Signs of increasing confidence in the Swedish economy

The Deloitte/SEB CFO Survey

Spring 2013 results

Contents

Welcome to the latest edition of the Deloitte/SEB CFO Survey!

We are excited to present the spring 2013 results of the Deloitte/SEB CFO Survey and hope you find our accompanying analysis both stimulating and valuable. Please send us all feedback together with any suggestions for improvement to help us ensure the Deloitte/SEB CFO Survey remains an essential resource for your daily work.

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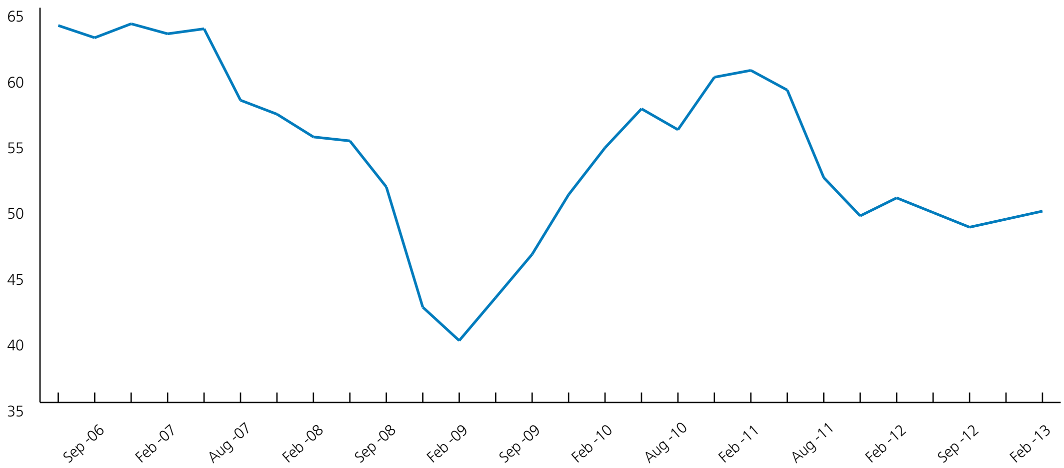
Continued below-trend growth

After a weak year-end 2012, with many indications of a relatively sharp drop in GDP during the fourth quarter compared to the preceding quarter, forward-looking indicators have recovered. The Deloitte/SEB indicator improved to 49.5 in February 2013 compared to 48.3 in September 2012. We are sticking to our forecast that Sweden can avoid a recession. GDP will grow by 1.2% this year and by 2.5% in 2014, largely unchanged compared to our previous forecast. But because of below-trend growth in both 2012 and 2013, unemployment will rise during much of 2013 and remain high throughout our forecast period.

Swedish CFO Index



The Swedish CFO index for February 2013 has a value of 49.5, which reflects slightly negative expectations. The index is based on four components; business climate, financial position, lending willingness and counterparty default risk. The four components index values for February 2013 are 44, 54, 55 and 45 respectively.

Exports climb from a low level

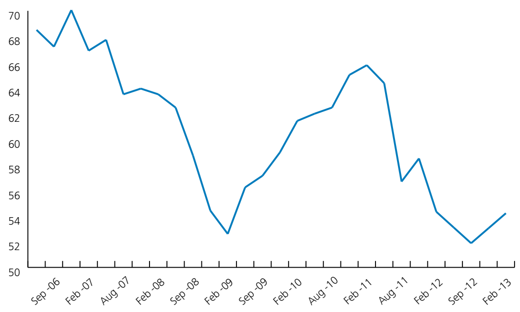
Late in 2012 there were many signs of deceleration in the export sector, and monthly data indicate a sizeable decline in exports and industrial output during the fourth quarter. Yet at the same time, more forward-looking sentiment indicators confirm that the recovery in the US and emerging economies is now spreading to Sweden and elsewhere in Europe. The levels of most indicators are still low, and in merchandise exports the recovery is occurring gradually. Overall, we believe exports will climb by 2.0% in 2013 and 4.3% in 2014.

