



Deloitte CFO Signals Report

2024Q1

June 2024

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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 the report as CFOs' Signals.

In Japan, the survey was conducted for the first time in August 2015, making this the 36th edition. This CFO Signals survey 2024Q1 edition consists of the "Survey on the Economic Environment," which is assessed globally in each edition; we analyze chronological changes in CFOs' thinking as well as the latest forecast at the time of the survey.

This CFO Signals 2024Q1 was conducted in May 2024, and we were able to receive responses from 34 CFOs and finance/accounting executives.

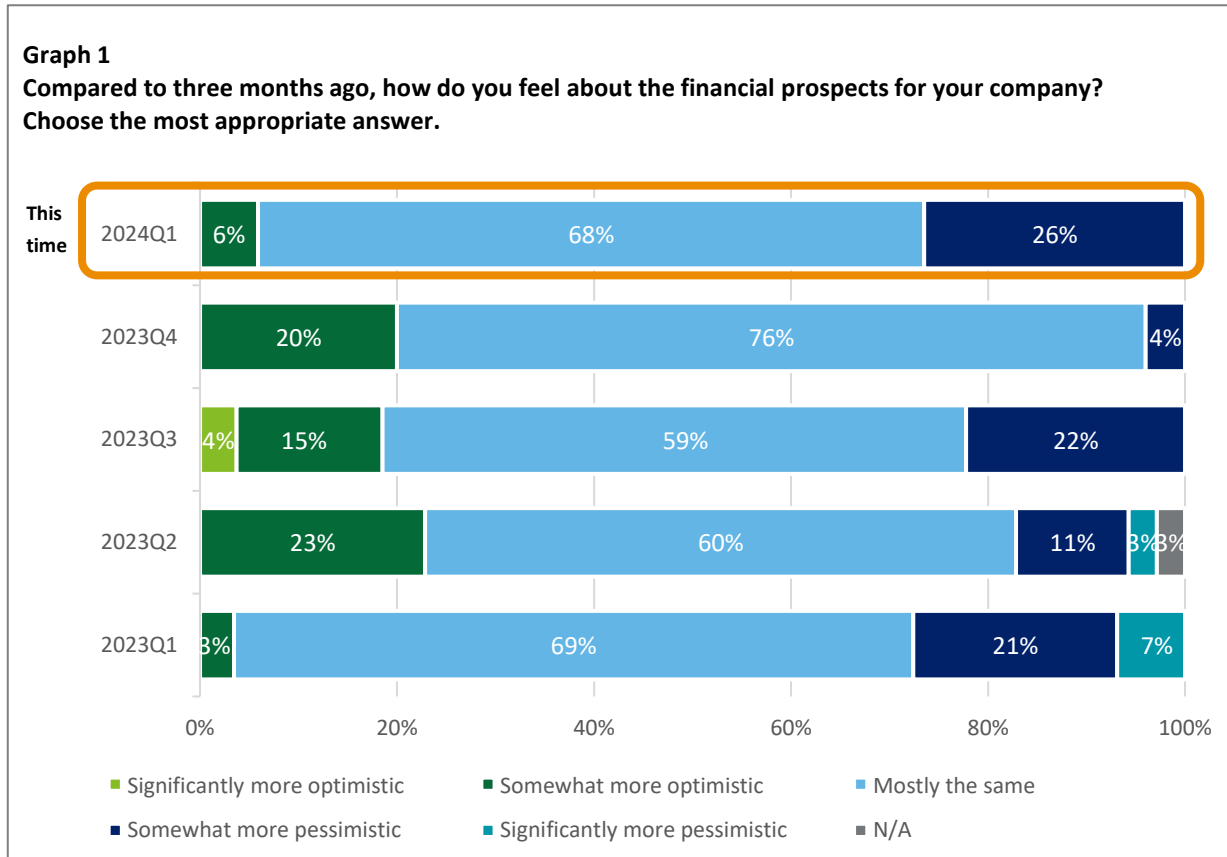
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Deloitte Tohmatsu Group
The CFO Program
June 2024

