



Global CFO Signals

Twin worries: trade and talent

Q2 2018 Deloitte CFO Surveys

Australia, Belgium, Brazil, India, Japan, North America, Russia, and United Kingdom

Deloitte Global CFO Signals
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About the Deloitte Global CFO Program

The Deloitte Touche Tohmatsu Limited (“Deloitte Global”) Global Chief Financial Officer (CFO) Program is a CFO-centric strategic offering that brings together a multidisciplinary team of senior Deloitte member firm partners and experienced professionals to help CFOs effectively address the different challenges and demands they experience in their role. Deloitte Global’s CFO Program and network of Deloitte member firms harness the breadth of Deloitte member firms’ capabilities to deliver forward-thinking perspectives and fresh insights to help CFOs manage the complexities of their role, drive more value in their organization, and adapt to the changing strategic shifts in the market.

About Deloitte Member Firm CFO Surveys

Twenty-three Deloitte CFO Surveys, covering more than 60 countries, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are “pulse surveys” intended to provide CFOs with quarterly information regarding their CFO peers’ thinking across a variety of topics. They are not, nor are they intended to be, scientific in any way, including the number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed populations but does not necessarily indicate economic or industrywide perceptions or trends. Further, the focus, timing, and respondent group for each survey may vary. Please refer to “About Deloitte Member Firms’ CFO

Surveys” (page 15) for member firm contacts and information on the scope and survey demographics for each survey.

About the Deloitte Global CFO Signals

The purpose of Deloitte Global CFO Signals report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the second-quarter 2018 CFO surveys from Deloitte member firms in the following geographies:

Australia: Solid on outlook; positive on risk

Belgium: Labor shortage risks restrain optimism

Brazil: Positive both on corporate and country outlooks

India: Optimism amid uncertainty and regulatory change

Japan: Trouble abroad exacerbates domestic concerns

North America: Strong optimism, but trade policy and geopolitics loom large

Russia: Thriving labor market despite cost control and uncertainty

United Kingdom: Defensive and watchful

*All numbers in the North American survey with asterisks are averages that have been adjusted to eliminate the effects of stark outliers

¹ The report cited on page 3 is entitled “Skill gap key investment bottleneck,” European Investment Bank, July 2018; <http://www.eib.org/en/stories/europe-lack-of-skills>.

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Global CFO Signals

CFO Sentiment Q2 2018

Twin worries: trade and talent

An abundance of positive economic evidence—from strong consumer demand to favorable monetary policy—helped sustain optimism among some CFOs in the second quarter of 2018. But two issues—trade and talent—seem to be sounding an ominous drum beat and sending mixed signals in the Q2 2018 edition of *Global CFO Signals*.

On the positive front, many of the CFOs in the eight surveys included in this quarterly round-up, voice upbeat outlooks about their organizations' financial prospects, growth metrics, and, countries' economic outlooks. In North America, for example, net optimism moderated from last quarter's survey-high +54, but remains relatively strong at +39, and expectations for revenue, earnings, and hiring all rose. In Australia, 77% of CFOs are optimistic about their companies' financial prospects—a sentiment that is reflected in local job growth and investment activity. And in India, 94% of CFOs are optimistic about that country's outlook over the next two-to-three years.

But it is the threat of a trade war that has many CFOs on edge. In Australia, for example, more than 50% of CFOs believe a trade war will negatively impact their business in the short-term, whereas in the medium-term, this rises to 70%. Among Japanese CFOs, the threat of a global trade war easily topped their list of external concerns (93%). And while CFOs in the UK are understandably worried about the long-term effects of Brexit, they also rank "greater protectionism" as an escalating risk.

"The trade tensions between the US and China have continued to evolve," observes Sitao Xu, chief economist, Deloitte China, "leading to many scenarios, some good, some bad." He adds that businesses obviously do not want a protracted trade war, but often have little choice except to adopt a wait-and-see attitude—particularly when reevaluating supply chains. What is clear, however, is that "businesses are very worried about these tensions," says Patricia Buckley, managing director, Economic Policy and Analysis, Deloitte Services LP (US).

Compounding matters is the escalation of long-running concerns over talent. For Belgian CFOs, scarce labor is their greatest concern and has been since the second quarter of 2017. Japanese finance chiefs cite labor shortages at the top of their list of domestic concerns (67%), and US CFOs name talent as their top internal risk. Likewise, in the UK, which is feeling the effects of the lowest unemployment rate in 43 years, 44% of CFOs reported that recruitment difficulties or skills shortages have risen in the last three months.

