

# Swiss SMEs are striking out for China

- According to the survey of Switzerland Global Enterprise, Swiss SMEs see major potential in the Chinese market. Exports to China are therefore set to gain importance in the next five years. Companies from the MEM industry are particularly active.
- Credit Suisse sees good sales prospects for Swiss SMEs in China. Chinese economic growth is expected to amount to 6.5% in 2016 and is particularly being driven by consumer spending. Furthermore, the Swiss franc is set to depreciate by around 1.5% against the Chinese yuan in the next six months.
- Export sentiment among Swiss SMEs has improved further and is more positive than at any time since the abandonment of the minimum euro exchange rate by the SNB in January 2015.

The Asia-Pacific region has significantly gained importance among the export markets of Swiss SMEs compared with the previous quarter: According to the survey carried out by Switzerland Global Enterprise (S-GE), 56% of Swiss SMEs intend to export there in the next six months, up from 49% in the previous quarter. The leading Asia-Pacific export destination is China. The country is cited by 37% of SMEs as an export destination, compared with 31% in the preceding quarter. Japan and India come next and are cited by 27% and 24% of SMEs respectively.

Companies from the engineering, electrical and metal industry (MEM) are particularly active in China. It comes as little surprise that the larger SMEs with more than 50 employees are more strongly represented in the complex Chinese export market than smaller ones.

Forty-three percent of the SMEs canvassed expect the sales share of their exports to China measured against total exports to be higher in five years' time than it is today. These SMEs include a particularly large number of companies from the machinery and consumer goods sectors. Fifty-six percent expect the Chinese share to develop in line with their total

exports and only 1% anticipate a decline in China's importance.

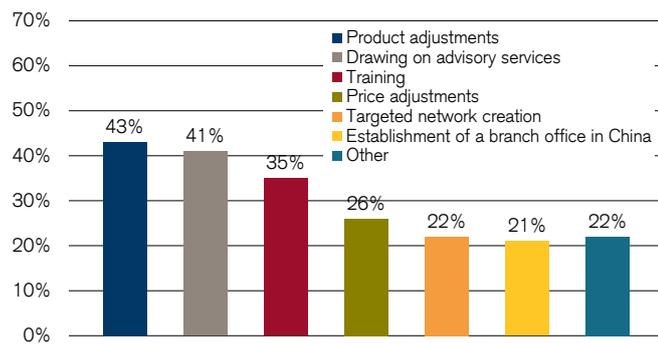
## Overcoming market obstacles with product innovation and advice

Asked which specific problems are posed by exports to China, 43% of SMEs cite administrative and legal obstacles, 34% the lack of price competitiveness and 32% cultural and linguistic barriers.

Forty-three percent of the SMEs canvassed adapt their products to the Chinese market in order to counter typical problems. Forty-one percent draw on advisory services and 35% focus on training for management and employees.

Thirty-six percent of all 200 or so SMEs canvassed reported that they were already making use of the free trade agreement with China that has now been in force for two years or would be doing so in the near future. Of those companies already making use of the free trade agreement, over three quarters (77%) claim not to have any problems applying this.

## Measures against problems on the Chinese market



Source: Survey of a panel of around 200 Swiss SMEs

## Chinese economy remains buoyant

Credit Suisse expects China to grow by 6.5% year on year in 2016, although the economy is likely to slow down slightly in the second half of the year. The most important driver of economic growth at present is consumer spending. Owing to a slight deterioration of the labor market situation, consumer spending is predicted to rise somewhat less sharply in the second half of the year. However, overall economic growth in China is set to remain high again in 2016, thereby offering good sales prospects for Swiss SMEs.

The expected depreciation of the Swiss franc against the Chinese yuan by 1.5% by the end of the year should exert an additional supporting effect in the next few months.

## Credit Suisse Export Barometer pointing toward export growth

The Credit Suisse Export Barometer measuring foreign demand for Swiss products currently stands at 1.13. The long-term average lies at one and the growth threshold around zero. Compared with the previous quarter (0.92), the export prospects for Swiss companies have therefore improved slightly. Greater positive momentum for Swiss exports is to be expected from the USA and the Eurozone in the next few months. The demand indicators in Asia have barely changed compared with the previous quarter.

According to Credit Suisse, the Brexit turbulence in the UK will only have a small direct impact on the Swiss economy. However, if growth in the Eurozone were to be significantly impaired, this would also weaken the Swiss economy. A total of 6% of Swiss exports go to the UK. Half of these comprise pharmaceutical exports that according to a sensitivity analysis of Credit Suisse are virtually insensitive to economic and exchange rate developments. A further 14% are attributable to engineering, electrical and metal exports (MEM) that react more sensitively to economic fluctuations and would therefore be more strongly affected by an economic downturn in the UK.

## Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

## SME export sentiment at its highest level since the start of 2015

The SME export sentiment measured by S-GE reached 61.3 points at the start of the third quarter of 2016. It is based on the export prospects of SMEs for the third quarter of 2016 and effective exports in the preceding quarter. Export sentiment therefore lies not only well above the growth threshold of 50 points on the scale ranging from zero to 100 but also at its highest level since the abandonment of the minimum euro exchange rate by the Swiss National Bank in mid-January 2015. Export sentiment in the preceding quarter came to 56.0 points.

## Switzerland Global Enterprise SME export sentiment indicator

Weighted value from Q3 2016 and Q2 2016, growth threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

Of the Swiss SMEs responding to the survey conducted by S-GE, 40.2% expect a growth in exports for the coming quarter, up from 34.4% in the preceding quarter. A stagnation of export volumes is anticipated by 49.5% of SMEs, down from 51.3% at the start of the second quarter of 2016. Decreasing exports are feared by 10.3% of SMEs compared with 14.4% in the previous quarter.

## USA remains the growth driver

Among the other export markets for Swiss SMEs, the North America region made similarly strong quarter-on-quarter gains to the Asia-Pacific region. Fifty-two percent of SMEs reported their intention to export to North America over the next six months, up from 44% in the previous quarter. Here the optimism of SMEs appears to have benefited from the economic upturn in the USA.

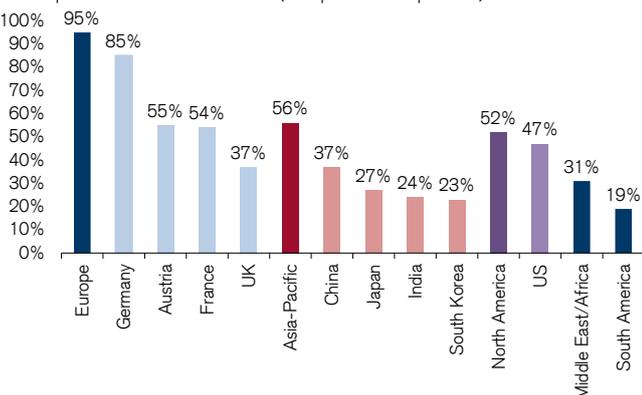
Ninety-five percent of SMEs canvassed intend to export to Europe in the coming six months. Germany remains the most important European export market, with 85% of SMEs surveyed exporting goods and services there, followed by Austria at 55% and France at 54%. The UK comes fourth at 37% – although the S-GE survey was carried out before the Brexit vote.

Thirty-one percent of companies are set to export to the Middle East/Africa region in the next six months. Swiss SMEs consider Iran's potential to be particularly promising. Asked in which markets they would like to launch new activities, the country comes top with 14% of responses.

Nineteen percent of the SMEs canvassed intend to export to South America in the next six months.

## Most important export markets for the coming half-year

Most important destination countries (multiple answers possible)



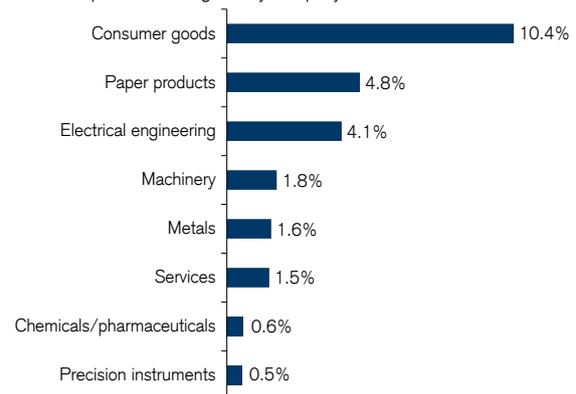
Source: Survey of a panel of around 200 Swiss SMEs

## All sectors displaying optimism

All eight of the sectors canvassed by S-GE for the SME Export Outlook expect exports to rise. Companies from the consumer goods sector are embarking on the new quarter extremely confidently, while companies from the paper and electrical engineering sectors are also particularly optimistic.

## Export expectations for Q3 2016 by sector

Growth expectations weighted by company size



Source: Survey of a panel of 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 2 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](http://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 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:

<http://www.s-ge.com/switzerland/export/en>

Please note: From 2010 through 2015, this publication was called "SME Export Indicator".

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