

Swiss construction and Covid-19

The business situation in the Swiss construction sector deteriorated strongly in May. Construction site closures in parts of Switzerland and hygiene regulations delay current construction projects. KOF expects the economy to recover in the second half of 2020.

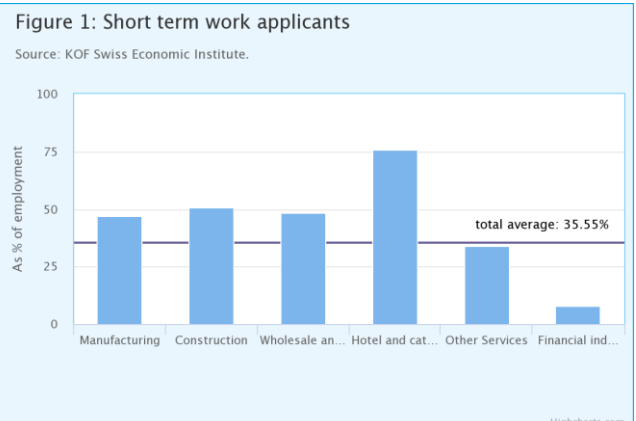
Measures to mitigate the economic consequences of the pandemic

With its proximity to Italy and France, Switzerland is one of the most Covid-19 affected countries in Europe. On May 11, the second phase of the re-opening with e.g. schools, shops, restaurants has started. The fiscal situation is very solid, such that there is enough fiscal space to respond to the crisis. The Federal Council has announced fiscal packages amounting to CHF 65 billion (9.3% of GDP), including i.e. financial aid to firms, loan guarantees, extension of short-work allowances, extended payment periods for taxes, deferrals of social-security contributions or support for self-employed.

The construction sector is affected by construction site closures in some parts of Switzerland. Ticino closed all construction sites for several weeks. Geneva and Vaud closed construction sites only for a couple of days, but construction sites are often inspected to meet the hygiene regulations. These measures led to a high uncertainty in the construction sector in the beginning of the lockdown phase (end of March).

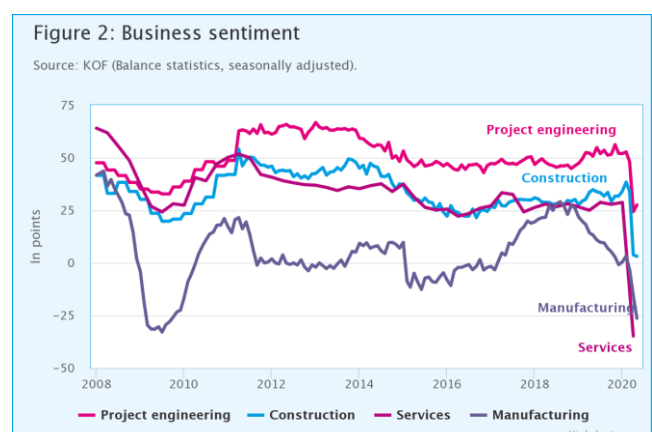
High short-term work applications in the construction sector

Short-term work applications rose to 1.8 million in April. As a comparison, during the financial crisis 92'000 employees were on short-time work. In the construction sector, there are short-term work applications for 51% of the employees by April. Only the hotel and catering industry have a higher share with 76%. The Swiss average is 36%. In the past, 80% of the applications were actually implemented. However, the high share of applications in the construction industry may also be related to the high uncertainty linked to construction site closures.



Business sentiment dropped strongly

The business sentiment in all sectors of the Swiss economy dropped strongly in May. The KOF Barometer experienced the strongest monthly decline since the start of the indicator's calculation. The service sector and the hotel and catering industry recorded the sharpest drop. The construction companies also got more pessimistic regarding the economic situation. The balance statistic decreased to 4 points in April, from 34 points in March (seasonally adjusted). However, preliminary results for May suggest that the balance statistics moved sideways in the construction sector, while it further decreased in the manufacturing sector. Furthermore, construction companies' expectation regarding the business situation in the next six months already brightened again in May, compared to April (chart). This could be a sign that uncertainties at the beginning of the lockdown already unwound to some degree.



The survey indicators deteriorated the most for the civil engineering companies. However, the decline is less pronounced than in other sectors. Furthermore, the construction sector performed very well in the last years, such that despite the decline, the balance statistics of the current business situation is still in positive territory. Big projects are

delayed because of hygiene restrictions, but they will nevertheless be realized and the construction companies' order backlog is solid.

Economic outlook

KOF expects a deep recession with a decline of GDP by -5.5% in 2020, and a recovery by 5.4% in 2021. In contrast to previous recessions, all sectors of the economy are equally affected – including in particular domestically oriented sectors such as the service industry or the construction sector. In previous recessions, the export oriented economy often suffered the most. We expect value added to decline heavily by 10% in the second quarter 2020 compared to the previous quarter (annualised 33%). Nevertheless, economic activity is likely to resume in Summer.

The forecast for the construction sector was also revised downwards substantially. We currently expect a decline of real construction investments by -2.0% in 2020 followed by -1.4% in 2021. The decline is less pronounced than in the economy as a whole, but more persistent. Especially the industrial and office construction as well as residential construction suffer. The civil engineering sector is expected to be more robust thanks to two infrastructure funds that have been recently implemented to ensure the financing of the Swiss infrastructure in the long term. The aim of these two funds is to decouple infrastructure investments from cyclical influences on the federal budget. Therefore, we only expect a small impact of the high fiscal spending on the capacity to finance future infrastructure projects. KOF estimates a shortfall of tax revenues of CHF 25 billion this year and the coming years. Therefore, inflows into the infrastructure funds will decrease as they are directly linked to tax revenue.



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