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The Deloitte CFO Survey

Is the boom at an end?

Second half-year 2018 | Results of the Swiss and European CFO Surveys

Summary and key findings of the Swiss CFO Survey

Themes this quarter

Normality is returning. The impetus behind the boom in the Swiss economy appears to be slowing, with a return to less spectacular, but still good, growth figures. This is borne out by the responses on a series of indicators in the second half-year CFO Survey. Expectations for the Swiss economy remain very positive but have deteriorated slightly, with only a small minority of CFOs more optimistic about their company's prospects now than they were three months ago. CFOs remain optimistic overall, but are more cautious than in the first half-year on most of the corporate indicators. Expectations for employee numbers are the exception, with a slight improvement. Companies also remain willing to spend, with expectations for investment remaining positive but down on the previous Survey.

CFOs perceive the global environment in particular as posing major challenges. For the first time, trade disputes are a concern for the majority of companies and are now the third most frequently cited risk factor after internal risks and geopolitical risks. The stronger Swiss Franc means that CFOs now also perceive currency risks as greater, ranking them fourth in the list of risk factors. 59% of all companies are taking measures to counter the impact of a strong Swiss Franc. On average, CFOs see an exchange rate of EUR/CHF 1.07 as the level at which companies will start feeling a negative impact. The skills shortage is also perceived as one of the more serious risks facing companies. Swiss companies are turning to automation to compensate for the shortage of skilled labour and are more likely than their European competitors to recruit from abroad. However, only a minority of CFOs think that recruiting from alternative pools of labour – such as those returning from a career break or older workers – is the right strategy for solving the skills shortage.

Chart 1. Positive and negative indicators in the Swiss Survey

Negative indicators

- Trade disputes now a major risk factor for companies
- China, Italy and the US seen as representing greater risk
- Renewed focus on currency risks: EUR/CHF 1.07 is the average exchange rate at which negative impact can be expected
- Only a small majority rate corporate outlook more positively than three months ago

Positive indicators

- Optimism about the economy slightly lower but remains high
- Revenue expectations positive
- Expectations for operating margins and profits remain positive
- Appetite for investment unaffected
- Small increase in expectations for employee numbers
- Slight reduction in perceived uncertainty

Corporate outlook runs out of steam

29% 3 pp ▼

rate the financial prospects for their company as more positive than three months ago.

Slightly higher employee numbers expected

42% 2 pp ▲

expect employee numbers to increase.

Critical level for exchange rate

EUR/CHF **1.07**

the average exchange rate for the Swiss Franc against the euro at which CFOs expect negative impact.

Note: % of Swiss CFOs, second half-year of 2018 compared with first half-year of 2018

Summary and key findings of the European CFO Survey

The autumn chill is being felt in the corporate world, though a generally positive mood continues. The findings of the European CFO Survey show even more clearly than the Swiss results that the period of peak growth is over. A small majority of CFOs rate the prospects for their own company as more negative than three months ago, a fall of almost 30 percentage points in the net balance from the first half-year. Indeed, expectations for all corporate indicators have fallen by double figures. However, on average and in most countries, they remain very positive, including expectations for investments and for employee numbers. Uncertainty is rated higher across the board this half-year, particularly in Turkey and the UK. CFOs in Germany also rate uncertainty as very high. As well as cultural factors, as an exporting nation, Germany could also be particularly vulnerable to trade disputes. High levels of uncertainty are having an impact on risk appetite, which has declined on average by 20 percentage points. It is, in fact, now so low in most European countries that Switzerland's traditionally cautious CFOs represent the second-highest level of risk appetite in the Survey, second only to their French counterparts.

Of the major economies, France remains most optimistic on a majority of indicators despite major falls in ratings. As in previous surveys, the UK ranks at the bottom of the major economies because of the continuing uncertainty surrounding Brexit. Of the 20 countries that took part in the Survey, only Turkey ranks lower than the UK.

Chart 2. Positive and negative indicators in the European Survey

Negative indicators

- Outlook for companies substantially worse: in around half the countries in the Survey, a majority are more pessimistic than six months ago
- Expectations for corporate indicators declining rapidly across the board
- Perceived uncertainty is higher: almost 90% of CFOs in Germany, Turkey and the UK perceive high levels of uncertainty
- Risk appetite has declined markedly, with no country reporting a majority willing to take greater risk

Positive indicators

- Revenue and operating margin expectations remain positive despite decreases in most countries
- Companies plan to continue to invest, with a majority of CFOs (except in Turkey and the UK) reporting positive investment expectations
- Most CFOs also report positive expectations for employee numbers

Corporate outlook runs out of steam

25% 15 pp ▼

rate the prospects for their own company as more positive.

Revenue expectations good but declining

60% 13 pp ▼

have positive revenue expectations over the next 12 months.

Risk appetite declines

24% 10 pp ▼

believe this is a good time to take greater risk on to their balance sheet.

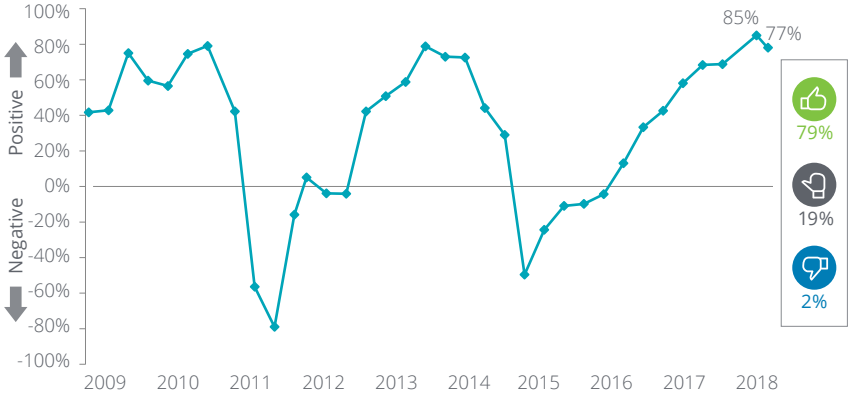
Note: % of European CFOs, weighted by GDP, second half-year of 2018 compared with first half-year of 2018

Has growth reached its peak?

CFOs expect the Swiss economy to continue to perform well, but there is a slight decline compared with the first half-year. The previous Survey saw a record 88% of CFOs rating the outlook as positive, but this level has not been sustained in the second half-year. 79% of CFOs now rate the prospects over the coming 12 months as positive, with just 2% rating them as negative, a net balance of 77%. 12% expect Switzerland to face a recession within the next two years, as responses to a subsequent question showed. Overall, the mood remains upbeat, considering the challenging business environment, which includes trade disputes and a resurgent Swiss Franc. Yet there are growing signs that growth in Switzerland has peaked, as the current forecast by the Swiss State Secretariat for Economic Affairs (SECO) suggests: it expects growth of 2.9% in 2018 and of 2.0% in 2019.

