The Deloitte CFO Survey

Ray of hope

First half-year 2023 | Results of the Swiss CFO Survey

Contents

About the Deloitte CFO Survey

The 45th Swiss CFO Survey was conducted online between 28 February and 27 March 2023. A total of 116 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 should 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

Marked improvement in the economic outlook
A mild winter has paved the way for a more positive spring, with Swiss CFOs markedly more optimistic than in H2 2022 about the economic outlook for the country and its major trading partners, as earlier fears of energy shortages over the winter have failed to materialise.

Brighter corporate outlook and improved corporate indicators as expectations increase, especially for margins
There has also been a marked improvement in the corporate outlook, particularly in CFOs' expectations for operating margins. The main factor here is sales prices, with many companies apparently well placed to pass their own higher costs on to their customers. Margins are, however, still under pressure from factors such as rising labour costs and higher cost of credit.

Geopolitical risk and labour shortages dominate the risk landscape
There have been marked shifts in perceptions of corporate risk, with fewer Swiss CFOs citing fears of inflation and energy shortages or reporting supply chain problems. However, CFOs are more concerned about geopolitical risk and skills shortages.

Digitalisation, cooperation and 'friendshoring' to tackle geopolitical risk
Companies are taking a range of measures to tackle growing geopolitical risk. The measures most often cited by Swiss CFOs are digital (planning) tools, greater cooperation with suppliers and more scenario planning. 'Friendshoring' – focusing manufacturing and sourcing in countries that are geopolitical allies and have comparable values – is the main strategy adopted by companies seeking to restructure (expand or reduce) their presence in individual markets.

Inflation expectations fall slightly but remain high
Expectations for inflation remain high, although CFOs' perception of the risk posed by inflation has decreased slightly. CFOs expect the Swiss inflation rate to be 2.6% in 12 months' time and to fall back to around 2.0% only in 24 months' time, when they expect it to be 2.2%. Their expectations for average pay growth over the next 12 months slightly exceed expected inflation, at 2.8%.

2. Economic outlook: A much brighter picture

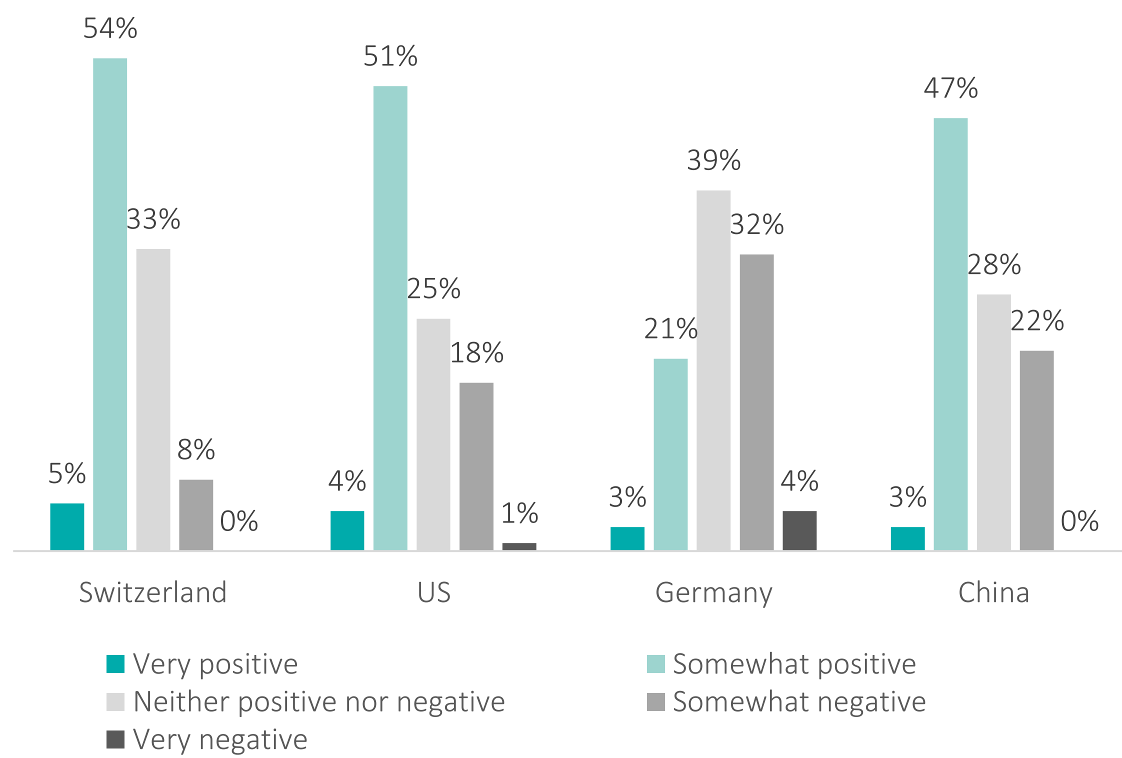
A mild winter has paved the way for a more positive spring, with Swiss CFOs markedly more optimistic than in H2 2022 about the economic outlook for the country and its major trading partners, as earlier fears of energy shortages over the winter have failed to materialise.

