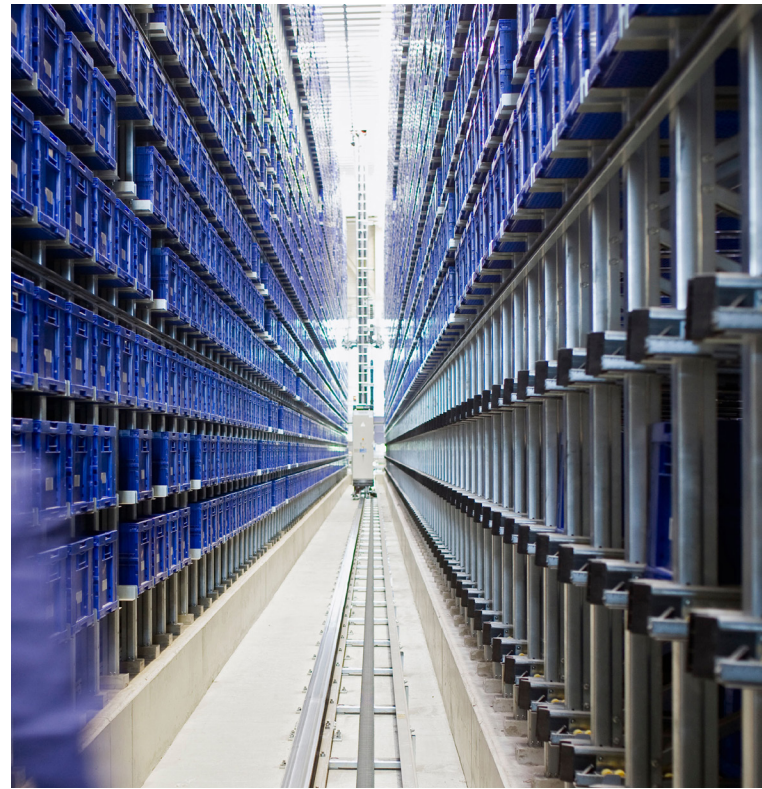


## Manufacturing Trends Quarterly Q4 2015



### Business risks

The strength of the Swiss Franc and geopolitical risks are still seen as the biggest threats, followed by shortage of skilled professionals and weaker domestic demand.

### Growth prospects

Manufacturing sector CFOs expect an improvement in revenue and CAPEX over the next 12 months, but a deterioration in operating margins.

### 1 Deloitte CFO outlook

Swiss CFOs' expectations for economic growth are largely unchanged and a majority remain pessimistic about Switzerland's economic prospects.

### 3 Financial prospects

CFOs of other sectors are considerably more optimistic about the prospects for their own company than manufacturing sector CFOs.

### 5 Challenges and opportunities for 2016

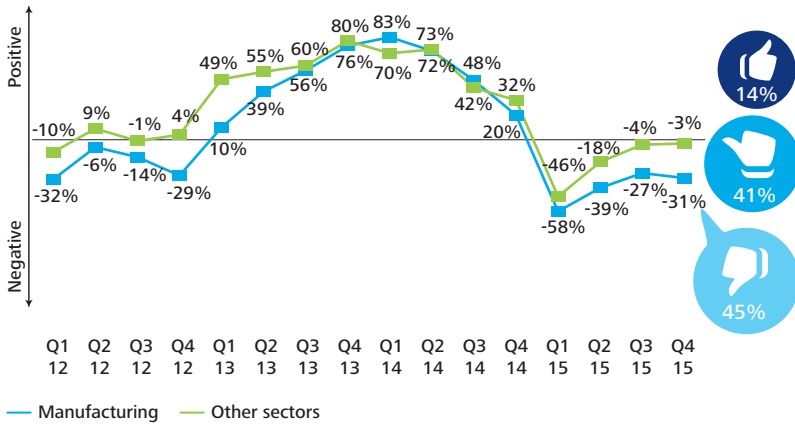
Manufacturing sector CFOs see exchange rate and cost pressures as the biggest challenges and innovation and expansion into new markets as the biggest opportunities.

