



The Deloitte/SEB CFO Survey

Swedish CFOs express an expansive agenda

Fall 2017 results

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About the data

Based on four core questions regarding business conditions, financial position, lending willingness and counterparty default risk we calculate a CFO index for which a value above (below) 50 represents a projected expansion (contraction). We have also constructed similar subindexes for the four core questions which are discussed in the report.

In the text, we sometimes refer to a "net balance index" (abbreviated NB). This is calculated by subtracting the percentage of respondents giving a negative response from the percentage giving a positive response; responses that are neither positive nor negative are deemed to be neutral. Due to rounding, not all percentages shown in the charts will add up to 100.

The companies were asked to specify their industry with the following sectors: Financial Services Industry (FSI); Consumer Business and Transportation (CB&T); Life Science and Healthcare; Technology, Media and Telecom (TMT); Manufacturing; and Others. These sectors mentioned above are used in the analysis.

About the survey

The Chief Financial Officers (CFOs) who responded represent a selection of the 200 largest companies in Sweden across various industries. The survey was carried out as a web-based questionnaire in October 2017. Given the broad range of industries and organizations that responded, the trends observed and conclusions reached are considered representative of the wider Swedish CFO community. Please visit cfosurvey.se for graphs showing net balance and the distribution of the sectors. At the site you can also download the full dataset.

In the report we are comparing the Swedish data to the other Nordic countries and the euro zone. The data are collected from the European CFO Survey, which consists of 1,550 CFOs participating from 19 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey and the United Kingdom. Please visit www.deloitte.researchemea.com for the European report and data.

Acknowledgements

We would like to thank all participating CFOs for their support in completing the survey.



Executive summary

We are excited to present the fall 2017 results of the Deloitte/SEB CFO Survey and hope that you find our accompanying analysis both stimulating and valuable.

Even better times are just around the corner! That is the overall message that the responses to the survey questions tells us. The fall 2017 CFO Survey reveals a continued very positive sentiment in large Swedish companies. In a Nordic and European perspective, Swedish CFOs still stand out as generally more optimistic.

The overall CFO index shows an increase to 59.9 from a solid 58.2 in spring 2017. This is the highest level since February 2011. Except for a slight drop in the subindex for financial position all subindexes (business conditions, lending willingness and counterparty risk) improved further. In the spring 2017 survey, we noted an increased consensus among CFOs that global growth will start to pick up and interest rates will gradually increase. Six months later we see actual evidence confirming that view, and the CFOs' responses to the current survey provide a solid basis for more expansive company strategies allowing further investments and growth.

The overall level of concern has fallen in this survey, which is in congruence with CFOs also seeing slightly lower external uncertainty. Swedish CFOs actually rate external uncertainty far lower than the average among European countries. Key takeaways are that (1) concern about skilled labor shortages increased, (2) order intake (bookings) remains the greatest concern, though easing somewhat and (3) macro/politically related factors fell in importance for the second report in a row.

In multiple questions the CFOs express a more expansive agenda. For example they increased their support for boosting capital expenditures (capex) the most of all European countries and shifted to preferring the use of excess cash for investments rather than paying down debts as in past surveys.

In the current survey we asked the CFOs to share their views on interest rates. A clear majority (78 percent) of Swedish CFOs expect higher SEK interest rates over the next 12 months. The CFOs also reveal that rising rates probably would provide a mild headwind for the optimistic investment plans otherwise expressed in the survey.

To sum up, Swedish CFOs are increasingly optimistic about the near future, macro-related concerns are declining and CFOs expect their companies to take more expansive actions than before. It seems that skilled labor shortages are becoming more widespread across sectors, possibly lifting salaries and eventually helping push inflation higher but also increasing the risk of bottlenecks forming that could slow growth.

Please send us your feedback together with any suggestions for improvement to help us ensure that The Deloitte/SEB CFO survey remains an essential resource for your work.

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Global recovery with few signs of inflation: Strong Swedish growth supported by expansionary official economic policy

- Global growth optimism has gained further momentum in 2017.
- However, the recovery is almost ten years old and is showing typical signs of maturing.
- Continued boom. Broad-based upturn in industrial activity compensates for slowdown in residential construction.
- Challenges in the labor and housing market are clouding the longer-term outlook.

Global outlook

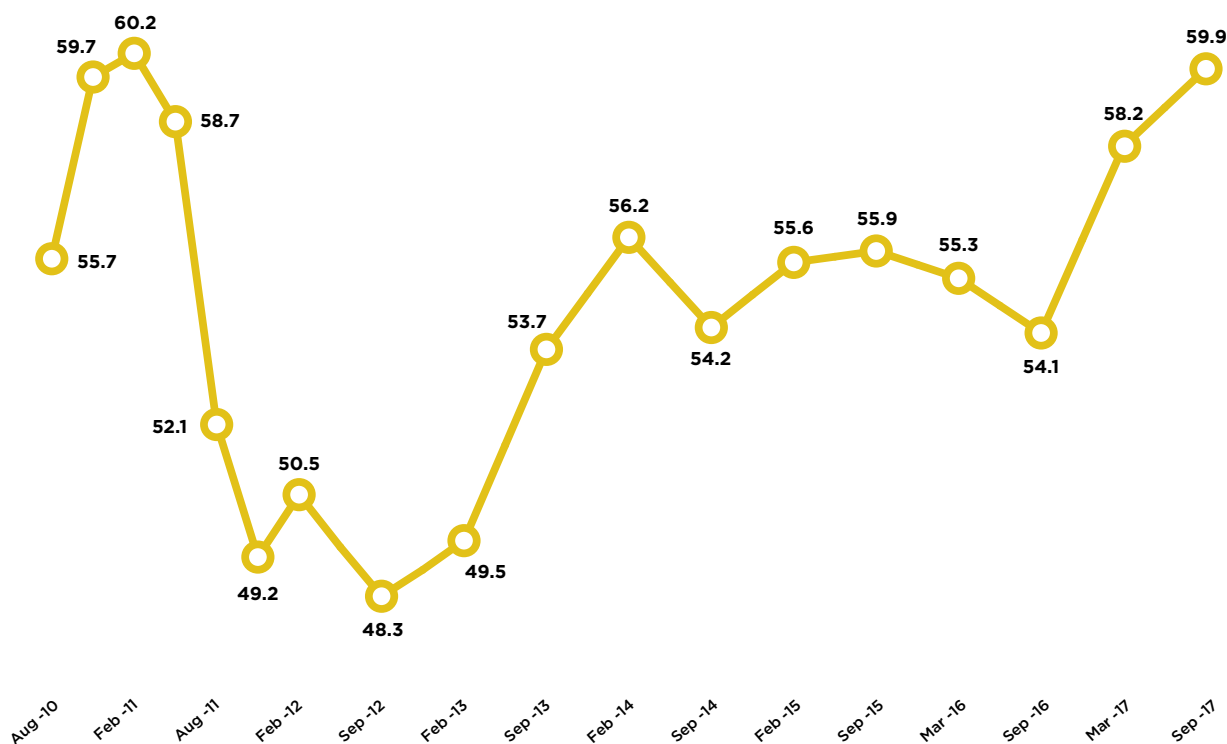
Opportunities and risks in a maturing recovery

