The Deloitte CFO Survey

Optimistic summer

Summer 2017

Summary and key findings of the Swiss CFO Survey

Themes this quarter

The Summer 2017 Swiss CFO Survey shows that CFOs are predominantly upbeat, with a majority optimistic about the prospects both for the country's economy and for their own company. Their expectations for revenues are also positive, with an improvement in expectations for operating margins: slightly more CFOs expect margins to increase compared with those who expect them to decrease.
In addition, there is an improvement in expectations for their company's investments and number of employees. Nevertheless, geopolitical risks continue to cause concern, particularly the risks represented by the UK and the US.

Chart 1. Positive and negative indicators this quarter

Negative indicators

- Increasing political risk from the UK and the US
- Rise in concerns about competition, digital transformation and internal risks

Positive indicators

- Optimism about Switzerland's economic prospects
- Optimistic expectations for CFOs' own companies
- Very positive expectations for revenues
- Improved expectations for operating margins
- Higher investment and employee numbers expected
- Uncertainty slightly lower
- Decreasing political risk from Germany and France
- No increase in impact of negative interest rates since Q2 2016

An optimistic economic and corporate outlook

71%

6 pp ▲

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

Swiss CFOs remain optimistic about the country's economic outlook. 71% rate the prospects for the economy over the next 12 months as positive, with 66% rating their own company's prospects as positive.

Operating margin expectations now positive

38%

13 pp ▲

rate the financial prospects for their own company over the next 12 months as positive.

Expectations for revenues continue to improve: more than three-quarters of CFOs now rate these as positive over the next 12 months. Expectations for operating margins have also improved, with a majority expecting margins to increase (38% compared with 28% who expect them to decrease). In addition, there is an improvement this quarter in CFOs' expectations for their own company's investments and number of employees.

Greater political uncertainty in the UK and US

71%

11 pp ▲

rate political uncertainty in the US as high.

CFOs still perceive uncertainty as high, but their rating has fallen to the lowest level since the exchange rate floor with the euro was removed. There is however a geographical divide in perceptions of political risks: CFOs perceive France and Germany as representing a smaller risk than in Q1 2017, whereas the perceived risk represented by both the UK and the US has increased over the same period.

Digitalisation as an investment priority

80%

see digitalisation as an investment priority.

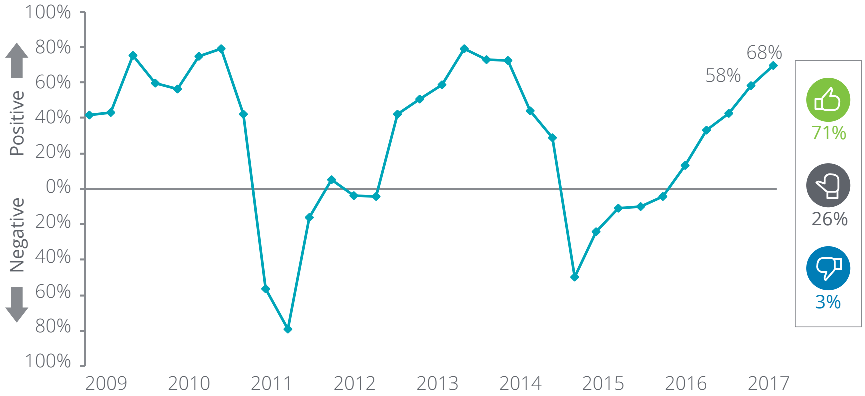
The importance of digitalisation has increased markedly over recent years, and four in every five CFOs (80%) report that their company is prioritising investment in this area. The second most important area for investment is in employees' digital skills. In most cases, digitalisation is used to develop and manage internal processes, but many businesses are also prioritising digitalisation of sales channels, products and services, and development of digital business models.

Sustained optimism

Swiss CFOs' expectations for the country's economic prospects over the next 12 months have improved further and are currently at their highest level since mid-2014. 71% rate Switzerland's economic prospects as positive as against just 3% who rate them as negative.

