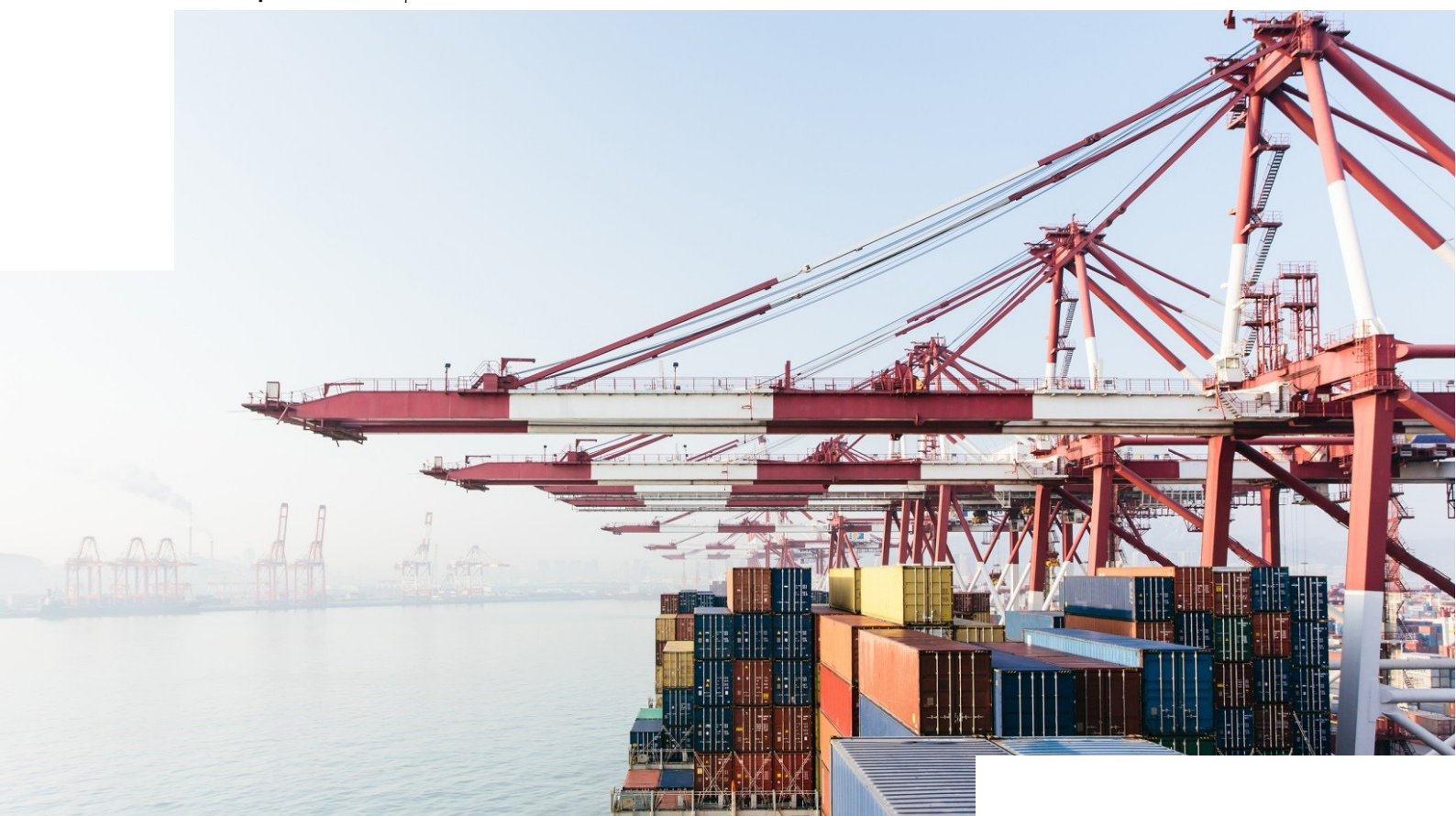


# Export industry defies challenging environment

SME Export Outlook | H1 2023



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# Export industry defies challenging environment

- **The slowdown in the export industry is continuing. However, thanks to their resilience and ability to adapt, the export sentiment of Swiss SMEs as determined by Switzerland Global Enterprise (S-GE) remains in the growth zone, despite an extremely challenging environment.**
- **By contrast, the Credit Suisse Export Barometer reveals a more cautious forecast, and is only minimally above the growth threshold. But the decline appears to have slowed recently too.**
- **In this situation, SMEs are focusing on securing what they have already achieved, with penetration of additional markets receding into the background.**
- **The biggest concerns for SMEs are energy and commodity prices, currency risks, disruptions to value creation chains, a shortage of skilled labor, and inflation.**

