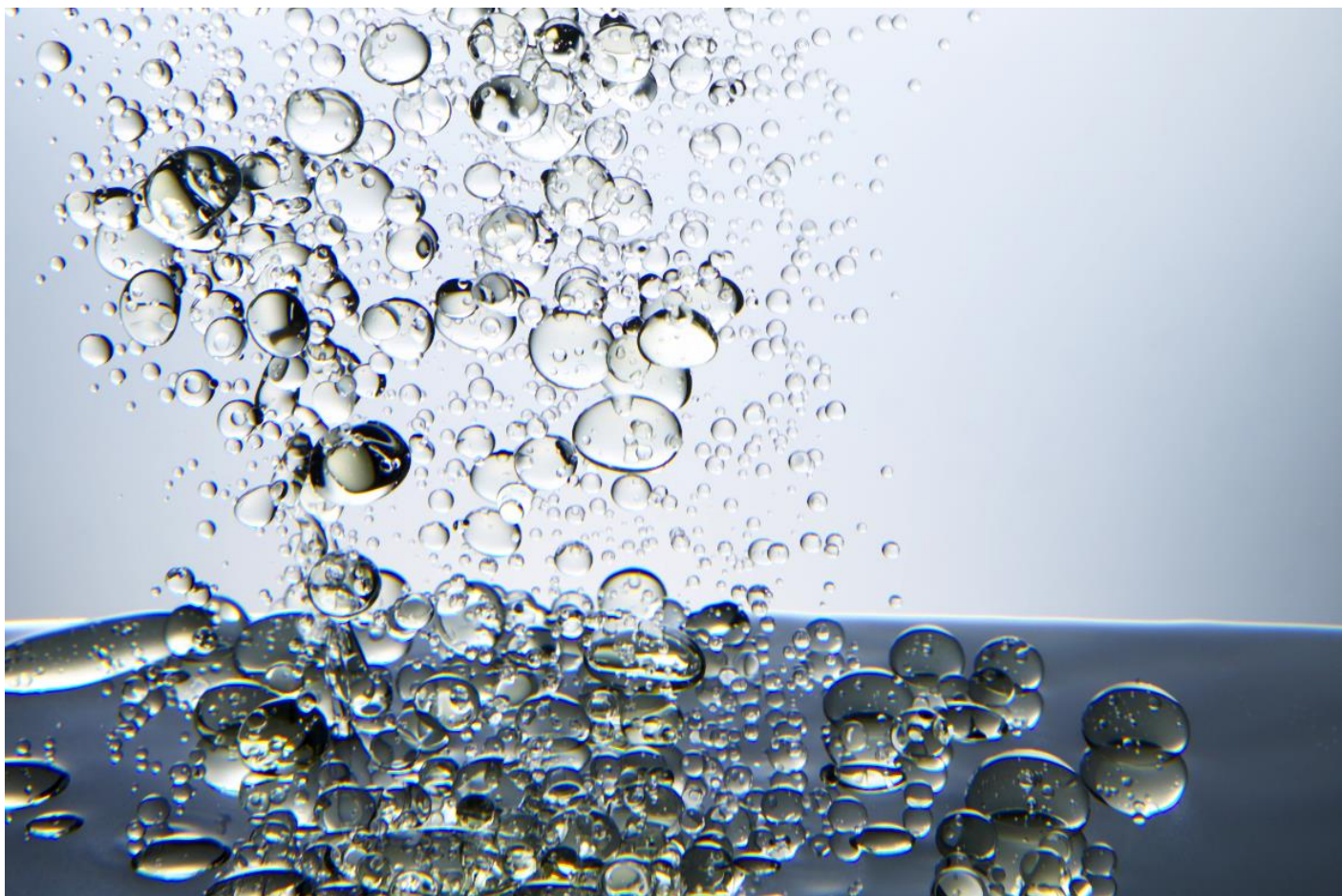


**Deloitte.**

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# **Deloitte CFO Signals Survey Report**

2020 Q1

May 2020

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## About Deloitte CFO Signals

Deloitte CFO Signals is a quarterly global survey for investigating the thinking and actions of leading Chief Financial Officers (CFOs). We share the highlights of survey results with analysis from Deloitte Tohmatsu and publish them as the CFO Signals report.