Survey on the Economic Environment

Financial environment prospects

CFOs see the financial prospects as unchanged

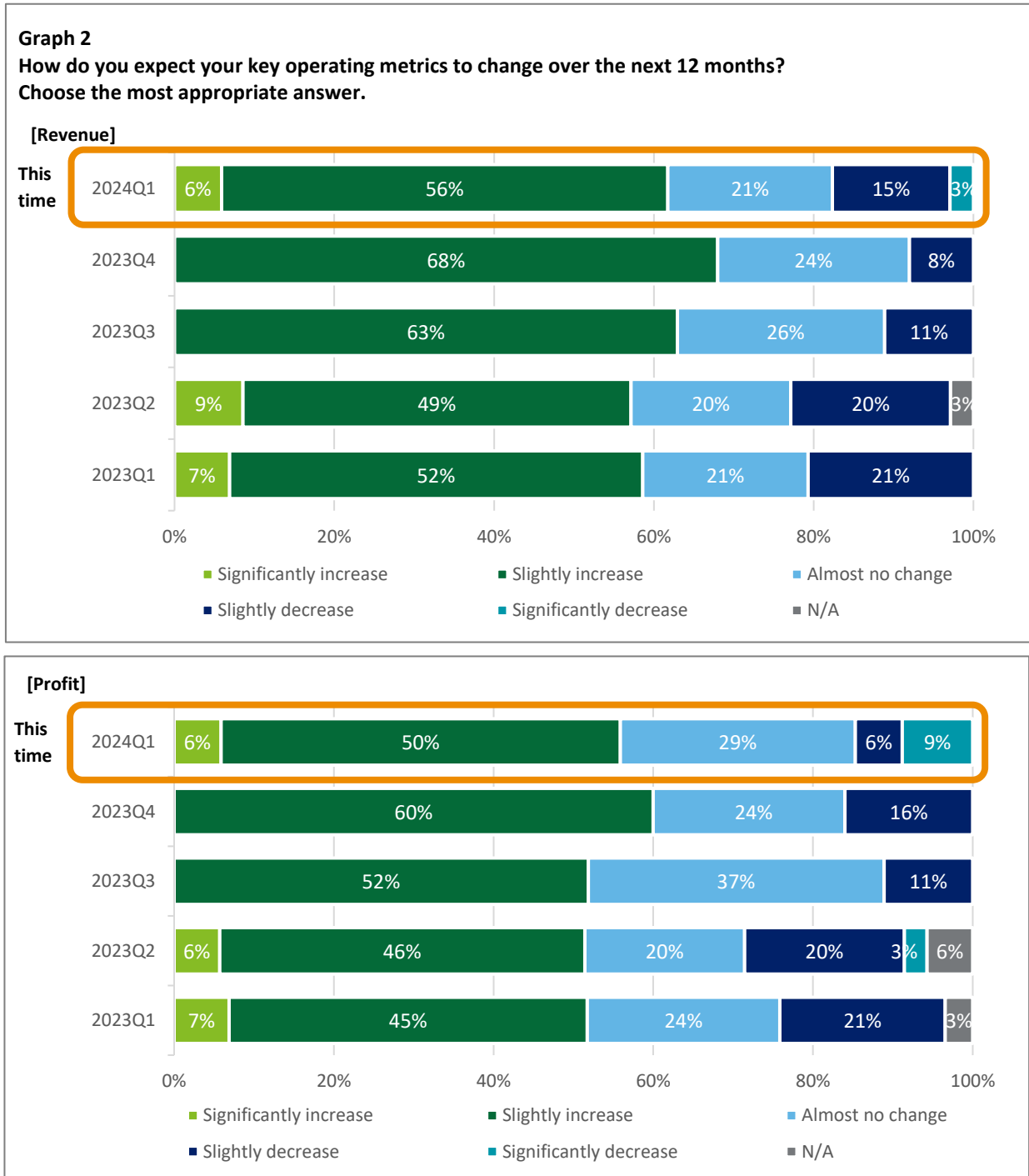


Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. In this 2024Q1 survey, 68% of respondents said that the financial perspective was “Mostly the same,” a continuing trend that significantly over half of respondents felt this way. Compared to the previous survey, there was a slight decrease in “optimistic” responses and a slight increase in “pessimistic” responses.

