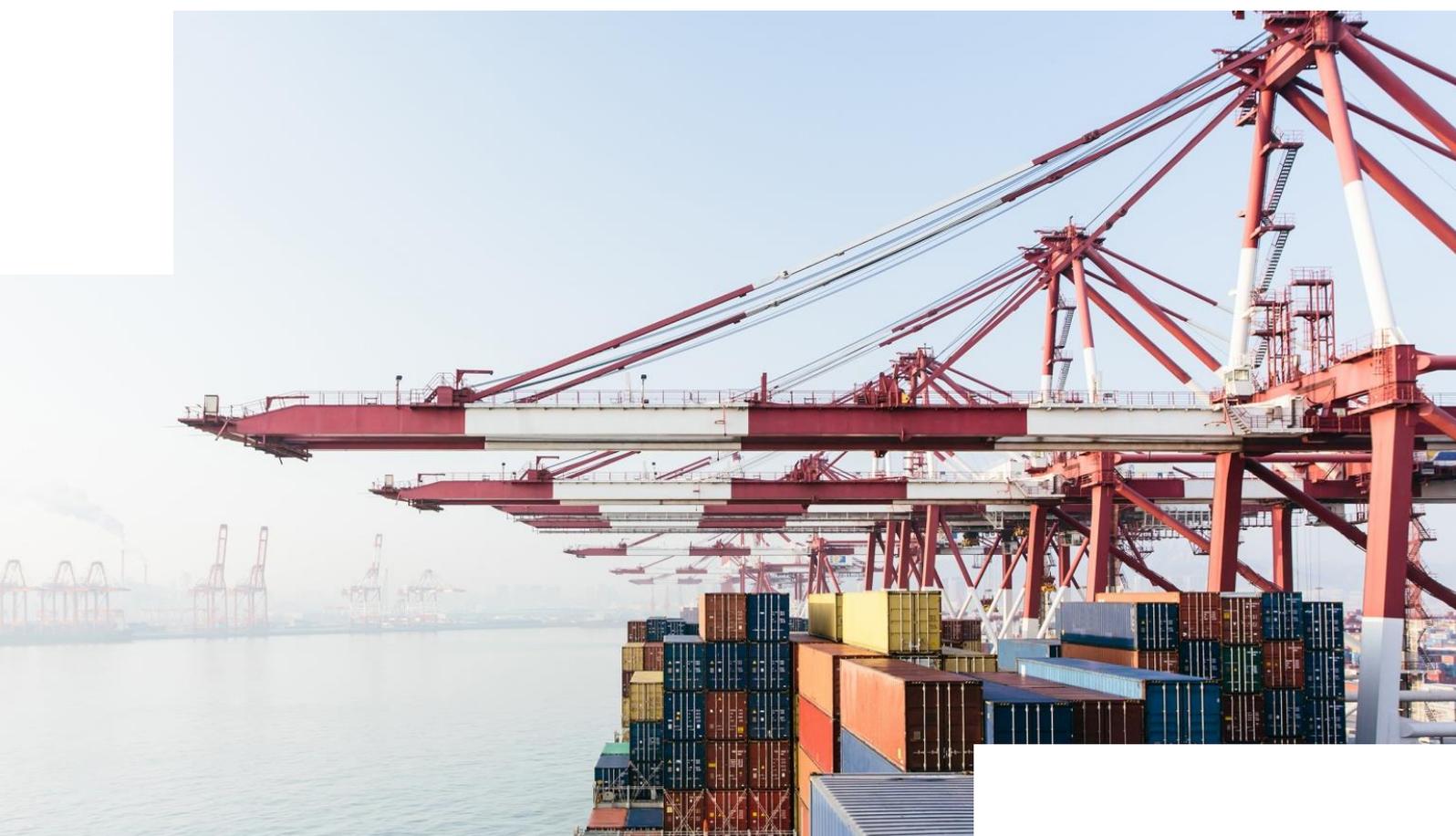


Swiss SMEs start the new year in an optimistic mood

SME Export Outlook | Q1 2019



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Swiss SMEs start the new year in an optimistic mood

