

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 September 2011

Third quarter of 2011

In the economic survey for the third quarter, which was carried out in July and August 2011, delegates from the SNB's regional network once again systematically raised the exchange rate situation with companies, posing questions with the aim of quantifying the effects of the appreciation of the Swiss franc. A total of 164 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

With the exchange rate situation deteriorating further, the results for the economy as a whole showed a significant worsening compared to those for the previous quarter. Of the respondent companies, 58% (previous quarter: 48%) claimed to be experiencing negative effects from the appreciation of the Swiss franc (35% significantly and 23% moderately negative). A total of 31% of companies (37%) said they had not felt any significant effect on their business activities 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, most of these companies are not anticipating any impact in the near future either (cf. chart 3). However, the percentage of such companies has fallen sharply from the previous survey. If exchange rates were to remain at their present level, a further worsening of the survey results in the next quarter would be likely.

Positive effects from the appreciation of the Swiss franc were experienced by the remaining 10% of companies included in the survey (15%).

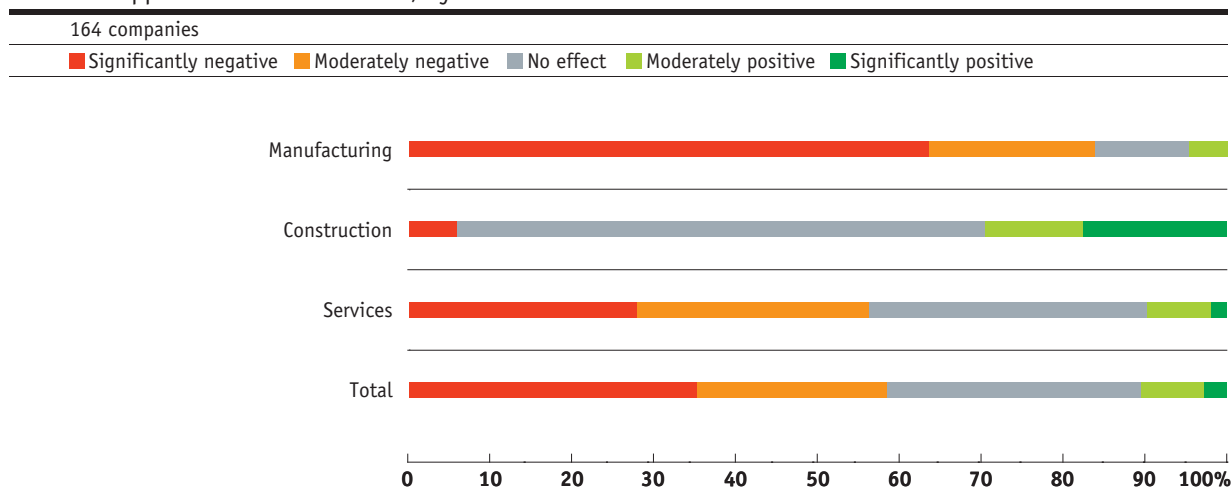
The proportion of companies in the manufacturing sector that felt significantly negative effects continued to increase (up from 58% to 64%). The percentage that rated the effects as 'moderately negative' also rose – from 15% to 20%. In the services sector, the majority of companies (56%) are now reporting negative effects from the strength of the Swiss franc. While the proportion experiencing

moderately negative effects remained virtually constant (approximately 30%), the proportion of companies reporting significantly negative effects doubled to almost 30%. In the construction industry, the situation remained stable: as before, about two-thirds of companies are unaffected by the Swiss franc's strength. A total of 29% of companies reported positive effects. It should be noted that industrial companies with construction-related activities are included under manufacturing. Thus any negative effects detected by such companies as a result of fiercer foreign competition do not influence the construction industry results in this survey.

