

SME Export Outlook

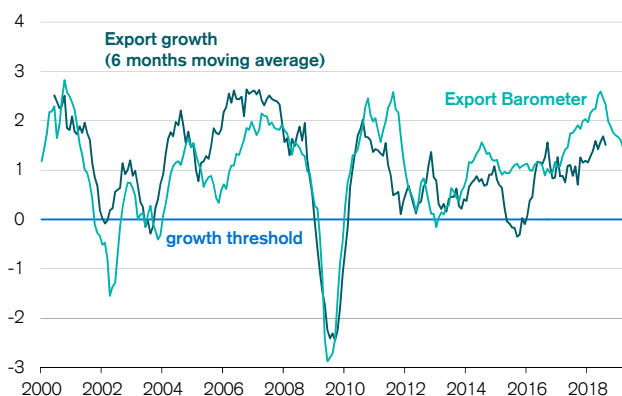
A publication by Switzerland Global Enterprise and Credit Suisse, Q4 2018

Swiss SMEs still in export mode

- **Export sentiment among Swiss SMEs remains good. According to the latest survey of export sentiment by Switzerland Global Enterprise (S-GE), more than 60% of all SMEs expect exports to rise in the fourth quarter of 2018.**
- **The Credit Suisse Export Barometer also gives a pleasantly upbeat reading. Although the values have edged down further compared to the previous quarter, they are still at 1.4 points, well above the growth threshold. For 2019, Credit Suisse expects a normalization process, in a positive sense. The record-high growth posted this year will be quite difficult to match.**
- **Online sales currently play a subordinate role in exports for Swiss SMEs, many of which are highly specialized.**

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

The Credit Suisse Export Barometer, which measures foreign demand for Swiss products, stands at 1.4 points – somewhat lower than in preceding months, but still well inside the growth zone. Credit Suisse attributes the slight decline in the barometer mainly to the political debate surrounding the government budget in Italy, and to fears of further trade restrictions, par-

ticularly from the USA. These developments weigh somewhat on purchasing manager confidence; however, Credit Suisse does not see grounds for an actual reversal in sentiment at the moment.

While economic conditions for Swiss exporters have again eroded somewhat compared to previous months, Credit Suisse sees this process as less pronounced than it was at the beginning of the year. At the same time, the bank expects demand for Swiss exports to pick up further in the near future. This is because the most important purchasing managers indices suggest that industrial production in Europe will rise, which would stimulate demand for Swiss exports.

Throughout 2018, industrial sentiment and growth opportunities have been at record levels, practically across the board, so that this year can certainly be called a boom year for the export industry. According to Credit Suisse, it will be very difficult to maintain this high pace of growth in 2019; nonetheless a trend reversal is not on the horizon. The bank rather anticipates normalization in 2019, in a positive sense.

Credit Suisse considers the tariffs imposed by the USA on Chinese exports so far as hardly dramatic. The USA currently imposes tariffs of 10–25% on half of Chinese exports, and as

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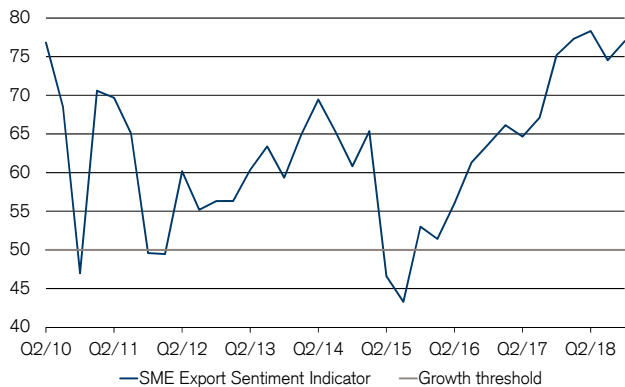
of 2019 the figure will be 25%. The effect of these tariffs on the Chinese economy, and thus on the global economy, will probably be minor. Chinese exports account for just one fifth of Chinese GDP, and of these exports, 10% are subject to US tariffs. Moreover, Credit Suisse does not expect demand for Chinese products to decrease to the same extent as US tariff volumes will increase. However, should the trade spat between the USA and China escalate further, Credit Suisse identifies risk for global, and thus also for Swiss, economic and export growth.

