

Downward trend confirmed – export sentiment returns to normality

SME Export Outlook | Q2 2019



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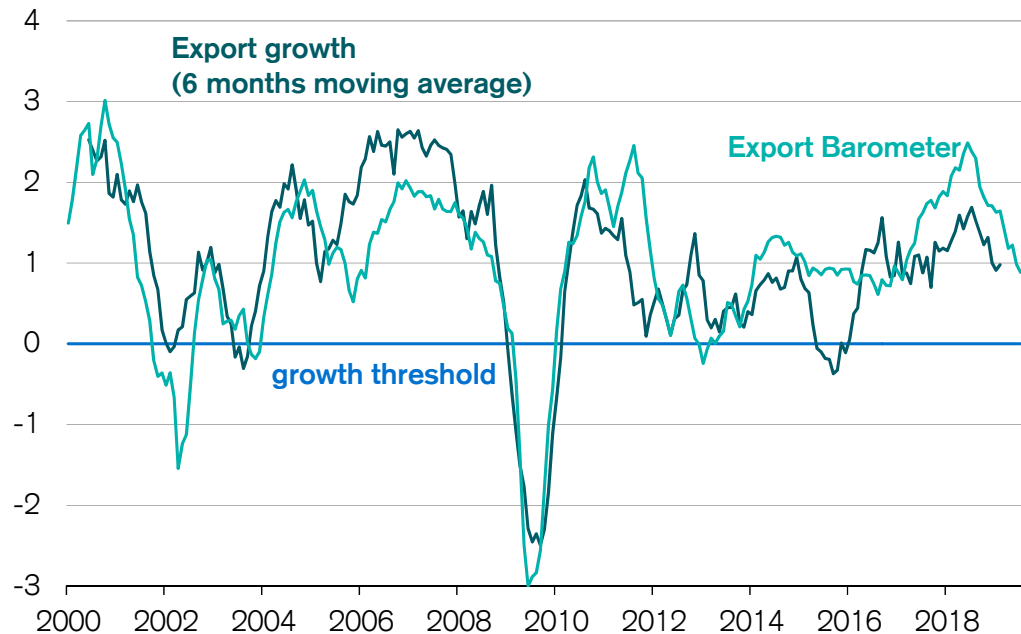
Downward trend confirmed – export sentiment returns to normality

- **Export sentiment among Swiss SMEs is continuing to weaken, but remains positive overall. 47% of SMEs expect exports to rise in the second quarter, while 38% expect them to stagnate. The latest survey by Switzerland Global Enterprise (S-GE) on export sentiment therefore confirms the downward trend of the last few quarters.**
- **The Credit Suisse Export Barometer also edged down. The index remains above the growth threshold at 0.6, but below its long-term average.**
- **"Swissness" is central to the success of the SMEs' internationalization strategy. They see Switzerland's economic and political stability as its main advantage as a business location.**

The Credit Suisse Export Barometer, which measures foreign demand for Swiss products, remains above the growth threshold at 0.6, but below the long-term average of 1.0 for the first time in over two years. This is in line with Credit Suisse's forecast of a normalization of the growth picture in 2019. The outlook for the Swiss export industry remains positive and Credit Suisse continues to expect growing demand for Swiss export goods.

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

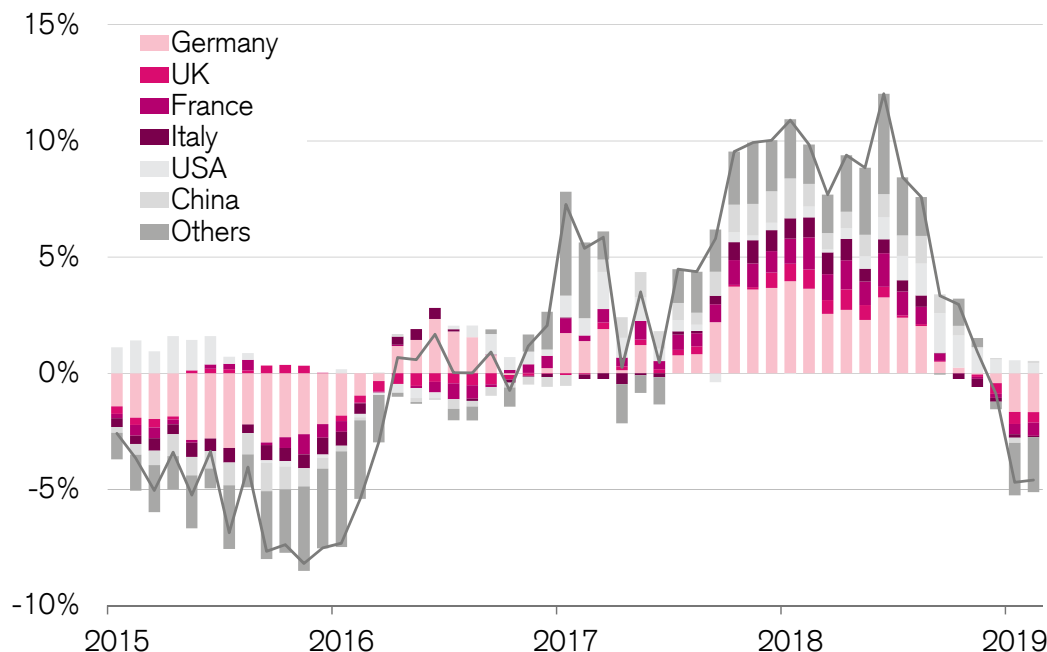
Export growth slightly weaker

Meanwhile the signs of a more prolonged downturn in European manufacturing industry, particularly in Germany, are growing. At the end of March the purchasing managers' index (PMI) for manufacturing in Germany, our most important trading partner, pointed to falling industrial production over the coming months. Credit Suisse believes this is probably an indirect result of the trade dispute between the US and China. Due to the political uncertainties, Chinese demand for

German cars has weakened significantly in recent months. The weakness in Germany is reflected in the exports of the Swiss mechanical, electrical and metal (MEM) sector, which is a major supplier to the German automotive industry. The exports of Swiss suppliers to the German car industry are estimated at around CHF 12.3 billion. On the other hand the situation in the US, Switzerland's second-biggest trading partner, is currently much more robust (see chart below).

