

If Germany's healthy, Swiss exports prosper

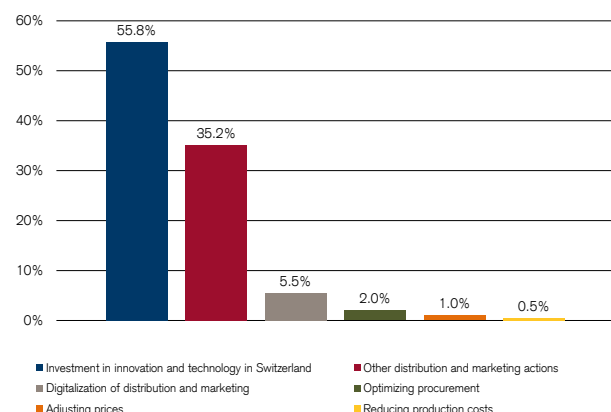
- For Swiss SMEs, Germany is of vital importance as an export market and, according to the Switzerland Global Enterprise survey, the majority of companies expect it to become more important in the medium term.
- Germany's economy is in good shape. For 2016, Credit Suisse forecasts a growth rate of +1.5%, mainly due to the country's robust domestic economy. Swiss exporters are also likely to benefit from this.
- The overall sentiment among the export-oriented Swiss SMEs at the start of the second quarter of 2016 has continued to brighten since the previous quarter.

Eighty percent of all the small and medium-sized enterprises (SMEs) questioned in the export prospects survey conducted by Switzerland Global Enterprise (S-GE) have said that they will export goods or services to Germany over the course of the next half-year. This figure has been relatively constant since 2010, despite all the economic and currency fluctuations.

The German market offers Swiss companies several advantages at the same time. Cultural proximity was most frequently mentioned (29% of participants), followed by large market volumes (26%) and the high level of respect for Swiss products (19%). Just the same, exporting to Germany is not without problems. Forty-seven percent of Swiss SMEs complain that their products lack price competitiveness, while 30% see themselves confronted by administrative hurdles. When asked about actions taken to counter problems in the German market, 56% of respondents mentioned investing in Swiss innovation and 35% talked about putting more effort into marketing and sales. However, only 1% mentioned price adjustments and only 6% referred to the digitalization of distribution and marketing. From the Swiss SMEs' perspective, the German market will remain attractive in the long run: 50.9% of the companies surveyed expect their share of exports to Germany

as a percentage of their total exports to increase by 2020. Another 40% expect this share to at least stay the same.

Actions to counter problems in the German market



Source: Survey of a panel of around 200 Swiss SMEs

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Robust economy in Germany

Despite the somewhat turbulent start to the year, Credit Suisse forecasts a robust above-potential growth rate of +1.5% for Germany, driven mainly by the country's domestic economy, which is being supported by low interest rates, the still weak euro and low energy prices. The increasing number of German immigrants is likely to provide new impetus for retailing and construction, and has also resulted in a certain amount of fiscal easing. Finally, Germany's labor market is also in very good shape. The number of jobless has continued to fall this year and employment has risen – which should in turn be positive for the domestic economy. Sectors that are more dependent on countries where demand for German goods and services is flagging (particularly emerging markets) are likely to face more headwinds.

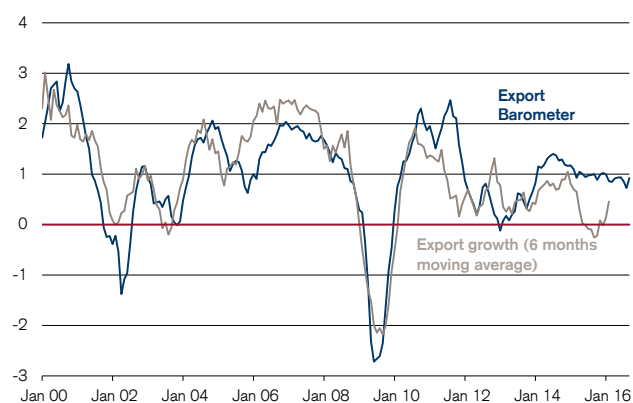
Given Germany's relatively stable growth prospects, the market opportunities for Swiss exporters are also still intact. Moreover, the Swiss franc is slightly weaker than the year before, which should increase the price competitiveness of Swiss products somewhat.

Credit Suisse and S-GE indicators point to increasing optimism

The Credit Suisse Export Barometer, which tracks demand for Swiss products from Switzerland's key target export countries, is currently at a level of 0.92, which is just under the long-term average of 1.0. The growth threshold is roughly around zero. Thus, compared to the previous quarter's reading of 1.0, overall foreign demand has not changed significantly. It is still seen to be generally robust, with positive stimuli expected equally from the Eurozone, USA and China. Also, the slightly weaker Swiss franc should continue to help Swiss companies profit more from foreign demand than the year before, even though the franc is still overvalued.