Chart 3. Economic outlook for Switzerland

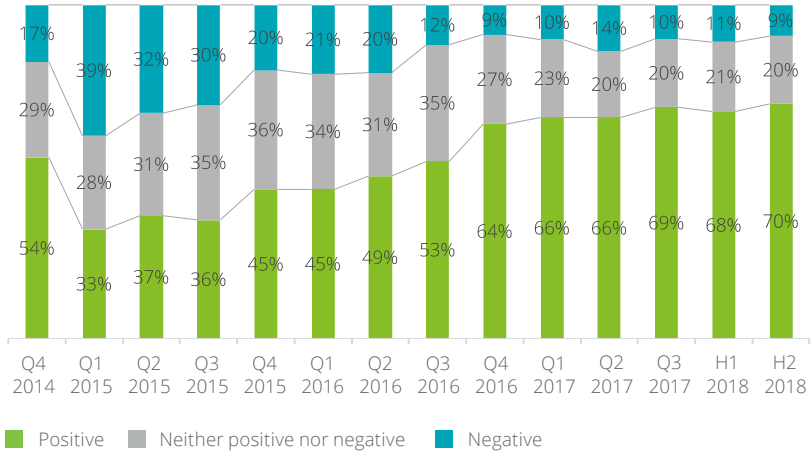
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



Swiss CFOs are optimistic about the prospects for their own company. 70% rate the financial outlook for their company over the next 12 months as positive, up from 68% in the first half-year. The recovery in the Swiss economy remains broadly based but is benefiting only a few more companies.

Chart 4. Financial outlook for Swiss companies

How do you rate your company's financial prospects over the next 12 months?

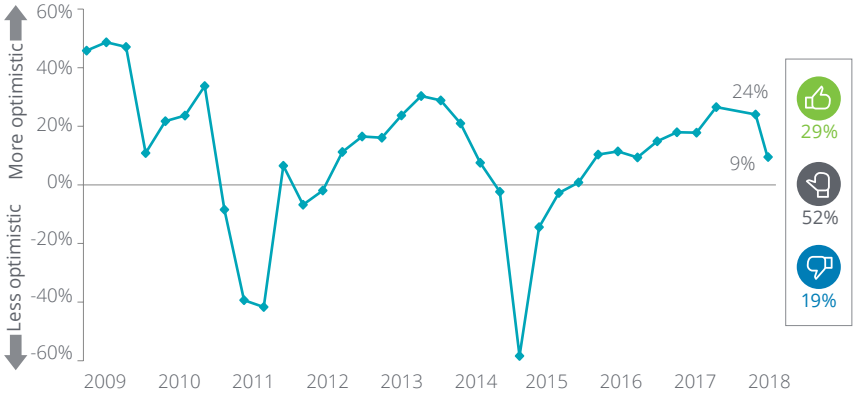


Corporate outlook under pressure

Swiss CFOs' responses comparing the current situation with that three months ago confirm the view that growth has now peaked. While the majority of CFOs still rate their company's outlook as more positive than three months ago, it is substantially smaller than in the first half-year (a net balance of 9% compared with 24% in the first half-year). Just over half of all CFOs report no change. The number of those perceiving a deterioration has more than doubled, from 8% in the first half-year to 19%. The reasons may include the continuing strength of the Swiss Franc and the challenging global environment over recent months. Companies with a global focus are slightly more pessimistic, with 25% reporting a deterioration in this indicator. Despite this, the financial outlook for Swiss businesses has improved consistently since the end of 2015, with optimism sustained over the last ten Surveys.

Chart 5. Financial outlook for Swiss companies compared with the previous quarter

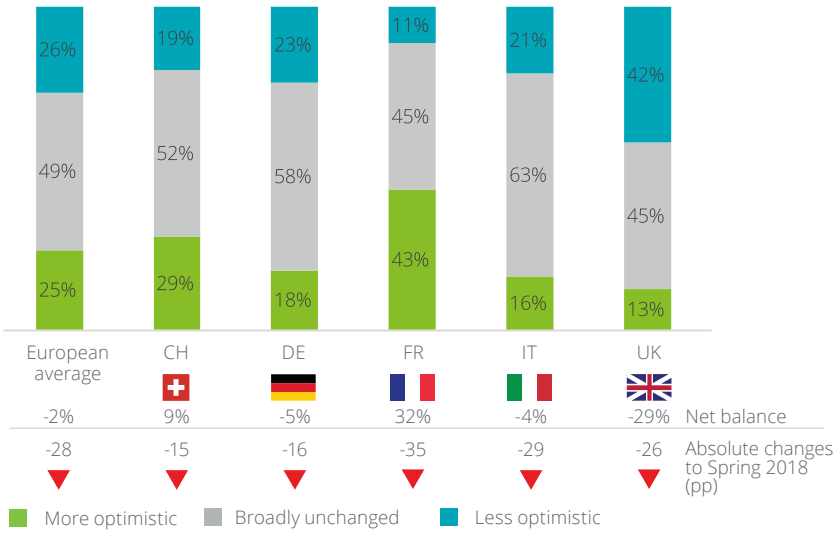
Net balance indicating how Swiss CFOs rate their company's financial prospects compared with three months ago



Switzerland is also performing increasingly well compared with other European economies. The deterioration in prospects compared with the first half-year 2018 was less significant in Switzerland than the European average and also than in individual major European economies. Despite a marked decline from the first half-year, French CFOs are most optimistic among the major economies. A small majority of 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 impacted directly 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. In previous surveys CFOs in the UK have often lagged behind their counterparts on this indicator. Following a further marked decline, UK CFOs remain the most pessimistic across the major European economies in the second half-year 2018. They perceive Brexit as the most pressing problem, and this depressed their mood considerably during the survey period. Of all the participating countries, only CFOs in Turkey are more pessimistic than their UK counterparts, which is not surprising, given the substantial volatility of the Turkish lira.

Chart 6. Financial outlook for companies across Europe

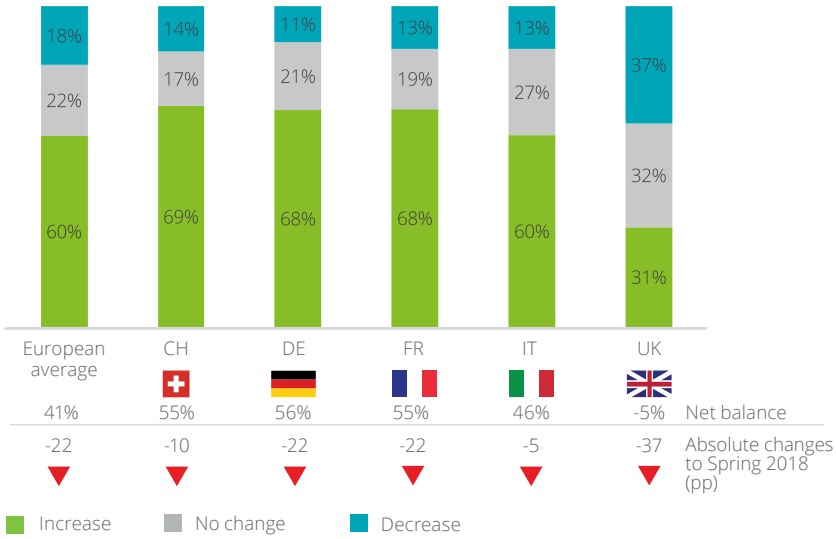
Percantage of CFOs rating their company's financial prospects more / less optimistic compared with three months ago; results for selected European countries



