

Coronavirus crisis: Export confidence of Swiss SMEs slumps to record low

SME Export Outlook | H2 2020



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- **The coronavirus crisis has hit internationally-oriented Swiss SMEs hard. According to the latest survey on export sentiment conducted by Switzerland Global Enterprise (S-GE), more than 65% of SMEs are expecting their exports to decline in the first semester of 2020. For the second semester, 38% are expecting a further decline, 23% anticipate stagnation, while 39% envisage export growth.**
- **The pandemic has had negative commercial implications for 81% of the surveyed companies, above all due to the collapse in demand, slumping sales and revenues figures, and a lack of predictability.**
- **There has also been a huge fall in the Credit Suisse Export Barometer. At -1.54 points, this is well below the growth threshold, but at least a full percentage point higher than the nadir of -2.59 recorded in April.**
- **But while the lowest ebb may have been reached that month for the majority of exporters, the future outlook is still shrouded in uncertainty and characterized by the likelihood of volatility.**

Export sentiment at historic low

According to Switzerland Global Enterprise (S-GE), the export sentiment of internationally-oriented Swiss SMEs has deteriorated significantly in recent months. As per the start of June 2020, it had reached the level of 41 points. This is 24 points lower than the level in December 2019, the last time this survey of export sentiment was conducted. What's more, it also matches the lowest figure recorded since the survey was first carried out in 2010. The final figure, which lies on a scale of 0 to 100, is in each case calculated from the export expectations of SMEs for the coming semester, as well as on actual exports in the current or recently concluded semester (see Methodology for further details).

Almost two-thirds of the surveyed SMEs (65%) reported that exports had declined in the first semester of 2020. 33% of them predicted a decline of between 1 and 25%, while 22% expected a slump of between 25 and 50%. 10% of respondents anticipated an export collapse of between 50 and 100% as per the end of the first semester. When the previous S-GE export survey was carried out in December 2019, as many as 53% of respondent SMEs were expecting exports to rise in the first half of 2020. In the latest May-June survey, just 19% of the surveyed SMEs stated that they had actually recorded an export increase in the first six months of the year. For 16%, exports had stagnated.

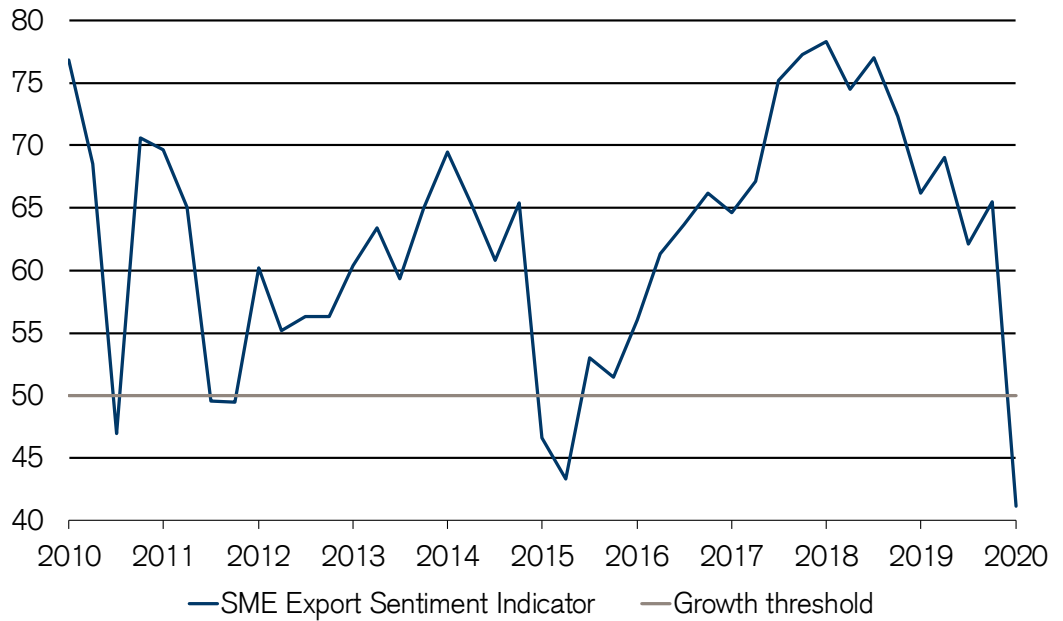
Export expectations have also been reined in for the second semester of 2020. Just 39% of surveyed SMEs are expecting a rise in exports. 23% anticipate stagnation, while 38% are bracing themselves for a further decline.