# 1. Deloitte CFO outlook

Swiss CFOs' expectations for economic growth are largely unchanged and a majority remain pessimistic about Switzerland's economic prospects.

## Economic outlook (net balance) (Q1 2012 – Q4 2015)

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



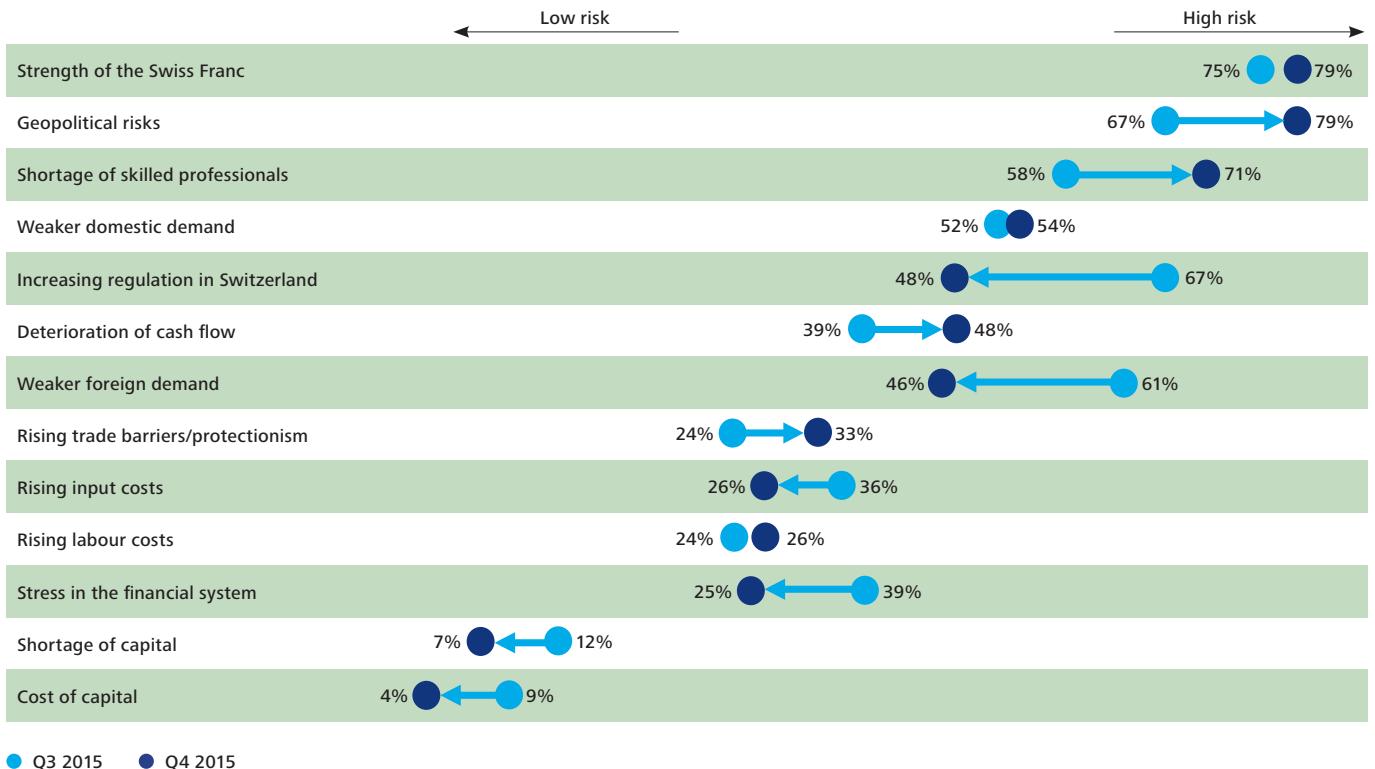
- Views of Swiss CFOs about the **economic outlook** remain unchanged in Q4 2015.
- 14% of manufacturing sector CFOs are optimistic (previously 21%), but the majority (45%) remain pessimistic (previously 49%).
- The confidence of manufacturing sector CFOs remains low with the net balance at -31%, compared to -27% in the previous quarter. The net balance of other sectors also remains negative, at -3%.
- 2015 brought many challenges and some unwelcome surprises for Swiss companies. The event that had the widest impact was the removal of the Swiss Franc exchange rate floor against the euro in January, a move that took many businesses by surprise. While some companies and industry sectors of the Swiss economy are still struggling with the sudden rise in the value of the Swiss Franc, others have been adapting to the new conditions.

