

SME Export Indicator

Q2 2015

SMEs are facing up to the strong franc

The shock caused by the removal of the EUR/CHF exchange-rate floor has taken a toll on Swiss SMEs. The Switzerland Global Enterprise (S-GE) SME Export Outlook Index is now at its lowest level since its inception in 2010. The Credit Suisse Export Barometer, in contrast, is indicating that international demand continues to pick up. Swiss SMEs are determined to benefit from this despite the adverse exchange-rate situation. They do not want to withdraw from foreign markets, but are instead investing in product innovations and stepped-up marketing. In the meantime, Swiss SMEs say that they intend to safeguard profit margins by optimizing procurement, lowering production and wage costs, raising prices and entering new, more lucrative export markets.

The Credit Suisse Export Barometer, which tracks foreign demand for Swiss products, currently stands at a level of 0.98 and thus has stayed practically unchanged near the historical mean of 1.00, which thereby would imply an average export growth rate going forward. However, the barometer merely factors in international demand without taking exchange-rate developments into account. So although international demand is expanding at a rate in line with the long-term average, it does not mean that this will result in rising exports.

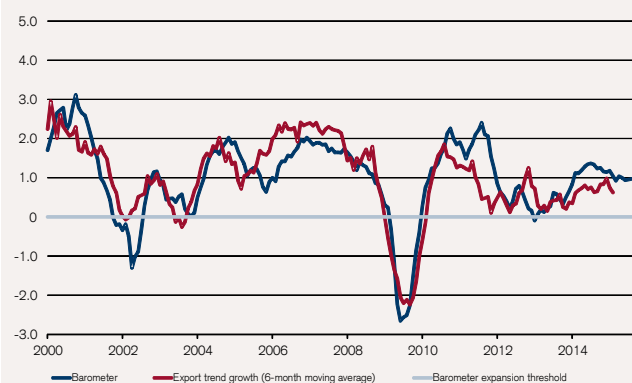
of the survey in the second quarter of 2010. Moreover, SME export prospects have dropped back below the expansion threshold of 50 on the scale of 0 to 100 for the first time since Q1 2012.

Of the Swiss small and midsize enterprises that participated in the S-GE SME export prospects survey, only 29.2% expect exports to increase in the quarter ahead, down from 48.6% in the prior quarter. Flat export volume is anticipated by 42.5% of SMEs, up from 38.0% at the start of Q1 2015. However, there is a smallest grouping of SMEs, 28.3%, that fear a decline in exports (up from 13.4% at the start of Q1 2015).

Figure 1

Credit Suisse Export Barometer

In standard deviations, expansion threshold = 0



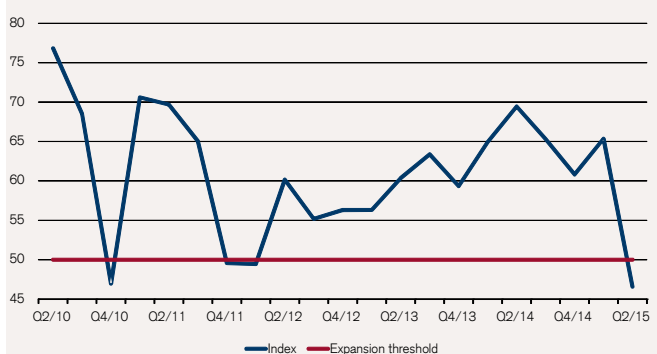
Source: Swiss Customs Administration, OECD, Datastream, Credit Suisse

The Switzerland Global Enterprise (S-GE) SME Export Outlook Index, in contrast, clearly reflects the Swiss franc shock. In a quarter-on-quarter comparison, the index has plummeted from 65.4 points at the start of Q1 2015 to now just 46.6 points. The index reading was calculated by taking SME export sentiment for the second quarter of 2015 and combining that with actual exports in the prior quarter. Swiss SME export prospects have thus fallen to their lowest level since the inception

Figure 2

Switzerland Global Enterprise SME Export Outlook Index

Weighted value from Q2 2015 and Q1 2015, expansion threshold = 50



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

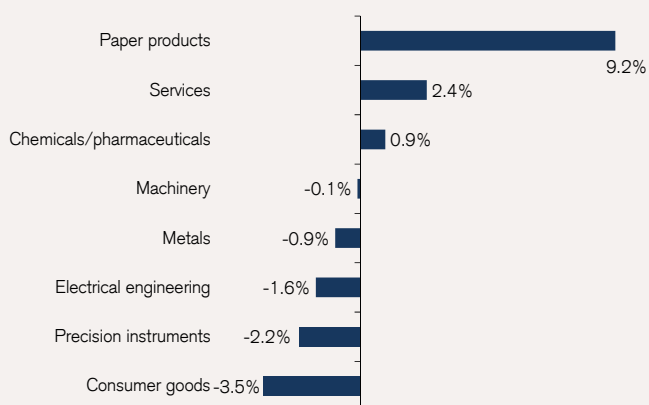
Significant differences from sector to sector

