

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 December 2011

Fourth quarter of 2011

In the economic survey for the fourth quarter, which was carried out in October and November 2011, delegates from the SNB's regional network once again systematically raised the exchange rate situation with companies, with the aim of quantifying the effects of the appreciation of the Swiss franc. A total of 228 companies took part in the survey. The selection of companies is determined 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

Compared to the previous quarter, the overall results of the company survey again declined slightly, despite the EUR/CHF minimum exchange rate of 1.20 set by the SNB at the beginning of September. The renewed deterioration was mainly attributable to the services sector. Of the respondent companies, 63% (previous quarter: 58%) reported experiencing negative effects from the appreciation of the Swiss franc (39% significantly and 24% moderately negative). A total of 29% of companies (previous quarter: 31%) said the appreciation of the Swiss franc had not significantly affected their business activities. As can be seen from chart 2, the majority of these companies have no exchange rate exposure. In addition, hedging strategies or mutually offsetting factors help to neutralise exchange rate effects. Accordingly, most 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 8% of respondent companies (previous quarter: 10%).

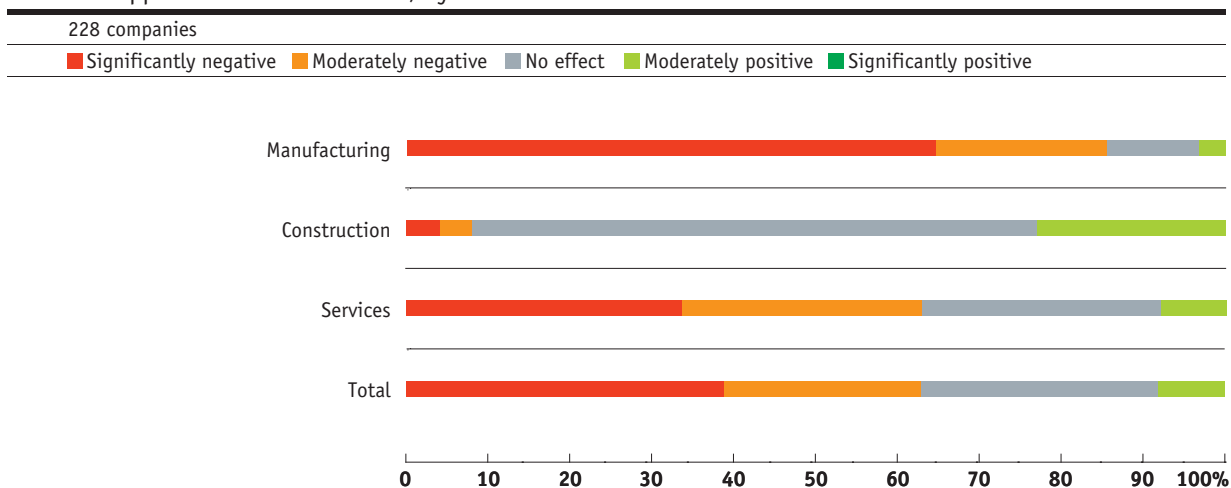
In manufacturing, the proportion of companies reporting significantly negative effects remained virtually unchanged at 65%. Similarly, the proportion of companies experiencing moderately negative effects stayed level at around 20%. In the services sector, the proportion of companies experiencing negative effects increased to 63% (previous quarter: 56%); both the proportion of companies experiencing moderately and those experiencing significantly

negative effects increased. In addition, the share of companies reporting positive effects of appreciation declined to 8%. In construction, the situation remained largely unchanged: as before, about two-thirds of companies are unaffected by the Swiss franc's strength. By contrast, the proportion of companies experiencing positive effects decreased to 23% (previous quarter: 29%). Furthermore, there were no longer reports by any of the construction companies of significantly positive effects from the appreciation. It should be noted that industrial companies with construction-related activities are included under manufacturing. Thus, any negative effects experienced by such companies as a result of fiercer competition from abroad do not influence the construction sector results in this survey.