2 Negative effects – where and how?

In all, 96 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 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 (43% of companies) and lower Swiss franc-equivalent sale prices (49% of companies). The phenomenon of unsatisfactory sales prices was thus more marked than in the previous quarter, which suggests that only a limited number of Swiss exporters were able to achieve higher sales prices in foreign currencies and thereby (to some extent)

Chart 1
Effects of appreciation of Swiss franc, by sector



Source: SNB

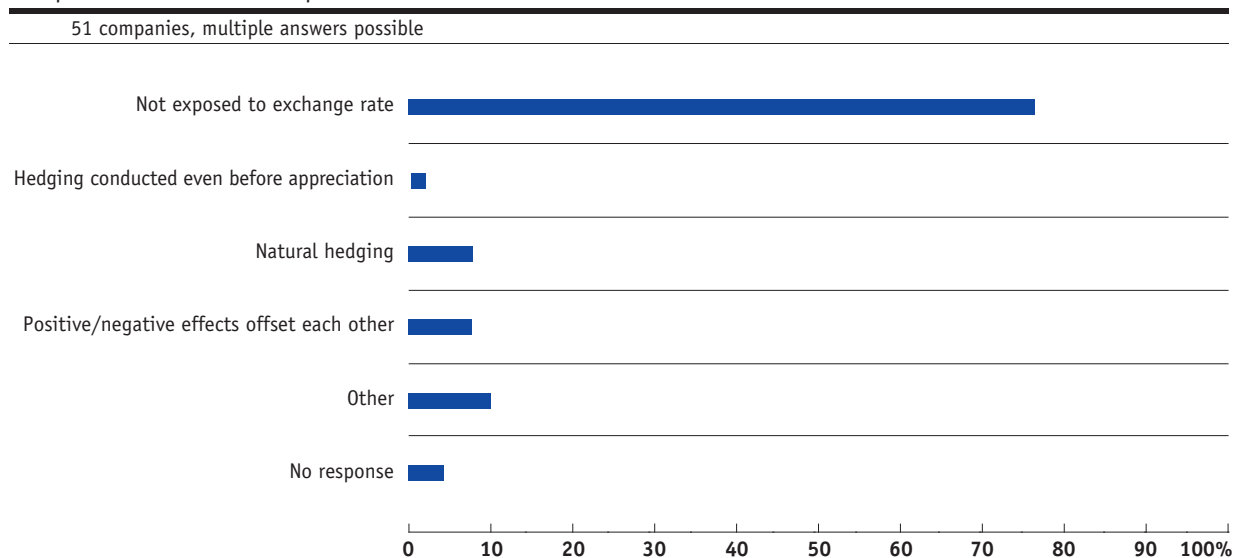
offset the appreciation. It was also clear that companies are losing orders because of the unfavourable competitive environment. In the domestic market, too, a higher proportion of firms reported tighter margins, lower sales prices and reduced sales.

In addition to the direct effects on the export industry, indirect effects were 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 chemicals and pharmaceuticals, metals, manufacturers of electronic products and precision instruments, and the machinery, textiles and clothing industries. The

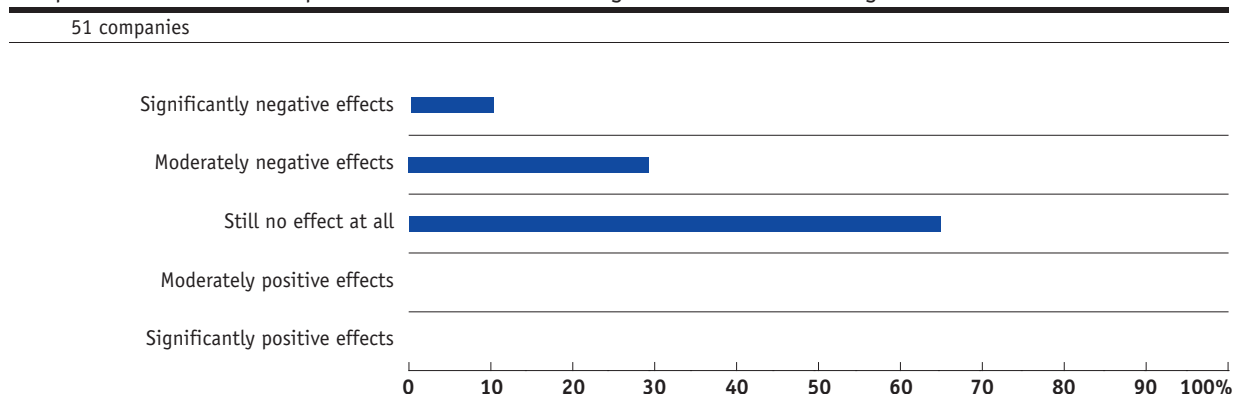
results for the hospitality industry deteriorated compared to those from the previous quarter's survey. Of the total of 15 hotel representatives interviewed, five reported moderately negative and five reported significantly negative effects from the appreciation, while the remaining five representatives said the strength of the Swiss franc had had no significant impact. City-based tourism has continued to perform much better than tourism in the mountain regions. The picture for retailing has deteriorated considerably since the previous quarter. Whereas the result three months ago was mixed, now practically all retailers surveyed are reporting negative effects from the Swiss franc's appreciation. The tendency of Swiss residents to go shopping abroad has increased – and the impact is

