

## Press release

Zurich/Geneva, 4 October 2022

### **CFO survey: bleak outlook for the Swiss economy – risk of stagflation on the rise**

**Swiss companies assess the economic outlook for Switzerland as significantly weaker than six months ago. However, according to the Deloitte CFO survey, a slump in the economy is not yet imminent. The main cause of concern are the direct and indirect consequences of geopolitical developments: inflation, bottlenecks in the supply chain and in energy supply. Germany and China are viewed with concern, too. The respondents also assume that inflation will still be moderate and expect key interest rates to continue to rise. A majority assesses the financial outlook for their own company over the next 12 months as positive.**

The geopolitical situation and its direct and indirect consequences clearly influence the frame of mind within Swiss companies. The outlook for the Swiss economy over the next twelve months is clearly rather dim. Six months ago, 22 percent of the CFOs surveyed by the accounting and consulting firm Deloitte were still assuming a significant decline in growth; in the current survey, this number is already at 37 percent. This is an expression of concern but does not yet show an actual collapse.

In comparison with important trading partners, Switzerland is still in a good position. While the assessment for the USA is comparable to the expectations for Switzerland, the outlook for Germany is deeply pessimistic: 77 percent of the CFOs that have been surveyed expect negative developments. Even for China, which has long been viewed with great enthusiasm, a clear majority (64%) expect a negative development – and this is seen from an already markedly lower growth level than in previous years.

#### **Many companies nevertheless expect turnover growth**

In a three-month comparison, CFOs' assessments of their own company have also declined significantly. A majority of about one-third sees a deterioration in their financial outlook, compared to their assessment in June. Nevertheless, when it comes to the outlook for the next 12 months, a majority of 17% (44% positive, 27% negative, remainder neutral) continues to assume that their company will develop positively. A clear majority of respondents expect sales to continue to grow, but the trend for all company key figures surveyed is negative, compared to the spring survey. Most Swiss companies also plan to increase capital expenditures and the number of employees in the coming 12 months, even if they intend to do so with considerably more caution. Margin pressure and cost awareness are on the rise.

#### **Shortages and price increases as main concerns**

Two issues are omnipresent in the minds of CFOs of Swiss companies: scarcity and price increases. They currently see inflation as the biggest risk. On the other hand, the number one concern of the last survey – abstract "geopolitical risks" – finds itself in 7th place this time. It has been replaced by concrete direct or indirect consequences of the geopolitical situation: in addition to inflation, these are supply chain problems, raw material and energy prices and – new in the top 10 – concerns about an energy shortage. These are joined by the threat of weak demand and labour shortages.

#### **China: from growth engine to risk factor?**

According to the survey, almost 40% of Swiss companies focus on diversifying their value chains to counteract geopolitical risks. More than a quarter of the CFOs surveyed want to reduce their presence in markets with increased geopolitical risks (28%) or even withdraw from them completely (9%). These markets include Russia, Ukraine, Belarus – and also China. Reto Savoia, CEO Deloitte Switzerland: "It is particularly striking how often China is mentioned as a region with increased geopolitical risks. China is increasingly viewed in a differentiated way, the strategic questions that companies ask themselves in China are beginning to change. China remains very important for the local economy, but its reputation as a growth engine for Swiss exports and a reliable supplier of increasingly high-quality products that was unshakeable for a long time is beginning to falter."

On average, the CFOs surveyed expect the Swiss National Bank to raise the key interest rate further to 1.3 per cent in the next 24 months. In this light, Swiss companies expect inflation to be above the target range, but comparatively moderate, at 2.4 per cent in two years.

For the next 12 months, inflation expectations are at 3 per cent – which would correspond to a decline from today's level – with wage increases expected on a similar scale at the same time. It is also apparent that there are limits to measures aimed at cushioning the impact of inflation: About one third of the companies state that they will be able to pass on the increased costs to a "large extent" to customers. Even fewer companies strive to implement other measures, such as reducing energy consumption or diversifying their offering, on a large scale.



Illustration: The biggest corporate risks from the perspective of CFOs of Swiss companies

In this context, Alessandro Miolo, Managing Partner Audit & Assurance at Deloitte, emphasises the importance of the Swiss National Bank in the coming months: "The SNB must continue to act decisively, even if the European Central Bank should hesitate. Otherwise, there is a risk of inflation becoming entrenched in a spiral of rising prices and wages. In combination with the expected weak growth, we could slide into stagflation".

#### About the study:

The survey aims to gauge the views of chief financial officers (CFOs) and heads of finance at relevant companies about business prospects, financing, risks and strategies, as well as identifying trends and turning points at Swiss companies. The CFO Survey is the only survey of its kind in Switzerland and has been conducted semi-annually since autumn 2009. The current 44<sup>th</sup> survey on the second half of 2022 was conducted from 5 to 28 September. A total of 127 CFOs took part. The participants represent both listed and private companies and come from all relevant sectors of the Swiss economy. Due to the current situation, we have brought forward the publication of particularly time-critical survey results. The main report with the other results will follow at the start of November.



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