

SME Export Indicator

Private Banking & Wealth Management, Third Quarter 2015

Strong franc drives export sentiment to record low

- Swiss export-oriented SMEs are looking pessimistically at the quarter ahead. The Switzerland Global Enterprise (S-GE) SME Export Outlook Index now stands at its lowest level since the inception of the survey in 2010. Compared to the prior quarter, today even more Swiss SMEs are reporting that they are losing export volume as a result of the strong Swiss franc.
- The Credit Suisse Export Barometer is indicating that foreign demand continues to pick up, with export stimulus coming particularly from the USA, but also increasingly from Europe. However, the exchange-rate situation is impeding the transmission of demand to Swiss SMEs.
- Credit Suisse calculates that due to the strength of the Swiss franc, actual Swiss export growth is currently around 5 percentage points lower than the state of demand abroad would lead one to expect.

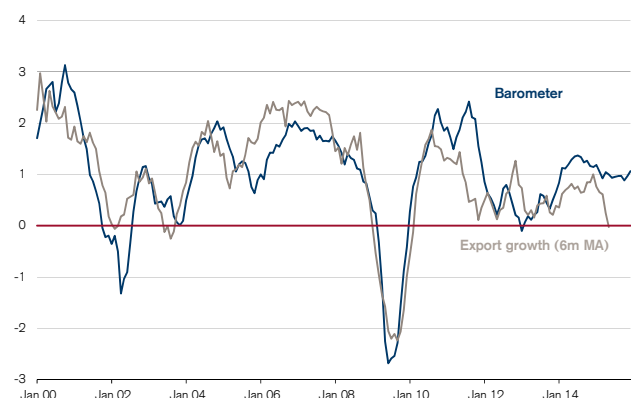
The Credit Suisse Export Barometer, which tracks foreign demand for Swiss products, currently stands at a level of 1.04 and – like in the prior two quarters – is thus close to the historical mean of 1.00, which would imply an average export growth rate going forward. And just like in the previous two quarters, that growth is being driven by the USA. But Europe as well will increasingly generate export stimulus in the months ahead as its economic recovery accelerates. Since only a scant 0.4% of Swiss exports go to Greece, the crisis there is unlikely to have any direct impacts on Switzerland's export sector.

However, the Credit Suisse Export Barometer merely factors in foreign demand without taking exchange-rate developments into account. So even though economic activity is picking up all around and international demand is expanding at a rate in line with the long-term average, this does not mean that the growth will translate into equally sharply rising Swiss exports.

Figure 1

Credit Suisse Export Barometer

In standard deviations, expansion threshold = 0



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

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To estimate the adverse impact of the strong franc on Swiss export growth, Credit Suisse compared actual export growth with expected export growth based on trade-weighted foreign demand factors. The comparison revealed that export growth based on foreign demand alone should currently be around 5 percentage points higher than the actual figure is at present, which means that the strength of the Swiss franc is substantially hurting Swiss exports.

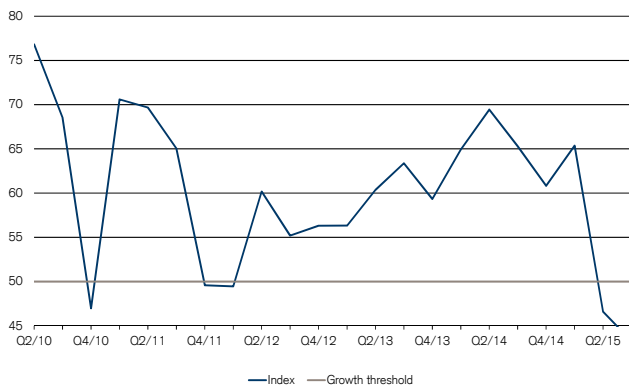
SME export prospects at record low

This impairment can be read plainly from the Switzerland Global Enterprise (S-GE) SME Export Outlook Index, which has dropped quarter-on-quarter to a level of 43.3 points, the lowest reading since the inception of the survey in 2010. The index reading was calculated by taking SME export sentiment for the third quarter of 2015 and combining that with actual exports in the prior quarter. It indicates that Swiss SME export prospects have fallen well below the expansion threshold of 50 on the scale of 0 to 100. In the prior quarter, the index clocked in at 46.6 points, down from 65.4 points at the start of 2015.

Figure 2

Switzerland Global Enterprise SME Export Outlook Index

Weighted value from Q3 2015 and Q2 2015, expansion threshold = 50



Source: Survey of a panel of more than 200 Swiss SMEs

Of the Swiss small and midsize enterprises that participated in the S-GE SME export prospects survey, now only 25.7% expect exports to increase in the quarter ahead, down from 29.2% in the prior quarter. Flat export volume is anticipated by 43.2% of SMEs, up from 42.5% at the start of Q2 2015. A decline in exports is feared by 31.1% of the SMEs surveyed (compared with 28.3% in the prior quarter).

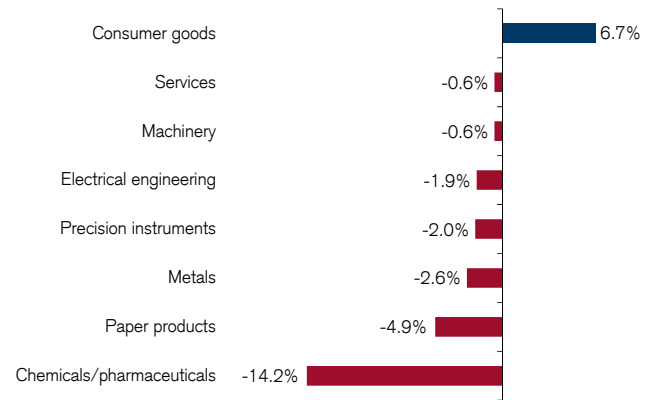
Widespread pessimism

A breakdown of S-GE's SME export prospects survey results by sector shows just how pessimistically Swiss small and midsize enterprises are viewing the quarter ahead. Companies in seven out of eight sectors anticipate a contraction in exports. The biggest drop is expected by the chemicals/pharmaceuticals industry. Consumer goods manufacturers are the only ones heading confidently into the third quarter of 2015.

