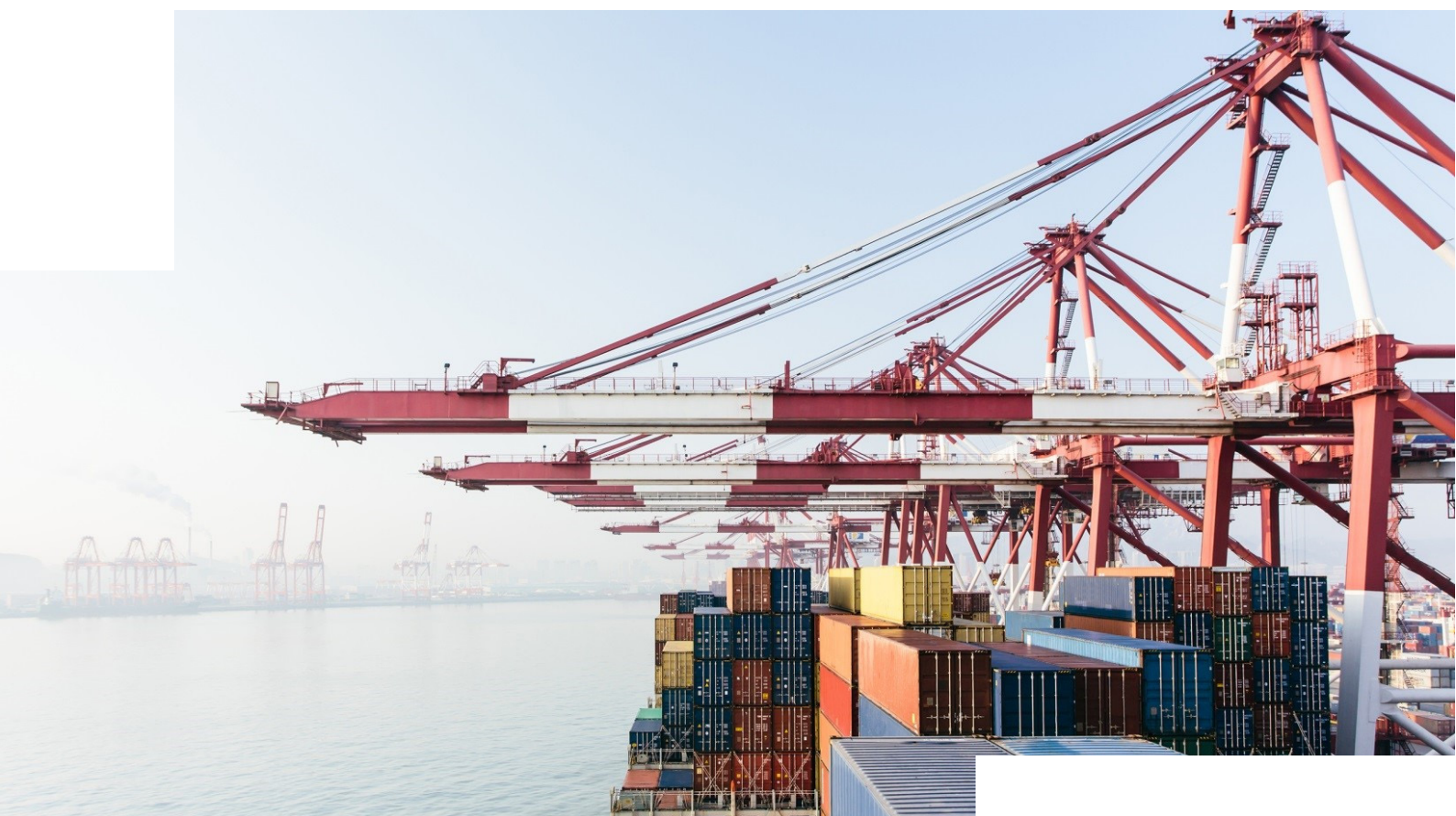


Outlook for 2020: Export sentiment improves

SME Export Outlook | H1 2020



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Outlook for 2020: Export sentiment improves

- **The confidence of Swiss SME exporters improved noticeably at the start of the year compared to the fourth quarter of 2019. For the first semester of 2020, more than a half of SME survey respondents (53%) are anticipating rising exports, whereas 32% are anticipating stagnation. This emerges from the latest survey on export sentiment conducted by Switzerland Global Enterprise (S-GE).**
- **The downward trend of the Credit Suisse Export Barometer has also been halted. This indicator rose slightly toward the year-end, recording a value of -0.02 points. This is more or less exactly at the dividing line between growth and contraction.**
- **The strength of the franc, the decline in economic growth, and competitive pressures are once again dominant themes for export-oriented Swiss SMEs in 2020.**

Downward trajectory halted

The Credit Suisse Export Barometer, which illustrates foreign demand for Swiss products, rose slightly at the year-end for the first time in a while. At -0.02 points, it is now only just below the growth threshold, albeit well below its long-term average of 1.0 points. Nonetheless, the Export Barometer is showing signs of stabilization: The downward trend that dates back to the beginning of 2019 has been halted for the time being. On the basis of this development, Credit Suisse is expecting Swiss exports of goods to remain more or less at their current levels in the coming semester.

