

Exchange rate survey

Effects of Swiss franc appreciation and company reactions

SNB regional contact network

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of December 2010

Fourth quarter of 2010

In the economic survey for the fourth quarter, which was carried out in October and November 2010, delegates from the SNB's regional contact network raised the exchange rate question a second time with companies in a systematic manner, posing questions with the aim of quantifying the effects of the Swiss franc appreciation. A total of 244 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 result of the survey

Since mid-2007, upward pressure has been exerted on the Swiss franc. The sectors of the economy are very differently affected, as is evident from chart 1. Overall, 45% of respondent companies spoke of negative effects (18% significantly negative and 27% slightly negative). This represents a clear deterioration compared to the results for the previous quarter, when companies with negative effects had accounted for 28% of the total sample.

A total of 42% of companies said they had not felt any significant effect on their business activities resulting from the appreciation of the Swiss franc. As can be seen from chart 2, most of these companies have no exchange rate exposure. In addition, hedging strategies or compensatory effects are helping to neutralise the 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 13% of companies included in the survey.

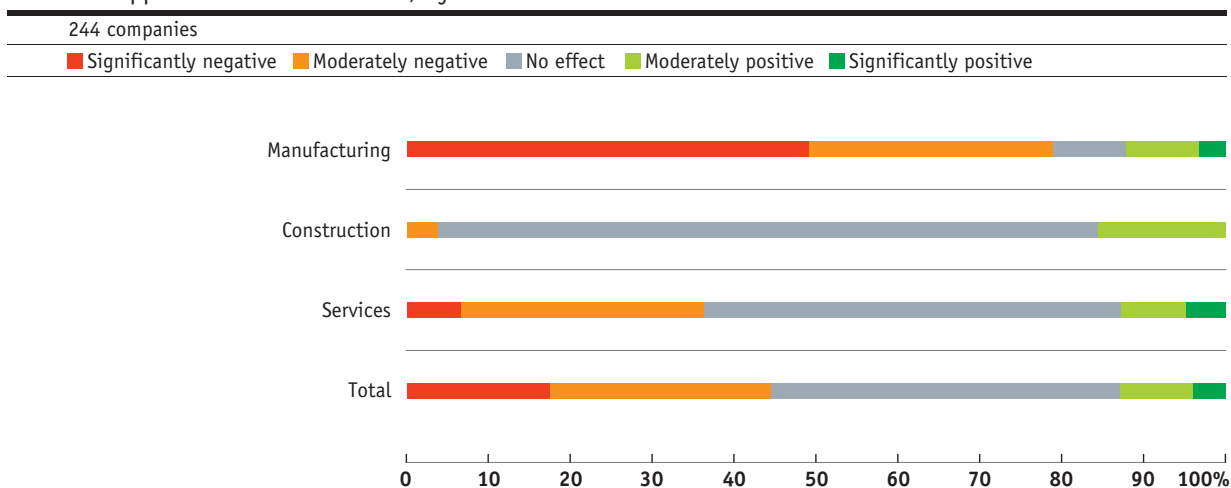
Companies in the manufacturing industry were most frequently negatively affected by the strength of the Swiss franc. Compared to the previous quarter, the negative effects in this industry not only strengthened but also became more widespread. This time, 30% of companies were slightly negatively affected and 49% significantly negatively affected, whereas a total of 61% of manufacturers had recorded negative effects in the third quarter. In the services sector, by contrast, the vast majority

of companies (65%) were spared the negative effects of the strength of the Swiss franc. However, in this sector, too, results have worsened somewhat over time. In particular, a larger number of companies were faced with slightly negative effects than had been the case in the third quarter. In the construction industry, the results of the third sector – that the appreciation has had virtually no effect to date – were confirmed. Indeed, some 15% of respondent construction companies registered positive rather than negative effects on their business activity. However, in this respect, mention should be made of the existence of manufacturing companies with construction-related activities that experienced negative effects due to strong competition from abroad. However, these companies are included under manufacturing and therefore do not affect the results for the construction industry.

