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Research Report

No quick end to the coronavirus shock in Germany

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IW-Kurzbericht 59/2020

No quick end to the coronavirus shock in Germany

Hubertus Bardt / Michael Grömling, May 12, 2020

The coronavirus pandemic is likely to result in Germany's largest economic downturn in the last seven decades. Clarity as to the extent and course of the current adverse effects on business activity is being sought based on the regular business survey by the German Economic Institute (IW). Since there has so far been no fundamental differentiation between businesses' short and medium-term outlook, the coronavirus crisis is set to cast a long shadow over the German economy.

Struggle for clarity

The coronavirus crisis has hit the German economy with unprecedented force. The simultaneity of multiple supply and demand shocks is likely unique in terms of previous economic crises. It is not yet possible to estimate how the virus will spread and what the human cost will be. Neither is it apparent how effective the health and economic countermeasures, some of which are very extensive, will be in many countries. This is now true in particular for strategies to lift the lockdowns (Hüther/Bardt, 2020).

In this context, there is also a high degree of uncertainty about the duration and extent of the diverse effects on supply and demand. The economic indicators normally

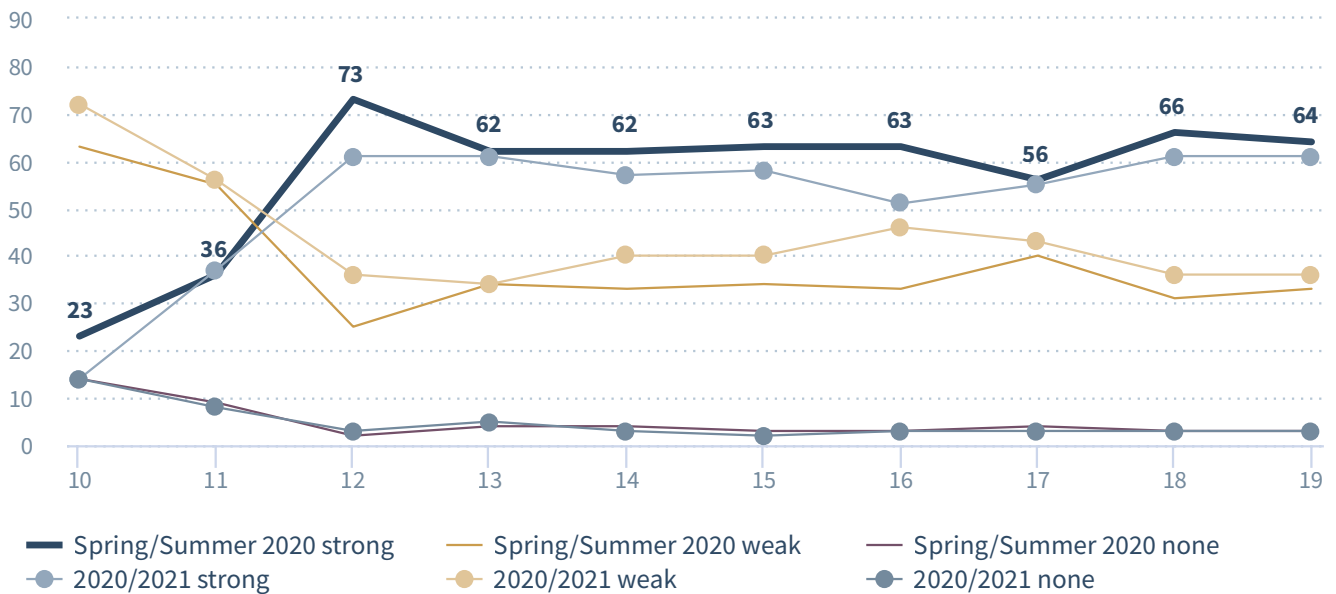
referred to are available, but with the usual time delay. At the same time, there is up-to-date information available from business surveys. The impact of the coronavirus epidemic on German companies' business processes are also identified via the regular business survey conducted by the German Economic Institute (see Grömling, 2018, for details on this economic survey). Given the extraordinarily high demand for information and the assumption that companies' assessments could change significantly in the short term, since the beginning of March, the IW survey has been carried out weekly. It has investigated the impact in spring/summer 2020 as well as for 2020 and 2021. In each case, businesses were able to select strong, weak or no impact, which should help to assess the extent of the disruption. Furthermore, the survey asked about the duration and causes of the disruption. For more details on the method, scope and interpretation of the current survey results, see Bardt/Grömling (2020).