## 2. Business risks

The strength of the Swiss Franc and geopolitical risks are still seen as the biggest threats, followed by shortage of skilled professionals and weaker domestic demand.

### Risk factors for the next 12 months (Q3 2015 vs. Q4 2015)

Question: Which of the following factors are likely to pose a significant risk to your business over the next 12 months? (multiple answers possible)



Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents. The figures for business risks are for the manufacturing sector only. The percentages indicate the number of responses that rate the respective risk as high.

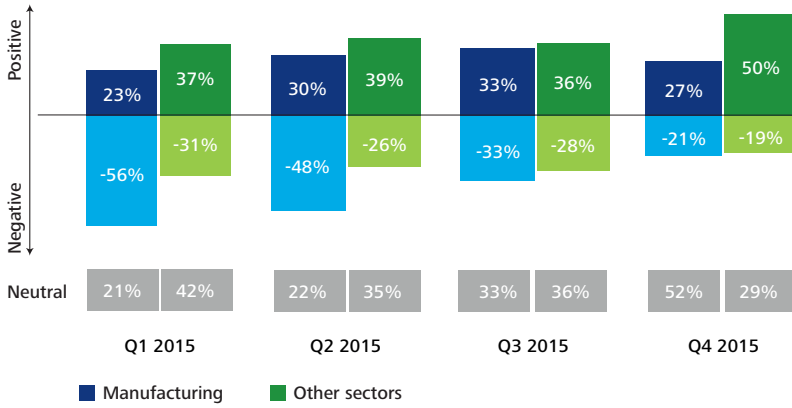
Sources: Deloitte CFO Surveys.

# 3. Financial prospects

CFOs of other sectors are considerably more optimistic about the prospects for their own company than manufacturing sector CFOs.

## Companies' financial prospects (Q1 2015 – Q4 2015)

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



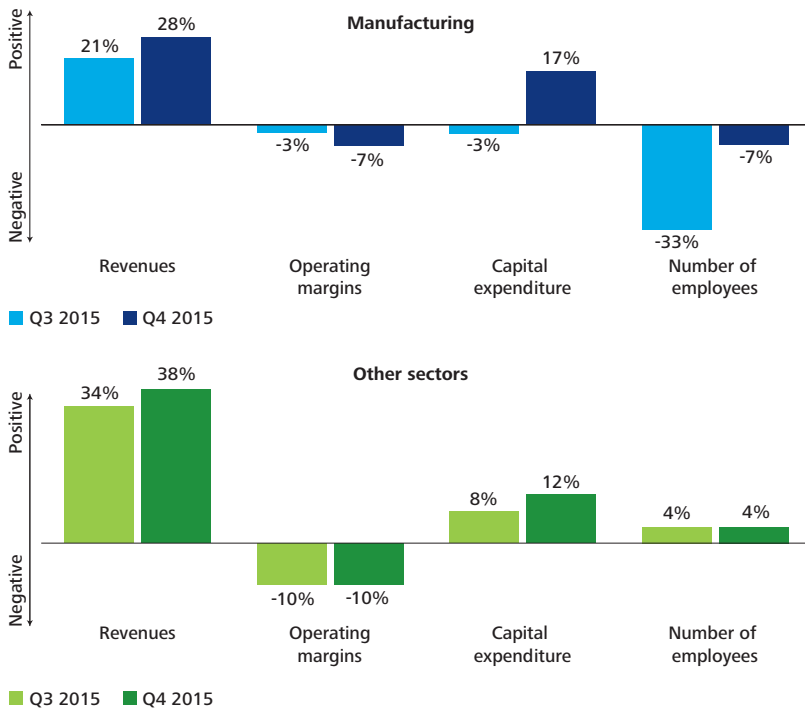
- Swiss CFOs judge their company's **financial prospects** over the next 12 months more positive in Q4 2015 compared to the previous months.
- Most strikingly, 50% of CFOs of other sectors rate their company's prospects as positive (previously 36%), with only one in five (19%) rating them as negative (previously 28%).
- Only 27% of manufacturing sector CFOs are currently optimistic (previously 33%) and 21% are pessimistic (previously 33%). However, the number of manufacturing sector CFOs that judge the financial outlook as neither positive nor negative increased from 33% to 52%.

