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Consumer & Industrial Products Trends

H2 2018

Executive summary

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Economic outlook
Consumer & Industrial Products (C&IP) sector CFOs in Switzerland expect the Swiss economy to continue to perform well over the next 12 months, but there is a slight decline compared with H1 2018.

2

Financial prospects
C&IP sector CFOs in Switzerland remain more optimistic for their company's financial prospects than CFOs in other sectors as well as most of their European counterparts.

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Growth expectations
Expectations for both revenues and operating margins remain positive, with C&IP sector CFOs in Switzerland more optimistic than CFOs in most of their European counterparts.

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Investment expectations
Most European C&IP sector CFOs expect capital expenditure and employee numbers to increase, although CFOs in Switzerland are less optimistic about the growth of their workforce.

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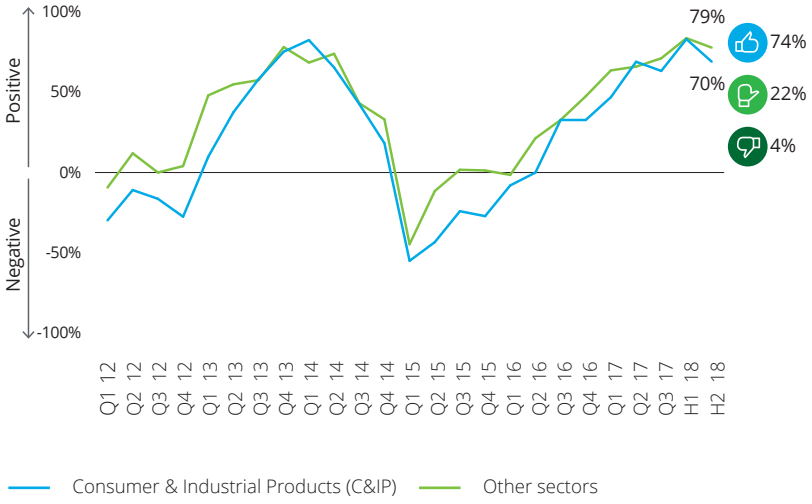
Skills shortage
Appropriate technical knowledge and problem solving skills are most difficult to find, with Swiss C&IP companies increasingly recruiting from outside the domestic labour market and using temporary resources to address this shortage.

1. Economic outlook

C&IP sector CFOs in Switzerland expect the Swiss economy to continue to perform well over the next 12 months, but there is a slight decline compared with H1 2018.

Economic outlook for Switzerland (net balance)
How do you judge the economic outlook for Switzerland over the next 12 months?



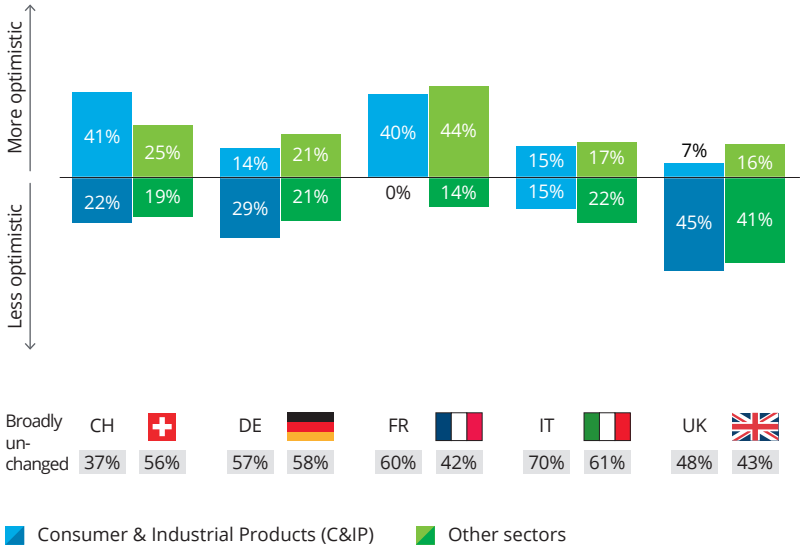
- The previous survey (H1 2018) saw a record of C&IP sector CFOs rating the **economic outlook for Switzerland** as positive, but this level has not been sustained in H2.
- The net balance of C&IP sector CFOs declined from 84% in H1 2018 to 70% in H2 2018. The confidence of CFOs in other sectors also declined, from 85% to 79%.
- However, the overall mood among CFOs in Switzerland remains upbeat, considering the challenging business environment which includes increasing trade disputes and a resurgent Swiss Franc.
- For the first time, trade disputes are a concern for the majority of Swiss companies and are now the third most frequently cited risk factor by CFOs, after internal risks and geopolitical risks. The stronger Swiss Franc means that CFOs in Switzerland now also perceive currency risks as greater, ranking them fourth in the list of risk factors.
- Other political risks such as the continuing uncertainty surrounding the Brexit negotiations and questions about Switzerland's relations with the EU also have a negative impact on Swiss markets.
- There are increasing signs that growth in Switzerland has peaked: The Swiss State Secretariat for Economic Affairs (SECO) has forecast 2.9% growth in 2018 and only 2.0% growth in 2019.

Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte Swiss and European CFO Survey

2. Financial prospects

C&IP sector CFOs in Switzerland remain more optimistic for their company's financial prospects than CFOs in other sectors as well as most of their European counterparts.

Company's financial prospects across Europe (H2 2018)
Compared to three months ago, how do you feel about the financial prospects for your company? Results for selected European countries.



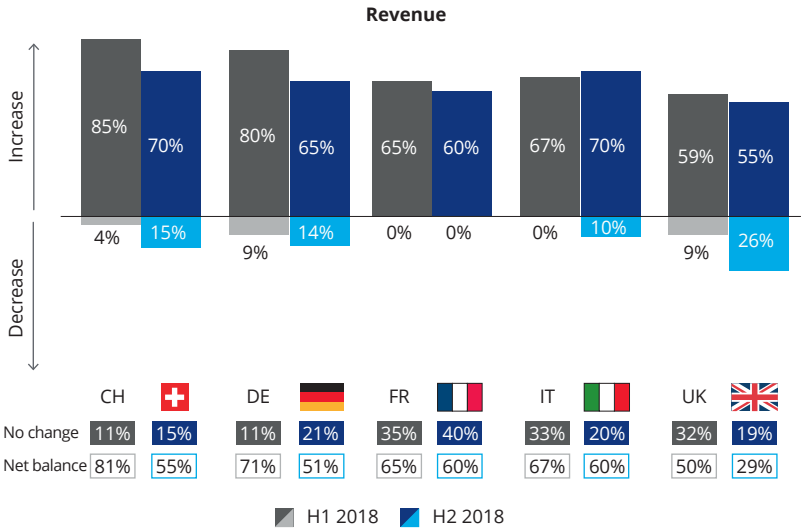
- The number of C&IP sector CFOs in Switzerland that are more optimistic for their **company's financial prospects** in H2 2018 has increased to 41% (H1 2018: 32%). However, 22% of C&IP sector CFOs are now less optimistic (previously 4%).
- In contrast, the number of CFOs in other sectors in Switzerland that are more optimistic has decreased to 25% (H1 2018: 32%), with less optimistic ratings increasing to 19% (previously 10%).
- French C&IP sector CFOs are alone among the major European economies to express greater optimism about their company's financial prospects in H2 2018 (40%), despite a marked decline compared with the first six months (H1 2018: 60%). However, it remains to be seen whether the 'Macron effect' will endure and the new reforms will provide a lasting stimulus. Such has not been the case in France in recent decades and the latest country-wide protests against reforms have raised doubt.
- A small majority of all CFOs in Germany and Italy are pessimistic. France, and in particular Germany, are exporting nations, so they are more affected by a difficult global environment. Germany's automotive industry may well be directly impacted by any worsening of the trade dispute with the US. There is also a threat of an indirect impact from trade disputes in general, such as problems with international supply chains. Italy is grappling with structural economic risks, which have been exacerbated by the new government.
- Following a further marked decline, UK C&IP sector CFOs remain the most pessimistic across the major European economies in H2 2018. With only a short time left until the UK exits the EU, uncertainty about the future business environment is increasing.

