



# Executive summary



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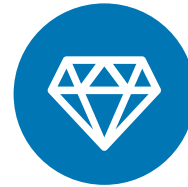
## Economic outlook

Swiss CFOs' expectations for economic growth in Switzerland have improved further, but the confidence of manufacturing sector CFOs is slightly lower than that of CFOs in other sectors.

## Company prospects

Manufacturing sector CFOs are as positive about their company's financial prospects over the next 12 months as CFOs in other sectors.

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## Growth prospects

Revenue expectations of manufacturing sector CFOs for the next 12 months remain positive, while expectations for operating margins decreased and remain flat for capital expenditure.



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## Trade environment

Manufacturing sector CFOs view protectionist measures and trade reforms in other countries as having a negative impact on their company's financial success.

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## Risks and opportunities for 2017

Manufacturing sector CFOs see geopolitical risks, a shortage of skilled professionals and the strength of the Swiss Franc as the biggest risks, while cost efficiency, digitalisation and innovation are considered the biggest opportunities.



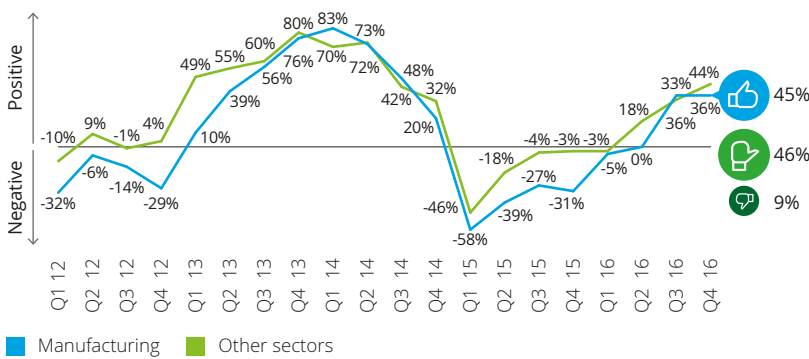
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# 1. Economic outlook

Swiss CFOs' expectations for economic growth in Switzerland have improved further, but the confidence of manufacturing sector CFOs is slightly lower than that of CFOs in other sectors.

## Economic outlook (net balance) (Q1 2012 – Q4 2016)

Question: How do you judge the economic outlook for Switzerland over the next 12 months?



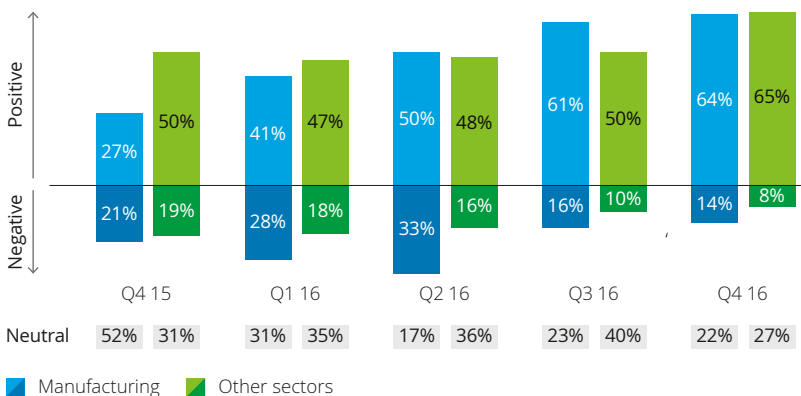
- The views of Swiss CFOs about the **economic outlook** have improved in Q4 2016
- The confidence of CFOs in other sectors improved further with the net balance at 44%, compared to 33% in Q3. However, the net balance of manufacturing sector CFOs remains the same at 36%
- Almost half of the manufacturing sector CFOs (45%) are optimistic about the economic outlook over the next 12 months (previous quarter 48%). Only 9% of manufacturing sector CFOs remain pessimistic (previously 13%). The number of manufacturing CFOs that are neutral increased from 39% to 46% in Q4.