2 Negative effects – where and how?

Overall, 109 companies reported slightly or significantly negative effects resulting from the appreciation of the Swiss franc. Chart 4 shows the markets where these negative effects were observed and the form they took. As was to be expected, export activities were most strongly affected. A large majority of the companies that were negatively affected found themselves faced with lower profit margins in their foreign sales markets. In most cases this resulted from lower Swiss franc-equivalent prices. A third of companies inter-

Chart 1
Effects of appreciation of Swiss franc, by sector



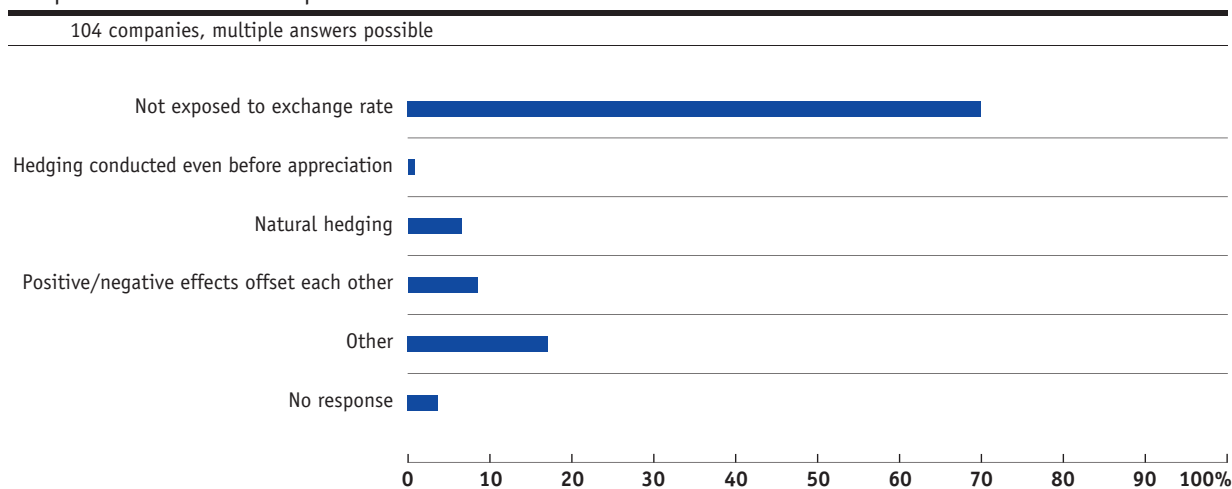
Source: SNB

viewed also recorded losses in sales volume. In addition to the direct effects on the export economy, indirect effects were also indicated (cf. lower third of chart 4). In 10% of cases, these negative effects took the form of lower profit margins or sales volume on the part of export industry supply companies. Companies faced with competition from cheaper imports faced negative effects primarily in the form of lower sales volume.

The industries most heavily impacted by the negative effects of appreciation were the preliminary products industry (manufacture of chemical products and plastics), the metal industry, the cap-

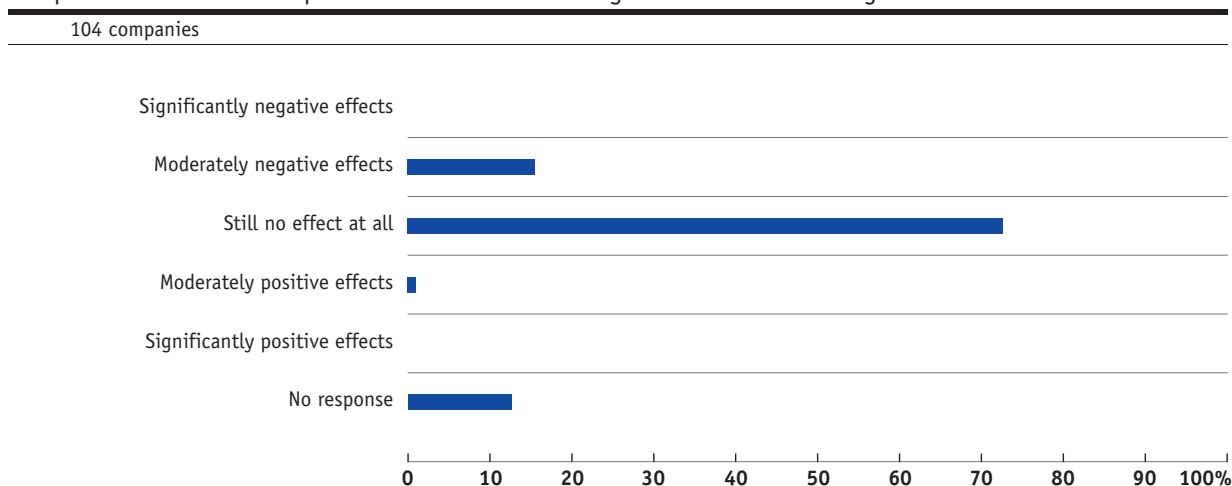
ital goods industry (manufacture of electronic products and large segments of the machine industry) and the textiles industry. Of the 22 hotel representatives interviewed, 10 reported negative effects resulting from the appreciation of the Swiss franc (mainly slight). The other 12 hoteliers said that the strength of the Swiss franc had not had any impact on them. The situation varied considerably within the retail industry. In border areas, retailers faced unfavourable developments in cross-border shopping tourism. In other parts of the country, however, the favourable effects of lower purchasing prices prevailed. In wholesaling, too,