# 4. Growth prospects

Manufacturing sector CFOs expect an improvement in revenue and CAPEX over the next 12 months, but a deterioration in operating margins.

## Key metrics (net balance) (Q3 2015 vs. Q4 2015)

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 a slightly more positive view about **revenue** expectations in Q4 2015 (net balance at 28%), compared to the previous quarter (21%). Revenue expectations for other sectors have also recovered.
- However, expectations for **operating margins** among manufacturing sector CFOs remain low (-7%), similar to the previous quarter (-3%). Margin expectations for other sectors also remain low (-10%).
- Manufacturing sector CFOs now expect higher **capital expenditure** than CFOs in other sectors. The **number of employees** have also improved compared to the previous quarter.

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

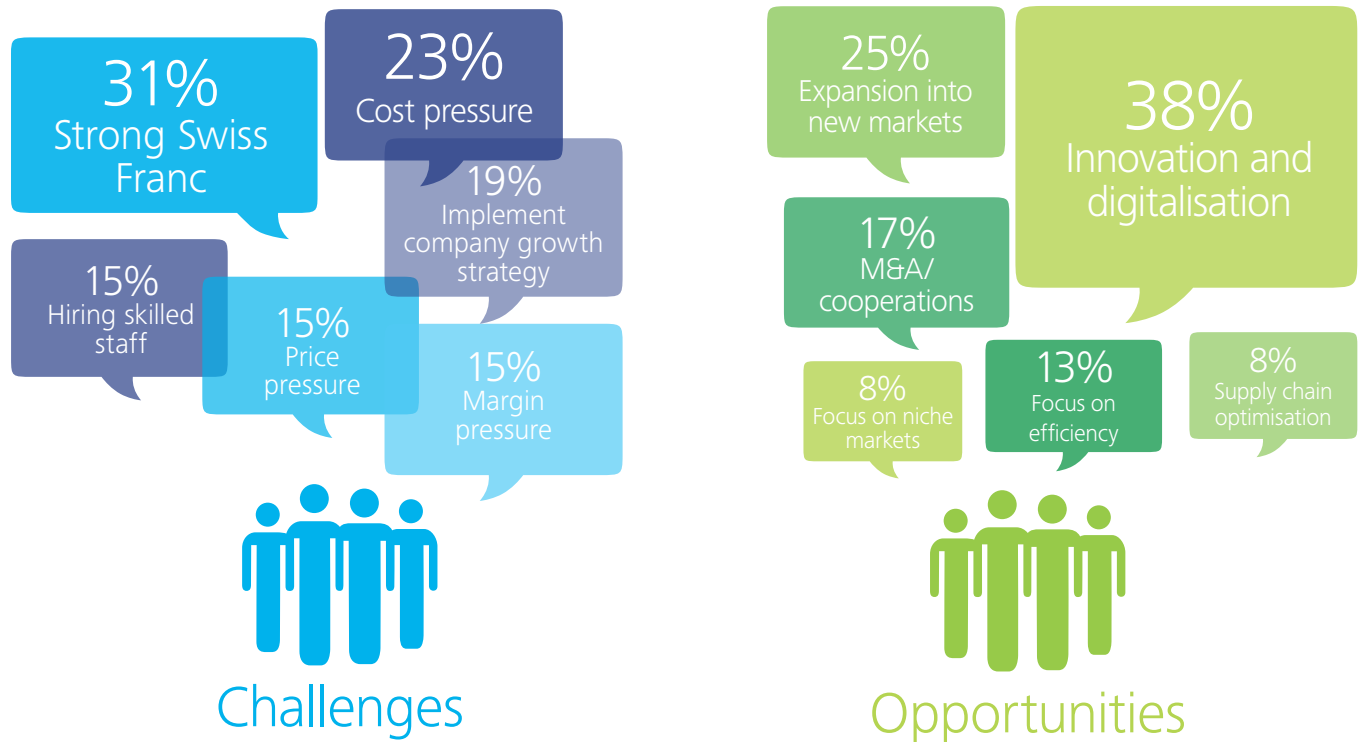
Sources: Deloitte CFO Surveys.

