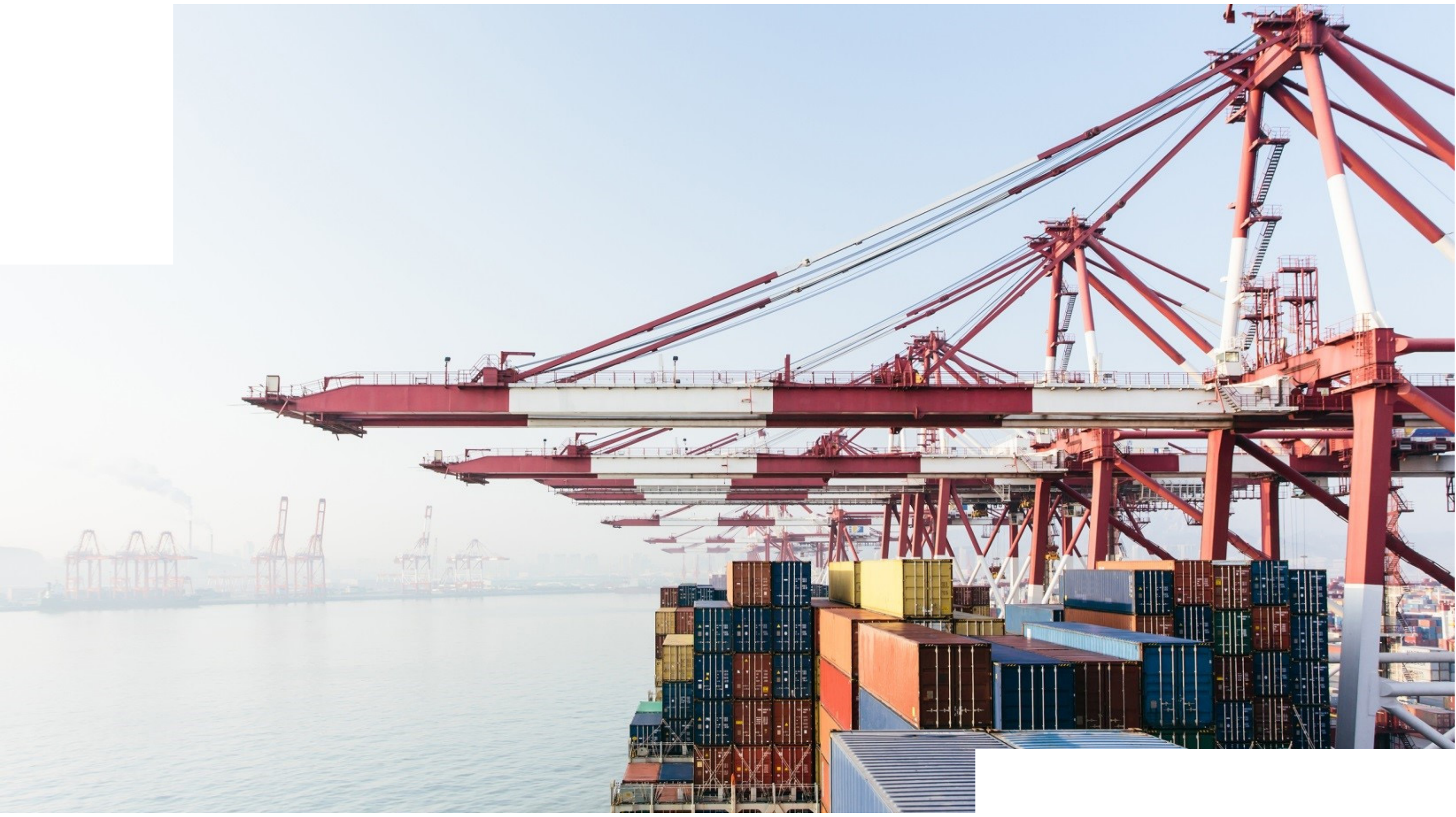
Investment Solutions & Sustainability
Swiss Economics

Export sector continues to grow despite challenges

SME Export Outlook | H2 2022



enabling new business

Export sector continues to grow despite challenges

- **The export sentiment of Swiss SMEs, as surveyed by Switzerland Global Enterprise (S-GE), stands at 66.6 points and thereby remains well above the growth threshold of 50 points. Furthermore, the Credit Suisse Export Barometer, at 1.49 points, also points to further growth in the second half of the year.**
- **Despite these high figures, it should be noted that growth prospects have weakened significantly, and continuously, from their peak levels in 2021.**
- **The reasons for this are not lower demand, but rather global supply chain problems, high energy prices, and general uncertainties, all of which are mainly consequences of the COVID-19 pandemic and the war in Ukraine.**

CS Export Barometer still clearly in the growth zone

The Credit Suisse Export Barometer, which tracks foreign demand for Swiss products, currently stands at 1.49 points. This leaves it well within the growth zone, suggesting that exports will continue to expand over the next three to six months. However, a growth slowdown is now clearly discernible: Starting from the record levels of over 3 points in May 2021, the Export Barometer has since been falling continuously.

