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Crisis management tools used by companies by their conjunctural state, spring 2021

The latest analysis of HCCI's Institute of Economic and Enterprise Research (IEER) focuses on the reactions companies gave on the economic challenges of the coronavirus pandemic, in particular the crisis management tools they deployed as required by their conjunctural state. The data analysed originates from IEER's April 2021 Business Climate Survey involving 2786 domestic businesses.[1]

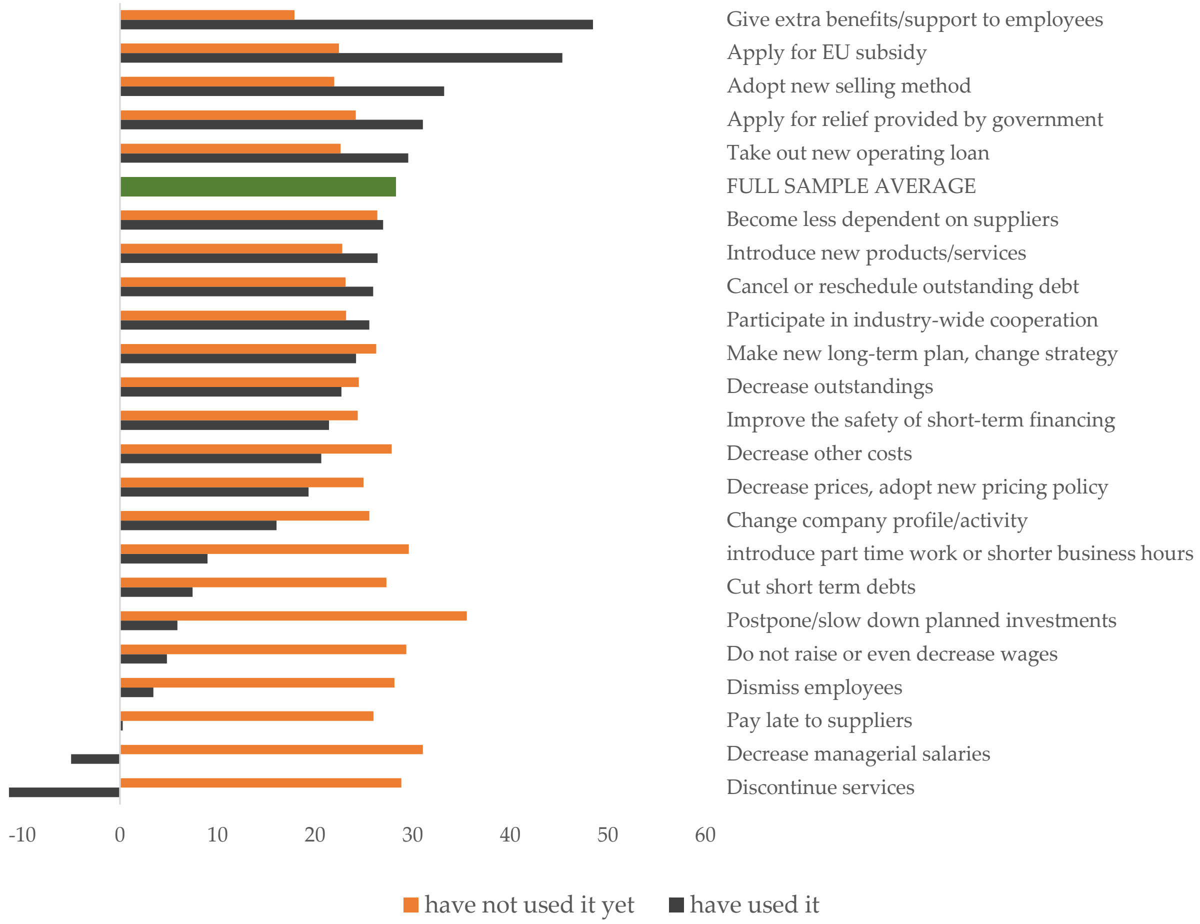
In the survey we asked the respondents (N=1504–1721) about the types of crisis management tools they had been using, the types they were planning to use and the types they had not used and had no plans to use either. Afterwards, for each tool, we compared the conjunctural state of companies that had used them with those that had not. (The average Business Climate Index for the entire sample was +28 points.)