Figure 3

Export expectations in Q3 2015 by sector

Expected year-on-year growth in % according to a panel survey of more than 200 Swiss SMEs (weighted by company size)



Source: Switzerland Global Enterprise SME export prospects survey

Fifty-four percent of the SMEs surveyed are relying on product innovations to boost their exports in the quarter ahead in spite of the strong Swiss franc (prior quarter: 47%; multiple answers possible). Stepped-up marketing efforts have gained considerable importance, with 50% of the SMEs surveyed mentioning this factor, up from just 39% in the prior quarter. A pickup in economic activity in export markets remained the third-most-cited factor, mentioned by 28% of the SMEs surveyed (prior quarter: 31%).

Those SMEs anticipating a decline in exports attribute this primarily to mounting competitive pressure; 61% of the survey respondents cited this factor, compared with 53% a quarter earlier. Forty-seven percent of the SMEs surveyed anticipate having to grant price concessions (prior quarter: 50%). Concerns about an economic downturn in export markets evidently have resurged: 41% of the companies surveyed mentioned this factor, up from 31% in the prior quarter.

Countering Swiss franc strength through optimized procurement and efficient production

Almost three-quarters (74%) of the SMEs surveyed reported that the strong Swiss franc against the euro and the US dollar was exerting a negative impact on their export volume, marking a further increase from the prior quarter, when two-thirds of SMEs affirmed an adverse CHF exchange-rate effect. However, it is almost exclusively the euro that is being viewed as posing a problem given the fact that the US dollar has regained strength since the Swiss National Bank's decision to scrap the EUR/CHF exchange-rate floor.

Ninety-four percent of the SMEs surveyed said that they would take actions (or have taken actions since January 15, 2015) to enhance their export competitiveness. Optimizing procurement stands in the foreground; 59% of the companies surveyed want to shore up their profit margins this way in the face of the weak euro. Lowering production costs was the second-most-cited tactic, mentioned by 46% of the SMEs surveyed, followed by price hikes (26%) as the third most important action measure.

Looking for new and more lucrative export markets has gained importance; 24% of the SMEs surveyed said they in-

tended to do this, up from 20% in the prior quarter. Cutting wage costs, in contrast, has lost importance, with only 16% of SMEs now citing this option, down from 24% in the prior quarter. Withdrawing from foreign markets is not an alternative. None of the SMEs surveyed are contemplating taking such a step.

Success of these recipes for enhancing export competitiveness is crucial because two-thirds (67%) of the SMEs surveyed are proceeding on the assumption that the franc will stay strong for the foreseeable future. They expect that the EUR/CHF exchange rate a year from now will remain at a level no higher than the current mark of 1.05. Thirty-three percent of the SMEs surveyed anticipate that the franc will depreciate from its present value.

Europe preeminently important for Swiss exporters

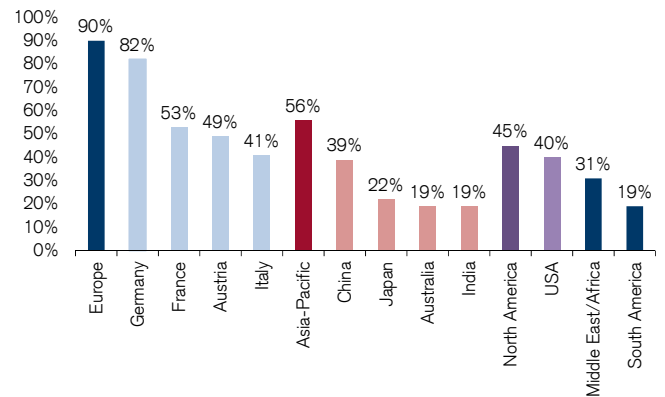
The fact that 90% of the companies surveyed by S-GE will export to Europe over the next six months (multiple answers possible) underscores just how important the EUR/CHF exchange rate is to Swiss SMEs. Germany remains the most important European export market – it will be an export destination for goods or services for 82% of the SMEs surveyed. France is in second place, with 53% of the SMEs surveyed citing that country, followed by Austria at 49% and Italy at 41%.

Fifty-six percent of Swiss SMEs will export to the Asia-Pacific region over the next six months, meaning that its status has picked up compared to the prior quarter (Q2 2015: 52%). China remains the top Asian-Pacific export destination, with 39% of the SMEs surveyed citing that country, ahead of Japan at 22% and Australia and India both at 19%. Forty-five percent of the SMEs look set to export to North America over the next six months, 31% to the Middle East/Africa region and 19% to South America.

Figure 4

Most important export markets for the half-year ahead

Most important destination countries according to a panel survey of more than 200 Swiss SMEs (multiple answers possible)



Source: Switzerland Global Enterprise SME export prospects survey

Methodology

Credit Suisse Export Barometer

Change of methodology as of January 1, 2013: As of January 1, 2013 the growth threshold is set at the zero line. The long-term average growth of Swiss exports accordingly changes to 1 (zero line till then).

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

SME Export Indicator of Switzerland Global Enterprise

The concept behind the calculation of Switzerland Global Enterprise's SME export 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 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 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 outlook 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:

www.s-ge.com/exportindikator

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