2 Negative effects – where and how?

In all, 143 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; compared to the previous quarter, the picture changed only marginally. As expected, export activities were again hardest hit. In most cases, the companies that were adversely affected found themselves faced with lower profit margins in their foreign sales markets (almost two-thirds of companies), lower sales volumes (47% of companies) and lower Swiss franc-equivalent sales prices (47% of

Chart 1
Effects of appreciation of Swiss franc, by sector



Source: SNB

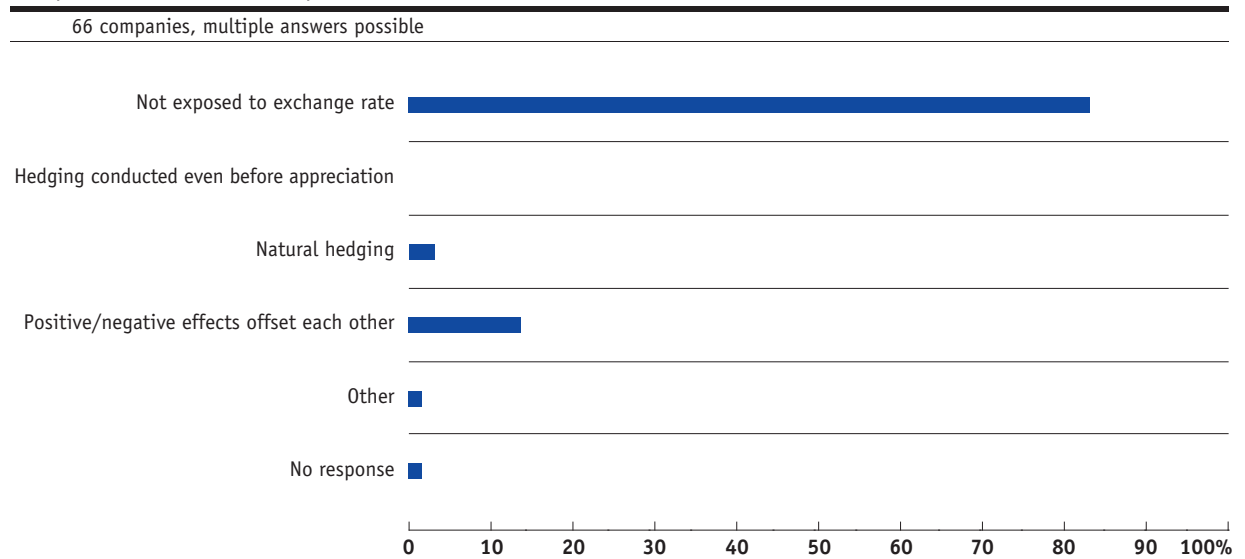
companies). The phenomenon of unsatisfactory sales prices was thus more marked than in the previous quarter. It was also clear that companies are losing orders because of the stiffer competitive environment. In the domestic market, too, a higher proportion of companies reported tighter margins, lower sales prices and reduced sales compared to the previous quarter.

In addition to the direct impact on the export industry, indirect effects were also reported by suppliers to export-oriented companies (cf. lower third of chart 4). These indirect negative effects also seem to have increased somewhat.

The industries hit hardest by the negative effects of the appreciation were textiles and clothing, the metals and machinery industries, and manu-

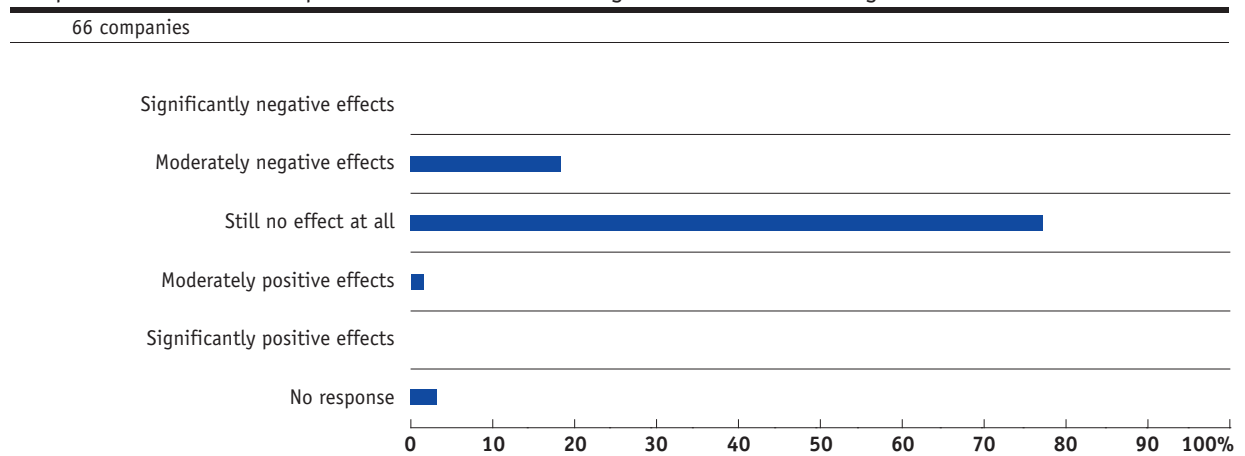
facturers of electronic products and precision instruments. The results for the hospitality industry continued to worsen compared to the previous quarter's survey. Of the 22 hotel representatives interviewed, eleven reported significantly negative effects from the appreciation and eight reported moderately negative effects; the other three hotel representatives said the strength of the Swiss franc had no appreciable impact. City-based tourism continued to perform better than tourism in the mountain regions, albeit less markedly than in previous quarters. The picture for retailing has deteriorated further since the previous quarter, with practically all retailers surveyed reporting negative effects from the exchange rate situation. There was a further increase in Swiss residents shopping abroad, and this phenomenon was