The past winter turned out to be milder than many feared, reducing pressure on Europe's energy supply. It also appears that restrictions imposed during the pandemic have finally been lifted – including in China. This translates into greater optimism on the part of Swiss CFOs about the economic outlook, particularly for Switzerland itself and the US, its most important trading partner. The optimism with regard to the US is somewhat surprising, given that indications of a US recession have been mounting for some time. However, if the US does face a recession, it is likely to be unusual in character, with major parts of the US economy continuing to perform strongly, for example the labour market.

Swiss CFOs are more sceptical about the outlook for the Chinese economy, although those rating it as positive outnumber those rating it as negative. They are more sceptical still about the outlook for the German economy, with those rating it as negative vastly outnumbering those rating it as positive. The outcome of Germany's current economic transformation is uncertain, not least because of the political priorities the country has adopted and the volatility and rapid growth in energy prices.

Chart 1. Economic outlook for Switzerland and its major trading partners

Share of CFOs rating as positive/negative the economic prospects for Switzerland and its major trading partners over the next 12 months



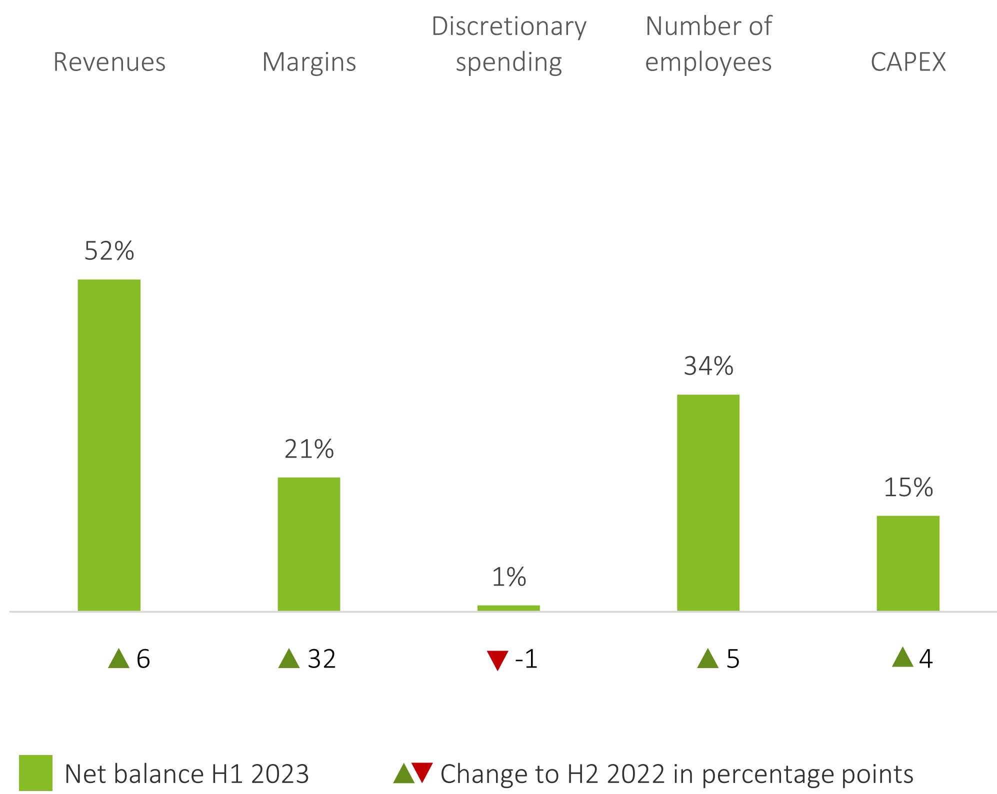
3. Corporate outlook: Margin expectations improve markedly

There has also been a marked improvement in the corporate outlook, particularly in CFOs' expectations for operating margins. The main factor here is sales prices, with many companies apparently well placed to pass their own higher costs on to their customers. Margins are, however, still under pressure from factors such as rising labour costs and higher cost of credit.

