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The Impact of the COVID-19 Crisis on European Businesses: Evidence from Surveys in Austria, Germany and Spain

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Key Messages

- A majority of firms expect a negative impact of the corona crisis on annual turnover
- The sub-sectors hardest hit are: manufacturing of consumer durables and investment goods; tourism and gastronomy services; retailers selling neither food nor beverages
- Businesses profiting from the crisis offer 'information service activities' (eg Netflix), sell food and beverages or manufacture basic pharmaceuticals
- If not lifted or countered by appropriate policy support, confinement measures will cause insolvencies/bankruptcies of 30-50% of all businesses by the end of July and 50-80% by October
- Importantly, depending on the sector looked at, 35-50% of firms reporting that their existence is threatened do so even after taking the available financial assistance programmes into account
- Small firms (below 250 employees) are much more likely to become insolvent/bankrupt than larger ones

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The impact of the COVID-19 crisis on European Businesses – Evidence from surveys in Austria, Germany and Spain

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Abstract:

This note presents the results of two ad-hoc questions on the impact of the corona-crisis, which were included in the April-wave of the European Commission’s Joint Harmonised EU Programme of Business Surveys. The questions were asked to German, Spanish and Austrian firms in the industry, services, retail trade and construction sectors and focused on the effect of the crisis on expected annual turnover and the ability of firms to survive in the presence of the prevailing confinement measures. The results illustrate the sweeping effect of the crisis on firms’ turnover and provide alarming figures on a potential insolvency/bankruptcy wave caused by the current confinement measures.

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Introduction

The corona pandemic has dealt a blow to economic activity in virtually all countries around the globe. While the unprecedented scale of the economic downturn is widely acknowledged, relatively little reliable information is available yet on the exact quantitative effects, especially at the enterprise level. In such an environment, monthly business surveys can provide valuable, first indications, given their timely availability at the end of the reference month.

Paying tribute to the exceptional nature of the current economic crisis, the European Commission's EU-wide programme of business surveys included two ad-hoc questions specifically targeting the effect of the corona pandemic in its April wave. The questions addressed two key aspects: (i) by how much firms expect their turnover to change (mostly drop) in 2020 due to the pandemic and, importantly, (ii) for how long they are able to survive in the presence of the current confinement measures.

This note summarises the results for the three countries that volunteered to take part in the exercise, notably Germany, Spain and Austria. The effect of the pandemic and the confinement measures on expected turnover is shown to be massive, causing losses of some 20-40%. What is more, firms' answers clearly indicate that, if not lifted, the prevailing confinement measures will cause a veritable insolvency/bankruptcy wave hitting 30-50% of firms by the end of July and 50-80% by October.

Survey Background

The Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN) hosts the Joint Harmonised EU Programme of Business and Consumer Surveys. The surveys are addressed to representatives of the industry (manufacturing), services, retail trade and construction sectors, as well as to consumers. The surveys allow comparisons among different countries' business cycles and have become an indispensable tool for monitoring the evolution of the EU and euro area, as well as applicant countries' economies. The headline business cycle indicator constructed from the survey data each month is the European Sentiment Indicator (ESI).

The two special corona-questions were included in the April-wave of all business surveys, i.e. the results are available for the industry, services, retail trade and construction sectors.

While the data collection period was broadly comparable across countries and sectors, with all surveys having taken place between 1 and 23 April[1], the surveys differ in respect of the degree to which they presumably reflect the announcement (and implementation) of a gradual

[1] Deviating from that, the collection period for the German online survey, which complements the results of the traditional paper-based survey, started only on 7 April.

lifting of the confinement measures. In Austria, first steps of a gradual relaxation of the measures were announced at a relatively early stage of the survey (6 April) and implemented as of 14 April. In Germany, similar steps were enacted some ten days later (15 April) and only put in practice as of 20 April. The Spanish case differs in so far as the announcement (4 April) and implementation (13 April) of a gradual lifting of the confinement rules were quite early, but concerned only particularly harsh measures which had never been taken in Germany and Austria. The effect on responding firms is thus likely to be different.