Chart 2
Companies not affected: explanations



Source: SNB

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



Source: SNB

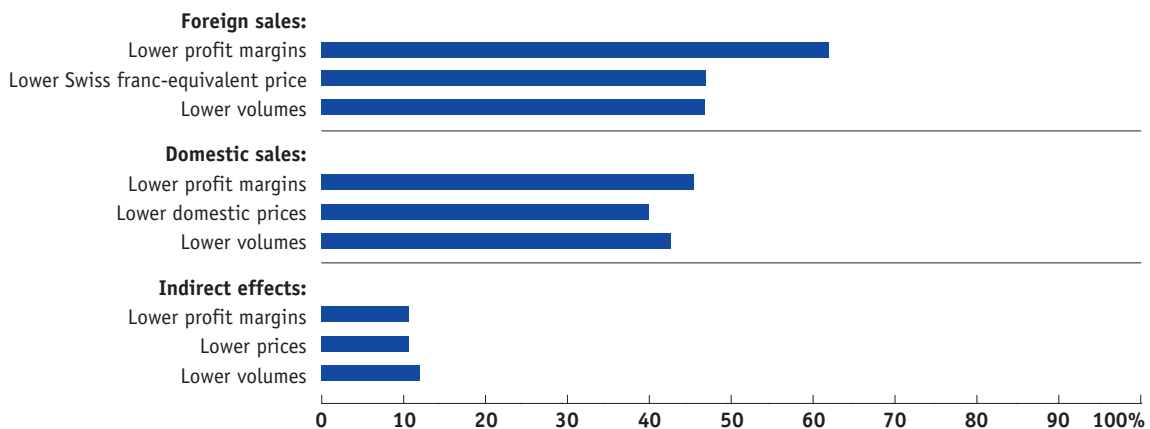
once again observed in area beyond the border regions; for some of the affected businesses, the situation has become critical. The situation in wholesaling has also worsened, with the majority of respondents reporting moderately or even significantly negative effects. Banks with asset management activities experienced mainly negative effects, although the situation has eased slightly since the third quarter. By contrast, representatives of the IT and the real estate management and brokerage industries, as well as fiduciary firms, generally reported either no effects or positive effects.

3 Negative effects – how are companies reacting?

Companies were also asked about the measures they had already taken to counter the effects of the Swiss franc's appreciation. Chart 5 shows the range of these reactions. The large majority of the companies did take action, with the most frequent measures being those aimed at reducing production costs. Labour costs have been cut mainly by lowering headcount. The tendency to extend working hours while keeping pay levels unchanged also increased further. The percentage of negatively affected companies that have implemented or are considering implementing cuts in headcount is 21%. In most cases, however, cost-cutting measures have continued to

