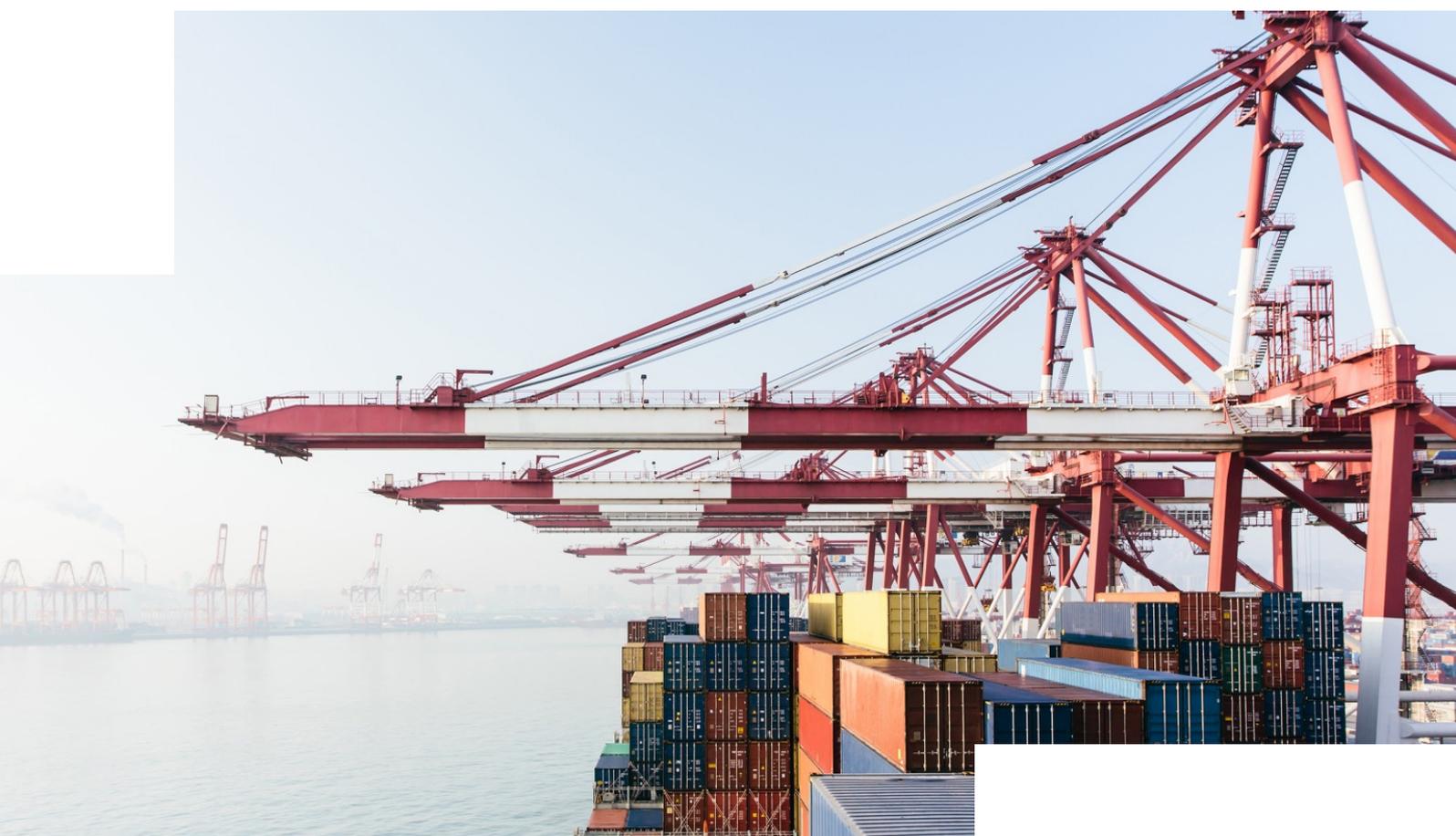


Downtrend halted – export sentiment picking up again

SME Export Outlook | Q3 2019



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Downtrend halted – export sentiment picking up again

- **The trend in export sentiment among Swiss SMEs is turning increasingly positive following the downtrend of recent months, as illustrated by the latest survey on exporters' mood conducted by Switzerland Global Enterprise (S-GE). 49% of all SMEs expect exports to rise in the third quarter, while 39% anticipate stagnation.**
- **However, the Credit Suisse Export Barometer has fallen again slightly. At 0.35 points, while the barometer is still above the growth threshold it has dropped to its lowest level since October 2013.**
- **In the view of Swiss SMEs, finding suitable business partners in the destination country is the biggest challenge when it comes to exporting their goods and services.**

Growth in exports down slightly

At 0.35 points, the Credit Suisse Export Barometer, which reflects foreign demand for Swiss products, now stands only marginally above the growth threshold and is well below its long-term average of 1.0 points. The barometer is at its lowest level since October 2013. Nevertheless, at the global level Credit Suisse expects demand for Swiss goods exports to continue its upward trajectory, though not on the same scale or at the same pace as we saw last year. According to Credit Suisse, the demand situation in Europe has at least stabilised, while there has been a modest deterioration in the US. Credit Suisse does not anticipate a decline in the overall export volume.

