

# SME Export Indicator

Q2 2014

## Optimism still prevailing despite setback in Asia

The outlook for foreign demand for Swiss export goods receded slightly from the previous quarter. It has dimmed particularly for exports to Asian markets. Nevertheless, Swiss SMEs remain just as optimistic as before. Export sentiment hasn't been this sanguine since mid-2011, and all sectors of industry are anticipating rising exports. Swiss exports are being spurred by economic growth in the USA and the UK, as well as by the progressing recovery in the euro zone. Those are the findings of the SME export indicator produced by Credit Suisse and Switzerland Global Enterprise.

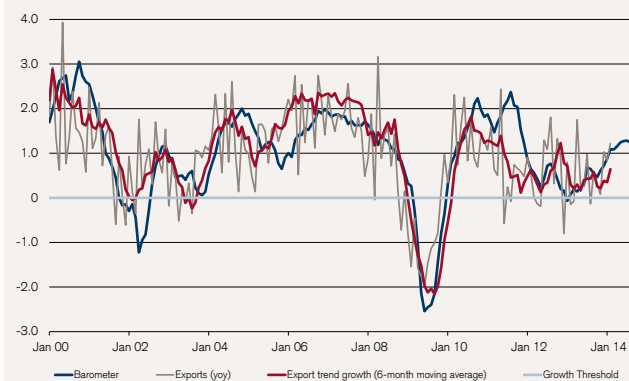
The Credit Suisse Export Barometer, which tracks foreign demand for Swiss products, currently stands at a level of 1.17 (previous quarter: 1.36), which marks a mild dent in the upward trend that has been in place for the last one-and-a-half years. However, export growth expectations are still above the expansion threshold and are also above the historical average of approximately 1.

More than half (53%) of the Swiss SME respondents to S-GE's export prospects survey expect exports to increase in the quarter ahead, up from just 42% in the prior quarter. Flat export volume is anticipated by 41% of SMEs, down from 47% at the start of Q1 2014. And now just 6% of SMEs fear a decline in exports, as opposed to 11% at the start of Q1 2014.

Figure 1

### Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

The SME export prospects survey conducted by Switzerland Global Enterprise (S-GE) indicates that Swiss SMEs' export optimism continues unabated. The SME export outlook index currently stands at a level of 69.5 points, the highest reading since the second quarter of 2011. The index reading was calculated by taking SME export sentiment for the second quarter of 2014 and combining that with actual exports in the first quarter. On the scale of 0 to 100, readings above 50 signal rising exports.

Figure 2

### Switzerland Global Enterprise SME Export Outlook Index

Weighted value from Q2 and Q1 2014, growth threshold = 50



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

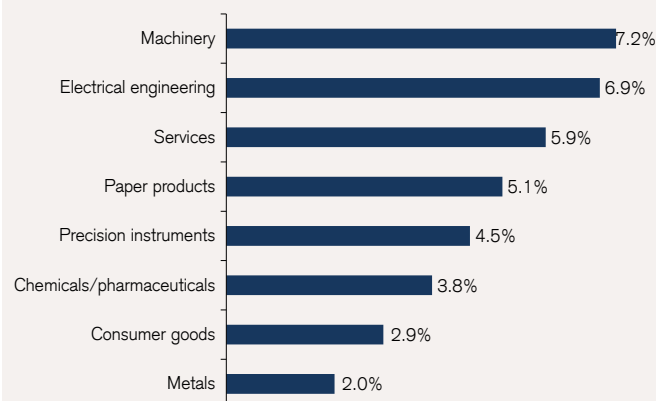
### All sectors are expressing optimism

According to the SME export prospects survey conducted by S-GE, all sectors of industry have headed into the second quarter optimistically. Companies in the mechanical and electrical engineering industries and in the service sector top the index list.