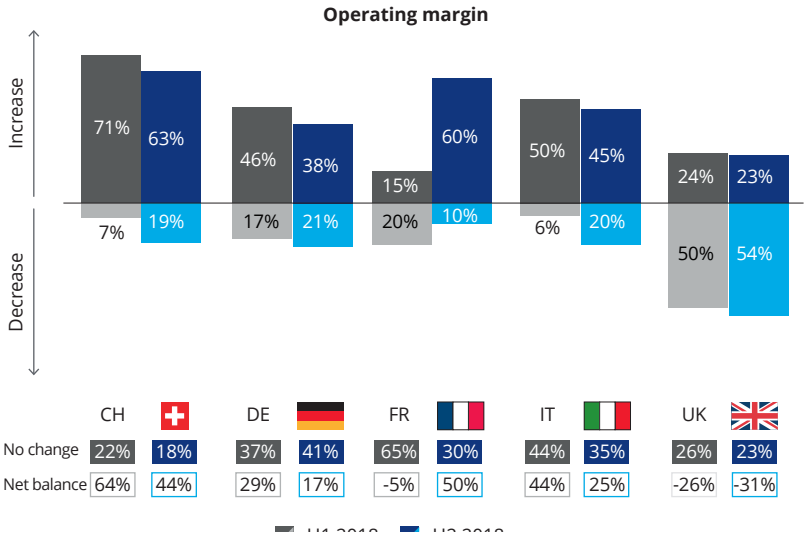
Source: Deloitte Swiss and European CFO Survey

3. Growth expectations

Expectations for both revenues and operating margins remain positive, with C&IP sector CFOs in Switzerland more optimistic than CFOs in most of their European counterparts.

Growth expectations of European C&IP companies (net balance)
Percentage of CFOs who expect their company's revenue and operating margin to increase/decrease over the next 12 months; results for selected European countries





- **Revenue** expectations remain optimistic in Switzerland in H2 2018, with the net balance at 55% (previously 81%). A large majority (70%) of Swiss C&IP sector CFOs expect revenue to increase over the next 12 months. Revenue expectations remain particularly strong in industrial products. Expectations are also higher in consumer business than in other sectors.

- In comparison, revenue expectations in Germany and the UK are lower with net balances of 51% and 29% respectively. Only in France and Italy are revenue expectations higher than in Switzerland (net balances of 60% each).

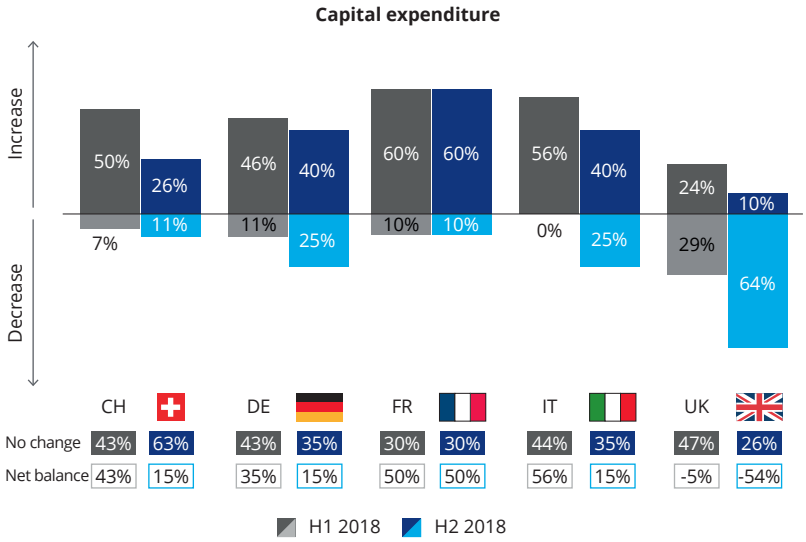
- Switzerland and France are leading their European counterparts with regard to expectations for **operating margins** (net balance: 44% and 50% respectively). 63% of Swiss and 60% of French C&IP sector CFOs expect margins to increase.

