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The Deloitte CFO Survey

A damper on economic recovery

First half-year 2022 | Results of the Swiss CFO Survey

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Contents

About the Deloitte CFO Survey

The 43rd Swiss CFO Survey was conducted online between 1 and 23 March 2022. A total of 100 CFOs participated, representing listed companies as well as privately owned firms from every major sector of the Swiss economy. We would like to thank all participating CFOs for their support in completing the Survey.

The European CFO Survey is conducted in 17 countries, including Switzerland. The full aggregated results will be available from May at www.deloitte.com/europeancfosurvey.

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.

1. Summary and key findings of the Swiss CFO Survey

CFOs' **expectations for the Swiss economy** are much more muted in this most recent Survey. The economic outlook had been expected to improve as COVID-19 restrictions were lifted. Instead, the war in Ukraine has placed a damper on CFOs' optimism. However, they do not currently expect Switzerland to face a recession over the next 12 months.

Expectations for companies' **corporate outlook** remain positive, but there has been a decline compared with the H2 2021 Survey. CFOs report increasing pressure on operating margins and revenues, although expectations for employee numbers are more positive than six months ago. However, this encouraging sign comes against the backdrop of the current skills shortage.

The nature of perceived risk continues to change dramatically. CFOs are now more concerned about inflation; supply chain difficulties are increasing; and there are fears in particular about the possible impact of the war in Ukraine.

Far from easing, **supply chain issues** remain acute for many companies. A majority of Swiss CFOs expect the problems to last until H1 2023. Major difficulties include the higher cost of logistics, raw materials and primary goods.

Companies are sometimes facing significant **increases in the cost** of raw materials, primary goods and services. Not all companies are able to pass on even part of this higher cost to their customers. CFOs' expectations for inflation have risen markedly, although at 2% over the next two years, they expect inflation to be modest compared to other countries.

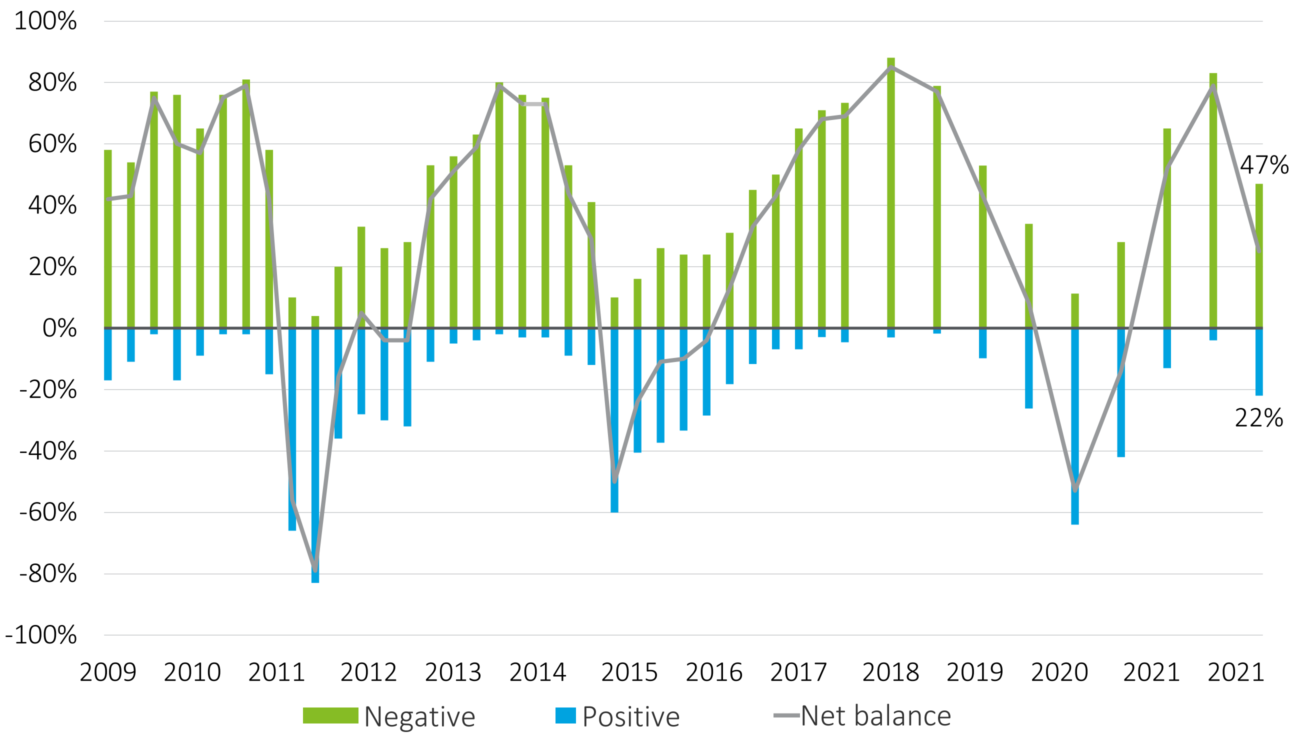
2. Economic outlook: A damper on recovery

