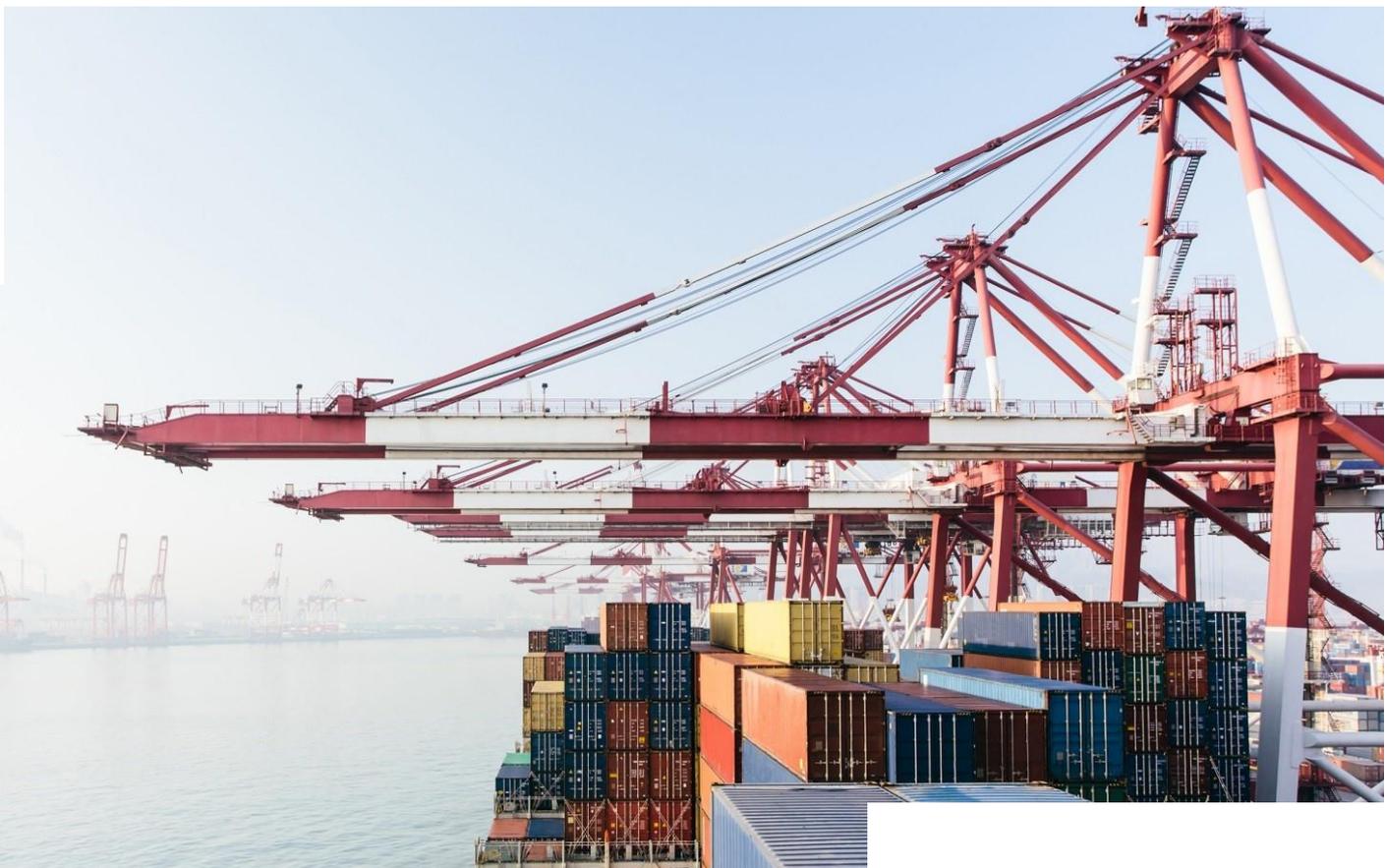


Export sentiment weakens further as year enters final stretch

SME Export Outlook | Q4 2019



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Export sentiment weakens further as year enters final stretch