Effects of the pandemic and the war in Ukraine

At the same time, the monthly survey for the Swiss Purchasing Managers' Index (PMI) shows that this negative trend is not due to a lower demand, as order books remain full. To a much greater extent, the causes are to be found in the war in Ukraine, and in China's rigid zero-COVID policy, which repeatedly entails full-scale lockdowns. These factors are leading to global supply chain issues, high energy prices and general uncertainty. According to the PMI, 62% of the companies surveyed are currently concerned about production losses over the next six months due to a lack of preliminary products and raw materials. Although stocks of preliminary and finished products gradually rose again at the start of the year, this situation suddenly worsened again in April due to the lockdown in China and the impact of the Russia-Ukraine war, as shown by the industry survey conducted by ETH Zurich's Swiss Economic Institute (KOF).

Sectors suffering supply chain problems

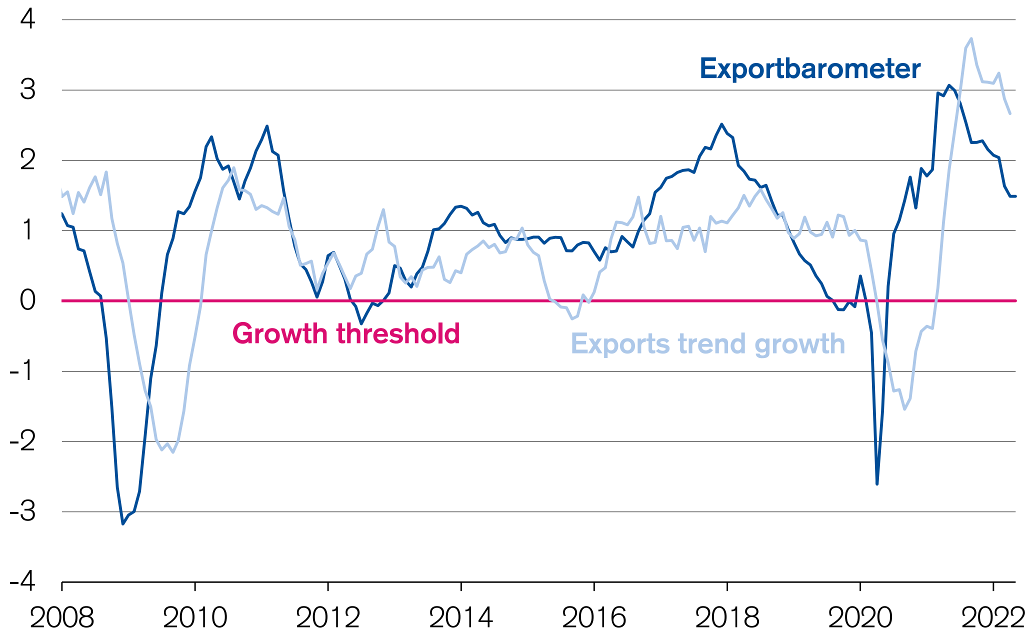
The mechanical engineering industry, manufacturers of data processing equipment and, more recently, the pharmaceutical and chemical industries are being particularly hard hit by supply chain difficulties at present. Nevertheless, pharmaceutical exports should continue to perform well over the coming months, although growth rates such as those seen in 2020 and 2021 are certainly not to be expected for the time being. Supply chain problems also pose risks for the machinery, electrical and metal industry, which could be further exacerbated by lockdown-induced production losses in China. Finally, growth prospects for watch exports to China and Hong Kong are suffering from depressed consumer sentiment there.

Export sentiment: positive, but subdued

This picture of a still growing but nevertheless restrained export economy is also reflected in the export sentiment of Swiss SMEs, which is surveyed by Switzerland Global Enterprise twice a year: At 66.6 points, sentiment still lies well above the growth threshold of 50 points, while the decrease of almost 10 points in the last six months points to globally based problems and subdued export sentiment.

Credit Suisse Export Barometer

In standard deviations, growth threshold = 0



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

Global problems having an impact

While 66% of the export companies surveyed expected to expand their exports in the first half of 2022, only 56% effectively realized this growth: 33% reported low growth of between 1% and 10%, around one sixth reported growth between 10% and 25%, and one in twelve companies grew their exports by more than 25%. A total of 22% of the companies maintained their export level, while 22% reported a decrease.

Despite these overall positive figures, a slowdown is clearly evident and is likely to continue during the second half of the year unless global conditions improve significantly. At 17%, fewer companies expect their exports to decrease than in the first half of the year. However, one third of the companies anticipate a stagnation, with only 50% of the companies thereby still forecasting an increase in their exports.

Year-on-year between 2021 and 2022, 58% of the companies surveyed anticipate growth. A total of 22% of the companies expect exports to stagnate, and 19% anticipate a reduction.

Germany: Still the most important sales market?