Export sentiment remains upbeat

The SME export sentiment measured by Switzerland Global Enterprise (S-GE) reached a level of 77 points at the beginning of the fourth quarter of 2018, which is near the all-time high for the survey series launched in 2010. The value on the scale ranging from zero to 100 is based on SMEs' export expectations for the fourth quarter and actual exports in the preceding quarter.

Switzerland Global Enterprise SME Export Sentiment

Weighted value from Q3 2018 and Q4 2018, growth threshold = 50



Source: Survey of a panel comprising around 200 Swiss SMEs

Around 61% of the Swiss SMEs surveyed by S-GE expect exports to rise again in the upcoming quarter. While 43% predict export growth of 1 to 10%, 14% of the respondents anticipate an increase of 10 to 25%. And 4% even expect an upturn of 25% or more. Some 33% of SMEs expect their export volumes to stagnate, and only just over 6% are preparing for a decline.

Germany still clearly tops the rankings

Germany remains by far the most important export market, in every respect, with 81% of the SMEs canvassed intending to export goods or services there in the next six months. France maintains its second place with 68% of responses. But while the figures for Germany are virtually unchanged, France saw its appeal as an export destination climb by 12%. Austria now occupies third place with 62%, reflecting an increase of 9%, followed by the USA and Italy with 61% of the responses each. Here too, a marked shift is evident: compared to the previous quarter, 10% more Swiss SMEs intend to export to the USA, but the figure for Italy shot up an entire 22%. Neither the budget discussions in Italy nor the US foreign trade policy seem to be weighing on Swiss SME export expectations.

The Baltic states, on the other hand, have lost significance as an export destination.

Of the surveyed SMEs, 16% reported interest in launching new activities in China in the next six months. The USA is also an attractive destination with 15% of responses, as well as Brazil with 11%, and South Africa and Russia with 10% each.

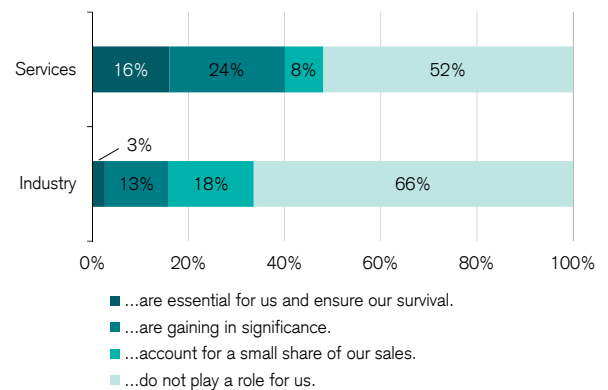
Online sales play a minor role

Many Swiss SMEs are specialized providers of highly complex products and sophisticated services. They are often active in niche markets with a high level of consulting expertise, so online sales are largely irrelevant for them, particularly in the industrial sector. For over 80% of the surveyed SMEs, online sales currently play a minor role, if any, in their export business. Just over 4% of the respondents identified online trade as a key element that helps ensure the firm's survival.

SMEs in top industries (MEM, chemicals/pharmaceuticals, precision instruments) are particularly likely to report that online sales are of little significance to them. The picture is different in services companies, ICT and the food sector. In these sectors, online trade enjoys greater importance, and around 40% of the firms report it as gaining in significance or of essential importance.

Importance of online sales

Share of responses in %, "Online sales..."



Source: Survey of a panel comprising around 200 Swiss SMEs

Methodology

Credit Suisse Export Barometer

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

Switzerland Global Enterprise SME Export Sentiment Indicator

The concept behind the calculation of Switzerland Global Enterprise's SME export sentiment 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 sentiment 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 sentiment 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 sentiment indicator is based on a quarterly survey of a fixed panel of around 200 Swiss SMEs. Participants represent the pharmaceuticals/chemicals industry, machinery, consumer goods, the metals industry, paper, electrical engineering, the precision instruments industry, services, ICT and food. 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:

<https://www.s-ge.com/en/article/news/export-outlook>

Please note: From 2010 through 2015, this publication bore the title "SME Export Indicator".

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