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Consumer & Industrial Products Trends

H1 2019

Executive summary

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Economic outlook

C&IP sector CFOs in Switzerland expect the Swiss economy to continue to perform well over the next 12 months, but they are less optimistic than in the previous half-year about the economic outlook.

2

Financial prospects

C&IP sector CFOs in Switzerland are slightly less optimistic about their company's financial prospects than CFOs in other sectors, but far more optimistic than their counterparts elsewhere in Europe.

3

Growth expectations

Like most of their counterparts elsewhere in Europe, C&IP sector CFOs in Switzerland expect revenues and operating margins to remain positive, with only CFOs in the UK having negative growth expectations.

4

Investment expectations

C&IP sector CFOs in Switzerland expect capital expenditure to increase and employee numbers to remain stable, unlike most of their counterparts elsewhere in Europe.

5

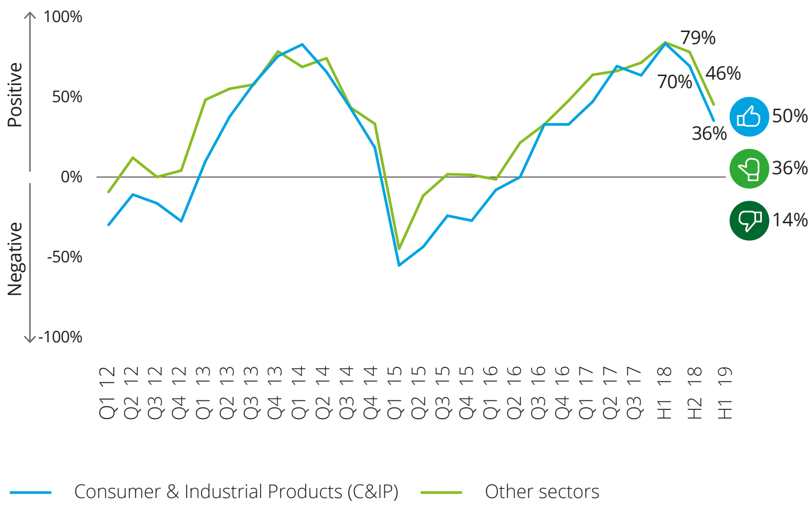
Trade uncertainties

C&IP sector CFOs in Switzerland perceive greater uncertainty overall and believe that the UK has now overtaken the US as the major trading partner with the highest level of political risk.

1. Economic outlook

C&IP sector CFOs in Switzerland expect the Swiss economy to continue to perform well over the next 12 months, but they are less optimistic than in the previous half-year about the economic outlook.

Economic outlook for Switzerland (net balance)
How do you judge the economic outlook for Switzerland over the next 12 months?



- C&IP sector CFOs in Switzerland on balance expect the **economic outlook for Switzerland** to remain positive, but there has been a decline in their expectations from the previous two surveys.

- The positive net balance of views among C&IP sector CFOs declined sharply from 70% in H2 2018 to 36% in H1 2019. 50% of C&IP sector CFOs rate Switzerland's economic outlook over the next 12 months as positive, with 14% rating it negative. This represents a decline from the consistently positive ratings from Q4 2016 onwards and the record 84% in H1 2018. The confidence of CFOs in other sectors also declined in this half-year, from a net balance of 79% to 46%.

- However, the overall mood among CFOs in Switzerland remains positive, despite the challenging business environment and perceptions of high levels of uncertainty.

- Geopolitical risk is the most frequently cited risk factor by Swiss CFOs, up from second place in the previous survey. CFOs are now much more likely to cite the uncertainty resulting from Brexit. There has also been a considerable increase in concerns about weakening demand, particularly in Switzerland. Weaker domestic demand is now the second-most frequently cited risk contributing to uncertainty, and concern about weaker demand from abroad also features in the top five risks.

