Grant Thornton

Focus on: Switzerland

International Business Report 2012 – Economy focus series

The economy

The economy is struggling with the knock-on effects of the sovereign debt crisis in the neighbouring eurozone. As investors look for a safe haven from the economic storm the Swiss franc has risen, hurting exports and capital investment, increasing the pressure on the central bank to do more to weaken the currency. Slow domestic and external demand have seen industrial production slow.

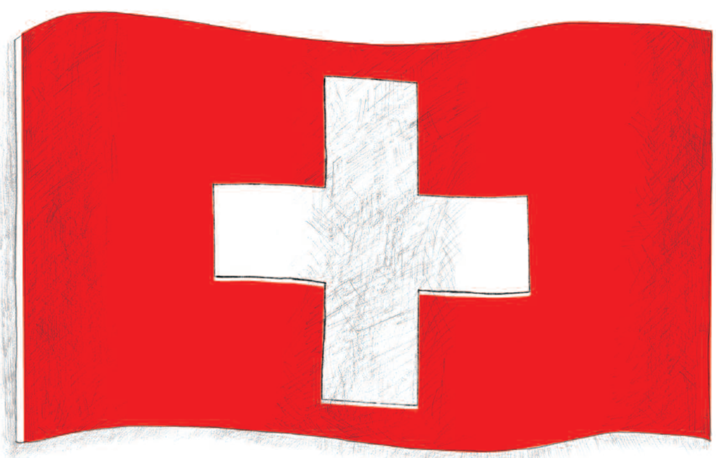
The key indicators are highlighted below:

- the economy expanded by just 0.2% in the three months to September, its slowest pace in two years
- year on year the economy expanded by 1.3%, down from 2.2% in Q2
- export growth slowed to 1.2% in Q3 and fixed investment contracted by 1%, led by declines in the metal working and mechanical engineering sectors
- the exchange rate peg of Swfr1.20:€1 has held firm so far but fears remain over the level of intervention that could be needed by the SNB to maintain the ceiling.

The business perspective

The Grant Thornton International Business Report (IBR) surveys the views of more than 11,500 businesses in 40 economies around the world. This report focuses on the experiences of privately held businesses in Switzerland and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Switzerland are neutral about their economy over the next 12 months, in-line with the European Union average. Business expectations for revenue, profitability and employment are positive but a lack of a skilled workforce is a major constraint on potential expansion.



[1] source: International Monetary Fund, The Economist and Experian.

The outlook

The economy's strong progress over the past two years is threatened by the franc's appreciation and slackening demand from key export markets. With the global uncertainties likely to persist, keeping the franc elevated, coupled with a weaker-than-expected international economy, the economy is forecast to contract by 0.1% in 2012, down from 1.9% in this year. A complete meltdown in the eurozone is a severe downside risk to this forecast.

As global conditions begin to improve in 2013 allowing the Swiss franc to lose some of its recent gains, this should boost exports and overall confidence, underpinning a resumption of healthy domestic demand. While this will cause imports to grow faster, reducing the boost from net trade, growth of 2.1% is expected for 2013.

In the longer term, weak demographics, featuring slow population expansion after 2014 and little growth in the working-age population, mean that economic expansion in the longer term will be highly dependent on productivity improvements. These are notoriously difficult to achieve in some key sectors of the Swiss economy, such as tourism and financial services. But other industries, notably manufacturing, are expected to be able to boost labour productivity. There is also modest room for manoeuvre in service industries, such as business and household services.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for MLEs

Switzerland compared with the EU average	2011 Swi	2011 EU
Outlook for the economy over the next 12 months		
Net optimism	-4%	-17%
Change in employment levels		
Net hiring expectations	-2%	+7%
Constraints on expansion		
Availability of skilled workers	26%	22%
Regulations/red tape	25%	29%

Source: Grant Thornton IBR 2011

International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped again in the fourth quarter. Businesses sentiment in the Netherlands plummeted to net -44%, down from net -8% in the previous quarter. Globally, the quarter-on-quarter average declined from 3% to 0%

The sovereign debt crisis is weighing heavily on businesses confidence in Europe; business optimism across the European Union dropped to -17% in Q4. However confidence in the BRIC economies ticked upwards to 34%.