The survey consists of two sessions: the "Survey on the Economic Environment", which is assessed globally in every edition, and "Survey on Hot Topics", which varies for each country. (None of "Hot Topics" session for this edition.)

In Japan, it was conducted for the first time in August 2015, making this the 19<sup>th</sup> edition. In the "Survey on the Economic Environment", we analyze chronological changes in CFOs' thinking as well as the latest forecast at the time of the survey. In addition to recurring questions, we also inquire about risk scenarios for the Japanese economy and the world's major countries from a macro-level perspective.

Surveys for this edition were conducted in April 2020, and we were able to receive responses from 39 CFOs and finance and accounting executives.

Thank you for your cooperation.

Deloitte Tohmatsu Group  
The CFO Program  
May, 2020

# Survey on the Economic Environment

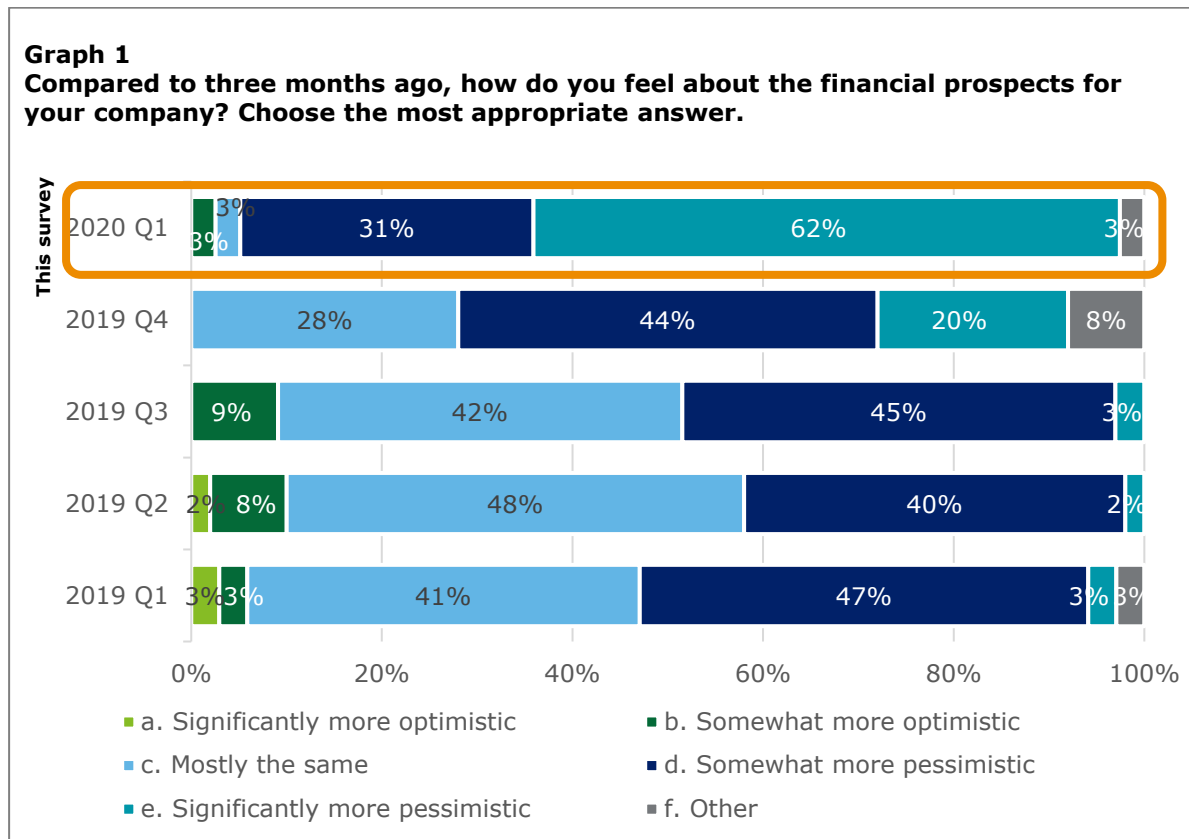


## Financial Environment Prospects

The novel coronavirus pandemic dramatically deteriorates the financial environment outlook

**Graph 1**

**Compared to three months ago, how do you feel about the financial prospects for your company? Choose the most appropriate answer.**



Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. The pessimistic fiscal outlook has expanded further in current Q1 2020 survey. Nearly all CFOs were pessimistic about the outlook, with 93% saying the financial outlook was "somewhat more pessimistic" and "significantly more pessimistic" compared to the previous quarter, up sharply from 64%. The worsening financial outlook may continue to be due to the novel coronavirus pandemic. In April, when this survey was conducted, the infection of the novel coronavirus had spread globally, causing lockdown (e.g. restriction of movement and suspension of business) in various countries. In Japan, as well, people began to refrain from going out and doing business in accordance with the declaration of a state of emergency at this time. As of the early of May, after this survey was conducted, China had resumed economic activities, and some countries, such as the United States and those in Europe, had begun to partially lift the lockdown. However, Japan's declaration of a state of emergency has been extended from the end of Golden Week to the end of May, and there are no firm prospects for economic recovery.

Until the number of new patients infected with the coronavirus declines on a global scale, it will be difficult for companies to come up with new financial forecasts. The main scenario predicted at Tohmatsu is that economic activity will gradually recover in the second half of the year and then gradually increase. However, there are downside risk factors such as prolonged infection, the so-called second wave of infection, and new deterioration in the economy and financial system following the coronavirus. The CFO's pessimistic financial outlook is likely to continue for at least the first half of the year.

