

Exchange rate survey: Effects of Swiss franc appreciation and company reactions SNB regional network

Report for the attention of the Governing Board of the Swiss National Bank
for its quarterly assessment of June 2011

Second quarter of 2011

In the economic survey for the second quarter, which was carried out in April and May 2011, delegates from the SNB's regional network systematically raised the exchange rate issue with companies again, posing questions with the aim of quantifying the effects of the appreciation of the Swiss franc. A total of 210 companies took part in the survey. The selection of companies is made according to a model that reflects Switzerland's production structure. The companies selected differ from one quarter to the next. The reference parameter is GDP excluding agriculture and public services.

1 Overall results of the survey

For the economy as a whole, there was little or no change in the results compared to the previous quarter, despite a further intensification in the exchange rate situation since the last survey. A total of 48% of respondent companies (previous quarter: 47%) claimed to be experiencing negative effects from the appreciation of the Swiss franc (24% significantly and 24% moderately negative). As in the previous quarter, 37% of companies said they were not feeling any appreciable effects on their business activity from the appreciation of the Swiss franc. As can be seen from chart 2, these are mainly companies that have no exchange rate exposure. In addition, hedging strategies or mutually offsetting factors help to neutralise exchange rate effects. Accordingly, the vast majority of these companies are not anticipating any impact in the near future either (cf. chart 3).

Positive effects from the appreciation of the Swiss franc were experienced by the remaining 15% of companies included in the survey.

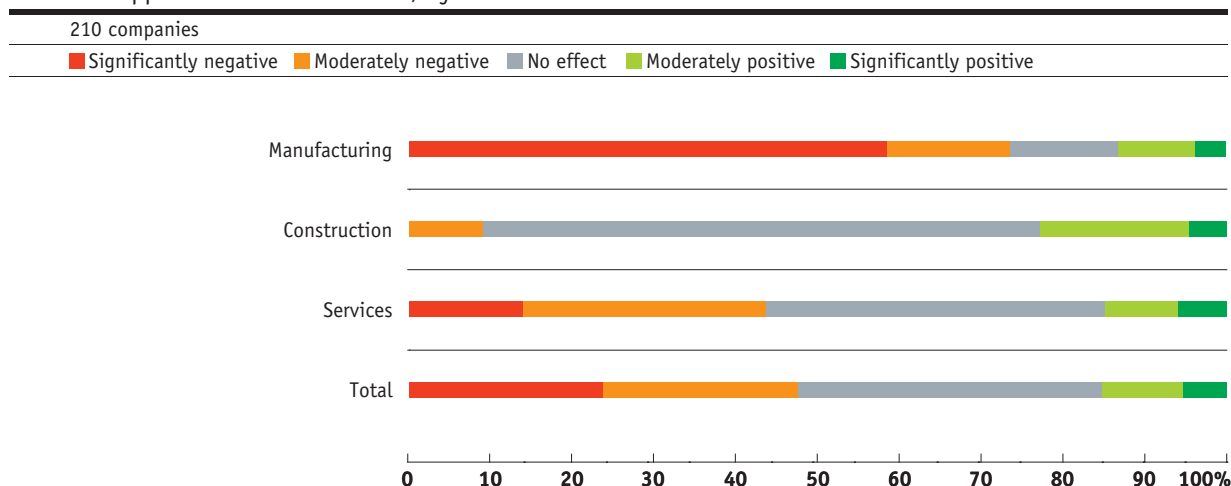
The proportion of companies in the manufacturing industry that felt significantly negative effects rose from 51% to 58%, however. The problem seems to have worsened in those areas where it already existed, if in a less pronounced form. Since the proportion experiencing moderately negative effects halved to 14%, the overall proportion of companies affected declined a little from 79% to 73%. In the services sector, the majority of companies (57%) were spared negative effects from the strength of the Swiss franc. The division of com-

panies into those experiencing significantly negative (13%) and moderately negative (30%) effects also remained unchanged. In the construction industry, the proportion of companies positively affected (22%) was significantly smaller than in the previous period. Accordingly, the proportion of companies not affected rose from 60% to just under 70%. It should be noted that industrial companies with construction-related activities that reported negative effects due to fiercer competition from abroad are included under manufacturing. They do not, therefore, affect this survey's results for the construction industry.