Looking back to this survey period, May 2024, there were still major concerns that the Japanese economy is at stagnancy to some extent; a sluggish consumption due to a rising inflation rate, a significant depreciation of the yen in the foreign exchange market, and a temporary production stagnation due to the certification issues at automobile manufacturers. On the other hand, it seems that CFOs view the financial prospect as unchanged due to positive factors such as the realization of the basic wage increases in the "Shunto (annual labor talks)" and the increases in inbound demand. Deloitte Tohmatsu foresees a steady expansion of the Japanese economy and its ability to overcome deflation, and the fiscal environment is essentially viewed as favorable.

Business performance outlook

Revenue and profit continue to be on the upward tendency

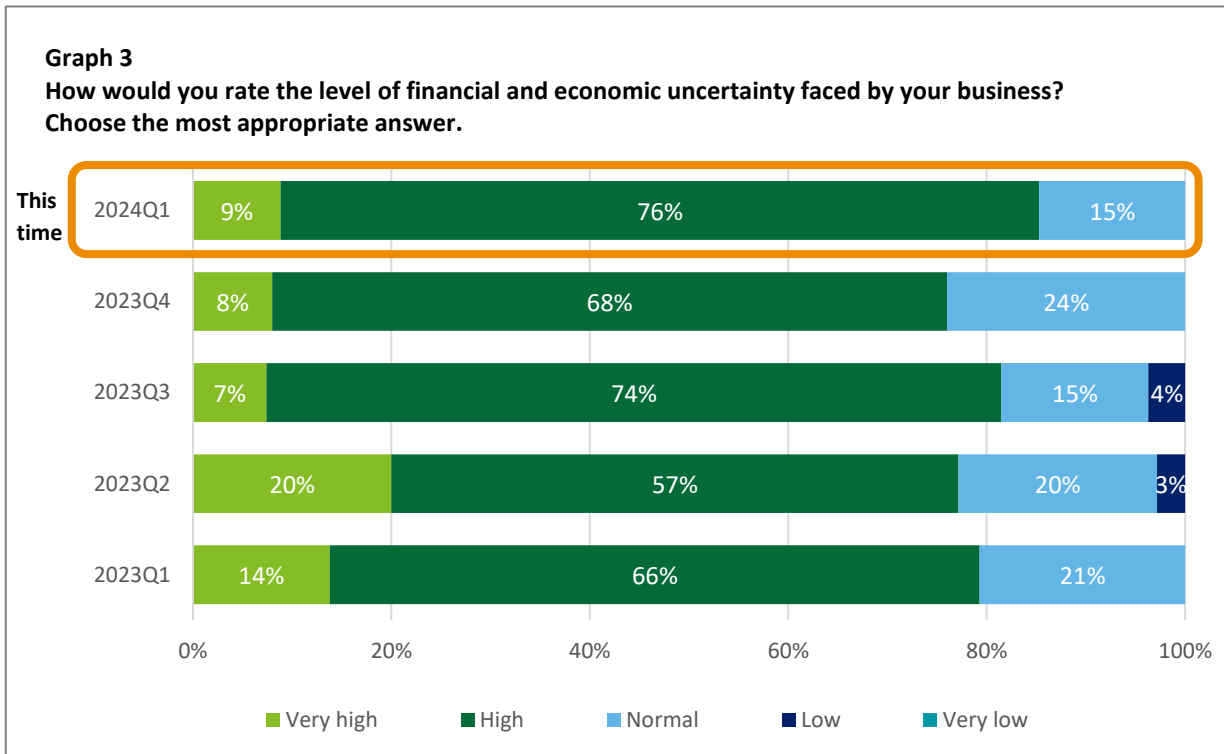


Graph 2 shows the CFOs’ prospects for each company’s financial performance (revenue and profit) for the coming year. A majority of respondents indicated that they expected both revenue and profit to “Significantly increase” or “Slightly increase,” with 62% and 56%, respectively. Indeed, corporate revenue and profit have reached their highest levels ever, partly due to the depreciation of the yen. This favorable business performance outlook is a continuous trend over the past few quarters and may reflect the perception that the Japanese economy is steadily moving out of deflation. We expect that CFOs’ business performance outlook will