Chart 2
Companies not affected: explanations



Source: SNB

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



Source: SNB

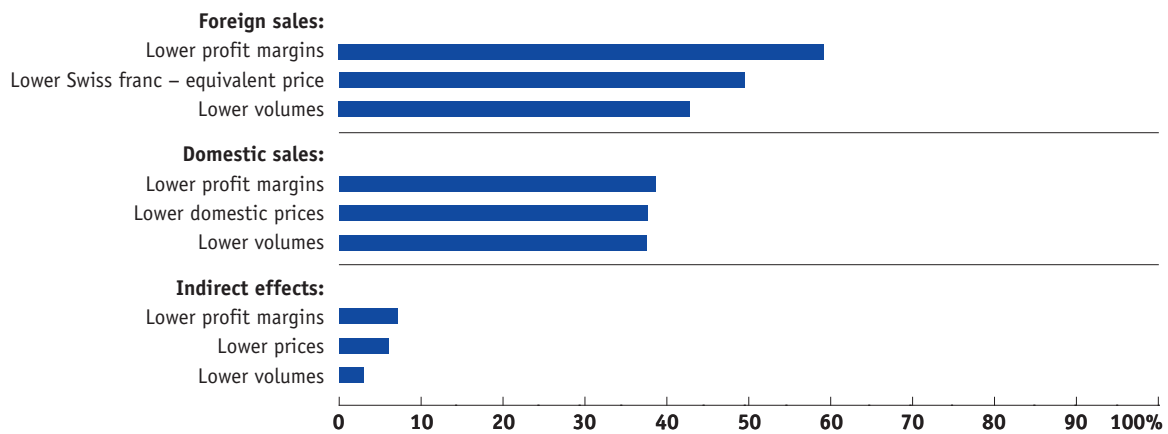
no longer confined to border areas. The situation in wholesaling has also worsened substantially: the majority of respondents reported moderately or even significantly negative effects. Most banks reported adverse effects. By contrast, representatives of the real estate management and brokerage industry, fiduciary firms and catering companies generally reported either no effects or positive effects.

3 Negative effects – how are companies reacting?

In addition, companies were 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. Overall, these results were largely unchanged compared to the previous quarter. A large majority of companies have taken action. The most frequent measures being taken are aimed at reducing production costs. Labour costs have mainly been cut by lowering the headcount or halting recruitment – or, more recently, by increasing working hours while keeping pay

