

The Deloitte CFO Survey
Brighter horizons, but concerns remain
Spring 2017

Summary and key findings of the Swiss CFO Survey

Themes this quarter

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The economic and business outlook continues to improve, but CFOs remain uncertain about some areas. They rate the prospects both for the Swiss economy and for their own company as positive. However, political risk overshadows a generally optimistic outlook.

Survey results in economic and political context

CFOs' views this quarter are shaped by two contradictory trends. They are optimistic about the economic prospects of the US, China and the EU. While a growing number of commentators now fear a 'Trump bump', this is not harming prospects for economic growth in the US. China still looks likely to avoid a 'hard landing' and even within the EU growth is slowly increasing, albeit from a low base.

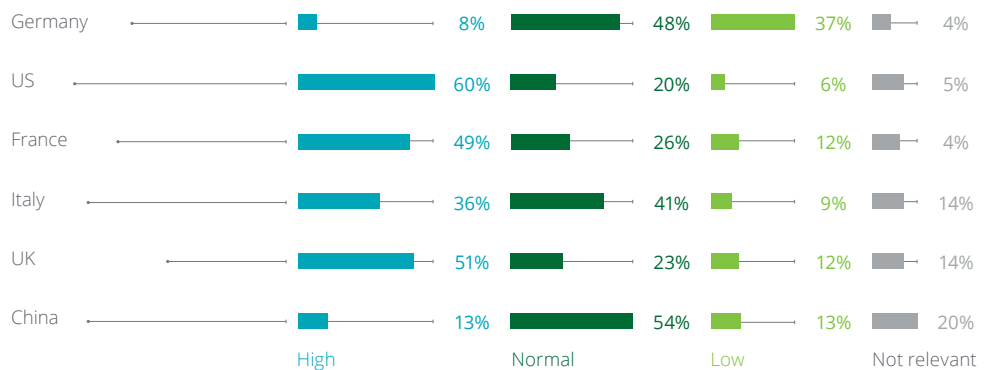
However, a number of mainly political risks are dampening this generally optimistic mood. They include the rise of populism, the policies of the new US administration, the recently initiated process of Brexit and upcoming elections in Europe. Most of these risks have a largely indirect influence on companies, for example as a result of the strength of the Swiss Franc, which is also related to the 'safe haven' effect. Nevertheless, the perception of these risks raises questions about key institutions, including the WTO, NATO and the EU. If the risks were to materialise, there would be a massive deterioration in the business environment, particularly with regard to international trade.

It is therefore unsurprising that this quarter's results reflect this dichotomy. As an exporting nation, Switzerland benefits from growth in the global economy. The Survey results point to continued growth in optimism in areas such as expectations for the Swiss economy over the next 12 months and the outlook for companies: in both areas virtually the same proportion of CFOs – around two-thirds – are optimistic, compared to around one in ten who are pessimistic.

As an exporting nation, however, Switzerland would also be particularly affected by disruption to global trade patterns. CFOs' views are therefore coloured not only by the strong Swiss Franc but also by political risk. The country's six largest export destinations between them account for almost 60% of all Swiss exports, and CFOs see a high level of political uncertainty in four of them. 60% see high levels of uncertainty in the US, 50% in the UK and France, and almost 40% in Italy (see Chart 1)..

Chart 1. Risk represented by trading partners

How do you rate the current level of political uncertainty for your company with regard to the following major Swiss trading partners?





Further improvement in economic and corporate prospects

65% 15 pp ▲

of CFOs rate the prospects for the Swiss economy over the next 12 months as positive.

Economic prospects have continued to improve this quarter, with further consolidation and strengthening across a number of indicators. CFOs are positive about Switzerland's economic prospects over the next 12 months, with almost two-thirds expressing optimism as against 9% who are pessimistic.



Bright outlook for companies, but pressure on margins persists

66% 2 pp ▲

are optimistic about the financial prospects for their company over the next 12 months.

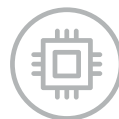
The picture for company prospects mirrors that for Switzerland's economic prospects: two-thirds of CFOs are optimistic and one in ten is pessimistic. Revenue expectations over the next 12 months are very positive, and more CFOs expect employee numbers to increase than decrease. Nonetheless, expectations for margins and investments are down on the preceding quarter.



Focus on political uncertainty

60% rate political uncertainty in the US as high.

Uncertainty and risks remain, particularly political risks. 60% of CFOs rate the level of political uncertainty in the US as high. Significantly more CFOs also rate uncertainty in the UK, France and Italy as high compared to those who consider it low.



CFOs bank on modern technologies

43% see a high degree of future relevance in robotic process automation of the finance function.

