



Global CFO Signals

Brexit: Overhang or hangover?

Q2 2016 Deloitte Member Firms' CFO Surveys: Australia, Belgium, Japan, Netherlands, North America, Russia, Sub-Saharan Africa, Switzerland, and United Kingdom



About the DTTL Global CFO Program

The Deloitte Touche Tohmatsu Limited (DTTL) Global Chief Financial Officer (CFO) Program is a CFO-centric strategic initiative 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. The DTTL Global 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-eight 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 14) for member firm contacts and information on the scope and survey demographics for each survey.

About DTTL's Global CFO Signals

The purpose of DTTL's *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 2016 CFO surveys from Deloitte member firms in the following geographies:

Australia: Confidence on the rise in a sea of uncertainty

Belgium: Post Brexit vote outlook

Japan: Tempered outlooks

Netherlands: Rising concerns

North America: Less concern about markets; more about oil and politics

Russia: Few positive changes

Sub-Saharan Africa: Resilience in any climate

Switzerland: External environment dominates CFOs' concerns

United Kingdom: Brexit hits confidence

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

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Global CFO Signals

CFO Sentiment Q2 2016

Brexit: Overhang or hangover?

Results in this quarter's *Global CFO Signals* heavily reflect the run up to the UK's Brexit vote on June 23—and its aftermath. And judging from the nine countries reporting in the Q2 2016 edition, the impact depends on both perspective and exposure. Take the results in the three countries that surveyed CFOs post the vote:

- For UK CFOs, the uncertainty caused by the outcome sent optimism dropping to its lowest level since the survey began in 2007;
- Similarly, in Belgium, CFO optimism fell to its lowest level in three years;
- Meanwhile, in Japan, all surveyed CFOs expect the UK economy to decline, and 90% expect other European economies to decline as well in the wake of Brexit.

Some other countries that surveyed before the vote recorded muted optimism given the Brexit overhang. But there were other risks at play as well, such as the strength of the US dollar, unstable oil prices, and uncertainty over monetary policies and the US Presidential election. "Brexit was a confidence shock," says Chris Richardson, chief economist, Deloitte Australia, "when confidence was already a problem."

One major exception: North America's optimism rebounded strongly from Q1, when it hit its lowest level in more than three years. But given the low starting point, the rebound was relative, not absolute. And to Dr. Patricia Buckley, managing director, Economic Policy and Analysis, Deloitte Research, Deloitte Services LP, even that optimism might be short-lived, given that the last three quarters of GDP reflected a contraction in business investment, a finding she describes as "the ultimate expression of a lack of business confidence."

Going forward, Brexit's impacts may be contained and slow to evolve. But they are likely to include a period of uncertainty and slower UK and European Union (EU) economic growth in the short- and long-term, according to Dr. Ira Kalish, chief global economist, Deloitte Touche Tohmatsu Limited, and Ian Stewart, chief economist for Deloitte LLP in the UK (see "[Brexit impacts: Considerations for US and UK CFOs](#)").

Still, for CFOs identifying potential risk exposures and considering strategies for doing business in the UK and the EU, there is some comfort in having the vote over without a widespread impact to the world economy. The lesson? "Just because something is on the front page doesn't mean it will cause drastic changes," says Richardson.

How does CFO sentiment in Q2 2016 break down? What follows is a synopsis by region:

Americas

Substantial improvements in equity markets and consumer confidence fueled a reversal in several of last quarter's downward trends in North America. Year-over-year growth expectations improved across the board (yet most remain below survey averages), and net optimism came in strong at +30.0 (compared with +1.7 in Q1).

Concerns about oil prices and policy unknowns heading into the November election, however, translated into assessments of the North American economy that were only slightly better than last quarter's survey lows. But CFOs' confidence in Europe remains weak, given both concerns about Britain's potential exit from the EU and other regional challenges. Meanwhile, assessments of China improved, but CFOs began voicing rising concerns about government debt there—and in other regions as well.

Asia-Pacific

The two countries reporting in Asia-Pacific—Australia and Japan—documented very different CFO outlooks. In Australia, for example, better news from China and the associated stabilization of key commodity prices—however modest and fleeting—appear to be supporting an increase in confidence among CFOs. This was despite fears of Brexit and a knife-edge federal election result in that country. In Japan, though, CFOs remain wary despite the victory of the ruling coalition in the Upper House election when the survey was conducted. Their responses seem to indicate that most CFOs do not expect political stability will necessarily lead to improved economic growth. In fact, some 40% of CFOs reported decreased optimism, and 73% reported uncertainty as “high” or “very high.”