A breakdown of S-GE's SME export prospects survey results by sector reveals a heterogeneous picture. The services sector and the chemicals/pharmaceuticals industry are exhibiting imperviousness to an exchange-rate-driven export slowdown. Companies in the paper products industry actually even expect to see a significant increase in exports. However, that forecast should be taken with a grain of salt since the paper products sector had a very poor Q1 2015. The five other sectors surveyed all expect exports to decline. Consumer goods manufacturers in particular are heading pessimistically into the second quarter of 2015, as are companies in the precision instruments and electrical engineering sectors.

Figure 3

Export expectations in Q2 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

Forty-seven percent of the SMEs surveyed are relying on product innovations (multiple answers possible) to boost their exports in the quarter ahead in the face of adverse exchange rates. Stepped-up marketing was the second-most-cited export driver, with 39% of the companies surveyed mentioning this factor; a quarter earlier it had been named the most important factor. A pickup in economic activity in export markets remained the third-most-cited factor, mentioned by 31% of the SMEs surveyed.

Those SMEs anticipating a decline in exports attribute this to mounting competitive pressure (53%). They also anticipate having to grant price concessions (50%). Concerns about an economic downturn evidently have receded: only 31% of the companies surveyed cited this factor.

Recipes for dealing with the weak euro

When asked about whether the strong Swiss franc against the euro and US dollar would exert a negative impact on their export volume, 67% of the SMEs surveyed responded, "yes." However, only the euro is viewed as posing a problem (66%); the US dollar has already appreciated considerably in the three months since the Swiss National Bank's decision to scrap the EUR/CHF exchange-rate floor.

Ninety-three 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 was the most promising recipe cited; 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 47% of the SMEs surveyed. Other actions mentioned involve raising prices (28%), cutting wage costs (23%) or looking for new and more lucrative export markets (20%).

Withdrawing from foreign markets is not an alternative, in contrast. Only 2% of the SMEs surveyed are contemplating taking such a step.

Brightening economic activity in Europe mitigates the franc shock

Despite the change in currency exchange rates, the relative importance of export destinations has remained practically stable: 91% of the companies surveyed by S-GE intend to export to Europe over the next six months, the same percentage as last quarter (multiple answers possible). Germany remains the most important European export market – it will be an export destination for goods or services for 76% of the SMEs surveyed. France is in second place, with 56% of the SMEs surveyed citing that country, followed by Austria at 49% and Italy at 40%. Although the Swiss franc's overvaluation against the euro massively curtails prospects for exporting to Eurozone countries, this effect is at least partially offset by the more benign economic outlook for the Eurozone. Spain and Germany are particularly sending positive signals. A recovery in the Eurozone driven by these two countries would especially benefit Swiss exporters that have successfully positioned themselves in niches.

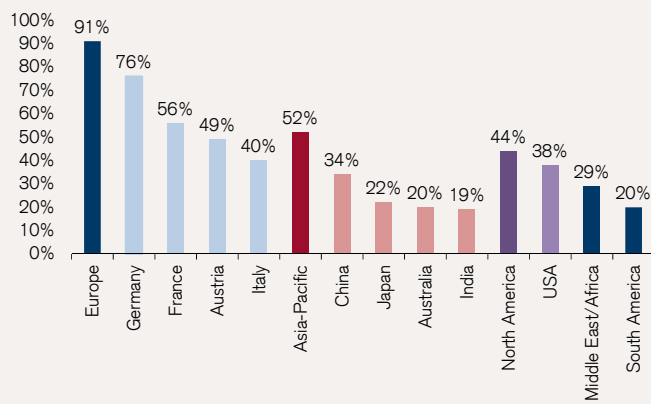
Prospects for exporting to the Asia-Pacific region remain subdued. Fifty-two percent of Swiss SMEs will export to this region over the next six months, meaning that it has lost some status (Q1 2015: 57%). Regardless of its stagnant production momentum, China remains the most important Asian export destination, with 34% of the SMEs surveyed citing that country. Japan, which is benefiting from the drop in energy prices and from accelerating economic momentum, now follows in second place at 22%, ahead of Australia at 20% and India at 19%.

Forty-four percent of the SMEs look set to export to North America over the next six months, a tad fewer than in the prior quarter (46%). However, the US economy remains the biggest growth engine and is likely to pick up more speed over the course of 2015. Moreover, the exchange-rate trend looks favorable: Credit Suisse expects the US dollar to appreciate against the Swiss franc this year.

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

The SME Export Indicator for the third quarter of 2015 will be published on July 9, 2015.

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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