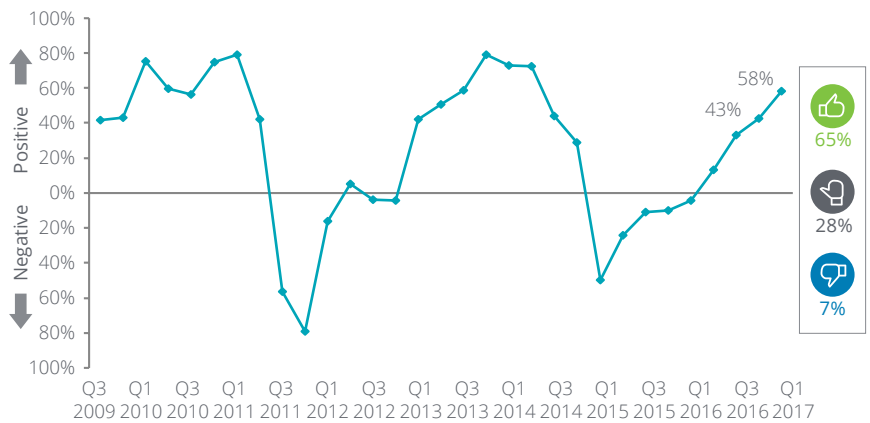
In a challenging external environment, it is critical for companies to sharpen their competitiveness. CFOs are increasingly putting their faith in digitalising their company's finance function, primarily to improve processes and bring down costs. The most frequently deployed solutions are cloud computing and specific applications. In future, the focus will also be on in-memory computing and robotic process automation.

Continued improvement in prospects

The mood among Swiss CFOs continues to improve: for the eighth successive quarter, their rating of the country's economic prospects is more positive than in the preceding quarter. 65% now rate the prospects for the Swiss economy over the next 12 months as positive, compared with just 7% who rate them as negative – a net balance of 58%. This is the highest net balance since Q2 2014. Responses to a separate question (see Appendix 1) indicate that just 6% of CFOs expect Switzerland to face a recession over the next two years.

Chart 2. Economic outlook

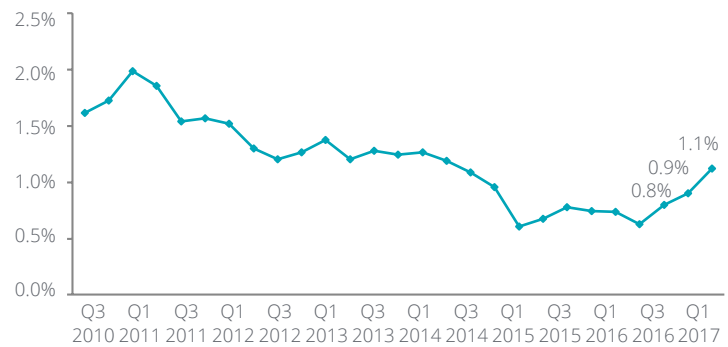
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



There is also a sustained increase in CFOs' inflation expectations: on average, these have now risen for three successive quarters. CFOs expect an inflation rate in two-years' time of 1.1%, marking the first time since the removal of the exchange rate floor in 2015 that inflation expectations have exceeded 1%.

Chart 3. Inflation expectations

What inflation rate do you expect in two-years' time as measured against the Swiss Consumer Price Index?



The picture in relation to companies' financial prospects shows a similarly sustained improvement. For the last six quarters, a small minority of CFOs have reported an improvement in the prospects for their own company compared with three months ago, taking the net balance for the current quarter to 18%, up from 15% in the winter 2016 Survey.

Chart 4. Financial outlook for companies compared with the previous quarter

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

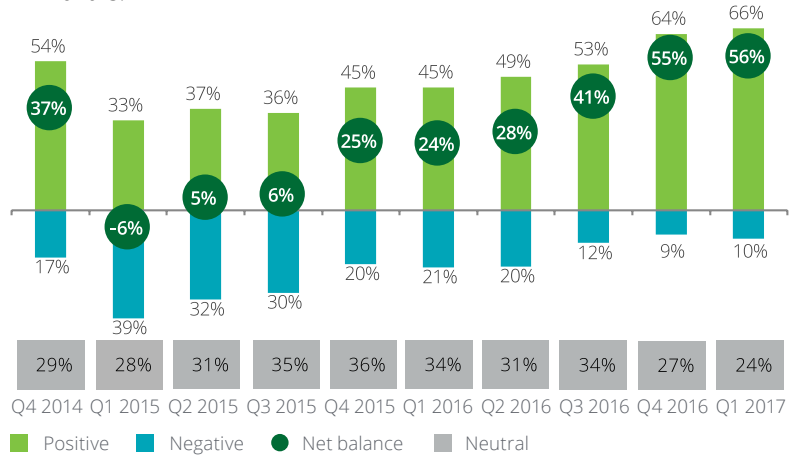


Encouraging corporate outlook

CFOs' expectations for their company's prospects over the next 12 months also continue to improve. Two-thirds of CFOs rate them as positive compared to 10% who rate them as negative.