2 Negative effects – where and how?

In all, 100 companies reported moderately or significantly negative effects from the appreciation of the Swiss franc. Chart 4 shows the markets where these negative effects were observed and the form they took. As previously, export activities were worst hit. In most cases, the companies that were adversely affected found themselves faced with lower profit margins in their foreign sales markets (two-thirds of companies) and lower Swiss franc-equivalent selling prices (over 40% of companies). The phenomenon of unsatisfactory selling prices was, however, slightly less prominent than in the previous quarter, which suggests that some Swiss exporters were able to achieve higher selling prices in foreign currencies and so offset the appreciation to a certain extent.

Chart 1
Effects of appreciation of Swiss franc, by sector



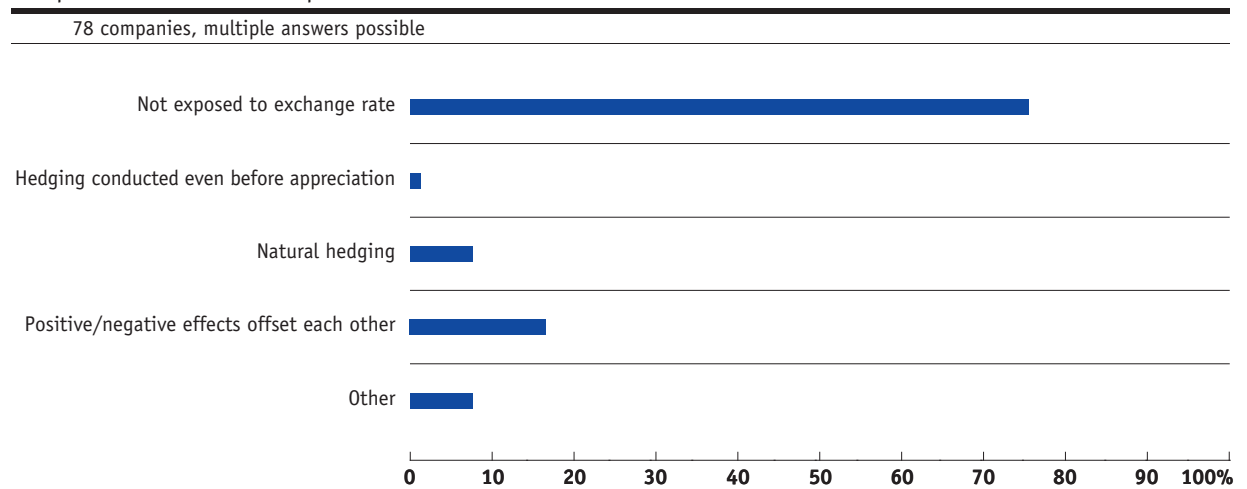
Source: SNB

In addition to the direct impact on the export industry, indirect effects were also reported (cf. lower third of chart 4) by export industry supply companies or businesses exposed to competition from cheaper imports.

The industries worst hit by the appreciation of the Swiss franc were chemicals, metals, manufacturers of electronic products and precision instruments, plus the machinery, textiles and clothing industries. Compared to the previous quarter's survey, the results for the hotel industry remained more or less unchanged. Of the total of 18 hotel representatives interviewed, nine reported moderately negative effects from the appreciation and two reported significantly negative effects; the other seven hotel representatives said the strength of the Swiss franc had no appreciable impact. In

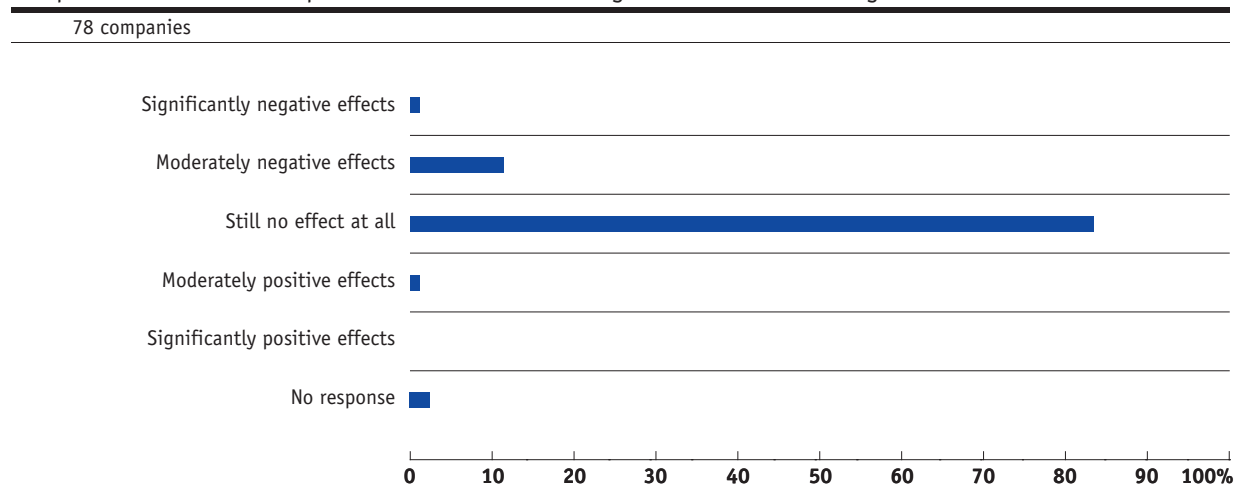
this respect, tourism has been performing much better in cities than in the mountain regions. The situation in the retail industry continued to vary considerably. Retailers in border areas, in particular, were faced with unfavourable developments in cross-border shopping tourism; elsewhere, however, the positive effects of lower purchase prices dominated. In the wholesale industry, too, responses varied between these two extremes, with the average effect being rated as moderately negative. On the whole, banks reported negative effects. By contrast, representatives of the motor trade, real estate management companies and brokers, fiduciary companies, consultancy firms and recruitment agencies generally reported either no effects or positive effects.

