

# Exchange rate survey: Effects of Swiss franc appreciation and company reactions

## SNB regional network

Summary report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2011

### **First quarter of 2011**

In the economic survey for the first quarter, which was carried out in January and February 2011, delegates from the SNB's regional network systematically raised the exchange rate question a third time with companies, posing questions with the aim of quantifying the effects of the Swiss franc appreciation. A total of 243 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

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, 47% of respondent companies spoke of negative effects (23% significantly negative and 24% slightly negative). This is in line with the result already observed in the final quarter of 2010, when companies with negative effects had accounted for 45% of the total sample.

A total of 37% of companies 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, most of these companies either lack exchange rate exposure or benefit from hedging strategies or compensatory factors which help 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 16% of companies included in the survey.

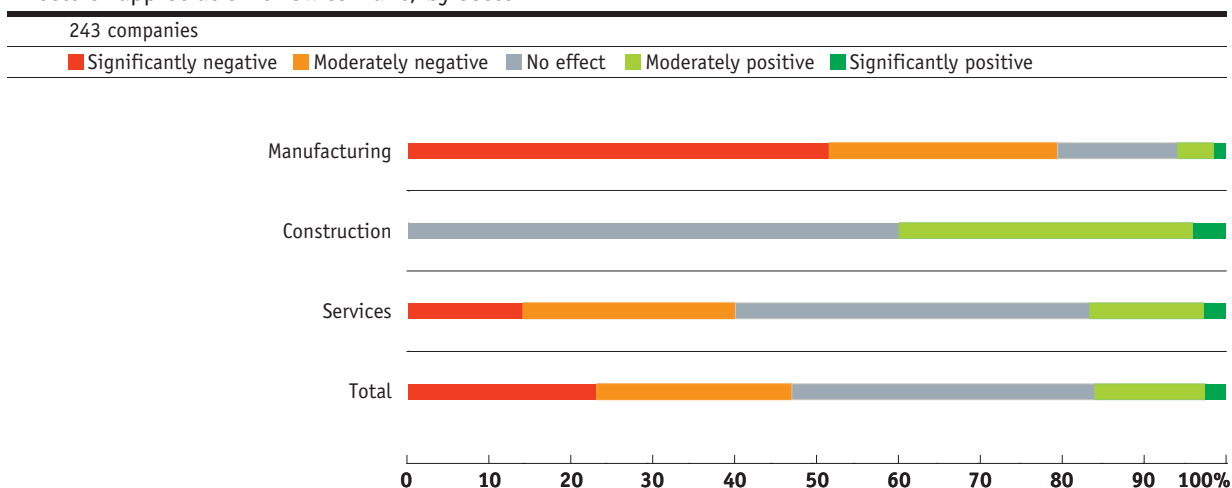
Companies in the manufacturing industry were most frequently negatively affected by the strength of the Swiss franc. Compared to the previous quarter, the level of negative effects in this industry has remained more or less unchanged. This time, 28% of companies were slightly negatively affected and 51% significantly negatively affected. In the services sector, the majority of companies (60%) were spared negative effects from the strength of the Swiss franc. However, a greater proportion of com-

panies than in the fourth quarter was faced with significantly negative effects (14%, compared with 7% in the previous quarter). In the construction industry, the results of former surveys – that the appreciation has had virtually no negative effect to date – were confirmed. Indeed, 40% of respondent construction companies registered positive rather than negative effects on their business activity. However, mention should be made of the existence of manufacturing companies with construction-related activities that experienced negative effects due to strong competition from abroad. These companies are included under manufacturing and therefore do not affect the results for the construction industry.

## 2 Negative effects – where and how?

Just under half of the respondent companies (114) reported slightly negative 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. Export activities continued to be 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 total of 37% of companies also recorded losses in sales volume. In addition to the direct effects on the export economy, indirect effects were also reported (cf. lower third