Even more pressing is the fear is that these twin concerns—trade and talent—could have a chilling effect on business investment. Indeed, a report recently published by the European Investment Bank (EIB), states that the "limited availability of people with the right skills impedes the investment activity of more than 70% of European firms."¹ Going forward, says Michael Grampp, chief economist, Deloitte Switzerland, the shortfall means companies may need to rethink their workforce composition and competencies. "Companies realize they can't just rely on the younger generations to fill the gaps," he explains.

Whether these concerns are enough to dampen the current economic momentum, remains to be seen. In the meantime, here is a synopsis of CFO sentiment by region in Q2 2018:

Americas

Amid trade tensions and skills shortages, CFOs in North America remained relatively optimistic about their companies' prospects in the second quarter, with 48% expressing rising optimism (down from 60% in Q1), and 9% citing declining optimism (up from 6%). That optimism was bolstered by CFOs' perceptions of both the US and Chinese economies: 94% of CFOs rated current conditions in the North American economy as good, a new survey high; and 55% rated the Chinese economy as good, up from 50%. Additionally, despite recent volatility in US equity markets, CFOs were less likely to see markets as overvalued (63%; down from 76% in Q1 and

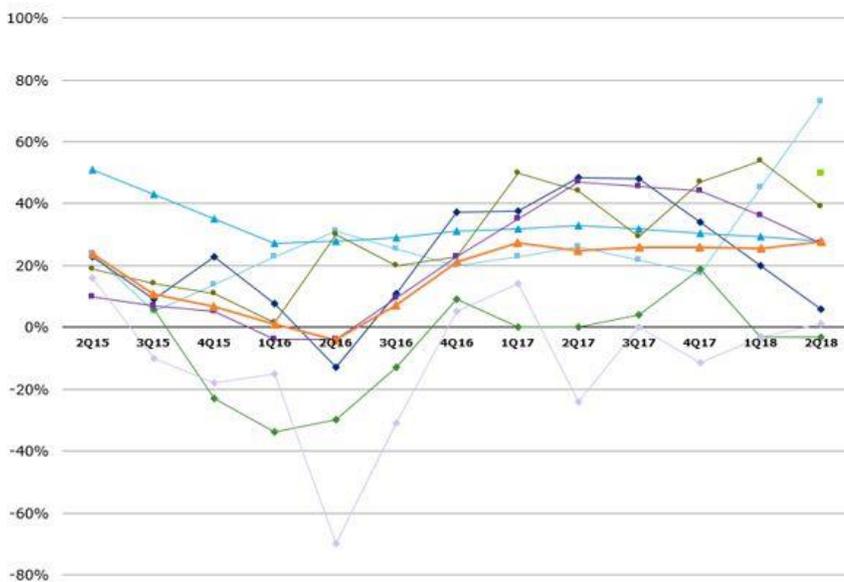
well below the above-80% levels from late 2017). Meanwhile, in Brazil, the only South American country reporting (also for the first time), 62% of surveyed CFOs were optimistic about the country's economy in the next year, and 75% are positive on their own companies' performance over that time frame. CFOs in Brazil, however, are concerned about economic recession (18%) and political uncertainty (14%).

Asia-Pacific

In the Asia-Pacific region, outlooks vary. In Japan, for example, only 19% of surveyed CFOs indicated that they were "more optimistic" about their companies' financial prospects, similar to last quarter. Their risks have shifted, however. While the prospect of labor shortages remains

CFO sentiment: Net change in optimism

Net % of CFOs who are more optimistic about the financial prospects of their company now than three months ago.



Please note that the surveys conducted vary in timing, sample size and demographic of respondents. As such, these survey responses may not be a statistically accurate representation of the countries / regions identified. Please refer to the end of this publication for information on the scope and survey demographics for each participating survey.

Australia	↑
Belgium	↓
Brazil	N/A
India	↓
Japan	→
North America	↓
Russia	↓
United Kingdom	↑
Average	↑

Increased net optimism	↑
No change in net optimism	→
Decreased net optimism	↓

top on the domestic list of concerns, the combined restrictions on steel/aluminum along with the automobile tariffs have jumped from number five to two on that list. Meanwhile, in India, domestic policies—particularly the Goods and Services Tax (GST) law that went into effect in 2017—have had a positive effect on CFO outlooks. The result? Some 64% of CFOs are optimistic about the economy in the next year, which is leading to a visible focus on growing revenues, investing in business, and promoting organic growth. Finally, in Australia, CFO sentiment strengthened markedly, bolstered by an

improved labor market and investment conditions. Moreover, almost two-thirds (64%) of CFOs say now is a good time to take greater risk onto their balance sheets. And according to David Rumbens, partner, Deloitte Access Economics (Deloitte Australia), that commitment has a circular effect: "Business has the opportunity to drive this economy to the next level through a greater rate of investment, and that phase is now starting."