Development of sentiment indicators

Before turning to the special corona-questions, we take a short look at how business confidence developed from March to April in the three countries analysed and the EU as a whole. Table 1 reports the corresponding values (measured as balance statistics, i.e. the percentage share of positive minus negative responses) for the four business sectors and the economy-wide Economic Sentiment Indicator (ESI, measured as an index). To put the current developments into perspective, the table also indicates whether drops in confidence have ever been as large and levels as low as in April[2].

Confidence collapsing at unprecedented scale

The results clearly illustrate the unprecedented severity of the crisis, with almost all indicators featuring the most dramatic month-on-month decline on record. Confidence in services and retail trade reached its lowest level in history. In the case of industry confidence and the ESI, the current readings are as meagre as last time during the Great Financial Crisis and just a whisker above historical lows. As regards the construction sector, which was at historic highs when the crisis struck, confidence remained above all-time lows in spite of dramatic losses in April.

Having established the exceptional extent of the current economic crisis, the next section takes a look at the results of the special corona-related questions.

[2] The survey indicators are not of the same length across countries and sectors. The earliest observations are available from 1985 onwards for the European Union aggregate. This holds also for Germany. Surveys in Austria and Spain started partially later.

Table 1: Development of Sentiment Indicators

		March	April	Difference	Lowest Value since	Largest Drop since
EU	Industry	-10.7	-30.6	-19.9	June 2009	largest on record
	Services	-1.8	-35.4	-33.6	lowest on record	largest on record
	Retail	-6.4	-27.7	-21.3	lowest on record	largest on record
	Construction	0.8	-15.9	-16.7	April 2016	largest on record
	ESI	94.6	65.8	-28.8	March 2009	largest on record
Austria	Industry	-11.1	-30.3	-19.2	June 2009	largest on record
	Services	6.1	-45.6	-51.7	lowest on record	largest on record
	Retail	-25.1	-46.7	-21.6	lowest on record	February 2001
	Construction	12.6	-16.2	-28.8	October 2015	largest on record
	ESI	95.0	61.9	-33.1	lowest on record	largest on record
Ger-many	Industry	-17.2	-33.3	-16.1	July 2009	largest on record
	Services	0.6	-30.3	-30.9	lowest on record	largest on record
	Retail	-20.2	-41.6	-21.4	lowest on record	largest on record
	Construction	8.4	-0.6	-9.0	May 2016	largest on record
	ESI	92.0	72.1	-19.9	March 2009	largest on record
Spain	Industry	-7.0	-30.7	-23.7	July 2009	largest on record
	Services	2.3	-47.9	-50.2	lowest on record	largest on record
	Retail	-1.4	-38.5	-37.1	lowest on record	largest on record
	Construction	-10.5	-27.0	-16.5	August 2017	March 2016
	ESI	99.3	73.3	-26.0	March 2009	largest on record

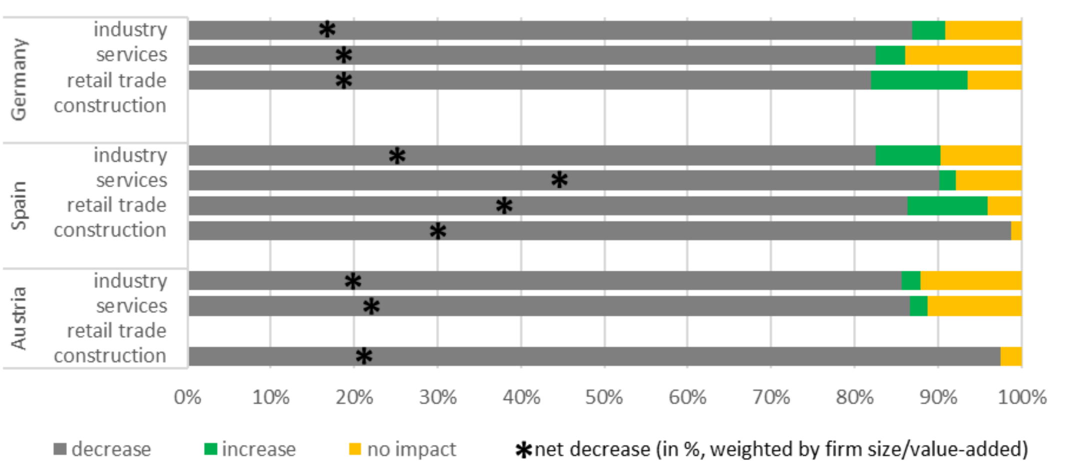
The impact of the corona crisis on turnover