Swiss CFOs' optimism about the country's economic outlook is now much more muted. The economic outlook had been expected to improve as COVID-19 restrictions were lifted. Instead, the war in Ukraine has placed a damper on optimism. However, CFOs do not currently expect Switzerland to face a recession over the next 12 months.

The Swiss economy had not completely recovered from the pandemic when the war in Ukraine triggered a fresh crisis. It is difficult to assess the economic impact of the war, and the situation in Ukraine is extremely volatile. CFOs' expectations for the economic outlook therefore differ widely. Considerably more CFOs are now more pessimistic than were six months ago, with a corresponding decline in the number who are optimistic. However, a majority rate the economic outlook as positive: most CFOs still think the Swiss economy will grow over the next 12 months and do not expect the country to face a recession over the period.

Chart 1. Economic outlook for Switzerland

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



3. Corporate outlook: Resilience under pressure

CFOs remain positive about their company's financial outlook but are less optimistic than in H2 2021. They report increasing pressure on operating margins and revenues, although expectations for employee numbers are more positive than six months ago. However, this encouraging sign comes against the backdrop of the current skills shortage.

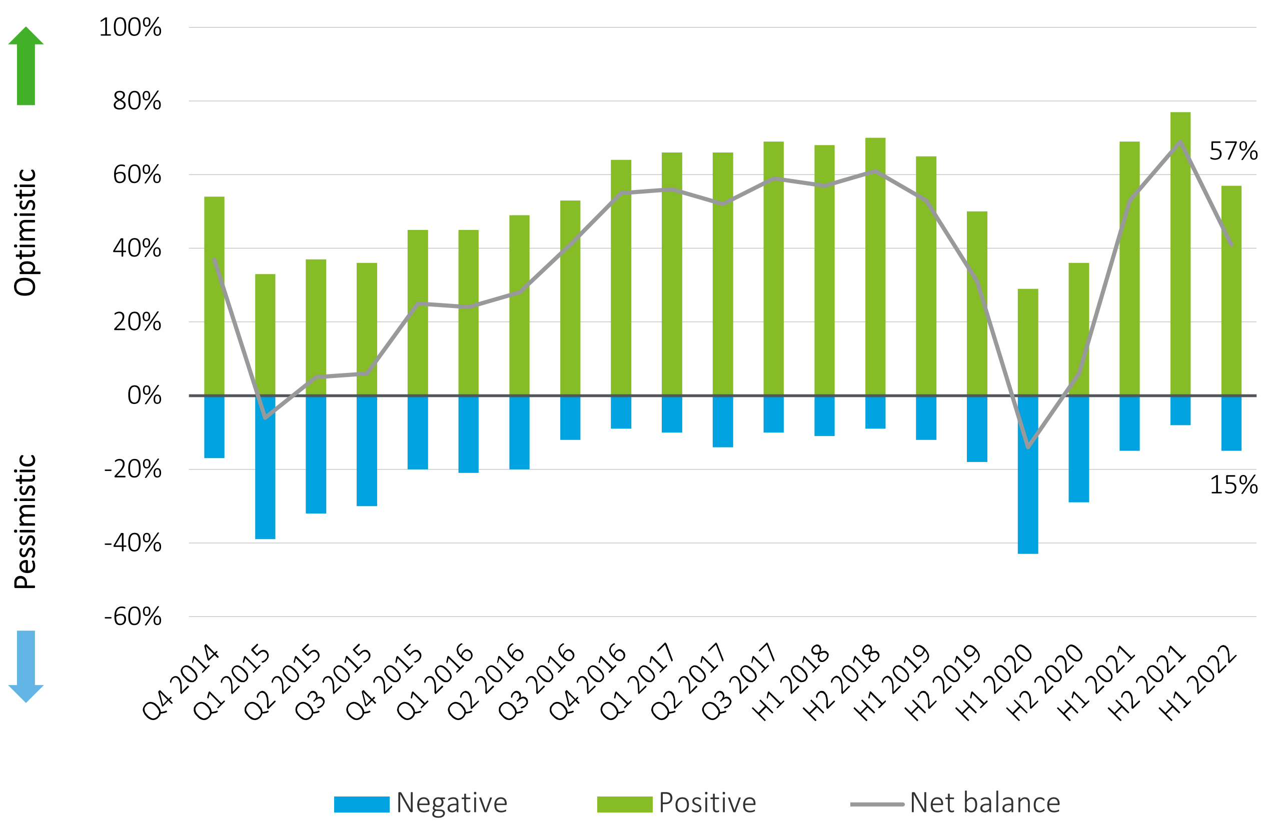
CFOs' rating of their company's financial outlook remains positive despite the war in Ukraine, and is also more positive than their rating for the Swiss economy as a whole. The proportion of respondents rating their company's financial outlook as positive has fallen from 77% to 57%, while the percentage of those rating it as negative has almost doubled, from 8% to 15%.