Europe

Finally, in the three European countries reporting, domestic and international events colored CFOs outlooks. In the UK, for example, the Brexit overhang is only getting heavier. Three-quarters of CFOs, in fact, believe Brexit will lead to a deterioration in the business

environment in the long-term. This sentiment is leading CFOs to place as much emphasis on defensive balance sheets as they did at the height of the euro crisis in 2012. Defensive strategies are also being embraced by Russian CFOs, who view protectionism and geopolitical risks as having the most negative impact on business. In Belgium, however, CFOs gave positive marks to the government's financial and economic policies, even though net optimism has fallen another 14 percentage points (now net +6). Still, the slowdown in optimism has not yet impacted investment and

growth plans. More than 60% of Belgium's CFOs still emphasize the implementation of expansionary strategies over defensive strategies, and a net 49% are planning to increase capital expenditure.

Despite the mixed survey results, Deloitte economists note that CFOs have plenty to be positive about, including lower taxes and additional government stimuli supporting demand, at least in the US. But, says Buckley, "If the trade situation does not work its way out in a good way, that is definitely going to hamper growth."

Global CFO Signals

By the numbers

 **Risk appetite**
 Risk appetites remain mostly strong this quarter. In India, for example, 57% of CFOs are willing to take greater business risks, as companies consolidate gains from recent reforms. In Australia, 42% of CFOs are interested in taking on risk in the form of additional investment, supported by stronger business conditions and the possibility of tax cuts. Meanwhile, risk appetite among Belgian CFOs has slowed, although it remains positive at 41%. In contrast, risk appetite in the UK remains well below its long-term average, as Brexit weighs heavily on investment decisions.

 **Uncertainty**
 Financial, economic, and political uncertainty still worries many CFOs, but to varying degrees. In Belgium, 43% of CFOs rate the levels of financial and economic uncertainty as above normal, up from 39% last quarter. In Russia, 49% of respondents also point to high uncertainty around the current economic and political situations, up 13 percentage points year-over-year. However, in Japan, CFOs reporting “very high” or “high” uncertainty in the business environment fell sharply this quarter from 70% to 44%. In Australia, CFOs are still willing to take on balance sheet risk, despite the fact that uncertainty has climbed 10% since the last survey.

 **Metrics**
 Many CFOs remain bullish on their prospects. In North America, expectations for revenue (6.3%, the highest in nearly four years) and earnings (10.3%, the highest level in three years) both rose again. Some 83% of India’s CFOs expect revenue growth, and 70% of Japan’s CFOs expect earnings to rise “somewhat” or “largely.” In the UK, however, revenue expectations have dipped, with a net 17% expecting increases, down from 31% last quarter. There, some 34% also expect Brexit to have a negative effect on capital spending over the next three years.

 **Hiring**
 Labor and skills shortages are top of mind among CFOs. For CFOs in Belgium, scarce labor is their greatest concern and has been since the second quarter of 2017. Japanese executives express similar worries, citing labor shortages at the top of domestic concerns (67%). Similarly, in the UK, 44% of CFOs report that recruitment difficulties or skills shortages have increased in the last three months. Meanwhile North American CFOs are in a hiring mode, citing hiring expectations of 3.2%, a new survey high. And in Russia, 73% of CFOs expect salaries to increase, a 15-percentage point increase from just six months ago.

 **Corporate strategy**
 Grow with what you know seems to be the theme. Over the next year, 74% of Brazil’s CFOs plan to focus on boosting revenue, with 66% targeting organic growth. CFOs in India are also focused on growing revenue and promoting organic growth. North American CFOs reached a survey high in bias toward organic growth (67%) over inorganic growth (17%); their bias toward current geographies over new ones also increased. But defensive strategies are again on the upswing in the UK, with 47% of CFOs focused on cutting costs.

 **Interest rates**
 CFOs have been bracing for interest rate hikes for a while now. This quarter, in Australia, 44% of CFOs expect interest rates to go up, while a full 90% of Belgium’s CFOs predict that interest rates will rise over the next 12 months. For UK CFOs, however, interest rate expectations have fallen back from the previous quarter, with 38% (down from 47%) of CFOs expecting the Bank of England’s base rate to be 1% or higher in a year’s time. About two-thirds of Russian CFOs, however, believe that the Bank of Russia’s key interest rates will decrease.

Deloitte Member Firm CFO surveys:

Second-quarter 2018 highlights

Australia



Solid on outlook; positive on risk

Strong global/local backdrop

So far, 2018 has been a strong year for the global economy. The same can be said about the Australian economy. Given those conditions, net optimism among CFOs about their companies' financial prospects (compared to six months ago) jumped to 29% from 17%.

Going forward, CFO optimism seems even stronger, with 77% of CFOs optimistic about their companies' future prospects and only 4% pessimistic. This sentiment is also reflected in strong local job growth and investment activity.