Chart 2. Economic outlook

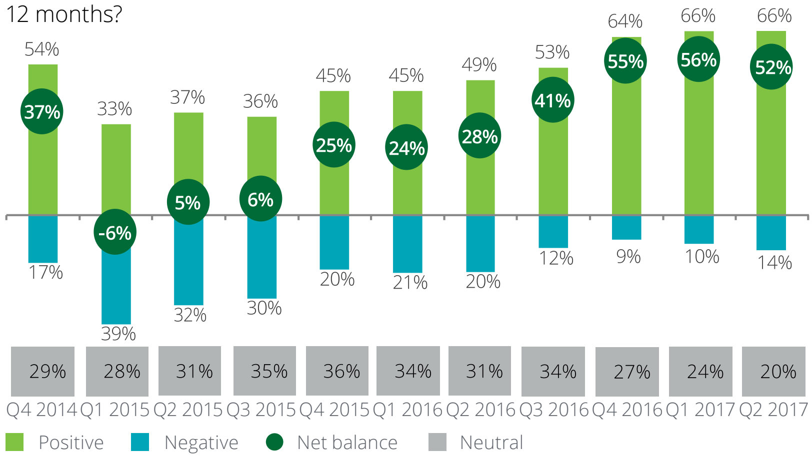
Net balance of CFOs rating Switzerland's economic prospects over the next 12 months as positive/negative



CFOs' expectations for their own company's financial prospects over the next 12 months remain high but largely unchanged. Two-thirds of CFOs continue to rate them as positive, although there is a slight increase in those rating them as negative, to 14%.

Chart 3. Financial outlook for the next 12 months

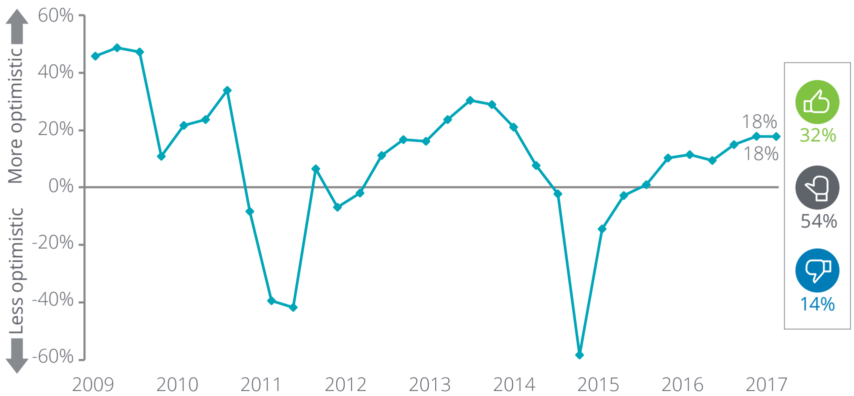
How do you rate your company's financial prospects over the next 12 months?



There has also been an improvement in CFOs' expectations compared with three months ago. For the last seven quarters, in fact, a majority of CFOs have reported an improvement in their own company's prospects compared with three months ago. The net balance is now 18%, unchanged from Q1 2017.

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

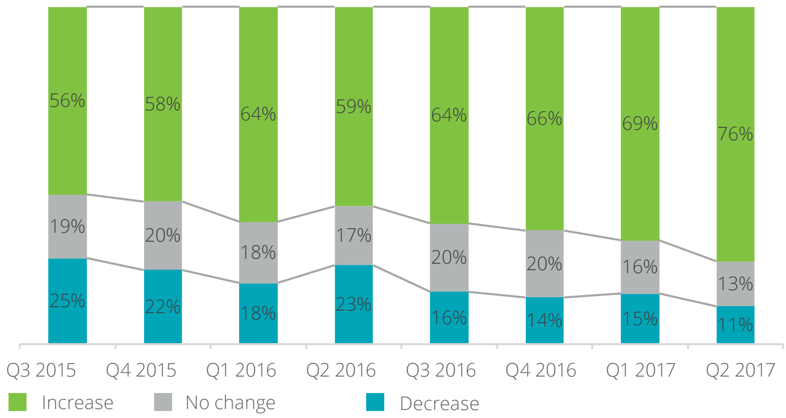
Net balance indicating how CFOs rate their company's financial prospects compared with three months ago