The decrease in those rating their company's outlook as positive is almost the same as in H1 2020 (caused by the impact of the pandemic) and is the biggest decline since the CFO Survey was launched. However, the decline is from a markedly higher baseline (77% in H2 2021 compared with 50% in H2 2019).

Nonetheless, the picture remains positive overall, with 57% of CFOs expressing optimism (a net balance of 41%).

Chart 2. Companies' financial outlook over the next 12 months

Percentages and net balance indicating how CFOs rate their company's financial outlook over the next 12 months



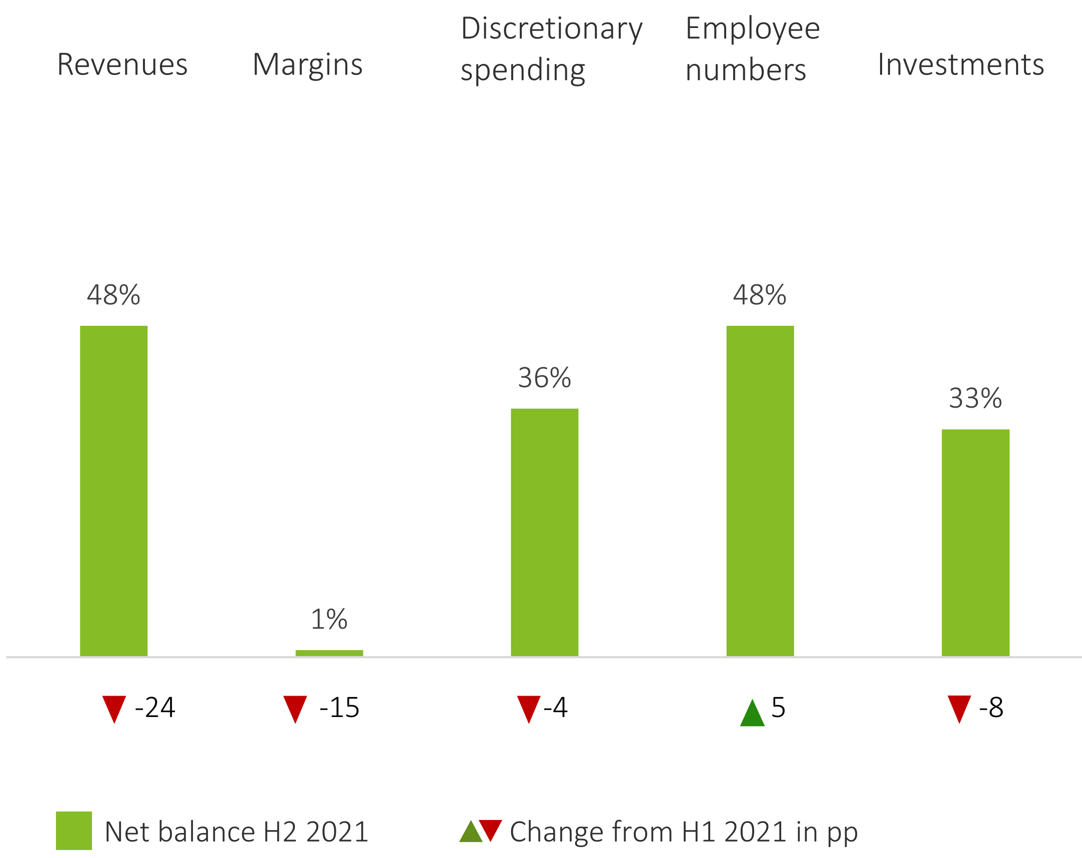
Apart from expectations for employee numbers over the next 12 months, responses on all the corporate indicators included in the Survey are now less optimistic than six months ago, but remain positive. In particular there is pressure on revenues and operating margins, with a substantial decline in the proportion of CFOs rating the outlook as positive. Only a tiny minority of CFOs now expect operating margins to improve over the next 12 months. Expectations for discretionary spending, such as marketing, travel and training, are also down. This is surprising: the lifting of the final COVID-19 restrictions might have been expected to prompt higher spending on activities such as travel and events. This raises the question of whether – and when – companies expect to return to or exceed pre-pandemic levels of expenditure.