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

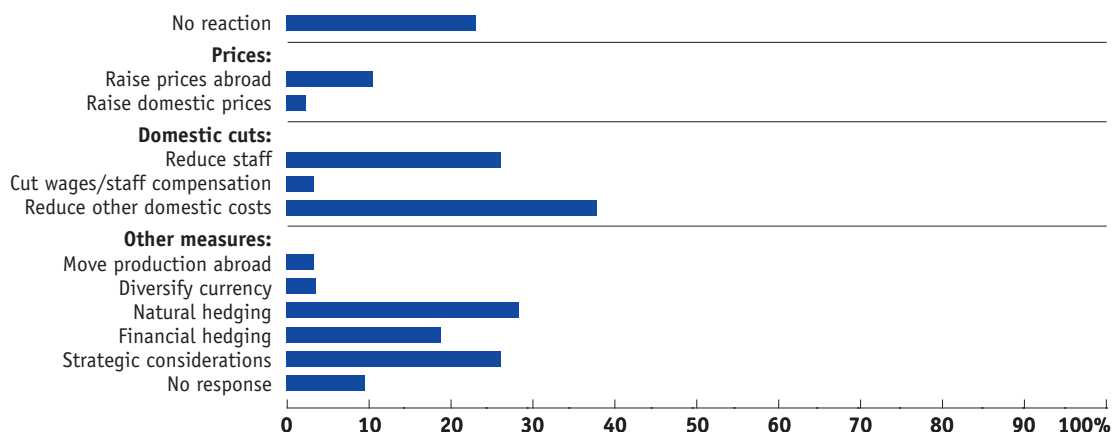
96 companies, multiple answers possible



Source: SNB

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

96 companies, multiple answers possible



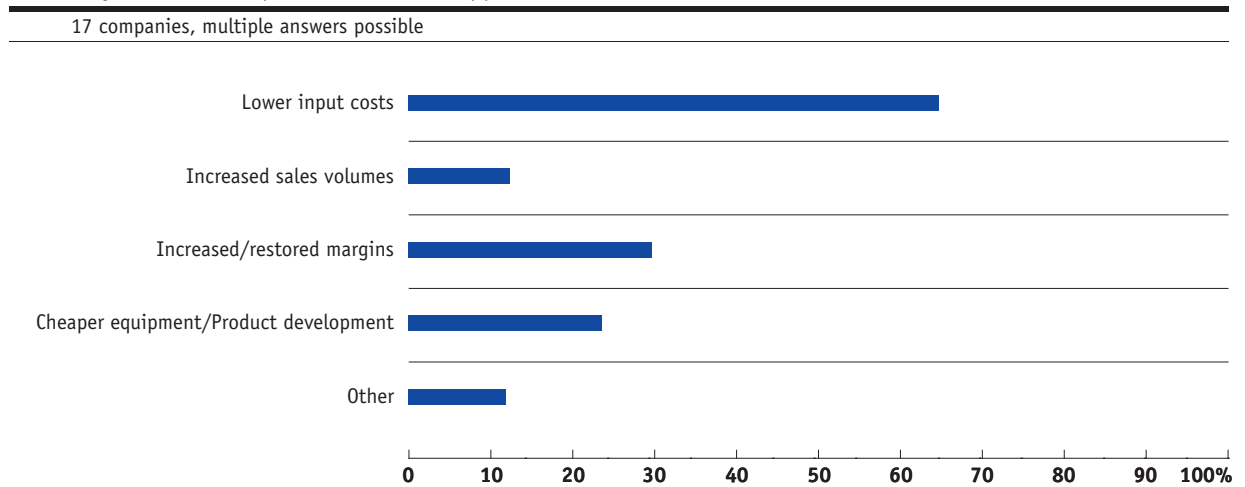
Source: SNB

levels unchanged. The percentage of companies considering cuts in headcount has risen to about 26%; in the previous quarter, this figure was still well below 20%. In most cases, however, cost-cutting measures have continued to focus on other production costs. 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. About a quarter of the adversely affected companies said they were also engaging in fundamental strategic thinking about the future of the company.