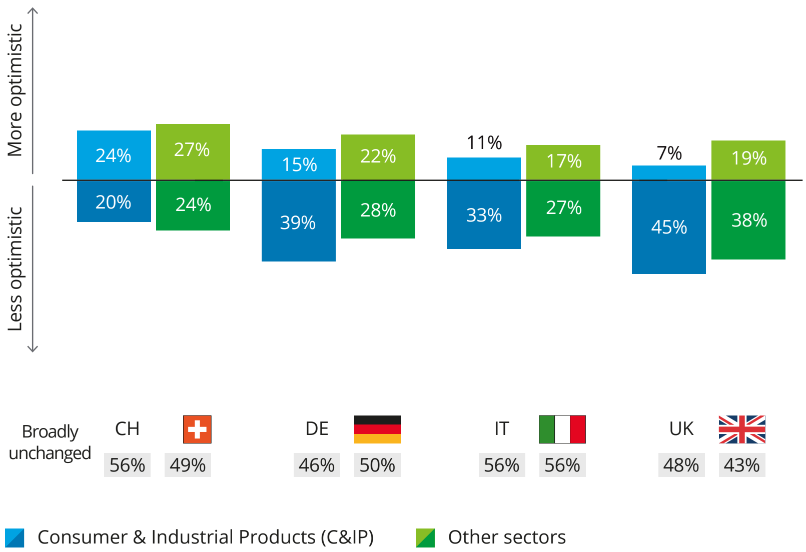
- These findings mirror the official economic growth forecasts issued by the Swiss State Secretariat for Economic Affairs (SECO). Its forecast for growth in 2019 (as at April 2019) is 1.1%, substantially below the growth of 2.5% in 2018. However, SECO expects growth to pick up again as early as 2020 to 1.7%, the average growth rate in Switzerland since the end of the financial crisis in 2011.

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

2. Financial prospects

C&IP sector CFOs in Switzerland are slightly less optimistic about their company's financial prospects than CFOs in other sectors, but far more optimistic than their counterparts elsewhere in Europe.

Company's financial prospects across Europe (H1 2019)
Compared to three months ago, how do you feel about the financial prospects for your company? Results for selected European countries.



Source: Deloitte Swiss and European CFO Survey

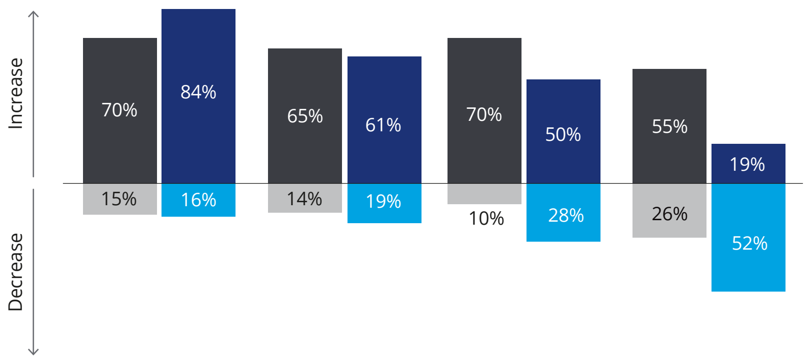
- The proportion of C&IP sector CFOs in Switzerland that are more optimistic for their **company's financial prospects** in H1 2019 has decreased to 24% (H2 2018: 41%). The number of C&IP sector CFOs that are less optimistic remained almost unchanged (at 20%, previously 22%).
- In contrast, the proportion of CFOs in other sectors in Switzerland that are more optimistic remained almost unchanged (27%, previously 25%), with less optimistic ratings increasing to 24% (previously 19%).
- A small majority of all CFOs in Germany and Italy are pessimistic. Germany is an exporting nation and therefore more affected by a difficult global environment. Italy is still grappling with structural economic risks, which have been exacerbated by the new government.
- C&IP sector CFOs in the UK remain the most pessimistic across the major European economies in H1 2019. The views of both Swiss and British CFOs are most likely to be affected substantially by the continuing uncertainty surrounding Brexit.

3. Growth expectations

Like most of their counterparts elsewhere in Europe, C&IP sector CFOs in Switzerland expect revenues and operating margins to remain positive, with only CFOs in the UK having negative growth expectations.

Growth expectations of European C&IP companies (net balance)
Percentage of CFOs who expect their company's revenue and operating margin to increase/decrease over the next 12 months; results for selected European countries

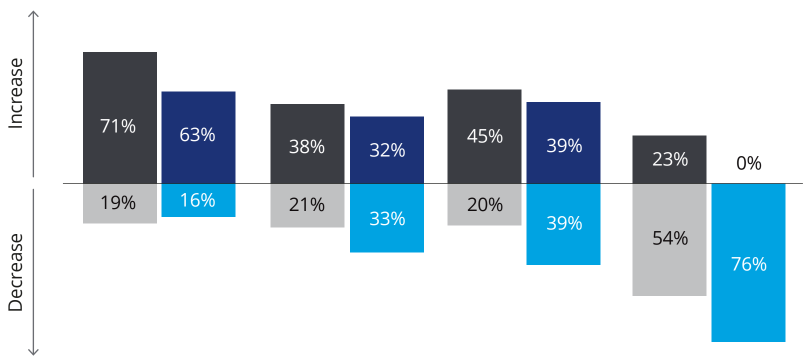
Revenue



	CH		DE		IT		UK	
No change	15%	0%	21%	20%	20%	22%	19%	29%
Net balance	55%	68%	51%	42%	60%	22%	29%	-33%

H2 2018 H1 2019

Operating margin



	CH		DE		IT		UK	
No change	18%	40%	41%	35%	35%	22%	23%	23%
Net balance	44%	28%	17%	-1%	25%	0%	-31%	-76%

H2 2018 H1 2019

- **Revenue** expectations remain optimistic in Switzerland in H1 2019, with the net balance at 68% (previously 55%). A large majority (84%) of Swiss C&IP sector CFOs expect revenues to increase over the next 12 months.