Europe

European results were affected by the fact that two countries (UK and Belgium) conducted their surveys after the Brexit vote, while the other three (Netherlands, Russia, and Switzerland) were surveyed prior. The impact on sentiment was particularly negative in the UK, where uncertainty is at levels last seen during the euro crisis of 2012. Risk appetite took a hit there too, as well as in Belgium, where just 23% of CFOs say now is a good time to take risk onto their balance sheet, down from 38% in the first quarter and 44% a year ago. Meanwhile, among Switzerland’s CFOs,

there is some good news: for the first time since the end of 2014, a majority of CFOs rate the country’s economic prospects over the next 12 months as positive. The same cannot be said for Russia’s CFOs, who have their own concerns separate from Brexit, including weakness in the ruble, stress in the financial system, and dwindling consumer demand.

Sub-Saharan Africa

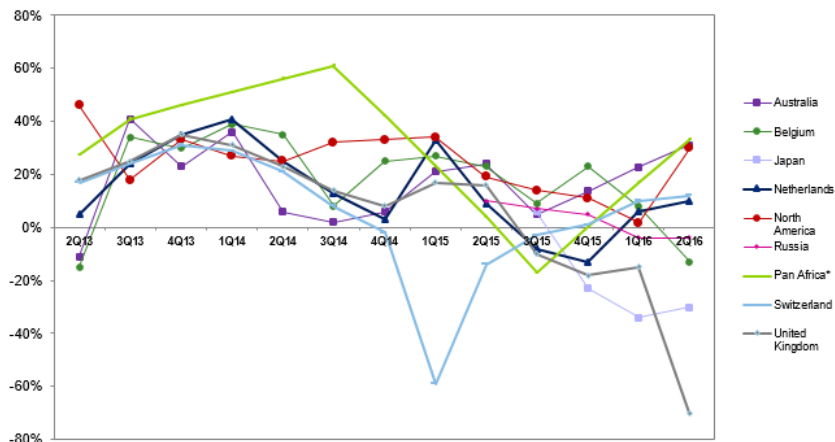
Similarly, among the regions reporting in the annual Sub-Saharan Africa survey, there are significant differences. South African CFOs are somewhat less optimistic about the performance of their companies in 2016, with 57% expecting a slight or significant improvement in performance compared with 61% in 2015. Elsewhere, there has been a drop in optimism among CFOs surveyed in Southern Africa, while CFOs in West Africa and East Africa have a somewhat more positive outlook for their companies in 2016. Many of their risk factors differ too, but currency volatility weighs heavily across the board. And those risks have a significant majority (84% in South Africa alone) of CFOs saying they will focus on improving operational efficiency and process optimization this year.

Such defensive stances may prove prudent. According to Deloitte’s economists, while Brexit’s fallout may seem contained, there may still be cause for concern. “As growth slows in Europe, adding to slow growth in China and Japan, it may cascade through other regions,” says Buckley. In other words, the hangover may linger.

Q2 2016 Final

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.



*A trend line has been plotted for this country as the survey is conducted on a semi-annual or annual basis.

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.



Global CFO Signals

By the numbers



Risk appetite

Risk appetite is tempered at best this quarter. A sharp spike in uncertainty caused by the Brexit vote has led to a particularly big drop in the UK, where just 8% think now is a good time to take risk onto the balance sheet—the lowest level in more than six years. In Switzerland, 70% do not think it is a good time, and neither do 77% of Belgium’s CFOs. In the Netherlands, though, some 52% of CFOs are willing to take risk onto their balance sheets, as are 44% of Australia’s finance chiefs.



Uncertainty

Uncertainty continues to dampen CFO decision-making—and outlooks. In Japan, some 73% of CFOs view current levels as either “high” or “very high,” as do 72% of Russian CFOs and 53% of Dutch finance chiefs. UK CFOs’ perceptions of economic and financial uncertainty have risen to levels last seen during the euro crisis five years ago. And in Australia, 80% of finance chiefs surveyed believe current levels of uncertainty are actually holding back business investment.