Gross fixed investments held up relatively well despite last year's downturn. Statistics Sweden's capital spending survey nevertheless shows that businesses have become more cautious. Weak demand and uncertain economic prospects are holding back capital spending, but given the low initial level there are signs that such spending will rebound fairly rapidly once economic growth takes off. Residential investments fell by an estimated 10-15% during 2012, but a stabilisation in the number of housing starts indicates that the decline will gradually decelerate this year. Altogether, we predict that capital spending will increase by 1-2% this year and then accelerate to 4-5% during 2014.

Somewhat better financial position

Continued expansionary monetary policy with low interest rates for a foreseeable future and unconventional monetary policy has reduced uncertainty. Companies in our survey respond that the financial position has improved even though the macroeconomic environment is weak. In our survey, the overall index improved to 54.2, up from 51.9 in September 2012. The improvement might be at the back of companies having stronger balance sheets and that companies expect the operating cash flow to increase somewhat (45% of respondents in the Deloitte/SEB survey indicate an increase by 0-10% over the next year). Paying down debt is a high priority according to the survey if there is a current cash surplus position.

Financial position



Worried households but rising consumption

Households are now more clearly aware that the labour market is weakening. Consumer confidence fell late last year to its lowest level since 2009. Yet consumption is continuing to rise, and the confidence indicator recovered a bit in January. We still believe that given strong real income increases and falling mortgage interest rates, Swedish households will not reduce their consumption. The risk of a significant decline in home prices has also eased, although we still view a home price decline as the biggest domestic risk factor. Our assessment is that home prices will be unchanged or fall slightly during our forecast period.

Unemployment will rise

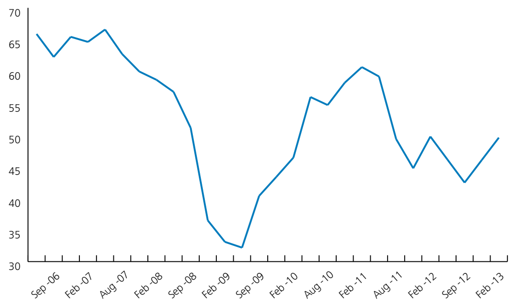
It is clear that unemployment has been in a rising trend for the past three or four months. So far, the upturn is driven by an expanding labour supply while employment is still increasing and has actually been somewhat stronger than expected. Short-term indicators weakened late in 2012, however, indicating that the number of jobs will level out. Unemployment will climb to nearly 8.5% in mid-2013 before stabilising in 2014. The survey points at a rather balanced situation with 51% of the respondents stating the number of employees to be ''unchanged''.

As in 2012, this year's pay negotiations will take place during a period of relatively large concerns about the economic outlook. Industrial agreements expire late in March, which means that the negotiations will enter a decisive phase during the coming month. Initial pay demands by trade unions are at around 3%, which is lower than their demands in 2012. We have adjusted our wage and salary forecast downward. We now expect pay increases, including wage drift, to total less than 3%. Due to the uncertain economic situation, agreements are likely to run for only one year.

Low price pressure

Inflation pressure in Sweden has been surprisingly low, and CPIF inflation has continued to fluctuate around 1%. Because of the stronger krona and modest pay increases, this trend is likely to continue this year. Fading downward pressure from the exchange rate – and to some extent a gradually diminishing impact from restaurant prices after the value-added tax cut in January 2012 – point towards a somewhat higher inflation rate this and next year. Yet CPIF inflation is expected to be well below the Riksbank's target throughout our forecast period. Consumer Price Index (CPI) inflation, which is being pulled down by declining home mortgage interest expenses, dropped below zero this winter. We predict that CPI inflation will fall to -0.5% in April and then gradually rebound as a consequence of base effects.