Chart 1  
Effects of appreciation of Swiss franc, by sector



Source: SNB

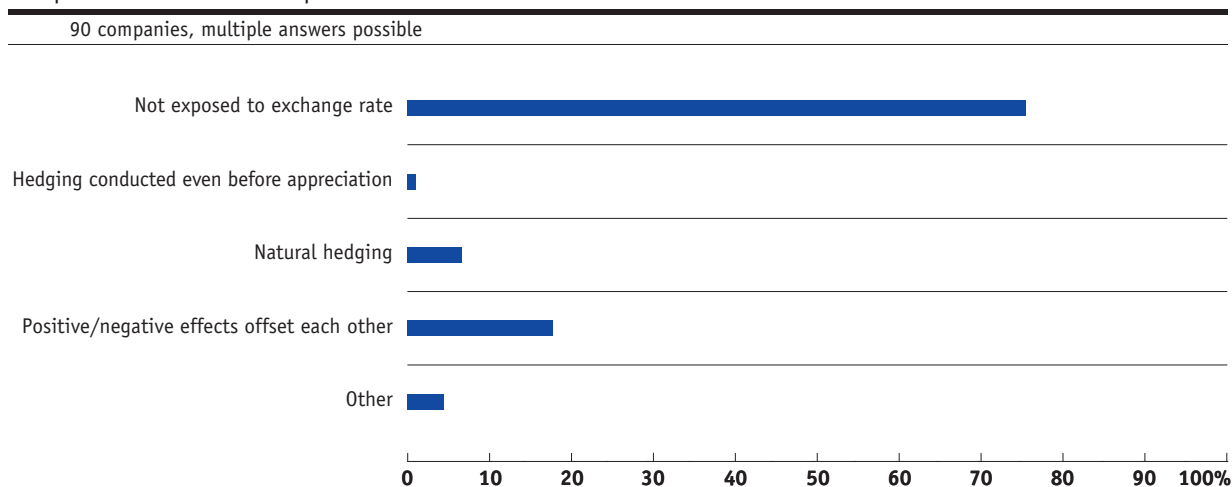
of chart 4). In 11% of cases, these negative effects took the form of a reduction in sale prices by export industry supply companies. Companies exposed to competition from cheaper imports faced negative effects in the form of lower prices and margins as well as lower sales volume. There is a marked increase in reports that more buyers are trying to pay in euros.

The industries most heavily impacted by the negative effects of appreciation were the metal and capital goods industry (manufacture of electronic products, precision instruments and large segments of the machine industry), as well as the food and textiles industries. Compared to last quarter's survey, the results for the hotel industry were markedly worse. Of a total of 20 hotel representatives

interviewed, eight spoke of slightly negative effects from the appreciation and four of significantly negative effects. The other eight hotel representatives said the strength of the Swiss franc had not affected them. Among representatives of the tourism industry, the exchange rate issue had become more acute than it was last quarter. In addition, concern was expressed that the negative effects could become even stronger after the middle of the year.

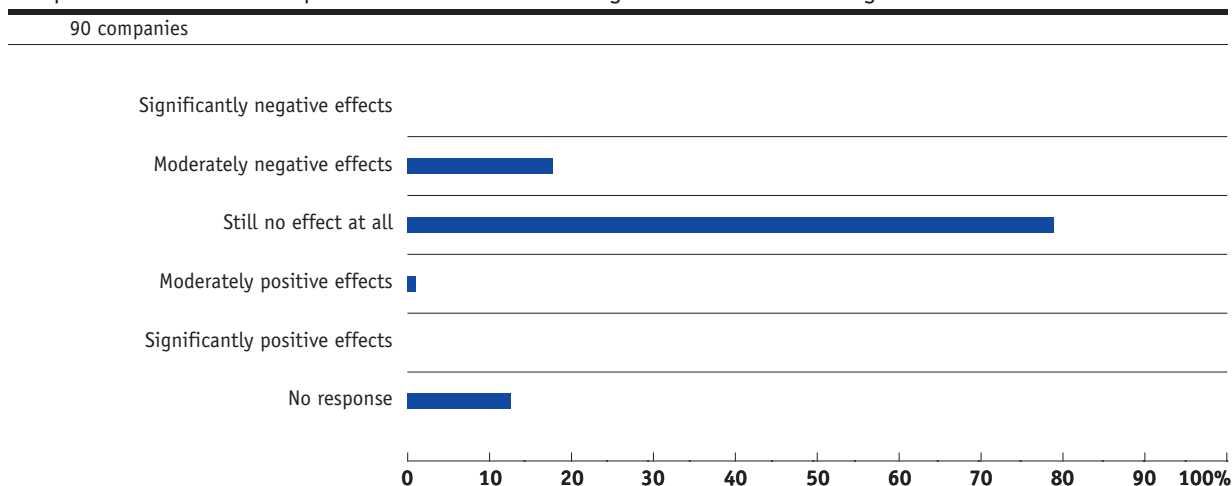
The situation in the retail industry varied considerably. In border areas, particularly, retailers faced unfavourable developments in cross-border shopping tourism. Where sales losses had been recorded, however, these were in part attributable to very large price reductions. In other parts of the