Year-on-year optimism amongst businesses has declined slightly from net 22% in 2010, to net 16% across 2011.

Optimism/pessimism

- businesses optimism in Switzerland declined again in Q4, dropping to -4%, down from 0% in Q3
- sentiment across the EU fell by 17 percentage points in Q4 to -17%
- globally, business sentiment dropped by from 3% in Q3 to 0% in Q4.

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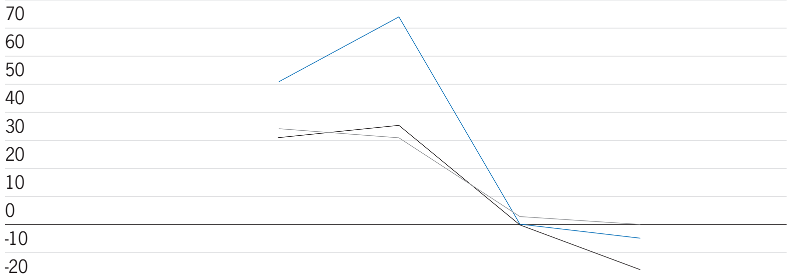
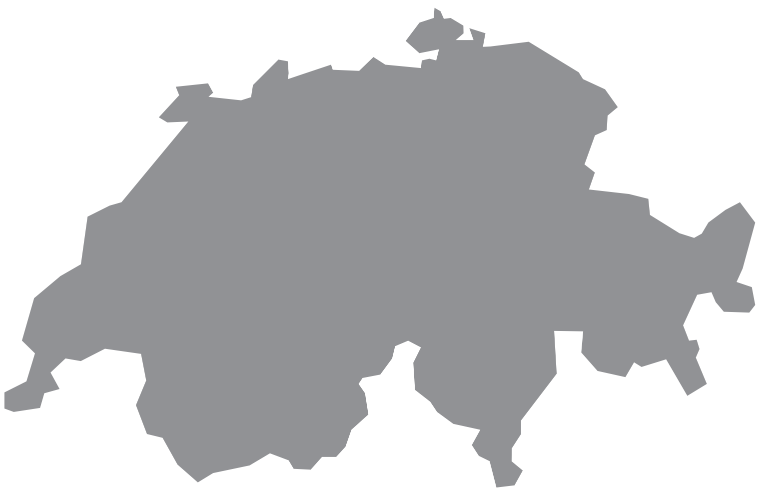
Figure 2: Outlook for the economy over the next 12 months: 2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Switzerland	51	74	0	-4
EU	31	36	0	-17
Global	34	31	3	0

Source: Grant Thornton IBR 2011

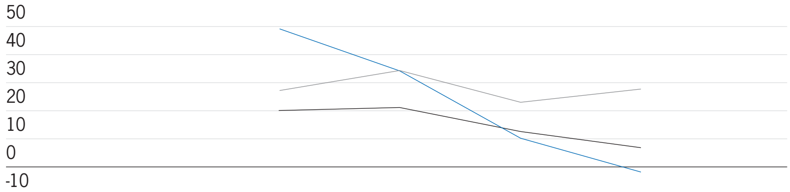


Employment

- employment expectations turned negative in Q4 suggesting that more businesses intend to lose workers than hire over the next 12 months
- net hiring plans fell to -2% in Switzerland in Q4, below the EU average of 7%
- globally, employment plans ticked up to 27%.

Figure 3: Employment expectations: 2011

Net percentage of businesses expecting an increase less those expecting a decrease



	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Switzerland	49	34	10	-2
EU	20	21	13	7
Global	27	34	23	27

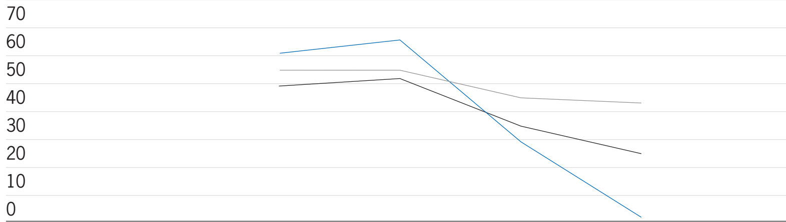
Source: Grant Thornton IBR 2011

Revenue expectations

- expectations for revenue growth in Switzerland fell further in Q4, down to just 2% from 29% in Q3
- across the EU, revenue expectations slumped to 25% in Q4, down from 35% in Q3 and 52% in Q2
- globally, revenue expectations held fairly steady at 43%.