At present the European purchasing managers' indices (PMI) do not suggest that momentum in Europe will strengthen appreciably in the near term. Demand for Swiss goods from European industry was correspondingly weak in the first quarter of 2019. The Swiss mechanical, electrical and metal (MEM) industry was hit hard by this trend, with its exports falling by the considerable margin of 2.6%. However, the MEM industry is still posting higher exports to the US, though this positive differential has halved from its peak in autumn 2018.

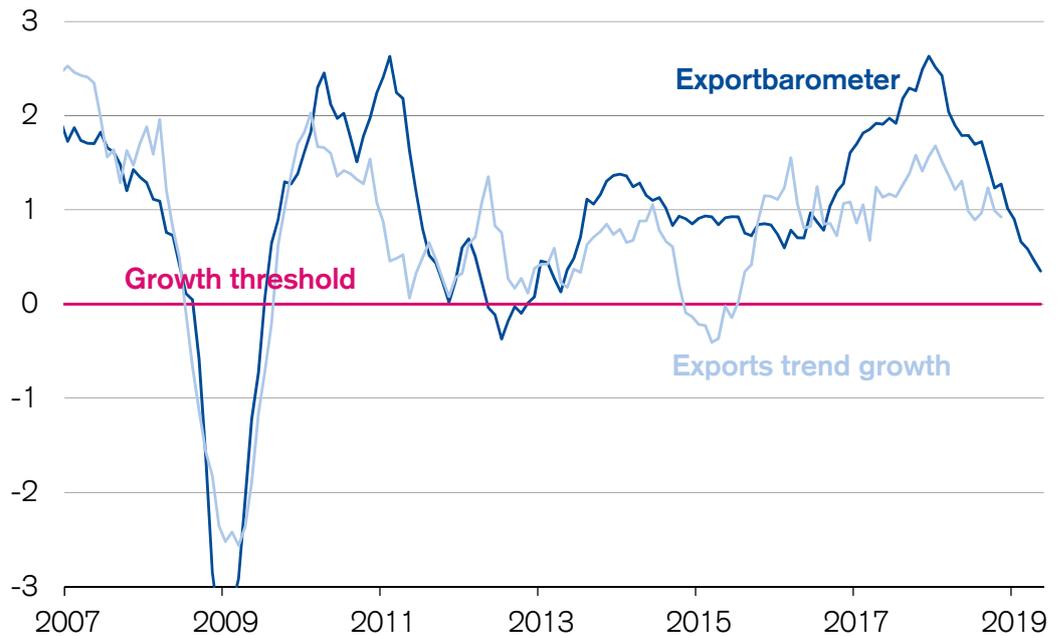
After export growth in the watch industry more or less ground to a halt around the turn of the year, exports have since picked up again. With growth of 76.4%, the UK in particular is now importing significantly more Swiss watches than it did in the corresponding quarter last year. Credit Suisse attributes this rise to many watch dealers building up their inventories ahead of Brexit.

Dynamic export growth in the pharmaceutical industry

It is a very different picture in the pharmaceutical industry, which is still posting dynamic export growth (up 10.1% in the first quarter of 2019 versus the same quarter last year) and therefore continues to make by far the largest contribution to growth in Swiss goods exports. The most important drivers of demand are the US and the Netherlands.

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

Improvement in export sentiment

According to Switzerland Global Enterprise (S-GE), export sentiment among SMEs has risen slightly, reaching a level of 69 points as at the start of the third quarter of 2019 – three points more than in the prior quarter. The value on a scale of 0 to 100 is calculated from the expected exports of SMEs for the third quarter of 2019 and effective exports in the preceding quarter.

Half of Swiss SMEs surveyed by S-GE believe that exports will increase over the coming quarter. While 35% anticipate export growth of 1 to 10%, 11% are looking for an increase of 10 to 25%. 3% are even hoping for growth of 25% or more. 39% of SMEs expect their export volumes to stagnate, with 12% anticipating a fall in volumes.