# 2. Company prospects

Manufacturing sector CFOs are as positive about their company's financial prospects over the next 12 months as CFOs in other sectors.

## Companies' financial prospects (Q4 2015 – Q4 2016)

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



- Swiss CFOs are also more optimistic about their company's **financial prospects** over the next 12 months in Q4 2016 than in every quarter in 2016
- 64% of manufacturing sector CFOs view their company's financial prospects in Q4 as positive, slightly more than in the previous quarter (61%)
- Only 14% of manufacturing sector CFOs rate them as negative (previous quarter 16%). The number of manufacturing sector CFOs who judge the financial prospects as neither positive nor negative remains almost the same (22%)
- The number of CFOs in other sectors that remain optimistic about their company's prospects increased from 50% to 65%. Slightly fewer CFOs in other sectors judge the financial prospects as negative (8%; previous quarter 10%).

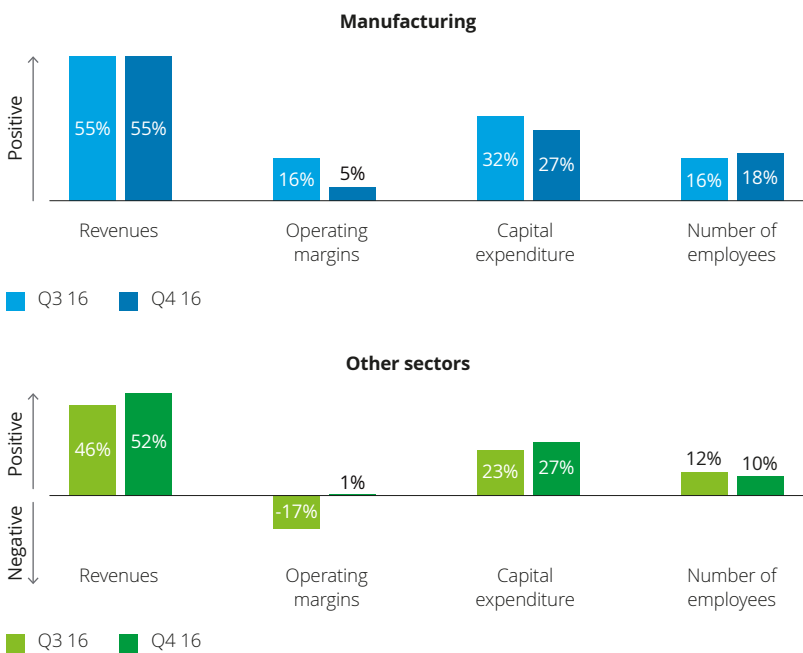
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.  
Source: Deloitte CFO Survey.

# 3. Growth prospects

Revenue expectations of manufacturing sector CFOs for the next 12 months remain positive, while expectations for operating margins decreased and remain flat for capital expenditure.

### Key metrics (net balance) (Q3 2016 vs Q4 2016)

Question: In your view, how are the following key metrics for Swiss corporates likely to change over the next 12 months?



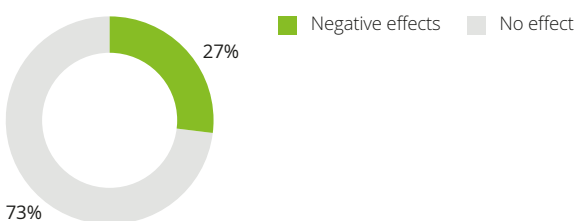
- Manufacturing sector CFOs have the same expectations for **revenue** increases in Q4 2016 as in the previous quarter (net balance of 55%). 73% expect an increase in revenue over the next 12 months and only 18% a decrease. Revenue expectations of CFOs in other sectors have increased slightly (from a net balance of 46% to 52%)
- Expectations for **operating margins** among manufacturing sector CFOs have decreased, with the net balance moving from 16% to 5%. 36% of manufacturing sector CFOs expect margins to increase, with 32% expecting decreases. Margin expectations of CFOs in other sectors increased from the previous quarter and are now marginally positive
- Manufacturing sector CFOs expect similar **capital expenditure** than CFOs in other sectors. However, capital expenditure expectations of manufacturing sector CFOs remain flat at 27%, compared to the previous quarter
- The expected **number of employees** in all sectors remains practically the same as in the previous quarter.