Chart 2  
Companies not affected: explanations



Source: SNB

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



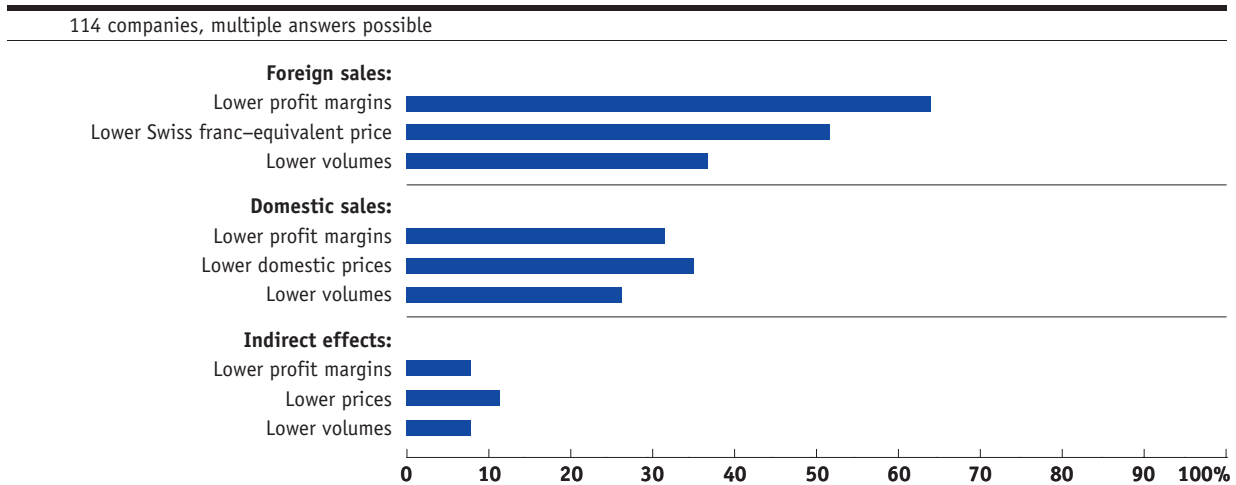
Source: SNB

country, by contrast, the favourable effects of lower purchase prices prevailed. In the wholesale sector, too, responses ranged between these two extremes, with the average effect assessed as slightly negative. In general, banks and insurance companies stated that the effect had been negative. By contrast, representatives of the hospitality industry, transportation and logistics, IT, fiduciary companies, architectural practices and recruitment agencies generally reported either no effect or positive effects.