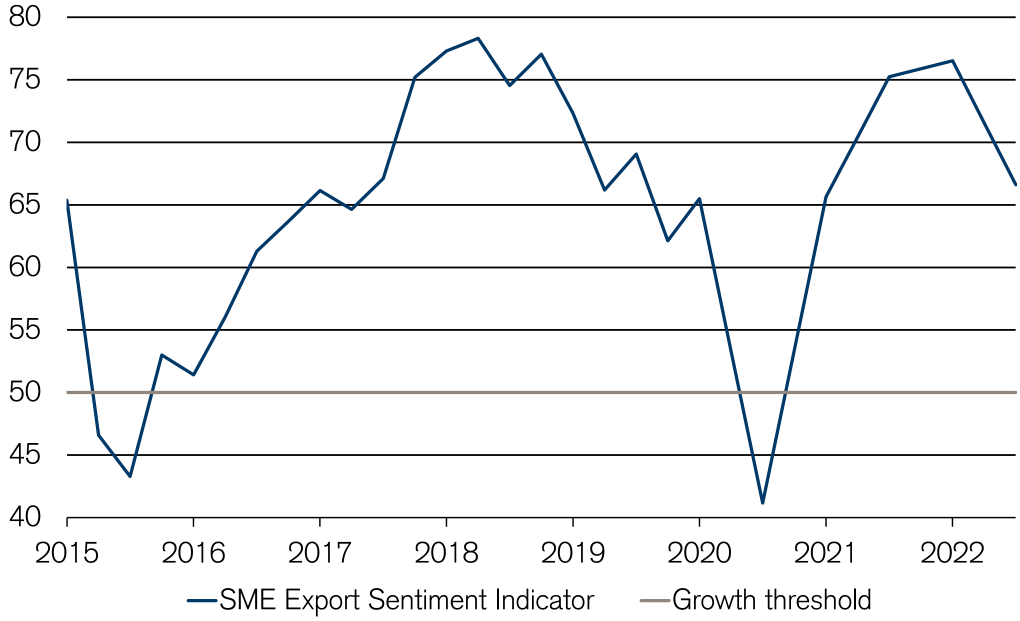
In April 2022, Switzerland's State Secretariat for Economic Affairs (SECO) announced that Swiss companies shipped a record CHF 47 bn worth of goods to the USA last year. This is due to an average export growth rate of 6.3% per year since 2001, mainly thanks to chemical-pharmaceutical products. As a consequence, Germany is being displaced from its position as the most important Swiss export market for the first time in the last seventy years.

However, if we look at individual companies, we see that Germany remains the most important sales market for the vast majority of Swiss exporters: In the survey, 70% of SMEs state that Germany ranks as one of their top three target markets. These are followed by a wide margin by the USA at 33%, France at 25%, China at 23%, Italy at 19% and Austria at 17%.

Germany also remains – ahead of Switzerland's other direct neighbors – the country targeted by most Swiss SMEs: 76% of the companies surveyed intend to export to Germany in the next six months, 59% to France, and 51% to both Italy and Austria.

SME export sentiment as surveyed by Switzerland Global Enterprise

Weighted value from H1 2022 and H2 2022, growth threshold = 50



Source: Switzerland Global Enterprise

USA and China remain important, Russia plummets

The USA and China are the only non-European countries to remain in the extended top group, to which 53% and 36% of SMEs aim to export respectively. Unsurprisingly, exports to Russia plummeted as a consequence of the war in Ukraine and the ensuing sanctions: Whereas six months ago 31% of all companies aimed to export goods to Russia, this figure now stands at just 8%, making the country one of the laggards.

This trend is even more dramatic when it comes to the issue of countries where SMEs aim to become newly active: By the end of 2021, 13% of companies still aimed to open up the Russian market, thereby placing the country in the top three, on par with the USA and behind only the Gulf States. Now Russia as a market has almost completely disappeared from the priority list of Swiss SMEs.

South America increasingly popular

However, in overall terms as well, the survey results show that the priority of tapping new markets has reduced significantly. This is probably due to the fact that other challenges are currently in the foreground. The big exception in this overall picture is South America. While the region ranked in the midfield just a few months ago, it now stands at the very top: 11% of all companies surveyed wish to resupply this market.

Supply bottlenecks and the Ukraine war represent the greatest challenges

While the coronavirus pandemic has diminished significantly on the corporate concern barometer, its impact will continue to preoccupy SMEs in the second half of 2022. First and foremost are the aforementioned disruptions in the value chain, which were triggered by the pandemic and are now being further exacerbated by the war in Ukraine and the rigid coronavirus policy in China. Meanwhile, 64% of companies are facing corresponding challenges: 19% more than six months ago. As a second priority, the companies see their activities as affected by the war in Ukraine (57%). As a direct consequence of the war, 50% expect minor and 21% even major sales losses. A quarter of the companies do not see their businesses being affected by the war. These are followed at some distance by "planning uncertainty" (38%), "geopolitical tensions" (33%) and the "COVID-19 pandemic" (32%). Only in seventh place – and thereby still behind "travel restrictions" (22%) – comes the "EU-Swiss Institutional Framework Agreement" (21%) – in other words, the unresolved relationship with the EU, which is obviously of less concern to companies at present.

High prices and inflation return

Finally, topics such as "inflation" and "energy and commodity prices" have suddenly reappeared on the list of concerns with the current overall economic situation, which could intensify over the coming months.

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/exportperspektiven

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

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