Major improvement in corporate indicators

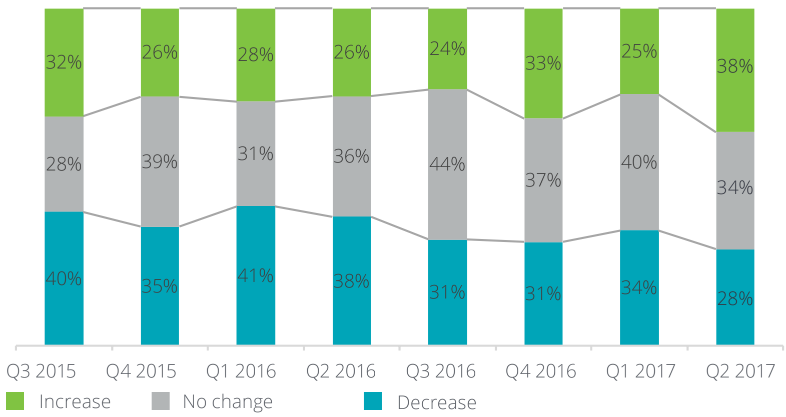
There is a particularly marked improvement in individual corporate indicators. Expectations for revenues have been largely positive for the last two years and are up again this quarter. 76% of CFOs currently expect revenues to increase over the next 12 months compared with 11% who expect them to decrease (the lowest level since Q3 2015). The remaining 13% expect revenues to remain unchanged.

Chart 5. Revenue expectations
Percentage of CFOs who expect their company's revenues to increase/decrease over the next 12 months



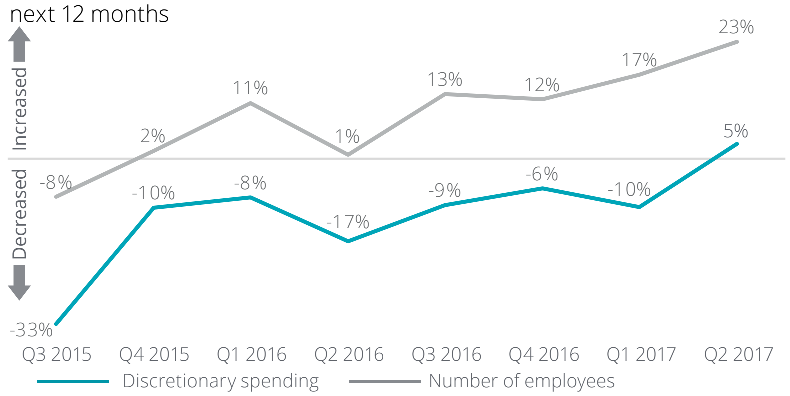
Expectations for operating margins are less optimistic than those for revenues but have also improved from Q1. For only the second time in two years, a majority of Swiss CFOs expect operating margins to increase – 38% compared with 28% who expect them to decrease. However, the impact of pressure on margins has not affected all Swiss companies in the same way: while many continue to feel the impact, others have been able to counteract such pressure to a certain extent.

Chart 6. Operating margin expectations
Percentage of CFOs who expect their company's operating margins to increase/decrease over the next 12 months



Improved revenue expectations are also reflected in CFOs' expectations for a range of expenditure categories. CFOs expect spending to increase across the board, with positive net balances. Expectations for discretionary spending are 15 percentage points higher than in Q1 (a net balance of 5%), while a significant majority expect the number of employees in their company to increase over the next 12 months (a net balance of 23%).

Chart 7. Discretionary spending and number of employees
Net balance of CFOs who expect their company's discretionary spending and number of employees to increase/decrease over the next 12 months

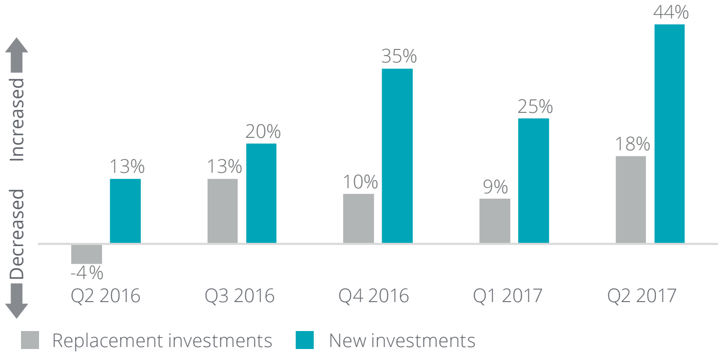


Growing investment appetite

Expectations for investments over the next 12 months are also substantially higher, particularly for new investments (a net balance of 44%).