- In comparison, revenue expectations in Germany and Italy are lower with net balances of 42% and 22% respectively. The UK is an outlier and, as in recent surveys, its CFOs consistently report the lowest expectations. The uncertainty surrounding Brexit continues to have a very negative impact. Just 19% of C&IP sector CFOs in the UK expect revenues to increase, while more than half (52%) expect them to decrease.

- Expectations for **operating margins** are lower than for revenues. The net balance is smaller, and there has been a marked decline since H2 2018. Only 44% of C&IP sector CFOs in Switzerland expect operating margins to increase over the next 12 months (previously 63%).

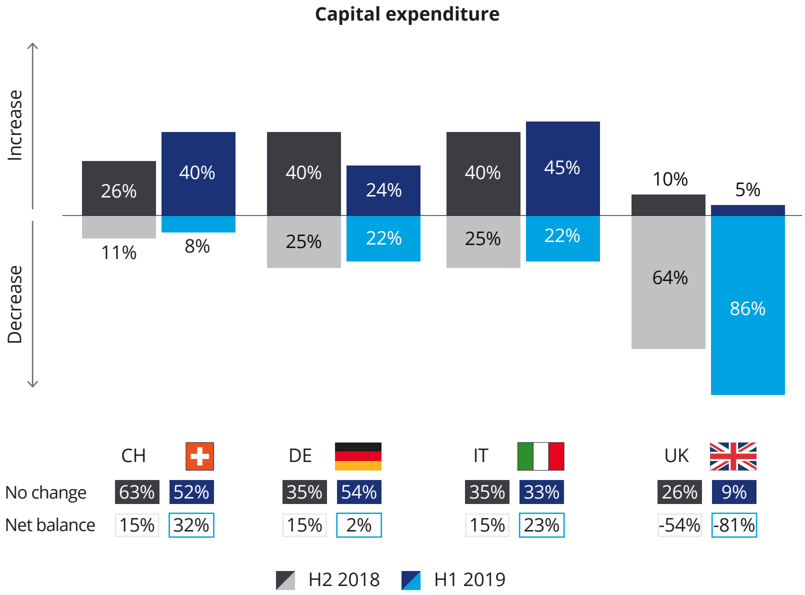
- This is the picture for Switzerland and most other European countries. However, despite the continuing strength of the Swiss franc, Switzerland is still in a stronger position than many other European countries, including Germany. As with revenue expectations, the figures for the UK are very negative for expectations about operating margins. There are no C&IP sector CFOs in the UK who currently expects operating margins to increase, with 76% expecting decreases.

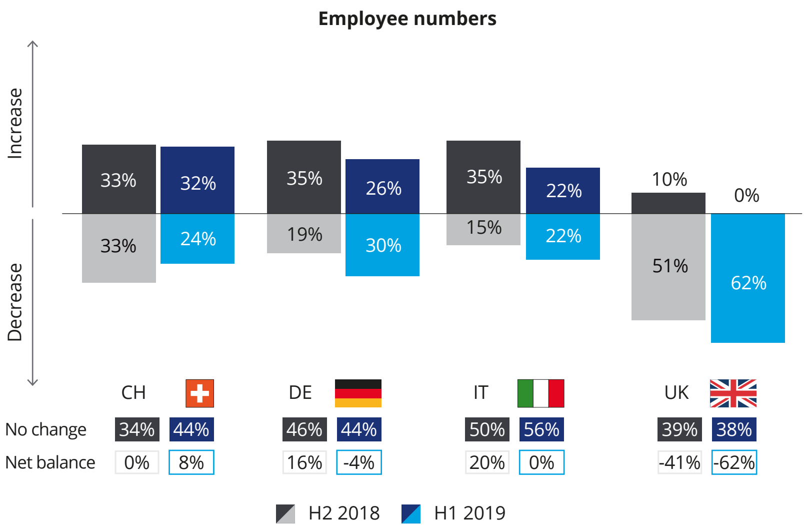
Notes: The net balance is the balance of positive (increase) and negative (decrease) assessments of the respondents.
Source: Deloitte Swiss and European CFO Survey

4 Investment expectations

C&IP sector CFOs in Switzerland expect capital expenditure to increase and employee numbers to remain stable, unlike most of their counterparts elsewhere in Europe.