Business conditions



Riksbank will most likely cut repo rate to 0.75%

Forward-looking indicators have recovered, and international risk sentiment has improved. Yet we are sticking to our forecast that the Riksbank will lower its repo rate one more time to 0.75% in April. The forces driving this rate cut are rising unemployment, falling resource utilisation and inflation that is well below target. Continued expansion in household borrowing is an upside risk, but household income is now increasing as fast as lending. Continued highly expansionary monetary policies by the world's major central banks imply that it will be some time before the Riksbank begins to hike its repo rate, although it will presumably be in the frontlines once the rate hiking cycle begins. We predict that the repo rate will remain at 0.75% until the end of our forecast period.

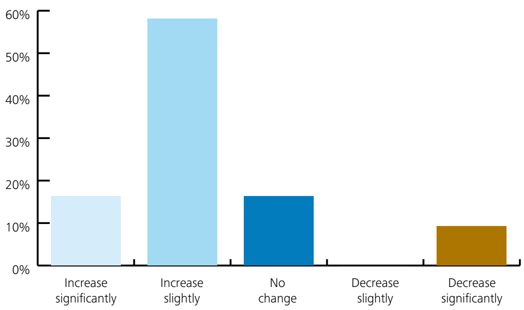
Gradually stronger krona

Although the krona has weakened against the euro from its peak in mid-2012, the EUR/SEK exchange rate is lower than it was at any time during 2006-2011. In addition, the upswing in the EUR/SEK rate in recent months is largely a result of the euro's appreciation against all currencies. In trade-weighted TCW terms, the krona is still less than 1-2% away from its peak during 2012. The krona having broken its historical pattern of weakening during economic downturns is thus still intact. Recent developments indicate that the krona will revert to its historical pro-cyclical pattern and will appreciate as the economic outlook improves. We expect a cautious decline in the EUR/SEK exchange rate to 8.30 at the end of 2013 and onward to 8.10 at the end of 2014. In TCW terms, the krona will appreciate to 112.0 at the end of 2014, or 4% stronger than today. This is a larger appreciation than almost all respondents budget for 2013, 8.50 is the median in the Deloitte/SEB-survey which might put pressure on export oriented companies with low hedging.

Hot topic - Outlook on the stock market and bond market

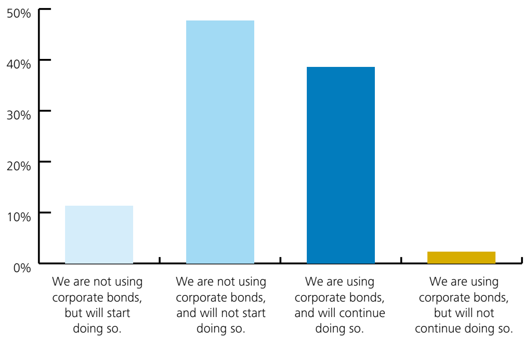
CFOs are generally optimistic regarding the outlook for the Swedish stock market, a fairly positive indicator from individuals with the closest knowledge of individual company prospects. Their positive assessment is also consistent with increased M&A activity in early 2013 and CFO expectations for the next 12 months. Based on the results of our survey, bond market activity should continue to increase with more companies indicating their intention to use it for funding. This is clearly consistent with the increasing popularity of corporate bonds with both companies and investors in recent years.

How do you expect the OMXS30 to perform during the next 12 months?



Almost 60% of CFOs surveyed believe the OMXS30 will increase by 5% over the next 12 months while a further 16% expect it to increase by 10% or more. Some 16% of CFOs forecast no change while 9% believe it will fall significantly during the next year. These results indicate an increase either largely in line with or slightly below the market's long-term historical average growth. Between September 1 last year and mid-February, the OMXS30 rose almost 10%. It may be reasonable to ask whether CFOs are biased, based on the market's strong performance in recent months and the large dividends proposed in Q4 reports, or whether they in fact believe they and their peers will perform reasonably well going forward?

Does your company presently use the corporate bond market for funding and if not, within the next two years do you have plans to finance via corporate bonds?