Global growth optimism has gained further momentum during the course of 2017 following upside surprises, especially in the euro zone economies: China and Japan. **Rising optimism is also reflected in our Swedish CFO index, which increased to its highest level in six years.** Geopolitical risks remain elevated, not least due to escalating tensions around the Korean peninsula, but so far this has had little impact on the real economy, in line with historical evidence. **According to the fall 2017 survey, just as last spring Swedish CFOs are seeing lower external uncertainty as well as expressing less concern about macroeconomic and political factors.**

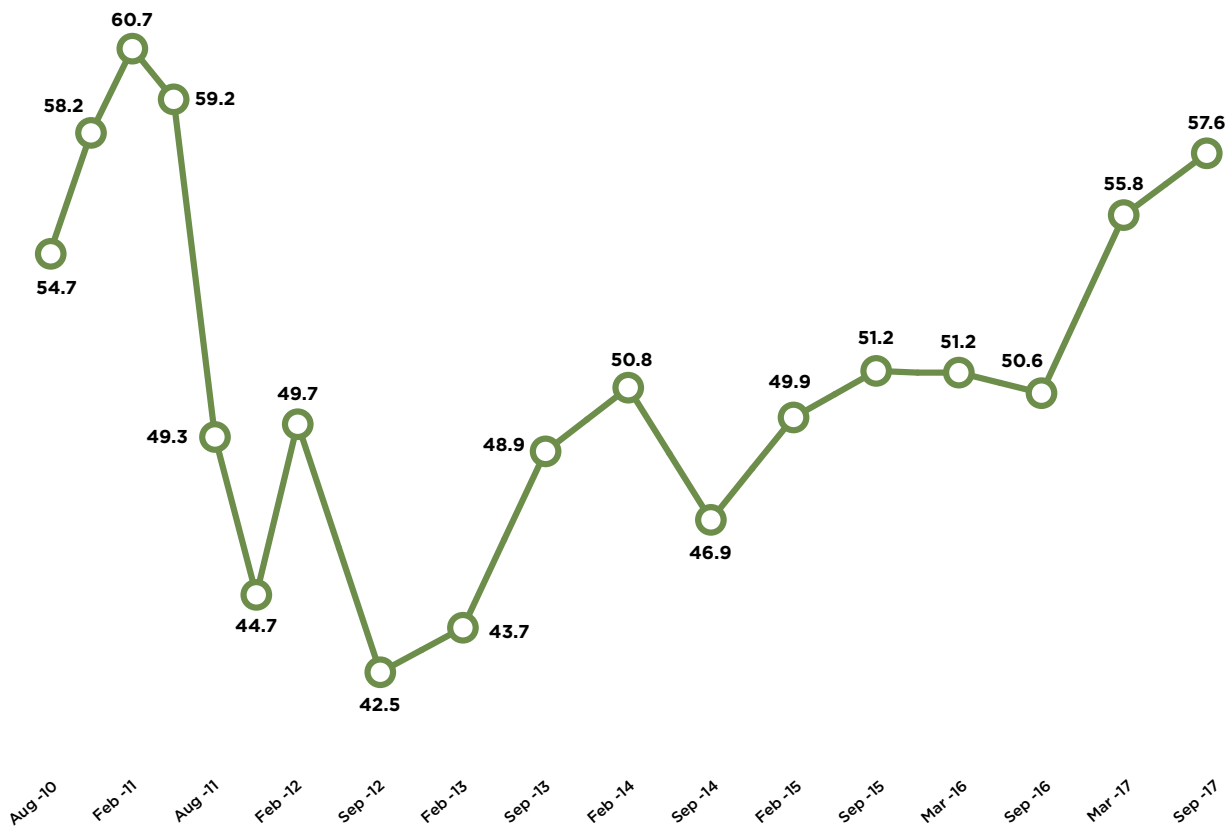
Our economic growth estimates have been revised somewhat higher. SEB now expects global growth of 3.8 percent in 2017 and 3.9 percent in 2018, up from 3.2 percent in 2016. The expansion also remains highly synchronized with above-trend growth in all major regions of the world economy.

The recovery after the global financial crisis is almost 10 years old and is showing typical signs of maturing. Capacity utilization is at levels requiring broad increases in capital spending, while strong labor markets and rising asset prices are fueling optimism among households. This suggests that global demand could remain firm in the coming years. However, the maturing cycle also raises questions about the supply side of the economy. Resource limitations are expected to dampen growth slightly during 2019, especially in the United States. At the same time, the historical experience is that the productive capacity of the economy often surprises on the upside in the later stages of the business cycle. Economic policy also looks set to remain supportive. With inflationary pressures still muted, central banks are expected to only gradually reduce the amount of monetary stimulus. Hopes for fiscal policy stimulus in the US have also risen following some progress for President Donald Trump's planned tax reform in Congress, though the outcome remains highly uncertain.