### 3 Negative effects – how do companies react?

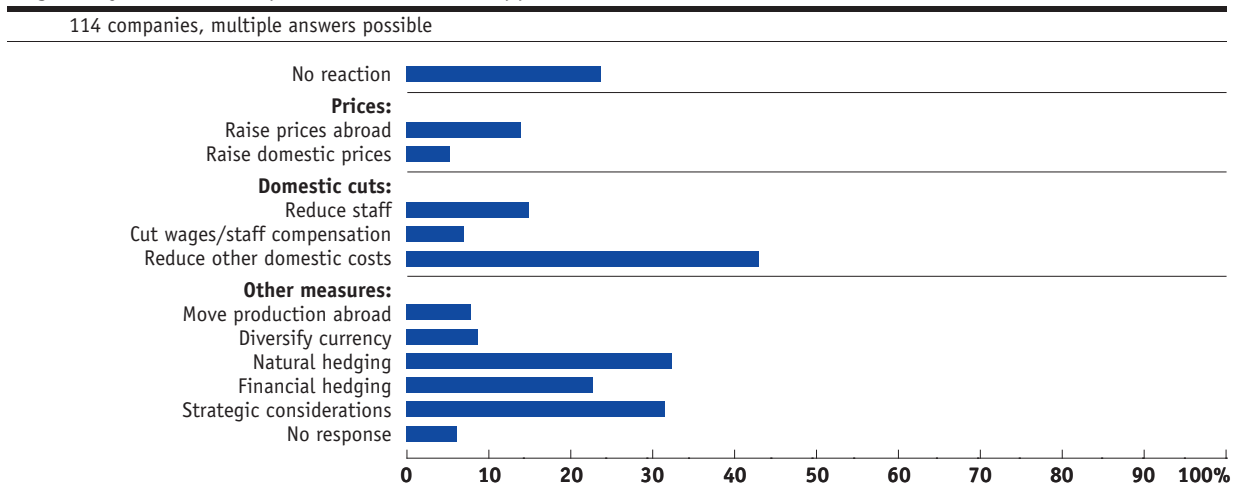
In addition, companies were asked about the measures they had already taken to counter the effects of the appreciation in the currency. Chart 5 shows the range of these reactions. A large majority of companies have taken measures. Only in a limited number of cases could compensatory price increases be implemented. Measures aimed at reducing production costs have been more frequent. Labour costs have mainly been cut by lowering the headcount or doing without new staff. In most cases, however, the cost-cutting measures have affected the other costs of production. Hedging strategies are very widespread. In addition,

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



Source: SNB

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



Source: SNB

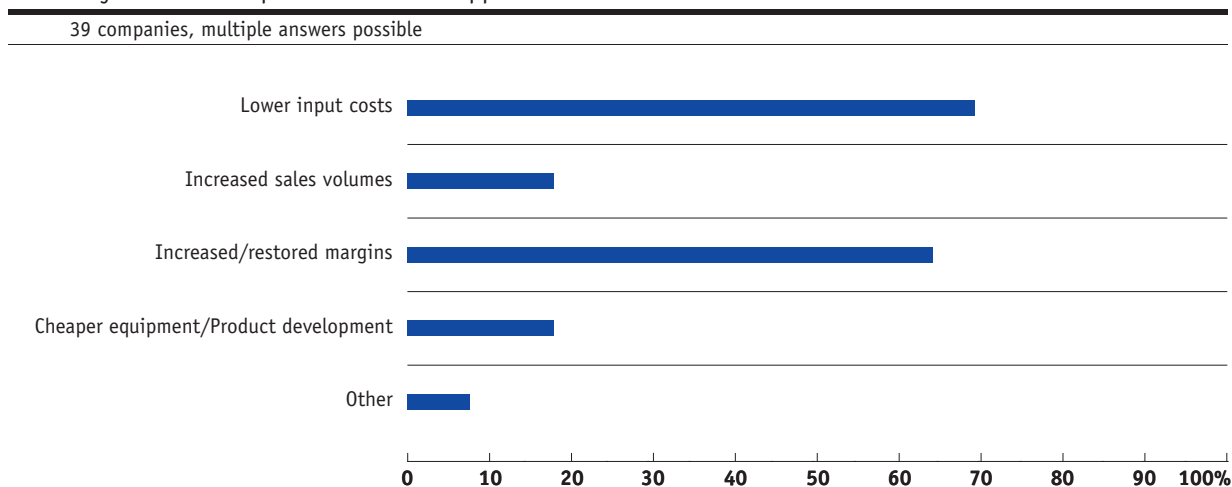
over 30% of negatively affected companies said they were also engaging in fundamental strategic considerations about the future of their company (previous quarter: 25%).

#### 4 Positive effects – where and how?

A total of 39 respondent companies (16%) experienced minimal or even significantly positive effects from the appreciation of the Swiss franc. The greater part of the positive effects came in the form of lower input costs and/or improved profit