Chart 8. Investment expectations

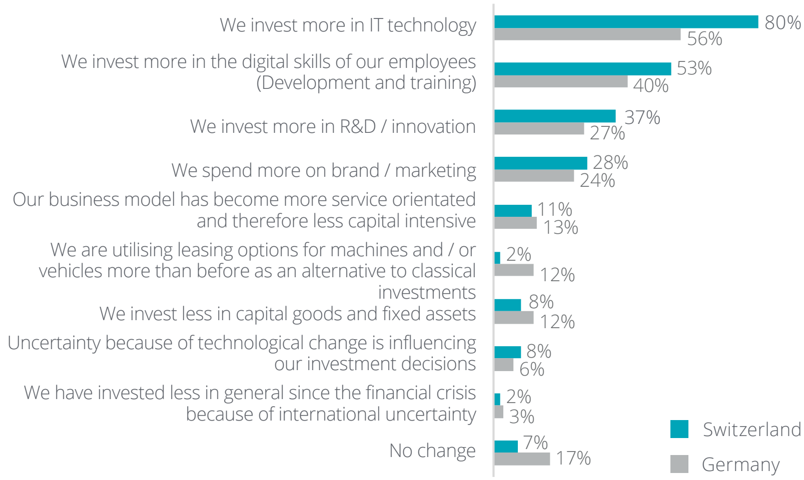
Net balance of CFOs who expect new investments and replacement investments to increase/decrease for their company over the next 12 months



There has been a clear trend in investment priorities over recent years. Investment in digital technologies is a priority for four in every five Swiss companies (80%). This is a significantly higher proportion than for German companies, 56% of which are prioritising investment in digital technologies, according to responses to the same question in the German CFO Survey. This also means a high priority for investment in employees' digital skills.

Chart 9. Investment priorities

How have your company's investment priorities changed over recent years? (multiple answers possible)

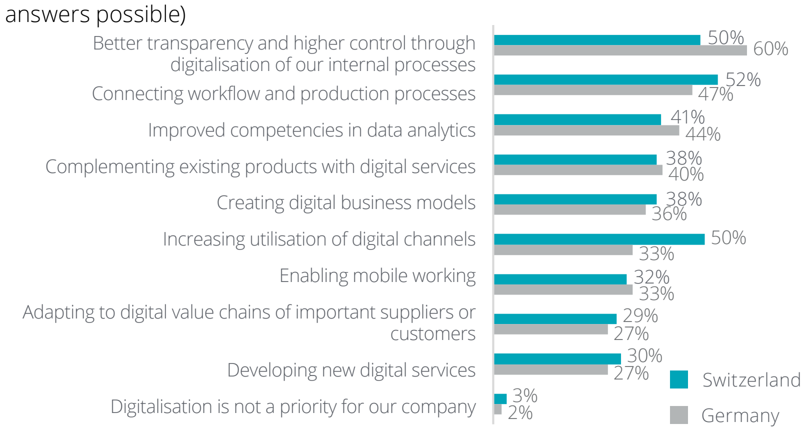


Source: Swiss and German CFO Surveys (2016)

The development and management of internal processes remains a priority in terms of digitalisation in both Switzerland and Germany. Digitalisation of sales channels, products and services and development of digital business models are also priorities for many companies. Digital sales channels are particularly important to Swiss companies, with 50% of CFOs seeing this area as a priority compared with 33% of German CFOs. Only a very small proportion of companies report that digitalisation is not important – just 3% in Switzerland and 2% in Germany.

Chart 10. Priorities for digitalisation

What are your company's priorities in the area of digitalisation? (multiple answers possible)



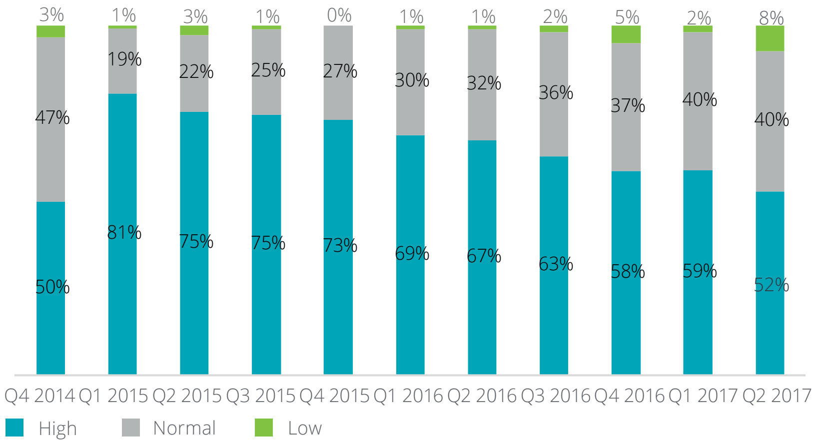
Source: Swiss and German CFO Surveys (2016)

Uncertainty high but decreasing

There has been a gradual decrease in CFOs' perceptions of uncertainty over recent quarters, despite a very small increase in Q1. Perceived uncertainty in the economic and financial environment is now at its lowest since the removal of the exchange rate floor in early 2015. Although perceived uncertainty is still slightly higher than in Q4 2014, it is markedly lower than the record level recorded in Q1 2015 (81%).