Chart 2
Companies not affected: explanations



Source: SNB

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



Source: SNB

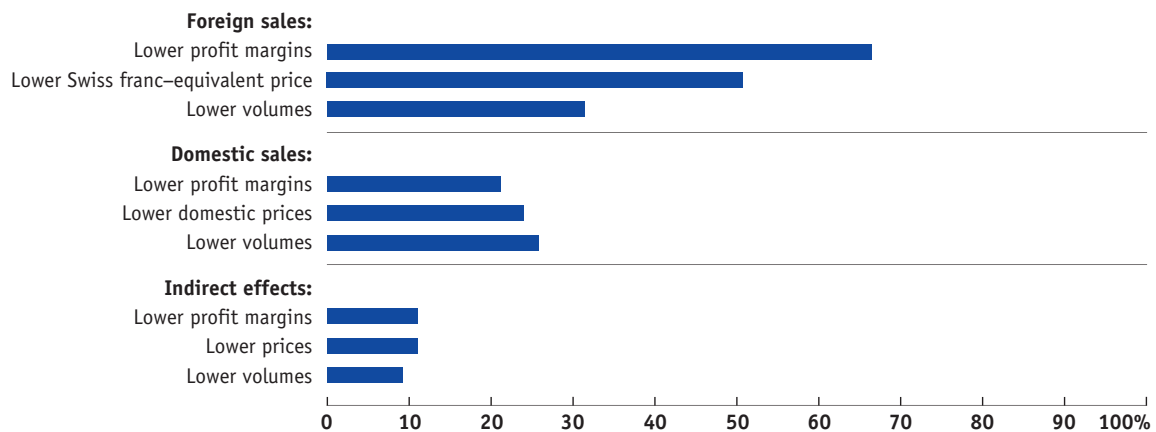
responses ranged between these two extremes. Responses from bank representatives ranged from neutral to slightly negative. The slightly negative effects can be attributed to two factors – lower fee income due to the lower values of foreign currency custody accounts and losses on banks’ own foreign currency positions. However, no impact was reported by most respondents from the transport and insurance industries, as well as fiduciary professionals, employment agencies and the leisure and health industries.

3 Negative effects – how do companies react?

In addition, companies were asked about the measures they had already taken to counter the effects of the appreciation in the currency. Chart 5 shows the spectrum of these reactions. A large majority of companies have taken measures. Only in 20% of the cases could compensatory price increases be implemented. Measures aimed at reducing production costs have been more frequent. Labour costs have been cut mainly by lowering the headcount or by doing without new staff. Much more frequently,

