Export sentiment weakens further as year enters final stretch

SME Export Outlook | Q4 2019
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

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.

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.
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:


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.
For more detailed information:

Please note: From 2010 through 2015, this publication bore the title “SME Export Indicator”.

Contacts
Credit Suisse AG:

Tiziana Hunziker, Economist
Tel. +41 44 333 03 74, tiziana.hunziker.2@credit-suisse.com

Switzerland Global Enterprise:

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

Copyright
This publication may be reproduced, provided that the source is quoted.
Copyright © 2019 Credit Suisse Group AG and Switzerland Global Enterprise.
All rights reserved.

Credit Suisse AG
Credit Suisse AG is one of the world’s leading financial services providers and is part of the Credit Suisse group of companies (referred to here as ‘Credit Suisse’). As an integrated bank, Credit Suisse offers clients its combined expertise in the areas of private banking, investment banking and asset management. Credit Suisse provides advisory services, comprehensive solutions and innovative products to companies, institutional clients and high-net-worth private clients globally, as well as to retail clients in Switzerland. Credit Suisse is headquartered in Zurich and operates in over 50 countries worldwide. The group employs approximately 46,840 people. The registered shares (CSGN) of Credit Suisse’s parent company, Credit Suisse Group AG, are listed in Switzerland and, in the form of American Depositary Shares (CS), in New York. Further information about Credit Suisse can be found at www.credit-suisse.com.

Switzerland Global Enterprise
Switzerland Global Enterprise (S-GE) guides its clients on the path to new markets. On behalf of the Swiss Confederation (State Secretariat for Economic Affairs SECO) and the Swiss cantons, S-GE promotes exports and investments by helping its clients to realize new potential for their international businesses and thus to strengthen Switzerland as an economic hub. As the driver of a global network of experts and as a trusted and strong partner to clients, cantons and the Swiss government, S-GE is the first point of contact in Switzerland for all questions relating to internationalization. More information can be found at www.s-ge.com.
Important Information

This report represents the views of the Investment Strategy Department of CS and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not a product of the Credit Suisse Research Department even if it references published research recommendations. CS has policies in place to manage conflicts of interest including policies relating to dealing ahead of the dissemination of investment research. These policies do not apply to the views of Investment Strategists contained in this report.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. For a discussion of the risks of investing in the securities mentioned in this document, please refer to the following Internet link: https://investment.credit-suisse.com/gr/riskdisclosure

This document may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. Further information is also available in the information brochure “Special Risks in Securities Trading” available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks

Historical returns and financial market scenarios are no reliable indicators of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets

Where this document relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments

Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk, including the loss of the entire investment, and may not be suitable for many private investors. The performance of such investments depends on unpredictable factors such as natural catastrophes, climate influences, hauling capacities, political unrest, seasonal fluctuations and strong influences of rolling-forward, particularly in futures and indices.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

Private Equity

Private Equity (hereafter “PE”) means private equity capital investment in companies that are not traded publicly (i.e. are not listed on a stock exchange), they are complex, usually illiquid and long-lasting. Investments in a PE fund generally involve a significant degree of financial and/or business risk. Investments in private equity funds are not principal-protected nor guaranteed. Investors will be required to meet capital calls of investments over an extended period of time. Failure to do so may traditionally result in the forfeiture of a portion of the entire capital account, forego any future income or gains on investments made prior to such default and among other things, lose any rights to participate in future investments or forced to sell their investments at a very low price, much lower than secondary market valuations. Companies or funds may be highly leveraged and therefore may be more sensitive to adverse business and/or financial developments or economic factors. Such investments may face intense competition, changing business or economic conditions or other developments that may adversely affect their performance.

Interest rate and credit risks

The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

Investment Strategy Department

Investment Strategists are responsible for multi-asset class strategy formation and subsequent implementation in CS’s discretionary and advisory businesses. If shown, Model Portfolios are provided for illustrative purposes only. Your asset allocation, portfolio weightings and performance may look significantly different based on your particular circumstances and risk tolerance. Opinions and views of Investment Strategists may be different from those expressed by other Departments at CS. Investment Strategist views may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention.