Chart 11. Uncertainty

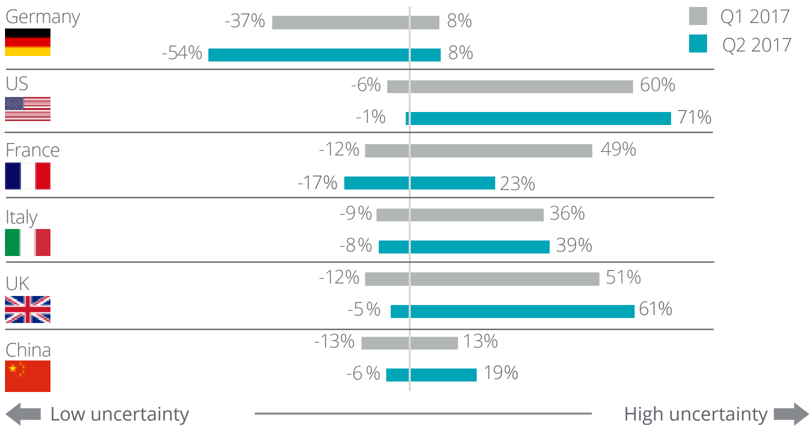
How do you rate the current level of uncertainty in the economic and financial environment?



While Swiss CFOs' overall perception of political uncertainty is decreasing, the picture is more fragmented with regard to the risk represented by Switzerland's major trading partners. There has been a decrease in uncertainty since the Spring 2017 CFO Surveys for Germany and France – attributable in France to the outcome of the presidential elections – but CFOs' perceptions for Italy remain largely unchanged. In contrast, the perceived uncertainty represented by the US and the UK is much higher as a result of actions taken by the US administration, and the General Election outcome and Brexit negotiations in the UK. CFOs continue to see the US as representing the highest level of uncertainty of all Switzerland's trading partners: just 1% rate uncertainty in the country as low, compared with 71% who rate it as high. (For detailed figures, see the Additional charts in the Appendix.)

Chart 12. Risk represented by trading partners

How do you rate the current level of political uncertainty for your company represented by the following major Swiss trading partners?



These decreasing levels of uncertainty and risk are also reflected in company balance sheets. Following removal of the exchange rate floor in early 2015, the proportion of companies taking greater risk on to their balance sheet reached record levels and then fell. In Q2 2017, the majority of CFOs report a decrease in risk for the second successive quarter (a negative net balance). This, coupled with the improved economic prospects, may have contributed to a greater willingness to invest (see Chart 8).

Chart 13. Level of financial risk

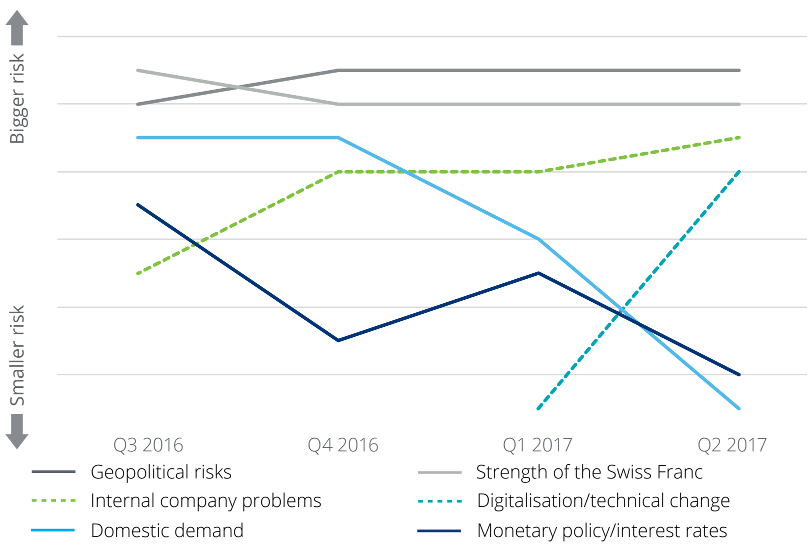
How has the level of financial risk on your balance sheet changed over the past 12 months? (net balance)

Risks and monetary policy

As in previous quarters, Swiss CFOs are primarily concerned about geopolitical risks and the strength of the Swiss Franc, but there has been a shift in their concerns about other risks. A year ago CFOs were concerned about economic and monetary risks, whereas now they more focused on internal corporate risks such as operating margins (For a full list of the reported risks, see the Additional charts in the Appendix.) This shift in focus is the result of an improving economic outlook for Switzerland and its major trading partners as well as ongoing adaptation to external risks. There has also been a marked increase in the perception of digitalisation as a risk, with CFOs citing both the challenges of new, digital business models and cyber security.