Still, increasing trade tensions on a number of fronts, notably between China and the United States, are generating some uncertainty. Surprisingly, this has mostly impacted sentiment around the US economy, with China's economy a source of improving sentiment for Australia's CFOs.

On the domestic front, the Australian economy continues to grow at a solid pace, with the Reserve Bank happy to stay on "autopilot" for now, keeping the cash rate steady for the past 23 months (up to July 2018). Despite this, the prospect of interest rate hikes is at the top of CFOs' minds as the reality of rate normalization approaches.

Risk appetite remains strong

Solid business conditions are supporting risk appetite, despite prevailing uncertainty. This risk-taking activity is primarily in the form of increased investment. Business investment added to economic growth in 2017, and CFOs also

expect to translate any business tax cuts into further investment, rather than debt payments or increased equity. Not all risk-taking is considered equal, though, with CFOs feeling that the government should be more focused on reducing the budget deficit to guard against future downturns.

Preparing for disruption

CFOs are focused on managing the digital disruption that remains a strong feature of the Australian economy, with accelerated transformation, and culture and engagement ranked as the top two issues facing businesses. Most believe digital transformation will help their organization become more agile (59%), but integrating existing platforms (43%) and workforce skills (32%) are barriers to implementation. CFOs are also aware of the dangers surrounding data security given this move to digital business, with 93% having established, or in the process of establishing, a privacy management framework.

And the outlook for the rest of the year...

...remains relatively upbeat. CFOs expect that strong economic conditions will continue to support share markets, while a depreciating Australian dollar would improve the competitiveness of Australian exporters. What's more, CFOs expect interest rates to increase, and a general tightening of credit availability will limit the performance of Australia's housing market.

Highlights from the H1 2018 Australia CFO Survey:

- Net optimism about financial prospects compared with six months ago jumped to 29% from 17% in H2 2017.
- A full 68% of Australian CFOs feel the country's economy has a positive influence on the outlook for their business.
- More than one-half (54%) of CFOs rank interest rates as a key scenario for planning, with 44% expecting rates to increase, up from 40% and 31%, respectively.
- Some 42% of CFOs are interested in taking on risk in the form of additional investment.
- CFOs ranked culture and engagement, accelerated transformation, and regulatory change as the top disruptive forces to consider in H1 2018.

Belgium



Labor shortage risks restrain optimism

Business sentiment down again

For the third quarter in a row, CFOs' net optimism in Belgium declined by 14%. Coming from an almost historic high of 48% in the third quarter of 2017, net optimism now rests at 6%.

Even though the current level is below the long-term average, Belgian CFOs maintain a positive attitude toward the future. Only one in four of surveyed CFOs reports being less optimistic today than they were three months ago.

Uncertainty is following a similar trend and has continued its advance, albeit more moderately. After the first half of 2018, 43% of CFOs rate the levels of financial and economic uncertainty as above normal. Meanwhile, risk appetite has slowed down toward the end of the second quarter, with 41% of CFOs still reporting that it is currently a good time to be taking greater risk onto the balance sheet.

Labor shortages inhibit ambitions

The recent surge in protectionism worries CFOs, as does the shortage of skilled labor. A scarcity of workers has topped the CFOs' concern list since the second quarter of 2017, and labor shortages are expected to have a sizable impact on further investments. A report recently published by the European Investment Bank (EIB) states that "Limited availability of people with the right skills impedes the investment activity of more than 70% of European firms."

Planning for growth

The slowdown in optimism has not (yet) impacted investment and growth plans. More than 60% of participants still emphasize expansionary strategies over defensive strategies. A net 49% are planning to increase capital expenditure over the next 12 months. Two other investment indicators, planned headcount growth and planned discretionary spending, also moved up. Meanwhile, revenue growth expectations remain stable at around 2% to 5% over the next year.

Credit conditions still positive

After years of favorable credit conditions, the environment started to turn somewhat in mid-2017. However, almost 60% of CFOs still find credit to be cheap compared with 7% who find it costly to obtain new credit. Positive credit conditions have resulted in favorable balance sheet positions, with 80% of CFOs saying they are appropriately leveraged. Looking forward, the consensus is that interest rates will rise, with 90% of CFOs expecting hikes in the next 12 months.

Policymaking views

Overall perception of the way in which the Belgian government is setting the right priorities for financial and economic policymaking has remained positive and stable compared to the previous quarter. Yet, while 86% of CFOs rate labor market policy as important to the long-term success of their businesses, more than one-half of surveyed CFOs rate current labor market policy as inappropriate.