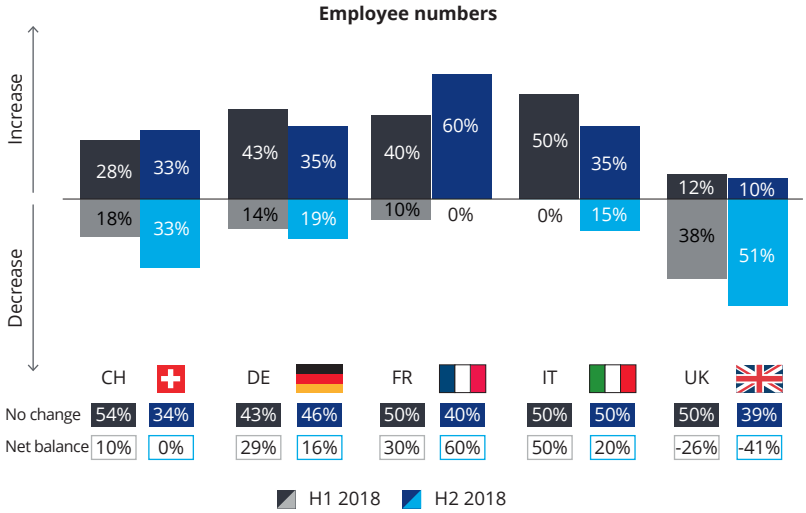
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte Swiss and European CFO Survey

4 Investment expectations

Most European C&IP sector CFOs expect capital expenditure and employee numbers to increase, although CFOs in Switzerland are less optimistic about the growth of their workforce.

Investment expectations of European C&IP companies (net balance)
Percentage of CFOs who expect capital expenditure and employee numbers to increase/decrease for their company over the next 12 months; results for selected European countries





- C&IP companies in Europe plan to increase investment in capital expenditure and hire more employees over the next 12 months in H2 2018, albeit at a lower level than in H1 2018.
- The highest increases in **capital expenditure** are expected in H2 2018 in France (net balance of 50%), with lower increases in Switzerland, Germany and Italy (all net balance of 15%).
- The UK's net balance is now even more negative (-54%) than in H1 2018 (-5%), demonstrating the continuing uncertainty surrounding Brexit.
- Regarding **employee numbers**, Switzerland is also less optimistic than Germany, France and Italy, with an equal number of C&IP sector CFOs (33%) planning increases as well as decreases.

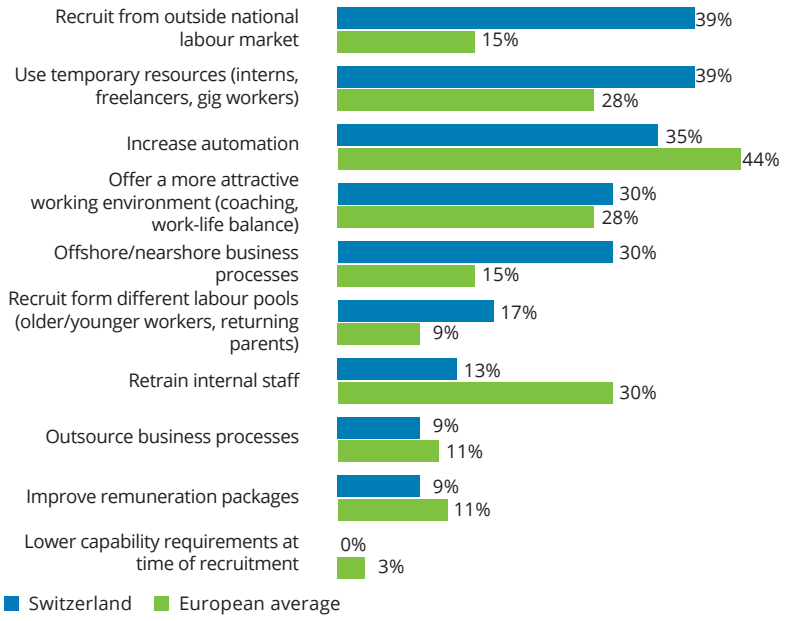
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte Swiss and European CFO Survey

5. Skills shortage

Appropriate technical knowledge and problem solving skills are most difficult to find, with Swiss C&IP companies increasingly recruiting from outside the domestic labour market and using temporary resources to address this shortage.

Skills shortage of Swiss C&IP companies (H2 2018)
Which skills and attributes are most difficult to find among employees? (Multiple responses possible)

Measures of Swiss C&IP companies to counter the skills shortage (H2 2018)
To what extent does your company use the following measures to tackle the shortage of skilled labour? Proportion of responses indicating "To a great extent" and "To a very great extent".