Chart 14. Risks

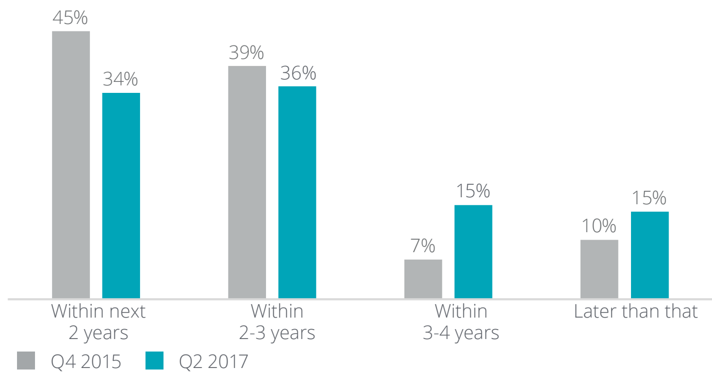
What do you see as the greatest internal and/or external risks to your company over the next 12 months? (up to three responses possible)



Following moves in the US to increase interest rates, the European Central Bank has now taken initial, if minimal, steps towards ending quantitative easing. Against this backdrop, when might Switzerland increase its interest rates? Most CFOs expect rates to happen relatively soon – in 2018 or 2019 – but their expectations for the timescale have shifted since Q4 2015, when this question was last asked. Then, just 17% of Swiss CFOs expected a return to positive interest rates in three years or so. Now almost twice as many (30%) believe this will be the case. In the current climate, any interest rate increase in Switzerland would have to follow an increase in the eurozone, so expectations seem to have risen that this is still considerably in the future.

Chart 15. Interest rate expectations

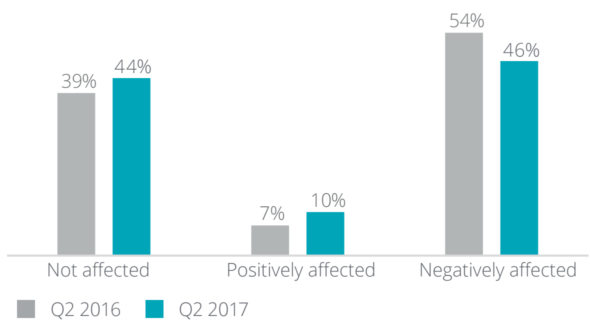
When do you expect key interest rates to increase in Switzerland?



CFOs' assessment of the impact of negative interest rates has remained largely unchanged over the last 12 months. Most continue to report that their company is negatively affected, although the majority (47%) is now slightly smaller than in Q2 2016, when the question was last asked. Slightly more CFOs now report that either their company is not affected (43%) or that the impact has been positive, although at just 10%, this is by far the smallest group.

Chart 16. Impact of negative interest rates

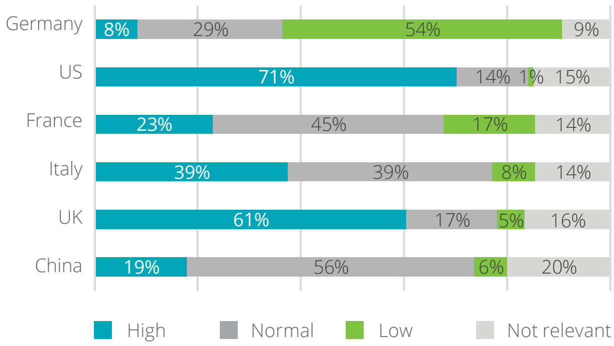
Is your company currently affected by the impact of negative interest rates on deposits or borrowing? If so, is this impact positive or negative overall?



Appendix: Additional charts

Risk represented by trading partners

How do you currently rate the level of political uncertainty for your company represented by the following major Swiss trading partners?



