



Industry: The Spring Relevance EMEA REAL ESTATE | COVID-19

Special Insights
Series – Opportunities
and Challenges in
Extraordinary Times

Q1-Q2 2020

COVID-19 & INDUSTRIAL PRODUCTION

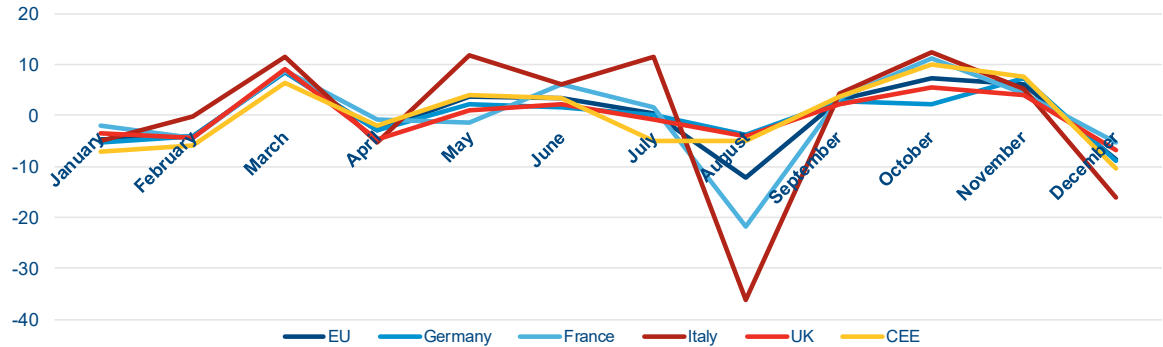
The Spring Relevance

Soon after the COVID-19 outbreak, a good share of manufacturing facilities across Europe, as with many other businesses, ceased operation to help protect employees from the spread of the virus. The majority are now back up and running, but some are operating at a reduced capacity to respect health and safety guidelines for one, but also in some cases due to a drop in demand for certain goods and products, a build up of inventory, or awaiting materials and components as supply chains come back online.

In terms of production activity over the spring months, we have analyzed how important the currently affected March-May period is for the industrial sector throughout the EMEA region. We looked at how the monthly (unadjusted, index with fixed base) output indicators stack up against the yearly average in each of the past 3 years (2017, 2018 and 2019), then calculated the average for these figures (EU average derived from EU states data weighted with their value added at factor cost for manufacturing). This means that for the following chart, zero equals the monthly average in a normal year in terms of output. While huge parts of these economies were shut down like switching off a light, it is clear that restarting operations gradually in the subsequent months will mean the full recovery of lost business will take a fairly long period of time (at least a year, if IMF economic growth forecasts become reality). European production cycles are extremely in tune with one and other. With a few notable exceptions, October and November stand out as either the first and second most relevant months for most countries we analysed. Looking at the heat-map March and the May-July period also stand out as quite relevant.



Manufacturing output deviation from normal monthly average (% ,calculated based on 2017-2019 period)



Monthly rank for selected countries in terms of size of manufacturing output (red – busy months, blue – slower months)

Month rank	January	February	March	April	May	June	July	August	September	October	November	December
Belgium	8	11	1	7	6	3	12	9	5	2	4	10
Bulgaria	12	11	5	10	6	4	3	8	7	2	1	9
Czechia	9	10	4	7	3	5	11	8	6	2	1	12
Denmark	8	11	5	10	4	6	12	7	3	1	2	9
Germany	11	10	1	8	5	6	7	9	3	4	2	12
Estonia	10	11	4	7	2	5	12	8	6	1	3	9
Greece	12	11	3	9	2	4	1	10	5	6	7	8
Spain	9	8	3	10	1	6	5	12	7	2	4	11
France	9	10	2	7	8	3	6	12	5	1	4	11
Croatia	12	10	5	8	2	7	3	11	6	1	4	9
Italy	9	8	4	10	2	5	3	12	7	1	6	11
Latvia	12	11	10	8	4	5	6	2	7	1	3	9
Lithuania	10	12	7	11	5	3	8	4	6	1	2	9
Luxembourg	9	10	1	8	3	4	7	12	5	2	6	11
Hungary	10	8	5	7	3	6	9	11	4	1	2	12
Malta	10	9	5	8	3	6	7	11	4	1	2	12
Netherlands	8	11	3	9	4	6	7	12	5	1	2	10
Austria	12	10	1	9	7	5	6	11	4	2	3	8
Poland	10	12	3	7	6	5	8	9	4	1	2	11
Portugal	8	10	3	9	2	5	1	11	6	4	7	12
Romania	11	9	3	8	2	6	7	10	5	1	4	12
Slovenia	9	10	2	8	4	6	7	12	5	1	3	11
Finland	10	12	4	9	7	5	11	8	6	1	3	2
Sweden	9	8	3	7	5	4	12	11	6	1	2	10
United Kingdom	8	10	1	11	6	5	7	9	4	2	3	12
Norway	7	9	4	10	8	5	12	6	3	1	2	11
Switzerland	11	10	3	9	4	5	8	12	6	1	2	7