- **Highlights from the Q2 2018 Belgium CFO Survey:**
- CFOs' net optimism declined for the third quarter in a row, and is now down to 6%.
- Some 43% of CFOs say that the levels of financial and economic uncertainty are higher than average.
- Shortage of skilled labor is still the biggest concern for CFOs.
- While 86% of CFOs rate labor market policy as important to the long-term success of their businesses, more than one-half of surveyed CFOs say the current policy is inappropriate.
- A solid 90% of Belgium's CFOs agree that interest rates will rise over the next 12 months.

Brazil



Positive both on corporate and country outlooks

Positive business/economic outlook

Finance executives in Brazil feel good about the upcoming year, in terms of both company—and country—performance. Three-quarters of CFOs surveyed said they are more optimistic about company performance in the next year. On the economic front, 62% believe that the economy will ramp up over the next year.

As for business priorities, Brazilian CFOs are largely bullish on growing revenue. Some 74% of CFOs are looking to grow revenue versus 26% who are focused on reducing costs in the next year. In addition, 67% intend to launch new products and services to feed this growth. On the other hand, most CFOs still plan to preserve capital rather than invest (57% compared with 43%), to continue focusing on current geographies (63%), and to target organic growth (66%) versus inorganic growth.

Strategic responsibilities for the CFO

The survey also asked about the roles respondents had prior to CFO. The results? The controller position was the most common immediately prior to being CFO, selected by about one-third of CFOs. The second most chosen role, at 22%, was finance manager. In addition, one-half of the respondents reported that they were promoted to CFO at the same company where they were working.

As for how they spend their time now that they are CFOs, Brazilian CFOs

reported spending the most time as a steward (28%) and then are split between the catalyst (25%) and strategist roles (25%).

In the strategy area, CFOs are expected to be deeply involved, whether that means making the decision itself, or influencing it. The top areas where CFOs decide strategy are reducing costs and determining which key performance indicators (KPIs) to monitor, at 50% and 46%, respectively. Other strategic initiatives for which more than 70% of CFOs participate include where to invest and divest, which businesses to grow or shrink, where to invest in innovation, and what industry segments to play in.

Adoption of emerging technologies

Of emerging technologies, Brazilian CFOs reported that cloud has the highest utilization currently, with 27% saying that it is used broadly across the company, and 50% saying it is used in a few areas. Visualization ranks second, used broadly at 11% of organizations and in a few areas at 38%. While only 1% of respondents indicated that robotic process automation (RPA) is used across their company, RPA is the technology that organizations are most interested in implementing. Indeed, almost one-third of finance executives are assessing its use. Blockchain is the least used, at 6%, and 62% do not intend to roll out blockchain technology in the near term.

• Highlights from the 2018 Brazil CFO Survey:

- A full 75% of respondents are optimistic about their company performance over the next year, and 62% are optimistic about the economy for the next year.
- Some 30% of CFOs were controllers in their prior role, while 22% were finance managers.
- Over 70% of executives indicated that they participate in strategy decisions for cost reduction, KPI monitoring, investment versus divestment, growing and shrinking businesses, innovation investment, and industry segments to play in.
- Finance executives dedicate one-half their time to catalyst and strategist roles, with 25% for each.

India



Optimism amid uncertainty and regulatory changes

Optimistic looking forward

India's short- and medium-term economic outlook remains optimistic. Two-thirds of India's CFO respondents are positive about economic prospects in the near-term. That the percentage jumps to 94% for prospects over the next two-to-three years.

The economy has started to show signs of growth, rising 6.7% during this past quarter compared with 6.2% in the previous quarter. This was driven by a swift rise in industry, especially manufacturing and construction, and was further supported by a growth in services. With 64% of CFOs optimistic about the economy in the next year, there is a visible focus on growing revenues, investing in business, and promoting organic growth.

High risk appetite

Positivity among investors about the outlook in the medium-term is reflected in the risk appetite of CFOs in India. Some 57% are now willing to take greater business risks, as the next couple of years are expected to a period of consolidating gains from recent reforms.

However, the proportion of respondents willing to take greater business risks is slightly lower than in 2017 (59%). This marginal decline probably reflects uncertainty around the economic headwinds and political uncertainty that might arise with the impending elections in 2019. Still, India is likely to remain one of the fastest growing economies in the world.

As for other concerns, more than one-half (55%) of CFOs say that one key risk is the challenge of executing against their plans or strategies. A full 54% are concerned about productivity and cost improvements. Additionally, securing and retaining talent is a third important risk.

Impact of GST

In terms of the external environment, the survey revealed that regulatory and policy changes such as IndAS, demonetization, or the Goods and Services Tax Law (GST), are the biggest concerns for CFOs. A full 60% of CFOs surveyed also see uncertainty in the business environment as a challenge.

About one year after the implementation of GST—which replaced the complex indirect tax laws that had been in existence for decades—66% CFOs say they are witnessing a negative impact on working capital. In spite of this, 77% believe that GST has a positive impact on the overall business, including on revenue and ease of doing business.