Chart 5. Financial outlook for the next 12 months

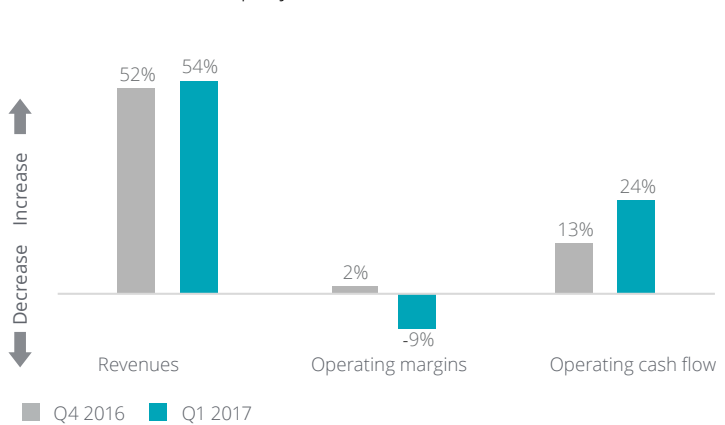
How do you rate your company's financial prospects over the next 12 months?



Detailed corporate indicators paint a more mixed picture, however. Revenue expectations for the next 12 months are strongly positive and slightly up on the preceding quarter. In contrast, there is a decline in expectations for operating margins: once again, a small majority expect margins to decrease over the next 12 months, while expectations for operating cash flow have improved.

Chart 6. Corporate indicators I

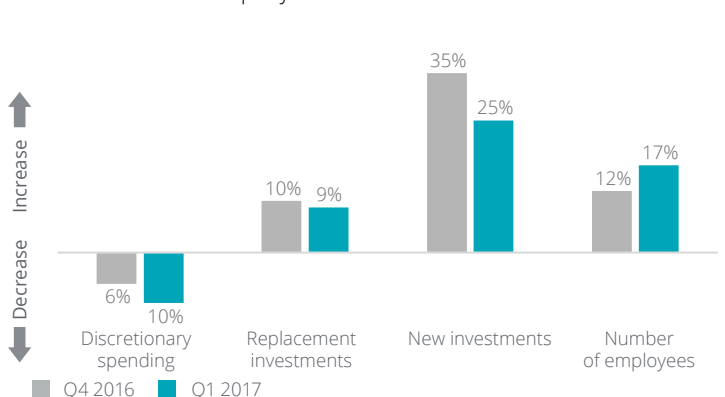
Net balance of CFOs who expect the following indicators to increase/decrease for their company over the next 12 months



There is a similarly mixed picture in relation to expenditure. A slightly larger majority expect discretionary spending to decrease than in the preceding quarter. However, more CFOs expect new investments and replacement investments to increase than to decrease, although the net balance has fallen markedly, particularly with regard to new investments. In contrast, expectations for employee numbers are better this quarter, with more CFOs expecting them to increase over the next 12 months.

Chart 7. Corporate indicators II

Net balance of CFOs who expect the following indicators to increase/decrease for their company over the next 12 months

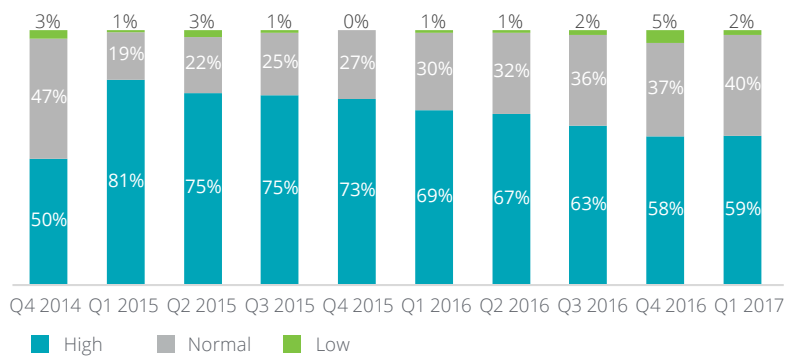


High levels of uncertainty – risks persist

Levels of uncertainty remain high. Recent quarters have seen a gradual decrease in uncertainty among CFOs, but the current quarter marks a reversal of this trend. 59% of CFOs rate uncertainty as high this quarter, up by one percentage point from Q4 2016.

Chart 8. Uncertainty

How do you rate the current level of uncertainty in the economic and financial environment?



CFOs see risk as primarily external and political. As in Q4 2016, geopolitical risk is the most frequently cited. The gap between this and the second most frequently cited risk – the strength of the Swiss Franc – is even wider this quarter. A number of political risks are causing CFOs concern: the new US administration, upcoming elections in Europe and the UK’s withdrawal from the EU, a process that officially got under way just after the Survey closed. Switzerland’s tax policy is cited for the first time this quarter, which is unsurprising in light of the referendum on Corporate Tax Reform III in February.