Sweeping losses in all sectors and countries

The first ad-hoc question asks managers to indicate *whether the impact of the corona pandemic on their firms' turnover in the current year will be positive, negative or absent*. As indicated by the grey bars in Figure 1, the overwhelming majority of firms expects a negative impact on annual turnover. The observation holds across all sectors and countries, confirming the sweeping effect of the corona pandemic and accompanying counter-measures on the entire economy.

As a follow-up question, firms are asked to *quantify the expected percentage change in turnover throughout 2020.* Based on their answers (weighted by firm size and value added of the respective sub-sector), one can calculate the expected net decrease for every sector and country (see black asterisks in Figure 1). In Germany and Austria, the surveyed sectors seem to be in for an overall net loss in turnover to the tune of 20%. In Spain the expected decreases in turnover are generally higher, amounting to 25%/30% in industry/construction and as much as 38%/44% in retail trade and services.

Figure 1: Impact of corona pandemic on firms' turnover



The sub-sectors hardest hit

Zooming in on the sub-components of the four reported sectors, a clear pattern emerges, which is both intuitive and broadly consistent across all surveyed countries.

In industry, the biggest turnover slumps are expected by firms producing consumer durables (between -20% in Germany and -42% in Spain) and, in the case of Germany and Austria, also investment goods (in both countries around -20%). The services sector suffers most in the field of tourism/business trips, where the expected losses are as high as nowhere else in the economy: Businesses offering accommodation expect turnover decreases of 52% (Germany) to 70% (Spain) and firms specializing in 'travel agency, tour operator reservation service and related activities' brace for losses between 63% (Spain) and 69% (Austria). The pandemic and the resulting confinement measures also dealt a comparatively sharp blow to 'food and beverage service activities' (read restaurants and cafes), with turnover losses between 38% (Austria) and 54% (Spain). In retail trade the largest drops are expected in respect of non-essential items (motor vehicles and 'other goods'), with figures ranging between -20% in Germany and -50% in Spain. In the relatively uniform sector of construction no significant differences can be discerned in its (few) sub-components.

A few sub-sectors benefiting from the corona crisis

With the exception of construction, each of the surveyed sectors features a small fraction of firms which seem to profit from the corona crisis, as evidenced by higher reported turnover (see green bars in Figure 1). A closer look at sub-sector data shows those profiteers to be concentrated in ‘information service activities’ (think platforms like Netflix and Spotify whose entertainment services are likely to be consumed as substitute for cinema and restaurant visits), some food and beverage retails, as well as some manufacturers of basic pharmaceuticals (probably related to the testing/cure of corona-patients).

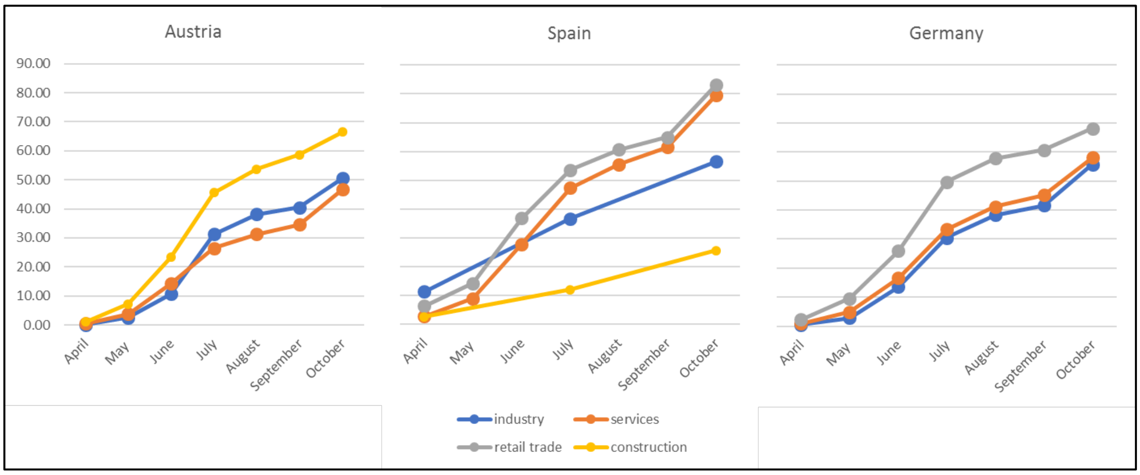
How long can firms survive the lockdown measures?