- **The latest export sentiment survey conducted by Switzerland Global Enterprise (S-GE) found that export sentiment among Swiss SMEs has deteriorated compared to previous months. 47% of all SMEs still expect exports to rise in the fourth quarter, while 30% expect them to stagnate.**
- **The Credit Suisse Export Barometer dropped as well. Although the index is barely in growth territory at 0.02, it is well below its long-term average of 1.0.**
- **Sustainability plays a crucial role for export-oriented Swiss SMEs. 52% of the companies surveyed consider it a critical success factor.**

Europe stubbornly weak

The Credit Suisse Export Barometer, which measures foreign demand for Swiss products, has fallen again compared to the previous quarter. At 0.02 points, it is almost at the growth threshold and well below the long-term average of 1.0 points. Given the low level, Credit Suisse does not expect the barometer to decline further; however, exports of goods or services are not likely to increase any time soon, either. The export barometer has not been this low since November 2012, several months after the Swiss National Bank (SNB) established a euro floor of 1.20 Swiss francs to protect the export sector from the impact of an appreciating Swiss franc.

Sentiment in Europe's industrial sector worsened even more in September. Industrial enterprises have been bogged down by Brexit and by the uncertainty associated with the US-China trade war. The composite purchasing managers' index (manufacturing and non-manufacturing sectors) for the eurozone has fallen to its lowest level in over six years, says Credit Suisse. That points to a further decline in demand from the eurozone, Switzerland's most important trading partner. Fears are also growing that the decline in the industrial sector could spill over to the service sector and labor market in Europe. Indicators for the service sector and labor market had previously kept economists from invoking an imminent recession. Contrary to European trends, the manufacturing and service PMIs in the US improved again in September. However, they still hovered at a relatively low level, only barely above the growth threshold.

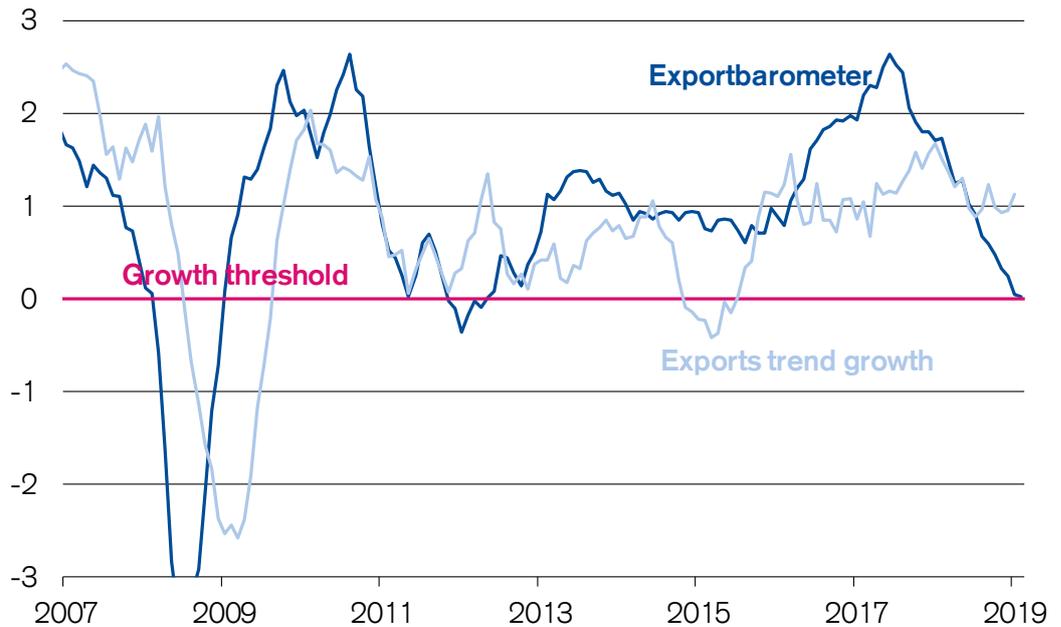
Relentless uncertainty around the globe hit the Swiss MEM industry particularly hard. MEM exports declined year-on-year in nearly all important markets. The US was the only market in which exports increased slightly in the third quarter of 2019.