Corporate indicators good, but not quite as good as recently

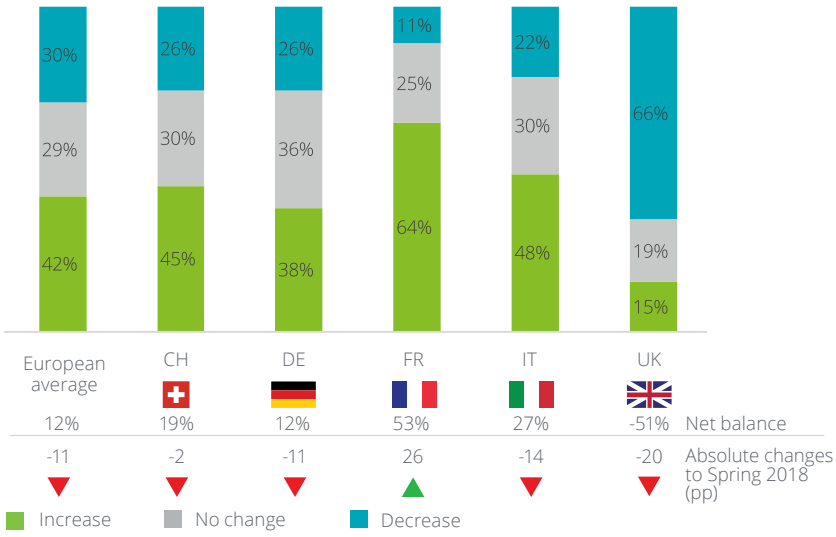
While the detailed corporate indicators are positive, they are not quite as good as they have been recently with the current ratings down virtually across the board. The decline in Switzerland is less marked than the European average, allowing Switzerland to perform well by comparison. There is not yet any evidence of an impending downturn: rather, the findings suggest that peak growth has been reached and that while the economy is still growing, the rate of growth is lower than before. On most indicators, France is the most positive among the major economies, with the UK declining further and lagging markedly behind the other major economies. Turkey is at the bottom of the list of the 20 participating countries. The UK performs best in terms of revenue expectations, with a net balance of -5%, although this is 37 percentage points lower than in the first half-year. Germany outperforms the other major European economies, with France and Switzerland following not far behind.

Chart 7. Revenue expectations across Europe
Percentage of CFOs who expect their company's revenues to increase/decrease over the next 12 months; results for selected European countries



Expectations for operating margins have declined in most countries compared with the first half-year, but CFOs' expectations for the next 12 months remain positive. France is one of the few countries where expectations for operating margins have improved and it leads the major economies on this indicator. Italian CFOs are more pessimistic than in the first half-year, but a substantial majority still expect margins to increase (a net balance of 27%). Italy's CFOs appear to be relatively unaffected by the political and economic uncertainty that followed the country's change of government. Fewer CFOs in Germany believe that margins will improve than in the previous survey, although a small majority still expect an increase in the next 12 months. The deterioration compared with the first half-year is minimal in Switzerland, with Swiss CFOs' expectations for operating margins higher than those of their German counterparts and also higher than the European average for the first time since the European CFO Survey was launched in 2015. Turkish CFOs' expectations for operating margins have plummeted compared with the first half-year, and there has also been a marked decline in the expectations of UK CFOs.

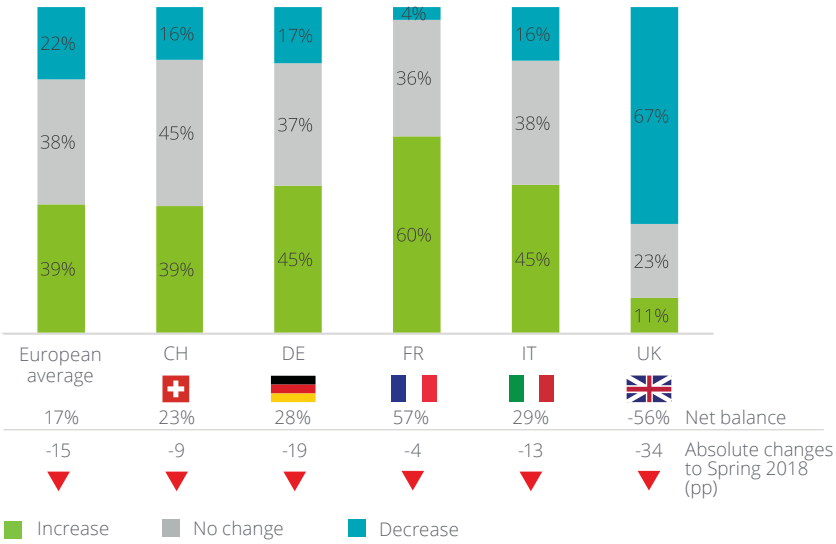
Chart 8. Operating margin expectations across Europe
Percentage of CFOs who expect their company's operating margins to increase/decrease over the next 12 months; results for selected European countries



Recruitment plans buck the European trend

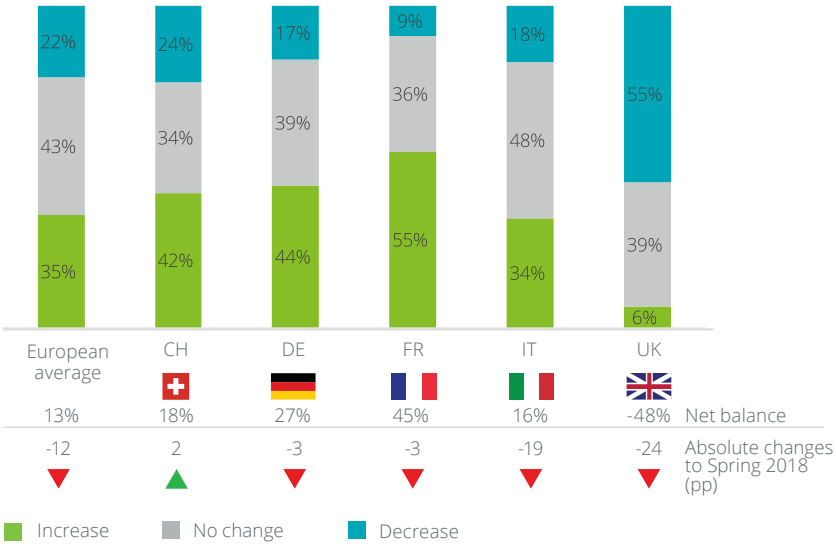
Companies remain willing to invest both in capital expenditure and in recruitment. CFOs' investment expectations over the next 12 months are almost universally positive, with the exception of Turkey and the UK. However, expectations are down on the first half of 2018 across the major economies and in Switzerland. Capital expenditure plans are very positive in France (a net balance of 57%). In Germany and Italy too (net balances of 28% and 29% respectively), substantially more CFOs believe that investments will increase compared with those who expect them to fall. In Switzerland the net balance is 23%, only slightly lower than Germany and Italy and also above the European average on this indicator. Companies have been cautious for some time, but the continued economic growth and increasing revenues means they have scope to catch up, provided external risks can be contained. In Turkey and the UK, expectations for investment have declined.