Last year, the trade dispute between the US and China weighed heavily on global trade. For example, Credit Suisse observed sharp declines in global industrial production in the immediate aftermath of tariff increases. However, the corresponding purchasing managers indices (PMIs) in both the US and Europe have improved since October. The slight defusing of tensions in the trade dispute is likely to have played its part here. In addition, the more expansionary monetary policy course adopted by the US central bank (Fed) in the second half of the year and the still expansionary stance of the European Central Bank (ECB) also supported the industrial sector in these regions.

The manufacturing industries of Europe and America are the key end markets for Swiss exporters. According to Credit Suisse, the improvements in industrial business development in Europe and the US also contributed to the temporary stabilization of the Export Barometer in Switzerland. That said, there is no evidence yet of any stronger recovery, as demand abroad – above all in Germany, Switzerland's key trade partner – has remained well below average. The slight overvaluation of the franc against the Euro likewise contributed to this development. In 2019, the weakness in German manufacturing was most keenly felt by Switzerland's MEM industry, which also suffered from a decline in exports to China, Italy, and the UK.

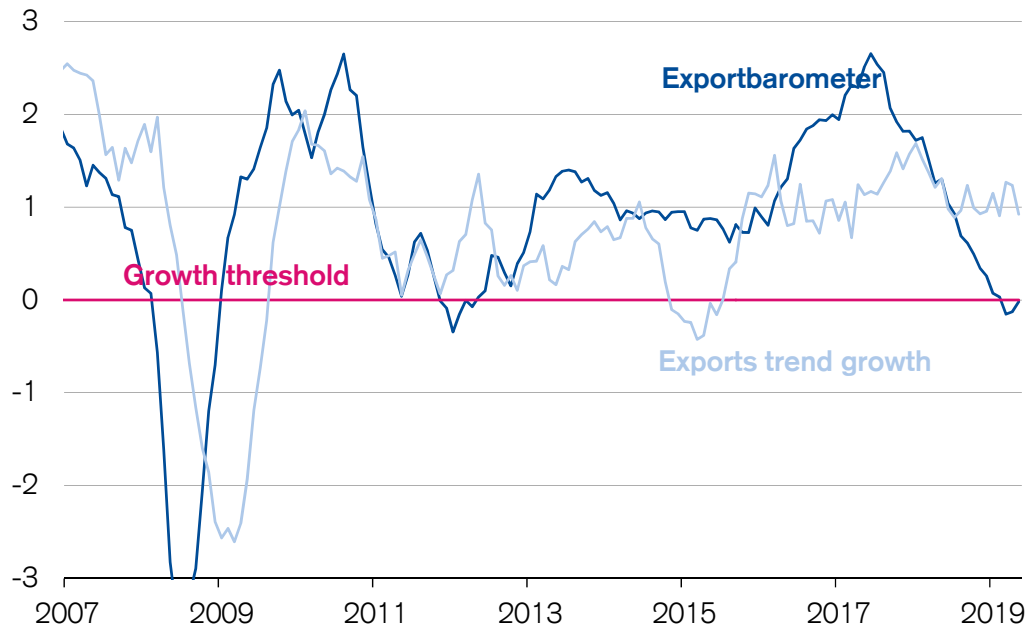
Persistent boom in pharma exports

The unrest in Hong Kong weighed heavily on the Swiss watchmaking industry for much of last year. Indeed, exports to this key market virtually ground to a halt in the second semester of 2019. The fact that the watch industry was actually able to record a fairly balanced result for the year as a whole is above all attributable to the decline in Hong Kong being offset by an increase in exports to China and Singapore.

The picture in the pharma industry is very different: The export boom in this sector has shown no signs of letting up, with demand rising in almost all end markets. Pharma products now account for more than 40% of the value of all Swiss goods exports. This puts the pharma industry way ahead of any other sector when it comes to its contribution to Swiss export growth.

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

Export sentiment positive once again

According to the most recent survey of Switzerland Global Enterprise (S-GE), the export sentiment of Swiss SMEs – now recorded on a semi-annual rather than a quarterly basis – has improved as companies look forward to the first semester of 2020. At the start of this semester, export sentiment had reached a level of 65 points, three points higher than at the start of the fourth quarter of 2019. The growth threshold lies at 50 points. The index level, which lies on a scale of 0 to 100, is calculated on the basis of SMEs' export expectations for the first half of 2020 as well as actual exports recorded in the second half of 2019.