Expected performance

Although 83% CFOs are optimistic about increases in revenue, only 45% are hopeful they will see an increase in operating margins. Less faith in improving margins is driven by CFOs concerns over cost and productivity improvements as well as increasing costs with changing technology and regulatory requirements. Meanwhile, 53% of CFOs believe there will be an increase in headcount, while only 14% believe the number of workers will over the next 12 months.

Highlights from the Q3 2018 India CFO Survey:

- Two-thirds of CFOs feel optimistic about economic prospects in the near-term, and 94% feel positive about the next two-to-three years.
- Some 57% of CFOs are now willing to take greater business risks, slightly lower than in 2017 (59%).
- Almost 90% of CFOs feel that their business growth in the next year will be more organic than inorganic, which also accounts for more cash being invested in business than distribution.
- While 66% CFOs believe same product offerings would be key for growth, the number is split for new geographies versus current geographies.

Japan



Trouble abroad exacerbates domestic concerns

Ambiguous external environment

Japanese CFOs' outlooks for Q2 2018 were generally flat, with 19% of CFOs reporting being "more optimistic" about economic conditions—the same as in Q1. No CFOs recording feeling "very optimistic" in either Q1 or Q2.

This may seem out of step, given moderating tensions between the United States and North Korea after the June summit in Singapore, as well as a respite in the Moritomo Gakuen scandal, and a return of support to the Abe government. Stock prices have also risen since their tumble in February, and the Japanese yen is trading weaker against the US dollar, which is a boon for Japanese businesses.

Still, new concerns have arisen. Worries over a trade war with the US, the return of Japanese GDP (from January to March) to negative growth, a decrease in inflation, and concerns about the delay in overcoming deflation have affected optimism. Japanese CFOs are cautious this quarter, having walked back some of their previous optimism.

A "wait-and-see" approach

A full 70% of Japanese CFOs reported that they expected earnings to rise "largely" or "somewhat." This is an increase from 64% in Q1, but this outlook has been basically flat for the past four quarters. Conversely, CFOs who expect "largely" or "somewhat" increased operating profits fell slightly this quarter to 52%, from 58% in Q1.

Concerns about rising costs of raw materials as well as wage increases brought on by labor shortages remain. Combined with an ambiguous external environment, it is little wonder that Japanese CFOs are taking a cautious, "wait-and-see" approach.

New concerns take center stage

Japanese CFOs reporting "very high" or "high" levels of uncertainty in the business environment fell in Q2 to 44%—a sharp drop from 70% in Q1. As mentioned previously, while old worries have calmed somewhat, new ones have stepped up to take their place.

These concerns are reflected in the ranking of Japanese CFOs' top domestic concerns, with the recent steel and aluminum restrictions and automobile tariffs jumping from fifth to second place (selected by 59% of respondents). Those issues fall right behind labor shortages, at the top of the list (67%). In third place is returning deflation and domestic economic slowdown (44%).

Rankings of international concerns tell a similar story, with a global trade war (93%) easily taking the top spot, from second place in Q1, and economic slowdown in China second (59%).

Japanese CFOs seem to be worried that new risks from abroad, coupled with a weakening domestic situation, could have serious impacts on the Japanese economy.

Highlights from the Q2 2018 Japan CFO Survey:

- Only 19% of CFOs report feeling "more optimistic" about financial prospects, the same as Q1.
- CFOs perspective on earnings has been basically flat for four quarters, with 70% of CFOs reporting expected earnings to rise "largely" or "somewhat," while concerns about costs and labor remain high.
- New concerns have replaced older ones: steel and aluminum restrictions and automobile tariffs jumped to second in the rankings, followed by domestic economic slowdown.

North America



Strong optimism, but trade policy and geopolitics loom large

Continued optimism, but off survey highs

Last quarter's positive sentiment largely continued this quarter, with net optimism at +39 (down from the all-time-high of +54). Although own-company optimism and expectations for the European (down 10%) and Chinese (down 6%) economies faltered a bit, expectations for revenue, earnings, and hiring all rose again (capital spending declined somewhat, but remains relatively high). In addition, CFOs' confidence in US equity markets appears to have strengthened, with a comparatively low 63% regarding markets as overvalued (well below the above-80% levels from late last year).

Still, CFOs continue to express concerns about the future—especially around trade policy and geopolitics. As these concerns have risen, worries about global economic growth, which appeared to be declining for the past year, began to rise again. Moreover, although CFOs remain quite optimistic about their companies' prospects, they voice continuing concerns about securing key talent and executing their strategies, and newly escalating concerns about avoiding complacency and improving organizational focus.