Germany still top of the table

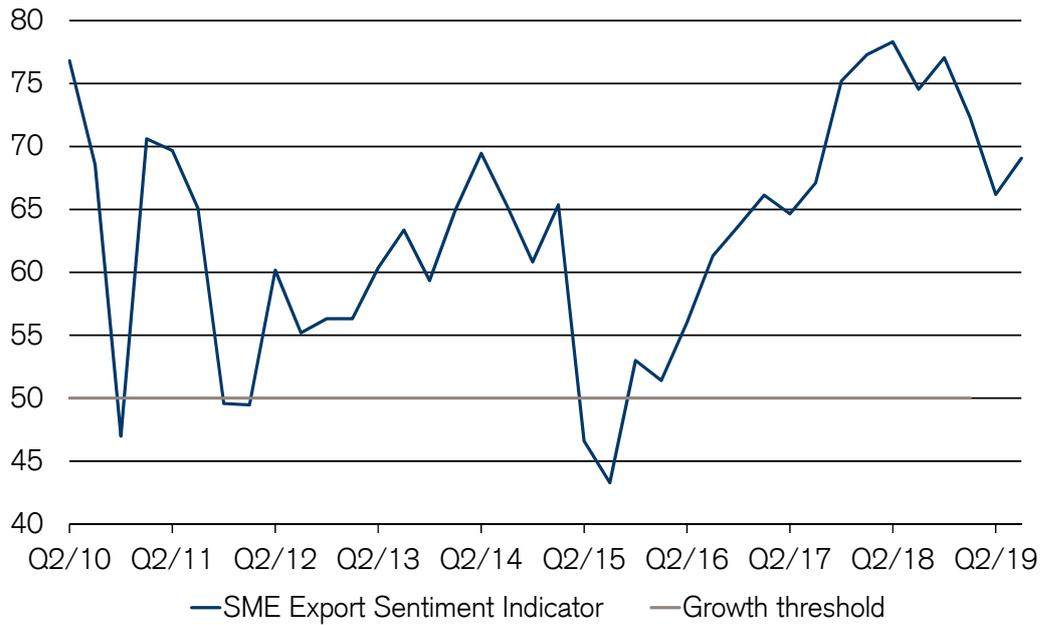
Germany remains Switzerland's most important export market by some distance. 83% of SMEs surveyed plan to export goods or services to Germany in the next six months, followed by France and Austria, at 61%, with the US coming in fourth with 56% of respondents planning to export across the Atlantic. 52% of SMEs expect to be exporting to Italy and China, and 43% to the Netherlands. Spain comes in eighth with 42%.

15% of the SMEs surveyed stated that they intended to start exporting to Russia over the next half-year, followed by the Gulf states at 13%. 11% of respondents plan to begin exporting to Scandinavia and Japan, while 9% cited the US, France, Spain, India and China as new export destinations.

In terms of the importance of the export destinations, the situation is virtually unchanged: Germany is well ahead at 58%, followed by the US at 20% and China at 16%. 11% of the SMEs surveyed said that France was their main export destination, while this was Austria for 10% of respondents.

Switzerland Global Enterprise SME Export Sentiment

Weighted value of Q2 2019 and Q3 2019, growth threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

Finding the right business partner

Success doesn't come easy for export-oriented Swiss SMEs, which have to overcome various challenges in order to gain recognition and establish themselves in their target markets. The greatest challenge by far facing the SMEs surveyed is in finding a suitable business partner in the destination country, while getting the marketing right for their products or services is the second biggest hurdle. Establishing a network ranks third among the main challenges cited by SMEs. However, currency fluctuations and overcoming trade barriers also pose difficulties for the companies surveyed. Cultural differences or issues relating to the implementation of free trade agreements are currently less problematic according to the survey.

At 53%, the majority of SMEs have created a skills framework in their firms to meet the challenges of exporting. In this regard, 26% of respondents depend on the experience and expertise of external experts or consultants, while 9% attempt to find a way around these challenges.

The potential for major pitfalls in the export business is reflected by the fact that 35% of SMEs claim to have abandoned export projects in the past as they found certain challenges too difficult to overcome. Meanwhile, 58% of SMEs have never encountered such problems.

Trade barriers

Trade barriers are playing an increasingly important role against the backdrop of economic policy conflicts. 31% of the SMEs surveyed by S-GE report higher barriers in trading with the US. 21% of those surveyed have had similar experiences with China, compared to 17% with regard to Russia, while 14% see increasing barriers to trade with Germany and Brazil. Conversely, 42% state that trade barriers are decreasing in China, while 16% report the same of Germany and 14% see lower restrictions in the US.

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 3 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

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.

Imprint

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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