Metrics

Revenue expectations are far from robust, with a particularly sharp decline in the UK, which conducted its survey after the Brexit vote. In the Netherlands, though, 65% of CFOs expect an uptick in revenue over the next 12 months. Meanwhile, the outlook on earnings has deteriorated in Japan, where 43% of the CFOs expect a decline, and the net result turned negative for the first time in the survey. On the other hand, earnings expectations in North America, which hit a survey low 6.0% in Q1 2016, rebounded to 7.7%.



Hiring

Hiring remains anemic. In the Netherlands, for example, almost one-third (32%) of CFOs expect to reduce their workforces, as do 29% of Switzerland’s CFOs. Moreover, in the UK, 66% of CFOs expect to cut headcount in the next three years due to Brexit. Meanwhile in North America, domestic hiring growth expectations did rise—but only to a less than stellar 1.1% from last quarter’s survey-low of 0.6%.



Corporate strategy

Defensive strategies are a common focus heading into the second half of 2016. Thanks to Brexit, reducing costs and increasing cash flow are again top priorities for CFOs in the UK. Improving operational efficiency and process optimization are top of mind in South Africa, Southern Africa, and East Africa. And in Russia, the strategic focus is on restructuring *and* reducing costs. In North America, though, companies are more biased toward growing revenue and investing cash than they have been in several quarters.



CFO priorities

In North America, CFOs say their CEOs want them to be “fact providers,” “challengers,” “stakeholder managers,” and “capital managers.” Which role dominates may be influenced by factors, such as accelerated transformation, innovation-led strategy, technology, and regulatory change going forward, according to Australia’s CFOs. To cope with increased complexity, CFOs reporting from Sub-Saharan Africa are looking for solutions to retain staff and find work/life balance.

Deloitte Member Firm
CFO Surveys:

Second Quarter
2016 Highlights

Australia

Confidence on the rise in a sea of uncertainty



Uncertainty weighs heavily

Following a subdued result in H2 2015 and before Brexit, a net 33% of Australia's CFOs felt more confident in H1 2016, reflecting a range of factors indicating short-term strength.

Specifically, 40% of CFOs reported an increase in confidence, while 51% indicated that their feelings about the financial prospects for their company were broadly unchanged. Better news from China and the associated stabilization of key commodity prices appeared to be supporting an increase in confidence among CFOs. This was despite fears of Brexit and mixed results from the US, not to mention the knife-edge federal election result. Interest rates and the value of the Australian dollar also continue to be sources of confidence.

Looking further ahead, however, the waters are murkier. Some 80% of CFOs believe current levels of uncertainty are holding back business investment, with nearly 40% supporting fiscal stimulus to boost non-mining investment.

Risk appetite improves

Risk appetite among CFOs has improved, with 44% saying now is a good time to be taking risk onto the balance sheet. While this may seem at odds with responses elsewhere highlighting elevated levels of uncertainty, it also reflects record low interest rates and increased prospects of cuts to the company tax rate.

It is worth noting, however, that this increase still fails to bring about a net positive result, with the majority of CFOs indicating that now is not a good time to be increasing leverage.

Funding/interest rate/tax concerns

It appears that the attractiveness of external funding has declined across all major sources.

Highlights from the H1 2016 Australia CFO Survey:

- A net 33% of CFOs feel more optimistic now than three months ago, a significant jump on the net 5% figure recorded in H2 2015.
- Some 80% of CFOs believe uncertainty is holding back business investment.
- Almost a quarter of respondents said that tax reform was the most important election issue.
- A full 75% of respondents expect the value of the Australian dollar to fall over the next 12 months, while 94% expect interest rates to be at or below current levels in 12 months' time.

Bank borrowing has experienced the sharpest fall since H2 2015, followed by equity issuance and corporate debt. Conversely, internal funding has become more attractive among CFOs.

As for interest rates, roughly the same proportion of CFOs expect them to either fall or sit at around the same level in 12 months' time. Very few respondents reported that they expect official rates to increase. Importantly, these responses were received after the latest reduction of the overnight cash.

Meanwhile, almost a quarter of respondents said that tax reform was the most important election issue, although only 20% said that the tax debate had negatively affected business investment.

Disruption and innovation expected

Survey respondents identified a wide range of issues they believed would be important for their organizations over the next 12-24 months—led by accelerated transformation and innovation, but followed closely by technology and regulatory change and its implications, cost-out and operating margins, digital disruption, and customer engagement and retention.