In contrast, expectations for employee numbers are robust and are the only indicator for which a larger majority than in H2 2021 now expect an increase. Despite the uncertainty, it seems that most companies are now ready to invest in higher staffing levels.

A majority of CFOs also expect investment in tangible assets to increase, although the figure is lower than in H2 2021. The medium-term outlook for growth therefore remains positive. Higher employment levels and ongoing investment are an important economic bulwark against a potential recession.

Chart 3. Corporate indicators

Net balance of CFOs who expect their company's performance on each indicator to increase/decrease over the next 12 months



4. Corporate risk: Concerns over the war

Perceptions of corporate risk continue to change dramatically. CFOs are increasingly concerned about inflation, supply chain issues are a growing problem, and the possible impact of the war in Ukraine is also at the forefront of their minds.

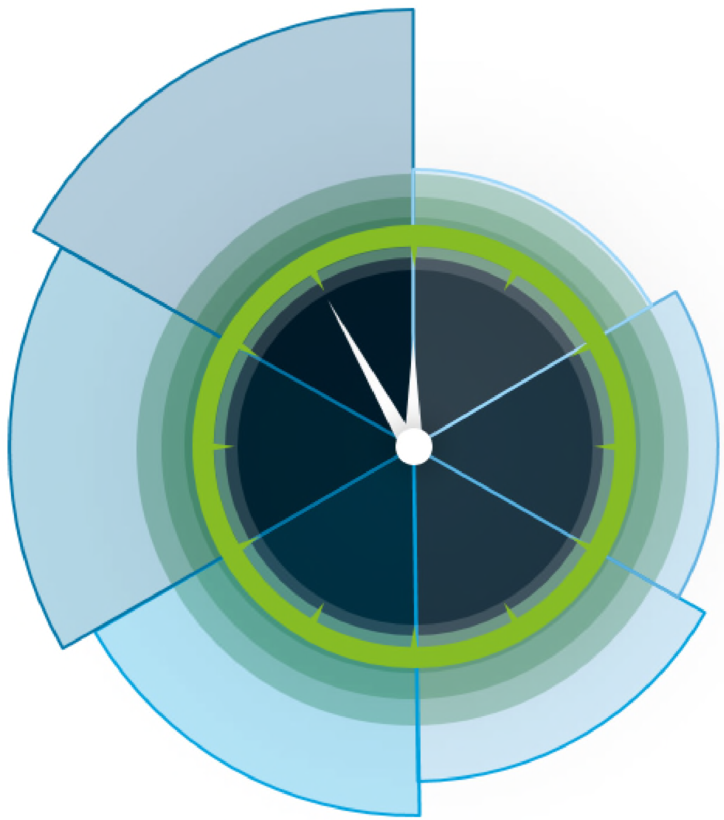
CFOs are particularly concerned about geopolitical risks – unsurprisingly, given the war in Ukraine, which many CFOs cite as a specific risk. This also shapes their perception of the risks posed by supply chain issues and inflation, as the war continues to drive up the cost of raw materials and food.

Supply chain issues have long posed a risk to companies, but many CFOs hoped they were making progress with tackling the problems. The war has dashed these hopes, with many companies facing ongoing supply chain issues in the short-to-medium term (see page 8).

CFOs do not expect any easing in the current skills shortages, another issue that continues to rank high in the list of risks. In their responses to a separate question, 32% of CFOs report considerable problems with recruitment, which they expect to worsen over the next two years.

Chart 4. Swiss CFOs' perception of risks to their company

CFOs' perceptions of the largest internal and/or external risks to their company over the next 12 months (up to three responses) as categorised by Deloitte. The categories set out below include similar, though not identical, factors, which Deloitte has allocated to the most closely related category. The triangles show the direction of change from the H2 2021 Survey. The figure inside each triangle shows the change in the rating of each risk.