Almost two-thirds of CFOs (62%) expect their company's financial performance to improve over the next 12 months, with only 15% believing that it will decline. This gives a net balance of 47%, 30 percentage points higher than in H2 2022. Chart 2 shows the findings for individual corporate indicators, confirming the generally positive picture. Expectations for all indicators except discretionary spending are up, with a particularly large increase in expectations for operating margins compared with H2 2022 (see next page for further details). However, concerns about discretionary spending, which includes travel and marketing costs, show that CFOs continue to be cautious: companies are keen to recruit and invest, but keeping control over costs remains a key factor.

Chart 2. Corporate indicators improve, particularly expectations for operating margins

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



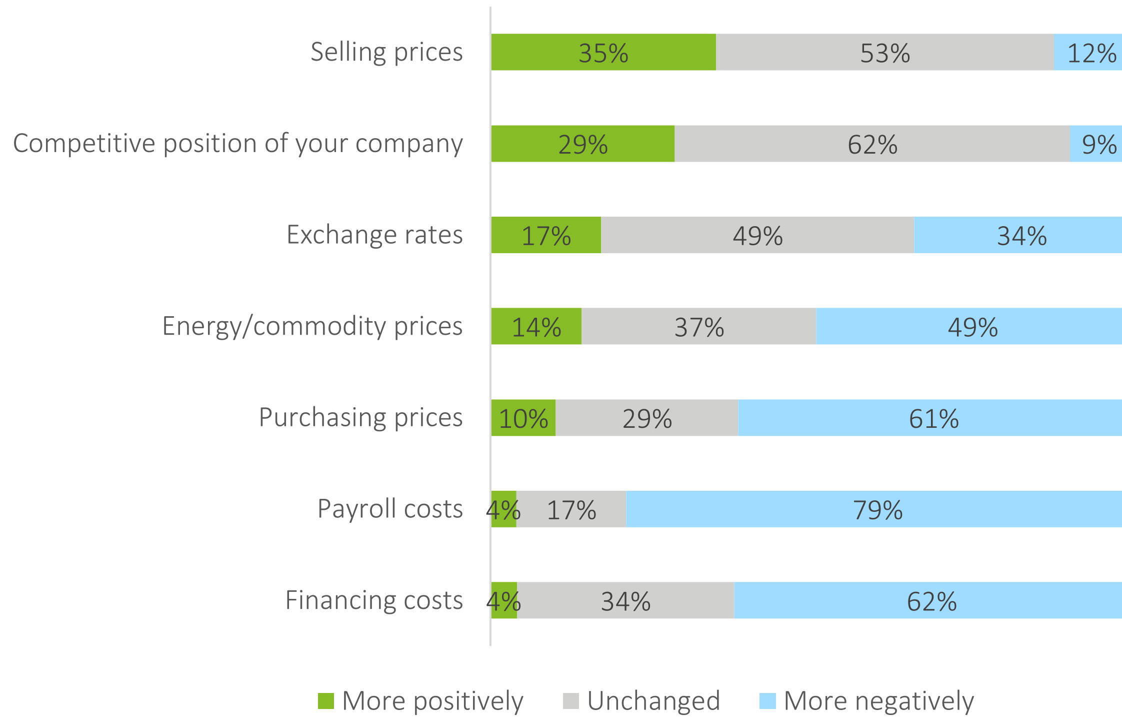
A number of – partly contradictory – factors have contributed to the improvement in expectations for operating margins. Chart 3 lists a number of factors currently having an impact on companies' operating margins compared with 12 months ago. 35% of CFOs report that sales prices are a positive influence on their company's margins. Some companies are clearly now better placed to absorb higher costs or to increase their own margins following price increases across the economy. However 12% report that sales prices are not keeping up with cost inflation and so are having a more negative impact on their company's margins than 12 months ago.