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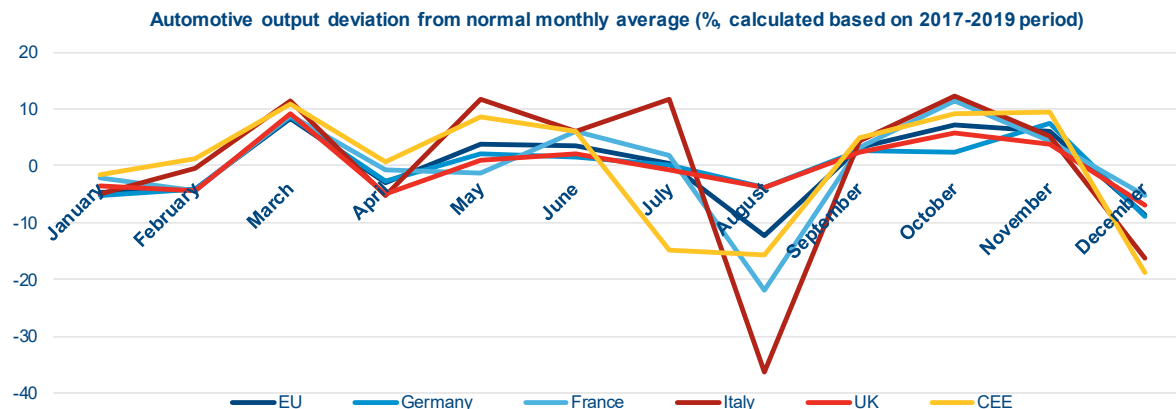
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We could argue that the **lower demand** going forward amid economic uncertainties as well as impacted supply-chains will not be able to fully recover as simply as they were shut down. After gauging risks and adapting operations to these new realities (also incorporating health and safety regulations), **many operations have been restarted as of May 2020**, though may not be at full capacity. Either way, this situation may well hold significant implications for the real estate sector as well, but for now, it is still too early to say where this will all land. Some have lost out on some of their most lucrative months. **March and May are two of the biggest production months** over the course of the year - March is the second biggest month for output for Italy, Spain and Czechia and the biggest for Germany, UK, Belgium and Austria. Fortunately **April is of less importance** in terms of production output due to the Easter holidays.

For the **automotive sector, which is one of the staples of European industry** and generates close to 1 in every 9 jobs in manufacturing directly, March is the busiest month of the year for some of the continent's biggest producers - Germany, France, UK, Poland and Romania. For Spain and Italy, **May is the biggest month in the automotive industry**. Faced with having to catch up on reduced output in March & May, this could change the typical activity curve in 2020, with busier summer months ahead to make up for lost time. The risk of a second COVID-19 wave is very real, so producers will need to mitigate against this and the subsequent risk that output is curtailed during the peak output months of October-November.

Manufacturing output deviation from normal monthly average (% ,calculated based on 2017-2019 period)



OUTLOOK

Generally speaking, while the spring period is quite important, (except April or the Easter month) the October-November period is by far the most active. This means that any potential second COVID-19 wave hitting production activities during late autumn-early winter months may be even more significant. Although nobody can forecast this, it is a risk scenario worth considering, particularly given how big these months are. Consequently, we would expect production activities to be adapted via increased output in summer months, with companies maybe stockpiling more inventories than they would normally like and maybe increasing the need for more flexible leasing arrangements during these challenging times and going forward.

Otherwise, this situation of higher inventories may lead to a somewhat higher need for short-term storage options, though the longer-term picture is for sure less clear. Potentially lower demand going forward (as consumers switch to a more cautious mindset) could be pitted against a decentralization of output and warehousing options, leading to higher demand for I&L operations; right now, in May 2020, it is quite unsure which side of the argument is stronger, though the strong growth story some markets have seen in the last decades offer some reasons for optimism.