

SME Export Indicator

A publication by Switzerland Global Enterprise and Credit Suisse

Private Banking & Wealth Management, Fourth Quarter 2015

Cautious hope

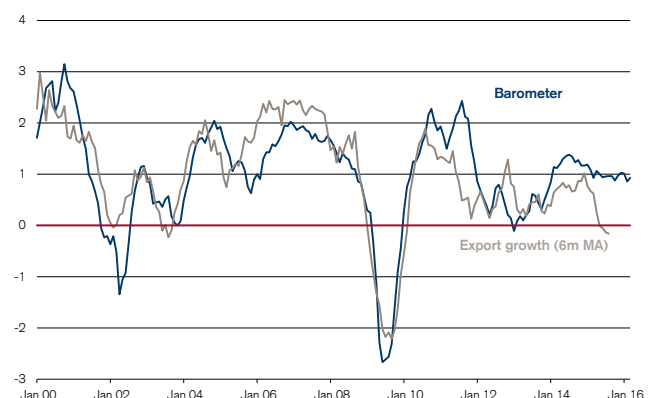
- After slipping to an all-time low in the prior quarter, business sentiment among Swiss export-oriented SMEs has improved a bit. The Switzerland Global Enterprise (S-GE) export outlook indicator has climbed back to a level slightly above the expansion threshold.
- The SMEs surveyed by S-GE reported a greater intention to venture into new, lucrative export markets.
- The Credit Suisse Export Barometer is signaling robust foreign demand. The mild easing of the exchange-rate situation should enable Swiss enterprises to profit more from this demand impetus than they could in the first three quarters of 2015.

The Credit Suisse Export Barometer, which tracks foreign demand for Swiss products, currently stands at a level of 0.89. That figure is slightly below the prior-quarter readings and a bit below the historical mean of 1.00, but is still well above the expansion threshold of 0. This means that an overall robust state of demand for Swiss goods can be expected in the fourth quarter, albeit with regional differences. Moreover, the currency exchange rate situation appears to have eased to some extent. The Swiss franc intermittently traded at parity against the euro earlier this year, but the EUR/CHF exchange rate has since settled into a holding pattern around the 1.10 mark. In light of sluggish economic activity and broad price declines, the Swiss National Bank (SNB) is regularly buying foreign currencies at the moment to weaken the franc, according to analyses by Credit Suisse, but its purchase volumes are small.

Figure 1

Credit Suisse Export Barometer

In standard deviations, expansion threshold = 0



Source: Bloomberg, Datastream, PMIPremium, Credit Suisse/IDC

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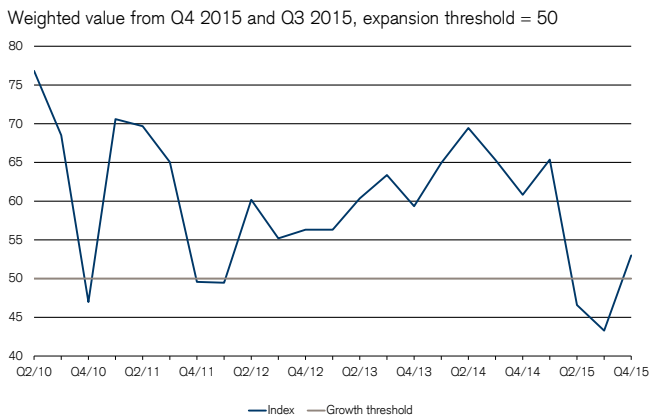
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SME export outlook barely in expansion territory

The Switzerland Global Enterprise (S-GE) SME Export Outlook Index stands at a level of 53.0 points heading into the fourth quarter of 2015. The index reading was calculated by taking SME export sentiment for the fourth quarter of 2015 and combining that with actual exports in the prior quarter. It indicates that Swiss SME export prospects have poked back a bit above the expansion threshold of 50 on the scale of 0 to 100. In the prior quarter, the index clocked in at a level of 43.3 points, the lowest reading since the inception of the survey in 2010.

Figure 2

Switzerland Global Enterprise SME Export Outlook Index



Source: Survey of a panel of more than 200 Swiss SMEs

Of the Swiss small and midsize enterprises that participated in the S-GE SME export prospects survey, 32.3% expect exports to increase in the quarter ahead, up from 25.7% in the prior quarter. Flat export volume is anticipated by 50.7% of SMEs, up from 43.2% at the start of Q3 2015. A decline in exports is now feared by only 17.1% of the SMEs surveyed, compared with 31.1% in the prior quarter.