Swedish CFO Index



Business Conditions



Balancing act for central banks

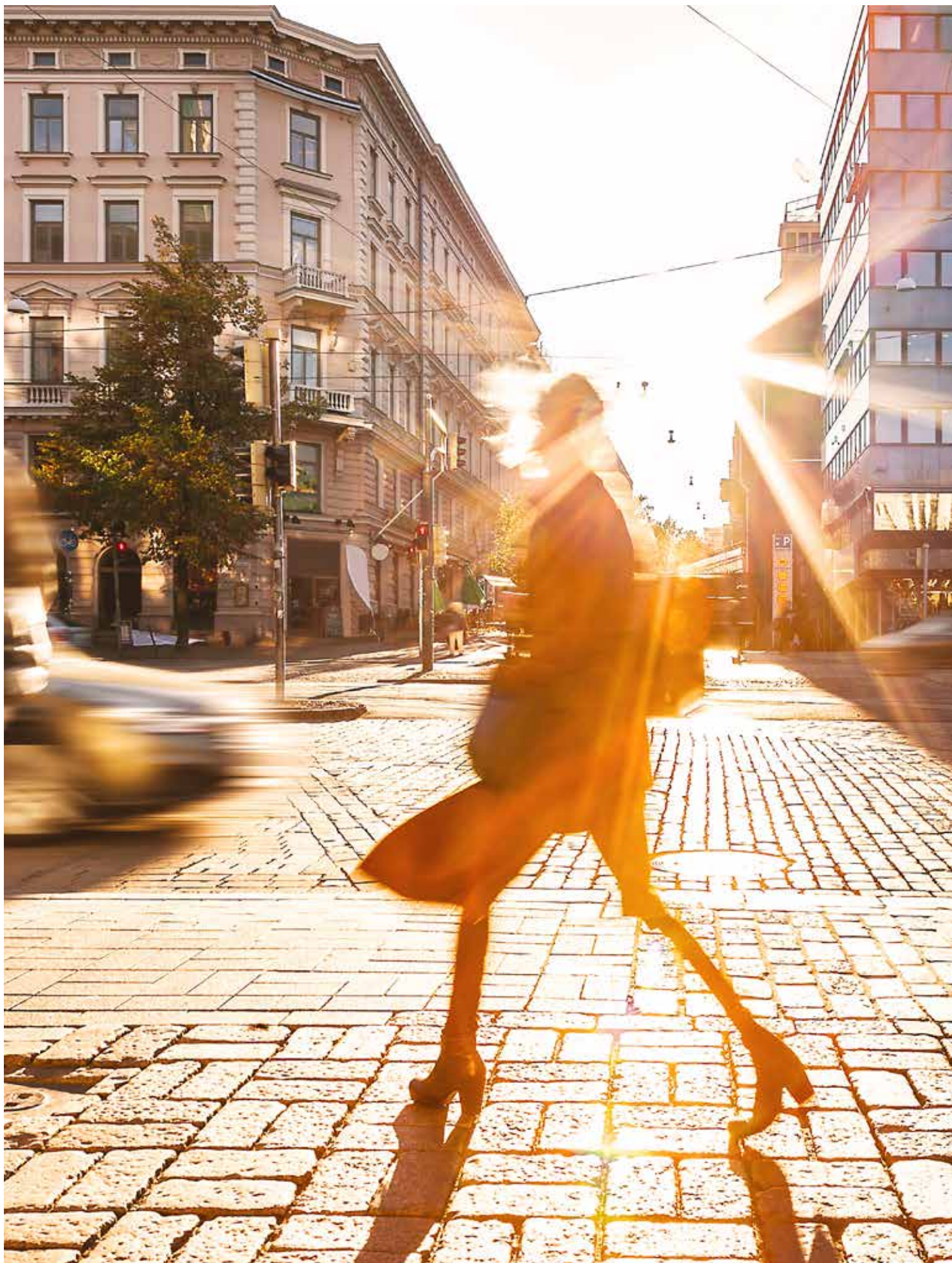
Uncertain prospects for inflation in the longer term and concerns over financial stability will, nevertheless, keep central banks eager to phase out the most extreme parts of their expansionary policy. The US Federal Reserve is expected to continue gradually raising its key interest rate to around 2.5 percent by the end of 2019. Central banks in other countries such as Canada and the United Kingdom have hiked. In the euro zone, the European Central Bank has announced further reductions to its monthly bond purchases but will nevertheless continue to expand its balance sheet during most or all of 2018. This means that ECB policy rates are likely to remain at current historically low levels until 2019. This fall's **CFO surveys show that 56 percent of respondents within the euro zone expect interest rates to rise during the coming 12 months**, which seems a reasonable outcome since financial markets will begin to price in a hike during 2019. The

rapid appreciation of the euro this past spring seems to have halted and has been replaced by a renewed strengthening of the US dollar.

Swedish outlook: Overstimulated Swedish economy

Rising foreign demand and very expansionary fiscal and monetary policy continue to fuel strong growth in Sweden. The long-term outlook is more uncertain and remains clouded by structural challenges in the labor and housing markets.

The recovery in Sweden is now firing on all cylinders. Growth in domestic demand has remained strong, mainly driven by rapidly expanding residential investments. The export-oriented sector is now taking over as main driver while a limited decline in home prices will weigh on residential construction in 2018 and 2019. SEB forecasts 3.2 percent growth in 2017, followed by a still strong 2.6 percent in 2018 and 2.4 in 2019.



The business conditions subindex continued to head higher this fall, providing support for higher growth estimates. Since almost all economic sectors are behind the increase, it continues to be broadly based as well.

Divided labor market

Sweden's strong expansion is reflected in rapid employment growth, currently around 3 percent year-on-year. **The fall 2017 survey indicates that this will continue, since the ratio of companies expecting to increase their number of employees remains at a record high of around 33 percent.** However, labor shortages are approaching historical peak levels. **Accordingly, the survey shows that concern about skilled labor shortages increased greatly and across sectors.** Meanwhile, a lack of unqualified jobs means unemployment in vulnerable groups such as those born outside of the European Union remains high. Strong demand for labor has so far not had much impact on wages.

Consumer price inflation rose above the Riksbank's two percent target this fall, but largely due to temporary effects. The combination of low collective wage hike agreements and still-limited signs of wage drift will continue to make it difficult for the central bank to reach its inflation target. So far the Riksbank does not seem to trust its own more upbeat inflation forecasts. Instead, policy remains focused on the actions of the ECB and on risks of a stronger krona. In December 2017 the central bank will decide whether it will follow the example of the ECB and prolong its asset purchases into the first half of 2018. In any case, a repo rate hike from the current record-low level of -0.50 percent is unlikely to occur before early fall 2018. **According to the survey, 78 percent of Swedish CFOs expect interest rates to go up during the coming twelve months,** so there is a larger consensus about a rate hike by the Riksbank than by the ECB.

The Riksbank's very expansionary monetary policy will continue to put a lid on the krona, despite an otherwise booming economy. The SEK exchange rate is expected to strengthen only gradually during 2018 and to remain above 9.00 vs the euro at year-end.

The risk of a correction in the private housing market, after previous strong increases, is the main threat to the Swedish economy and has been a recurring theme in the media this fall. A housing market downturn would have an especially great impact on residential construction, which is currently one of the main growth drivers in Sweden. However, the historical experience is that large home price declines are unusual during periods of strong economic growth. So far, problems seem to have been triggered by an excessive supply of pricey newly-constructed apartments in Stockholm, and it is too early to say to what extent this will spread to other parts of the housing market.

Business outlook and financial position

- Business conditions index at a new six year high.
- Swedish CFOs remain more optimistic than their euro zone peers.
- Generally positive view of the financial position of own company.