4 Positive effects – where and how?

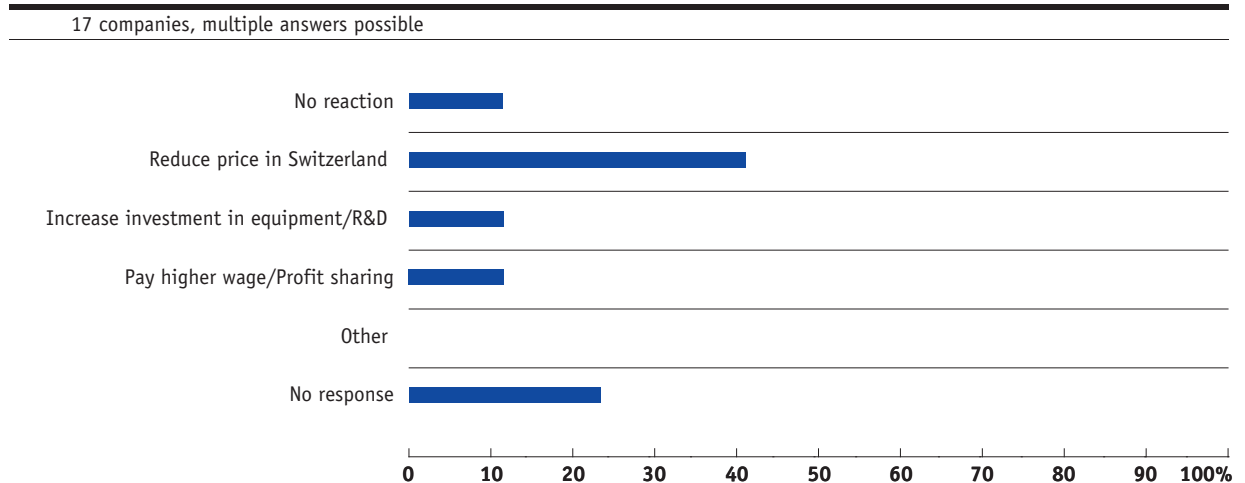
A total of 17 respondent companies (10% of the total, as against 15% in the previous quarter) were experiencing moderately or even significantly positive effects from the appreciation of the Swiss franc. As can be seen from chart 6, the greater part of the positive effects came in the form of lower input costs (approximately 65% of cases) and/or improved profit margins (30% of cases). However, the percentage of firms that were able to improve their margins was much lower than in the previous quarter (78%). Moreover, a quarter of the companies mentioned more favourable conditions for

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

investment and for research and development; this proportion has also decreased by comparison with the preceding quarter (34%). Chart 7 suggests that an improvement in business conditions will primarily result in lower sales prices in Switzerland. Of the companies reporting positive effects, 41% stated that they were addressing the situation this way – double the percentage in the last survey. To a lesser extent, the more favourable business conditions will also lead to higher investment in equipment, research and development, or to higher salaries or increased profit-sharing.

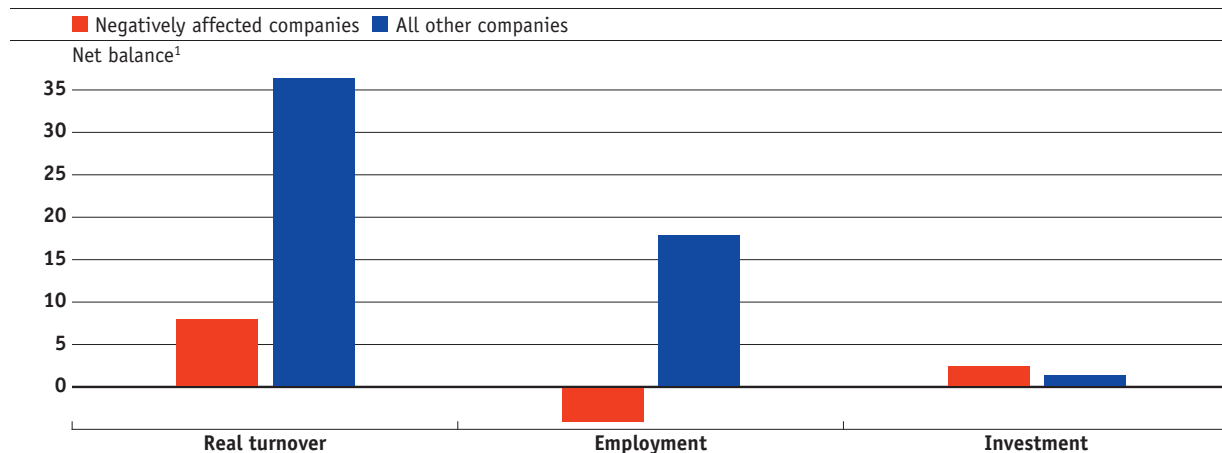
5 Expectations for the near future remain positive

In the survey, companies were 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. The situation has changed decisively from that in the previous quarter. On balance, companies' assessments show that they are still expecting turnover to increase in real terms, as can be seen in chart 8. However, there are major differences between the third-quarter assessments of the two sub-groups: while the adversely affected companies were on balance expecting only a slight increase in sales, the figure for all other companies remained as high as in the previous quarter. In terms of employment trends, the negatively affected companies – unlike those not experiencing any adverse impact – were actually expecting cuts in headcount. In both sub-groups, planned investment appears to be standing still. Overall, therefore, companies' assessments of these issues show a significant deterioration 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