Belgium

Post Brexit vote outlook



Worried about EU stability

The results of this quarter's survey show that the EU referendum and the UK's decision to leave the European Union hit business confidence. CFOs increasingly worry about the stability of the European Union and the Eurozone and of the euro exchange rate, today all in the top five list of key concerns. Moreover, CFO optimism turned negative for the first time since 2013 following the UK's decision to leave the European Union.

As a result, the corporate willingness to take risk has also declined sharply. Just 23% of CFOs say now is a good time to take risk onto their balance sheets, down from 38% in the first quarter and 44% a year ago. The question is whether this represents a lasting or a more temporary shock to confidence.

Continued focus on expansion

Overall, almost two-thirds of surveyed CFOs report expansionary strategies are the top priority, up from previous quarters when about half of CFOs gave priority to defensive business strategies. Nonetheless, productivity and efficiency and cost containment are important for all as well to remain competitive in the market.

On time, on budget

On the positive side, second quarter financials look good and CFOs expect revenue and margins to grow in the next 12 months. Also, 70% of survey respondents report their businesses have met or have exceeded (37%) the financial budget at the end of the second quarter. Expectations for growth in capital spending and hiring continue to increase quarter after quarter.

More concerns than Brexit

Following the UK's referendum outcome, the concerns related to EU stability, Eurozone, and euro exchange have largely doubled compared to the previous quarter. The economic outlook (with

Highlights from the Q2 2016 Belgium CFO Survey:

- CFO optimism turned negative for the first time since 2013 following the UK's decision to leave the EU.
- Some 70 % of CFOs report their businesses have met or exceeded the second quarter financial budget.
- Overall, almost two-thirds of surveyed CFOs report expansionary strategies are the top priority, up from previous quarters.
- Internal financing has further strengthened its position as the most used financing option.

the IMF reducing again its global growth forecasts) and competitive position continue to trouble Belgian CFOs the most.

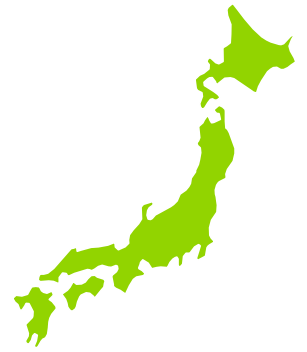
Financing available

Financing is available and all the main sources of financing are perceived as attractive. The attractiveness of bank borrowing and corporate debt, however, has decreased somewhat in the past year.

The Belgian CFOs continue to report bank credit as available and cheap. The steadily improving trend seems to have stabilized in the last year. Notwithstanding the low interest-rate environment, internal financing has further strengthened its position as the most used financing option

Japan

Tempered outlooks



Uncertainties ahead

The Q2 Japan CFO survey asked finance chiefs about their one-year outlook on their companies' financial prospects and macroeconomic conditions, as well as necessary structural reform policies for the Japanese economy. Regarding prospects for their own companies, more CFOs indicated caution compared with last survey. More than half said "broadly unchanged," while 40% responded "somewhat pessimistic."

As for the CFOs' outlooks regarding business performance, a prolonged period of sales and earnings growth seems to have reached a turning point. In terms of earnings, 23% of the CFOs expected an increase (43% in Q1), whereas 44% expect a decrease (37% in Q1). In addition, 43% expect operating earnings to decline, whereas 30% expect an increase. Meanwhile, uncertainty remains at a high level, with 73% of CFOs viewing current levels as either "high" or "very high."

Outlook for major economies

This survey asked whether the global and major economies/regions will grow or decline in the second half of 2016. Pessimistic views were pointed toward UK, Europe, and Japan. For the UK economy, pessimism has spread rapidly following the referendum voted to leave EU, with all respondents expect the growth rate to decline. It should also be noted that cautious views toward the rest of Europe also spread quickly. In fact, 90% of CFOs responded that European economies will face declining growth rate, which is likely triggered by growing concerns over political instability and immigration problem in European countries since the Brexit result chaos.