Source: Deloitte Swiss and European CFO Survey

- Only 15% of C&IP CFOs in Switzerland and 12% in Europe do not find it difficult to attract workers with the skills they need, respectively do not face a s**kills shortage** in H2 2018.
- Swiss C&IP companies are keenest to recruit staff with relevant technical expertise (33%), problem solving skills (33%) and the necessary work experience (26%). European C&IP companies rate appropriate technical knowledge (45%) and the necessary work experience (29%) higher than their counterparts in Switzerland.
- Most European countries, including Switzerland, find it easier to recruit workers with the necessary work ethic and soft skills such as communication skills, social skills and good time management.
- The most commonly cited **measures to counter the skills shortage** in Europe are increasing automation (44%) and retraining of internal staff (30%).
- In Switzerland, C&IP companies tackle the skills shortage primarily by recruiting from outside the domestic labour market (39%) and by using temporary staff (39%). Unrestricted free movement of people in Europe remains key for Swiss C&IP companies to access the best talent.
- Increasing automation in Switzerland is ranked third (35%) well below the European average, whereas offering a more attractive working environment is slightly above the European average.
- Offshoring is another solution more likely to be considered by Swiss C&IP companies than their European counterparts.
- Different working models and alternative labour pools, like older/younger workers or returning parents, are offering new opportunities, but still remain untapped by many C&IP companies in Switzerland and Europe, which is a strategic mistake (see also the latest Deloitte study The voice of the workforce in Switzerland).

Interview with Siegfried Gerlach

CEO, Siemens Switzerland Ltd.

Deloitte: To what extent is your company facing a shortage of skilled labour in Switzerland?

Siegfried Gerlach: The shortage of skilled labour is already making itself felt, and it is becoming increasingly difficult to recruit engineers. In most cases, we have managed to find the right people in the labour market, but it now takes us a lot more time and effort than it used to. We currently have more than 50 unfilled posts. Any quotas on experts from the EU would be fatal for us and for Switzerland as a whole.

Deloitte: What key measures have you put in place to tackle this issue?

Siegfried Gerlach: We try to position ourselves as an attractive employer in a number of respects. Our Generation 21 education and training programme supports educational institutions, from kindergartens right up to university level, with teaching materials to enable students to find out more about technical occupations. I'd particularly like to mention the Siemens Excellence Award, which we set up over ten years ago. It is worth 10,000 Swiss francs, and we award it for the best student dissertation at a Swiss University of Applied Sciences. As an employer, we promote part-time working for managers, make it easier for women to return to work after maternity leave and facilitate working from home.

Deloitte: In your experience, what impact have the measures arising from the Mass Immigration Initiative had on the labour market?

Siegfried Gerlach: Well, they certainly haven't made things easier. Fortunately, some of the changes have been implemented sensibly – for example the light-touch approach to the measure giving priority to Swiss nationals. I think it would be naïve to believe that the EU would not insist on free movement of labour in any framework agreement. And increasing digitalisation and demographic change will make the situation even more difficult in future.

Deloitte: According to our survey, Swiss consumer and industrial products companies are less likely than their European counterparts to use automation to overcome labour shortages. What do you think the reason for this might be?

Siegfried Gerlach: I think that has something to do with the mindset of Swiss SMEs. They give very careful consideration to when and where to invest. However, there are clear signs in the market that even SMEs are now taking the opportunities that digitalisation represents seriously. Nevertheless, we also have to support our customers in this process. Over the past year, we have implemented numerous digital projects and are ranked third in the Siemens Group after China and the US. I'm rather proud of that.

Profile: Siegfried Gerlach is CEO of Siemens Switzerland Ltd., based in Zurich. Siemens is a company which is known to provide answers to the most urgent questions of our time in the sectors Infrastructure and Cities, Industry, Energy and Healthcare.

Siegfried Gerlach studied mathematics at the University of Tubingen (Germany) and at Oregon State University (USA). After completing his Master of Science in 1979 he began his career as a software engineer at the Computer Gesellschaft in Konstanz (Germany).