- **Export sentiment remains robust among Swiss SMEs at the beginning of 2019. Although expectations weakened slightly compared to the previous quarter, around 56% of all SMEs still expect rising exports in the first quarter of 2019. The latest survey by Switzerland Global Enterprise (S-GE) on export sentiment suggests that Swiss SMEs remain highly optimistic.**
- **The Credit Suisse Export Barometer also remains positive. The figure edged down modestly again, but at 1.0 remains well above the growth threshold. The normalization expected by Credit Suisse for 2019 is now coming through as expected.**
- **After the boom year for exports in 2018 the picture for the export industry is therefore of a return to average long-term growth rates. Asian countries head the list of the strongest export markets in 2019 by a clear margin.**

The Credit Suisse Export Barometer, which measures foreign demand for Swiss products, declined slightly from the previous quarter to 1.0, but remains comfortably in the growth zone (see chart overleaf). After the record levels of 2018, Swiss export growth is therefore likely to return to its long-term average over the coming months. But even if conditions in the Swiss export industry are no longer quite as exceptional as they were for large parts of 2018, the outlook remains positive.

Weaker export growth

Credit Suisse has been expecting the growth outlook to normalize in 2019 and the main purchasing managers' indices now seem to be confirming this expectation. European industrial production is likely to continue growing— even if at a slightly slower pace – which should have a positive impact on demand for Swiss goods exports. Credit Suisse therefore expects growing demand for exported Swiss goods for the foreseeable future.

Credit Suisse sees the muted business sentiment in Switzerland's foreign markets as the main reason for the modest decline in the Export Barometer. There have been signs of a downturn in Europe for some time, but more recently the trend has also slowed in the US and other countries. While business sentiment has only deteriorated modestly in the eurozone as a whole, Italy and France have seen more significant weakening. The same applies to China, Taiwan and South Korea. Business sentiment remains strong in the UK, India and Australia. And in the USA too the indices remain positive in spite of a modest downturn.

Trade war a sword of Damocles

The unresolved trade dispute between the US and China remains the biggest risk for Swiss foreign trade and so for overall economic growth in Credit Suisse's view. A slowdown in bilateral trade between the world's two biggest economies would very likely have a slowing impact on global trade growth and so hit Switzerland indirectly.

Credit Suisse Export Barometer

Standard deviations, growth threshold = 0



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

Asia heads the ranking

As far as expected growth is concerned, according to Credit Suisse Asian countries occupy the first six places among the most attractive export markets in 2019. Credit Suisse expects the strongest growth of 7.2% in India, followed by 6.5% in the Philippines and 6.2% in China. Indonesia (5.1%), Malaysia (4.2%) and Thailand (3.8%) are also ahead of Poland, the first non-Asian country in the ranking. The emerging markets generally appear in the upper half of the table, which Credit Suisse attributes primarily to their faster growth rates compared with the industrialized countries.

Credit Suisse 2019 ranking of export markets

Ranking	Country	Avg. expected growth in 2019 (%)*	Forecast change in domestic currency versus CHF (%)**
1	India	7.2	2.1
2	Philippines	6.5	1.9
3	China	6.2	1.9
4	Indonesia	5.1	0.2
5	Malaysia	4.6	-2.7
6	Thailand	3.8	1.8
7	Poland	3.6	-5.3
8	Brazil	3.0	-4.5
9	Australia	2.8	2.3
10	New Zealand	2.8	-3.5
11	Singapore	2.7	-0.4
12	Hong Kong	2.7	-1.8
13	USA	2.6	1.6
14	South Korea	2.4	0.4
15	Spain	2.1	6.2

* The weighting of the ranking (4/5 economic growth, 1/5 exchange rate movements) derives from a historical analysis of export elasticities.