A second important aspect is *how many more months firms could survive if the enacted measures to combat coronavirus persisted for a prolonged period*[3]. As explained in the introduction to this report, the data-collection took place between 1 and 23 April so that a part of the responses should take the announcement (and implementation) of a gradual lifting of the confinement measures into account. Follow-up questions in Germany and Austria help gauge the impact of policy messages such as liquidity support or tax deferrals to help firms avoid insolvency during the lockdown period.

Confinement measures posing existential threat to many companies

As evidenced by Figure 2, the confinement measures enacted to tame the virus pose an existential threat to a huge chunk of the economy. If not lifted, the cumulated percentage of insolvent/bankrupt[4] firms would - depending on the country/sector looked at and with the exception of Spanish construction - reach 30-50% by the end of July. Three months further down the line, the potential "death toll" would mount to levels as high as 50-80%.[5]

Figure 2: Cumulated "death toll" of firms in the presence of confinement measures



[3] The exact wording of the question is: "If the current measures to combat coronavirus, such as closures of schools/universities/shops, home confinements, border restrictions, etc. persisted for a prolonged period, how many months could your enterprise survive?" The answering categories are "(a) less than 1 month, (b) 1 month, (c) 2 months, (d) 3 months, (e) 4 months, (f) 5 months, (g) 6 months, (h) more than 6 months". In the case of Spain only four options were available: <1 month, 1-3 months, 3-6 months, >6 months.

[4] The formulation of the survey question allows for both interpretations.

[5] Here it should also be considered that not only the confinement measures affect the expected survival of firms. Voluntary social distancing of a sizable group of the population during the pandemic likely affects the composition and volume of consumer spending, while increased uncertainty affects firm's investment plans.

Considering the various financial assistance programmes which have been launched over the last weeks both at national and EU-level, an obvious question is *whether the reported "death tolls" take those programmes into account or not*. In the latter case, one could expect the true "death toll" to be much lower. The survey data collected in Germany provide some insights, since the question on firms' ability to survive under the prevailing confinement measures was complemented by a follow-up question inquiring whether firms' responses took the existing financial assistance programmes into account.

A look at the German results shows that, of the firms reporting to get insolvent/go bankrupt if the confinement measures are not lifted, 35% (industry) to about 50% (services and retail trade) did take the assistance programmes into account. While this finding shows that the true "death tolls" looming in case of a further continuation of the confinement measures are probably lower than the ones reported above, it also illustrates that the measures taken so far stop short of averting a significant bankruptcy/insolvency wave (for instance, shifting the German retail trade curve down by 50% (not percentage points!) would still mean that 25% of the firms would be out of business by July).

For Austria, a follow-up question asked firms whether the measures implemented help them survive longer. 25% of firms answered that the measures were very helpful, 48% that they were somewhat helpful, 10% answered that the measures did not help them to survive longer and 16% of enterprises stated that they did not need financial assistance.

No clear pattern in respect of sectors and sub-sectors hardest hit

To help channel financial assistance to the parts of the economy most in need, an obvious question is whether there are any structural differences in the intensity of the insolvency/bankruptcy wave between sectors and/or sub-sectors. Unfortunately, the available data does not provide much evidence in this respect. While in Spain both retailers and service providers seem to be the ones hardest hit by the confinement measures (in line with the previous findings on turnover losses), in Germany it is mainly retail (not service) companies, while Austria sees its construction firms suffer most.