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

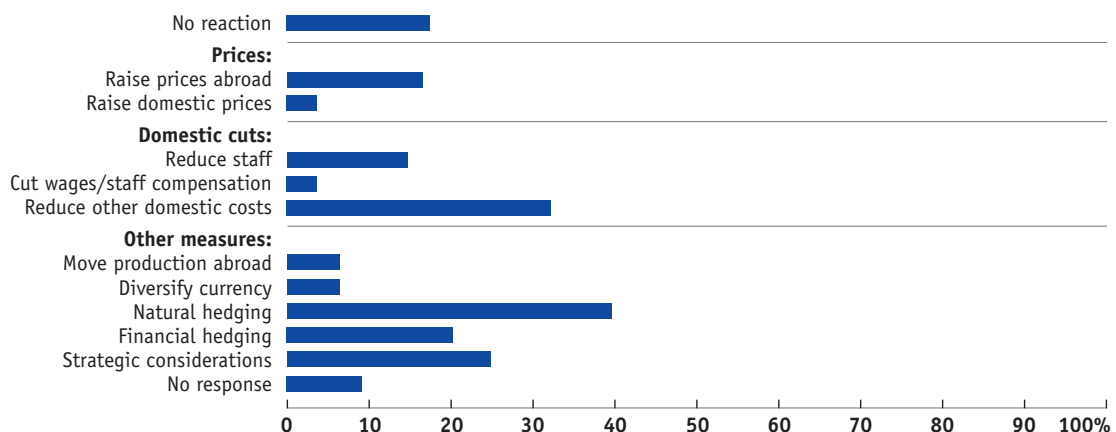
109 companies, multiple answers possible



Source: SNB

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

109 companies, multiple answers possible



Source: SNB

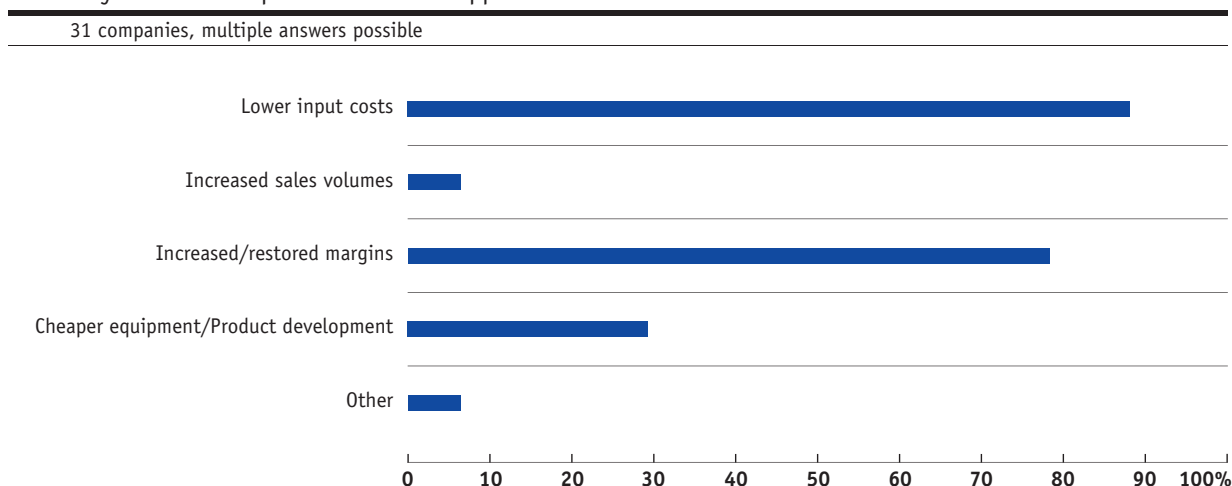
however, the savings measures have related to the other costs of production. Hedging strategies are very widespread, particularly natural hedging. However, companies are also giving consideration to fundamental strategic questions for the future in connection with the appreciation of the Swiss franc.

4 Positive effects – where and how?

A total of 31 of respondent companies benefited from minimal or even significantly positive effects resulting from the appreciation of the Swiss