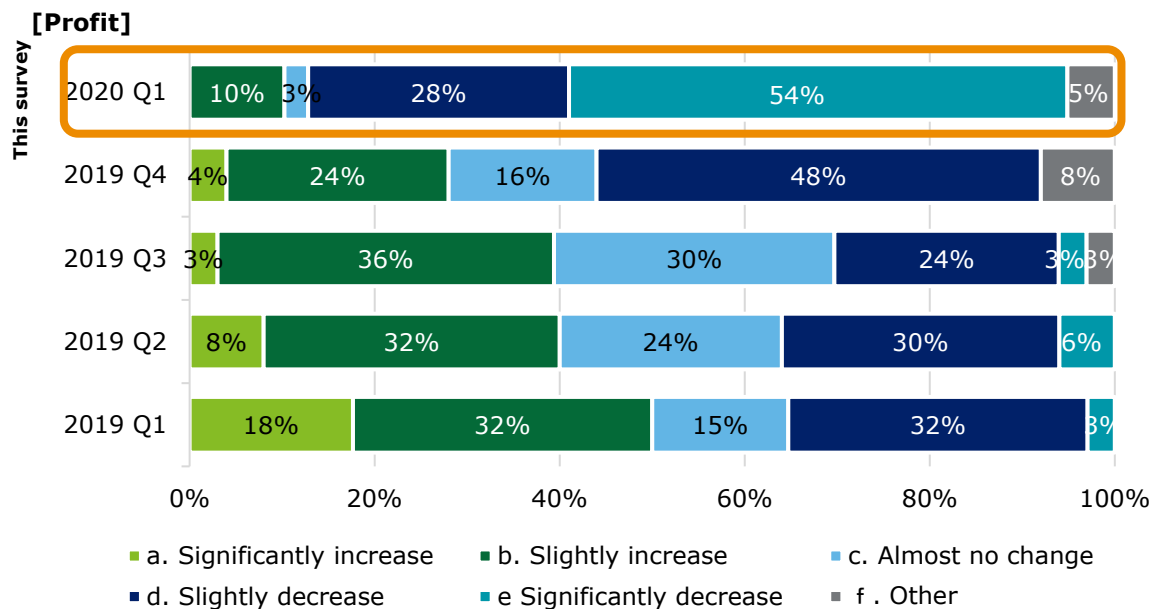
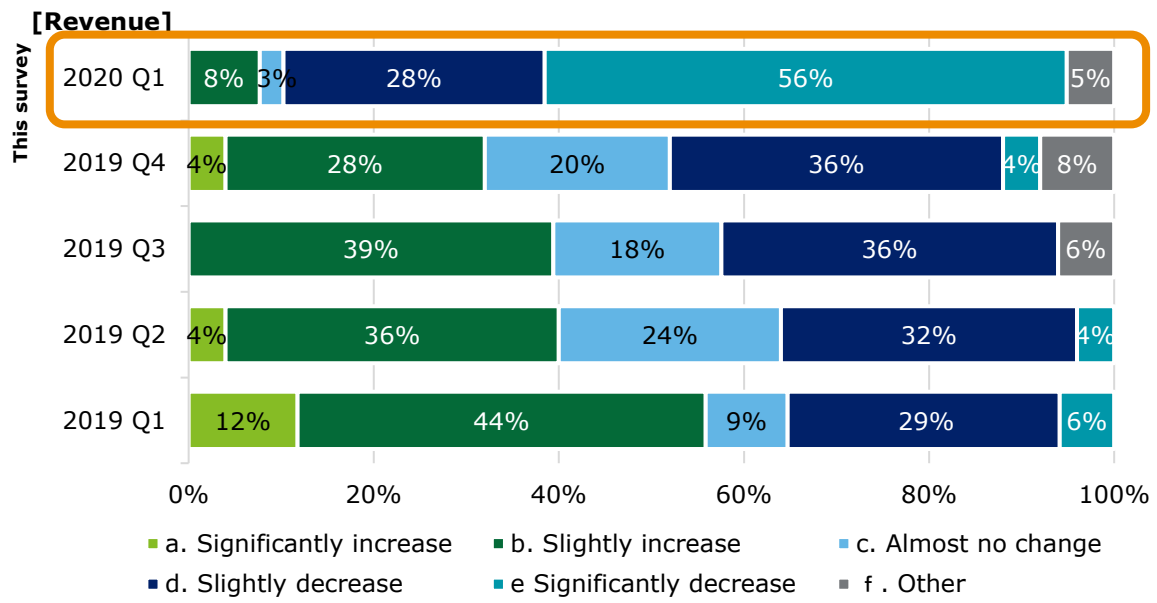


## Business Performance Outlook

Sharp deterioration in earnings outlook

**Graph 2**

**How do you expect your key operating metrics to change over the next 12 months?  
Choose the most appropriate answer.**



Graph 2 shows CFOs' outlooks for their companies' financial performance (revenue and profit) over the coming year. The impact of the novel coronavirus pandemic has sharply worsened the companies' earnings outlooks. As for revenue, answers anticipating it to "slightly decrease" and "significantly decrease" totaled 84%, nearly double the previous survey's 42%. Answers expecting combined operating profits to "slightly decrease" and "significantly decrease" nearly doubled to 82% from 48% in the previous survey, and more

than 80% of CFOs expect lower revenues and profits. The adverse effects of the coronavirus infection are believed to have started in the entertainment, accommodation, transportation and other service industries due to restrictions on movement and business suspension, and then spread to the automobile and semiconductor manufacturing industries due to supply chain disruptions and supply constraints. Furthermore, requests for self-restraint in business have led to difficulties in the management of small and medium-sized enterprises. In China, some supply chains are expected to recover, but it will take some time before supply chains recover globally. Personal consumption demand is expected to gradually pick up in the second half of the year when the lockdown and other measures are lifted and consumption is expected to resume. However, the trend of self-restraint in outings and events will continue even after that, and recovery in the entertainment and accommodation industries will be delayed. Q1 2020 also corresponds to the time for Japanese companies to formulate their business plans for FY 2020. It is highly likely that each company has reviewed its business plan in response to the spread of the coronavirus infection. Future surveys are expected to further erode the CFOs' revenue and profits outlooks.