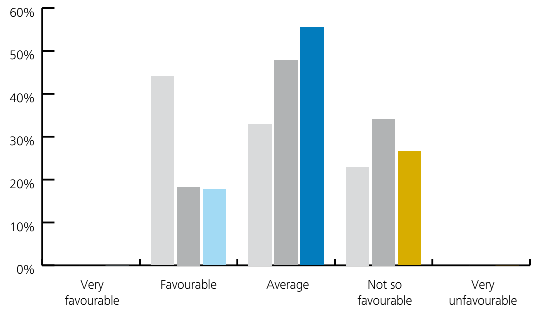
CFO replies indicate that 59% of companies surveyed are not using the corporate bond market to finance operations. Of these, some 11% expect to do so at some point. If all CFOs do as they have indicated, we will have a positive net effect of 9%-points over the next two years of companies that will fund themselves in the bond market. This is fully consistent with the increasing popularity of corporate bonds amongst both companies and investors over the past few years.

Business conditions and outlook

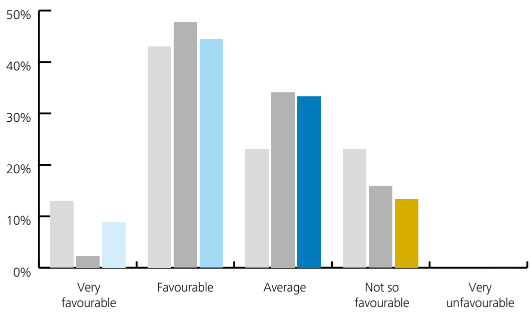
Overall CFOs remain reasonably positive regarding business conditions and outlook. Companies are currently looking forward to 2013 with signs of increasing optimism, albeit from a low level. They also regard their financial positions as favourable, as confirmed by the dividends proposed in year-end reports.

1. Business conditions for your company in the next 6 months are seen as:

Replying to our current February survey, some 73% of CFOs thought business conditions were average or better. Still, Swedish macroeconomic conditions were weak towards the end of last year with a sharp decrease in Q4 2012 GDP likely. In our fall Deloitte/SEB CFO Survey, CFOs apparently expected sentiment to deteriorate, but yet again, we see a slight improvement. Consequently, we forecast a 2% increase in exports this year, but from a low level. Given the importance of foreign trade for Sweden, such a positive development may improve sentiment even further.

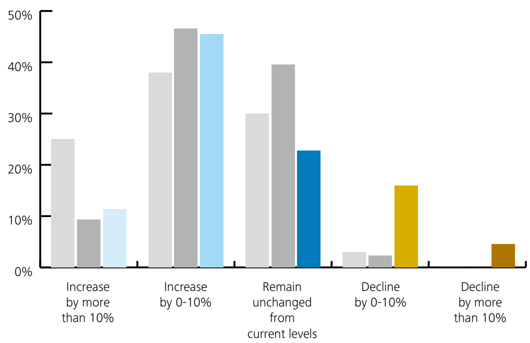


2. The overall financial position of your company is seen as:



Having kicked the can down the road by a further six months since our last survey, companies appear to have adapted to the generally weak macroeconomic environment. The aggregated financial position index was 54, up from 52 in September. A total of 44% of CFOs questioned replied that their company's financial position was "favourable" although, as the proportion answering "average" remains largely unchanged while 9% claim their company's financial position was "very favourable." We expect a general improvement, potentially based on even stronger company balance sheets.

3. How do you expect operating cash flow in your company to change over the next 12 months?



Swedish CFOs retain positive cash flow expectations for the next 12 months, in line with those in our last survey in fall 2012. Some 56% of CFO respondents still forecast cash flow to increase while 11% project a double digit improvement over the next year. The most significant change compared with the last survey is the increase in respondents expecting lower cash flows, a sign of uncertain market conditions and differences between markets and industries.

