# The slow recovery of Belgian firms stalled and the second lockdown of November 2020 makes the prospects even more bleak[1]

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## ABSTRACT

**Seven months after it was launched, the ERMG survey continues to take the pulse of the Belgian companies by measuring the impact of the COVID-19 crisis on their economic activity and their financial health. After a partial rebound between May and August, the Belgian companies' (self-reported) turnover stalled in September and October at -14 % below normal levels. Moving forward, the COVID-19 crisis will most likely leave scars on the economy as expectations about next year's revenue, investment plans, employment and risk of bankruptcy remain gloomy. In addition, the recent further worsening of the health situation and the new restrictive measures including the second lockdown of November 2020 are not yet reflected in the latest survey dating from October 20. These recent developments will undoubtedly worsen the already bleak economic outlook. Finally, the crisis will also have a lasting impact on the way employees will work: with wider use of telework, more flexible working hours and less business travel.**

[1] This study is based on the ERMG survey, which is a joint initiative of several federations of companies and the self-employed (BECI, Boerenbond, SNI/NSZ, UCM, UNIZO, UWE and VOKA), the FEB/VBO and the NBB.

## The ERMG survey monitors the impact of the COVID-19 crisis on companies

At the time of the Spring lockdown in March, the Economic Risk Management Group (ERMG) was set up. One of its key initiatives was to monitor the impact of the COVID-19 crisis on the Belgian economic activity and the financial health of the companies through a survey. This survey is still active and is conducted by several federations of companies and the self-employed (BECI, Boerenbond, NSZ/SNI, UNIZO, UCM, UWE and VOKA) and coordinated by the NBB and the FEB/VBO. Fourteen waves of this survey have already been conducted, initially on a weekly or fortnightly basis and since August on a monthly basis.

The ERMG survey, just like other surveys, is based on the qualitative assessments of the companies taking part to the survey and the interpretation of its results requires some caution for several reasons. First the surveyed companies differ from one survey to another, because the participating federations that conduct the survey among their members can differ and because companies not always respond to each survey. This makes a comparison over time more difficult. While we correct for a possible overrepresentation in the sample of companies from certain sectors[2], it is still possible that the surveyed companies differ over time in other characteristics. In particular, owing to the time lag between surveys, a “survival bias” may appear, as some companies in difficulty may have meanwhile filed for bankruptcy and are therefore no longer taking part in the survey. Also, compared to the surveys conducted in August and October, the September survey and the surveys before June contained fewer firms located in Wallonia and Brussels. Second, a comparison of the survey results from March, April and June with national accounts data for the second quarter shows that the estimated revenue impact of the COVID-19 crisis according to the survey is much larger than the drop in gross domestic product. This could partially be explained by the fact that the survey focuses on revenue loss in the private sector while GDP also includes the less-affected public sector and non-market services. It also seems likely that the reported revenue loss is somewhat overstated.

It should be stressed that the latest survey results do not yet reflect the impact of the very recent measures: the latest survey was carried out on 19, 20 and 21 October, which was just after the closure of bars and restaurants and prior the announcements of the additional regional restrictions and of the second lockdown of November 2020. These measures will undoubtedly worsen the economic outlook substantially.

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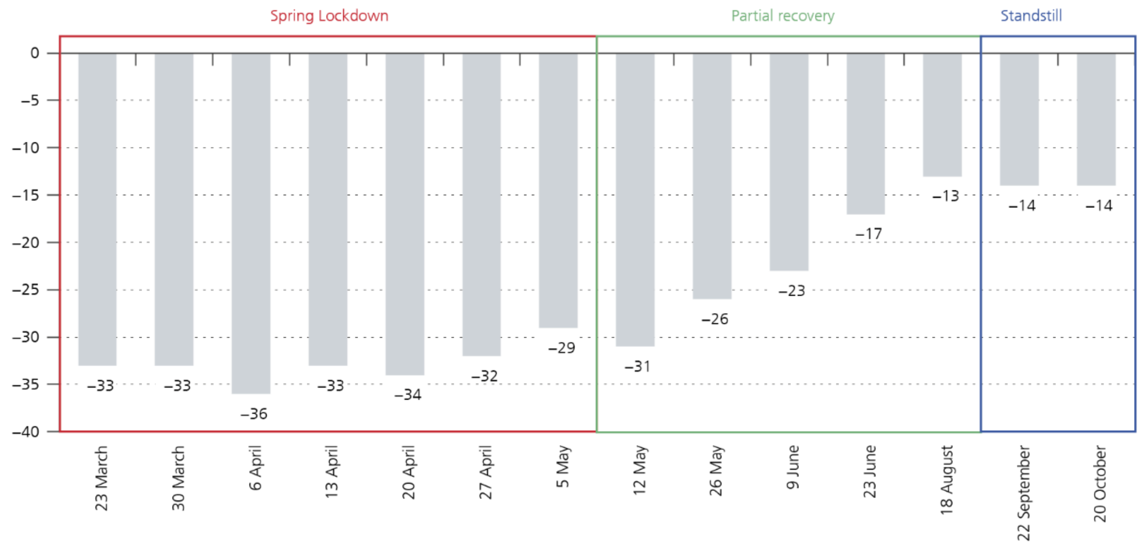
[2] The sample is stratified by industry based on the weight in value added in Belgium.