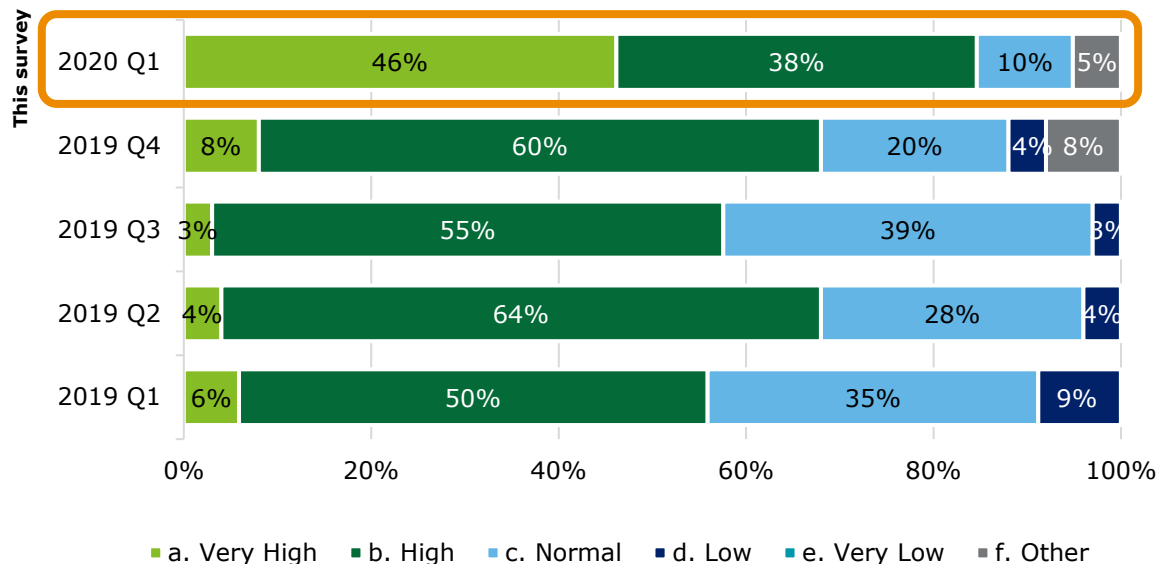


## Uncertainty

Uncertainty also increased steeply

**Graph 3**

**How would you rate the level of financial and economic uncertainty faced by your business? Choose the most appropriate answer.**



Graph 3 shows CFOs' perceptions of financial and economic uncertainty. In this survey, 84% of respondents said uncertainty is "very high" or "high" – up from 68% in the previous survey – and more than 80% of CFOs said future uncertainty is high. CFOs appear to see a high degree of uncertainty in the business environment in the midst of the novel coronavirus pandemic. As of May, after this survey was conducted, there are still no prospects for resolving the infection. Central banks have implemented a series of emergency monetary easing measures, and large-scale fiscal spending is being considered, as well. However, during the restrictions on economic activity, the effects of these measures are likely to be limited to easing downward pressure, rather than succeeding in boosting the economy. As noted in Graph 1, while Tohmatsu foresees a gradual economic recovery in the second half of the year, the magnitude and pace of the economic recovery varies by country, region, and industry, and inter-industry linkages are likely to take some time to fully recover. Financial and economic uncertainty will not be dispelled until economic activity resumes and the supply chain recovers.