# 5. Challenges and opportunities for 2016

Manufacturing sector CFOs see exchange rate and cost pressures as the biggest challenges and innovation and expansion into new markets as the biggest opportunities.

## Challenges and opportunities (most popular answers)

Question: What are the biggest challenges and opportunities facing your company in 2016? (multiple answers possible)



Notes: The figures for challenges and opportunities are for the manufacturing sector only. Sources: Deloitte CFO Surveys.

## Interview with Peter Dietrich, CEO Swissmem

**Deloitte:** 2015 was a challenging year for the Swiss manufacturing industry. How well do you think Swiss manufacturers have adapted to the new conditions following the removal of the exchange rate floor at the beginning of the year?

**Peter Dietrich:** Companies acted quickly. More than two thirds of MEM companies reduced their prices in the first six months of 2015 in an effort to stem the loss of orders. They also put measures in place to boost efficiency and cut costs. However, many had already made virtually all the obvious improvements after 2011, when the Swiss Franc soared in value and the exchange rate floor was introduced. Companies across the sector – including many SMEs – have therefore been considering the viability of continuing to manufacture profitably in Switzerland. As a result, increasing numbers of companies announced in 2015 that they were relocating their production facilities and cutting jobs. I expect that to continue in 2016.

**Deloitte:** Manufacturing companies are less optimistic about their financial prospects in 2016 compared to companies from other sectors. Do you see this view exclusively influenced by the strong Swiss Franc or are other factors playing a role too?

**Peter Dietrich:** It is not exclusively about the strong Swiss Franc. Actually, over the second half of 2015, the Swiss Franc weakened slightly against the euro, which is the Swiss MEM industry’s major trading currency. Its value against the US dollar is now considered to be fair and this helps in the current challenging environment. Another factor is that a lot depends on how the economies of our major markets develop. Confidence exists about the US. Growth in Europe has slowed and the outlook for Asian markets, China included, is subdued. Exchange rate risks remain and this also influences the outlook.

**Deloitte:** What do you see as the biggest challenges that the Swiss manufacturing industry will be facing in 2016?

**Peter Dietrich:** There will still be a lot of uncertainty. The full impact of the strong Swiss Franc will emerge over the course of the year. For many companies, the priority is to return to profitability, which is essential if they are to start investing and innovating. The strength of the Franc will do some damage, but Swiss manufacturing will not go under.

**Deloitte:** What do you see as the biggest opportunities for Swiss manufacturers in 2016?

**Peter Dietrich:** The key challenge for MEM companies over the next few years will be to make meaningful use of the potential represented by digitalisation, which promises significant improvements in productivity, enables innovation in products and services, and creates new business models. And this will be a challenge for both large companies and of SMEs. To ensure that the sector has the knowledge it requires, and to network interested stakeholders, Swissmem joined forces in 2015 with three other Swiss business associations to launch the “Industrie 2025” initiative, a platform designed to boost the competitiveness of the country’s manufacturing sector (<http://www.industrie2025.ch>).

**Profile:**

Peter Dietrich (47) graduated with a licentiate degree in jurisprudence from the University of Fribourg in 1992. He was called to the Bar in the canton of Aargau in 1995 and gained an LL.M. in international commercial law in 2002. Peter Dietrich was a lawyer at Swissmem and the organisation’s Head of Employer Issues before being appointed its CEO in 2008.

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