## The slow recovery of Belgian firms came to a halt even before the second lockdown measures were announced

The very stringent lockdown measures taken in mid-March in the early stages of the COVID-19 crisis, had a devastating and unprecedented impact on Belgian companies' revenues. These revenues immediately shrank by about one-third and remained at this level until the end of April. The revenues had recovered as from early May in line with the gradual lifting of the restrictions. The recovery however was slow and incomplete and grounded to a halt at the end of August as revenue loss in the September and October surveys remained at about -14 % compared to normal levels (i.e. the levels that would have been likely without the COVID-19 crisis). Moreover, the October 20 survey does not yet fully reflect the impact of the closure of bars and restaurants as it was conducted just after its introduction and, as stated above, it does not at all take into account the more recent measures adopted by the Regions nor the very recent nationwide second lockdown.

**Chart 1: Impact of the coronavirus crisis on the turnover of companies**
(in %, weighted average based on turnover and aggregated by sector)




Sources: BECI, Boerenbond, NSZ/SNI, UCM, UNIZO, UWE, VBO/FEB, VOKA, NBB.

The fact that there has been no further improvement since August is largely due to the persistent weakness of demand (reported by more than half of the surveyed firms) and due to the recent increase in the number of COVID-19 infections and the tightening of the restrictions. First of all, owing to the closure of bars and restaurants, the share of firms questioned that cited the total or partial prohibition of activities as a reason for their current turnover loss reached 12 % in October. That said, this rate is still well below the 25 % recorded during the Spring lockdown, when, among other measures, almost all non-food shops were closed. Secondly, the number of companies citing a lack of staff as one of the reasons behind the fall in turnover has more than doubled, rising from 2 % in August to 3 % in September and to as much as 5 % in October. This is also confirmed by the increase in the proportion of employees off sick, which has risen from 2.2 % in September to 3.2 % in October, a similar level to that recorded in mid-April. Of course, that cannot be dissociated from the growing number of COVID-19 infections and, consequently, people in quarantine. This percentage of workers absent due to illness is much higher in the Brussels-Capital Region and the Walloon Region than in the Flemish Region, as in sectors where teleworking is more difficult to arrange.

In addition to the huge sectoral differences (see Box 1), the magnitude of the COVID-19 impact also differs depending on both the size of the company and on the Region where it is located. The self-employed and small firms are clearly suffering the most from the crisis: they took the largest hit during the Spring lockdown, they had not recovered well and their situation worsened again in the October survey. At regional level, the impact of the coronavirus crisis continues to be perceived as being lower in Flanders. The bigger impact in the Brussels-Capital Region is above all related to the drop in the number of commuters (due to intensive use of teleworking), tourists and business trips and it is mostly evident in accommodation and food services, retail trade and the transport and logistics sector. In the Walloon Region, support services seem to be affected more.