Overall, 53% of the Swiss SMEs that took part in the S-GE survey are anticipating higher exports in the first semester of 2020. Whereas 39% of respondents are expecting export growth of between 1 and 10%, 10% are expecting an increase of 10 to 25%, and 4% are even hoping for exports to rise by 25% or more. 32% of SMEs are expecting export volumes to stagnate, while the remaining 15% are expecting a decline.

Germany still the key export market

Germany remains by far and away Switzerland's most important export market, with 82% of surveyed SMEs looking to export their goods or services to this country over the next six months. Second and third places are once again occupied by Austria and France (57% and 52% of citations respectively), although these positions have been reversed, with Austria now taking second place. Italy lies in fourth place with 48%. The US, which occupies fifth place, once again posted exactly the same score as in the fourth quarter of 2019 (44%). Then comes China with 42% of nominations. 39% of SMEs are looking to export to the United Kingdom and Ireland, followed by 38% with their eyes on the Netherlands and Spain. In tenth place sits the cluster of Scandinavian countries with 37%.

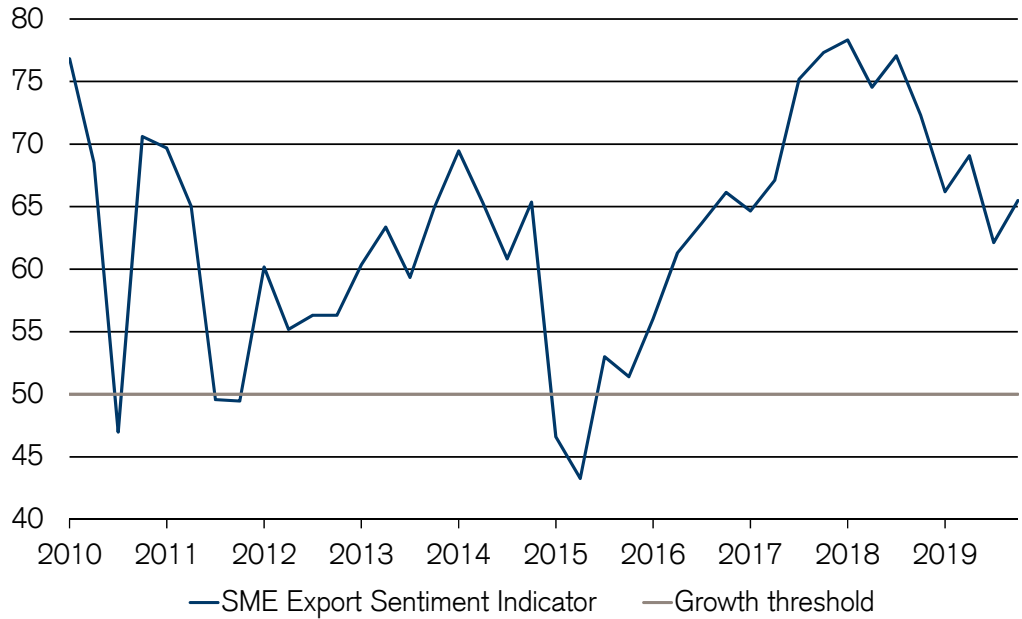
A similar picture emerges when we look at expectations of which export destination will be the most important at the end of 2020 – here too, Germany is top dog. 60% of surveyed SMEs pointed to Germany as their most important export destination at the end of the year. Germany is followed by China in second place (16%), the US in third (13%), and France in fourth (10%).

Where the current importance of export destinations is concerned, here too the picture is likewise largely unchanged: Once again, Germany is well ahead with 62%, followed by the US with 16% and China with 13%. 11% of surveyed SMEs identified France as their key export market, and 10% now cite Austria.

15% of respondents are now looking to export to Japan for the first time in the first half of 2020. Next come China, Russia, the US, and Scandinavia, each with 13%. Brazil, Germany, the Netherlands, Italy, India, and the United Kingdom were each cited as important new destinations by 8% of respondents.

SME export sentiment according to Switzerland Global Enterprise

Weighted value of H2 2019 and H1 2020, growth threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

Positive outlook for 2020 despite volatile environment

SMEs may already be much more confident about the export situation looking forward to the first half of 2020, but they are even more optimistic about the year as a whole. For the full 2020 year, 63% of SMEs expect exports to rise, while just 17% are anticipating a decline and 29% stagnation. The further increase in positive export sentiment has also fed through into headcount expectations: 30% of SMEs are expecting the number of people they employ to rise. While a majority (57%) expect headcount to remain more or less at its current level, 12% envisage a reduction in their workforce.

65% of respondents cite the strong franc as one of the issues that are most preoccupying them in 2020. Other topics of concern include a further decline in economic growth (49%) and an increase in competitive pressures (45%). International trade conflicts (34%) and Brexit (24%) are less of a concern. Digitalization does not appear to be worrying SMEs a great deal, accounting for just 18% of citations. Just 8% of the SMEs surveyed view negative interest rates as a significant cause for concern.

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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