Increasing scope of responsibility

Our recent surveys have shown that as megatrends, such as data proliferation, analytics, industry convergence, and automation, have put intense pressure on companies' strategies and operations, the role of the CFO has been changing considerably. To better understand the evolution, this quarter we asked

finance chiefs about their scope of responsibility, the roles they brought to their current position, and the experiences most important for their successors.

This quarter's findings show that CFOs appear to be taking on broader formal responsibility for business planning, IT/data, operations, and risk. It also appears that CFOs' backgrounds are changing, with FP&A, controller, and other CFO positions the most common prior roles, but with younger CFOs comparatively more likely to cite investor relations and strategy roles. Accordingly, CFOs were likely to recommend that their successors have backgrounds in corporate strategy, in their industry, and in investor relations.

Leaving a lasting legacy

Finally, to better understand CFOs' mindsets about the impact of their careers, we asked about their desired legacies—for their companies, their finance teams, and themselves. Overall, CFOs say they want to leave behind companies and finance functions that are better than they found them (with world-class performance) and positioned to perform even better after they are gone. And at a personal level, they want to be remembered as role models when it comes to being effective business partners, ethical leaders, and strong talent developers.

Perhaps one statement, reiterated by several CFOs, summed it up best: "I want to know I made a lasting, positive difference."

Highlights from the Q2 2018 North America CFO Survey:

- This quarter's net optimism declined to +39 (from +54), while 48% of CFOs expressed rising optimism (down from 60%), and 9% cited declining optimism (up from 6%).
- Assessments of the North American and Chinese economies hit new survey highs, 94% and 55%, respectively.
- Some 63% of CFOs say US equities are overvalued—the lowest level in two years.
- Growth expectations for revenue (6.3%), earnings (10.3%), and hiring (3.2%) rose to multi-year highs; capex weakened for Canada and Mexico.
- Many CFOs appear to be taking on broader responsibility for business planning, IT/data, and risk.
- CFOs' most common prior roles are around FP&A, controllership, and other CFO positions; younger CFOs are comparatively likely to cite investor relations and strategy roles.

Russia



Thriving labor market despite cost control and uncertainty

Optimism moderating

Overall, expectations concerning financial prospects among Russia's CFOs have become more moderate. More than one-half of CFOs (55%) do not expect significant changes in the current financial position of their companies. The CFOs of manufacturing companies had the highest share of optimists, at 40%. CFOs of small companies (up to 250 people) were the most pessimistic, at 22%.

Behind that moderation may be the rise in certain new risk factors. CFOs noted that their top concerns are now those relating to geopolitics, and the resulting increase in internal and external barriers. For the first time, the most unfavorable risks have included the lack of interest in new products and the risk of lower external demand.

Profits and labor expectations

In the past six months, the number of CFOs expecting company revenue growth increased by 11 percentage points. Expectations regarding operating profit have remained almost flat since the second half of 2016. Presently, more than one-half of the companies (60%) expect profits to grow. Moreover, the expectations for operating profit growth are higher by 9 percentage points compared with the second half of 2017.

In this quarter's survey, participants more frequently cited expected increases in the number of staff. Overall, this indicator increased by 10 percentage points in the past two years. A striking 73% of CFOs expect

salaries to rise, a 15 percentage point increase from six months ago.

Popular strategies remain similar

Based on the results of surveys held since 2015, the opinions of our respondents regarding the most attractive strategies have changed only slightly. According to 80% of respondents, cost control remains the most attractive strategy, with organic growth strategy second at 62% and cost-cutting third at 56%.

Climbing uncertainty

Since the second half of 2017, uncertainty has increased an additional 10 percentage points. Almost one-half (49%) of respondents point to a high level of uncertainty around the current economic and political situation when it comes to strategic decision-making, up 13 percentage points year-over-year. The higher level of uncertainty appears to have had an impact on the risk appetite as evidenced by the 29 percentage-point decrease in the past six months.

Embracing tech innovation

CFOs are taking a large role in innovation and digitalization, with 82% participating in the evaluation of new technological solutions and launch of innovative projects. Advanced accounting systems remains the most common innovation implemented (64%). The number of companies that implemented ERP systems increased by 22 percentage points since last quarter. Full automation of select business priorities follows, as 38% of participants noted.

Highlights from the H1 2018 Russia CFO Survey:

- Russia's CFOs optimism toward their companies' financial prospects fell from last quarter, sinking from 53% to 36% of respondents.
- Some 65% of CFOs do not expect the cost of capital to change significantly in the next six months.
- CFOs in the TMT industry have the highest expectations for an increase in headcount (54%), while CFOs from the consumer business sector forecast some reduction in staff.
- Risk appetite decreased 29% over the past six months.