Figure 3

**Export expectations in Q2 2014 by sector**

Expected growth according to a panel survey of more than 200 Swiss SMEs (weighted by company size)



Source: Switzerland Global Enterprise SME export prospects survey

When asked to name the reasons for their expected increase in exports, 50% of SMEs cited stepped-up marketing and 50% product innovation (multiple answers possible). Intensified marketing efforts stand in the foreground particularly in the service sector, and now in the chemical and pharmaceutical sectors as well. The electrical engineering, mechanical engineering and consumer goods sectors are primarily investing their efforts in product innovation. Interestingly, the larger SMEs surveyed – those with between 50 and 249 employees – are tending to concentrate more on product innovation, whereas marketing stands in the foreground at smaller companies.

Those SMEs anticipating a decline in exports attribute this primarily to competitive pressures: 69% of them cited this factor, compared with 70% in the previous quarter. The significance of price reductions remained unchanged, with 38% once again citing this factor. An economic downturn was mentioned by 32% of companies surveyed, compared with 26% in the preceding quarter.

**Setback in Asian markets**

The Credit Suisse Export Barometer indicates that the prospects for exports to Asia have dimmed compared to the prior quarter. The production decline in China is particularly muting the outlook for trade with Switzerland. Powerful export growth stimulus is still expected to come from the USA and the UK.

The recovery in the euro zone as well continues to progress across a broad range of industries and countries. On the whole, right now the prospects for exporting to Switzerland's neighboring countries are the best they've been in three years, though export trade with Germany is still likely to exhibit the strongest momentum.

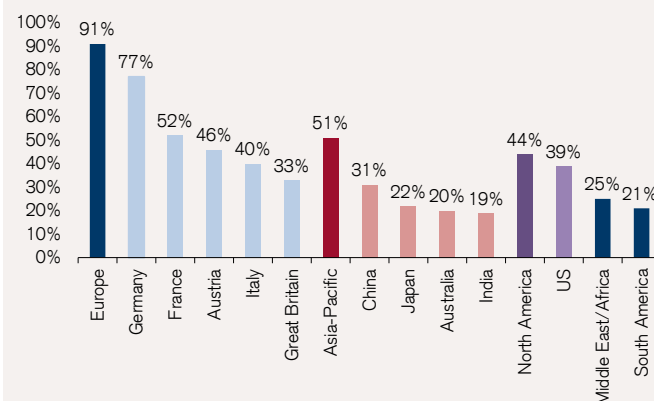
The setback in Asian markets is also visible in the S-GE SME export prospects survey results: now only 51% of Swiss SMEs will export to the Asia-Pacific region over the next six months, much fewer than in the previous period (58%; multiple answers possible). India's ranking as an export destination has

fallen considerably, with now only 19% of the companies surveyed intending to send exports there, down from 26% in the prior quarter. The percentage of companies citing China has also dropped, to 31% from 35% at the start of the previous quarter. Japan slipped to 22% (23%) and Australia to 20% (25%).

Figure 4

**Most important export markets for the half-year ahead (Q2/Q3 2014)**

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

Europe is still by far the leading export destination: 91% of the SMEs surveyed intend to export goods or services to Europe (92%). Germany remains the most important European export market, with 77% of the SMEs surveyed citing that country (75%), followed by France at 52% (54%), Austria at 46% (47%) and Italy at 40% (41%). Forty-four percent of the SMEs will export to North America over the next six months (44%), 25% to the Middle East/Africa region (32%), and 21% to South America (22%).

**No clear trend in investment spending**

When asked about the geographical breakdown of their investment activity over the next six months, 62% of the survey respondents stated that it would remain unchanged. Nineteen percent intend to increase their relative proportion of investment spending in Switzerland, and 19% plan to boost capital expenditures outside Switzerland. Whereas the precision instruments and metals industries intend to step up investments in Switzerland over the next six months, it's mainly companies in the chemical/pharmaceutical and electrical engineering sectors that want to place greater investment emphasis abroad.

**No inflation expected again in 2014**

The respondents to the SME export prospects survey expect to see no or very little inflation in Switzerland once again in 2014: 5% anticipate an inflation rate below 0%, 45% foresee one of approximately 0%, 38% project mild inflation of 0%–0.5%, and only 12% expect to see a higher inflation rate.

The SME Export Indicator for the third quarter of 2014 will be published on July 10, 2014.

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## Methodology

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### 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](http://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](http://www.s-ge.com/exportindikator)

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