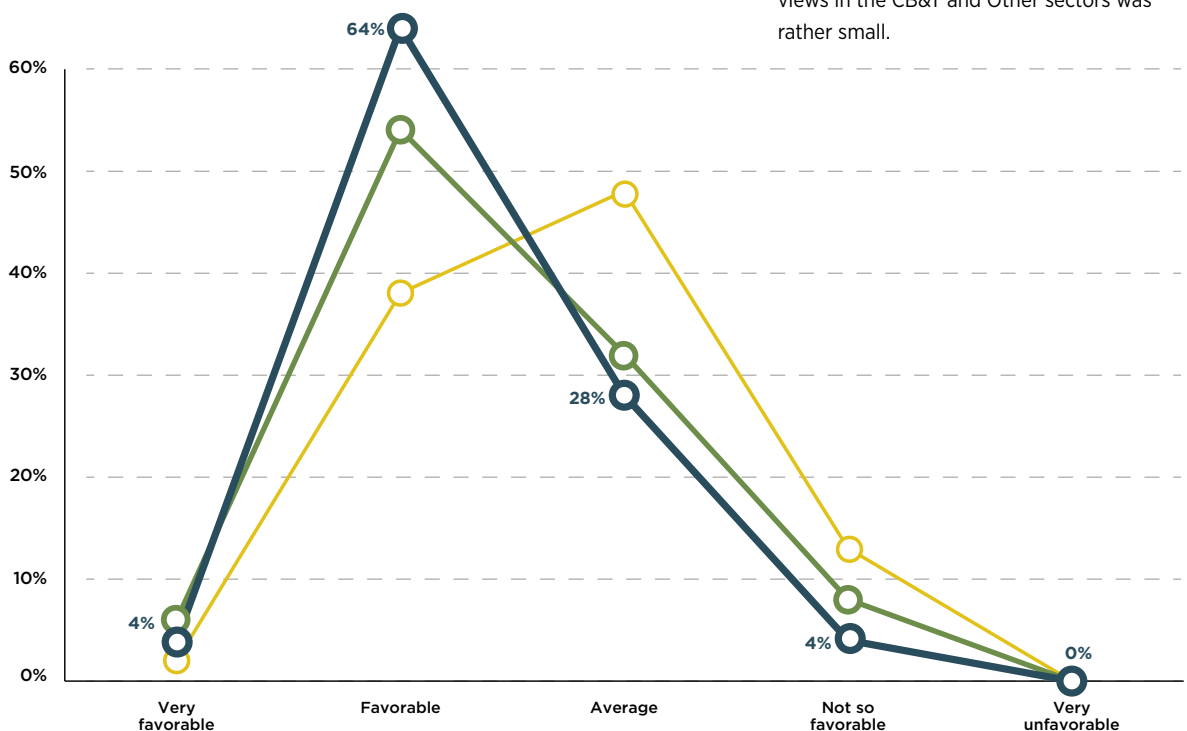
Even better times are just around the corner! That is the overall message that the responses to the survey questions tell us. According to the participating Swedish CFOs, business conditions for their companies during the next six months are at a new six-year high, as even more CFOs lean towards favorable conditions. Meanwhile the CFOs have a generally optimistic view of their companies' financial position, although it is slightly less positive than in the spring survey.

Swedish CFOs also remained more optimistic than their Nordic and euro zone peers. One explanation for this may be found in economic growth, which has been and is expected to remain higher in Sweden. However, since the most optimistic sector (Manufacturing) is also the most internationally dependent, one explanation may be that since Swedish companies are more exposed to international development their greater optimism is a reflection of better opportunities. This is because world economic growth is higher than growth in the euro zone and in the other Nordic countries.

Key take-aways within business outlook and financial position:

Business conditions

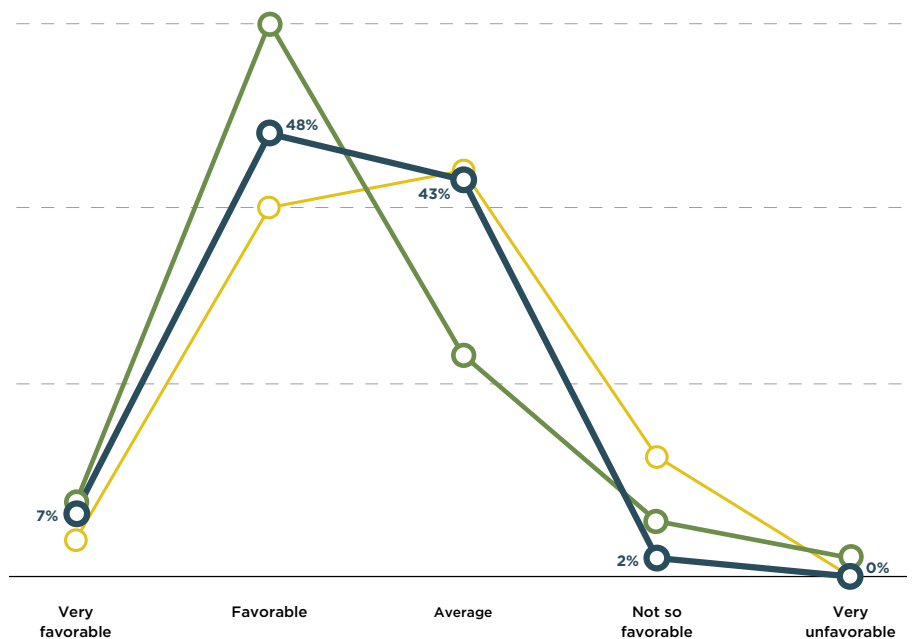
- Business conditions continued to improve, which is visible both in the subindex, which rose to 57.6 from 55.8, and in the net balance (NB), which rose to 64 percent from 52 percent.
- Swedish CFOs also remain far more optimistic than their euro zone peers (NB 38 percent) as well as their Nordic peers except Finland (average NB 42 percent and Finland 75 percent).
- The Manufacturing sector stands out, with 100 percent of responding CFOs viewing business conditions as favorable while Consumer Business and Transportation (CB&T) is the least optimistic sector.
- Four of the six sectors used in the survey improved their view of business conditions – Life Science and Technology, Media and Telecom (TMT) by quite much – while the gap between these and the less favorable views in the CB&T and Other sectors was rather small.





Financial position

- The financial position subindex, at 56.2, and a net balance (NB) of 53.0 percent show that CFOs still hold a generally positive view of the financial position of their own company.
- However, their view reversed some of the large improvement seen in the spring survey.
- There is still a large spread between different sectors, with the Financial Service Industry and Life Science as the most positive while Other and Consumer Business & Transportation are the least positive.