Chart 9. Investment expectations across Europe
Percentage of CFOs who expect investments for their company to increase/decrease over the next 12 months; results for selected European countries



Compared with the trend across Europe, Swiss CFOs' expectations for employee numbers over the next 12 months are higher than in recent surveys. Only CFOs in Austria and Belgium report similar optimism. There is increasing evidence of an upturn in the Swiss labour market, and with unemployment reaching a ten-year low, exacerbating the existing skills shortage (see page 11). Expectations for employee numbers are negative in only three countries (Iceland, Turkey and the UK). Of the major European economies, France again leads on this indicator, with more than half of French CFOs expecting employee numbers to increase as against just 9% who expect them to decrease. The impact of France's labour market reforms on employment has been modest so far. An increase as indicated by these numbers would be welcome. Following a markedly decreased unemployment rate in recent years, German CFOs also expect employment to continue to increase.

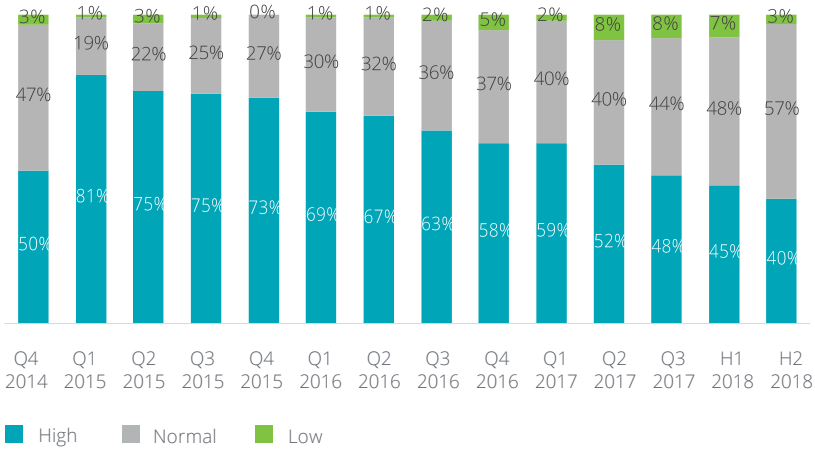
Chart 10. Expectations for employee numbers across Europe
Percentage of CFOs who expect employee numbers for their company to increase/decrease over the next 12 months; results for selected European countries



A more challenging global environment

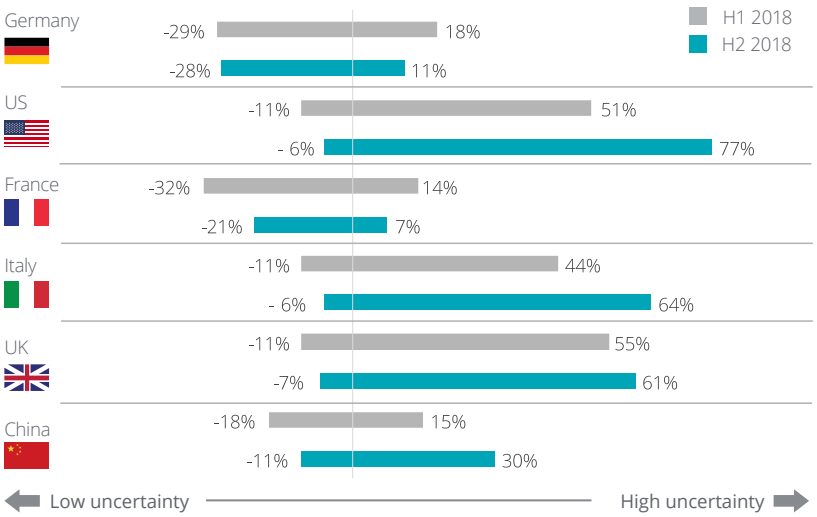
Perceived uncertainty continues to decline. 40% of Swiss CFOs rate uncertainty in the economic and financial environment as high, 5 percentage points down on the findings for the first half-year. Although the crisis mood of 2015 has dissipated, CFOs are still cautious on this indicator. Just 3% rate uncertainty as low, a very small group in absolute terms but also the lowest value since Q3 2016. Companies with an international focus perceive greater uncertainty than those whose business is primarily domestic (48% and 31% respectively), as most of the challenges come from abroad. CFOs of companies headquartered in other European countries also perceive greater uncertainty. At 88% and 89% respectively, Turkey and the UK report the highest values on this indicator. At 62%, Italian CFOs' rating of uncertainty is at its highest since the Italian survey began in 2015.

Chart 11. Uncertainty from the perspective of Swiss CFOs
How do you rate the current level of uncertainty in the economic and financial environment?



The challenging global environment is reflected in Swiss CFO's assessment of Switzerland's major trading partners. Swiss CFOs perceive a greater level of political uncertainty in most of the country's five major trading partners. The US heads the list, with 77% of Swiss CFOs expressing the view that the environment there is uncertain. CFOs of internationally focused companies are more critical still, with a net balance of 88%. (For further information on the US economy, see page 14.) Swiss CFOs also perceive greater uncertainty in Italy and in Brexit Britain. The trade dispute with the US seems to be impacting on perceptions of China: more than one-third of CFOs rate uncertainty in China high, twice as many as in the first half-year, although with a marked gap between those heading the table and those further down. France and Germany appear to be bucking the overall trend with perceptions of uncertainty lower than in the first half-year.

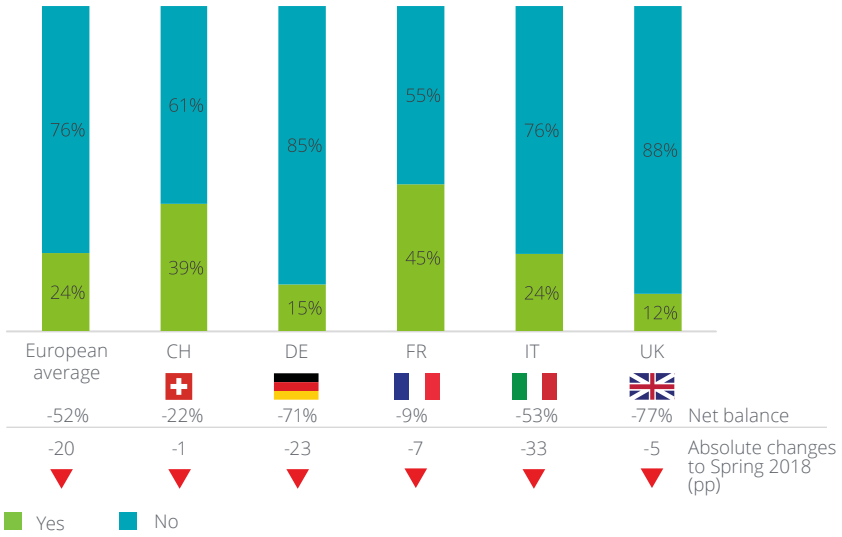
Chart 12. Risk represented by Swiss trading partners
How do you rate the current level of political uncertainty in the following major Swiss trading partners as it affects your company?