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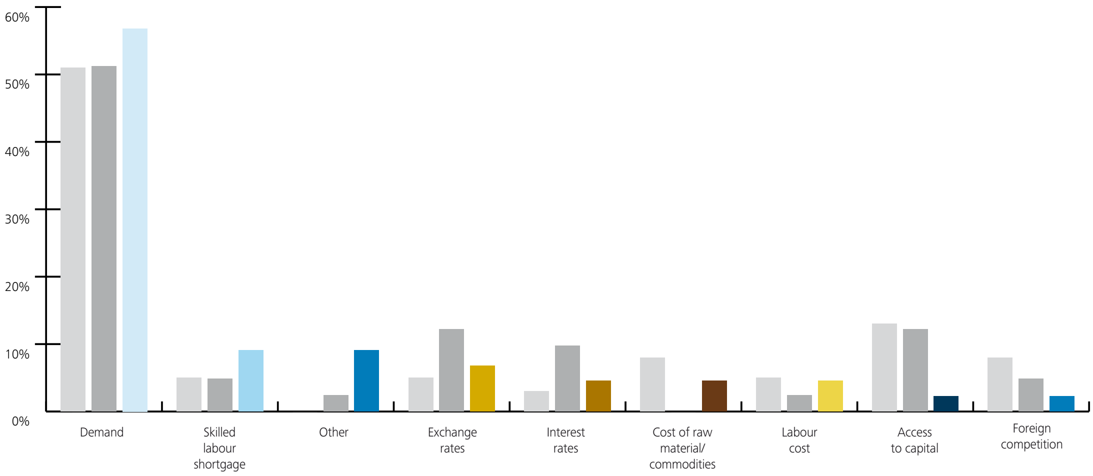
Prospects and concerns

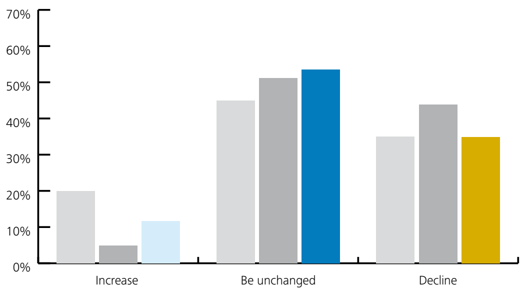
As in previous surveys, demand remains the biggest worry for Swedish CFOs. The greatest change in recent results shows increased concern at the shortage of skilled labour, usually a signal indicating more confidence by companies looking to hire new personnel. Issues concerning exchange rates highlighted in our last survey remain a major concern, despite recent greater stability.

4. What are the greatest concerns for your company in 2013?

Some 57% of CFOs replied that the biggest worry for their company in 2013 is demand, which has risen sharply since September to near November 2011 levels. Exchange rates are not thought as important as in September though relative concerns regarding shortages in skilled labour nearly doubled to 9% since our last survey.

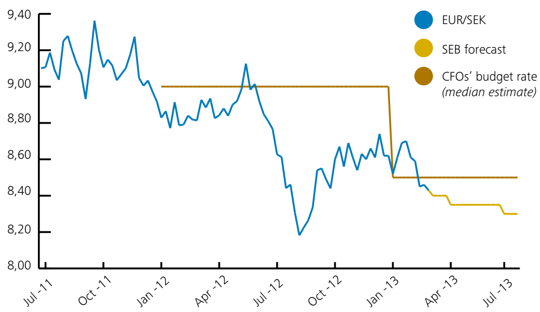


5. The number of employees in your company in Sweden is, in the next 6 months, expected to:



Some 35% of CFO respondents believe the number of employees in Sweden will decline, well below last September when 44% expected to cut personnel. A total of 53% think the number of employees will remain unchanged while 12% expect it to increase, up 6%-points from September. This is of course positive and in line with our forecast that unemployment will peak in 2013 before easing slightly before the end of the year.