The data show that the conjunctural state of respondent companies partly defined the means by which they managed the crisis. It is clearly visible that companies in a worse-than-average conjunctural state were more likely to discontinue services, reduce managerial salaries, delay payment, lay off staff, freeze/decrease salaries, postpone investments, cut short-term debts and introduce part-time work. Measures to reduce expenditures remained thus more emphasised in that corporate segment even in spring 2021.

At the same time, companies that granted their employees extra pay and aid, called down EU subsidies and introduced new selling methods were in a better conjunctural state than the average. As for the rest of crisis management tools there was not a significant difference of over 10 points between the conjunctural state of companies that used them and those that did not..

[1] The results are weighted to make the sample of respondents representative with respect to their contribution to gross added value, regions and the number of employees. The number of elements are unweighted as they appear in the analysis.

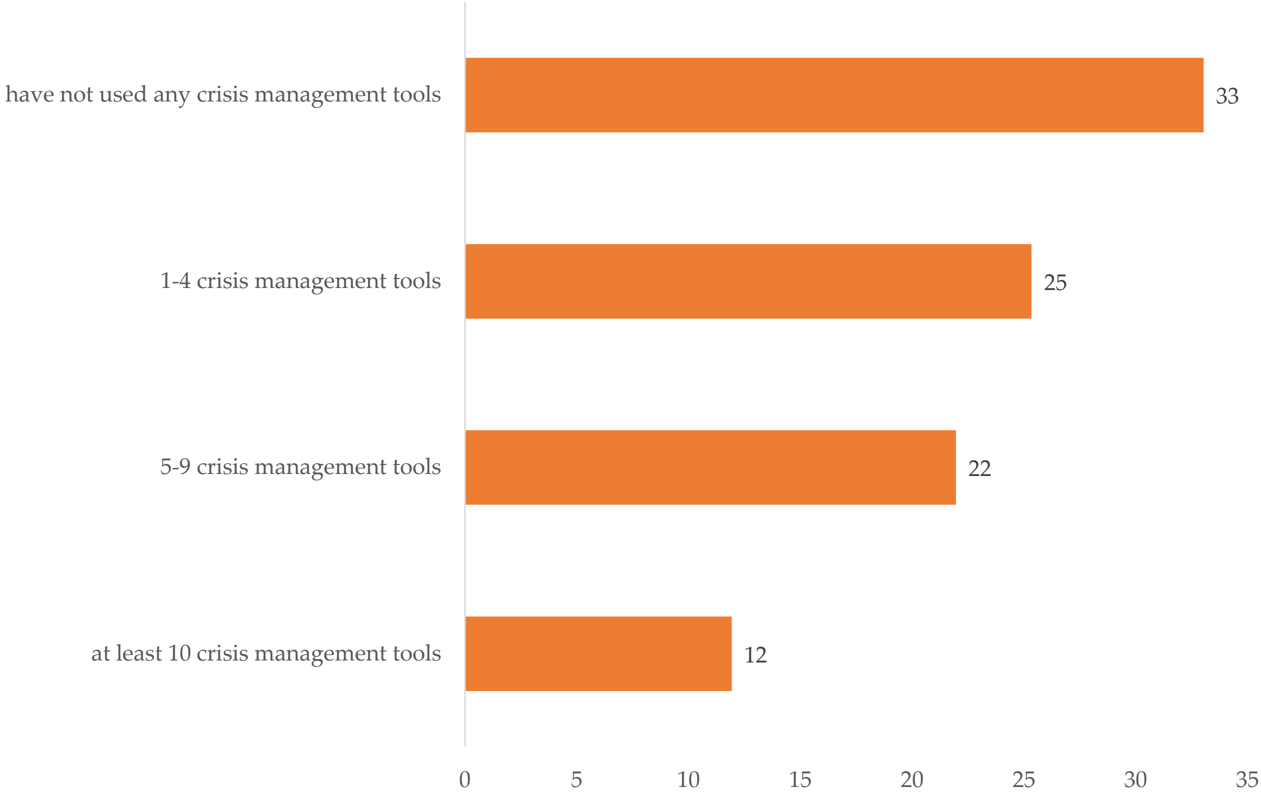
Figure 1: Average business climate index of companies that employed or refrained from using crisis management tools, N=1504–1721



Source: IEER 2021

A strong correlation can also be observed between the conjunctural state of a company and the number of crisis management tools used. The average Business Climate Index of companies that did not resort to using crisis management tools at all was +33, a score above the average. The index for companies employing 1-4 tools was +25, and +22 for businesses using 5-9 tools. Companies that used at least 10 different crisis management tools scored a feeble +12 points on average in spring 2021.