Growing concern about the impact of a trade war

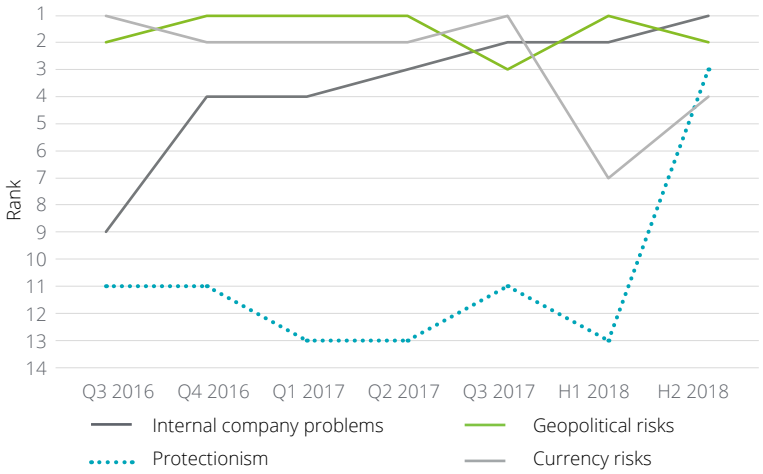
A majority of Swiss CFOs remain risk-averse. Just under 40% now believe this is a good time to be taking greater risk on to their balance sheet, a proportion that has remained largely unchanged since Q1 2017. Since the question was first asked in 2009, there has only been one occasion – Q4 2014 before the exchange rate floor with the euro was removed – when a majority believed it was a good time to be taking greater risk on to their balance sheet. However, despite this caution, Swiss CFOs are, in fact, among the most likely across Europe to take greater risk on to their balance sheet in the second half-year. Risk appetite has declined in virtually all countries, mostly by double figures in percentage terms, and only CFOs in France have a greater risk appetite than those in Switzerland. Just 15% of German CFOs are willing to take greater risk on to their balance sheet, down 23 percentage points on the first half-year. The figures for Turkish and UK CFOs are just 8% and 12% respectively. The greater uncertainty perceived by CFOs (see previous page) is clearly having a negative impact on risk appetite.

Chart 13. Comparative risk appetite across Europe
Is this a good time to be taking greater risk on to your balance sheet?



Concern about greater protectionism has been widespread for many years but has not had an impact on CFOs' perceptions of risk – at least, until now. Protectionism has risen to the third most frequently cited risk in the current survey. While Switzerland has so far been largely unaffected, concern about the impact of trade disputes is growing here, too. Swiss CFOs have long considered geopolitical risk as a major risk and it currently ranks second on the list. For the first time, internal risks top the list, including operational risks arising from internal processes or implementation of corporate strategy. Currency risks are the fourth most frequently cited risk and have recently risen in importance against the backdrop of the threat of an appreciating Swiss Franc. Internal risks head the list, but are followed by a cluster of linked external risks (geopolitical risks, protectionism and currency risks).

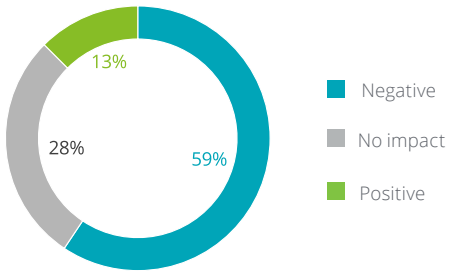
Chart 14. Top four risks in Switzerland
Top four risks in second half-year 2018 and comparative rankings since Q3 2016



Exchange rate of EUR/CHF 1.07 seen as triggering negative impact

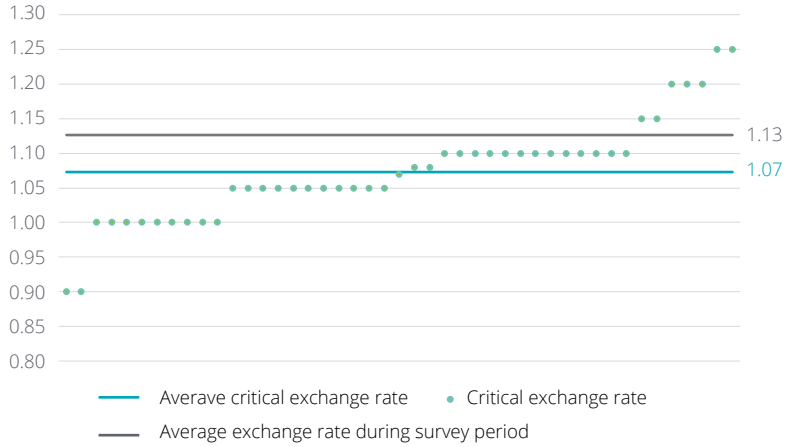
Most Swiss CFOs believe that a stronger Swiss Franc would have a negative impact on Swiss companies. On the basis of their experience over recent months, 59% report that the impact on their own company would be negative, with just 13% believing the impact would be positive.

Chart 15. Impact of a stronger Swiss Franc
To what extent would your company be affected by a stronger Swiss Franc in relation to the euro?



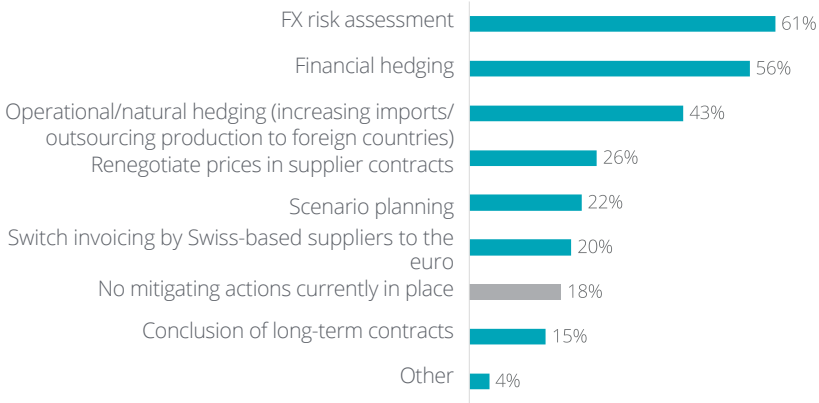
At what exchange rate level would this negative impact make itself felt? On average, CFOs felt the critical exchange rate would be EUR/CHF 1.07. During the survey period, the average exchange rate was EUR/CHF 1.13, comfortably above this critical level, despite the recent increase in the value of the Swiss Franc. Nevertheless, individual companies believe that the tipping point lies above EUR/CHF 1.13, and these companies already face substantial pressure as a result. Other companies perceive pressure at an exchange rate of EUR/CHF 1.10. Only very few companies would be affected at parity or by an exchange rate just below parity.

Chart 16. Critical exchange rate level
At what EUR/CHF exchange rate would you expect a negative impact on your company?



It is therefore not surprising that Swiss companies continue to work actively to contain exchange rate risks. Only 18% are taking no measures in this area (and more than three-quarters of this group are primarily domestically focused). 61% of companies are conducting a risk assessment – a surprisingly low figure. More than half are engaging in financial hedging and 43% in operational hedging. Internationally focused companies are significantly more active in this area, with 77% conducting a risk assessment, two-thirds engaging in financial hedging and the same proportion in operational hedging.

