

The top export markets for 2017

- **China and the USA look set to be the fastest-growing export markets for Swiss exporters in 2017. This expectation was expressed by the Swiss small and midsize enterprises questioned for the export sentiment survey conducted by Switzerland Global Enterprise (S-GE).**
- **The current foreign demand situation looks the best it has in five years, according to Credit Suisse. The broad-based increase in manufacturing activity in the USA and the Eurozone is bound to boost demand for Swiss goods in the first half of 2017. The ten most promising export markets are currently all in the Far East, with two exceptions: Poland and Norway.**
- **Export sentiment among Swiss SMEs has climbed to a new high, according to the survey conducted by S-GE. The Credit Suisse Export Barometer has also climbed to a five-year high. More and more sectors of industry in Switzerland are regaining competitiveness in the wake of the scrapping of the EUR/CHF exchange-rate floor in 2015.**

As in prior years, Asian countries lead the rankings of the top export markets for Swiss small and midsize enterprises (see table on page 2). The fact that Japan – an industrialized nation – heads the rankings alongside Asian emerging economies is attributable to the expectation that Japan's currency will re-strengthen after slumping in late 2016. Without this exceptional effect, Japan would not rank among the top ten export markets. In fact, demand for Swiss products looks poised to grow most of all in China and India, where Credit Suisse projects economic activity to increase at a continued robust pace of +6.5% and +7.6%, respectively, for 2017.

Fifty-eight percent of the companies questioned in the SME export sentiment survey conducted by Switzerland Global Enterprise (S-GE) said that they intended to export to the Asia-Pacific region over the next six months (see graph on page 2; multiple answers possible). Although that's only a tad more than the 55% that gave the same response in the prior quarter, China has gained substantial ground as the prime Asia-Pacific export destination, with 41% of the Swiss SMEs sur-

veyed now citing that country as a destination for their exports, compared with 35% in the prior quarter. China is followed by India (cited by 25% of the SME's surveyed), Japan (24%) and Australia (23%).

Swiss SMEs view the USA as an export locomotive

The US economy looks destined to remain a key driver of Swiss export growth in 2017. Credit Suisse projects that the US economy will expand by 2.0% this year. A stimulus package initiated by President Trump could even more forcefully accelerate US growth, but the effect on Swiss exporters would probably have little significance because the stimulus would likely tend to benefit the domestically oriented US construction industry.

Nonetheless, the survey conducted by S-GE revealed that North America was the biggest quarter-on-quarter gainer among export regions for Swiss SMEs: 54% of the companies surveyed by S-GE stated that they intended to export to North

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America over the next six months, up from 50% in the prior quarter. The share of companies that said they intended to export to the USA increased to 49% from 44% a quarter earlier.

Ranking of top export markets for 2017

Rank	Country	Average expected GDP growth for 2017 in %*	Expected appreciation of national currency against CHF (1 year) in %**
1	Japan	1.2	23.5
2	India	7.6	-4.3
3	China	6.5	-3.6
4	Philippines	6.4	-3.2
5	Indonesia	5.1	0.0
6	Malaysia	4.1	0.7
7	Poland	3.2	2.1
8	Australia	2.6	4.3
9	Norway	1.7	7.7
10	New Zealand	2.6	2.3
11	Thailand	3.3	-1.6
12	Spain	2.4	1.9
13	Mexico	2.2	2.4
14	South Korea	2.8	-1.2
15	Sweden	2.5	-0.1
16	USA	2	1.1
17	Canada	2	0.1
18	Hong Kong	1.7	1.1
19	Germany	1.5	1.9
20	Eurozone	1.4	1.9
21	France	1.3	1.9
22	UK	1.2	1.7
23	Turkey	2.9	-5.8
24	Singapore	1.6	-0.9
25	Italy	0.8	1.9
26	Taiwan	1.7	-2.1
27	Russia	1.4	-4.1
28	Brazil	0.9	-5.1

* The weighting used to compute the ranking (4/5 economic growth, 1/5 exchange-rate evolution) stems from a historical analysis of export elasticities.

** Forecasts from January 4, 2017.

Source: Credit Suisse

Europe is also fueling export growth stimulus, Iran remains a sought-after export destination

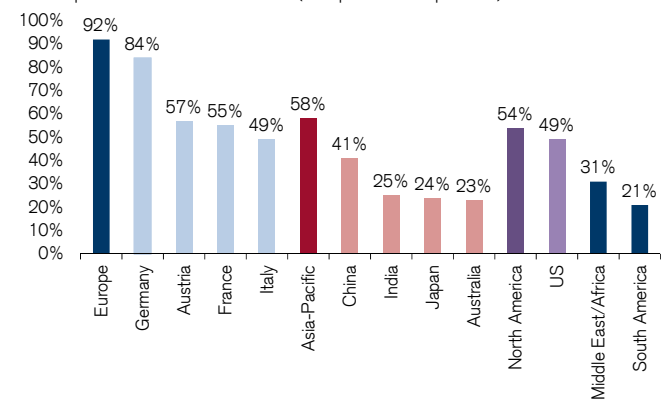
The Eurozone economy is expanding on the back of increasing demand and continued monetary- and fiscal-policy accommodation. Spain particularly stands out here: its manufacturing sector has been firing on all cylinders for two years now already, and Credit Suisse projects a handsome economic growth rate of +2.4% for the country for 2017. Even higher up in the rankings are the non-Eurozone countries Poland and Norway, though they are less important than Spain in volume terms for Swiss exporters. Economic activity in the Eurozone heavyweights Germany and France looks set to expand less than in the aforementioned European countries, but the manufacturing sector is humming along nicely there as well, which should drive demand for Swiss goods.