1	Geopolitical risks / war	6
2	Supply chain issues	-1
3	Inflation	3
4	Skills shortages	-1
5	Internal challenges*	-1
6	Rising energy costs	NEW
7	Monetary policy / interest rate environment	5
8	Direct effects of COVID-19	-6
9	Currency risks	8
10	Weakness in demand	-2

* Internal challenges include a number of issues, such as strategy implementation, project management and succession planning, among others.

5. Supply chain issues expected until 2023

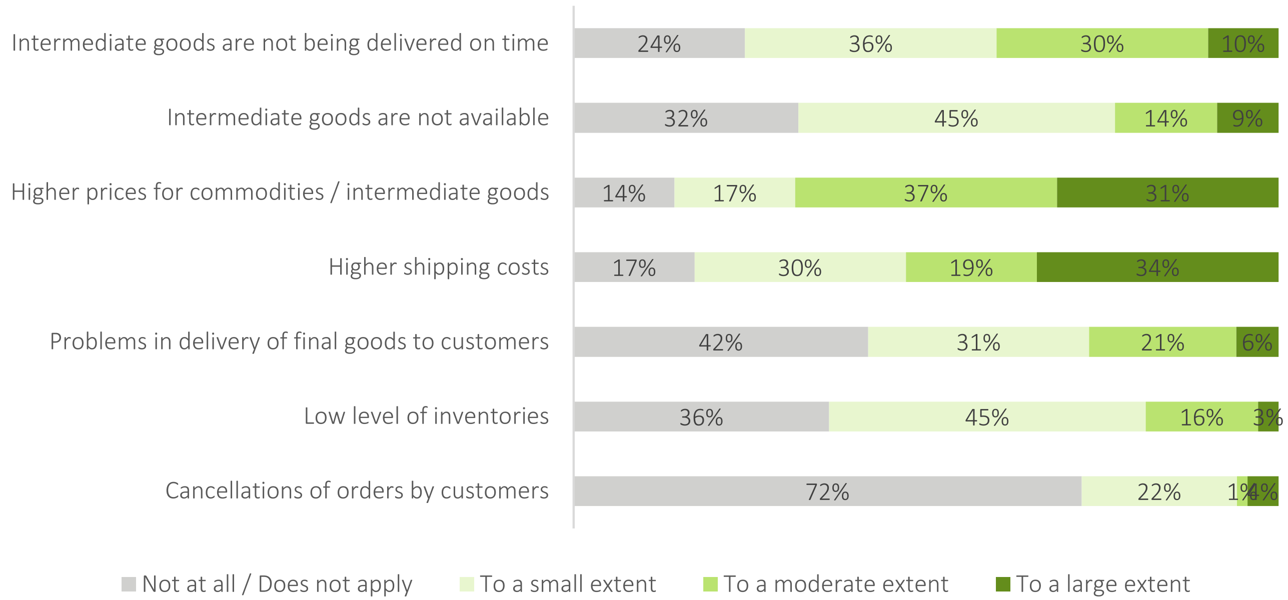
Far from easing, supply chain issues remain acute for many companies. A majority of Swiss CFOs expect these problems to persist until H1 2023. The major difficulty the higher cost of logistics, raw materials and primary goods.

In their responses to a separate question, almost half of all CFOs (43%) report at least some supply chain issues; and as Chart 5 shows, 69% say that their company is moderately or severely affected by rising prices for raw materials and intermediate goods, while 43% are affected by higher transport costs. Two companies in five (40%) also face moderate or severe difficulties with the timely availability of intermediary goods, and 23% report that they are sometimes unable to source intermediary goods at all.

A majority of CFOs expect the current supply chain issues to persist until H1 2023. As responses to a separate question demonstrate, 45% are seeking to tackle these problems by diversifying their suppliers and logistics arrangements. 33% are increasing cooperation with suppliers, and the same proportion are building up stocks. 8% report that they plan to review their production locations or to relocate production.

Chart 5. Supply chain issues

To what extent is your company currently affected by supply chain issues or problems with deliveries? What are the major difficulties facing your company?



6. Inflation makes an unexpected comeback

Companies are facing large increases in the cost of raw materials, primary goods and services. Not all companies are able to pass on even part of this higher cost to their customers. CFOs' expectations for inflation have risen markedly, although at 2% over the next two years, they expect inflation to be modest compared to other countries.