Regarding the Japanese economy, 60% of CFOs expect it to decline, and only 3% expect growth. The ruling coalition was triumphant in the Upper House election when this survey was conducted. However, the responses reveal that most CFOs do not expect political stability to necessarily lead

Highlights from the Q2 2016 Japan CFO Survey:

- Some 40% of CFOs said "somewhat pessimistic" about their companies' financial prospects.
- Almost three-quarters of CFOs believe the level of uncertainty is "high" or "very high"
- All CFOs expect the UK economy to decline; 90% expect European economies to decline.
- Deregulations and improvement in the employment environment top CFOs' list of reforms to lift Japan's growth rate.

to improved economic growth. Meanwhile, for Asia and Central and South America (excluding US and China), most CFOs expect their economies to maintain a relatively stable growth rate. However, respondents remain cautious on China, with none expecting the economy to grow during the second-half of 2016.

Structural reform policies

This survey also asked about structural reform policies needed to raise Japan's growth rate in the medium-and long-term. The largest response was deregulation and improvement of the employment environment. In terms of deregulation, more CFOs seek a new approach that clearly specifies the economic benefits, instead of the traditional approach of developing a National Strategic Special Zone. Regarding the employment environment, many CFOs voiced the need to change the long working hours, as well as to promote employment of women and the elderly.

Netherlands

Rising concerns



Growth projections down; uncertainty up

In its June 2016 update, the CPB Netherlands Bureau for Economic Policy Analysis forecast continuing economic growth and attribute that to increased domestic spending. CPB had revised down its economic growth forecast for 2016 from 2% to 1.8% in March. For 2017, the economy is forecasted to grow by 2.1%.

Against this backdrop and amid rising concerns about declining growth perspectives of the global economy, some 47% of CFOs rate the general level of financial and economic uncertainty as normal or below normal (31% in Q1). At the same time, however, business confidence among CFOs in the quarter was up 400 basis points to 26%.

Some metrics improve

CFOs' outlook on revenue growth also improved. Now, 65% say that their revenues will grow over the next 12 months, compared with 56% in Q1. Almost 40% of CFOs also expect improved operating margins, while one-third expect to increase investments. Hiring seems to have become less of a priority, however, with 32% of CFOs expecting a reduction in workforce and only 19% expecting an increase.

Less bullish (again) on M&A

The appetite to take more risk almost equals the highest level since the start of this survey in 2009. Some 52% of CFOs believe that now is a good time to be taking greater balance-sheet-related risks, compared with the record-breaking 54% level a year ago. Bank borrowing is still seen as the most favored source of financing with a net

Highlights from the Q2 2016 Netherlands CFO Survey

- CFOs' optimism about the financial prospects for their companies slightly improved from 22% to 26% in Q2.
- The percentage of CFOs who rate the current economic environment as uncertain has dropped from 69% to 53% this quarter.
- In Q2, some 52% of CFOs believe that now is a good time to be taking greater balance-sheet-related risks,
- Some 55% of CFOs report that their companies will complete one or more acquisitions over the next 12 months, compared with 37% in the previous quarter.

balance of 63% of CFOs who find it attractive.

Still, the outlook for corporate mergers and acquisitions (M&A) activity continued its slow but gradually downward trend. Some 70% of CFOs expect M&A levels to increase over the next 12 months, down from 74% in Q1.

Despite a declining outlook for the M&A level, acquisitions are still high on the agenda of many CFOs. Some 55% expect to achieve inorganic growth by realizing one or more takeovers over the next 12 months, while 23% expect to sell one or more subsidiaries and/or assets. In addition, about 45% of the respondents expect to enter a strategic partnership, up from 25% 12 months ago.

North America

Less concern about markets; more about oil and politics



Reversal of fortune

Last quarter's survey indicated that a very rocky start to 2016—for both global economic performance and equity markets—had significantly shaken CFOs' outlook. But equity markets and consumer confidence have improved substantially, and this seems to have fueled a reversal in several of last quarter's downward trends. Year-over-year growth expectations improved across the board (but are mostly still below their survey averages), and CFOs' confidence in their companies' prospects rebounded markedly from last quarter's strong downturn.

Better (but not good) expectations

This quarter's net optimism of +30.0 marks a sharp reversal from declining sentiment that left last quarter's measure at +1.7—the lowest level in more than three years. Sentiment is net-positive across all industries, with both Manufacturing and Energy/Resources posting significantly more optimism than they did last quarter.