Labour costs and the cost of credit are the two factors cited by a large majority of CFOs as having a particularly negative impact on margins (79% and 62% respectively). Companies still plan to recruit, as Chart 2 shows, but the impact of labour costs on operating margins suggests that the costs associated with recruitment should not be underestimated.

CFOs' biggest fear in H2 2022 was the higher cost of energy and raw materials, which they ranked third in the list of corporate risks. This risk has now moved down the league table; it remains a problem, but is cited by respondents less than labour costs and the cost of credit.

Chart 3. Which factors are having an impact on companies' operating margins?

What impact are the following factors currently having on your operating margins compared to 12 months ago?



4. Corporate risks: Geopolitical risk and skills shortages

There have been marked shifts in perceptions of corporate risk, with fewer Swiss CFOs citing fears of inflation and energy shortages or reporting supply chain problems. However, CFOs are more concerned about geopolitical risk and skills shortages.

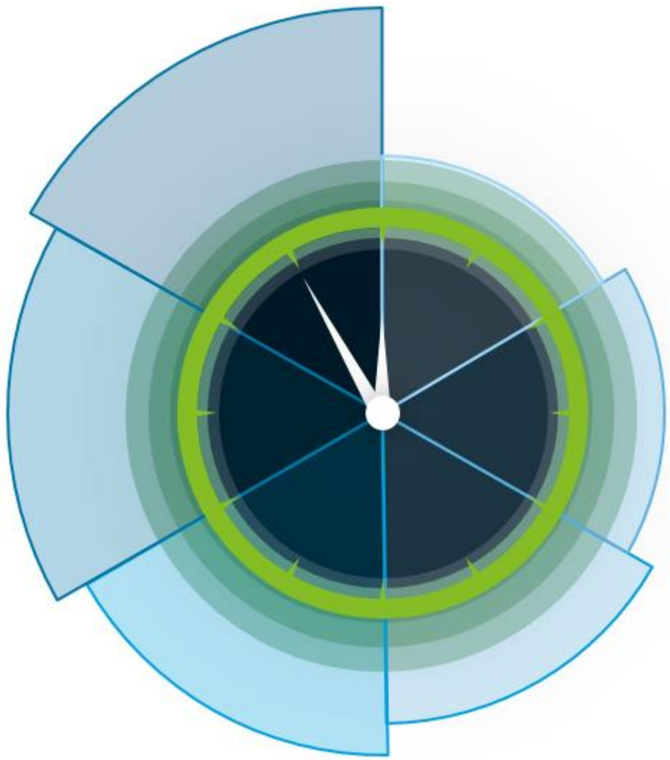
Fears expressed by Swiss CFOs in H2 2022 have abated. Inflation is falling, though it remains the third most frequently cited risk, substantially ahead of other corporate risks. Few now cite fears of energy shortages, the sixth most frequently cited risk in the H2 2022 Survey, while energy costs – the third highest risk in H2 2022 – have fallen out of the top 10 risks in H1 2023.

However, geopolitical risk and its impact on Swiss companies has risen up the rankings (see next page for further details). More CFOs also now perceive skills shortages as a risk to their company. Coupled with the impact of higher labour costs (see Chart 3), this casts a shadow over the otherwise optimistic views relating to recruitment intentions (Chart 2). There is a question mark over whether companies will be able to find the staff they need within a reasonable timescale and at a reasonable cost.

The stability of the financial markets has also risen up the risk rankings. This is partly a result of distortions in the (Swiss) banking market. However, individual CFOs also cite potential risks in the property market as a factor.

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

CFOs' perceptions of the biggest internal and/or external risks to their company over the next 12 months (up to three responses)



1	Geopolitical risks / war	6
2	Labour shortages	2
3	Inflation	-2
4	Weak demand / recession	1
5	Financial market risks (incl. real estate)	6
6	Monetary policy / interest rates	2
7	Supply chain problems	-4
8	Internal company problems	6
9	Exchange rate risks	3
10	Cost of capital / shortage of capital	-1

Note on the the methodology: Deloitte has categorised the risks indicated, and the categories set out above 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 2022 Survey; the figure inside each triangle shows the change in the rating of each risk.

5. Geopolitical risk: how companies are responding

Companies are taking a range of measures to tackle growing geopolitical risk. The measures most often cited by Swiss CFOs are digital (planning) tools, greater cooperation with suppliers and more scenario planning. 'Friendshoring' – focusing manufacturing and sourcing in countries that are geopolitical allies and have comparable values – is the main strategy adopted by companies seeking to restructure (expand or reduce) their presence in individual markets.