Credit Suisse Export Barometer

In standard deviations, expansion threshold = 0



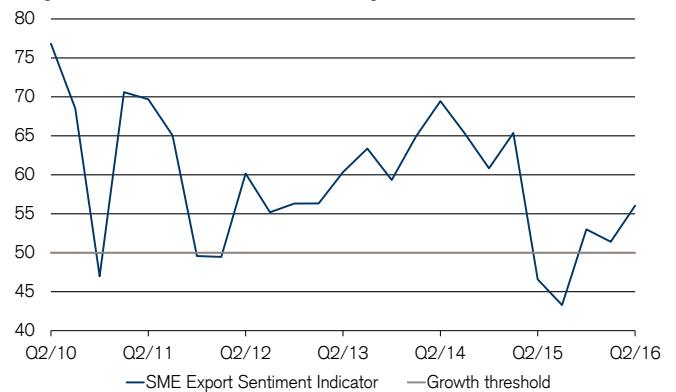
Source: Bloomberg, Datastream, PMIPremium, Credit Suisse / IDC

The Switzerland Global Enterprise (S-GE) SME Export Sentiment Indicator stands at 56.0 points going into the second quarter of 2016. The reading was calculated by taking SME export sentiment for the second quarter of 2016 and combining that with actual exports in the previous quarter. Hence the outlook for exports has never been as high since the first quarter of 2015, when the Swiss National Bank lifted

the minimum exchange rate for the Swiss franc against the euro. In the previous quarter, the Export Sentiment Indicator reading was 51.4 points. The growth threshold is at 50 points on a scale of 0 to 100.

Switzerland Global Enterprise SME Export Sentiment Indicator

Weighted value from Q2 2016 and Q1 2016, growth threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

Of the Swiss small and medium-sized enterprises that participated in the S-GE SME export sentiment survey, 34.4% expect exports to increase in the quarter ahead, compared to 31.5% in the previous quarter. 51.3% of the SMEs expect export volumes to stagnate versus 49.7% at the start of Q1 2016, and only 14.4% of SMEs fear a decline in exports compared to 18.8% in the previous quarter.

Strong interest in exporting to Iran

Eighty-nine percent of the companies surveyed by S-GE intend to export to Europe over the next six months (multiple answers possible). France is in second place behind Germany, cited by 55% of respondents, followed by Austria (47%) and Italy (43%).

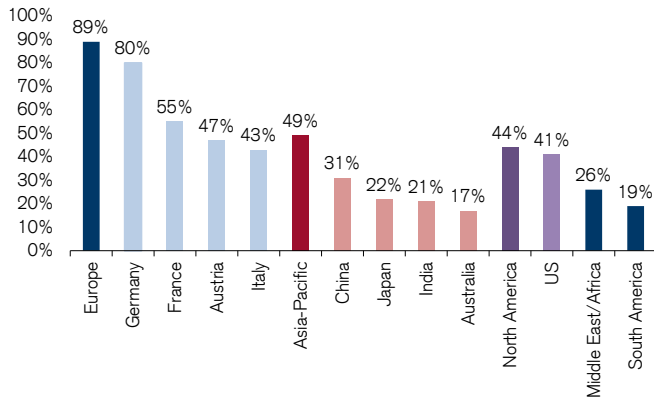
Forty-nine percent of the Swiss SMEs surveyed intend to export to the Asia-Pacific region in the next six months. China is in first place among the Asia-Pacific export destinations, cited by 31% of respondents, followed by Japan (22%) and India (21%). While, in the previous quarter, 14% of the SMEs said they would like to become active in China – making China the frontrunner among the new markets – the figure dropped back to 11% at the start of Q2 2016.

Twenty-six percent of the SMEs intend to export to the Middle East/Africa region. A large number of the SMEs see Iran as a very promising export destination. When asked which new export markets they would like to enter, Iran clearly came out on top, with 24% of respondents mentioning it.

Forty-four percent of the SMEs are likely to export to North America over the next six months and 19% to South America.

Most important export markets for the coming half-year

Most important destination countries (multiple answers possible)



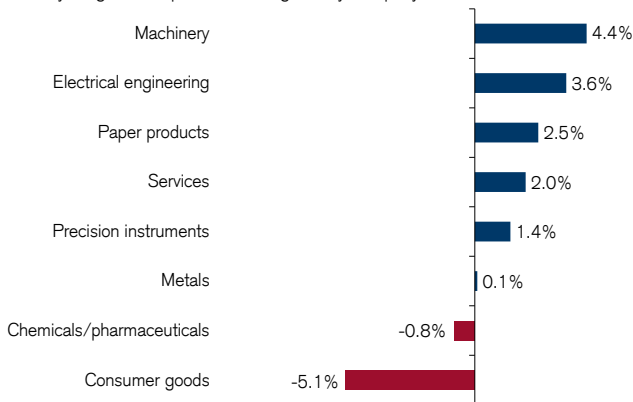
Source: Survey of a panel of around 200 Swiss SMEs

Machinery, electrical engineering and paper companies say they are confident

SMEs in five out of eight sectors examined by S-GE's export sentiment survey expect a rise in exports. Companies in the machinery, electrical engineering and paper sectors are especially confident heading into the coming quarter. Companies in the metals sector are expecting the industry to stagnate. Only the chemicals/pharmaceuticals and consumer goods companies are pessimistic and anticipate a decline in exports.

Export expectations for Q2 2016 by sector

Year-on-year 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

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".

Contacts

Credit Suisse AG:

Bettina Rutschi, Senior Economist
Tel. +41 44 334 39 38, bettina.rutschi@credit-suisse.com

Switzerland Global Enterprise:

Sina Pries, Media Relations Manager
Tel. +41 44 365 52 08, spries@s-ge.com

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