remain positive. However, it is possible that the factors that have boosted corporate earnings may gradually dissipate in the future, as the positive outlook for corporate earnings has continued for a considerable period of time, and the depreciation of the yen, which had been supporting earnings, seems to have peaked out.

 **Uncertainty**

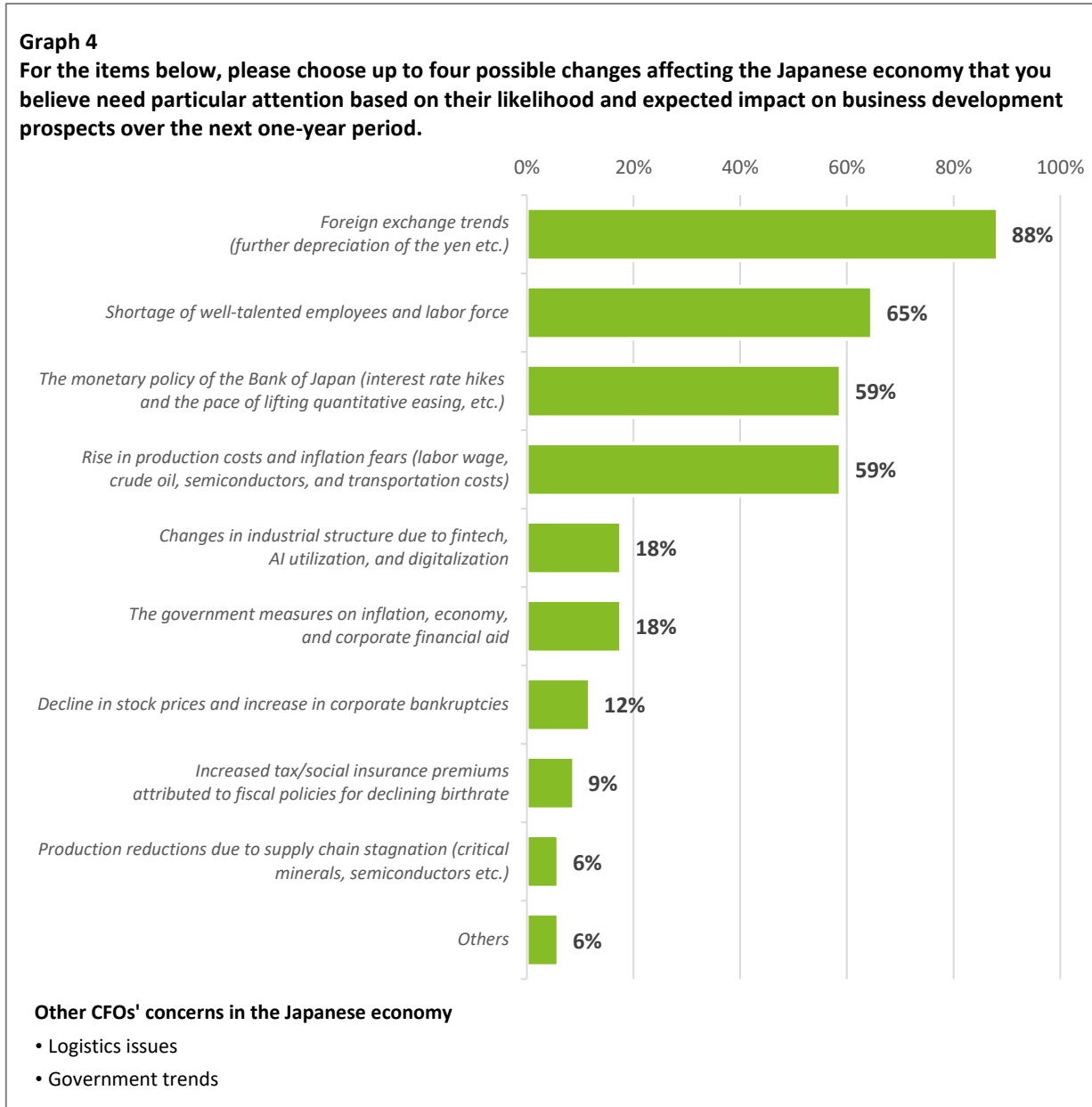
Uncertainty remains high as ever



Graph 3 shows the outlook for financial and economic uncertainty. A total of 85% of respondents said that uncertainty was “Very high” or “High,” indicating that uncertainty remains at high levels. This high level of uncertainty was provoked by the following economic and geopolitical factors; the US and the EU increased additional tariffs against China, the further prolongation of the Russia-Ukraine situation, and the temporary tension increase in the Middle East, with events such as direct conflict between Iran and Israel. In addition to the uncertainty of these political issues, CFOs feel that there is a wide range of other factors that contribute to uncertainty, including inflation, exchange rate, the monetary policy of the US, Japan, and European central banks, as well as the ongoing conflict between China and Western countries. Given the continued presence of these risks above, the uncertainty seen by CFOs is expected to remain at high levels in the future.