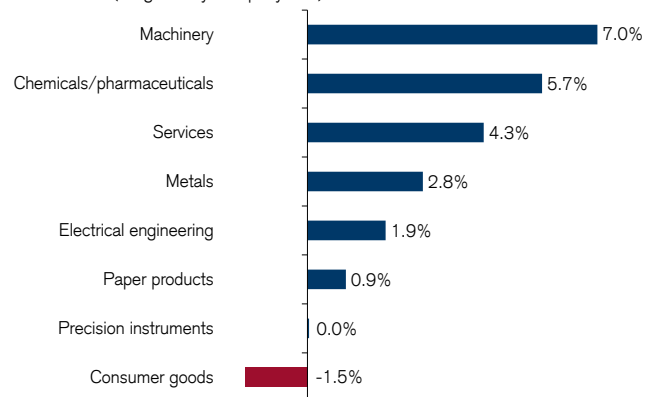
Cautious optimism

Small and midsize enterprises in seven of the eight industry sectors examined by S-GE's SME export prospects survey anticipate rising exports. Companies in the mechanical engineering, chemicals/pharmaceuticals and service sectors are particularly heading confidently into the fourth quarter of 2015. Consumer goods manufacturers are the only ones expressing pessimism.

Figure 3

Export expectations for Q4 2015 by sector

Expected year-on-year growth in % according to a panel survey of more than 200 Swiss SMEs (weighted by company size)



Source: Switzerland Global Enterprise SME export prospects survey

When asked to name the reasons for their expected increase in exports, 52% of the SMEs cited product innovation (prior quarter: 54%; multiple answers possible). Forty-eight percent of the SMEs surveyed are counting on stepped-up marketing efforts (prior quarter: 50%). More SMEs than in the prior quarter (31% vs. 28%) expect economic activity in their export markets to pick up in the quarter ahead. Pricing policy modifications, in contrast, have lost importance as a factor and are now cited by only 20% of SMEs (prior quarter: 26%).

Those SMEs anticipating a decline in exports attribute this primarily to mounting competitive pressure; 63% of the survey respondents cited this factor, compared with 61% a quarter earlier. Concerns about an economic downturn in export markets come second, with 49% of the companies surveyed mentioning this factor, up from 41% in the prior quarter. However, now only 39% of the SMEs surveyed anticipate having to grant price concessions (prior quarter: 47%).

Slight pullback in concerns about CHF strength; finding new export markets is more important

Almost two-thirds (65%) of the companies questioned reported that the strong Swiss franc against the euro and the US dollar was exerting a negative impact on their export volume, down from 74% in the prior quarter. The now less expensive CHF exchange rate against the euro apparently is exerting a beneficial effect here. The quarters ahead will reveal how enduring this broad-based turnaround is.

Ninety-six percent of the SMEs surveyed said that they would take actions (or have taken actions since January 15, 2015) to enhance their export competitiveness. Optimizing procurement stands in the foreground; 57% of the companies surveyed want to shore up their profit margins this way in the face of the weak euro (prior quarter: 59%; multiple answers possible). Lowering production costs was the second-most-cited tactic, mentioned by an unchanged 46% of the SMEs surveyed. Looking for new and more lucrative export markets is now the third-most-cited aim, and its importance has increased significantly; 32% of the SMEs surveyed said they intended to do this, up from 24% in the prior quarter.

Fifty-five percent of the SMEs surveyed are proceeding on the assumption that the franc will stay strong for the foreseeable future. They expect that the EUR/CHF exchange rate a year from now will remain at a level no higher than the 1.08 mark. Forty-five percent of the SMEs surveyed anticipate that the franc will depreciate from its present value.

Growth stimulus from the Eurozone, UK and USA

Significant regional differences exist with regard with to projected demand stimulus for Switzerland's export sector. The broad economic recovery in the Eurozone continues. The last time that the prospects for exporting to Germany looked this good was in early 2014. The outlook for exports to the UK and USA also remains positive. In contrast, the prospects for trade with the big emerging economies Brazil, China and Russia have dimmed further. Demand for Swiss goods in those markets looks destined to decline.