Consistent with this reversal, CFOs' expectations for revenue, earnings, capital spending, and domestic hiring all rebounded from last quarter's mostly dismal levels. But the gains for some metrics were modest. Revenue growth expectations, for example, rose from last quarter's 3.3%* to 4.0%,* but remain relatively low. Similarly, earnings growth expectations rebounded from their survey-low 6.0%* last quarter to 7.7%*—better, but still well off the long-term average. Domestic hiring growth expectations rose to 1.1%* from last quarter's survey-low 0.6%,* while capital spending is the bright spot, rebounding strongly from last quarter's survey-low 1.7%* to 5.4%*—the highest level since the second quarter of 2015

Concerns about oil and North America

Last quarter's dismal sentiment was substantially driven by worries over the impact of faltering equity markets on consumer demand. These worries

Highlights from the Q2 2016 North America CFO Survey:

- This quarter's net optimism of +30.0 marks a sharp reversal from declining sentiment that left last quarter's measure at +1.7—the lowest level in more than three years.
- Forty percent of CFOs describe the North American economy as good or very good (down from 41% last quarter), and 39% expect better conditions in a year.
- Fifty-six percent of CFOs say US equity markets are overvalued (up from 30% in Q1).
- Eighty percent say debt is currently an attractive financing option (up from 68%), and 30% of public company CFOs view equity financing favorably (up from 22%).

have declined, but they have been joined by even stronger concerns about oil prices and by growing concerns about the impacts of upcoming US elections. Consequently, assessments of the North American economy are only slightly better. Meanwhile, CFOs' confidence in Europe remains weak, with increasing concerns about Britain's potential exit from the EU. Assessments of China improved, but CFOs began voicing rising concerns about government debt there.

Notwithstanding these headwinds, companies and investors seem more optimistic this quarter than last. The findings indicate a rising focus on growth and investment (over cost reduction and returning cash), and equity markets are up about 10% from a quarter ago. Still, while it is encouraging that CFOs' sentiment regarding their own companies' prospects rose sharply this quarter, it is important to recall that this measure is relative and not absolute—meaning that sentiment is a lot better than it was last quarter, but is not necessarily good compared to longer time frames.

Russia

Few positive changes



Negative sentiments persist

The Russian CFO Survey was designed to gauge CFOs' outlooks on business, financing, risk, and strategies, and to identify trends in the Russian market. The first survey in 2016 found that 30% of CFOs believe their financial prospects have become less optimistic, and 44% do not anticipate changes. The key trend is the strengthening of the pessimistic mood among companies that have not noted a recovery in their business over the course of the year.

Asked what three factors had the most negative impact on business development in 2016, CFOs cited trade barriers/protectionism, dwindling operating income, and potential nonfood sanctions on Russia.

At this point, 55% of respondents do not expect operating profits to increase, and some 23% foresee a decline in revenues. Still, 53% of CFOs expect that the average wage/salary will grow and one-fourth of respondents (25%) state that their staffs may increase. In general, however, the growth in salaries has been accompanied by ruble devaluation and high inflation. Because of this, half of companies raising the average salary level are being forced to cut staff numbers.

High level of uncertainty remains

In general, the first half of 2016 was again characterized by a high level of uncertainty in relation to strategic decision-making. In fact, 72% of the surveyed CFOs view the level of uncertainty facing their businesses as high compared to 73% in the last survey.

Despite this uncertainty, 30% of Russia's CFOs believe that now is a good time to be taking greater risk onto the balance sheet (up from 29%). The first half of 2016 was characterized by a higher risk appetite among companies with optimistic financial outlooks, but with increased uncertainty about the economic situation.

Highlights from the Q1 2016 Russia CFO Survey:

- Overall, a net -4% of Russia's CFOs are less optimistic about their companies' prospects this quarter.
- Some 30% of CFOs consider now to be a good time to take risk onto the balance sheet.
- Almost three-quarters of CFOs (74%) believe that the best conditions for business happen outside of Russia.
- Price increases in 2016 are expected by 47% of respondents.

In the first half of 2016, the top four risk factors that dominated the 2015 survey reinforced their positions: stress in the financial system, weakness in the ruble, lower domestic demand, and dwindling operating income. The strengthening of factors such as stress in the financial system is indicative of the long-term nature of the events of late 2014 and the sluggish recovery in the Russian economy.

Strategies remain mostly defensive

The top five strategies CFOs are focused on over the next 12 months remain the same as in H2 2015: ongoing cost restructuring, cost-cutting, organic growth, increasing cash flow, and reducing currency risk.