Coronavirus fever curve for Germany

The bold line in the figure below shows the overall course of what is being referred to as the coronavirus fever curve for Germany, from the beginning of March to the beginning of May 2020, i.e. ten calendar weeks. It shows the proportion of businesses surveyed by the German

Short and medium-term business outlook for Germany

Percentage of German companies which expect the coronavirus pandemic to have strong, weak or no repercussions in spring/summer 2020 and for the years 2020 and 2021; results by calendar week



Source: IW economic survey spring 2020; Bardt/Grömling (2020)

Economic Institute which expect the coronavirus pandemic to have a strong impact on their business processes in spring/summer 2020.

At the beginning of March, the proportion of companies which expected severe adverse effects was only 23 per cent. With the closure of schools and other lockdown measures in the 12th calendar week, the proportion of companies expecting strong short-term economic impact in the spring and summer of 2020 shot up to over 70 percent. This percentage dropped slightly in the 13th calendar week. Up to and including the 16th calendar week, the proportion of companies that were severely affected was consistently 62 to 63 percent of those surveyed. A third of companies expected a weak impact. Only between 3 and 4 percent of the companies anticipated there being no impact on their business as a result of the coronavirus pandemic. In the 17th calendar week, the proportion of badly affected companies dropped temporarily to 56 percent. This could possibly be interpreted in the context of the easing of restrictions at that time. This drop was attributable to service providers in particular. However, a clear rise in the fever curve

to almost two thirds of companies was observed again in the 18th and 19th calendar week.

Coronavirus crisis casts a long shadow

In contrast to the financial market crisis of 2009, the impact on industry and service providers has been equally severe right from the start (for more details see Bardt/Grömling, 2020). When the questionnaire for the IW business survey was being drafted in mid-February 2020, it was presumed that there might be varying estimates of the duration of the impact from the coronavirus pandemic. For this reason, a distinction was made between short-term and medium-term impact. The short term refers to spring/summer 2020 and the medium term to 2020 and 2021. Experience regarding the duration of previous recovery phases was taken into account. In the case of the financial market crisis of 2009, it took industry and the overall economy until 2011 to recover to pre-crisis levels.

The figure shows no significant differentiation over the entire survey period between the short and medi-

um-term outlook as a result of the coronavirus pandemic for the overall economy, i.e. the weighted aggregation of industry, service companies and the construction industry. Differences were observed only in the 12th and 16th calendar weeks. This high degree of alignment between assessments for the short and medium term currently suggests that the coronavirus crisis may cast a longer economic shadow than initially expected. This can be interpreted as an indication that the recovery period after the visibly severe impact in the second quarter of 2020 does not only refer to the next quarter, but may require several quarters, as has been the case in previous economic crises.

These findings are based on weekly estimates. The explicit aim of the weekly evaluation of the IW economic survey is to observe any changes in companies' assessments. Naturally, this also applies to the time-related effects of the coronavirus pandemic. Even though the crisis arose quickly, it will not recede so fast. The exit process from the lockdown (for suggestions see Hüther/Bardt, 2020) will be lengthy and gradual. Even if restrictions can be eased on the supply side in Germany, difficulties in international value chains and recessions in export regions will persist. Domestic demand is also fraught with uncertainty. In any event, companies in Germany are not expecting the crisis to be a short-term phenomenon.

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