***Box 1: The COVID-19 crisis has a hugely asymmetric revenue impact on the different sectors***

*While all sectors of activity are strongly affected by the COVID-19 crisis, there are enormous sectoral differences, both in terms of the magnitude of the revenue loss during the Spring lockdown, the speed of the recovery after the gradual lifting of the restrictive measures and the effects of the recent worsening of the health situation and the tightening of restrictions.*

*The arts, entertainment and recreation sector is one of the worst-hit sectors, with a revenue loss that has only marginally narrowed since June and has averaged -80 % over the last seven months. The prime reason for this continuing revenue loss is the total or partial prohibition of activities, as the restrictive measures for this sector have remained very severe. Its economic situation has likely worsened since the October survey due to recent health developments and tighter restrictions for the sector.*

*Another heavily affected sector is accommodation and food services, which reported a revenue loss of more than -85 % from mid-March to the beginning of June. This revenue loss had narrowed after the reopening of bars and restaurants in early June, though due to the social distancing rules and weak demand, was still around -40 % in August and September.*

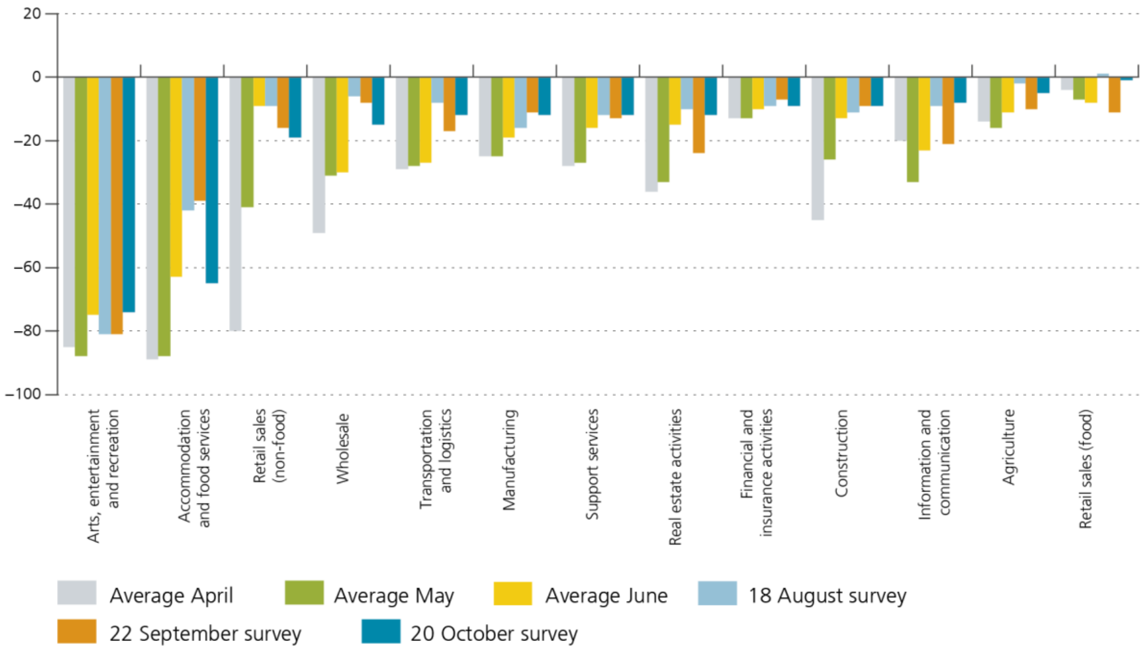
*The revenue loss was up again considerably in the October survey but probably does not fully reflect the impact of the recent closure of bars and restaurants at a national level.*

*Also the non-food retail sector was among the worst-affected sectors during the Spring lockdown with a revenue loss of about -80%. With non-food shops reopening on 11 May, turnover in the retail trade sector has bounced back quickly, but it has deteriorated again over the last two months. Businesses in this sector are among the most sensitive to changes in the health situation notably due to the negative correlation with shop visits, related to the fear of catching the virus or the inconvenience of the restrictions. In addition, this sector will also be adversely affected by the closure of bars and restaurants (because shopping trips and catering visits are often combined), and, especially, by the closure of non-essential shops in the second lockdown. On the positive side, it seems likely that this sector has invested in E-commerce solutions in order to generate revenue also during a second lockdown.*

*Transportation and logistics, manufacturing, support services, real estate activities, information and communication and construction had lost about -30-40 % of their revenue during the Spring lockdown and has been gradually recovering since May. This recovery was only partial, as the revenue loss was still about -10 % in the survey of October, mostly due to weak demand.*

*Finally, there are sectors that are less affected by the COVID-19 crisis. The revenue loss in the agricultural sector and financial and insurance activities was relatively minor during the Spring lockdown and it has recovered since. Also, companies in food retailing have reported a limited impact of the coronavirus crisis on their turnover, but the teleworking and closure of restaurants and non-food shops will most likely have had a positive influence on their turnover.*

**Chart 2: Decline in turnover per branch of activity**
(in %, weighted average based on turnover)




Sources: BECI, Boerenbond, NSZ/SNI, UCM, UNIZO, UWE, VBO/FEB, VOKA, NBB.