Investment expectations of European C&IP companies (net balance)
Percentage of CFOs who expect capital expenditure and employee numbers to increase/decrease for their company over the next 12 months; results for selected European countries





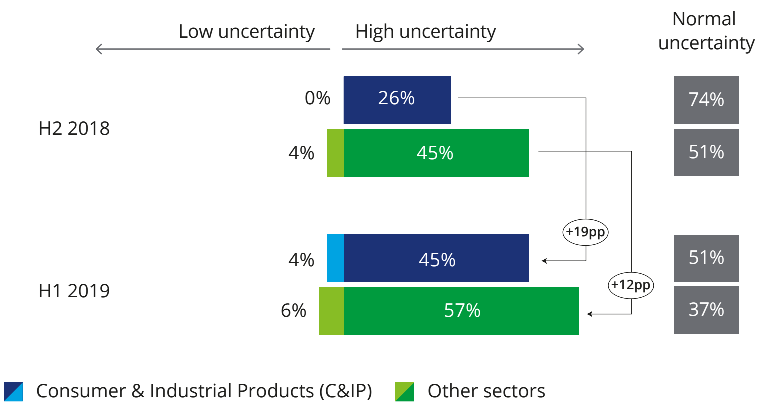
- Plans of C&IP companies for increasing investment in capital expenditure and hiring more employees over the next 12 months are mixed across Europe.
- The biggest increases in **capital expenditure** are expected in Italy (net balance of 23%) and Switzerland (net balance of 32%).
- In Germany, the net balance decreased to 2% (previously 15%), with almost equal numbers of C&IP sector CFOs planning increases (24%) and decreases (22%).
- The UK's net balance has decreased even further to -81% (previously -54%), demonstrating the continuing uncertainty surrounding Brexit.
- With regard to **employee numbers**, Switzerland remains far more optimistic than Germany, Italy or the UK, with a higher number of C&IP sector CFOs (32%) expecting increases than decreases (24%).
- A small majority of Swiss companies intend to continue to create jobs (a net balance of 8%). This is broadly consistent with the current SECO forecasts for unemployment in Switzerland, which assume a 2.4% decrease in the jobless total this year.

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

5. Trade uncertainties

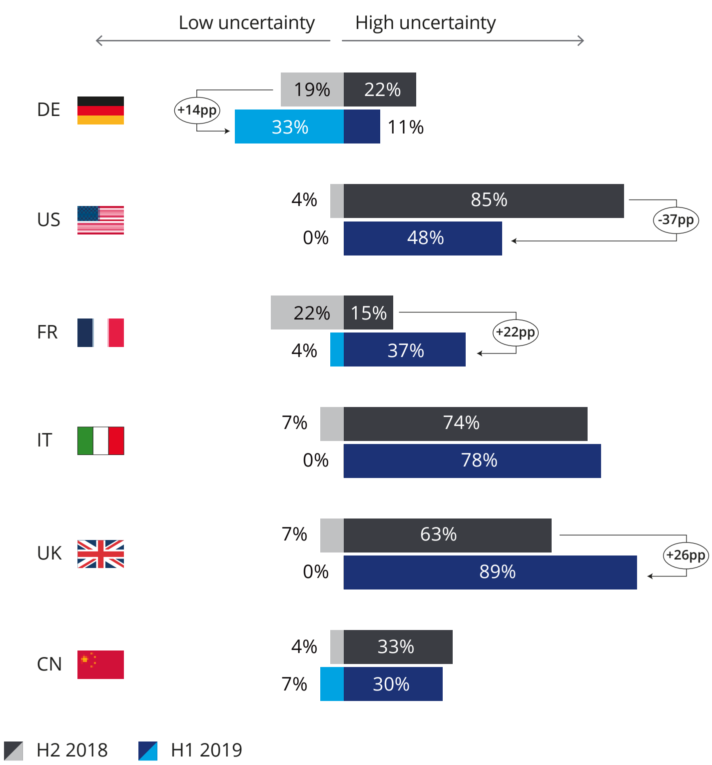
C&IP sector CFOs in Switzerland perceive greater uncertainty overall and believe that the UK has now overtaken the US as the major trading partner with the highest level of political risk.