Coronavirus crisis hits SMEs hard

The coronavirus has badly affected internationally-oriented Swiss SMEs in almost all sectors. 81% of surveyed SMEs reported that – at the time of the survey – the crisis had so far impacted negatively on their business, or even very negatively in the case of 31%. For 56% of SMEs, the pandemic had negatively impacted between 10 and 50% of business, while 34% had seen more than a half of their business impacted. For 10% of respondents, 100% of their business had been affected, an identical proportion to those reporting that the pandemic had not affected them.

SME export sentiment according to Switzerland Global Enterprise (S-GE)

Weighted value of H1 2020 and H2 2020, growth threshold = 50



Source: Survey of a panel of around 300 Swiss SMEs

Slump in demand, collapse in sales, absence of planning certainty

The biggest concerns for companies have been the slump in demand (71%), the collapse in sales and revenues (60%), the lack of predictability over the duration of the pandemic, and the maintenance of state-decreed measures to protect public health such as border and travel restrictions (47%). 38% of respondents were struggling with disruptions to supply chains, 19% faced liquidity problems, and 15% had experienced production outages. Just 5% of SMEs reported that they had not faced any Covid-19-related problems.

At the time the survey was conducted, 58% of SMEs had introduced short-time working, and 33% had taken out a Covid-19 bridging loan. 33% of companies reported that they had not (yet) sought recourse to the instruments introduced by the federal government to support the economy.

No rapid normalization expected

More than a half of the surveyed SMEs expressed their skepticism over the likelihood of business normalizing rapidly. Whereas 34% were anticipating normalization of the situation in 6 to 12 months, 24% reckoned it would take up to 18 months. 22% were anticipating a recovery within 3 to 6 months. 8% had a very optimistic outlook and anticipated a return to normality within 3 months. 2% of SMEs believed a full recovery was more than two years off.

At the time of the survey, 15% of respondents saw themselves as still being in an acute crisis management phase. By contrast, 39% of SMEs considered their situation to have stabilized, and were looking to the future with optimism. Another 39% of the surveyed SMEs stated that they viewed the crisis as an opportunity, and were already preparing for the post-crisis era. 18% were pessimistic over their future prospects, despite having seen their own situation stabilize.

Importance of driving forward digitalization and diversifying risks

According to the survey, the crisis is likely to feed through into SME strategies. For example, 43% of the surveyed companies were looking to drive forward the digitalization of their business models, and 32% were keen to tap into new sales markets for purposes of risk diversification. 14% were planning to explore new procurement sources or establish new production locations.

Virtually no change in rankings of export destinations

At the time the survey was carried out, the Covid-19 pandemic did not appear to have had any effect on export destinations: Germany remains by far and away Switzerland's most important export market, with 78% of surveyed SMEs looking to export their goods or services to this country over the next six months. As before, Germany is followed by France and Austria with 57% and 55% of citations respectively. The US comes fourth with 47%.

Of the surveyed SMEs, 11% indicated that they were looking to expand their export activity to China or Scandinavia for the first time in the second half of 2020. These regions were followed by the US and the countries of the Persian Gulf (10%). Where the importance of export destinations

is concerned, here too the picture is likewise largely unchanged: Germany remains the clear leader by a huge margin (59% of SMEs), followed by the US (16%) and France (12%).

Limited growth potential

The repercussions of the coronavirus crisis are also evident in the Credit Suisse Export Barometer, which reflects foreign demand for Swiss products. Since the start of the second quarter of 2020, this has fallen sharply compared to the previous semester. It amounted to -1.54 in May, well below the growth threshold but slightly above the level of the previous month.

The Credit Suisse Export Barometer recorded a multi-year low in April, when it touched -2.59. Only during the financial crisis did the Export Barometer fall below this level (hitting an all-time low of -3.17). The collapse in industrial production, triggered by a combination of protective measures and the suspension of production processes, led to disruptions in international supply chains. At the same time, according to Credit Suisse, this triggered a stagnation in corporate investment. With a certain time lag, consumer sentiment then deteriorated against a backdrop of income problems and higher unemployment.

