The Deloitte CFO Survey
Is Switzerland facing the threat of stagflation?

Second half-year 2022 | Results of the Swiss CFO Survey
Contents

1. Summary and key findings of the Swiss CFO Survey 3
2. Economic outlook: Prospects for Switzerland hold up comparatively well 4
3. Corporate outlook: Revenues offer a glimmer of hope 5
4. Corporate risks: Shortages and rising prices 7
5. Inflation: Companies’ responses 8
6. Geopolitical risk: Emphasis shifts to impacts 9
7. Contacts and authors 10

About the Deloitte CFO Survey
The 44th Swiss CFO Survey was conducted online between 6 and 28 September 2022. A total of 127 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 November at www.deloitte.com/europeanfosurvey

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

There has been a marked deterioration in the outlook for the Swiss economy. A small majority of Swiss CFOs now rate its prospects over the next 12 months as negative. They are, though, even gloomier about the outlook for Germany and China, both important trading partners for Switzerland. The combination of a gloomier economic outlook and expectations for higher inflation suggests a greater risk of stagflation.

There has also been a deterioration in the corporate outlook and corporate indicators. A majority of Swiss CFOs remain optimistic about their company’s financial outlook, offering a glimmer of hope. A significant majority also rate the prospects for revenues as positive. In an inflationary environment, however, higher revenues may be the result solely of higher prices and not genuine business success. Pressure on operating margins is growing, and CFOs are again taking action to drive down costs.

The risk environment is dominated by shortages and rising prices. Fewer CFOs cite geopolitical risks, with the focus now shifting to the consequences of those risks. These include potential energy shortages, a significant corporate risk that has been identified for the first time since the CFO Survey was first conducted.

Inflation is by far the biggest corporate risk identified by Swiss CFOs. They expect inflation to fall to 2.9% in 12 months’ time and to 2.4% in 24 months’ time provided base rates continue to rise. However, they also expect inflation to remain high in the short term, so there is a focus on measures to counter the impact that it will have.

Geopolitical risks have shifted from being an abstract concern to something that is actually damaging Swiss companies. They involve many different impacts, including supply chain problems, issues with the supply of energy and raw materials, and rising prices. Companies are taking a range of measures to counter these risks.
2. Economic outlook: Prospects for Switzerland hold up comparatively well

There has been a marked deterioration in the outlook for the Swiss economy. A small majority of Swiss CFOs now rate its prospects over the next 12 months as negative. They are, though, even gloomier about the outlook for Germany and China, both important trading partners for Switzerland.

There is still no sign of the significant post-COVID recovery Swiss CFOs had hoped to see. The ongoing impact of the pandemic, the stringent measures in place in China, the war in Ukraine, ineffective energy policies (especially in Germany), and very high rates of inflation in many countries, coupled with delayed responses by many central banks, are all putting pressure on the economy and fuelling CFOs’ gloomy assessment. For the first time, a majority rate the outlook for the Swiss economy over the next 12 months as negative. They are slightly more optimistic about the prospects for the US, Switzerland’s most important export market. They are, however, very pessimistic about the outlook for Germany and China, the country’s second and third most important export markets respectively. Such expectations do not constitute a detailed forecast, but it appears that trading partner economies are currently having a significant impact in slowing down recovery by Swiss businesses.

Chart 1. Economic outlook for Switzerland and its major trading partners
Net balance of CFOs rating as positive/negative the economic prospects for Switzerland and its major trading partners over the next 12 months
3. Corporate outlook: Revenues offer a glimmer of hope

There has also been a deterioration in the corporate outlook and corporate indicators across almost all sectors. A majority of Swiss CFOs remain optimistic about their company’s financial outlook, offering a glimmer of hope. A significant majority also rate the prospects for revenues as positive. In an inflationary environment, however, higher revenues may be the result solely of higher prices and not genuine business success. Pressure on operating margins is growing, and CFOs are again taking action to drive down costs.

This challenging environment is having an impact on the corporate outlook. CFOs now rate their company’s prospects over the next 12 months markedly more negatively, though a majority still rate them as positive. 44% of Swiss CFOs are optimistic about their company’s financial outlook compared with 27% who are pessimistic (see Chart 2).

CFOs are, however, less optimistic than three months ago. In a separate question, 53% of CFOs report that they are more pessimistic now than they were three months ago, with just 19% reporting that they are more optimistic.