# 4. Trade environment

Manufacturing sector CFOs view protectionist measures and trade reforms in other countries as having a negative impact on their company's financial success.

### Impact of protectionism (Q4 2016)

Question: To what extent have protectionism and trade reforms of other countries affected the financial success of your company?



- More than one-fourth of manufacturing sector CFOs see **protectionist measures and trade reforms** in other countries negatively impacting the financial success of their companies
- Manufacturing sector CFOs stress that protectionism and trade reforms in the US, China, Russia, and to some extent in the EU, India and Turkey have been more apparent.

Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents. The figures for trade environment are for the manufacturing sector only.

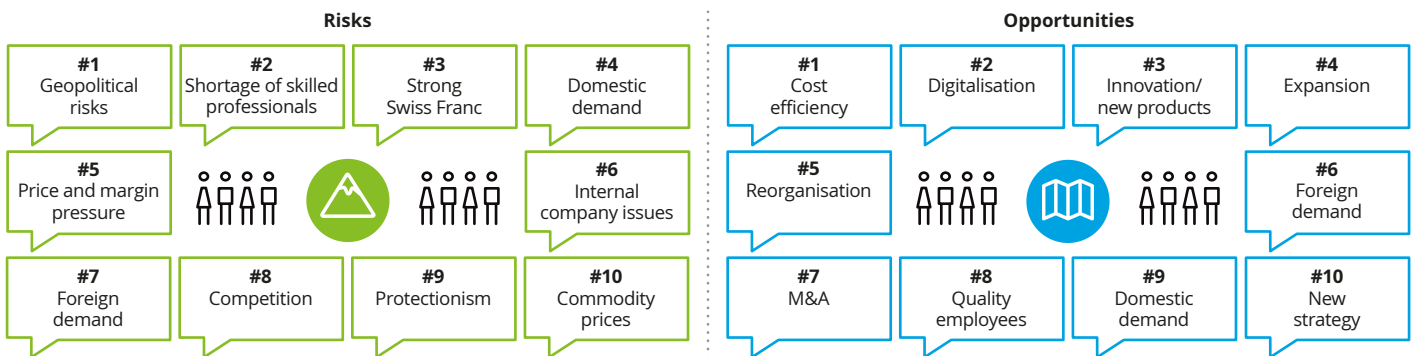
Source: Deloitte CFO Survey.

# 5. Risks and opportunities for 2017

Manufacturing sector CFOs see geopolitical risks, a shortage of skilled professionals and the strength of the Swiss Franc as the biggest risks, while cost efficiency, digitalisation and innovation are considered the biggest opportunities.

## Risks and opportunities (most popular answers)

Question: What are the biggest risks and opportunities facing your company in 2017?



Notes: The figures for risks and opportunities for 2017 are for the manufacturing sector only.

Source: Deloitte CFO Survey.

## Interview with Ralf J. Bopp CEO, German-Swiss Chamber of Commerce, Zurich

**Deloitte:** The expectations of Swiss manufacturing CFOs for economic growth in Switzerland and for their company's financial prospects for the next 12 months have improved sharply in the last three quarters of 2016. Do you think that the crisis for the Swiss manufacturing industry has now finally bottomed out and that Swiss manufacturers have overcome the Swiss Franc shock?

