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Macroeconomics

Swiss GDP expanded slightly in Q4 2020

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Swiss GDP proved resilient in Q4 2020, expanding slightly by 0.3% despite the second virus wave and renewed containment measures on the back of strong manufacturing activity.

At an annual gross domestic product (GDP) contraction of –2.9% in 2020, the pandemic shock proved to be less severe than expected and relatively modest in international comparison.

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Stagnation but no contraction in Q4 2020

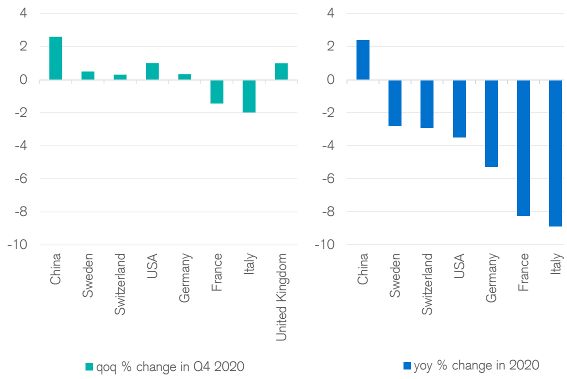
After a historic contraction of –7.2% (revised down from –7%) during the lockdown in Q2 2020, the Swiss economy recovered at an unprecedented pace of 7.6% (revised up from 7.2%) in Q3 2020 after restrictions were lifted. The second wave of COVID-19 and the renewed containment measures have now decelerated this recovery. However, with a small quarter-on-quarter gross GDP increase of 0.3% in Q4 2020, the recovery did not come to a halt but merely slowed down. Assuming that a rebound will take hold in Q2 2021, this means the Swiss economy has not fallen into recession with the second virus wave. In seasonal and calendar adjusted terms, the GDP contraction for the full year of 2020 comes in at –2.9%, which is in a similar magnitude to that in 2009 during the Great Financial Crisis (–2.1%).

Swiss contraction in 2020 modest in international comparison

In comparison to other countries, the extent of the Swiss GDP drop in 2020 is rather modest (Figure 1). This is because of a combination of three factors. First, restrictions during both the first and the second virus wave have been less stringent in Switzerland and the reduction in mobility and activity, therefore, was less severe. Second, the Swiss economy was less vulnerable to the pandemic shock due to a beneficial sector composition. The GDP contribution of the particularly hard-hit tourism industry is smaller than in many European countries, and the non-cyclical pharma industry as well as commodity trading proved very robust. Third, mitigating fiscal measures like short-time work and the COVID-19 loans became available in a very timely manner and helped significantly to reduce uncertainty, prevent unemployment and preserve household incomes. These factors continued to stabilize the Swiss GDP in Q4 2020. Yet the latest differences in quarter-on-quarter growth across countries in Figure 1 are more attributable to the timing of lockdowns, exposure to global trade and idiosyncratic country effects like Brexit.

Swiss GDP setback modest in international comparison

% change in real GDP in comparison to the previous period, seasonally adjusted



Last data point: Q4 2020. Source: Datastream, SECO, Credit Suisse

Small contraction in private consumption

As a result of the containment measures from late October onward, private consumption did not extend its recovery into Q4, but instead decreased slightly by 1.5% (Figure 2). Expenditure for food services and recreational activities fell considerably but the spillover to other service categories remained limited according to the State Secretariat for Economic Affairs (SECO). Overall, the drop in Q4 2020 is less pronounced than in spring, since countrywide restrictions only intensified toward the end of the quarter while never reaching the stringency of the first lockdown, and the safety concepts of open businesses are established and trusted by now. In contrast to private demand, government consumption increased strongly by 2.3% as expenditure for health measures (COVID-19 tests, vaccine procurement, etc.) accumulated further.

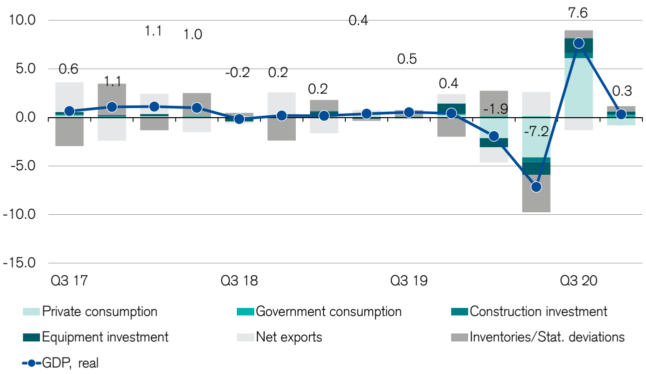
Strong manufacturing sector supports net exports

The weakness in private consumption was compensated by strong manufacturing activity and net exports: On the back of solid demand from North Asia, where the pandemic is mostly under control, exports of goods rose by 3%. Services exports suffered from the renewed slowdown in tourism but maintained a slightly positive growth rate of 0.4%. At the same time, imports decreased by –0.6% as domestic demand slowed down. The net export headline number is negative only because the highly volatile commodity trading component "marchenting" pushed the contribution of goods exports down. Unlike during the first lockdown, investment activity has not suffered from the second virus wave. In fact, equipment investment even continued to grow by 1.9%. Construction investment remained broadly stable, with a slight increase of 0.1%.

Overall, the fourth quarter of 2020 saw a marked decrease in activity in those sectors that are directly affected by the containment measures, but negative side effects on other industries barely occurred at all. By year-end, Swiss GDP remains 1.6% below the level of Q4 2019 – i.e., the pre-crisis level. Switzerland has thus made up more lost ground than many European countries and the USA so far (Germany: 3.6%; France: 4.9%; United Kingdom: 7.8%; USA: 2.4%). Yet the different lockdown regimes, vaccination progress and fiscal policy measures will lead to divergence in the path of recovery over the course of 2021.

Private consumption drags down GDP

in %, quarter-on-quarter, seasonally adjusted



Last data point: Q4 2020. Source: SECO, Credit Suisse

Relative resilience in 2020 confirms positive outlook for 2021

The annual GDP drop of 2.9% is less severe than our latest forecast of –3.2%. This is despite the fact that we had already revised this number up from –4% (June forecast) and have been more optimistic than most other institutions. In particular, the initial forecasts of a GDP drop in the magnitude of –6% to –7.7% by the International Monetary Fund (IMF), SECO and Organization for Economic Co-operation and Development (OECD) considerably overestimated the negative impact of the lockdowns and underestimated the extent of the recovery in the summer. The recent guidance by the Federal government indicates that a phased exit from the second lockdown is likely to begin still in Q1 2021. If the last summer is any indication, the ensuing recovery should be swift and strong. We, therefore, keep our current forecast for 2021 unchanged at 3.5%. However, we will closely watch the impact of the containment measures in Q1 2021 over the coming weeks and will release our updated forecast along with the "Monitor Switzerland" on 16 March 2021. (26/02/2021)