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

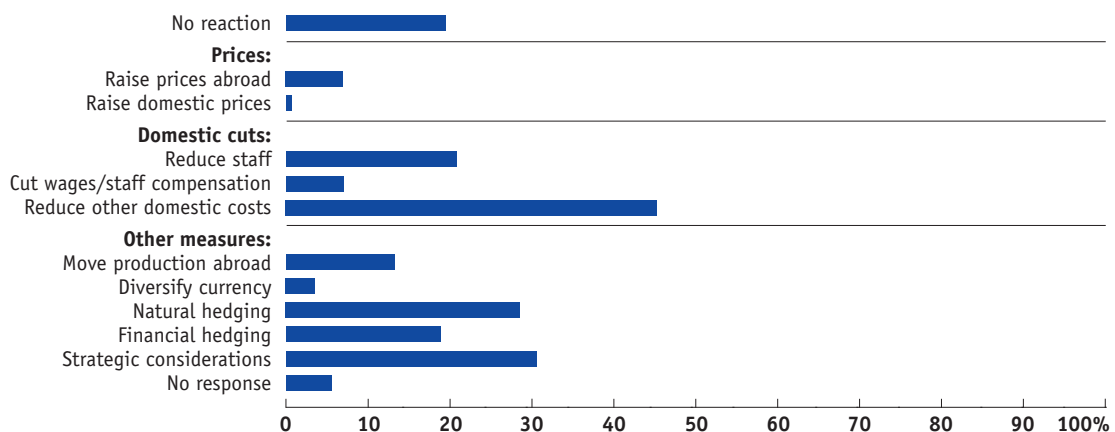
143 companies, multiple answers possible



Source: SNB

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

143 companies, multiple answers possible



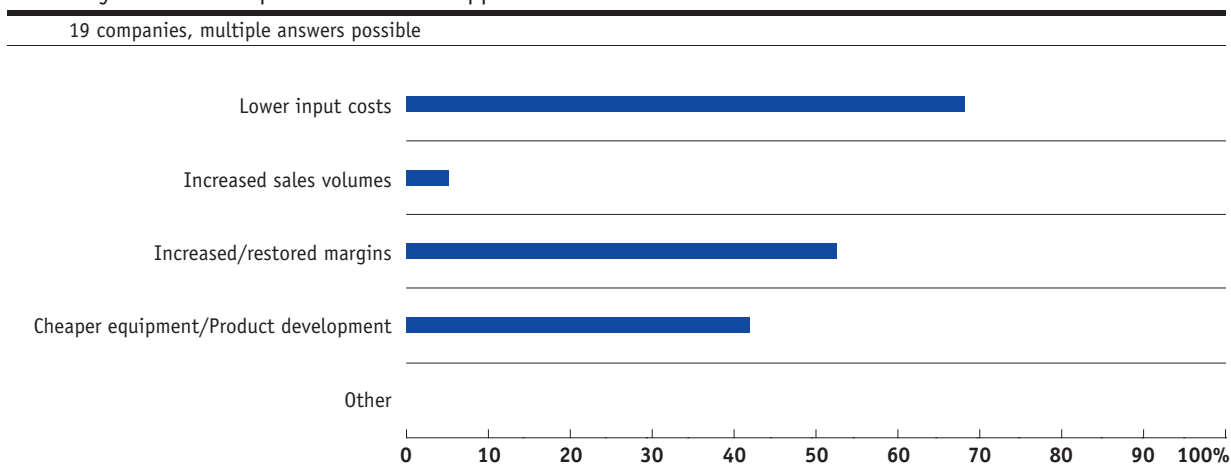
Source: SNB

focus on other production costs, with the percentage of these measures further increasing to 45% (previous quarter: 38%). The use of hedging strategies (mainly in the form of natural hedging) is widespread. Some companies are trying to enhance their range of products and services in terms of value added. More than 30% of the adversely affected companies said they were also engaging in strategic thinking about the future of the company, including a possible relocation overseas. This percentage has also increased since the previous quarter.