**Ralf J. Bopp:** Yes, economic growth in Switzerland has been simply stable over the past 12 months, although when the shockwaves from the removal of the exchange rate floor hit in January 2015, very few people would have forecast that the economy would grow by 1.4% in 2016. Despite that, however, Swiss manufacturing has not yet turned the corner. The picture is mixed and prospects vary from sector to sector. The chemical and pharmaceutical industry is making a major contribution to growth, but elsewhere, such as in the mechanical engineering, watchmaking, and retail sectors, the mood remains pessimistic. Many companies are still adjusting to the strength of the Swiss Franc – which is actually the weakness of the euro. Their top priority is maintaining market share even against a backdrop of dwindling or vanishing profit margins. As a result, it is very probable that in the near future we will see companies stepping up measures to cut costs and improve efficiency.

**Deloitte:** What do you see as the biggest risks and challenges for the Swiss manufacturing industry in 2017, and for trade relations with Germany its largest export destination?

**Ralf J. Bopp:** The Swiss economy exports more than 50% of what it produces, so the risks and challenges for the coming year are likely to be determined by global trade. And the outlook is still very modest, even though prospects for 2017 are improving. The future of the EU, particularly in the wake of Brexit, is likely to cause uncertainty for Swiss manufacturing, and there is unlikely to be any significant improvement as a result of the CHF/EUR exchange rate this year. The world has become a much more uncertain place, and that is also creating political risk. However, a brighter economic outlook among our major trading partners is also improving the prospects for Swiss exports. For example, we expect US growth to continue, taking the figure to well over 2%. Experts also expect growth in the Chinese economy to stabilise somewhere above 6%. Germany is by far the largest consumer of Swiss goods and accounts for around 19% of our total exports. It is pleasing to note that in 2016, Swiss companies reversed the major downturn in foreign trade that followed the removal of the exchange rate floor in 2015. Meanwhile, the German economy is currently undergoing a period of stable growth underpinned primarily by high levels of domestic demand. The forecast for growth in 2017 is 1.8%.

**Deloitte:** The international trade environment is challenging, with a slowdown in global trade and protectionism on the rise. Swiss manufacturers are negatively impacted by protectionist measures and trade reforms in some countries (e.g. the US, China, Russia and some EU countries). How do you see this trend impacting trade relations between Switzerland and Germany in the coming years?

**Ralf J. Bopp:** Exports generate around half of all company earnings in both Switzerland and Germany. The free movement of goods and services, with low or no tariffs and/or non-tariff barriers to trade, is crucial to the success of our export sector. In the past, significant easing of trade restrictions around the world has often been led by western industrialised nations. Quite apart from how successful TTIP (Transatlantic Trade and Investment Partnership) is likely to be, the question of whether the new US government will adopt a protectionist policy is also likely to be of symbolic importance to many countries. The impact on trade between Germany and Switzerland would be indirect, however, and would depend on whether such a course of action slows down or accelerates world trade.

**Deloitte:** "Swiss quality" and "German engineering" are seen as the hallmarks of Switzerland and Germany all over the world. What other opportunities do you see for Swiss and German manufacturers to remain successful in an increasingly competitive global environment?

**Ralf J. Bopp:** Swiss manufacturing companies now operate in the same foreign markets as their German counterparts, and Swiss and German firms are following the same strategy of globalisation. Both countries are high-tech centres and enjoy many links across value creation process chains. That creates an excellent basis for supplier companies and, more broadly, for cooperation in research and development and in production. Future digital transformation of the economy is also likely significantly to accelerate this trend towards greater cross-border cooperation.

**Profile:** After graduating in economics from the University of Frankfurt am Main, Ralf J. Bopp began his marketing career at Braun AG in Kronberg (Germany) in 1985. After over six years in marketing and business management, he moved to Switzerland in 1991, where he became Head of the Business Advisory Department (Switzerland) of the German-Swiss Chamber of Commerce in Zurich. As Deputy Director and Head of Export Marketing from 1994, he oversaw corporate consultancy, business start-ups, and company acquisitions and sales. He has been CEO of the German-Swiss Chamber of Commerce since July 2005.

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