Figure 4: Revenue expectations: 2011

Net percentage of businesses expecting an increase less those expecting a decrease



	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Switzerland	61	66	29	2
EU	49	52	35	25
Global	55	55	45	43

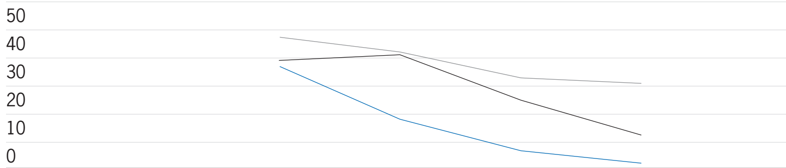
Source: Grant Thornton IBR 2011

Profitability expectations

- profitability expectations also took a hit in Q4, falling from 7% in Q3 to just 2%
- across the EU, business expectations for increasing profits over the next 12 months dropped to 13%, down from 41% in Q2
- globally, expectations remain robust at 31%.

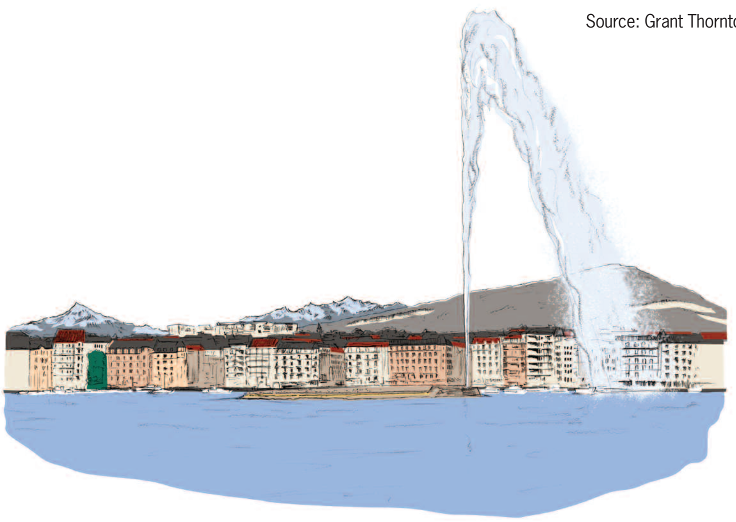
Figure 5: Profitability expectations: 2011

Net percentage of businesses expecting an increase less those expecting a decrease



	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Switzerland	37	18	7	2
EU	39	41	25	13
Global	47	42	33	31

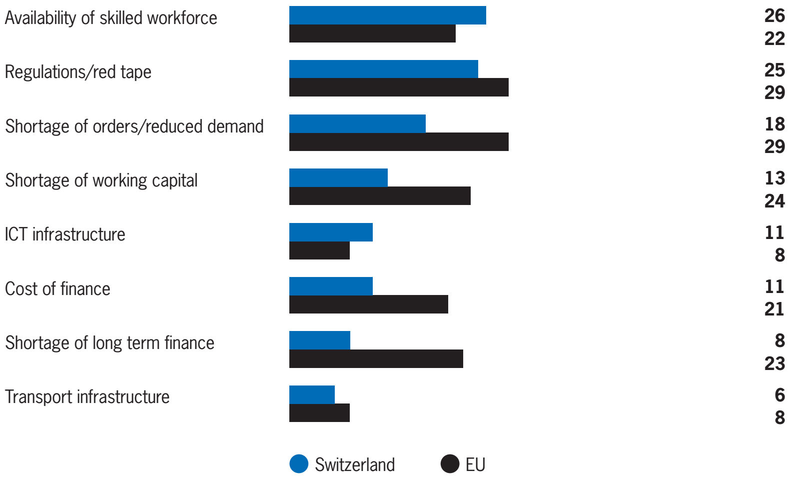
Source: Grant Thornton IBR 2011



Constraints

- the availability of skilled workers (26%) is cited as the most pressing constraint on expansion by businesses in Switzerland, higher than the European Union business average (22%)
- regulations/red tape is cited as the greatest constraint by businesses in the European Union, at 29% compared with 25% in Switzerland
- businesses in Switzerland are relatively untroubled by a shortage (8%) or the cost of (11%) finance.