Chart 9. Risks

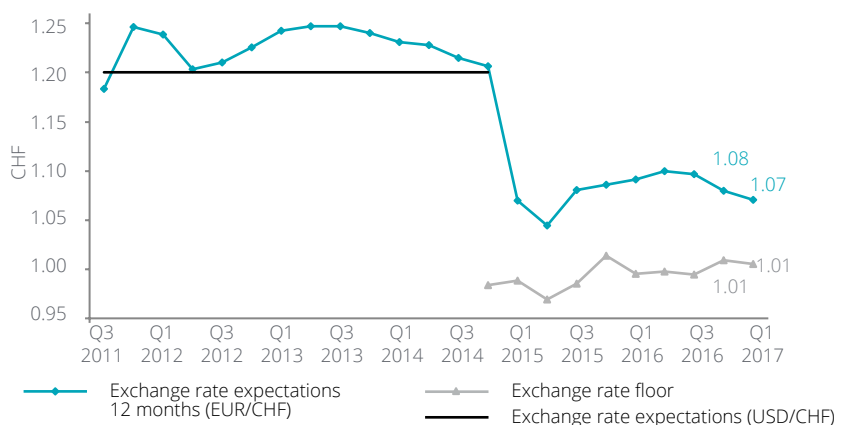
What do you see as the greatest internal or external risks to your company over the next 12 months? (up to three responses possible)

	Rank Q1 2017	Rank Q4 2016	Risk factor
	1	1	Geopolitical risks
	2	2	Strength of the Swiss Franc
	3 ▲	7	Pressure on margins and prices
	4 ▼	4	Internal company problems
	5 ▲	9	Regulation
	6 ▼	3	Domestic demand
	7 ▲	9	Monetary policy/interest rates
	8 ▲	10	Foreign demand
	9 ▲	12	Pressure from competitors
	10 ▼	5	Skills shortage
	11	—	Digitalisation/technological change
	12 ▼	8	Raw material prices
	13 ▼	11	Trade barriers
	14	—	Problems in the financial system
	15	—	Swiss tax policy

CFOs believe that the value of the Swiss Franc will have risen slightly in 12-months’ time, the first time this has been the case since the exchange rate floor was removed in January 2015. There is little change in their expectations for the rate in three-years’ time, when they expect a EUR/CHF rate of 1.09. The range remains broad, from parity to EUR/CHF 1.18 in 12-months’ time and from just below parity to EUR/CHF 1.20 in three-years’ time. Accordingly, not one CFO expects the EUR/CHF exchange rate to be above the former exchange rate floor in three-years’ time. Expectations for the USD/CHF exchange rate remain unchanged both over 12 months and over three years.

Chart 10. Exchange rate expectations

What exchange rate do you expect for the Swiss Franc against the euro and the US dollar in 12-months’ time?

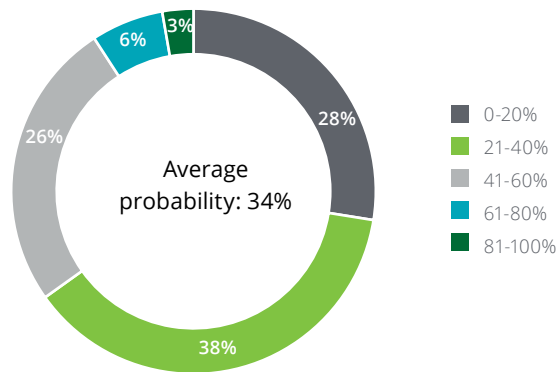


The future of the EU, Switzerland's major trading partner

As an exporting nation, Switzerland benefits in particular from stability in the global trading environment. Four of Switzerland's six major trading partners are (still) in the EU, and CFOs see heightened political uncertainty in three of them (see Chart 1). The structure and institutions of the EU are being called into question more than at any time in recent decades. The UK's decision to leave the EU represents the first time a member state has embarked on the process of withdrawal. This is also the first time that the EU will contract rather than expand. The Brexit process will dominate events over the next few years, and in view of the economic and political risks in a number of other member states, the UK may not be the only country to leave the EU. 72% of CFOs think the chance of this happening is more than one in five (average probability 34%).

Chart 11. Probability of leaving the EU

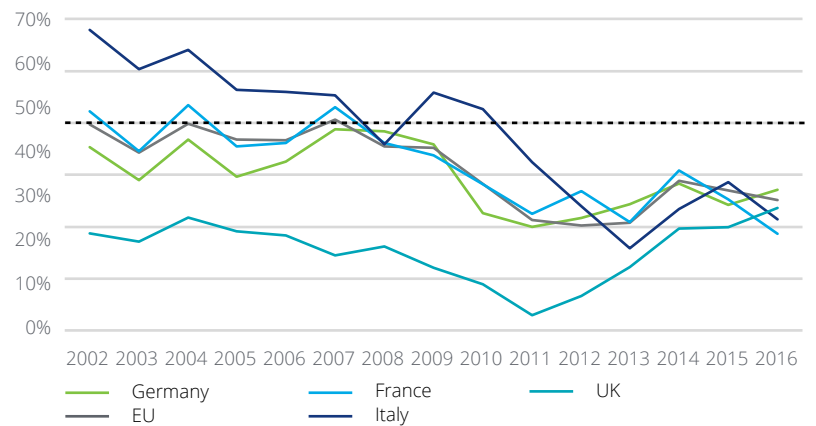
In the wake of Brexit, how probable do you think it is that other EU Member States will either vote to leave or actually leave the EU within the next five years?