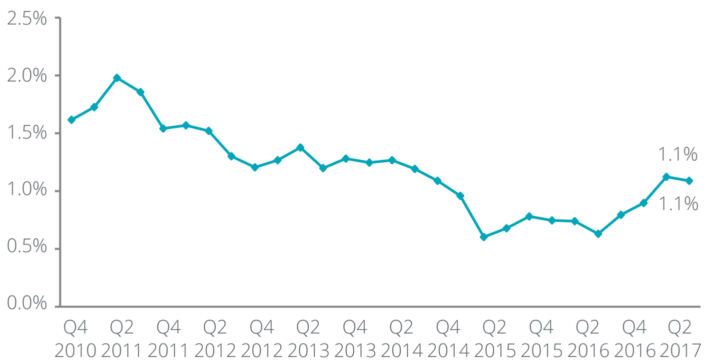
Risks

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

Rank Q2 2017		Rank Q1 2017	Risk factor
1		1	Geopolitical risks
2		2	Strength of the Swiss Franc
3	▲	4	Internal company problems
4	▲	11	Digitalisation/technical change
5		5	Regulation
6	▼	3	Pressure on margins and prices
7	▲	10	Skills shortage
8	▲	9	Pressure from competitors
9	▼	8	Foreign demand
10	▼	7	Monetary policy/interest rates
11	▼	6	Domestic demand
12	▲	14	Problems in the financial system
13	▼	12	Raw materials prices
14	▼	13	Trade barriers
15		15	Swiss tax policy

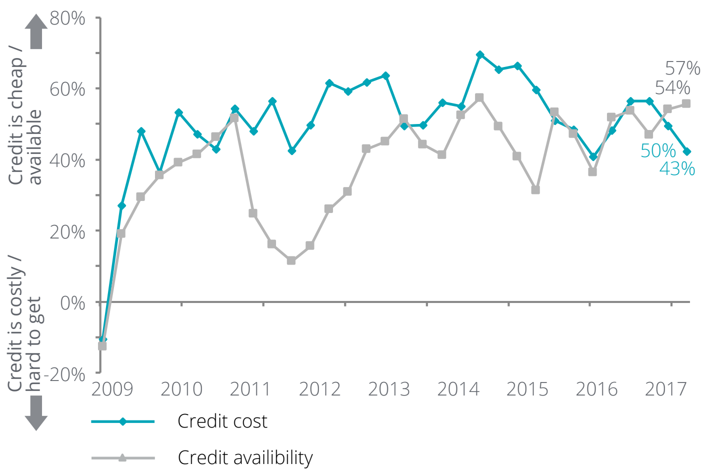
Inflation expectations

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



Cost and availability of credit

How would you rate the current overall cost and availability of new credit for corporates? (net balance)

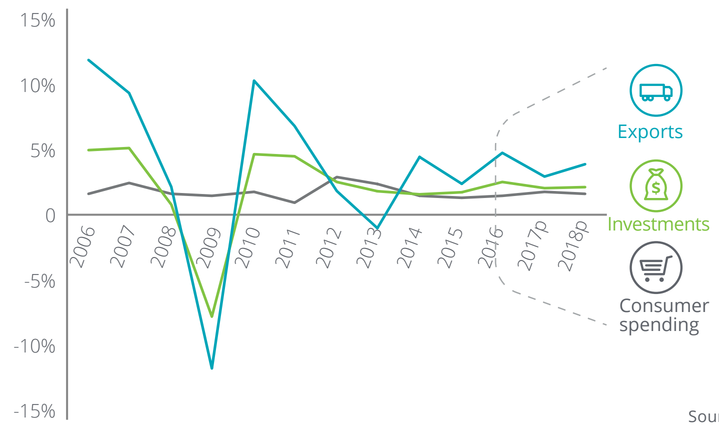


Macroeconomic context

The growth forecast issued by the Swiss State Secretariat for Economic Affairs (SECO) remains positive although the figure has recently been revised downwards. SECO currently expects GDP to grow by 1.4% in 2017 and by 1.9% in 2018. Economic growth continues to be bolstered by exports, not least because forecasts for global growth are positive.