Key change factors in the Japanese economy

The exchange rate, monetary policy, and the shortage of human resources are the biggest key change factors



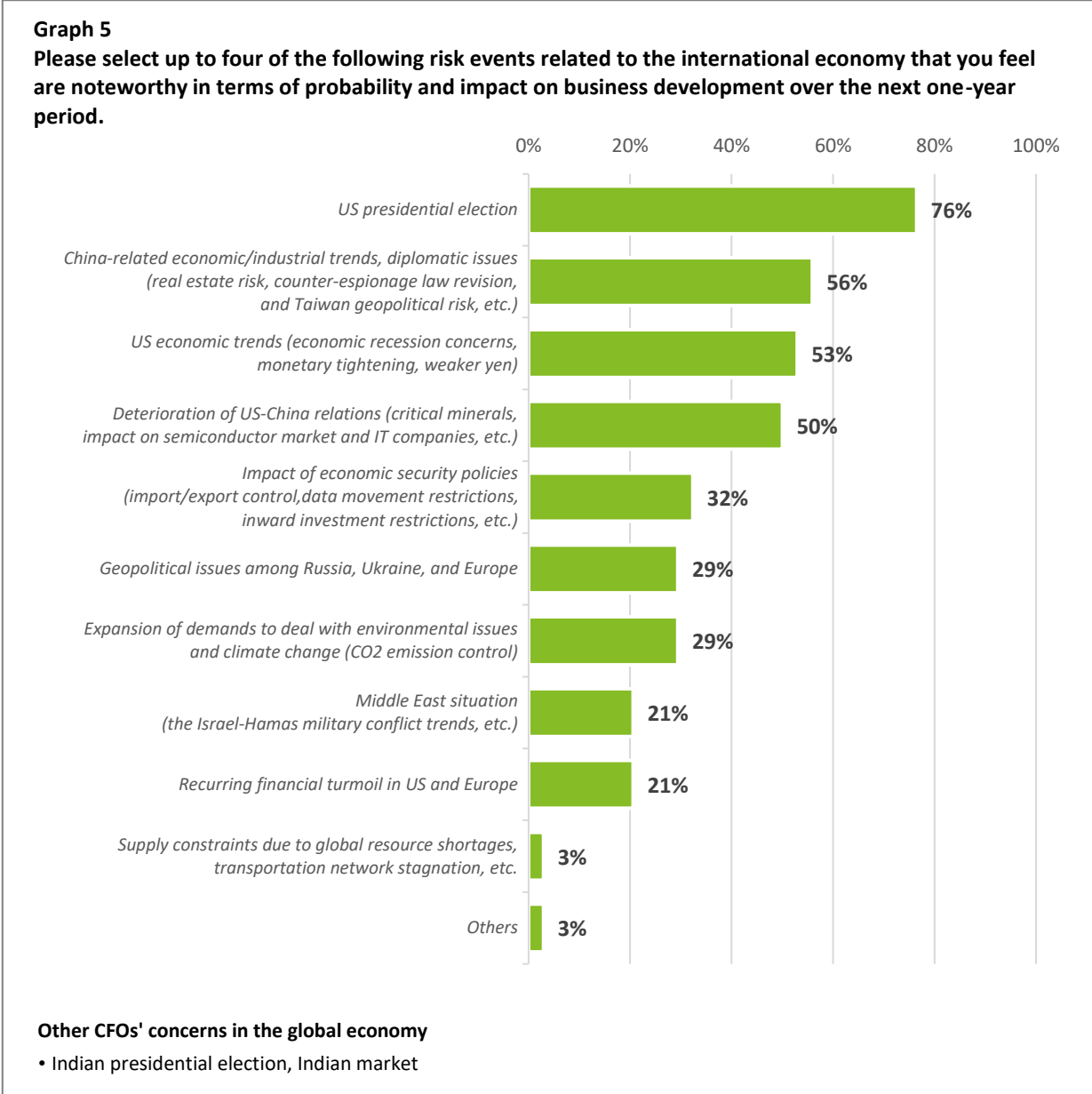
Graph 4 shows the key factors in the Japanese economy that CFOs will most closely watch when preparing business plans over the next year. This time, the highest-ranking response was “Foreign exchange trends” (second in the previous survey). At the end of April, the dollar/yen exchange rate reached the weakest level of 1 USD = 160 yen for the first time in 34 years. Despite a brief rise to mid-150 yen due to currency intervention by the Ministry of Finance, the yen remains in the 155-160 yen range. In general, the depreciation of the yen is seen as a negative impact on households, as it causes higher prices of goods due to the rise in import prices. However, the weak yen is a tailwind for export companies, Japanese companies’ overseas businesses, and expansion of inbound consumption. In any case, given the significant impact that major exchange rate fluctuations have on corporate performance, this issue will