In some European countries, the popularity of the EU among citizens has declined substantially over the last few years (see Chart 12). Among the larger member states, the decline has been particularly marked in France and Italy. In the UK, there has recently been an increase in its popularity, although from a very low base. There has been a similar increase in the EU's popularity in Germany, though from a higher base. However, in the four largest member states and across the EU as a whole, only a minority favour the EU.

Chart 12. Public opinion of the EU

Survey of EU citizens; percentage expressing a positive impression of the EU

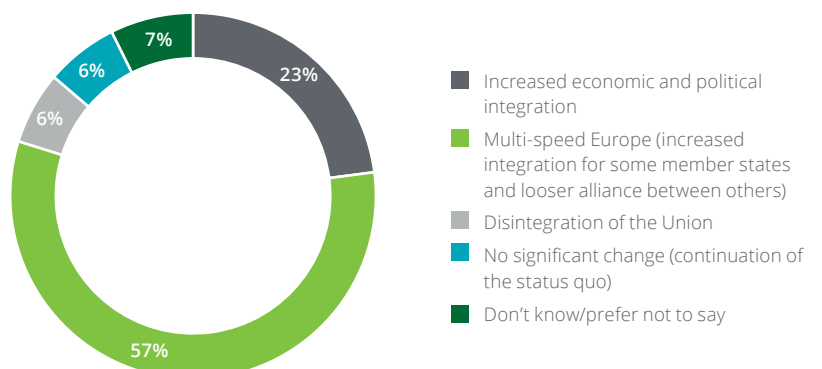


Source: European Union

Against this backdrop, what does the future hold for the EU? And how can it operate more effectively in the interests of its citizens and its member states? 57% of Swiss CFOs believe the answer lies in a multi-speed Europe. Only a quarter think that increased integration is the answer, while just 6% argue for no significant change. The same percentage would like to see the disintegration of the EU.

Chart 13. The future of the EU

Which of the following options do you think would be desirable to secure the future success of the EU and its member states?



What happens now about the Corporate Tax Reform III?

Switzerland's Corporate Tax Reform III (CTR III) was rejected in a referendum on 12 February 2017. Although the revisions to be included in future legislation are currently unclear, a new version may involve the uncontroversial elements of the reform that was rejected. CFOs think that two elements in particular should form part of the revised proposals, so that Switzerland remains an attractive place to do business: extensive leeway for the cantons to reduce tax rates and tax deductions for expenditure on research and development. 44% of CFOs see the Patent Box as a suitable measure and just 39% favour the Notional Interest Deduction, which was one of the most controversial elements of the rejected legislation.

A majority of Swiss CFOs think the government should as rapidly as possible adopt a politically robust one-step approach that could realistically be implemented by 2020-21. Only just under a third (30%) want a two-step approach to abolishing tax privileges by 2019 combined with a transition mechanism and potential further measures at a later date. Neither the 'tabula rasa' approach – a comprehensive overhaul of the entire Swiss tax system – nor the 'do nothing' approach gains support from CFOs (just 6% each).

Switzerland represents a good starting point for tax reform. Compared with other countries, its finances have been sustainable since introduction of the debt brake, making the tax environment fundamentally attractive in the long term and creating the right environment for tax reform.

Chart 14. Measures in the revised Corporate Tax Reform

Which of the following five measures do you think should be included in the revised tax reform to maintain the attractiveness of Switzerland as a place to do business?

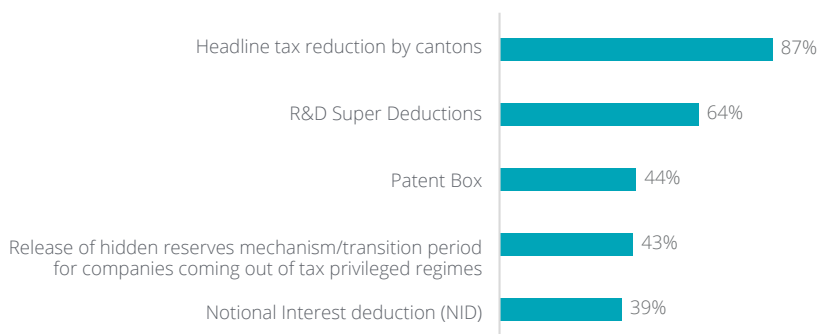


Chart 15. Approach to the revised tax reform

What do you think would be the best approach to a revised tax reform in Switzerland?