Protests in Hong Kong roil watch industry

The watch industry continues to suffer from the political turmoil and protests in Hong Kong. Exports in this key market declined year-on-year in the third quarter of 2019. Pharmaceutical industry exports, in contrast, seem to be largely unaffected by geopolitical turbulence. They are up 12% year-on-year. As a result, the pharmaceutical industry once again made by far the biggest contribution to growth in Swiss goods exports. Demand went up in nearly all markets.

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

Export sentiment worsens slightly

Export sentiment among SMEs has continued to worsen as the end of the year approaches, according to Switzerland Global Enterprise (S-GE). It had reached 62 points by the start of the fourth quarter of 2019, which is 7 points less than in the previous quarter and its lowest level in over three years. At the same time, export sentiment is still above the growth threshold of 50 points. This indicator, which can range from 0 to 100, is calculated from a combination of SME export expectations for the fourth quarter of 2019 and effective exports in the previous quarter.

47% of the Swiss SMEs participating in the S-GE survey expect exports to grow this quarter. While 29% expect growth in exports of 1% to 10%, 13% foresee exports growing by between 10% and 25%. 5% believe exports will grow by 25% or more. 30% of SMEs believe their export volumes will stagnate. 23% overall are bracing for a decline.

Germany still in the lead

Although Germany has dropped slightly, it is still the most important export market by far. 75% of the SMEs surveyed plan to export goods or services to Germany in the next six months. France and Austria followed with 52% and 51% of the responses, respectively. Italy moved up to fourth place with 45%, followed by the US in fifth place with 44%, which was 12% less than just a quarter ago. The United Kingdom/England was a target export destination for 36% of SMEs, followed by the Scandinavian countries, the Netherlands and China with 33% each. Spain came in tenth at 31%.

13% of the SMEs surveyed indicated that they are hoping to launch activities in Japan or the US for the first time in the next six months; 12% are aiming for the Gulf states. 9% have their sights set on Scandinavia, France or Germany. 8% named China, 7% Russia, Italy or India as a new destination.

In terms of the importance of the export destinations, the picture is largely unchanged: Germany is out in front in first place with 53%, followed by 19% for the US and 15% for China. 12% of surveyed SMEs named France as their most important export destination; 9% named Italy.

Switzerland Global Enterprise SME Export Sentiment

Weighted value of Q3 2019 and Q4 2019, growth threshold = 50



Source: Survey of a panel of around 200 Swiss SMEs

Sustainability matters

Sustainability is an important issue for export-oriented Swiss SMEs. 52% of surveyed companies say that a sustainable value chain (in social, economic or environmental terms) is crucial to the success of their export business. However, nearly a third of respondents described sustainability as inconsequential to their business.

The most attention is commanded by economic sustainability, which is important or very important to 86% of respondents. Only 11% fail to see how it adds much value to their export business.

Social and environmental sustainability meet with considerable approval among SMEs. 49% view environmental sustainability as important; 16% view it as very important. For 32%, it only plays a minor role. Social sustainability plays an important role for 53% and a very important one for 14%. For 27% of the respondents, however, social sustainability is not very important or not important at all in the export business.

Although a majority of Swiss SMEs identify sustainability as crucial to their success, 42% of them find it difficult to integrate into their internationalization strategy. 34% of the respondents have no such problems. With respect to their internationalization strategies, roughly half of the SMEs would like to lend more weight to sustainability concerns: 52% would like to attach more importance to economic sustainability issues, 49% to environmental ones and 42% to social ones.

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:

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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