	689,545	698,706	648,079	686,388	0.2%	0.4%	-0.6%	0.3%

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