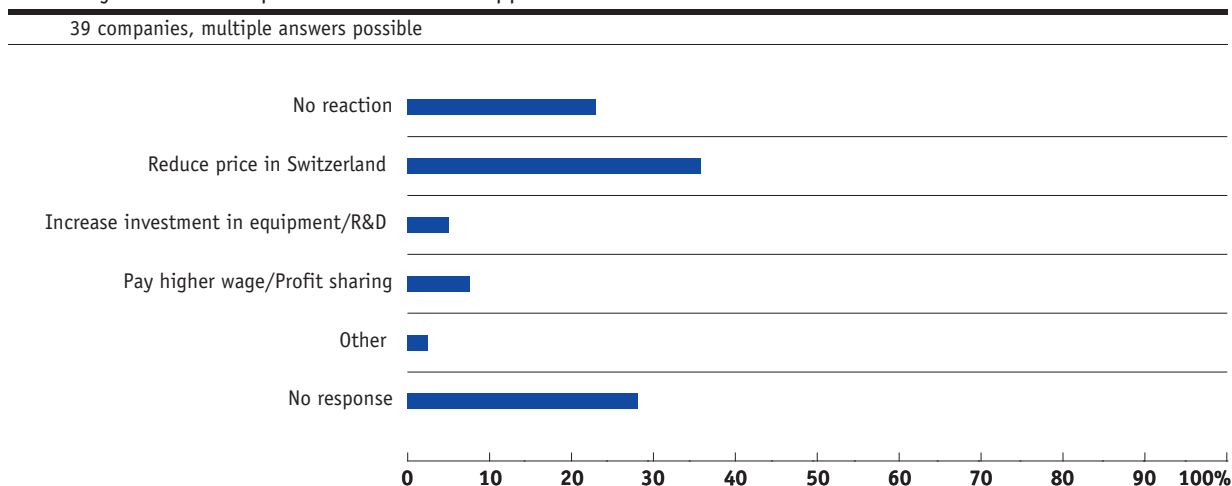
margins, as can be seen in chart 6. In addition, some company representatives reported more favourable conditions for investment and for research and development. As can be seen in chart 7, this improvement in business conditions will probably lead primarily to an increase in these companies' profits and liquidity, since only 36% of companies that were positively affected by the 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

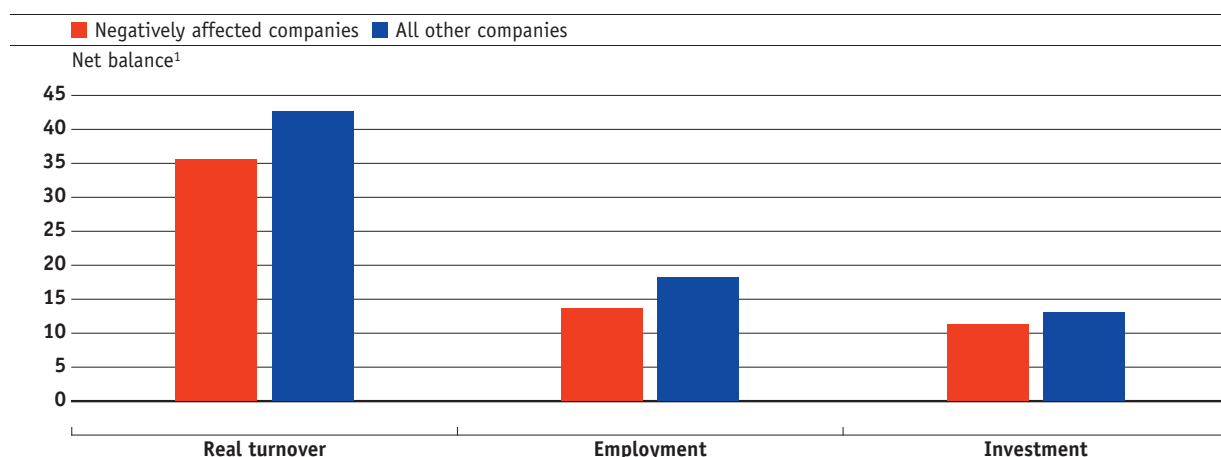
In the survey, companies were asked about their expectations about real turnover, staff numbers and investment in the coming six/twelve months. Their answers are recorded on a scale ranging from 'significantly higher' to 'significantly lower'. Based on this information, an index is created by subtracting the negative assessments from the positive ones (net assessments). Significantly positive and significantly negative assessments are 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 posi-

tive 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 reflects the fact that expectations for these three areas do not differ significantly in the two company sub-groups.

Compared to the previous quarter, the index results for real turnover were better, particularly for the companies that are not affected negatively by the appreciation of the Swiss franc.

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

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