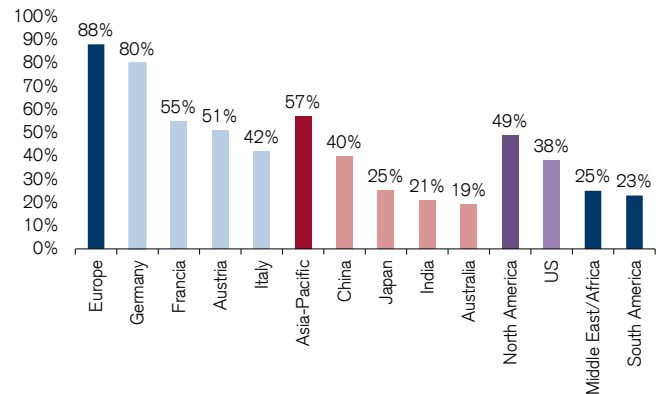
The fact that 88% of the companies surveyed by S-GE will export to Europe over the next six months (multiple answers possible) underscores just how important the EUR/CHF exchange rate is to Swiss SMEs. Germany remains the most important European export market – it will be an export destination for goods or services for 80% of the SMEs surveyed. France is in second place, with 55% of the SMEs surveyed citing that country, followed by Austria at 51% and Italy at 42%.

Fifty-seven percent of Swiss SMEs will export to the Asia-Pacific region over the next six months. China is the top Asian-Pacific export destination, with 40% of the SMEs surveyed citing that country, ahead of Japan at 25% and India at 21%. Forty-nine percent of the SMEs look set to export to North America over the next six months, which means that the region's status has picked up compared to the prior quarter (Q3 2015: 45%). Thirty-one percent of the SMEs will export to the Middle East/Africa region and 19% will export to South America.

Figure 4

Most important export markets for the half-year ahead

Most important destination countries according to a panel survey of more than 200 Swiss SMEs (multiple answers possible)



Source: Switzerland Global Enterprise SME export prospects survey

Methodology

Credit Suisse Export Barometer

Change of methodology as of January 1, 2013: As of January 1, 2013 the growth threshold is set at the zero line. The long-term average growth of Swiss exports accordingly changes to 1 (zero line till then).

The Credit Suisse Export Barometer takes as its basis the dependence of Swiss exports on foreign export markets. In constructing the export barometer, we have drawn together important leading industry indicators in Switzerland's 28 most important export countries. These indicators generally have a forecast horizon of approximately one to two quarters. The values of these leading indicators are weighted on the basis of the share of exports that goes to each country. The export barometer consolidates this information to produce a single indicator. Since the values in question are standardized, the export barometer is calibrated in standard deviations. The zero line corresponds to the growth threshold. The long-term average growth of Swiss exports of approximately 5% is 1.

The chart on page 1 underlines the nature of the Credit Suisse export barometer as a forecasting tool: The correlation between export growth (6-month moving average) and the barometer with a lead time of one quarter is a good 0.82. In addition to providing forecasts for exports as a whole, the export barometer also makes forecasts about specific sectors or regions.

For more detailed information:

Credit Suisse (2009), External Trade Switzerland - Facts and Trends, Swiss Issues: Industries, available at:

www.credit-suisse.com/research

SME Export Indicator of Switzerland Global Enterprise

The concept behind the calculation of Switzerland Global Enterprise's SME export indicator is quite simple: SMEs indicate whether they expect growth, stagnation or a decline in exports in the current quarter compared with the previous one. The same question is put with regard to export expectations for the following quarter compared with the current one. To emphasize the forecast nature of the SME export indicator, expected export activity in the following quarter is weighted at 60% with exports in the current quarter being weighted at 40%. The SME export indicator can range from 0 to 100, whereby figures between 0 and 50 show an expected decline in exports and figures of 50 to 100 an expected rise in exports.

The SME export outlook indicator is based on a quarterly survey of a fixed panel of more than 200 Swiss SMEs. Participants represent the pharmaceuticals/chemicals industry, machinery, consumer goods, the metals industry, paper, electrical engineering, the precision instruments industry, as well as services. Participants provide further information on export volumes, for instance the reasons behind a change in their export volume, export markets, etc. This information gives an accurate picture of the export activities of Swiss SMEs.

For more detailed information:

www.s-ge.com/exportindikator

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