Prospects and concerns

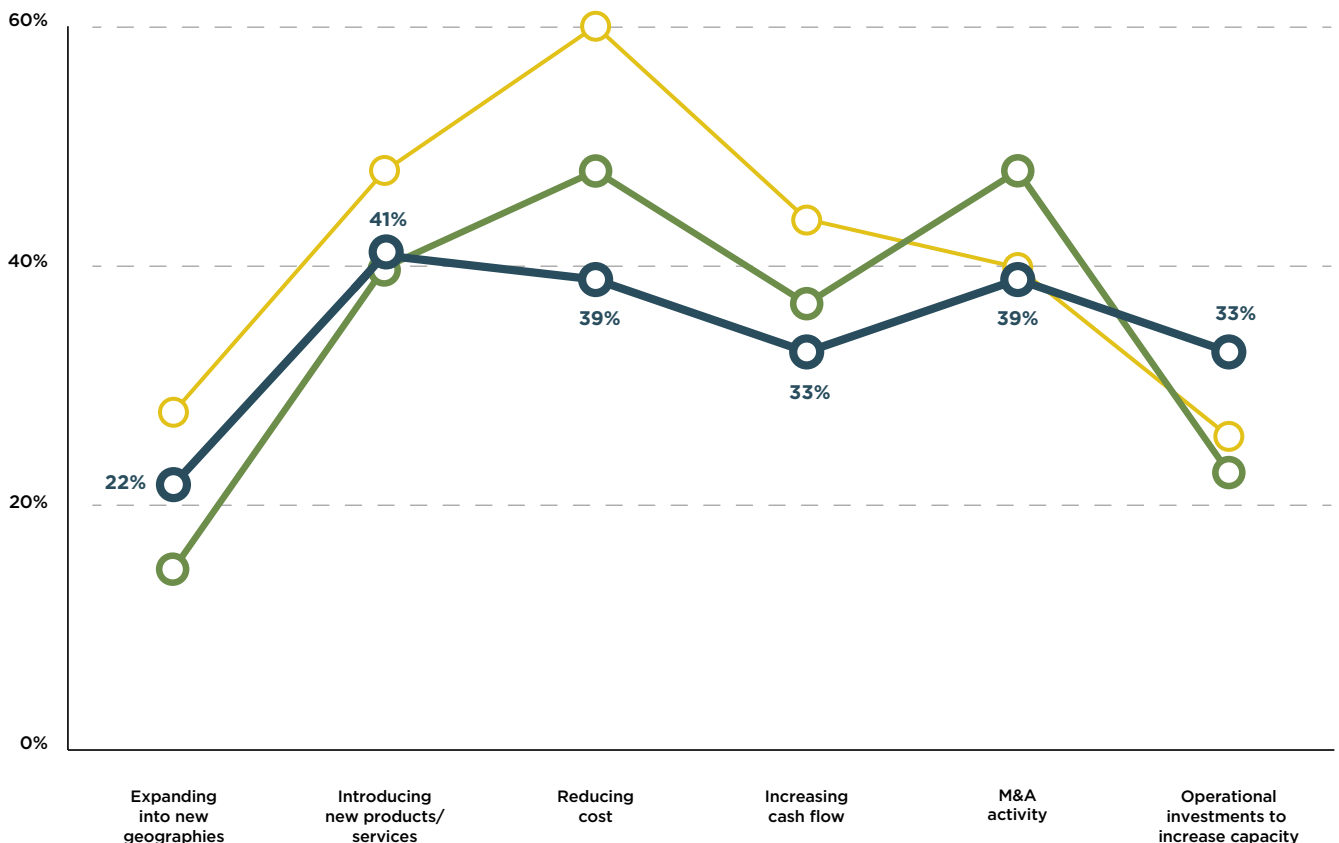
- A shift towards more expansive priorities.
- Shortages of skilled labor developing into major concern.
- Fewer CFOs expecting a decline in number of employees.

A positive view is a recurring theme throughout the survey. There is a shift towards more expansive priorities, where investments, geographic expansion as well as introduction of new products are gaining in popularity, while reducing costs is falling. The overall level of concern has fallen, which is in congruence with CFOs also seeing slightly lower external uncertainty as well as more favorable business conditions. However, shortages of skilled labor have now developed into a major concern among CFOs. We have previously noted this fact within the Manufacturing sector; the current results indicate that skilled labor constraints are becoming more widespread throughout other sectors. If this ultimately leads to a rise in wages and salaries, it will be good news for the Riksbank, which is looking for additional signs of inflation. However, skilled labor constraints also increase the risk of bottlenecks forming in production which could slow growth.

Key take-aways within prospects and concerns:

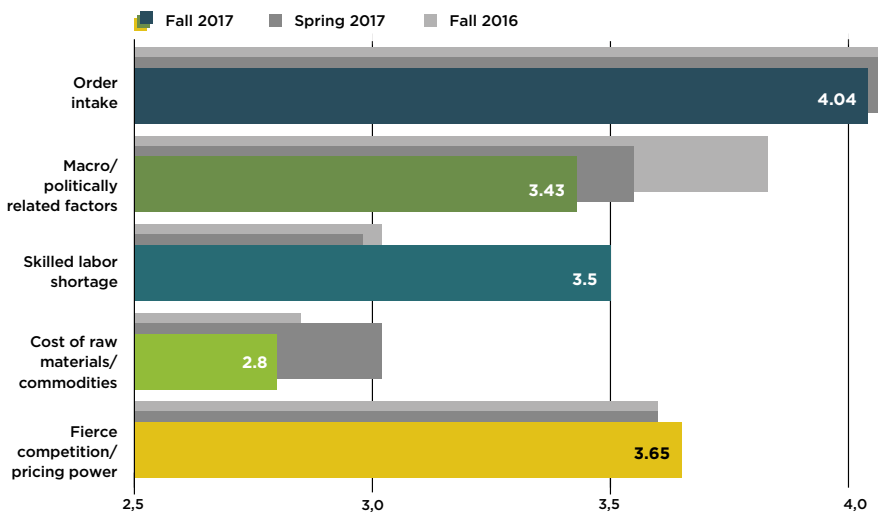
Corporate priorities

- There is a shift towards more expansive priorities, manifested as an increase in decisions to make operational investments by boosting capacity and expanding into new geographies.
- Merger and acquisition (M&A) activities are considered a top priority within sectors such as TMT and Life Science. However, we note that its relative importance compared to other priorities has declined overall.



Greatest concerns

- Concern about skilled labor shortages increased greatly and across sectors.
- Order intake remains the greatest concern, though easing somewhat.
- Macro/politically related factors fell for a second consecutive survey, which is in congruence with the CFOs' view of more normal external uncertainty.
- Among sectors, TMT stands out with greater concern about order intake as well as skilled labor shortages, while the Manufacturing sector is the one where order intake is not the greatest concern (Manufacturing CFOs instead view fierce competition and pricing power as their main concern).



Number of employees

- The majority of the CFOs still expect unchanged headcounts, whereas the percentage of CFOs expecting a decline has fallen slightly.
- Compared to other sectors, Life Science shows a more positive outlook, expecting an increase in the number of employees.