Zooming in on the sub-components of the four reported sectors, the only indication of a clear and intuitive pattern across countries relates to retail trade, where the threat of bankruptcies/insolvencies seems to be much lower among firms selling essential items (food, beverages and tobacco) than the other enterprises belonging to the sector.

Extent of insolvencies/bankruptcies varying within sectors and between countries

In Figure 3 we plot the cumulated "death tolls" for three selected industry branches across countries. With respect to the manufacturing of food products, there are no large differences between Austria, Germany and Spain. There is an almost linear increase in the number of firms stating to get insolvent/go bankrupt over the next months if the confinement measures are not lifted; however, the impact remains relatively contained compared to the total manufacturing results. In the automotive sector we find that Spanish firms are clearly more severely hit than their German and Austrian counterparts, which go largely in lockstep. In the field of machinery and equipment, it is only the German firms which stand out with a comparatively small "death toll", while the imminence of insolvencies/bankruptcies in Spain and Austria follows a similar, considerably higher, pattern throughout the next months.

In Figure 4 we show country differences for three services branches. It is remarkable that, again, the insolvency/bankruptcy risk among German firms is persistently and significantly lower than in Spain and Austria. From a cross-sector perspective, the results are intuitive, with confinement measures posing a more existential threat to the transport sector (think border restrictions), as well as the hotel and restaurant industry (which was subject to a genuine lockdown), than services like computer programming and consultancy (where teleworking arrangements are likely to ensure a higher degree of business continuity). The particularly strong impact on tourism-related services in Austria and Spain reflects the importance of international tourism and the disruptive effect of COVID-19 in the two countries.

Figure 3: Cumulated "death toll" of firms for selected *industry* branches

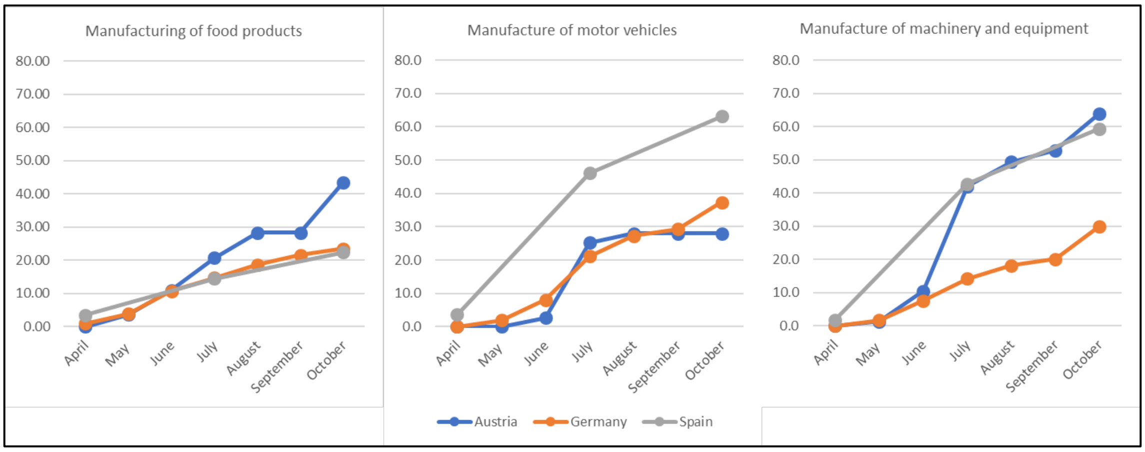
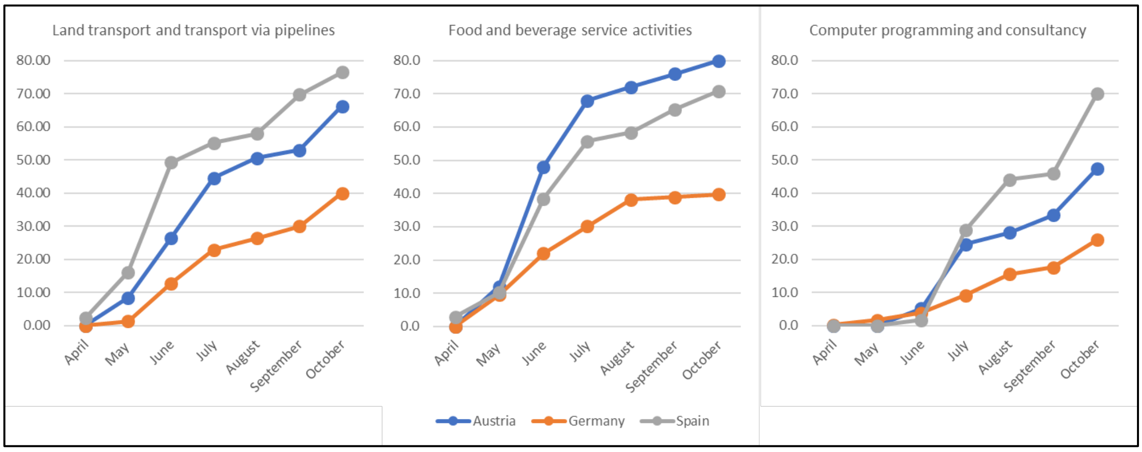