continue to be a key change factor for CFOs in the future. Deloitte Tohmatsu believes that the US Federal Reserve may postpone any rate cuts until the end of the year, and expects the yen to remain at its current level for most of the rest of the year.

In second place, “Shortage of well-talented employees and labor force” ranked lower than the previous survey when it was first place, but it has been one of the top responses as a key change factor over a long period. As seen in the significant wage increases and various employment reforms in the Shunto, securing well-talented employees is likely to remain a challenge for CFOs for the time being. Same as before, “The monetary policy of the Bank of Japan” ranked third, suggesting interest in the impact on exchange rates and the trend in financing costs.

€ **Key change factors in the global economy**

The US presidential election, the Chinese economy, and the US economy continue to be key change factors



Graph 5 shows what key factors in the global economy CFOs will most closely watch when preparing their business plans over the next year. The top three were unchanged from the previous survey: “US presidential election,” “China-related economic/industrial trends,” and “US economic trends.” In the US presidential campaign, the trial of former President Trump is underway, and on the other hand, President Biden is actively implementing policies to pre-empt Trump, including raising import tariffs against China while his policies on the Middle East and Ukraine issues continue to face challenges due to internal-external disagreement. The outcome of the election remains uncertain. Although the Chinese economy seems to have bottomed out temporarily due to government support measures, structural deterioration factors such as declining incomes and the worsening of the real estate market continue. Conversely, the US

economy has performed better than expected, and the sustainability of this trend will be closely watched in the future. These key change factors will continue to be at the top of CFOs' concerns.

What is CFO Program?

The Deloitte Tohmatsu Group's CFO Program is a comprehensive program 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, 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

Marunouchi Nijubashi Building, 3-2-3 Marunouchi Chiyoda-ku, Tokyo, 100-0005

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