Uncertainty from the perspective of CFOs in Switzerland
How would you rate the overall level of external financial and economic uncertainty facing your business?



- Compared to the previous half-year, more C&IP sector CFOs in Switzerland see a high level of uncertainty in the economic and financial environment for their businesses in H1 2019.
- 45% of C&IP sector CFOs rate the overall level of uncertainty as high, up by 19 percentage points since the previous half-year. Similarly 57% of CFOs in other sectors rate the level of uncertainty as high, an increase of 12 percentage points.
- The number of CFOs who rate the overall level of uncertainty as low remained practically unchanged and the ratings for normal levels of uncertainty have decreased considerably for both C&IP industries and other sectors.

Risk represented by Swiss trading partners for Swiss C&IP companies
How do you rate the current level of political uncertainty in the following major Swiss trading partners, as it affects your company?



Source: Deloitte Swiss and European CFO Survey

- C&IP sector CFOs in Switzerland believe that the UK has now overtaken the US as the major trading partner with the highest level of political uncertainty. The continuing uncertainty surrounding Brexit has pushed the UK high up the ranking (an increase of 26 percentage points).
- Meanwhile, the temporary relaxation of trade disputes and the end of the US government shutdown have considerably reduced the perception among Swiss C&IP sector CFOs of uncertainty in the US (a decrease of 37 percentage points).
- Long-running protests and the absence of successful reform in France have fuelled perceptions of uncertainty there (an increase of 22 percentage points). Unsurprisingly, Italy is still considered to represent a high level of uncertainty because of a return to recession and the absence of structural reforms. In addition, perceptions of high uncertainty in China remain almost unchanged.
- From the perspective of C&IP sector CFOs in Switzerland, Germany is the only major trading partner that does not represent high uncertainty. Compared to the previous half-year, Germany improved its position as the trading partner with the lowest level of uncertainty by 14 percentage points.

Interview with Alberto Silini

Head of Consultancy, Switzerland Global Enterprise (S-GE)

Deloitte: Growth in China has slowed, due in part to trade tensions with the US. Which Swiss industries do you think are most affected, and why does China remain an attractive market for Switzerland?

Alberto Silini: The trade tensions between the US and China are creating uncertainty in global markets, so every sector is at risk. Nonetheless, China remains an interesting market for Swiss companies. Growth in the country has slowed somewhat, but there remains enormous potential in virtually every sector: even niche markets are huge in China.

Deloitte: According to our survey, Switzerland's biggest trading partner Germany does not represent high uncertainty for Swiss C&IP companies. However, trade between Switzerland and Germany weakened in the first months of 2019. Are CFOs in Switzerland feeling too confident about the Swiss-German trade partnership?

Alberto Silini: Growth in exports to Germany has averaged a solid 2.6% a year over the last 20 years. That is somewhat less than for other trading partner economies, but Germany remains by far Switzerland's most important trading partner and a good market for companies entering the export sector. Although Germany's key automotive sector is currently somewhat weaker, Swiss exports to Germany are likely to continue to grow over the next few years, albeit more slowly than in the past two years. Exports of pharmaceuticals, which make up a significant part of our exports, are less vulnerable to economic downturns, so they have a stabilising effect.

Deloitte: How strongly do you rate the chances of concluding a successful Swiss-US free trade deal in the coming years, given the prospect of US trade wars with China and the EU?

Alberto Silini: Both sides are willing to negotiate. We would welcome a free trade agreement with the US to facilitate access for Swiss exporters to our second most important export market. Trade with the US has developed dynamically over the past few years.

Deloitte: How well do you think Swiss businesses are prepared for a post-Brexit era, in the event that Brexit happens this year?

Alberto Silini: In economic terms, the United Kingdom is a key partner for Switzerland. The two countries have already signed a bilateral trade deal that replicates a majority of the provisions of our trade deal with the EU. This new agreement forms the basis for continued economic and trade relations between Switzerland and the United Kingdom once the UK leaves the European Union.

Profile: Alberto Silini, born in 1974, is Head of Consultancy at Switzerland Global Enterprise (S-GE). S-GE guides companies on the path to new markets. On behalf of the Swiss Confederation (State Secretariat for Economic Affairs SECO) and the Swiss cantons, S-GE promotes exports and investments by helping clients to realise the new potential for their international business and so strengthen Switzerland as an economic hub.

With its global network of experts and as a trusted and strong partner to clients, cantons and the Swiss government, S-GE is the first point of contact in Switzerland for all questions relating to internationalisation. S-GE is represented abroad by Swiss Business Hubs and Trade Points. These local teams are based at a Swiss Embassy or Swiss Consulate-General.

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