Figure 6: Constraints on expansion
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

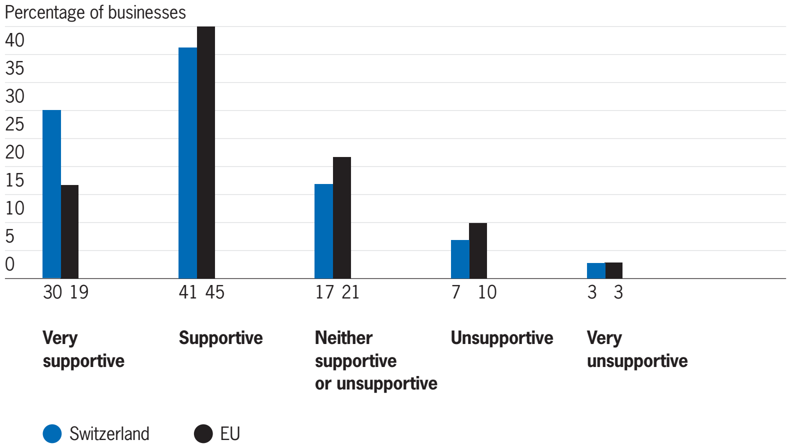


Source: Grant Thornton IBR 2011

Support of lender

- the majority of businesses in Switzerland are happy with the level of support provided by lenders – 71% class lenders as supportive of their business
- this compares with 64% of businesses in the European Union
- 10% of businesses in Switzerland believe that lenders are unsupportive or very unsupportive of their business, lower than the average across the European Union (13%).

Figure 7: Level of support provided by lenders
Percentage of businesses

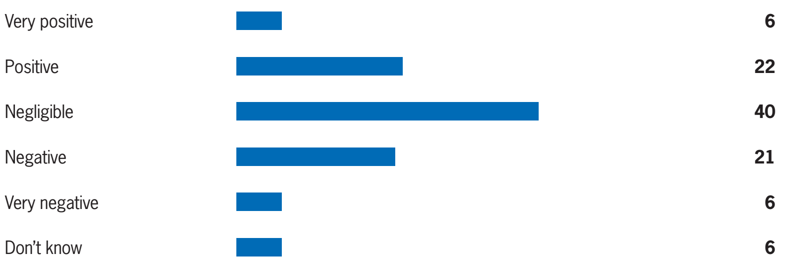


Source: Grant Thornton IBR 2011

EU integration

- 28% of businesses in Switzerland believe further integration between Switzerland and the EU would have a positive impact on their business
- however, 27% of businesses also believe it would have a negative impact
- of those that expect a positive impact, the majority believe further integration would result in reduced currency fluctuation risks, easier access to qualified personnel from other countries decreased bureaucracy and increased export opportunities (all around 50%)
- of those that expect a negative impact, the majority believe further integration would result in pressure on prices from foreign goods & services, increased competition, increased taxes and EU administration costs (all at 60%).

Figure 8: What impact would further integration between Switzerland and EU have on your company?
Percentage of businesses



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 2,800 senior executives in privately-held and listed businesses all over the world. Launched in 1992 in nine European countries the report now surveys more than 11,500 businesses leaders in 40 economies on an annual basis providing insights on the economic and commercial issues affecting companies globally.

In Switzerland, 200 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 50 and 499. Data for this report were drawn from interviews conducted between January and December 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Peru
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Georgia	Switzerland
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Arab Emirates
Ireland	United Kingdom
Italy	United States
Japan	Vietnam

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