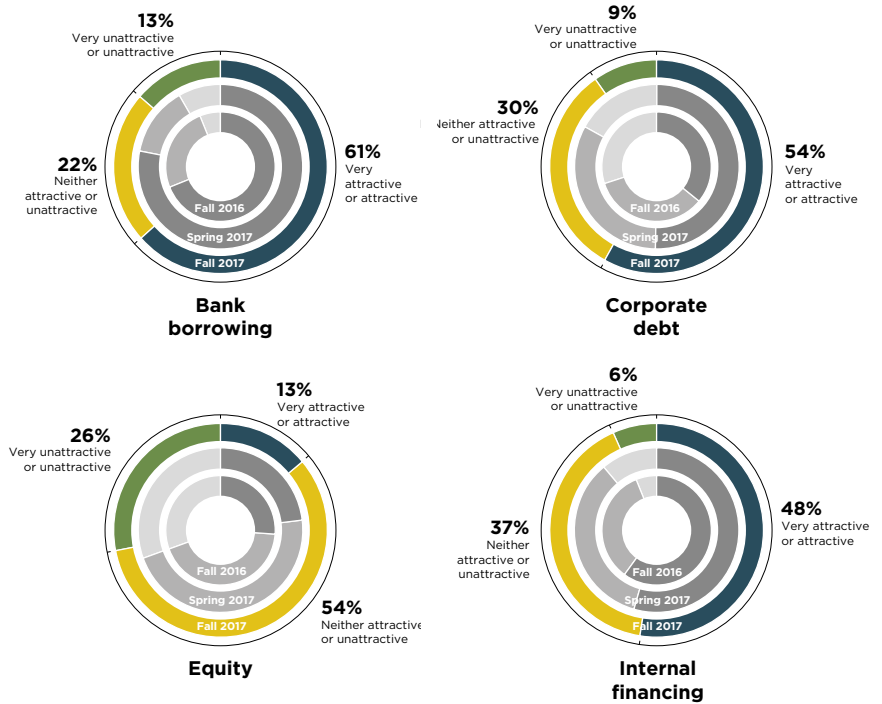


Financing and risk

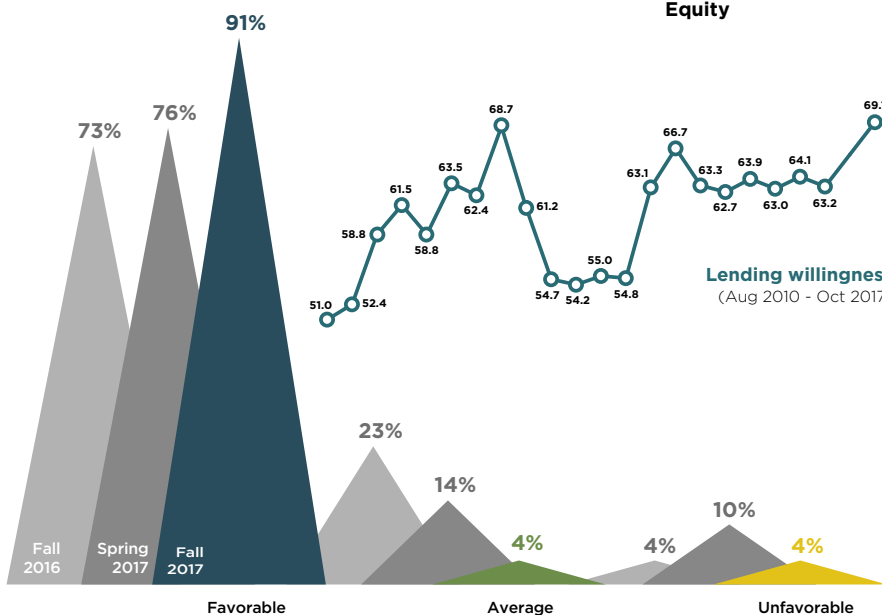
- The lending attitude of financial institutions improved greatly and is at the most positive levels since before the financial crisis.
- Economic uncertainty has fallen to more normal levels.
- Swedish CFOs view economic uncertainty as being far lower than their euro zone counterparts do.

The lending attitude of financial institutions towards the large companies represented in the survey improved further and is at its highest level since the financial crisis. This clearly shows that financing for the more expansionary strategies expressed elsewhere in the survey should not be a concern for these companies, especially since borrowing via financial institutions in the form of bank loans as well as bonds, is still considered the most attractive source of financing.

Consistent with the optimism seen elsewhere in the survey, economic uncertainty was considered to have fallen to more normal levels. Swedish CFOs view uncertainty as far lower than their euro zone counterparts. It is a bit puzzling that at the same time, they are less willing to take on further risk in their balance sheets.



Lending attitude of financial institutions toward the CFO's companies



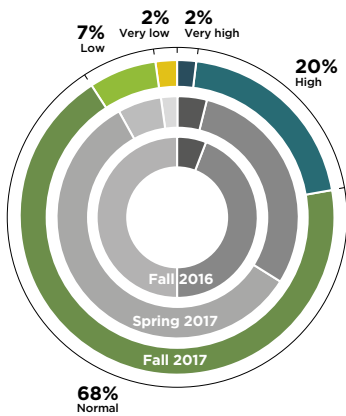
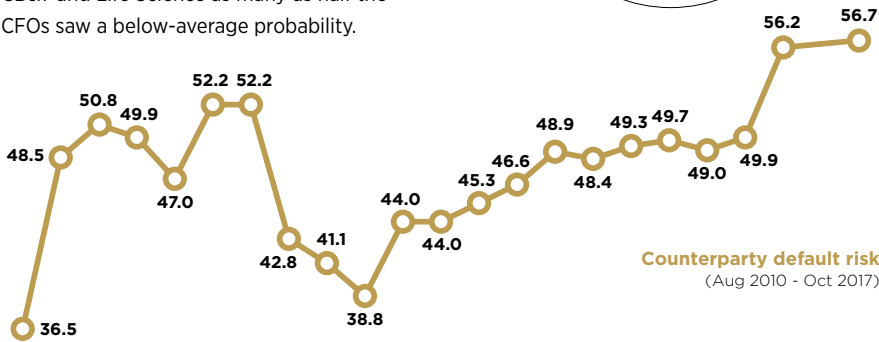
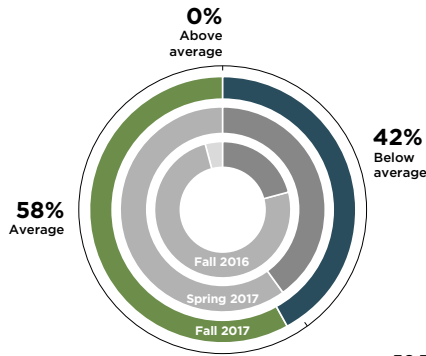
Key take-aways within financing and risk:

Lending attitude

- The lending attitude of financial institutions improved greatly, pushing the lending attitude subindex to 69.1 from the prior 63.2 and the NB to 87 percent from 66 percent.
- Among sectors, Financial Services was actually the one where CFOs had the least positive attitude. Meanwhile 100 percent of CFOs in the Life Science, TMT and Manufacturing sectors reported a favorable attitude by financial institutions.

Probability of counterparties' default

- The probability of counterparties' default continued to head lower, pushing the counterparty risk subindex to a new all-time high at 56.7 (prior survey: 56.2) and the NB to -42 percent from -40 percent in the spring.
- None of the CFOs viewed the risk as above average. Looking at the different sectors, in CB&T and Life Science as many as half the CFOs saw a below-average probability.

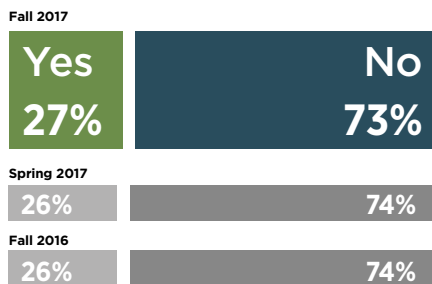


Economic uncertainty

- Uncertainty is considered to have fallen to more normal levels by a large majority of CFOs (68 percent), and the NB is at the lowest level (13 percent) since the question was added to the survey in 2016.
- Swedish CFOs view uncertainty as far lower than their euro zone counterparts, which the NB of 13 percent compared to 40 percent for euro zone countries clearly shows.
- CFOs in the Manufacturing and Financial Services sectors stand out, since they view uncertainty as much higher than their peers in other sectors.