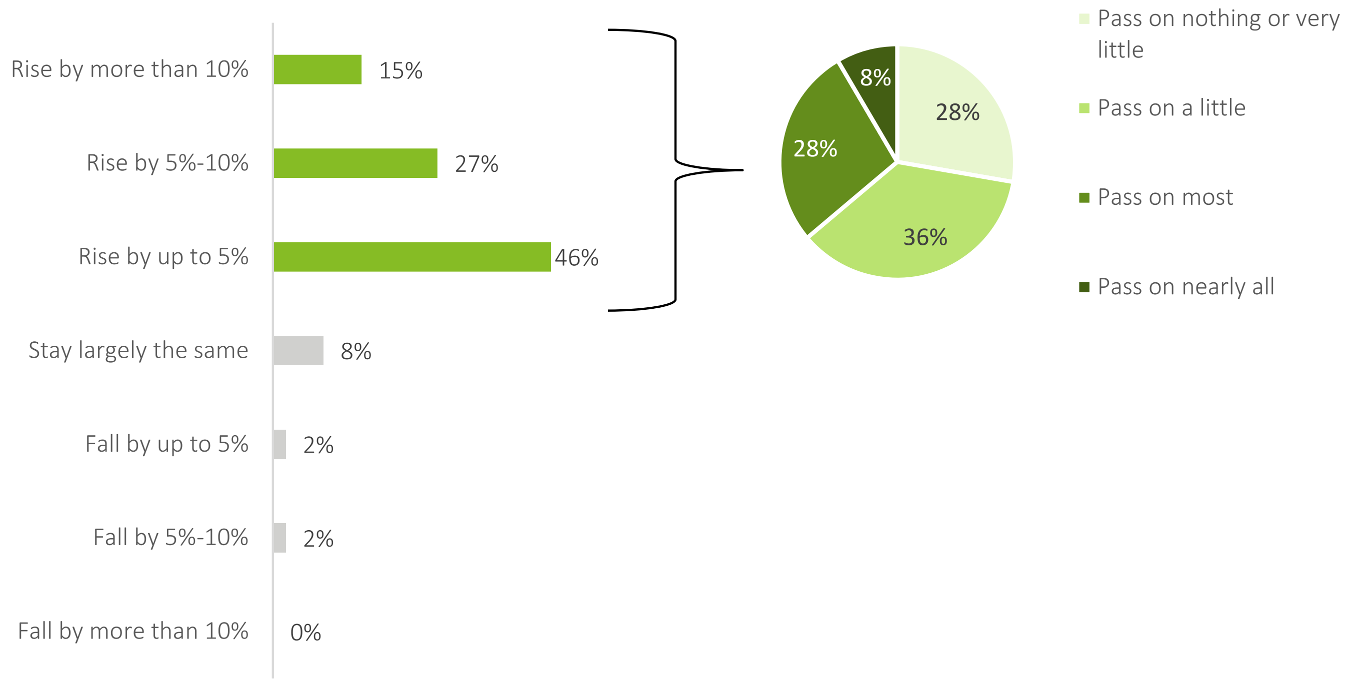
Inflation has made an unexpected comeback in Switzerland. Inflation has not been on the agenda for a long time, prices are now rising again. 88% of CFOs expect input costs – of raw materials, primary goods and services their company needs – to rise, with 42% expecting an increase of at least 5%.

Not all companies are able to pass on this higher cost to their customers. Just 8% report that they will pass on almost all of the extra cost, and 28% saying that they will be unable to pass on any of it to their customers, or can pass on only part of it.

CFOs' expectations for inflation in Switzerland are also increasing and are now at their highest level since this question was first asked in 2013. However, at 2% over the next two years, their expectations are still relatively modest, especially in comparison with the current inflation rates in the Eurozone and the US (over 7%).

Chart 6. Trends in input costs and companies' ability to pass on higher costs

Left: Expectations for higher costs for inputs and services over the next 12 months. Right: Extent to which companies expect to be able to pass higher costs on to customers



7. Contacts and authors

Contacts

Reto Savoia
CEO
Deloitte Switzerland
+41 58 279 60 00
rsavoia@deloitte.ch

Alessandro Miolo
Managing Partner Audit & Assurance
and CFO Programme Leader
+41 58 279 72 27
amiolo@deloitte.ch

Authors

Dr. Michael Grampp
Chief Economist and Head of Research
+41 58 279 68 17
mgrampp@deloitte.ch
Follow me on Twitter
@michaelgrampp

Dennis Brandes
Economist & Research Manager
+41 58 279 65 37
dbrandes@deloitte.ch

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CFO Forum Schweiz | CFOs

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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.