Chart 2
Companies not affected: explanations



Source: SNB

Chart 3
Companies not affected: expectations while the exchange rate remains unchanged



Source: SNB

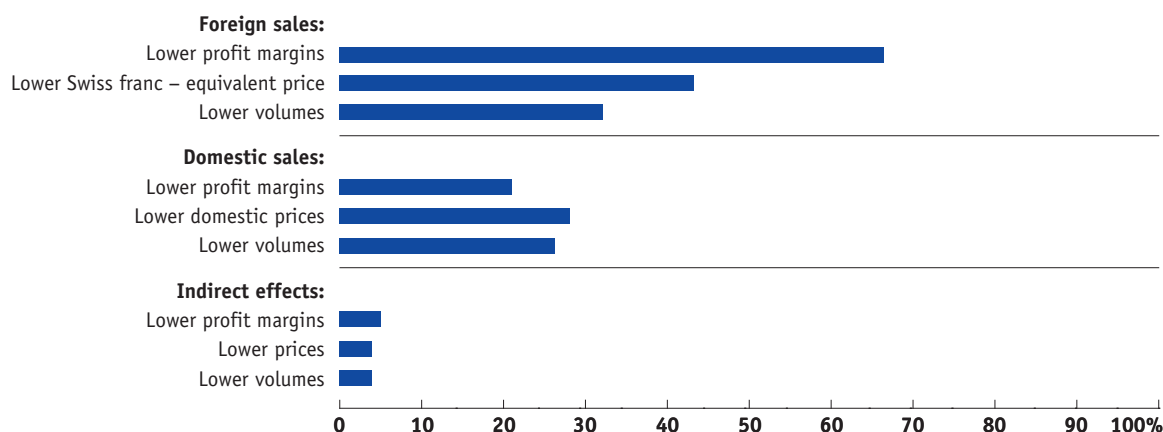
3 Negative effects – how are companies reacting?

Companies were also asked about the measures they have already taken to counter the effects of the Swiss franc's appreciation. Chart 5 shows the range of these reactions. In this respect, too, the results were very close to those of the previous quarter. A large majority of companies have taken measures. Those most frequently taken are aimed at reducing production costs. Labour costs are mainly being cut by lowering the headcount or by deciding not to recruit new staff. In most cases, however, the cost-cutting measures affect the other costs of production. The use of hedging strategies, mainly in the form of natural hedging, is very widespread.

However, as in the previous quarter, just over 30% of negatively affected companies said they were also engaging in fundamental strategic thinking about the future of their companies.

Chart 4
Negatively affected companies: effects of appreciation of Swiss franc

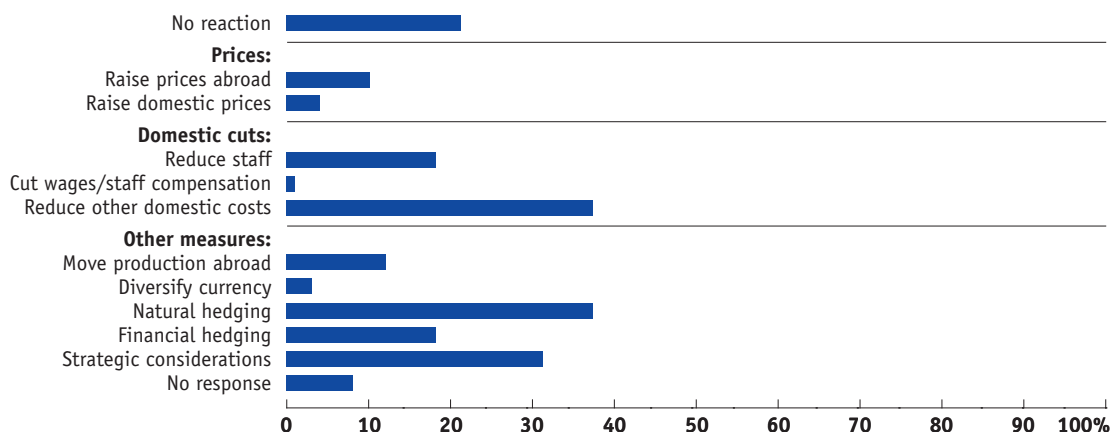
100 companies, multiple answers possible