Figure 2: Average business climate index with regard to the number of crisis management tools used, N=1504–1721



Source: IEER 2021

Risks concerning the labour market in the period after the coronavirus pandemic

European governments have introduced various measures to mitigate the adverse economic effects of the coronavirus pandemic and related restrictions. Although the first evaluations of the crisis management appear to be positive, analyses warn that European economies will have to face a number of labour market risks in the post-pandemic period, which were partly related to the support measures. We shall present the main risks in the following brief summary.

When discussing government measures targeting to aid businesses and employers in the hard times of the pandemic the most important risk factor concerns the effect of such measures on the central budget. There have been many factors during the pandemic that brought about a potential increase of public deficit and national debt. Thus restrictive measures contribute to the deficit per se. One part of the subsidies, for example direct aid to businesses, wage support programmes and expanded unemployment benefits result in spiking expenditures, while declining turnover, low consumption as well as measures like tax cuts and reliefs mean dropped revenues. Some analysts point out that a prolonged pandemic may bring about mounting national debt in certain countries last seen in 2008 (OECD 2021, World Bank 2021).

Most European countries started phasing out subsidies in 2021 as the pandemic abated and vaccination programmes caught up. However, some analyses warn that withdrawing subsidies too fast may be harmful to businesses, and with demand still not back to pre-crisis levels in many sectors companies can easily find themselves in a hard situation, so it may hinder economic recovery. Having been the hardest hit sector in Europe, the state of small and medium-sized enterprises are especially problematic as they employ a significant proportion of the populace.

In parallel, some analyses draw attention to „zombiefication", the phenomenon that subsidies introduced during the pandemic, especially direct subsidies and credit guarantees, may keep alive enterprises that even before the pandemic were not competitive (Bircan et al, 2020). An analysis by Bruegel (Anderson et al. 2021) points out that the average number of company establishments and bankruptcies fell in the EU in 2020, and while establishments reached pre-crisis levels by the third quarter of 2020, the number of bankruptcies stayed under that of 2019, which suggests that subsidies may have kept some businesses on the surface that would otherwise have gone under. This finding also forecasts that more bankruptcies are expected after the pandemic.

The fact that COVID affected certain groups of employees more than others (similarly to the subprime crisis of 2008) adds a further risk to the post-pandemic period. It was exactly the most vulnerable groups that worked in the sectors most severely hit by COVID – women, youth, and low skilled labourers, while the transition to home office was the easiest in jobs requiring higher skills.

All this leads to deepening labour market inequalities (IMF 2020, OECD 2021). In reaction, governments in some countries introduced measures to support exposed groups (e.g. subsidies for creating workplaces, training programmes), however, the issue will probably need intervention in a longer run. Analyses made by OECD (2021b) and the World Bank (2021) highlight that school closure and the introduction of digital teaching had a deeper impact on disadvantaged youth, and the consequences will show in the labour market of the future.

Finally, in the period after the pandemic it is anyone's guess how enterprises will be able to adapt to further potential crises and processes such as digitalisation and automation, which existed before but were accelerated by COVID, and related issues like workplace changes (McKinsey 2020), widening gaps in the labour market as well as global problems like the slowdown of economic growth and climate change.