In 1998 he joined Siemens Switzerland Ltd. as Head of the Software House. In 1999 he took over the management of the Business Division Transportation Systems. From 2004 till 2005 he was Head of the Mass Transit Department of Siemens AG, Erlangen (Germany) and in particular responsible for the Combino Project.

In October 2005 he returned to Siemens Switzerland Ltd. as a Member of the Managing Board and COO and since 2008 Siegfried Gerlach is President and CEO of Siemens Switzerland Ltd. In his spare time he enjoys sport activities like jogging, cycling, tennis and fencing as well as cooking.

Interview with Dr. Sonja Studer

Head of Education, Swissmem

Deloitte: To what extent are the Swiss mechanical and electrical engineering industries facing a shortage of skilled labour in Switzerland?

Sonja Studer: There is a substantial shortage of skilled labour in the technical field. Our sector is facing increasing difficulties in recruiting a sufficient number of engineers and technicians. Typically, these professionals have started their career with vocational training, for example as automation, construction or electronics technicians, followed by a higher degree in engineering. Our member companies are currently unable sufficiently to refill this pool of skilled technical professionals. On average, approximately six per cent of their apprenticeship training positions cannot be filled. The labour shortage is exacerbated by a growing demand for engineers. In the coming years, as many as 5'000 employees will need to be replaced each year within our industry due to retirement. Even if all apprenticeship training positions could be filled, this will hardly be sufficient to meet the demand.

Deloitte: What measures need to be put in place to tackle this issue?

Sonja Studer: First of all, our industries need to tap the full potential of domestic skilled labour. This involves, for example, encouraging young people to pursue a career in engineering, making the industry more attractive to female professionals by improving the compatibility between work and family life, and retaining older employees. Swissmem has launched a strategic initiative with the aim of supporting our member companies with these measures. Our strategy is also reflected in the new collective employment agreement concluded in 2018: the social partners of our industries have initiated a joint project in the field of lifelong learning with the aim of increasing professional mobility. However, in spite of all these efforts, our member companies still need to be able to recruit skilled professionals from abroad; so the agreement with the EU regarding free movement of persons is of utmost importance for the engineering industries.

Deloitte: In your experience, what impact have the measures arising from the Mass Immigration Initiative had on the labour market?

Sonja Studer: The job registration requirement did not come into force until 1st July 2018, so our experience is still limited. Feedback from our member companies indicates that there are significant regional differences. So far, very few positions have been filled via the job registration requirement since the quality of most submitted dossiers has been rated insufficient. Our first impression does not lead us to conclude that the instrument has failed, but it makes clear that the process still requires some improvement. The obligation to notify vacant posts may well be an adequate measure in periods of higher unemployment rates. And without doubt, we prefer this instrument to a rigid quota system, because it still provides some flexibility to recruit specialist staff from abroad if needed.

Deloitte: According to our survey, Swiss consumer and industrial products companies are less likely than their European counterparts to use automation to overcome labour shortages. What do you think the reason for this might be?

Sonja Studer: Due to comparatively high production cost and salaries, Swiss industries have had to find ways to maintain competitiveness in the global markets. One of these measures has been to invest continuously in productivity, and automation is one aspect of this. We think it's fair to state that Swiss industry in general has quite a high level of rationalisation, automation and optimisation of value chains across international locations. Besides, in our experience, automation is not a substitute for labour. Its primary objective is to make organisations more competitive. And being competitive means achieving growth, not only in turnover but also in staff. We have seen several companies that invested successfully in digitalisation ("Industrie 4.0") now hiring additional staff.

Profile: Sonja Studer joined Swissmem, the association of the Swiss mechanical and electrical engineering (MEM) industries, in 2008.

Before being appointed member of the Executive Board and taking over the Education section in July 2018, she was responsible for Swissmem's energy and climate policy.

Sonja Studer has represented the interests of the Swiss MEM industry in various national and international associations and working groups. Among others, she was a member of the board of the Energy Agency of the Swiss Private Sector (EnAW) from 2008 to 2018 and of the export platform Cleantech Switzerland from 2010 to 2015.

Before joining Swissmem, Sonja Studer held positions at the University of Hong Kong and the Swiss Petroleum Association.

She holds a degree in Environmental Science and a doctorate in microbiology, both from the Swiss Federal Institute of Technology (ETH) in Zurich.

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