From time to time, Investment Strategists may reference previously published Research articles, including recommendations and rating changes collated in the form of lists. The recommendations contained herein are extracts and/or references to previously published recommendations by Credit Suisse Research. For equities, this relates to the respective Company Note or Company Summary of the issuer. Recommendations for bonds can be found within the respective Research Alert (bonds) publication or Institutional Research Flash/Alert – Credit Update Switzerland. These items are available on request or from https://investment.credit-suisse.com. Disclosures are available from www.credit-suisse.com/disclosure.

Global disclaimer / Important Information

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject CS to any registration or licensing requirement within such jurisdiction.

References in this document to CS include Credit Suisse AG, the Swiss bank, its subsidiaries and affiliates. For more information on our structure, please use the following link: http://www.credit-suisse.com
cepting to invest in the product, the investor confirms that he has no objec-
tion to the use of the English language. Luxembourg: This report is distrib-
uted by Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in
the Grand Duchy of Luxembourg with registered address 5, rue Jean
Monnet, L-2180 Luxembourg. Credit Suisse (Luxembourg) S.A. is subject to
the prudential supervision of the Luxembourg supervisory authority, the
Commission de Surveillance du Secteur Financier (CSSF). Mexico: Banco
Credit Suisse (Mexico), S.A., Institución de Banca Múltiple, Grupo Financi-
ero Credit Suisse (Mexico) and C. Suisse Asesoría México, S.A. de C.V.
("Credit Suisse Mexico"). This document is elaborated for information pur-
poses only and does not constitute a recommendation, advice or an invitation
to execute any operation and does not replace direct communication with
your relationship manager at Credit Suisse Mexico before the execution of
any investment. The people who elaborated this document do not receive
payment or compensation from any entity of the Credit Suisse Group other
than the one employing them. The prospectuses, offering documentation,
term sheets, investment regimes, annual reports and periodical financial
information contained useful information for investors. Such documents can
be obtained without any cost, directly from the issuer of securities and
investment fund managers or at the securities and stock market web page,
as well as from your relationship manager at Credit Suisse Mexico. The
information herein does not substitutes the Account Statements, the IN-
FORME DE OPERACIONES or/ and confirmations you receive from Credit
Suisse Mexico pursuant to the General Rules applicable to financial institu-
tions and other persons that provide investment services. C. Suisse Asesoría
México, S.A. de C.V., is an investment advisor duly incorporated under the
Securities Market Law ("LMV") and is registered before the National Bank-
ing and Securities Commission ("CNBV") under folio number 30070 and
therefore is not a bank, is not authorized to receive deposits nor to custody
any securities, is not part of Grupo Financiero Credit Suisse (México), S.A.
de C.V.. Under the provisions of the LMV, C. Suisse Asesoría México, S.A.
de C.V. is not an independent investment advisor pursuant to its relationship
with Credit Suisse AG, a foreign financial institution, and its indirect relation-
ship with Grupo Financiero Credit Suisse (Mexico), S.A. de C.V. The people
who produced this document do not receive payment or compensation from
any entity of the Credit Suisse Group other than the one employing them.
Netherlands: This report is distributed by Credit Suisse (Luxembourg) S.A.,
Netherlands Branch (the "Netherlands branch") which is a branch of Credit
Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand
Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180
Luxembourg. The Netherlands branch is subject to the prudential supervi-
sion of the Luxembourg supervisory authority, the Commission de Surveillance
du Secteur Financier (CSSF), and of the Dutch supervisory authority, De Ne-
derlandsche Bank (DNB), and of the Dutch market supervisor, the Autoriteit
Financiële Markten (AFM). Portugal: This report is distributed by Credit
Suisse (Luxembourg) S.A., Sucursal em Portugal (the "Portugal branch")
which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized
credit institution in the Grand Duchy of Luxembourg with registered address
5, rue Jean Monnet, L-2180 Luxembourg. The Portugal branch is subject to