** Expected movement over 12 months relative to the exchange rate of 11 January 2019; positive figures indicate a rise the foreign currency versus CHF, negative figures a fall

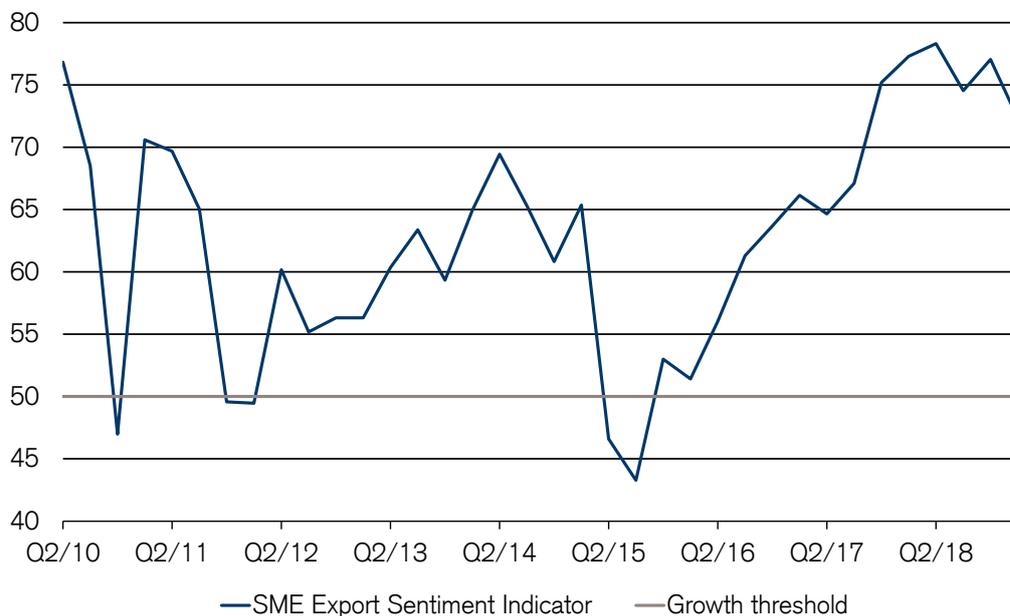
Source: Credit Suisse

Export sentiment remains positive

The SME export sentiment indicator published by Switzerland Global Enterprise (S-GE) fell slightly at the beginning of the first quarter of 2019 but still stood at 72, not far below the record high for this data series, which was launched in 2010. This indicator, which can range from 0 to 100, is calculated from a combination of SME export expectations for the first quarter of 2019 and effective exports in the previous quarter.

Switzerland Global Enterprise SME Export Sentiment

Weighted value of Q4 2018 and Q1 2019, growth threshold = 50



Chart

Source: Survey of a panel of around 200 Swiss SMEs

Around 56% of the Swiss SMEs participating in the S-GE survey expect an increase in exports in the coming quarter. While 41% expect growth in exports of 1–10%, 9% foresee exports growing by between 10% and 25%. 6% even see exports increasing by 25% or more. 32% of SMEs believe their export volumes will stagnate. 12% are expecting exports to decline – twice as many as in the survey before last.

Germany still leading the pack

Germany remains the most important export market for Switzerland in every respect and by some distance. 83% of the SMEs surveyed intend to export goods or services to Germany in the next three months, a slightly higher proportion than in Q4. France is again in second place with a 70% response rate. This confirms the significant increase in recent quarters for France. The US is now in third place with 61% of SMEs planning to export there. This is exactly the same figure as in the fourth quarter of 2018, but because Austria and Italy each fell slightly to 58%, the US moved up in the ranking. Scandinavia and China follow with 53% each, with Spain in eighth position with 48% of responses.

11% of the SMEs taking part in the survey indicated that they want to launch activities in the US, China and/or India over the next six months. South America, Indonesia, Russia and Germany come next as proposed new markets for 10% of respondents. A significant 9% of companies surveyed plan to launch new activities in Iran. 7% cited the Baltic, Brazil, the Gulf states, Korea, Mexico, Saudi Arabia, Thailand or Turkey as new export destinations.

SMEs are even more positive on the outlook for the full year 2019 than for the first quarter. Around 77% of companies expect exports to grow, while just 6% foresee a decline compared with 2018. In terms of the importance of the export destinations the picture is a familiar one: Germany is out in front in first place with 58%, followed by 21% for the US and 19% for China.

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".

Contacts

Credit Suisse AG:

Sascha Jucker, Economist
Tel. +41 44 333 03 96, sascha.jucker@credit-suisse.com

Switzerland Global Enterprise:

Silvana Giger, Multimedia Journalist
Tel. +41 44 365 55 12, sgiger@s-ge.com

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