When questioned about the impact of the coronavirus crisis on turnover in the fourth quarter of 2020, firms surveyed in the latest October survey reported they were expecting a similar situation to the current loss of turnover. For 2021, companies questioned are predicting hardly any improvement at all: their projections point to an -11 % revenue loss compared to normal levels. Especially the worst-hit sectors are only expecting a very partial reduction in their losses in 2021. As argued above, the impact of the most recent restrictive measures and especially the second lockdown, which are not yet reflected in the latest survey dating from October 20, will substantially worsen this economic outlook.

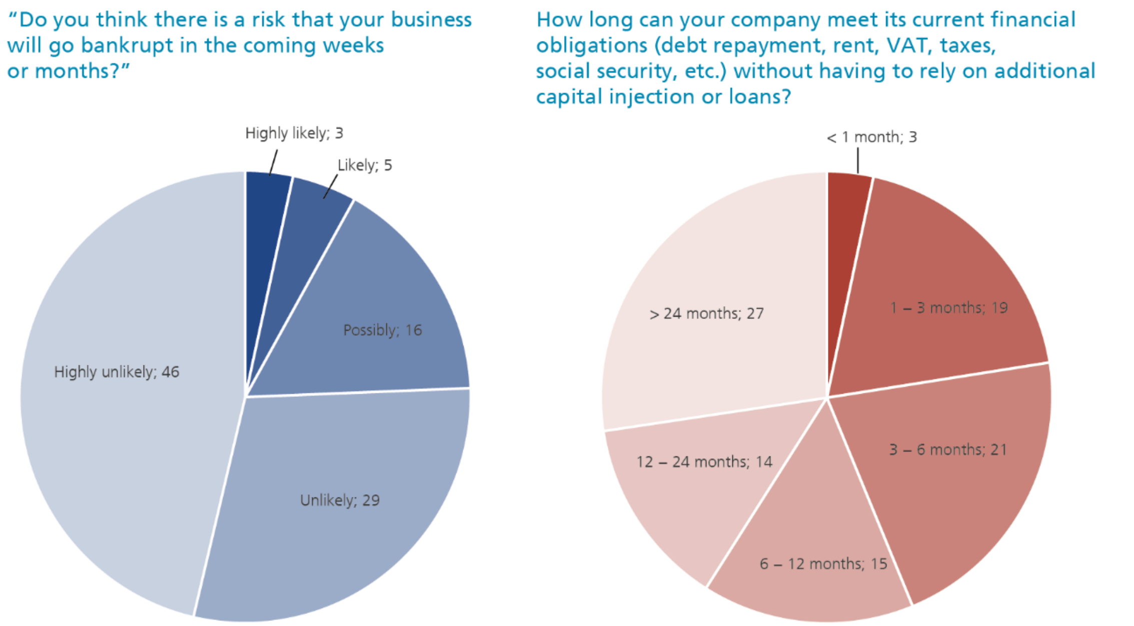
## Firms report liquidity problems and a high bankruptcy risk

The revenue losses, the economic environment and enormous uncertainty have a negative impact on the Belgian economy, both in the short run through a reduced economic activity and liquidity problems and in the long run through an increased number of bankruptcies, job losses and investment cuts.

As far as liquidity-related aspects are concerned, the share of companies surveyed facing liquidity issues had declined since the exit from the Spring lockdown but it has slightly worsened again in October to one third of the firms. To gauge companies' liquidity position, firms were also asked for how long they could meet their current financial liabilities without having to rely on additional capital injections or loans. The answer was less than three months for about one-fourth of the respondents in October, which suggests that a relatively large share of the Belgian companies now consider themselves to be in precarious financial situation.