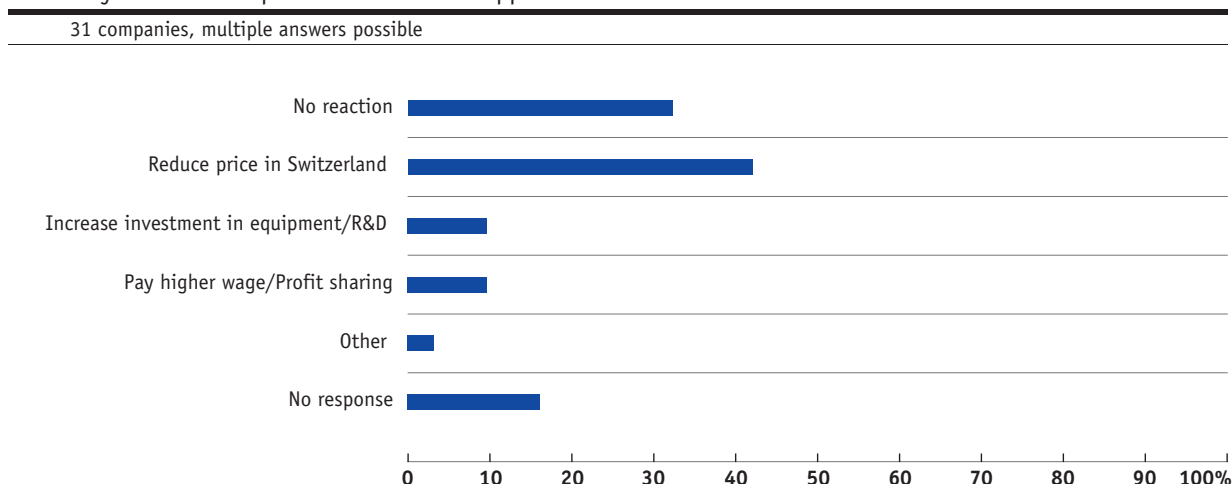
franc. The majority of the positive effects came in the form of lower input costs and/or improved profit margins, as can be seen in chart 6. In addition, a significant number of company representatives reported more favourable conditions for investment and for research and development. As can be seen in chart 7, this improvement in business conditions will probably lead primarily to an increase in these companies' profits and liquidity, since only 42% of companies that were positively affected by appreciation of the Swiss franc reduced their prices as a reaction to this development.

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



Source: SNB

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



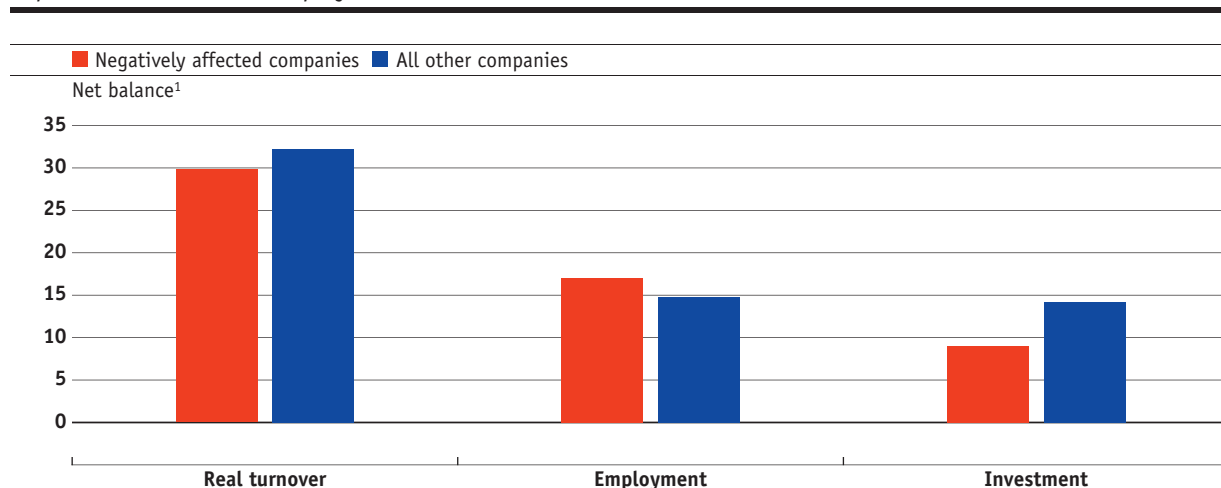
Source: SNB

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 allotted 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 reveal that they are expecting increasing turnover and rising staff numbers, as can be seen in chart 8. Thus, for instance, the first red column, for the group of companies that have been negatively affected by the appreciation of the Swiss franc, shows that positive assessments (rising turnover expectations) significantly exceed negative assessments (declining turnover expectations). The chart also reflects the fact that expectations with regard to future turnover and staff numbers in the two company groups are not significantly different. However, with regard to investment expenditure, companies negatively affected by appreciation of the Swiss franc appear to be somewhat more cautious than the other companies.

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 amounts to 6 months (for real turnover and employment) or 12 months (for investment). Source: SNB