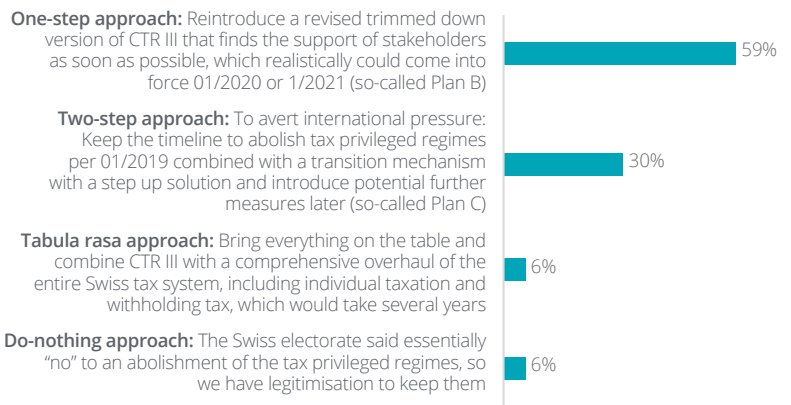
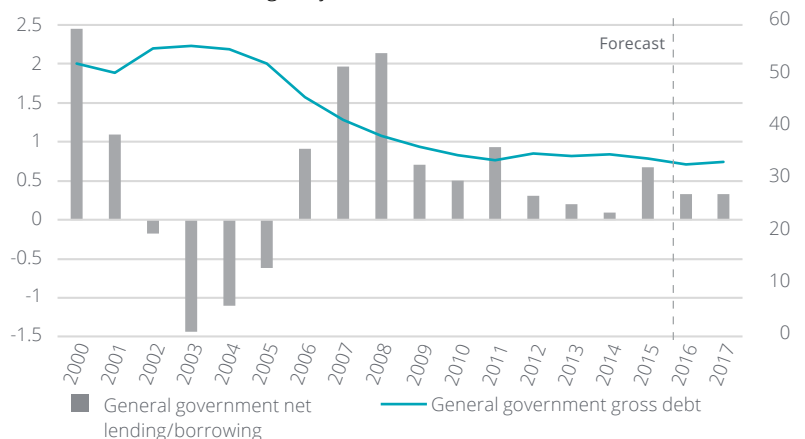


Chart 16. Sustainable Swiss state finances

Government debt and budgetary balance in % of GDP (estimate/forecast from 2016)



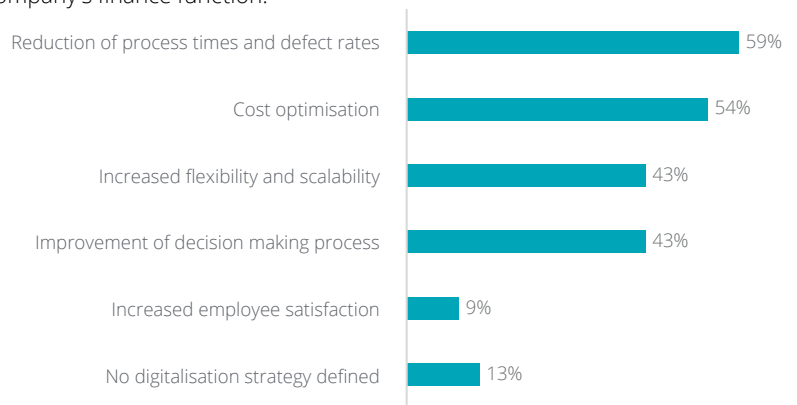
Source: Federal Finance Administration

The digital future of the finance function

The overwhelming majority of Swiss CFOs – 87% – report that their company has a strategy for digitalising its finance function. The focus is primarily on reducing process times and defect rates and on optimising costs. CFOs frequently also cite the goals of increasing flexibility and scalability and improving decision-making processes. By contrast, very few wish to use digitalisation to increase employee satisfaction. Responses to a separate question (see Appendix 1) indicate companies’ priorities are the automation of document entry and processing, and the automation and customisation of management reporting.

Chart 17. The goals of digitalisation

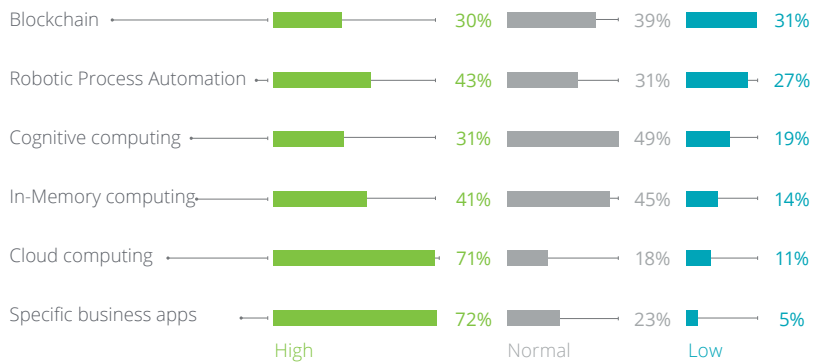
Which goals are you pursuing as part of your strategy for digitalising your company's finance function?