Concerning the bankruptcy risk, the proportion of firms surveyed saying that a bankruptcy is either likely or very likely reached 8 % in October. In addition, it is possible that some companies in difficulty have meanwhile filed for bankruptcy and have therefore stopped taking part in this survey (what is referred to as ''the survival bias''). More concretely, firms surveyed reckon that up to 8 % of companies operating in their own sector of activity have already filed for bankruptcy or are currently involved in bankruptcy proceedings because of the COVID-19 crisis. The fact that these companies in liquidation no longer take part in the survey means that the adverse impact of the coronavirus crisis is possibly underestimated.

**Chart 3: Perceived bankruptcy risk and liquidity position (ERMG survey of October 20)**
(in % of total respondents)




Sources: BECI, UCM, UNIZO, UWE, VBO/FEB, VOKA, NBB.

In the October survey, a question to evaluate the effect of a hypothetical second lockdown of six weeks was added. 5 % of the firms surveyed responded that another lockdown of this kind would push their business over the edge. For nearly half of the respondents, the very survival of their firm is directly dependent on the pandemic-related financial support measures and, if they are not applied as they were during the Spring lockdown, bankruptcy would be inevitable.

## The outlook for investment and unemployment is gloomy

The degree of concern about the firm's commercial activity, measured on a scale of 1 (low concern) to 10 (high concern), has risen from 6.4 in September to 7.0 in October, a similar level to that recorded in April. This growing concern among firms, the gloomy outlook for turnover and the huge uncertainty is detrimental for investment. Regarding 2020, firms surveyed mentioned a 23 % reduction in investment compared with a normal situation and investment plans for 2021 are estimated to be 21 % below normal.

The labour market is deeply impacted, in the short run through to the use of the temporary lay-off scheme and, in a longer-term perspective, through job losses and many companies going bankrupt. While the former is directly visible and could be evaluated, the latter remains to be seen and the existence of the temporary scheme could postpone the definite outcome of the economic shock.

In the October survey, companies said 7 % of their employees are now on temporary lay-off, compared with 6 % in September and August. This increase is entirely attributable to the accommodation and food services sector. The use of temporary unemployment will likely strongly increase due to the second lockdown. As an example, during the lockdown in April, surveyed companies reported that one-third of their employees were on temporary lay-off.

Moreover, the COVID-19 crisis weighs heavily on private employment. Based on answers from firms taking part in the October survey, employment in the private sector is expected to fall by almost 90 000 employees in 2020 (or a -3.6 % drop in employment in the private sector) and by nearly 15 000 employees in 2021 (or a -0.6 % drop in employment in the private sector). In addition to that, bankruptcies of the self-employed could lead to even more job losses in the private sector. Even if these employment forecasts are very uncertain due to the current context, it is obvious that a strong negative impact is currently to be expected.

## The COVID-19 crisis will have a lasting impact on where, when and how employees work

The shift of work from an office based to a remote based set up was driven by the COVID-19 crisis both in the short run (due to the governmental measures related to teleworking) and in the long run (because companies now seem ready to step up the use of teleworking on a more permanent basis).

Mid-October, just before our October survey, the federal government decided that full-time teleworking would once again become the general rule in companies where working from home is possible. As a result, the share of full-time teleworking has risen sharply, from 9 % in September to 22 % in October, while the proportion of part-time teleworking is also still high at 22 %. The use of telework will likely further increase during the second lockdown as it becomes mandatory if feasible.

Companies are also expecting more intensive use of teleworking in the long run: the average number of days spent working from home per week is projected to rise from 0.8 days before the crisis to 1.4 days after the crisis. This is only slightly down on the current figure of 1.7 days teleworking in the October survey. In addition, one in every five firms says that working hours will be more flexible compared to before the crisis. Finally, one in every four companies reports to cut back on the number of business trips (and this would even be a higher number when also including companies and the self-employed who never go on a business trip anyway).

## Conclusion

As elsewhere in the world, the COVID-19 crisis has already had a detrimental impact on economic activity and the financial health of Belgian companies. The slow recovery since the exit from the Spring lockdown had stalled since the end of August and the recent worsening health situation and new lockdown measures will most likely deepen the economic crisis again. Finally, while we are currently amid this crisis, we should prepare the economy for when the situation will improve again in the future. We hope to see this recovery soon in our future surveys.