Taking on risk

- Taking on further risk in the balance sheet is still viewed with heavy skepticism by Swedish CFOs.
- Compared to euro zone CFOs, the Swedes are far more skeptical, with an NB of -47 percent, while the euro zone countries have only -27 percent.
- Among sectors, Life Science is the most positive towards taking on greater risk while the Other and Financial Services sectors are the most negative.



Strategic opportunities

- A clear shift to preferring investments rather than paying down debt.
- 90 percent expects M&A activity to remain at current high levels or even increase.
- Swedish CFOs with largest increase among all European countries regarding capex.

The CFOs' more expansive agenda correlates with other observations in the survey, where we note a shift towards more positive and expansive company actions. In the fall 2017 survey, paying down debt is no longer the most preferred alternative assuming a cash surplus situation. Instead there is a clear shift towards investments in Sweden, such as within M&As. Compared to their euro zone peers, Swedish CFOs have more positive expectations regarding revenues and operating margins, with only two percent foreseeing decreased levels.

Key take-aways within strategic opportunities:

Use of excess cash

- In the fall 2017 survey, paying down debt is no longer the most preferred alternative. Instead there is a shift towards investment in Sweden, primarily driven by the Financial Services and Consumer Business sectors.

Fall 2017

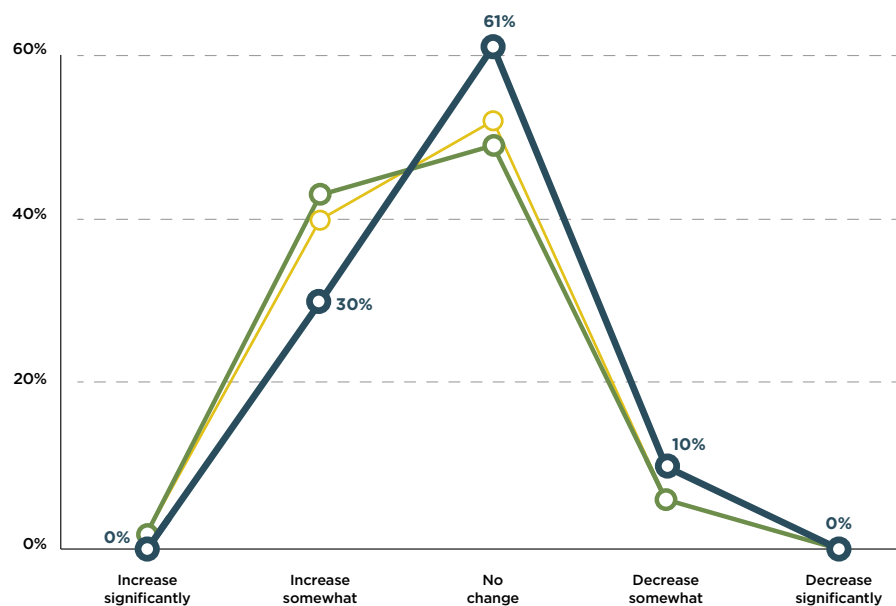


Spring 2017

Fall 2016

Corporate acquisitions and divestments

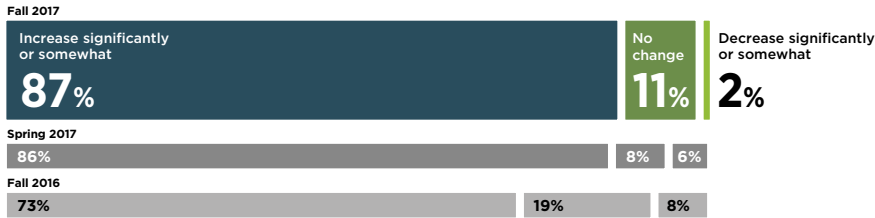
- It is notable that as many as 90 percent of Swedish CFOs expect M&A activity to remain at its current high levels, or possibly increase even more.
- The expectation of a further increase is greatest within Life Science and Financial Services, and M&A activities remain a top priority within these sectors.



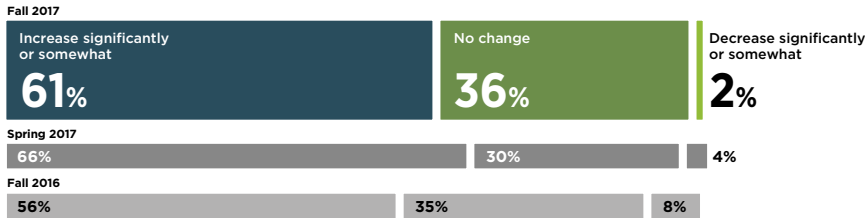
Key metrics

- It is notable that as many as 87 percent of Swedish CFOs expect their revenues to increase, compared to 70 per cent as a euro zone average.
- Compared to euro zone peers, Swedish CFOs have a more positive view of the trend of operating margins, with only two percent expecting decreased levels, compared to 19 percent as a euro zone average.
- In congruence with investment willingness observed in the survey, capital expenditure (capex) is the key metric assumed to increase the most.
- The increase in the NB for capex is the largest among all countries included in the European survey.

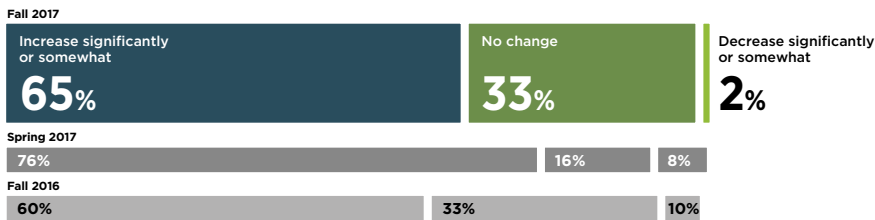
Revenues



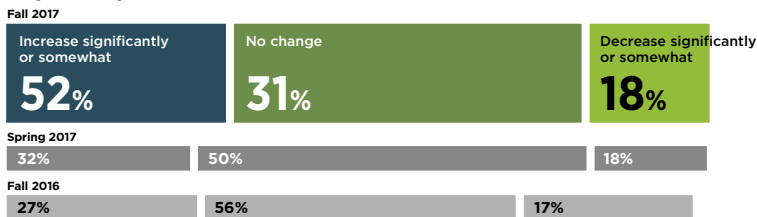
Operating margins



Cash flow



Capital expenditure





Hot topics

A clear majority of Swedish CFOs expect higher SEK interest rates over the next 12 months. This majority is also larger than euro zone CFOs' view of EUR rates and much larger than Norwegian expectations of higher NOK rates.