6. What is your EUR/SEK budget rate for 2013?



Among CFOs surveyed, the median EUR/SEK value was 8.5, well below the 2012 estimate of 9.0. As we concluded in our previous survey published last September, companies overestimated the 2012 rate. As a result, export companies were adversely affected last year. SEB forecast a moderately declining EUR/SEK ratio throughout 2013 down to 8.30. Hence, the companies once again run the risk of underestimating the strengthening of the krona.

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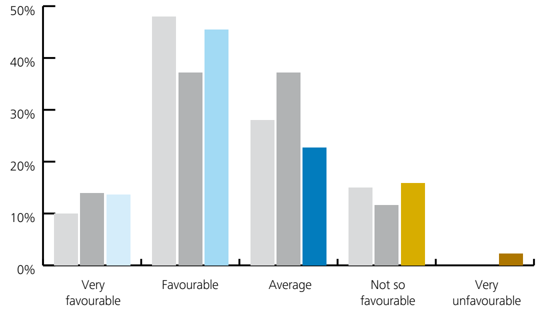
Financing

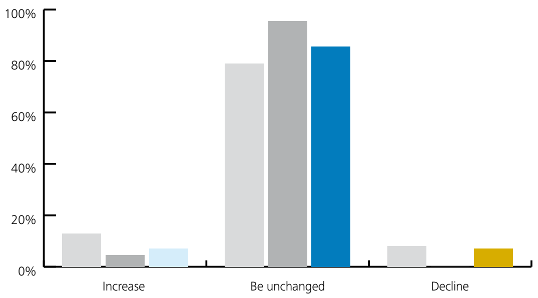
Generally, the lending attitude of financial institutions is regarded as favourable, unchanged from our fall survey. However, in several segments financing remains a major concern, potentially driving companies to seek other funding sources.

7. The lending attitude of financial institutions toward your company is seen as:



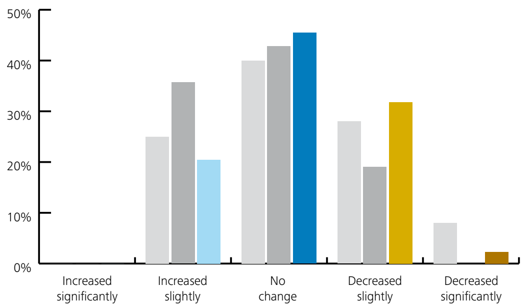
While the proportion of CFOs surveyed answering "favourable" has increased since the last survey, some 2% of respondents regard lending attitudes as "very unfavourable". Overall, the situation is generally unchanged since September. Correspondingly, over the past month, Nordic investment grade and high yield corporate bond issuance has decreased compared to last fall. Apparently, not all companies believe the attitude of financial institutions toward them has improved. Although larger businesses enjoy easier access to low cost financing through the corporate bond market, smaller firms may still be forced to rely on bank loans to fund themselves.

8. The probability for counterparties' default in the next 6 months is expected to:



Consistent with the general slight improvement in sentiment, CFOs believe counterparty risk is diminishing overall. Some 86% expect risk will remain unchanged, compared with 95% last September. A total of 7% of respondents thought it would increase, while 7% forecast it would decline. In September, no CFO expected it to decrease. Also, at that time, some 95% thought counterparty risk would continue unchanged, a finding we regarded as positive as companies adapted to the financial and macroeconomic environment. Now however, sentiment is improving even further. Additionally, SEB Trading Strategy forecasts high yield default rates to remain stable this year at 2.5-3%.

9. How has the level of financial risk on your balance sheet changed over the last 12 months?



Most CFOs still believe their balance sheet risk has not altered during the last 12 months. However, once again sentiment has changed with 34% now believing balance sheet risk has decreased over the last 12 months, compared with 20% that feel it has increased. Broadly speaking, this finding is contrary to the situation reported in the fall survey. This provides a strong indication that an increasing number of companies are now regarded as more financially stable, while general market conditions have improved. Indeed, in its February policy report the Swedish Riksbank noted signs of increased confidence among companies and local households.