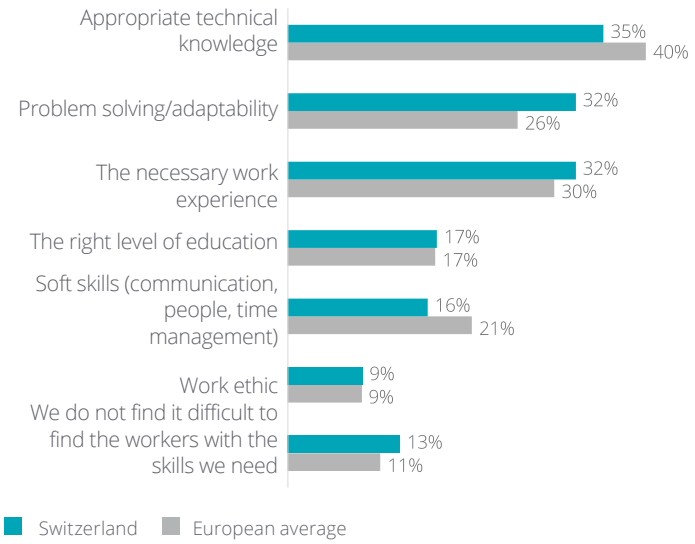
Chart 17. Corporate measures against a stronger Swiss Franc
What measures is your company taking to contain exchange rate risks? (multiple responses possible)



Focus on skills shortage

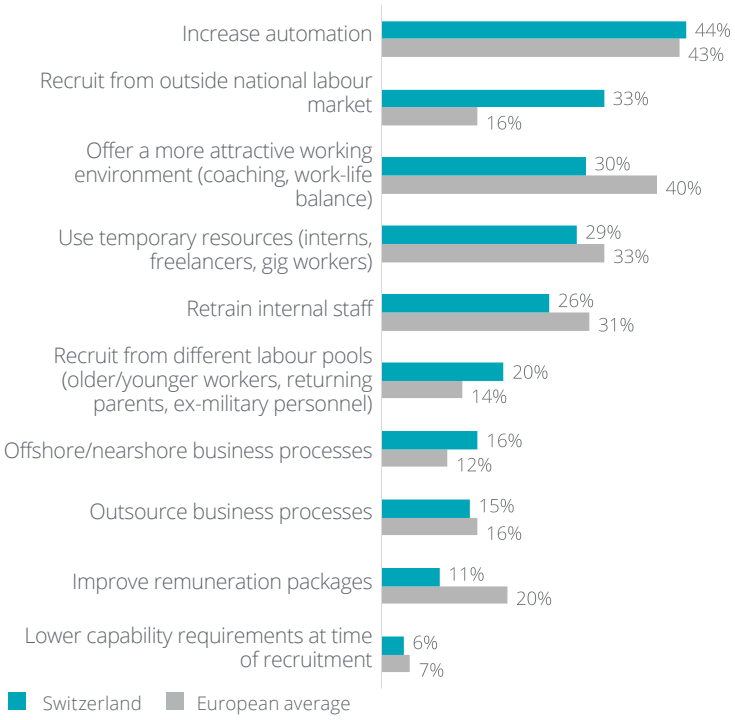
Access to skilled labour is one the greatest risks CFOs perceive. In the second half-year, it is ranked sixth on the list of risks identified by Swiss CFOs. With a few exceptions, the skills shortage is also one of the most frequently cited risks in the European CFO Survey. Five European countries – including Austria and Germany – identify it as the major risk they perceive. On average across Europe, just 12% of CFOs report no difficulties in recruiting skilled labour. This is more likely to be the case in countries with major economic difficulties, such as Greece (20%), Italy (32%) and Turkey (19%). Across Europe and in Switzerland, companies are keenest to recruit staff with 'hard skills' – relevant technical expertise and the necessary experience. Problem-solving ranks third on the list of the skills employers seek. Most countries, including Switzerland, find it easier to recruit workers with the necessary work ethic and soft skills, including communication skills, social skills and good time management. However, this is not universally the case. For example, adequate soft skills are comparatively hard to find in France (42%), Greece (56%) and Portugal (48%). Meanwhile, above-average numbers of CFOs in Belgium (33%), Greece (17%) and Ireland (21%) report that they find it difficult to recruit workers with the necessary work ethic.

Chart 18. Skills shortage
Which skills and attributes are most difficult to find among employees?
(Multiple responses possible)



So what measures are companies taking to overcome the skills shortage? Across Europe, and in Switzerland, the most commonly cited response is automation. Here, Switzerland is slightly more likely to be pursuing automation than the European average (44% as against 43%). Use of temporary staff in Switzerland is also close to the European average at 33%. In contrast, Switzerland is more likely than the European average to recruit from abroad (33%) and to seek staff from among alternative labour pools, such as those returning from career breaks or older workers (20%). Both Europe and Switzerland still tend to neglect the potential offered by older workers, which represents a wasted opportunity as the population ages. Offshoring is another solution more likely to be considered by Swiss companies than the European average, though it is relatively uncommon both in Switzerland and across Europe. This is where the advantages of automation become evident. Automation means companies are able to take domestic measures to improve their competitiveness, creating more jobs and greater value, and increasing tax revenues within their national borders. Swiss companies are less likely than the European average to rely on a more attractive working environment, continuing training or wage incentives to tackle skills shortages. Switzerland is already taking many such measures, and there seems to be little evidence that companies are prioritising further improvements. However, given the importance of recruitment from abroad, companies need to ensure that they do not fall behind their foreign competitors.

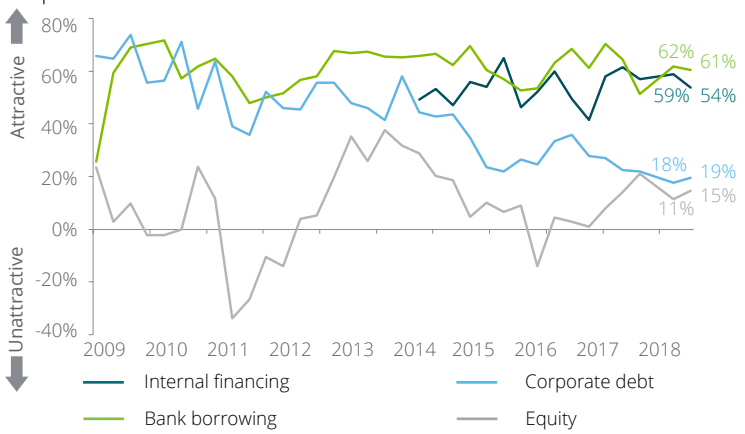
Chart 19. Measures to counter the skills shortage
To what extent does your company use the following measures to tackle the shortage of skilled labour? Proportion of responses indicating "To a great extent" and "To a very great extent"



Attractive Swiss financing environment, slightly higher inflation expectations

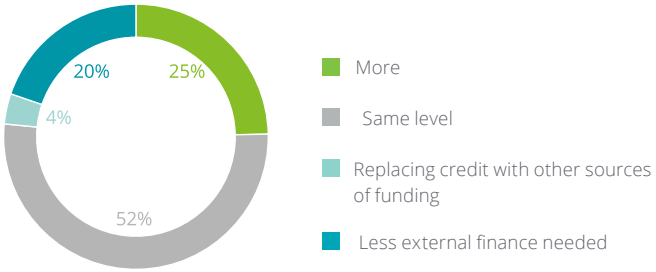
Bank borrowing and internal financing remain the two most popular forms of corporate financing from the perspective of Swiss CFOs. Corporate debt and equity are slightly more popular than in the first half-year but lag some way behind bank borrowing and internal financing.