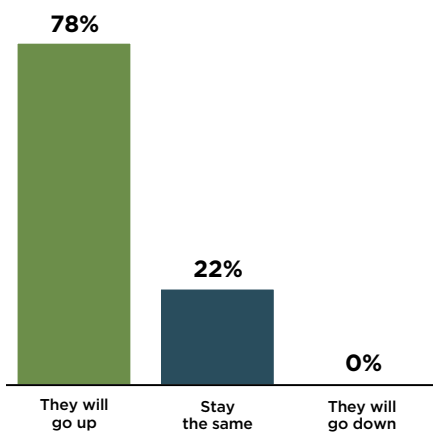
Rising key interest rates during the year will probably lead to a minor headwind for the optimistic corporate investment plans expressed elsewhere in the survey, since around ten percent of the CFOs say they will re-evaluate investment plans in case of rising rates.

One interesting contrast in the surveys is between Swedish and euro zone CFOs – with a majority who believe there will be higher key interest rates – and CFOs in other Nordic countries, where the majority believe rates will stay the same. One explanation could be that the current monetary policy pursued by the Swedish and euro zone central banks are considered more extreme, and thus an increase in rates is initially more of a return towards normality.

Key take-aways within hot topics:

What will happen to interest rates?

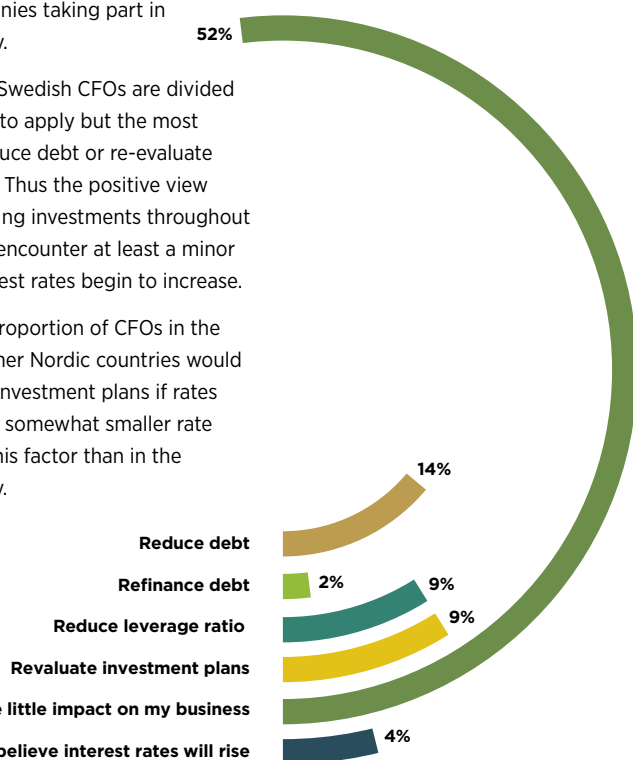
- 78 percent of Swedish CFOs expect SEK rates to go up over the next 12 months.
- This is clearly in excess of their euro zone counterparts, of whom only 56 percent expect higher EUR rates. Meanwhile only 32 percent of CFOs surveyed in other Nordic countries expect higher key interest rates.



Appropriate strategies if rates rise

- If key interest rates rise, half of the Swedish companies would stick to their current strategy, since they expect only a small impact on their business. This is roughly in line with the euro zone as well as CFOs in the other Nordic countries, although a clear majority of Finnish CFOs (79 percent) expect little impact. This may, however, be explained by smaller companies taking part in the Finnish survey.
- The other half of Swedish CFOs are divided on what strategy to apply but the most common is to reduce debt or re-evaluate investment plans. Thus the positive view expressed regarding investments throughout the survey could encounter at least a minor headwind, if interest rates begin to increase.
- A slightly lower proportion of CFOs in the euro zone and other Nordic countries would re-evaluate their investment plans if rates rise – indicating a somewhat smaller rate sensitivity from this factor than in the Swedish economy.

Strategy remains unchanged – a rise in interest rate will have little impact on my business
 Strategy remains unchanged – we do not believe interest rates will rise

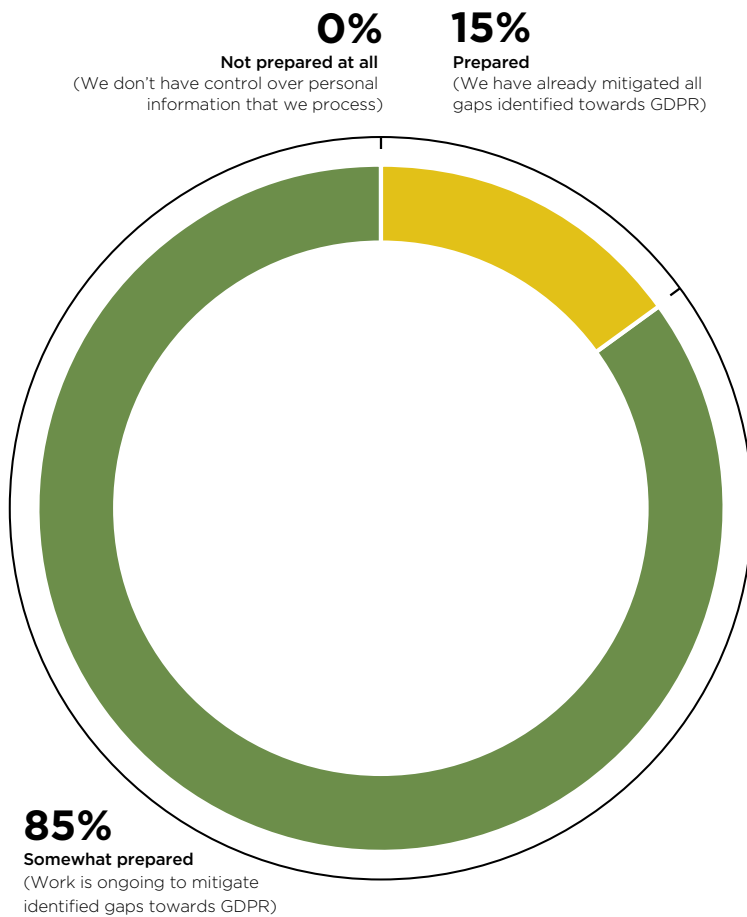


- 78 percent expects SEK interest rates to go up in the next 12 months.
- This majority is much larger than euro zone and Norwegian CFOs.
- 100 percent have begun to prepare for the General Data Protection Regulation though only 85 percent state that the work is not completed yet.

General Data Protection Regulation

On May 25, 2018 the **General Data Protection Regulation (GDPR)** will enter into force.

The fall 2017 survey shows that the vast majority of companies are somewhat prepared. We interpret this as meaning that GDPR is one area that the companies are currently working intensively with. Within the TMT sector the level of preparedness is somewhat higher, with 67 percent of CFOs indicating that they are prepared.



A photograph of a busy city street at sunset. The sun is low on the horizon, creating long shadows and a warm, golden glow. People are walking across the street, and a tram is visible on the right. In the background, there are buildings, including one with a prominent tower and arched windows. The word "NOBELS" is visible on a building facade.

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