Almost two-thirds of CFOs report that they plan to make greater use of digital (planning) tools. Two out of five (41%) say they plan to increase cooperation with suppliers, while the same proportion say that they will do more scenario planning. Around a third (34%) intend to diversify their suppliers and sales channels, while one in five (21%) will be reviewing or moving corporate locations.

Chart 5 indicates the countries or regions where businesses are most likely to be expanding or reducing their market presence. Answers to a related question point to significant levels of 'friendshoring' – focusing manufacturing and sourcing on countries that are geopolitical allies and/or have comparable values. Unsurprisingly, Russia continues to dominate the list of countries in which companies want to reduce their market presence. China comes a close second, however. CFOs also cite countries neighbouring Russia and China and – less frequently – Europe and Africa. The EU/western Europe is by contrast the region where most companies want to expand their presence, followed closely by the US. Switzerland is in third place, but quite some way behind.

'Friendshoring' can boost supply chain resilience but at the cost of efficiency: it is not always possible to find the best and cheapest suppliers in the 'right' countries.

Chart 5. Countries or regions where companies are expanding or reducing their presence as a result of geopolitical tensions

Free-form responses; text size represents the frequency of individual responses

6. Expectations for inflation and pay growth

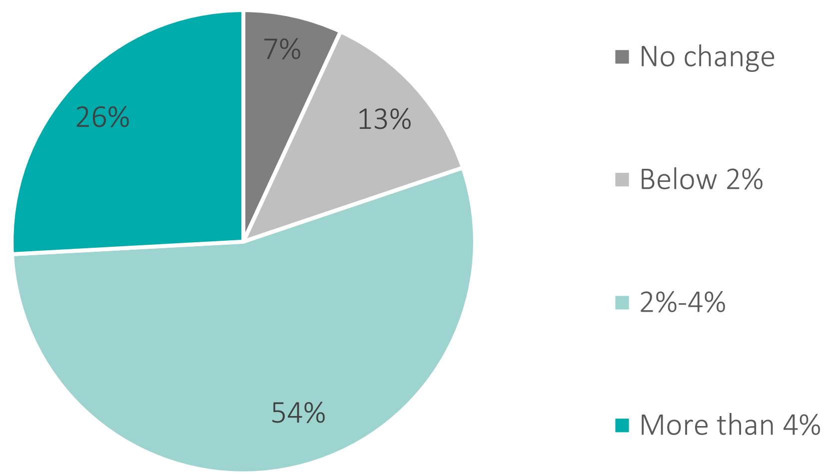
Expectations for inflation remain high, although CFOs' perception of the risk posed by inflation has decreased slightly. CFOs expect the Swiss inflation rate to be 2.6% in 12 months' time and to fall back to around 2.0% only in 24 months' time, when they expect it to be 2.2%. Their expectations for average pay growth over the next 12 months slightly exceed expected inflation, at 2.8%.

Chart 4 shows that Swiss CFOs see inflation as less of a risk to their company than in H2 2022. However, inflation has gained a stronger foothold than experts hoped: it has already topped 3% twice this year, and expectations for inflation remain high. CFOs expect a rate of 2.6% in 12 months' time and 2.2% in 24 months' time. Both figures are down slightly on those reported in H2 2022 (2.9% and 2.4% respectively). Expectations for average pay growth, at 2.8% in 12 months' time, are slightly higher than the expected rate of inflation, the same as in H2 2022. Four out of five companies plan to increase pay by at least 2% (see Chart 6).

None of these figures is substantially out of line with other countries, but expected inflation in Switzerland is much higher than the very low rates that have prevailed since the 2008 financial crisis. The Swiss National Bank will have to continue to take the fight against inflation very seriously, with higher rates expected to last for some time. However, Swiss CFOs expect only small increases in key interest rates in 12 and 24 months' time compared with current rates. Nevertheless, the increase already seen has been enough to trigger a significant rise in the cost of credit: three-fifths of CFOs (59%) rate the cost of new credit as high or very high. Overall, however, they continue to rate the availability of credit as very good.

Chart 6. Expectations for pay growth

What percentage increase do you expect in average pay in your company over the next 12 months?



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 and Senior Research Manager
+41 58 279 65 37
dbrandes@deloitte.ch

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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.