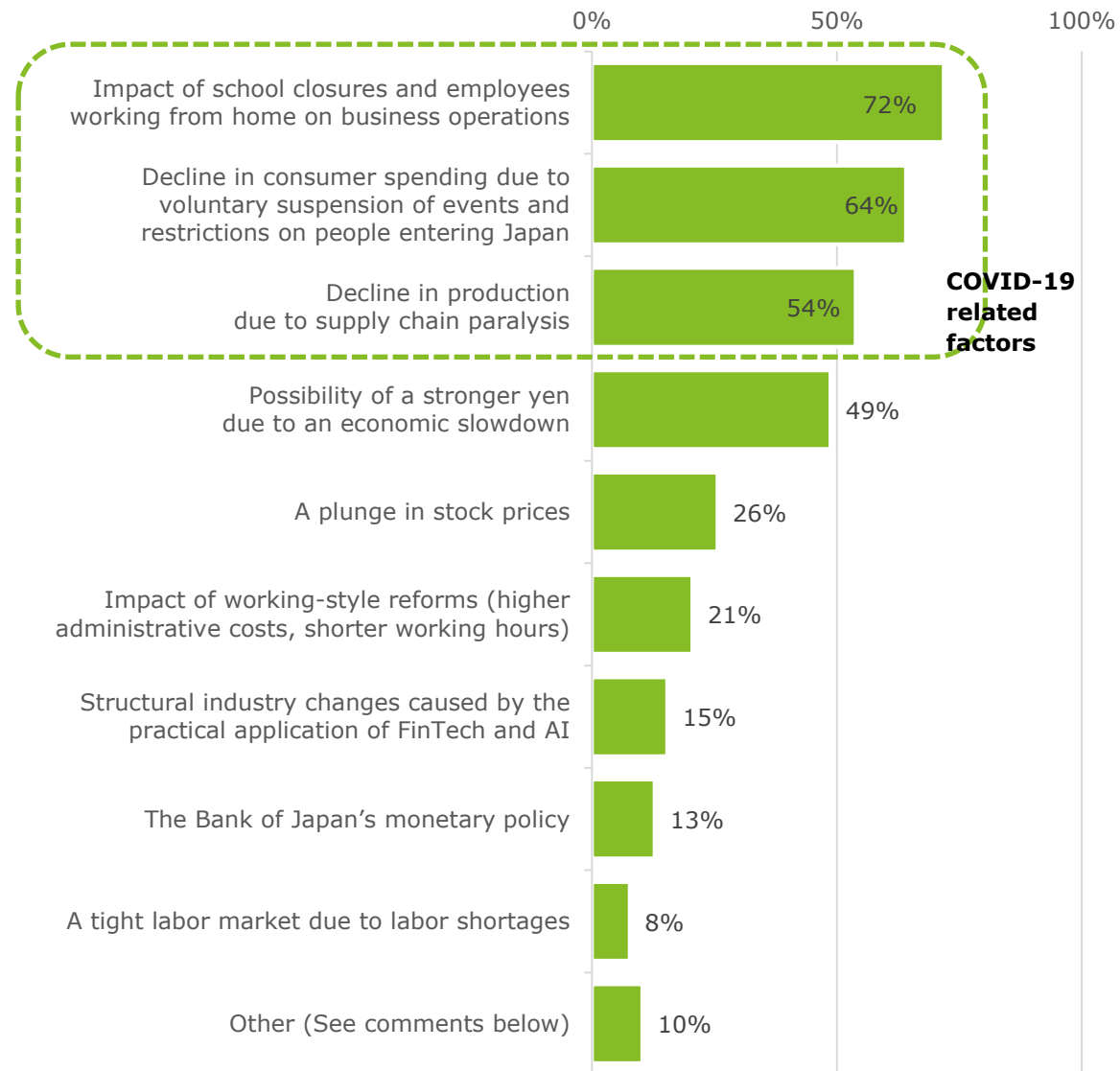


## ¥ Key Factors in the Japanese Economy

Impact of school closures and employees working from home, reduced consumption, and stagnant supply chain

**Graph 4**

**For the items below, please choose up to four possible changes affecting the Japanese economy that you believe need particular attention based on their likelihood and expected impact on business development prospects over the next one-year period.**



**【Comments from respondents】**

- Crude oil price trends
- Transition risks related to climate change
- Depending on how COVID-19 will expand and converge
- Maintenance of production activities under Japan's declaration of a state of emergency

Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when preparing business plans over the next one-year period.