Chart 20. Corporate financing environment
How do you currently rate the following sources of financing for Swiss companies? Net balance



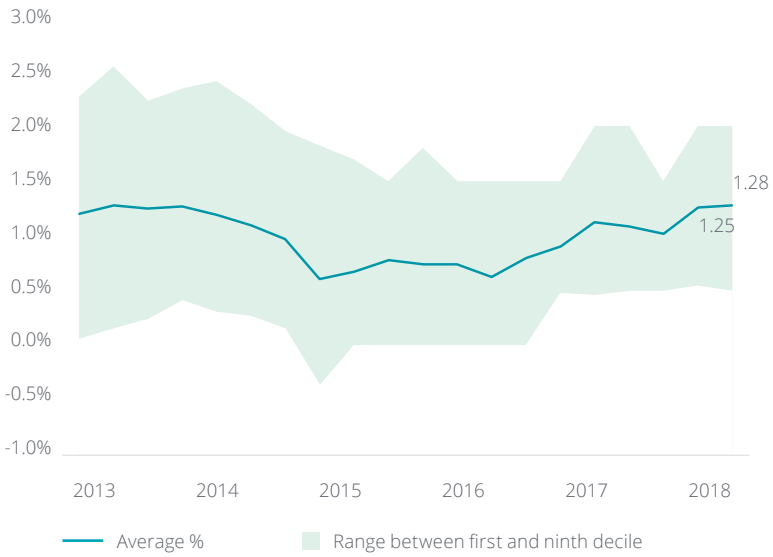
As other questions show, a large majority of CFOs continue to rate both the cost and availability of credit as attractive. Chart 21 indicates that most CFOs plan to keep their borrowing stable. Slightly more plan to increase borrowing within the next six months compared with those who plan to reduce it. 4% plan to replace bank borrowing with other forms of financing.

Chart 21. Future demand for credit
Are you planning additional bank borrowing to finance your company over the next 12 months?



While negative interest rates persist, the prospect of a return to positive inflation represents a shift in the Swiss corporate financing environment. Swiss CFOs' inflation expectations are again higher this half-year, although only slightly. If the Swiss Franc continues to strengthen, this is likely to dampen down inflation. The range of inflation expectations has narrowed over the past five years. Uncertainty had previously been high – and the range of inflation expectations correspondingly broad – following the rise in the value of the Franc after the removal of the exchange rate floor. Despite some increases, Swiss CFOs' expectations for inflation are the lowest of all the European countries in the survey. It should be noted, however, that the Swiss Survey asks about expectations in two years' time, while the European Survey asks about expectations over the next 12 months. European CFOs expect eurozone inflation to reach 2.1% over the next 12 months and, on average, in their own country to reach 3.4%. Turkish CFOs expect 23%, the highest of all the countries surveyed.

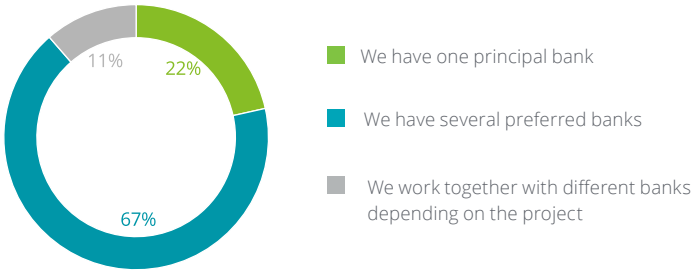
Chart 22. Inflation expectations
What inflation rate do you expect in two years' time? (Average and range between first and ninth deciles)



High satisfaction levels with banking partners; room for improvement in relation to prices and innovation

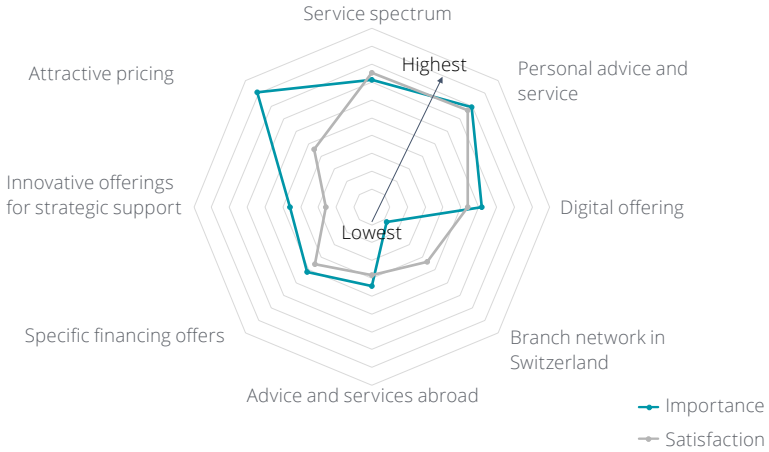
More than one in five CFOs (22%) report that their company has one principal bank. Two-thirds (67%) report working with a number of preferred banking partners, and the remaining 11% work with a range of banks, depending on the project.

Chart 23. Number of banking links
How many banks do you work with?



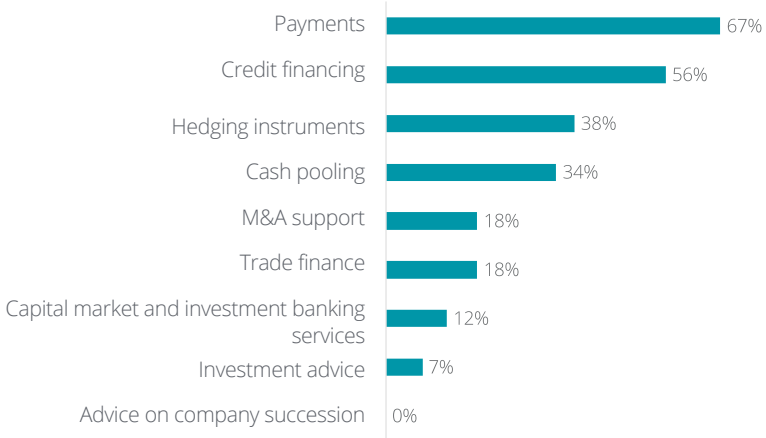
A majority of CFOs in Switzerland are very satisfied with their banking arrangements. Comparing the importance of different banking service features with CFOs' satisfaction reveals only minor differences on most features. For example, 79% of CFOs rate personal advice as important and 76% are satisfied with this feature. 62% rate digital services as important, but while high, satisfaction with digital services is slightly lower (54%). There are, however, some fairly substantial differences between importance and satisfaction in relation to other features. 91% of CFOs consider attractive pricing important, for example, but only slightly less than half (46%) are satisfied with it. The gap between importance and satisfaction is also wide in the case of innovation: 46% of CFOs consider it important, but only just over half as many (26%) are satisfied. Relatively few respondents (12%) consider having a network of branches across Switzerland to be important, but 44% say they are satisfied with the branch network.