Chart 2. Companies’ financial outlook over the next 12 months
Percentages and net balance indicating how CFOs rate their company’s financial prospects over the next 12 months

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Among corporate indicators, revenue expectations for the next 12 months offer a glimmer of hope. This indicator remains relatively stable, with a net balance of 46% of Swiss CFOs expecting revenues to improve (2 percentage points fewer than in H1). However, this comparatively good news should be treated with caution given that inflation is now gathering pace. If at least part of the increase in prices is passed on to customers, higher notional revenues do not automatically reflect higher real revenues. CFOs’ revenue expectations may therefore partly reflect higher inflation rather than genuine growth. This effect is relatively small in Switzerland itself, but where at least part of the increase in costs is passed on to customers, the impact will be considerably greater for companies earning revenues in countries with high inflation, such as the US, or in the Eurozone.

There has been a marked decline in expectations for all other indicators. However, with the exception of operating margins, they remain positive. There is a particularly marked decline in expectations for discretionary spending (marketing, travel, training, etc.), which can be subject to rapid change. Discretionary spending is frequently an early indicator of decline elsewhere. It is clear that there is a marked increase in awareness of costs. A significant majority of CFOs still expect employee numbers to increase – a good sign – but it is unclear whether all the existing vacancies can be filled within a reasonable timeframe, as is illustrated by the number of CFOs citing skills shortages as a corporate risk (see next page).

Chart 3. Corporate indicators deteriorate across the board since H1

Net balance of CFOs who expect their company’s performance on key indicators to increase/decrease over the next 12 months
4. Corporate risks: Shortages and rising prices

The risk environment is dominated by shortages and rising prices. Fewer CFOs cite geopolitical risks, with the focus shifting to the consequences of those risks. These include potential energy shortages, a significant corporate risk that has been identified for the first time since the CFO Survey was first conducted.

Geopolitical risks were the most frequently perceived risk in H1 2022 but they have now fallen to 7th place in the top 10 corporate risks. Attention has shifted to the impact of these geopolitical events on Swiss companies - shortages and price increases in a number of sectors. Inflation, supply chain problems, raw material and energy prices, and energy shortages are the most frequently cited risks. This is the first time since the Survey was first conducted that energy shortages have featured in the list of risks. Skills shortages are still one of the top five risks. There has been a marked increase in perception of the risk of lower growth, if not of an actual recession. CFOs are now also more likely to cite capital costs as a risk: in a separate question, 40% of CFOs report that the cost of credit is high or very high. The end of low interest rates is already having an effect.

It is also striking which risks no longer feature among the top 10. From 2020, COVID-19 dominated the risk environment, but that risk has now receded. Very few CFOs cite currency risks, even though the Swiss Franc has risen significantly in value. A majority of Swiss companies are better prepared for this risk than was previously, and the strong Swiss Franc is helping to slow down inflation.

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)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Risk</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inflation</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Supply chain problems</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>Raw material and energy prices</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Skills shortages</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Weakness in demand / recession</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Energy shortages</td>
<td>NEW</td>
</tr>
<tr>
<td>7</td>
<td>Geopolitical risks / war</td>
<td>-6</td>
</tr>
<tr>
<td>8</td>
<td>Monetary policy / interest rates</td>
<td>-1</td>
</tr>
<tr>
<td>9</td>
<td>Capital costs / shortage of capital</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Pressure on prices / costs / operating margins</td>
<td>5</td>
</tr>
</tbody>
</table>

A note on the methodology: Deloitte has categorised the risks listed. 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 H1 2022 Survey; the figure inside each triangle shows the change in the rating of each risk.
5. Inflation: Companies’ responses

Inflation is by far the biggest corporate risk identified by Swiss CFOs. They expect inflation to fall to 2.9% in 12 months’ time and to 2.4% in 24 months’ time provided base rates continue to rise. However, they also expect inflation to remain high in the short term, so there is a focus on measures to counter the impact that it will have.

On average, CFOs expect inflation to fall to 2.9% in 12 months’ time and to 2.4%, in 24 months’ time. This represents a fall from September 2022, when inflation was 3.3%. A fall in the rate is expected over the next two years. CFOs therefore expect that inflation can be brought under control, although not as rapidly as they had hoped. They also expect the base rate to continue to rise over the next two years to an average of 1.4%. There are warning signs in the survey that show the Swiss National Bank will probably have to continue to intervene. For example, CFOs expect average pay growth in 2023 of 2.8%, only marginally below the expected 2.9% rate of inflation. This increases the risk of a wage-price spiral, which must be prevented if inflation is to be brought under control in the short term and relatively painlessly.