CFOs see by far the greatest future relevance in applications that meet specific business needs and in cloud computing. The relevance of in-memory computing and robotic process automation (RPA) is also seen as high. There is, however, little agreement on blockchain: slightly more CFOs rate its future relevance to the finance function as low compared to those who rate it as high.

Chart 18. Future relevance of digital technologies

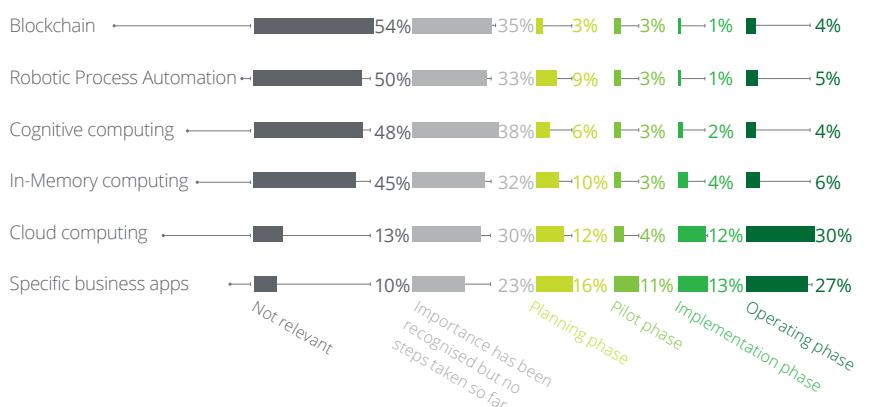
How do you rate the future relevance of the following digital technologies for your finance function?



The picture with regard to the current use of digital technologies is similar. Here, too, the leading applications are cloud computing and specific business apps, followed by in-memory computing and RPA. More than half of Swiss CFOs do not consider blockchain to be relevant, although 4% say their company is already using it productively. The growing significance of more recent technologies, such as in-memory computing, cognitive computing and RPA, is reflected in Chart 18, while Chart 19 also illustrates their relative importance in the planning and pilot phases compared with the operating phase.

Chart 19. Current use of digital technologies

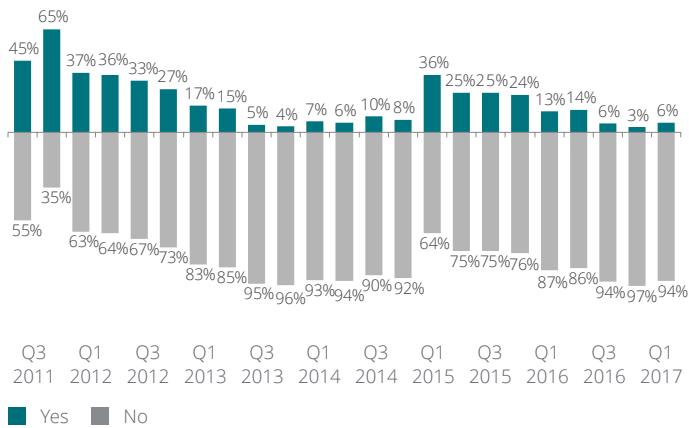
What stage have you reached in your future use of digital technologies in your company's finance function?



Appendix 1: Additional charts

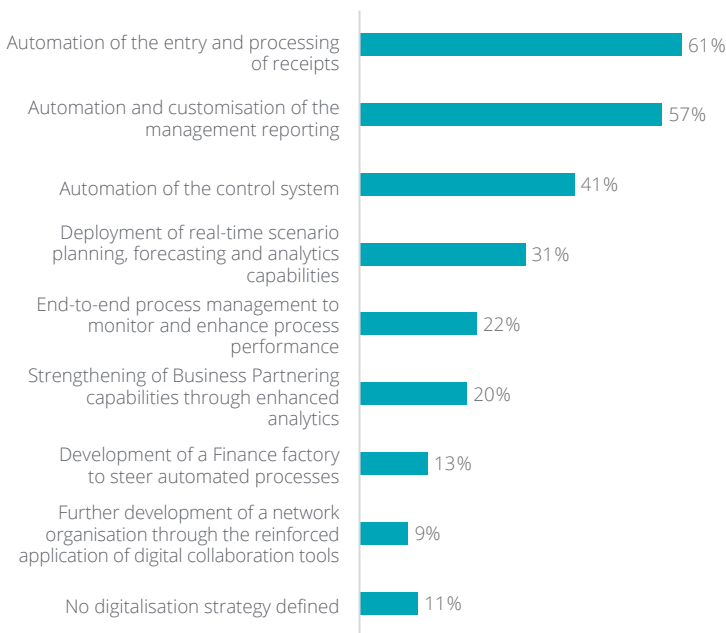
Recession expectations

Do you expect Switzerland to face a recession over the next two years?