Ninety-two percent of the Swiss SMEs surveyed stated that they intended to export to countries in Europe over the next six months. Germany remains the most important European export destination, garnering mentions from 84% of the companies surveyed. Austria now occupies second place, with 57% of the SMEs surveyed citing that country, followed by France at 55% and Italy at 49%.

Iran is still being rated as having promising potential. When the survey respondents were asked which new export markets they would like to enter, Iran came out on top by a wide margin.

Most important export markets for the half-year ahead

Most important destination countries (multiple answers possible)



Source: Survey of a panel of around 200 Swiss SMEs

Boom in manufacturing industry abroad creates demand for Swiss goods

The Credit Suisse Export Barometer currently stands at a level of 1.72 points, the highest reading since the end of 2011. The barometer measures manufacturing activity in the most important customer countries for Swiss exporters and weights that by respective export volumes. The barometer thus depicts the foreign demand situation without taking currency effects into account. The high barometer reading at the start of 2017 is attributable to a broad-based worldwide increase in manufacturing activity.

Although Credit Suisse expects the Swiss franc to tend to weaken in 2017, it is likely to remain significantly overvalued against the euro. The Swiss franc's projected depreciation against both the euro (by 2%) and the US dollar (by 1%) by end-2017 would do little to alleviate the extreme downward pressure weighing on many Swiss exporters' profit margins.

Credit Suisse Export Barometer

In standard deviations; expansion threshold = 0



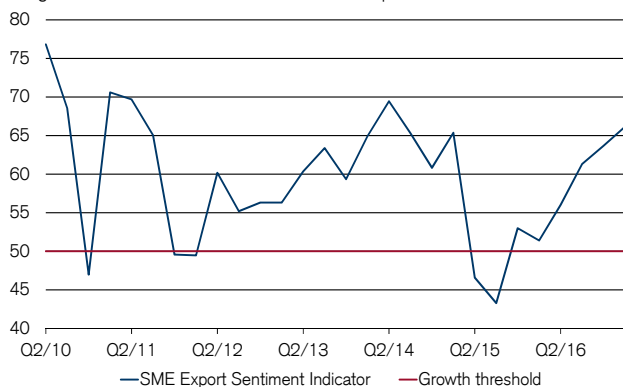
Source: Bloomberg, Datastream, PMIPremium, Credit Suisse/IDC

SME export sentiment at a new high

SME export sentiment as gauged by the survey conducted by S-GE has risen again quarter-on-quarter to an indicator reading of 66.1 points heading into the first quarter of 2017 (Q4 2016: 63.7 points). The indicator reading was calculated by taking SME export sentiment for the first quarter of 2017 and combining that with actual exports in the prior quarter. It indicates that Swiss SME export sentiment is hovering well above the 50-point threshold on the scale of 0 to 100 that signifies export expansion. The last time a higher reading was reached was back in the second quarter of 2014.

Switzerland Global Enterprise SME Export Sentiment Indicator

Weighted value from Q1 2017 and Q4 2016; expansion threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

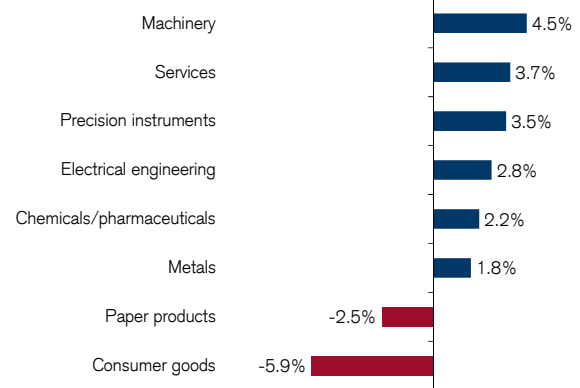
Of the Swiss SMEs questioned in the S-GE export outlook survey, 47% expect exports to increase in the quarter ahead, up from 42% in the prior quarter. Flat export volume is anticipated by 43% of SMEs, down from 49% at the start of Q4 2016. A decline in exports is feared by 10% of the SMEs surveyed, a tick more than the 9% that stated this in the prior quarter.

Mechanical engineering, services and precision instruments sectors particularly confident

Small and midsize enterprises in six of the eight industry sectors examined by S-GE's SME export outlook survey anticipate rising exports. Companies in the mechanical engineering, services and precision instruments sectors are particularly heading confidently into the first quarter of 2017; they expect exports to increase by more than 3%. Companies in the paper products and consumer goods sectors are expressing pessimism; they expect exports to contract.

Export expectations for Q1 2017 by sector

Year-on-year growth expectation 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 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 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 bore the title "SME Export Indicator".

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