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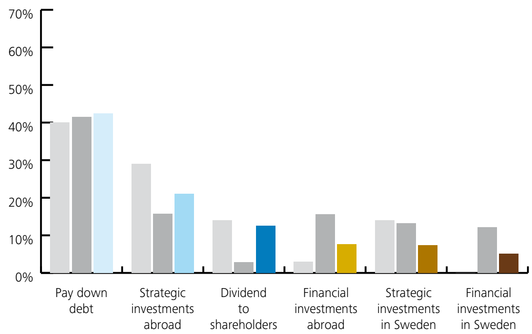
Strategic opportunities

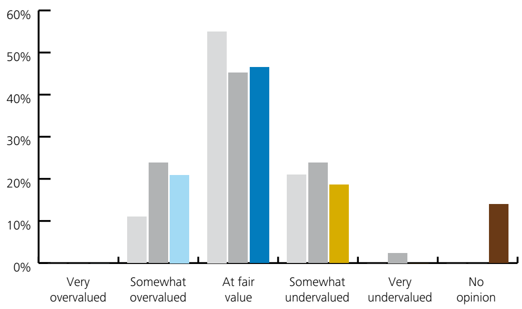
Finally we see some real signs that respondents expect increased M&A activity. The market has already shown some evidence of this with the recent increase in numbers of major deals set to continue. Q4 earnings reports have also boosted confidence in future prospects with several companies sharply increasing their dividend pay-out ratios.

10. Assuming a current cash surplus position, how would you prefer to use the money in the next 6 months?

In our previous publication, we observed the continued priority to pay down debt – a trend of several years - representing a key financial strategy for CFOs. In this survey, approximately the same percentage of respondents would prefer to pay down debt, assuming a cash surplus, with a larger share than in September now prepared to make strategic investments abroad. Perhaps the reason for this is higher long-term growth opportunities outside of Sweden. Another possible explanation is that several are preparing for acquisitions, a view also supported by the results of our survey. Paying dividends to shareholders is apparently a more popular preference than in September, as reflected in Q4 earnings reports with several companies paying out a significant share of earnings to shareholders.

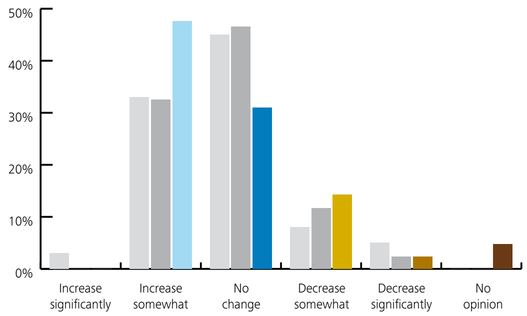


11. How do you currently rate valuation of Swedish companies?



Our recent survey shows that 47% of Swedish CFOs still regard their respective companies as fairly valued, consistent with our fall survey last year, notwithstanding the sharp increase in the OMX Stockholm 30 since September last year. Currently, only 21% regard Swedish companies as overvalued, in line with the findings of our last survey, indicating that CFOs perceive the outlook to be more challenging than the market would suggest. Our understanding is that increasing stock market valuations have, wholly or partly benefitted all traded companies and may be expected to continue to do so despite some isolated areas of overvaluation.

12. Over the next 12 months how do you expect levels of corporate acquisitions and divestments in Sweden to change?



We see real evidence of expected increases in M&A activity. Net sentiment is certainly higher than at the time of the fall 2012 results, with nearly 50% of CFOs now forecasting increased activity and 31% no change. The market has already shown signs of this happening with many large deals in recent weeks, as well as the survey suggesting the trend is likely to continue. According to Bloomberg, the number of Swedish deals taking place in 2012 fell 6% YoY, providing an important basis for improvement this year.