Figure 4: Cumulated "death toll" of firms for selected branches in the *service* sector



The particular vulnerability of small firms

As regards the role of firm-size, interesting results can be obtained when comparing the cumulated "death tolls" of firms with less than 250 employees vs. those with 250 employees or more. Across all countries and sectors, the share of firms stating to get insolvent/go bankrupt over the next 6 months is between a third and 100% higher among small firms than in the group of large firms. The only exception are the Spanish retail trade and services sectors, where the differences are generally smaller.

Interestingly, the differences between small and large firms get even more pronounced when looking at the cumulated "death tolls" at shorter horizons. The share of Austrian services firms stating to survive only the next 3 months, for instance, is nine times higher among small services firms than in the group of large firms. By the same token, looking at the shorter time-horizon of 3 months shows differences (of roughly a third) between large and small firms in Spanish services and retail where there were virtually no differences before.

The finding suggests that the financial assistance programmes for companies which are currently rolled out across Europe should have a particular focus on small companies, especially in the first months of the programmes. Clearly, the take-up and appropriateness of the measures should be monitored also after the relaxation of economic restrictions, to avoid the transformation of the negative supply shock into a demand-driven recession.

Conclusion

This note presented the results of two ad-hoc questions on the impact of the corona-crisis, which were included in the April-wave of the European Commission's Joint Harmonised EU Programme of Business Surveys. The questions were asked to German, Spanish and Austrian firms in the industry, services, retail trade and construction sectors and focused on the effect of the crisis on expected annual turnover and the ability of firms to survive in the presence of the prevailing confinement measures.

The overwhelming majority of firms is shown to expect a negative impact of the corona-crisis on annual turnover (to the tune of 20% in Germany and Austria and 25-44% in Spain). The sub-sectors hardest hit are (i) manufacturing of consumer durables and investment goods, (ii) services in the field of tourism and gastronomy and (iii) retailers selling neither food, nor beverages. There are also a few businesses profiting from the crisis, notably those offering 'information service activities' (think Netflix and the likes), selling food and beverages or manufacturing basic pharmaceuticals.

As regards the impact of the prevailing confinement measures, the figures collected in the survey are alarming. If not lifted, or countered by appropriate policy support, the measures will cause insolvencies/bankruptcies of 30-50% of all businesses by the end of July and 50-80% by October. Generally, the figures are particularly high among small firms (below 250 employees). Importantly, German data shows that, depending on the sector looked at, 35-50% of firms reporting that their existence is threatened do so even after taking the available financial assistance programmes into account.

EconPol Europe

EconPol Europe – the European network for economic and fiscal policy research – is a network of 14 policy-oriented university and non-university research institutes across 12 countries, who contribute scientific expertise to the discussion of the future design of the European Union. The network's joint interdisciplinary research covers sustainable growth and best practice, reform of EU policies and the EU budget, capital markets and the regulation of the financial sector, and governance and macroeconomic policy in the European Monetary Union.

The network was founded in spring 2017 by the ifo Institute, along with eight renowned European research institutes. A further five associate partners were added to the network in January 2019.

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- Capital markets and the regulation of the financial sector
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