MEM industry hit by weakness in Europe

Swiss exports from the mechanical, electrical and metal industry (MEM) to various countries, yoy growth in %, 3-month moving average



Source: Swiss Federal Customs Administration, Credit Suisse

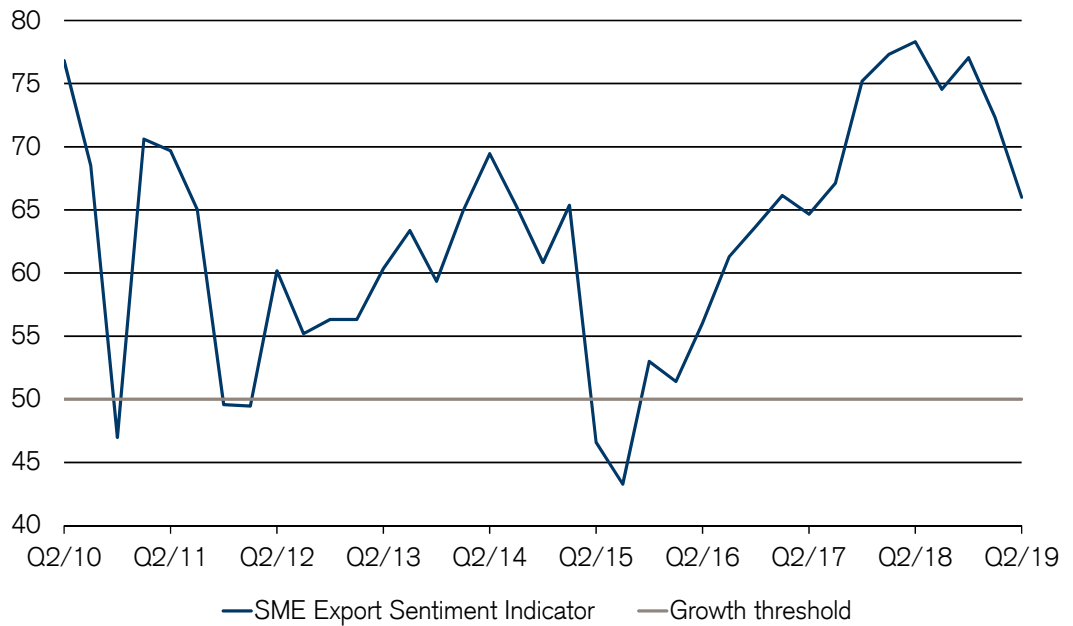
Positive export sentiment

SME export sentiment as measured by Switzerland Global Enterprise (S-GE) slipped again slightly and stands at 66 at the beginning of the second quarter of 2019. This indicator, which can range from 0 to 100, is a composite of SME export expectations for the second quarter of 2019 and effective exports in the previous quarter.

Around 47% of the Swiss SMEs participating in the S-GE survey expect exports to grow this quarter. While 36% expect export growth of 1 to 10%, 7% foresee exports growing by between 10 and 25%. 4% believe exports will grow by 25% or more. 38% of SMEs see their export volumes remaining unchanged, with 15% expecting a decline.

Switzerland Global Enterprise SME Export Sentiment

Weighted value of Q1 2019 and Q2 2019, growth threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

Germany still the leading export destination

Germany remains the most important export market by far. 81% of the SMEs surveyed are planning to export goods or services to Germany over the next six months. France again comes second with a 63% response rate, followed by the US with 60%. Austria is in fourth place with 55% of SMEs planning to export there, followed by Italy and China with 50% each. Spain and Poland are in seventh and eighth positions with 47% and 44% of responses respectively.

16% of the SMEs surveyed indicated that they are hoping to launch activities in China for the first time in the next six months. 14% are planning to do the same in India, 11% in Japan and the United Arab Emirates, while Russia and Indonesia are proposed new markets for 10% of respondents. 9% of SMEs are planning to export to South America and the Gulf states for the first time.

In terms of the importance of the export destinations, the picture is practically unchanged: Germany is way out in front with 54% of responses, followed by the US with 21% and China at 15%.

Swissness critical to success

"Swiss quality" is an essential part of the SMEs' internationalization plans. 69% state that their international customers value Swiss quality, with 37% of the companies surveyed saying customers are willing to pay more for this quality. 31% of the participating SMEs put Swiss quality standards at the forefront of their strategy. 55% use quality as a sales argument and 22% describe it as central to the success of their internationalization. Swissness is unimportant for only 5% of SMEs. 6% do not use it in their strategy because it would lead to them not being competitive abroad.

On the question of Switzerland's advantages as a business location, the stable economic environment (84%), stable political environment (76%), good infrastructure (59%) and pro-business framework (53%) are seen as key. The good relationships with universities and colleges (24%) and access to talent (18%) are less important for SMEs.

Most of the SMEs surveyed want to remain in Switzerland: 87% have never considered moving their company headquarters abroad. While 12% of the SMEs produce around half of their value-added abroad, a clear majority of the SMEs – 71% – do this in Switzerland.

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

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 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:

<https://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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