Sources:

Anderson, J., F. Papadia & N. Véron (2021): COVID-19 credit-support programmes in Europe's five largest economies, Working Paper 03/2021, Bruegel. Link: https://www.bruegel.org/2021/02/covid-19-credit-support-programmes-in-europes-five-largest-economies/

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https://www.oecd.org/coronavirus/policy-responses/designing-active-labour-market-policies-for-the-recovery-79c833cf/

World Bank (2020): Global Economic Prospects. Link: https://www.worldbank.org/en/publication/global-economic-prospects

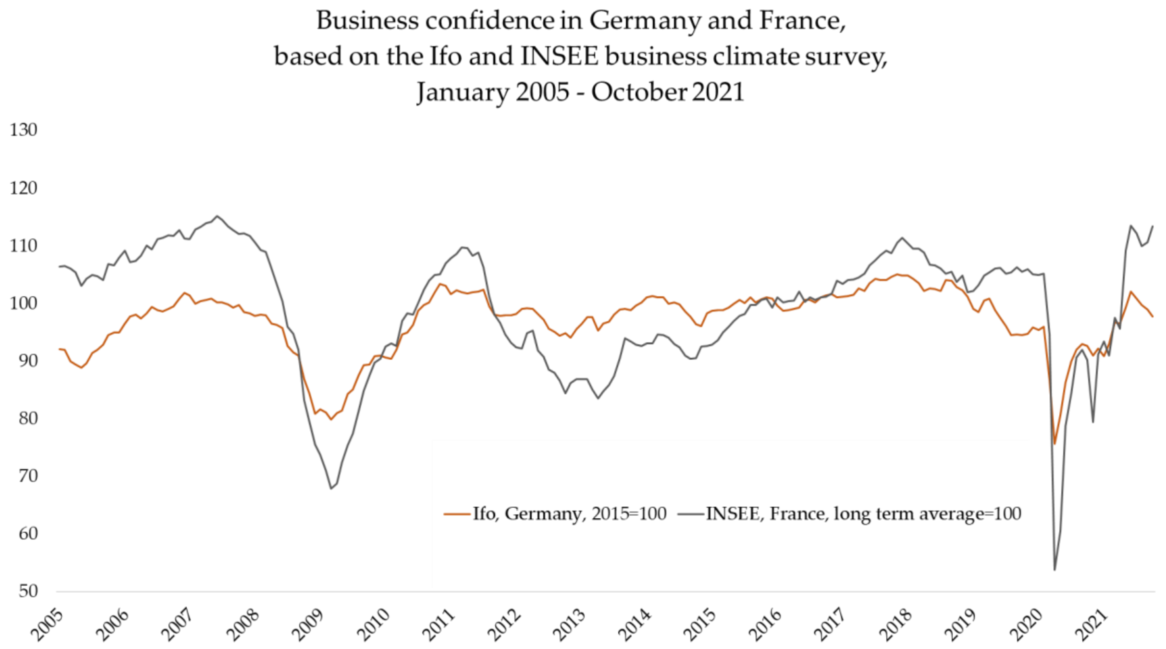
International trends

Changes in the production, consumption and employment situation in certain major international economies compared with peer expectations and the previous period.

		Period in review	Actual data	Expectations	Previous period
Germany	Unemployment Rate	(October)	**5.4%**	5.4%	**5.5%**
	Manufacturing Purchasing Managers Index	(October)	**57.8**	58.2	**58.4**
	IFO Business Climate Index[1]	(October)	**97.7**	95.4	**98.9**
France	INSEE Business Climate Index[2]	(October)	**113.4**		**110.6**
USA	Unemployment Rate	(October)	**4.6%**	4.7%	**4.8%**
	CB Consumer Confidence Index	(October)	**113.8**	108.3	**109.8**
	Manufacturing Purchasing Managers Index	(October)	**58.4**	59.2	**60.7**
China	Manufacturing Purchasing Managers Index	(October)	**49.2**	49.7	**49.6**

[1] https://www.ifo.de/en/survey/ifo-business-climate-index
[2] http://www.insee.fr/en/themes/indicateur.asp?id=105
The rest of the data source: https://www.bloomberg.com/markets/economic-calendar

In Germany, the IFO business climate index decreased compared to October. The manufacturing purchasing manager index (PMI) decreased compared to previous period. Unemployment rate slightly improved for Germany. The French INSEE business climate index increased compared to last month. In the United States, the CB consumer confidence index increased compared to the month prior, and it performed better than expected. The manufacturing PMI decreased compared to September in the USA. The unemployment rate improved compared to last month. The Chinese manufacturing PMI decreased compared to previous period.



Sources: www.ifo.de, www.insee.fr

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