Chart 17. Prospects for the Swiss economy remain positive

GDP growth compared with preceding year

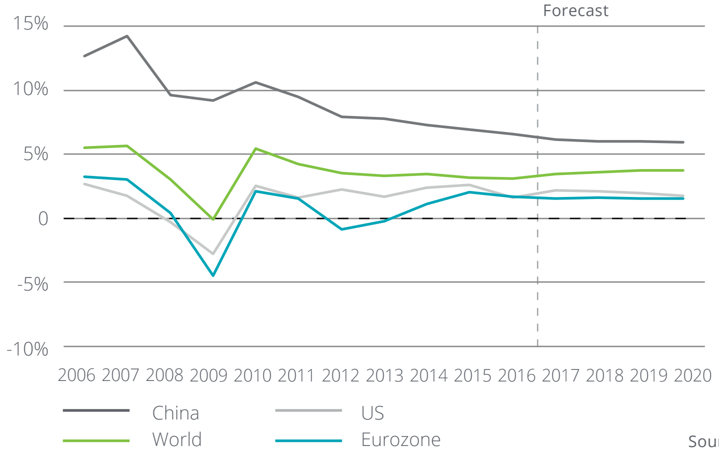


Source: SECO

The trend since 2016 has been marked: while indicators appear to be heading in the right direction in continental Europe, the opposite is true in the UK and the US. There have been unpleasant surprises in both countries, particularly in the political area (for example, questions over market access following Brexit), and these are having an impact on potential growth. Nevertheless, commentators widely assume that there will be positive growth in the world's three largest economic blocs – the US, the eurozone and China – as well as as well as the global economy overall.

Chart 18. Recovery in the global economy

GDP growth compared with preceding year

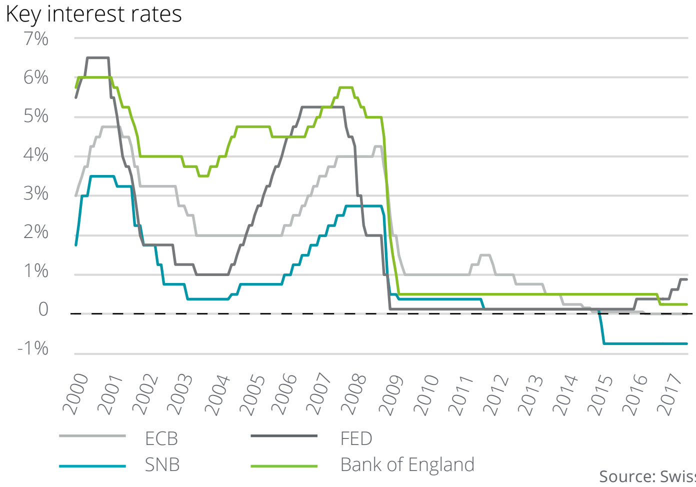


Source: IMF

There seems no doubt that interest rates are headed upwards in the US, but the Federal Reserve recently took the controversial decision to increase rates further, is keen to reduce its own balance sheet, and is considering a higher target inflation rate to create more leeway during the next recession. A similar move still seems to be some considerable way off in Switzerland.

Chart 19. Higher interest rates in the US

Key interest rates

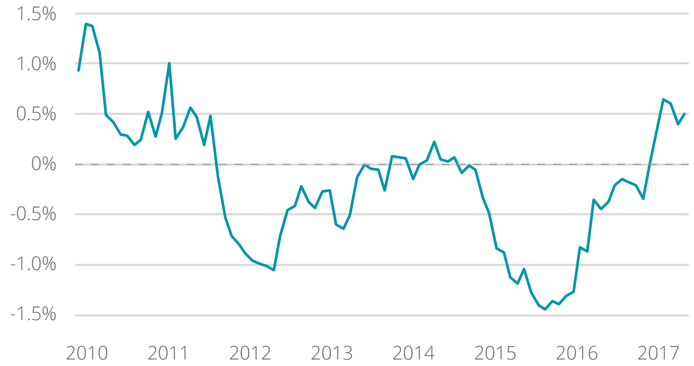


Source: Swiss National Bank

However, inflation has made a return to Switzerland: the rate of price increase has been positive since the beginning of the year. The Swiss National Bank now forecasts inflation of 0.3% in 2017 and 2018, and 1.0% in 2019.

Chart 20. Inflation returns to Switzerland

Consumer price inflation, year on year



Source: Swiss National Bank (May 2017)

"Political risks are at the forefront of everyone's mind at the moment – and rightly so – but what people often forget is that the economic outlook has improved markedly, both for the global economy and for Switzerland's major trading partners. Despite dramatic headlines and sometimes unfavourable circumstances, we can therefore expect Switzerland's economic recovery to be sustained."

Dr. Michael Grampp
Chief Economist and Head of Research

About the Deloitte CFO Survey

The Deloitte CFO Survey gauges the attitudes of Chief Financial Officers and Group Financial Directors of major companies in Switzerland 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 quarterly since Q3 2009.

The 32nd quarterly survey, the Summer 2017 CFO Survey, was conducted between 29 May and 26 June 2017. A total of 101 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

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