Chart 24. Importance of and satisfaction with bank service features
How important to you are the following bank features and how satisfied are you with what your current banking partner(s) offer?



Payment services are currently rated the most important, followed by bank borrowing services. Hedging is in third place, which may be particularly related to the fact that companies continue to take measures to contain exchange rate risks (see Chart 17).

Chart 25. Top 3 services required by corporate banking clients
Which three bank services are currently most important for you?



US economy in focus Interview with Patricia Buckley, Managing Director Deloitte Research US

About Patricia Buckley:
Dr. Patricia Buckley pabuckley@deloitte.com, Deloitte Services LP, is the Managing Director for Economics for the US firm. She regularly briefs members of Deloitte's executive leadership team on changes to the US economic outlook and is responsible for producing a series of economic reports tailored to the business audience, including "Issues by the Numbers," a data-driven examination of important economic policy issues. Additionally, she partners with various practice areas to produce topical eminence and is a frequent speaker at Deloitte events discussing current economic policy and trends.

Question: Only 12% of Swiss CFOs expect a recession in Switzerland in the next two years. How do you see the economic outlook for the US up to 2020?

Answer: At present, the fundamentals of the US economy are in good shape – unemployment is low, business investment has picked up, and prices are stable. With the addition of a stimulus from the recent business and personal tax cuts and higher government spending, we should continue to see growth averaging around 2.5% to 3% through 2019. However, post-2019, I think the odds of a recession increase substantially, particularly if the existing tariffs are still in place and/or additional tariffs are imposed.

In our latest quarterly forecast of the US economy[1], we raised the probability of a recession in the next five years from 15% to 25%, partially because of concerns about the tariffs, but also recognising that the stimulatory impact of the tax cuts and additional government spending will wane and the Federal Reserve will continue to raise interest rates on its path to normalisation of monetary policy. With these factors working to slow the economy, any additional headwinds, say, from a worsening crisis in emerging markets or a Fed response to a pickup in inflation from the tariffs, could be sufficient to push the US economy into recession.

Question: Nearly 80% of Swiss CFOs rate the political risks for Swiss companies active in the US as 'high' or 'very high', the highest figure of all major Swiss trading partners. How would you rate risks in the US at the moment and what is the (potential) impact on companies?

Answer: It is not surprising, particularly in light of rising global trade tensions, that Swiss businesses rate uncertainty 'high' with respect to the US. None of the new tariffs currently in place specifically target Swiss exports to the US, but given that the US is the second largest destination for Swiss exports of goods, any ratcheting up of protectionist rhetoric would be worrying. And it would not only be exporters who are concerned – Swiss companies with US operations are having to contend with figuring out how their supply chains are being impacted. Companies that use everything from steel and aluminium to Chinese imports as intermediate goods in their operations are having to figure out how these higher prices will impact their profitability.

1. https://www2.deloitte.com/insights/us/en/economy/us-economic-forecast/united-states-outlook-analysis.html

Question: The US housing market played a pivotal role in the last recession. Do you see signs of a return of the housing bubble?

Answer: Prices in most metropolitan areas are above their pre-financial crisis peak, but the over-building that we saw in the early 2000s is not happening. If anything, the increase in the supply of housing has been lagging relative to the number of young adults entering the market. Also, one of the hallmarks of the earlier housing bubble was a sharp up-tick in home ownership. This would have normally been considered a good thing, but unfortunately, much of the increase was fuelled by people whose income and financial resources did not allow them to qualify for traditional mortgages. More than most, this category of buyer was counting on housing prices continuing to rise – they thought that if problems arose, they could sell at a profit. The rapid pace of job loses combined with falling house prices resulted in both types of owners, but most particularly the subprime borrowers, losing their houses to foreclosure, which further depressed house prices. The financial protections put into place after the crisis should hopefully limit risk from this source.

Question: The US Federal Reserve kick-started interest rate normalisation among the larger central banks. What do you think will be the effect on the US consumer?

Answer: The impact on individual consumers will depend on several factors, including whether they have credit card debt, currently own a home, are hoping to buy a home in the future, own stocks or have cash-based savings accounts.

In December 2008, the Fed reduced the upper bound on the Federal Funds Rate to 0.25% and kept the rate there until December 2015 – an incredible seven-year stretch of near-zero rates. After that first quarter-point hike in December 2015, the Fed has raised rates seven more times (most recently in September of this year), and the current rate now stands at 2.25%. The Fed is projecting that the Fed Funds Rate will reach 3.4% in 2020-21.

Now, at the same time that the Fed was keeping short-term rates near zero, it was also expanding its holdings of Treasuries and mortgage-backed securities to help keep longer-term interest rates low. When the Fed began raising short-term rates, it also began the process of reducing support to keep longer-term rates low. The Fed, however, is only one player in the setting of long-term rates, which are also dependent on the global bond market. While I cannot tell you which factor is dominating, longer-term rates are up. This means that those who are already homeowners have locked in low 30-year rates, while those considering buying are facing higher cost of ownership.

And this points out an interesting angle on rising interest rates – their impact on asset prices. When the cost of asset ownership rises (whether a house or stock), the value of that asset or the expected rise in value could be expected to fall. However, lots of other factors are at play, particularly with stock pricing, but I am not about to start forecasting prices!

About the Deloitte CFO Survey

Swiss CFO Survey

The Deloitte CFO Survey gauges the attitude of Chief Financial Officers and Group Financial Directors of major companies in Switzerland towards the outlook for business, financing, risks and strategies. It is designed to identify trends and key themes in the Swiss corporate sector. The Swiss CFO Survey is the only survey of its kind in Switzerland and has been conducted since autumn 2009. From 2018, it has been conducted every six months.

The 35th Survey, the Second Half-Year 2018 Survey, was conducted between 29 August and 24 September 2018. A total of 109 CFOs participated, representing listed companies as well as privately owned firms from every major sector of the Swiss economy.

The Deloitte CFO Survey is written and produced by Dr. Michael Grampp, Chief Economist, and Dennis Brandes, Senior Economic Analyst, Deloitte Research.

European CFO Survey

Deloitte conducts CFO Surveys in more than 60 countries. Since 2015, results from up to 20 European countries have been compiled into a single report. This edition presents the results for selected questions and countries. You can find the full results and country comparisons at www.deloitte.com/europeancfosurvey

The European CFO Survey for the second half-year of 2018 reports findings from 1,373 CFOs in 20 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Russia, Sweden, Switzerland, Turkey and the UK. The survey was conducted between August and September 2018.

A note on the methodology

Some of the charts in the Survey show results as an index value (net balance). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither negative nor positive are deemed to be neutral.

Because of rounding, percentages may not add up to 100. To improve readability, only questions related to the current financial and economic situation have been included in the published Survey. If you would like to receive information about unreported questions, please contact us.

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The Deloitte CFO Survey is supported by the CFO Forum Schweiz, the independent association of Chief Financial Officers in Switzerland.

Participating in our Survey and accessing previous surveys
If you would like to take part in our Survey or would like to receive further copies of this report, please contact us at **cfosurvey@deloitte.ch**

You can find all the survey results since Q3 2009 on our website at **www.deloitte.com/ch/cfosurvey**

Notes

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