This time, we mainly selected choices related to points of interest concerning the novel coronavirus infection. The first was "impact of school closures and employees working from home on business operations". The second was "decline in consumer spending due to voluntary suspension of events and restrictions on people entering Japan", and the third was "decline in production due to supply chain paralysis". Companies' decisions to have their employees work from home due to restrictions on work attendance and the challenges of balancing work with child care due to school closures are situations unforeseen by crisis management at many companies. This suggests the difficulty of continuing business during the spread of the pandemic, and also suggests each company's awareness of the risks of adapting to a new form of business and its sustainability. On the real economy front, slowing consumption (demand side) and stagnant supply chains (supply side) have both been the focus of CFOs' attention. Other market-related concerns such as "a plunge in stock prices" and "possibility of a stronger yen" were also raised, but business continuity and risk recognition in the real economy exceeded them. Although this was not an answer option, several respondents mentioned the sharp drop in crude oil prices in late April. The short- and medium-term actions that companies are required to take are to first maintain their operations under the current work-from-home system until the declaration of the state of emergency is lifted, then wait for the recovery of consumption and the supply chain, and then review their medium-term business plans.

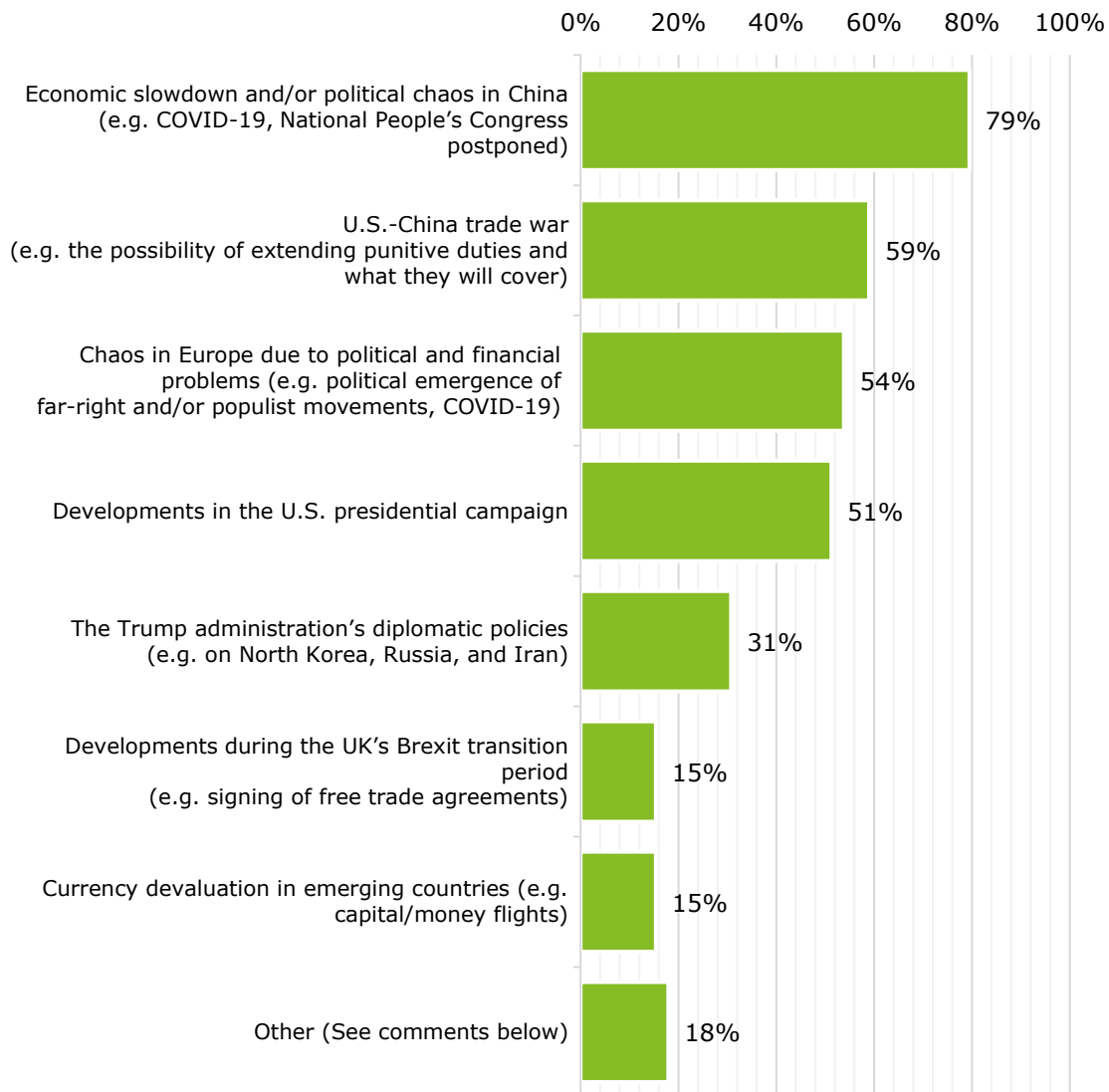


## Key Factors in the Global Economy

Focus on Other Countries: China, U.S., and European Economies and Politics

**Graph 5**

**From the items below, choose up to four events that risk affecting foreign economies and that you believe need particular attention, based on their likelihood and expected impact on business development prospects over the next one-year period.**



**【Comments from respondents】**

Relation to COVID-19

- Depending on how COVID-19 will expand and converge