United Kingdom



Defensive and watchful

Brexit casts a long shadow

The second quarter survey of UK CFOs reveals growing concerns about Brexit and a marked shift toward more defensive balance sheet strategies. Uncertainty about the timing and the nature of the Brexit settlement has added to CFO worries about the final destination of the process. Three-quarters of CFOs expect Brexit to lead to a deterioration in the business environment in the long-term, the highest proportion since this question was asked in the immediate aftermath of the referendum in late June 2016.

The boost to CFO spirits that was seen in the last survey, carried out in March and following the announcement of the Brexit transition deal, has been short-lived. CFOs once again rank Brexit as the top risk facing their business, with concerns about weak UK demand in second place. In a sign of a more challenging international backdrop, CFO concerns around protectionism and a slowdown in the euro area increased in the second quarter.

Business sentiment continues to be buffeted by the news on Brexit. The mid-year position of the UK corporate sector is defensive and watchful. How that changes over the rest of 2018 will be heavily dependent on the unfolding negotiations between the UK and the European Union in the next six months.

Cost control and cash flow

CFOs are reacting to a weaker domestic outlook with a sharper focus on cost control and building up cash. UK corporations are placing as much emphasis on running defensive balance sheet strategies as they did at the height of the euro crisis in 2012 and immediately after the EU referendum. Increasing cash flow is CFOs' top balance sheet priority, selected by 49% of respondents, with cost reduction in second place, selected by 47% of respondents.

Labor market concerns

Wage inflation has been relatively muted in recent years. However, with the unemployment rate at a 43-year low, and inflows to the UK labor force from overseas slowing, skills shortages are building up. Some 44% of CFOs report that recruitment difficulties or skills shortages have risen in the last three months, up from 31% in the first quarter. Any sustained rise in wages would clearly add to the challenges facing corporates as they seek to rein in costs.

Highlights from the Q2 2018 UK CFO Survey:

- CFOs expect to reduce their own spending as a result of Brexit, with 40% intending to scale back their hiring plans. Those who plan on reducing capital expenditure over the next three years has risen to 34% from 25% last quarter.
- Revenue expectations among CFOs have dipped in the second quarter. A net 17% of CFOs expect revenues to rise over the next 12 months, down from 31% in the first quarter.
- CFOs are placing greater emphasis on defensive strategies such as increasing cash flow, which is their top priority at 49%, and reducing costs, their second highest priority at 47%.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty-three Deloitte Member Firm CFO Surveys, covering more than 60 countries, are conducted by Deloitte member firms on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas, including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each member firm's survey varies.

The following summarizes the survey scope and population of the participating member firms for this quarter. Member firms' CFO surveys can be accessed at www.deloitte.com/cfoconnect.

Member firm	Contacts	Frequency	Survey scope and population
Australia	Stephen Gustafson CFO Program Leader Partner—Assurance and Advisory +61 2 9322 7325 sgustafson@deloitte.com.au	Biannual	Conducted between May 15, 2018 and June 1, 2018; senior financial executives at major Australian companies took part
Belgium	Thierry Van Schoubroeck Partner, Finance Transformation + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between June 13, 2018 and June 30, 2018; a total of 81 CFOs completed the survey.
Brazil	Fabio Perez Managing Director; CFO Program +55 (11) 5186-6383 fabioperez@deloitte.com	Annual	Conducted in June 2018; 107 CFOs and other finance executives responded, representing a wide range of Brazilian companies and industries.
India	Porus Doctor Partner, CFO Program Leader +91 22 6185 5030 podoctor@deloitte.com	Annual	Conducted in spring 2018; more than 250 CFOs representing multiple industries participated with revenues spanning less than INR 500 crores to more than INR 10,000 crores.
Japan	Yasushi Nobukuni Partner +81 80 3367 2790 ynobukuni@tohmatu.co.jp	Quarterly	Conducted between July 2, 2018 and July 13, 2018; 27 respondents participated, representing companies across a variety of industries, including listed and/or relevant private companies with major growth prospects.
North America (United States, Canada, Mexico)	Greg Dickinson N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between May 7, 2018 and May 18, 2018; 172 CFOs participated from across the United States, Canada, and Mexico. Seventy-three percent of respondents represented CFOs from public companies, and 74% were from companies with more than \$1 billion in annual revenue.
Russia	Lora Zemlyanskaya, Ph.D. Research Centre Leader, Deloitte & Touche CIS +7 (495) 787 06 00 (x2299) Lzemlyanskaya@deloitte.ru	Biannual	Conducted in spring 2018; 80 CFOs participated representing multiple industries.

Member firm	Contacts	Frequency	Survey scope and population
United Kingdom	Ian Stewart Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between June 3, 2018 and June 14, 2018; 103 CFOs participated, including CFOs of 20 FTSE 100 and 45 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of companies listed overseas. The combined market value of the 76 UK-listed companies surveyed is £504 billion.

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