Source: SNB

Chart 5
Negatively affected companies: reactions to appreciation of Swiss franc

100 companies, multiple answers possible



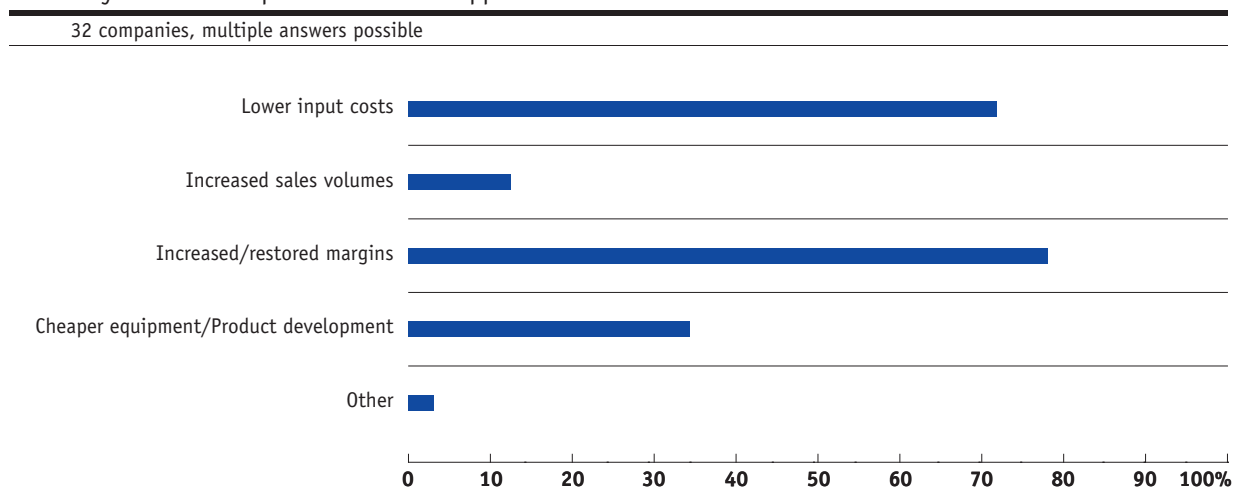
Source: SNB

4 Positive effects – where and how?

A total of 32 respondent companies (15%) were experiencing minimal or even significantly positive effects from the appreciation of the Swiss franc. As can be seen from chart 6, the greater part of the positive effects came in the form of lower input costs (around 70% of cases) and/or improved profit margins (just under 80% of cases).

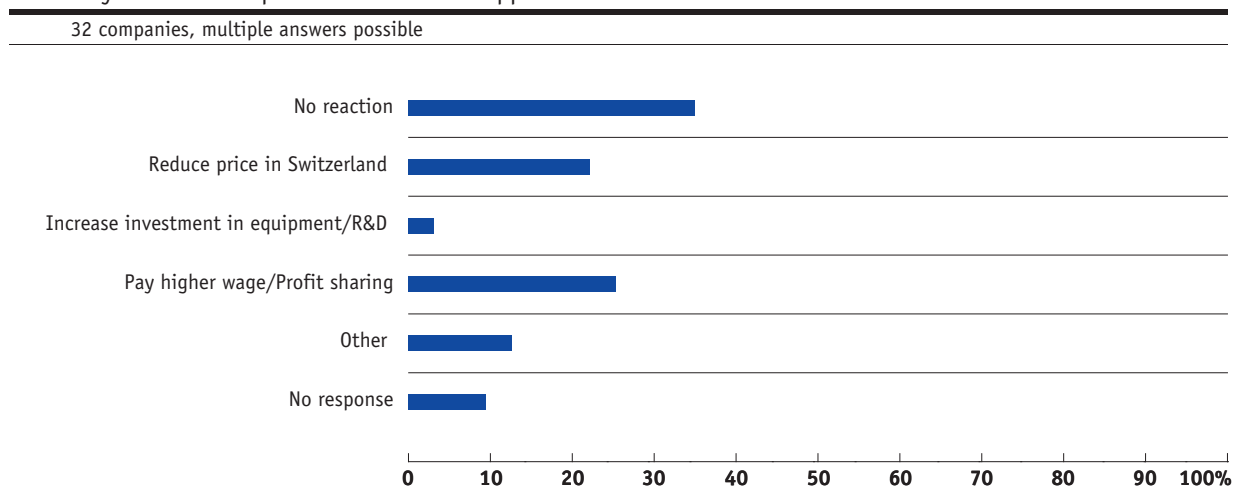
In addition, a third of companies mentioned more favourable conditions for investment and for research and development. As can be seen from chart 7, this improvement in business conditions will probably lead primarily to an increase in these companies' profits and liquidity, since only a minority of companies that were positively affected reduced their selling prices (22%) or increased wages and profit-sharing in response to the appreciation.