- The impact of the U.S. coronavirus will not stop at the economy, but will also affect politics and finances.
- Fiscal and monetary policies for economic growth under the COVID-19 situation ;  
In particular, whether governments have a global mindset to work together

Other

- Crude oil price trends
- Crude oil policy trends (to Saudi Arabia and Russia)

Graph 5 shows what trends in the global economy are most closely watched by CFOs when preparing their business plan over the next-one year period. This time, "economic slowdown in China" took first place, followed by "U.S.-China trade war" and "European political and financial problems". Both are points tied to the spread of the coronavirus infection and/or economic fluctuation related to it. After this survey, economic activity has already resumed in China, and there is a movement to release some lockdowns in the United States and Europe. However, the outlook is still uncertain, and there is a risk that political and fiscal issues in each country will be affected. In China, criticism of the Xi administration's response to the coronavirus is rising in various other countries. In the U.S., the approval rating of the current Republican president, Donald Trump, is lower than that of the Democrat candidate, Joe Biden. In Europe, concerns over sovereign risk in countries with large fiscal deficits, such as Italy, may recur. For countries outside of Japan, in addition to the outlook for economic recovery, the spread of economic deterioration to fiscal and political issues will continue to be a focus of attention.

## What is the CFO Program?

The CFO Program is a comprehensive effort by the Deloitte Tohmatsu Group to revitalize the Japanese economy by supporting the CFOs of companies that it rests on and contributing to improving the capabilities of CFO organizations. As a trusted advisor (The Trusted Advisor), we bring together professionals from all walks of life to help CFOs solve challenges. In addition, we aim to improve the competitiveness of Japanese companies by providing the latest information, including global trends, and CFO-networking beyond corporate and industry boundaries.

### Deloitte Tohmatsu Group

The CFO Program

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