However, Credit Suisse believes the majority of exporters recorded their lowest export volumes in April. Indeed, a pickup in export volumes in the Asia region was already apparent for the MEM industry in April, when seasonally-adjusted exports to Japan, Hong Kong, and China recorded an overall rise compared to March. The easing of the lockdown measures in Europe from May onward is also likely to feed through positively into future export figures.

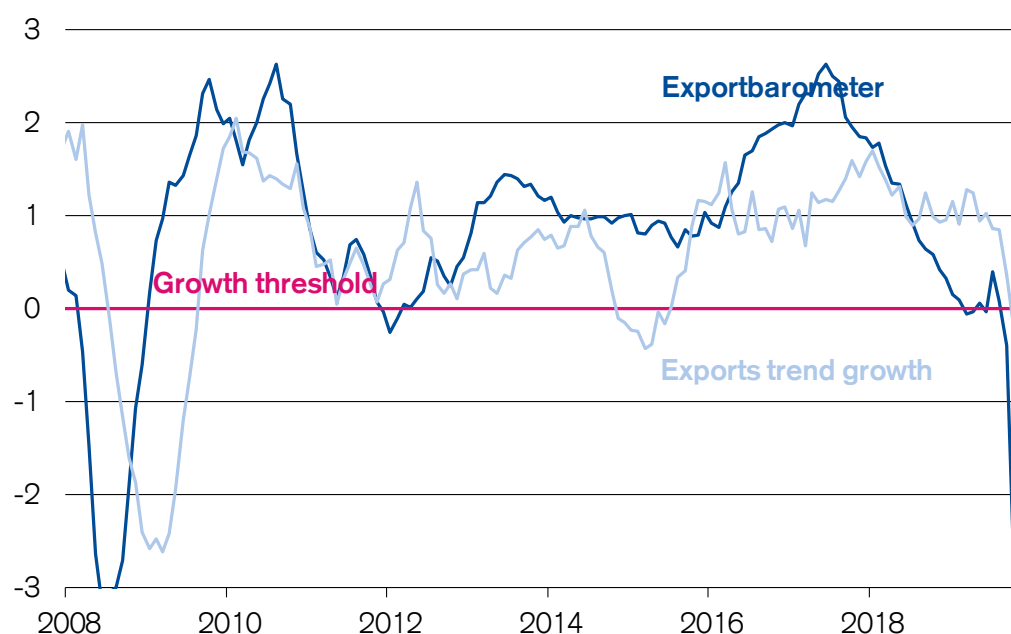
Although Credit Suisse is expecting a stabilization in the demand for exports of the mechanical engineering, electrical, and metalworking sectors (MEM industry) over the next few months, along with a stabilization of demand for investment goods generally in Europe and upward movement in Asia, the persistently high level of uncertainty and caution with which companies will approach investment decisions will limit growth potential.

Consumer confidence remains subdued

Where consumer confidence is concerned, Credit Suisse is being cautious with its assumptions. Widespread income problems and increasing unemployment are likely to persist a while longer, which should keep sentiment subdued. In the view of Credit Suisse, exporters active in industries heavily dependent on consumer confidence – such as the watchmaking industry, for example – will have to wait even longer for a recovery to set in.

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

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 3 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

Switzerland Global Enterprise's SME export sentiment indicator is quite simple: Starting from this issue, SMEs indicate whether they expect growth, stagnation or a decline in exports in the current semester compared with the previous one. In past studies, the current and previous quarter were compared. The same question is put with regard to export expectations for the following semester compared with the current one. To emphasize the forecast nature of the SME export sentiment indicator, expected export activity in the following semester is weighted at 60% with exports in the current semester 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 around 200 Swiss SMEs. Participants represent the pharmaceuticals/chemicals industry, machinery, consumer goods, the metals industry, paper, electrical engineering, the precision instruments industry, services, ICT and food. 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.

Imprint

For more detailed information:

www.s-ge.com/en/article/news/export-outlook

Please note: From 2010 through 2015, this publication bore the title "SME Export Indicator".

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