the prudential supervision of the Luxembourg supervisory authority, the
Commission de Surveillance du Secteur Financier (CSSF), and of the Portu-
guese supervisory authority, the Comissão do Mercado dos Valores Mo-
biliários (CMVM). Qatar: This information has been distributed by Credit
Suisse (Qatar) L.L.C., which is duly authorized and regulated by the Qatar
Financial Centre Regulatory Authority (OFCRA) under QFC License No. 00005. All related financial products or services will only be available to Business Customers or Market Counterparties (as defined by the OF CRA), including individuals, who have opted to be classified as a Business Custom-
er, with net assets in excess of QR 4 million, and who have sufficient finan-
cial knowledge, experience and understanding to participate in such prod-
ucts and/or services. Therefore this information must not be delivered to, or
relied on by, any other type of individual. Saudi Arabia: This information is
being distributed by Credit Suisse Saudi Arabia (CR Number 1010228845),
duly licensed and regulated by the Saudi Arabian Capital Market Authority
pursuant to License Number 08104-37 dated 23/03/1429H corresponding to
21/03/2008AD. Credit Suisse Saudi Arabia’s principal place of business
is at King Fahad Road, Hay Al Mhamadiya, 12361-8858 Riyadh, Saudi
Arabia. Website: https://www.credit-suisse.com/sa. South Africa: This
information is being distributed by Credit Suisse AG which is registered as a
financial services provider with the Financial Sector Conduct Authority in
South Africa with FSP number 9788 and / or by Credit Suisse (UK) Limited
which is registered as a financial services provider with the Financial Sector
Conduct Authority in South Africa with FSP number 48779. Spain: This
report is distributed in Spain by Credit Suisse AG, Sucursal en España, legal
entity registered at Comisión Nacional del Mercado de Valores. Turkey: The
investment information, comments and recommendations contained herein
are not within the scope of investment advisory activity. The investment
advisory services are provided by the authorized institutions to the persons
in a customized manner taking into account the risk and return preferences
of the persons. Whereas, the comments and advices included herein are of
general nature. Therefore recommendations may not be suitable for your
financial status or risk and yield preferences. For this reason, making an
investment decision only by relying on the information given herein may not
give rise to results that fit your expectations. This report is distributed by
Credit Suisse Istanbul Menkul Değerler Anonim Sirketi, regulated by the
Capital Markets Board of Turkey, with its registered address at Levazim
Mahallesi, Kuru Sokak No: 2 Zorlu Center Terasavler No. 61 34340 Besik-
tas/ İstanbul-Turkey. United Kingdom: This material is distributed by Credit
Suisse (UK) Limited. Credit Suisse (UK) Limited, is authorized by the Pru-
dential Regulation Authority and regulated by the Financial Conduct Authority
and the Prudential Regulation Authority. Where this material is distributed
into the United Kingdom by an offshore entity not exempted under the
Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
the following will apply: To the extent communicated in the United Kingdom
("UK") or capable of having an effect in the UK, this document constitutes a
financial promotion which has been approved by Credit Suisse (UK) Limited
which is authorized by the Prudential Regulation Authority and regulated by the
Financial Conduct Authority and the Prudential Regulation Authority for
the conduct of investment business in the UK. The registered address of
Credit Suisse (UK) Limited is Five Cabot Square, London, E14 4QR. Please
note that the rules under the UK’s Financial Services and Markets Act 2000
relating to the protection of retail clients will not be applicable to you and that
any potential compensation made available to “eligible claimants” under the
UK’s Financial Services Compensation Scheme will also not be available to
you. Tax treatment depends on the individual circumstances of each client
and may be subject to changes in future.

USA: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE
SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO
ANY US PERSON (WITHIN THE MEANING OF REGULATION S UNDER
THE US SECURITIES ACT OF 1933, AS AMENDED).

This report may not be reproduced either in whole or in part, without the
written permission of Credit Suisse. Copyright © 2019 Credit Suisse Group
AG and/or its affiliates. All rights reserved.

19C013A_IS