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An international outlook
Moving beyond the euro to focus on growth

The following section includes key extracts from the most recent Deloitte CFO Surveys in the UK/Europe, North America and Asia Pacific, all conducted during Q4 2012, together with highlights from Deloitte's 2013 outlook for India and China.

UK/Europe

- The dominant concern for UK CFOs as they enter 2013 is weak growth in the euro area and UK. Recessionary concerns remain high but decreased in Q4 2012 compared to Q3.
- Following a 1% Q3 GDP decrease, Dutch CFO optimism was near zero in Q4 with bulls and bears equally divided, yielding a net 0% score.
- In Q4 2012, only around 25% of Swiss CFOs expected the country to be in recession within the next two years, compared with 65% a year ago.
- UK CFOs reported significantly improved credit conditions YoY in Q4 as well as a slightly greater willingness to increase capital expenditure and make acquisitions. However, cost reductions remain the biggest priority.
- In Switzerland, with credit conditions now regarded as favourable, 38% of CFOs have stated they expect their companies to increase their demand for credit over the next 12 months.
- In Holland, risk appetite remains low with 88% of CFOs believing this is not the right time to add balance sheet-related risks, compared with 12% who disagree.
- UK CFOs believe there is an average 22% chance that at least one country will leave the single currency in the next 12 months, the lowest share since the question was added to the survey in Q4 2011.

North America

- In the US, net optimism (the difference between the percentage of CFOs expressing increasing and decreasing optimism) continued to decline from 0 in Q2 2012, to -16 in Q3 to -21 in Q4, while in Canada it dropped from over 40 in Q2 and Q3 to -6 in Q4.
- Potential adverse effects of the fiscal cliff, regarded as the "most worrisome risk" for CFOs in Q4, exceeded global economic stagnation and the European sovereign debt crisis, both of which were of greater concern in Q3.
- Employment expectations remained dismal in Q4 with domestic hiring expected to increase by only 1.0% during the quarter. While slightly higher than the 0.6% posted in Q3, 28% of CFOs now expect to reduce employment, a new survey high.
- Companies remain focused on maximising indirect cost savings, with strong cash flow apparently rendering financing, liquidity, and working capital issues of minor importance.
- In Q4 2012 persistent uncertainty further depressed CFO investment expectations, with new record slow growth in capital spending, R&D, and marketing expectations. Capital expenditure was expected to increase by only 4.2%, below the Q3 survey low of 4.6% and the weakest rate in over 10 quarters.
- Once again, industry regulatory and legislative activity was a major concern, particularly affecting the Energy/Resources, Financial Services and Healthcare/Pharmaceutical sectors.

Asia/Pacific

- The Chinese economy grew 7.8% in 2012 – the country's slowest rate of growth since 1999. Clearly, the economy started to turn around in the fourth quarter when growth was 7.9%; this was the first time in seven quarters that growth was faster than in the previous quarter. Although the very high level of government-driven investment is not seen as sustainable, most analysts expect economic growth in 2013 to exceed that of 2012 and ultimately there remains plenty of headroom for consumer spending to grow.
- The Indian economy expanded by only 5.3% in Q2 fiscal 2012–2013, though several indicators suggest growth may have bottomed at near decade lows. Inflation remains high, leaving the central bank reluctant to cut interest rates too soon. Despite the generally positive outlook for coming quarters, fairly modest GDP growth going forward is likely.
- In Australia, CFOs became net positive regarding their company's financial prospects in Q4, compared to Q3, with one third expressing greater confidence in their outlook. Over 50% of CFOs surveyed identified falling interest rates as having boosted their confidence. Still, the outlook for acquisitions continued to deteriorate, with only 38% expressing interest in M&A activity over the next 12 months.

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About the survey

The CFOs who responded represent Swedish companies across all industries. The survey was carried out as a web-based questionnaire in February 2013. Given the broad range of industries and organisations that responded, the trends observed and conclusions made are considered representative of the wider Swedish CFO community. Respondents with no opinion on specific questions have not been included in the charts or analyses.

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