4 Positive effects – where and how?

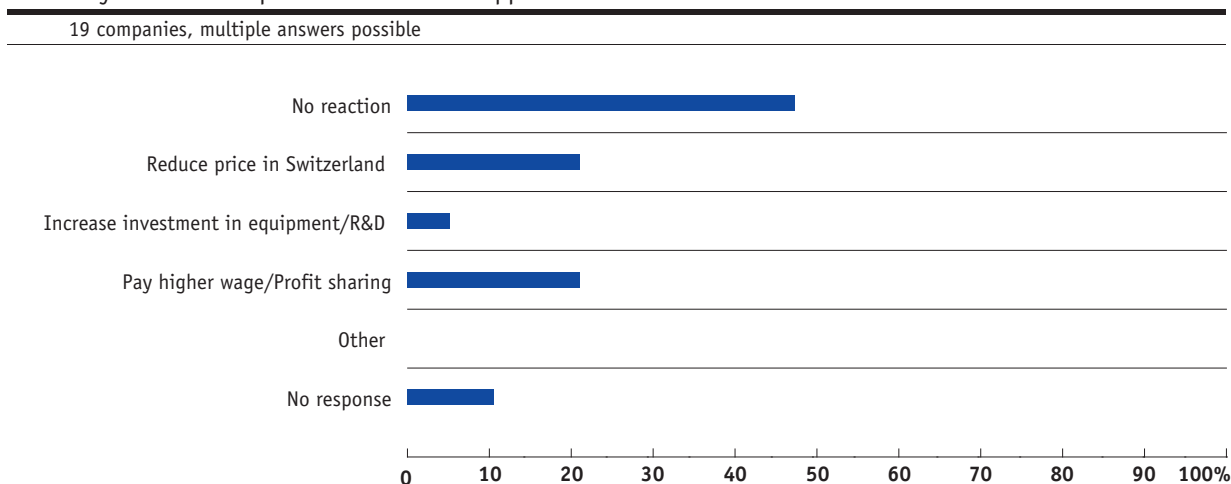
On the whole, 19 respondent companies (8% of the total, as against 10% in the previous quarter) experienced moderately or even significantly positive effects from the appreciation of the Swiss franc. As can be seen from chart 6, the greater part of the positive effects was due to lower input costs (approximately 70% of cases) and/or improved profit margins (53% of cases). In addition, more than 40% of the companies mentioned more favourable conditions for investment and for research and development. Chart 7 suggests that just under half of the companies did not react to the appreciation in a specific way. More than 20% of positively affected

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

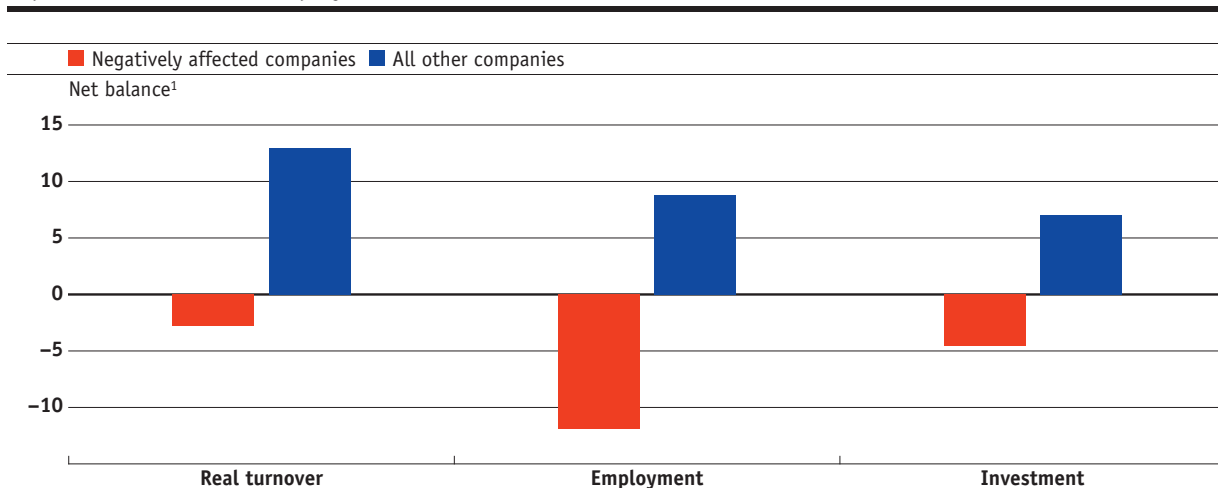
companies reported passing on the improved business conditions in the form of lower sales prices in Switzerland and/or as higher wages and profit sharing. To a lesser extent, the more favourable business conditions also led to higher investment in equipment and in research and development.

5 Expectations for the near future remain positive

Companies were also asked about their expectations with regard to 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. Compared to the previous quarter, the situation has changed considerably. As chart 8 shows, the fourth quarter saw expectations diverge markedly between the two sub-groups while the 'all other companies' group continues to expect overall growth in turnover, employment and investment, negatively affected companies anticipate a decline in all three. The former group's positive expectations for real turnover and employment have also fallen sharply quarter-on-quarter. Overall, therefore, companies' expectations have again deteriorated significantly compared to the previous quarter's survey.

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