Companies are keen to counter the impact of inflation. As Chart 5 shows, the main way they plan to do this apart from increased digitalisation is by passing on higher prices to customers. They also plan measures for greater energy efficiency in response to higher energy prices and energy insecurity.

Chart 5. Measures to counter higher inflation

To what extent is your company taking the following measures to counter the impact of higher inflation?

<table>
<thead>
<tr>
<th>Measure</th>
<th>To a large extent</th>
<th>To a medium extent</th>
<th>To a small extent</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving efficiency gains/digital capabilities for increased use of automation</td>
<td>33%</td>
<td>43%</td>
<td>22%</td>
<td>2%</td>
</tr>
<tr>
<td>Passing on costs to customers by raising prices</td>
<td>32%</td>
<td>27%</td>
<td>27%</td>
<td>14%</td>
</tr>
<tr>
<td>Increasing energy efficiency or reducing energy use</td>
<td>20%</td>
<td>39%</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>Increasing product or service differentiation relative to competitors</td>
<td>16%</td>
<td>37%</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Focusing on higher margin markets, products or services</td>
<td>15%</td>
<td>43%</td>
<td>24%</td>
<td>18%</td>
</tr>
<tr>
<td>Improving cash flow management</td>
<td>13%</td>
<td>39%</td>
<td>29%</td>
<td>19%</td>
</tr>
<tr>
<td>Increasing investment to reduce costs (for example, labour-saving or energy-saving investments)</td>
<td>12%</td>
<td>32%</td>
<td>30%</td>
<td>27%</td>
</tr>
<tr>
<td>Reducing other more discretionary spending such as training, marketing or travel</td>
<td>11%</td>
<td>20%</td>
<td>45%</td>
<td>24%</td>
</tr>
<tr>
<td>Reducing staff costs, including hours or headcount</td>
<td>11%</td>
<td>18%</td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td>Absorbing higher inflation through a reduction in margins</td>
<td>11%</td>
<td>18%</td>
<td>32%</td>
<td>39%</td>
</tr>
</tbody>
</table>

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6. Geopolitical risk: Emphasis shifts to impacts

Geopolitical risks have shifted from being an abstract concern to something that is actually damaging Swiss companies. They involve many different impacts, including supply chain problems, issues with the supply of energy and raw materials, and rising prices. Companies are taking a range of measures to counter these risks.

The many and diverse impacts of geopolitical disruption, massively exacerbated by Russia’s attack on Ukraine, are affecting the vast majority of Swiss companies. 61% of CFOs report at least a moderate impact, with just 12% reporting very low impact. As Chart 6 shows, companies are taking a range of measures to counter these risks. The most frequently cited measure is diversification of supply chains. However, some companies are planning more radical action: 28% intend to withdraw partially from geopolitically risky markets, and 9% plan full withdrawal. Geopolitically risky markets in which CFOs say their company is reducing its presence include the parties to the war in Ukraine: Russia is perceived as by far the riskiest market, with fewer CFOs citing Ukraine or Belarus. However, the second most frequently identified market is China. Along with expectations for weak economic growth (see page 4), this represents a major shift in the importance of the Chinese market to Swiss exporters. From being a driver of growth, China is now increasingly seen as a risk factor. It will remain important, but companies are now asking themselves different strategic questions.

Chart 6. Measures to counter geopolitical risks
What measures is your company taking or planning to increase its resilience to geopolitical risks?

- Diversification of supply chains: 42%
- Scenario analysis: 34%
- Monitoring of geopolitical risks with regular updates for the Executive Board and Supervisory Board: 33%
- Greater integration of geopolitical factors in strategic decisions: 31%
- Reduction of footprint in markets with greater geopolitical risks: 28%
- Increased in-house production/development: 21%
- Re-localisation of supply chains: 20%
- We are taking no actions to be more resilient to geopolitical risks: 14%
- Complete withdrawal from markets with greater geopolitical risks: 9%
- Stronger regional/national autonomy between units within the company: 9%
- Other action: 9%
7. Contacts and authors

Contacts

<table>
<thead>
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<th>Title</th>
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Acknowledgements

We would like to thank all participating CFOs for their support in completing the Survey.

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

Thank you to Damian Rohr for his invaluable input to this report.

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.