Priorities for digitalisation strategy

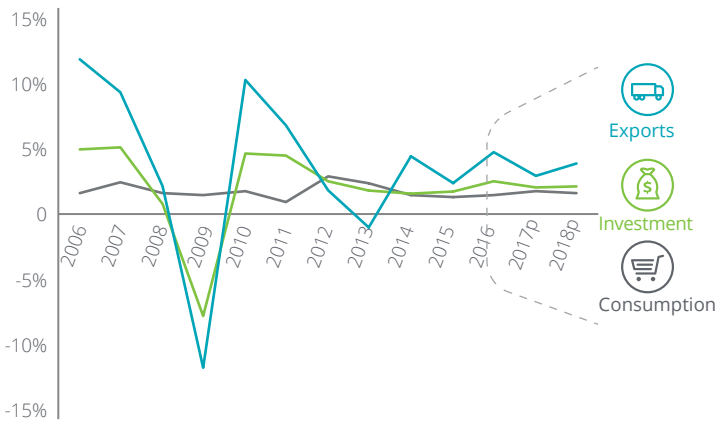
What are your technical priorities in formulating strategy for digitalising your company's finance function?



Appendix 2: Macroeconomic context

Prospects for the Swiss economy remain positive

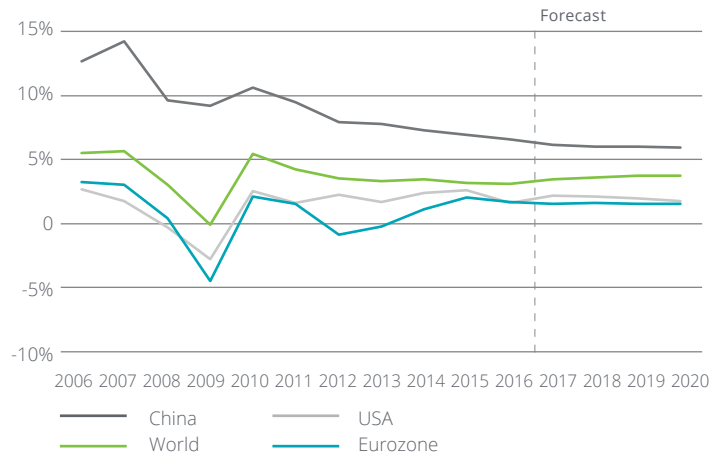
Percentage GDP growth compared with preceding year



Source: Swiss State Secretariat for Economic Affairs (SECO)

Gradual recovery in the global economy

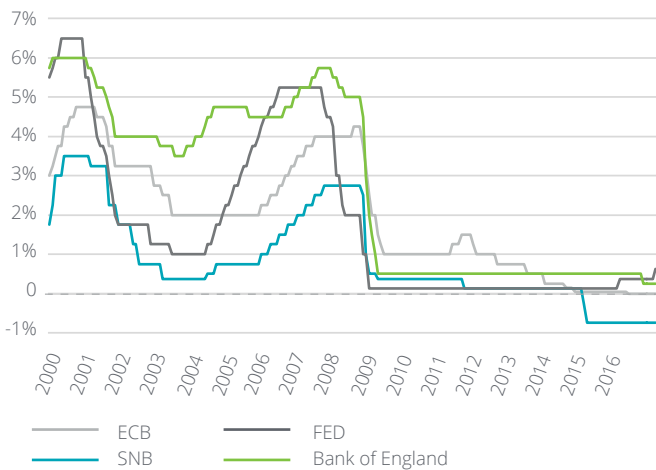
Percentage GDP growth compared with preceding year



Source: International Monetary Fund

Higher interest rates in the US

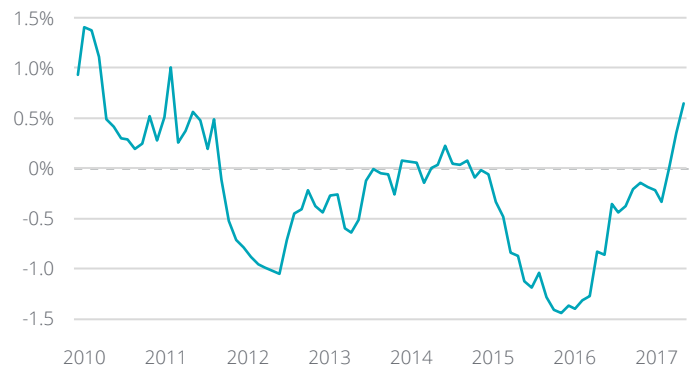
Key interest rates



Source: Swiss National Bank

Positive inflation rates return to Switzerland

Consumer price inflation, yoy



Source: Swiss National Bank

About the Deloitte CFO Survey

This is the 31st quarterly survey of Chief Financial Officers and Group Financial Directors of major companies based in Switzerland. The Survey gauges their attitudes towards the outlook for business, financing, risks and strategies, and 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 four times a year since Q3 2009.

The Spring 2017 Survey was conducted between 27 February and 27 March 2017. A total of 117 CFOs took part, 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.

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

Notes



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