Chart 6
Positively affected companies: effects of appreciation of Swiss franc



Source: SNB

Chart 7
Positively affected companies: reactions to appreciation of Swiss franc



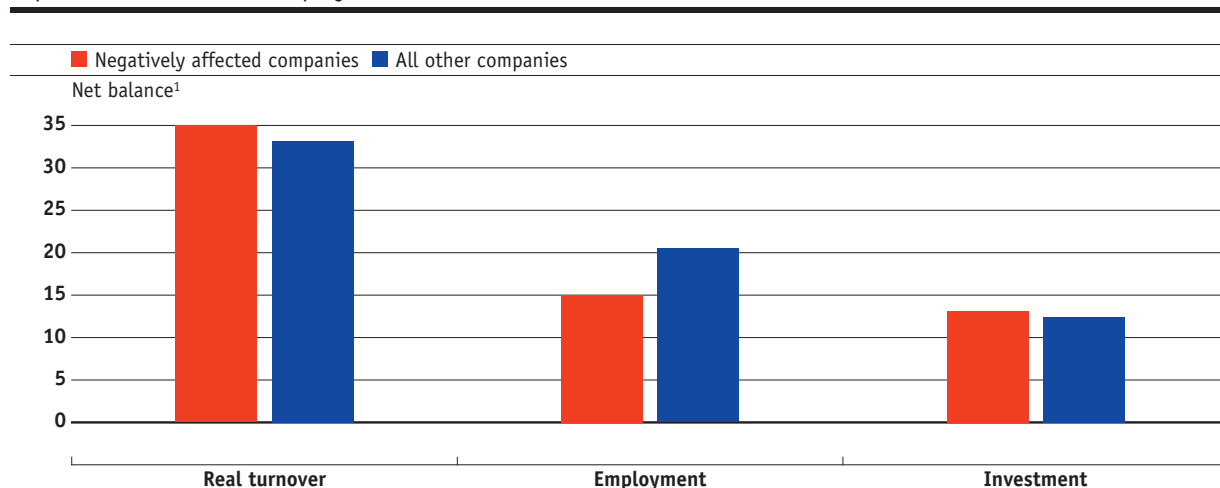
Source: SNB

5 Expectations for the near future remain positive

In the survey, companies were asked about their expectations about real turnover, staff numbers and investment in the coming six/twelve months. Their answers are recorded on a scale ranging from 'significantly higher' to 'significantly lower'. Based on this information, an index is created by subtracting the negative assessments from the positive ones (net assessments). Significantly positive and significantly negative assessments are assigned higher weights than slightly positive or slightly negative assessments. The index is constructed in such a manner that its value can range between +100 and -100. A positive index value reflects positive assessments overall, while a negative value shows negative assessments overall.

The evaluation was conducted for two sub-groups – first, companies affected negatively by the appreciation of the Swiss franc, and second, all other companies. On balance, company assessments show that they are expecting increasing turnover and a moderate rise in staff numbers and investment expenditure, as can be seen in chart 8. The chart also reveals that the expectations for these three areas do not differ significantly in the two sub-groups of companies. Despite the intensification in the exchange rate situation since the last survey, these results are, overall, very similar to those of the previous quarters.

Chart 8
Expectations: turnover, employment and investment



1 Weighted positive estimates of companies minus weighted negative estimates regarding the future development of real turnover, employment and investment. The time horizon is 6 months (for real turnover and employment) or 12 months (for investment).
Source: SNB