## **Slowdown continues, but further growth expected**

The slowdown in the Swiss export industry is continuing. This is shown in the latest export sentiment of Swiss SMEs, as ascertained by Switzerland Global Enterprise in its biannual survey. At 60.5 points, however, export sentiment is still well above the growth threshold of 50 points, while at the same time the downward trend compared to the previous semester has somewhat slowed. In other words, sentiment levels are currently in line with those of the winter of 2020, directly before the onset of the coronavirus crisis. By contrast, the Credit Suisse Export Barometer paints a rather gloomier picture – at 0.07 points, this indicator is only just above the growth threshold. That said, there are signs that the downward trend has been slowed recently here too.

## **Hugely challenging economic environment**

Sentiment in global manufacturing has taken a sharp turn for the worse in recent months. The purchasing managers indices (PMIs) of the key destination markets for Switzerland – the US and the Eurozone – are currently below the growth threshold, and are therefore pointing to contraction. Furthermore, the PMI for Swiss manufacturing continues to lose momentum, although it remains above the growth threshold and a recent slowing of the downward trend has become apparent. In addition, EUR is likely to be below parity against CHF over the coming months. Thanks to much lower inflation in Switzerland, the Swiss export industry has been coping relatively well with the current EUR/CHF exchange rate, as lower cost increases mitigate the competitive disadvantage on the pricing side.

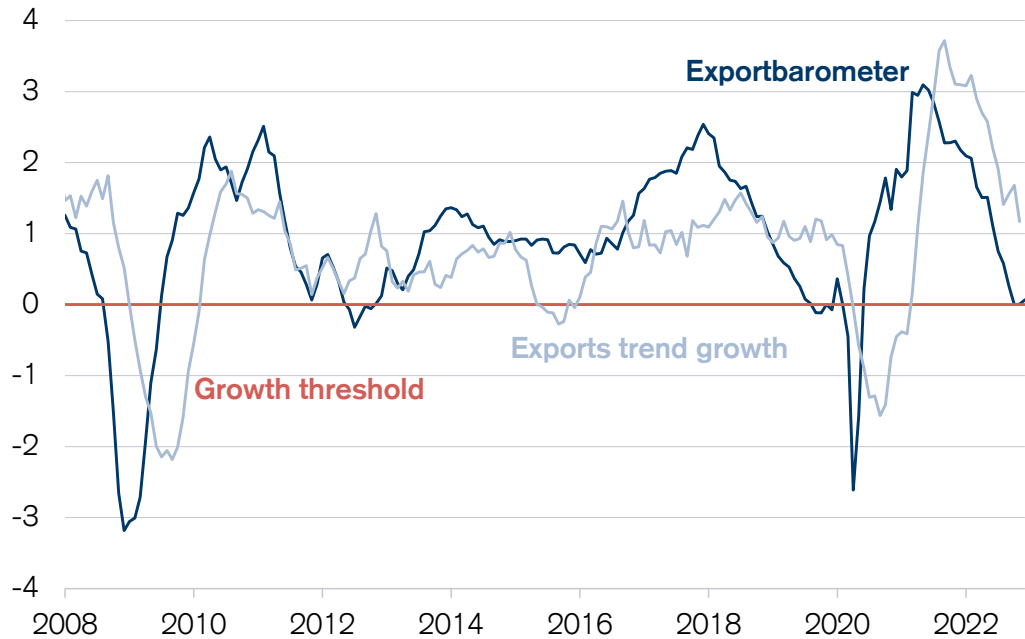
## **Swiss SMEs perform surprisingly well**

In this challenging situation, the general downward trend in the Swiss export economy hardly comes as a surprise. Indeed, it is astonishing how well SMEs are continuing to cope, and how cautiously optimistic they are for the future. Compared to expectations, the second semester of 2022 disappointed only slightly. Whereas 50% of respondent companies anticipated export growth, this forecast ultimately proved true for 48% of companies. The proportion of companies that recorded a decline in exports amounted to 26% compared to an expectation level of 17%, the difference mainly coming at the cost of the proportion of companies anticipating stagnation. For the coming semester, 44% of companies are expecting growth, 24% a decline, and 32% stagnation.

For 2023 as a whole, 53% of the companies surveyed by Switzerland Global Enterprise are expecting to record export growth. 29% are anticipating stagnation and just 18% are expecting a decline in exports.

## Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

### Full employment underlines resilience

This shows how resilient and tolerant of suffering Swiss SMEs are, and how well they can react to crises. This is also apparent from the remarkably low level of unemployment right now, with little change expected here in the near future. 91% of surveyed companies stated that they would be maintaining or expanding headcount over the coming 12 months. Only 9% stated that they would have to reduce headcount.

### Securing what has been achieved, avoiding unnecessary risks

However, considerable uncertainty remains, and in this situation companies are concentrating on securing what they have already achieved. 26% of all companies stated that they were not looking to expand into any new markets in 2023.

Those companies who are continuing to seek to penetrate new markets are focusing on the same countries that they have been targeting for many months now. First and foremost, they encompass the South American continent with Argentina (6%), Brazil (7%), Chile (6%), and Colombia (5%), as well as the Gulf (10%) and ASEAN states (9%).

### Europe and the US remain the most important export markets

The situation also looks very stable when it comes to target markets generally. Europe – and in particular Switzerland's immediate neighbors – and the US remain the key export markets. The longtime leading country is Germany, to which 76% of all respondent companies are currently exporting. Second place is occupied by France at 63%, followed by the US (57%), Austria (54%), and Italy (52%).

China has slightly lost importance in recent months. The shift away from the zero-tolerance coronavirus policy is not currently having any impact yet, not least because further waves of the virus are expected. However, in the medium term it is likely that the easing of these measures will benefit the global economy and therefore also the Swiss export industry.

### Germany a top-3 market for two out of every three SMEs

When asked about their three most important target markets, Germany takes its traditional undisputed position at the top with 60% of responses, followed by the US with 38% and France with 29%. Further down the rankings come China, Italy, and Austria with 17% each, the UK with 12%, and Scandinavia with 11%. For all other countries, the number of Swiss exporters is less than 7%. This picture too has barely changed in recent months.

## SME export sentiment according to Switzerland Global Enterprise

Weighted value of H2 2022 and H1 2023, growth threshold = 50



Source: Switzerland Global Enterprise

### Energy and commodity prices are greatest challenge

Whereas almost nothing has changed with regard to the general situation and target markets, the nature of the challenges faced by Swiss exporters has undergone a significant change. A year ago, the COVID pandemic was topping the list in the risk evaluation of SMEs at 69%, and was ranked in fifth place at 32% even in the summer of 2022. By contrast, just 7% of companies cited the pandemic as a major challenge in the most recent survey. Four out of the five key current challenges only emerged slowly over the course of 2022: Energy and commodity prices are preoccupying 73% of SMEs, while currency risks concern 61%, and inflation 42%.

Also high on the list of worries with 43% is the shortage of skilled labor, a problem which has been mentioned for many years now. But while only individual sectors have had to contend with it to date, it has emerged on a broad front in recent months and with all the greater intensity for that.

### Supply difficulties continue to weigh on companies

Of the major challenges in 2023, the constant one is the problem of disruptions to supply chains. Although the supply situation has improved in recent months, with delivery times increasingly normalizing in Switzerland and the prospect of further steps to open up the Chinese economy likely to provide additional relief as 2023 progresses, this issue will continue to preoccupy SMEs for quite some time, depending on how the pandemic and the war in Ukraine – which ranks in sixth place on the list of worries with 40% – develop.

### Strategies to cope with disruptions to value creation chains

Companies are responding accordingly, with an array of targeted measures to alleviate the problem of uncertain value creation chains. 46% of companies have increased the diversification of their procurement markets over the last two years. 16% are looking at alternative sales markets. 11% are insourcing various tasks. 8% have expanded inventories or have taken other measures. Only 19% of companies have taken no special measures to protect their value creation chains.

Finally, against this backdrop it is notable that both Switzerland's relationship with the EU (33%) and tensions between the US and China (21%) continue to rank "only" in mid-pack on the list of Swiss exporters' worries.

## Methodology:

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### **Credit Suisse Export Barometer**

The Credit Suisse Export Barometer takes as its basis the dependence of Swiss exports on demand from 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.

### **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. 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 more than 200 Swiss SMEs. Participants are active in multiple sectors, including pharmaceuticals/chemicals, machinery, consumer goods, metals, paper, electrical engineering, precision instruments, services, ICT and food. Participants provide further information on export volumes, such as 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.

## Forecasts and indicators

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### For more detailed information:

[www.s-ge.com/exportperspektiven](http://www.s-ge.com/exportperspektiven)

Note: From 2010 through 2015, this publication bore the title "SME Export Indicator"

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