Sub-Saharan Africa

Resilience in any climate

Fortitude is the watchword

This year's 2016 Deloitte CFO Survey in Africa, incorporates insights from finance chiefs in South Africa, Southern Africa, East Africa, and West Africa. Results reveal a drop in optimism among CFOs surveyed in Southern Africa, while CFOs in West Africa and East Africa have a somewhat more positive outlook for their companies in 2016.

Operating in a tough economic environment characterized by low commodity prices, depreciating currencies, and diminishing demand from large trading partners, makes the role of CFOs operating in sub-Saharan Africa tougher than ever. Fortitude will be the watchword for companies' financial stewards in 2016 as they strive to find creative ways to deal with their current challenges, boost company performance, and increase shareholder value.

How risks breaks down

In South Africa, the political landscape continues to top the list of risk factors, with 75% viewing it as a significant risk. This is up from 61% in 2015 and not surprising, given CFOs are probably concerned about policy consistency in the wake of local elections.

The picture is different in the rest of Southern Africa where 65% of CFOs view currency volatility as the primary risk factor followed by the fragile state of the global economy (49%); the financial health of key suppliers or primary customers (47%); and margin deterioration, due to input cost pressures and lack of pricing flexibility (44%).

Meanwhile, in West Africa, 78% of Nigerian and Ghanaian CFOs identified currency volatility as the most significant risk. And for 54% of East African CFOs, the political landscape is the greatest risk, followed by margin deterioration due to input cost pressures and lack of pricing flexibility (48%).

Highlights from the 2016 Southern Africa CFO Survey:

- There is decreased optimism among South and Southern African CFO's regarding the performance of their companies.
- While South Africans are most worried about the political landscape in their country, currency volatility tops the list of primary risks for Southern African CFOs.
- South African CFOs expect the interest rate to increase over the next six months, while only half of Southern African CFOs expect an increase.
- Capital is viewed as costly by most CFOs and not easy to get.

Adopting defensive strategies

A significant percent (84%) of South African CFOs say they will focus on improving operational efficiency and process optimisation this year. Also on their radar is customer acquisition and retention and the reduction of operating costs. This is a shift from last year's primary focus, which was on improving investor confidence.

In Southern Africa, CFOs are most concerned about improving operational efficiency and process optimization, as well as reducing operational costs. West African CFOs are also tightening their belts and have shifted focus from customer acquisition and retention in 2015 to improving operational efficiency and optimizing processes as their primary strategic thrust for 2016. Finally, in East Africa, the focus is on improving operational efficiency and process optimization as well as enhancing the customer experience.

Switzerland

External environment dominates CFOs' concerns



Continued shock waves

The environment in which Swiss companies are currently operating is not an easy one. After a partial recovery from the shock waves caused by last year's removal of the exchange rate floor against the euro, the second quarter of 2016 has been dominated by growing concern about risk, in particular (geo)political risk. The survey period was overshadowed by uncertainty about the potential impact that a decision by the United Kingdom to leave the European Union would have.

Economic outlook more positive

Still, CFOs' view of Switzerland's economic prospects has improved. For the first time since the end of 2014, a majority of CFOs now rate the country's economic prospects over the next 12 months as positive, a net balance of +13%. The UK's decision to leave the EU is likely to have economic repercussions, but the impact on Switzerland is expected to be limited provided the process runs largely smoothly or, in the best case scenario, actually promotes reform.

As for their own companies, 49% rate their company's financial prospects as positive, up slightly on Q1, while 20% rate them as negative. There is, however, greater variation when it comes to individual indicators. The net balance of CFOs expecting revenues to increase has fallen from 46% in Q1 to 36%. A relatively large majority (59%) still expect revenues to increase over the next 12 months, while 23% expect them to decrease. Pressure on operating margins remains high, with 38% of CFOs expecting margins to decrease and 26% expecting them to increase. Meanwhile, a small net balance (6%) of CFOs expect capital expenditure to increase, with 33% of companies planning an increase compared to 27% planning a decrease.

Highlights from the Q2 2016 Switzerland CFO Survey:

- Some 31% of Switzerland's CFOs rate the prospects for the Swiss economy as positive, only 18% as negative.
- Almost 70% of CFOs see geopolitical risk as the current biggest risk to their companies.
- None of the respondents see the Swiss National Bank ending negative interest rates in the next 12 months.
- Risk appetite has increased, although from a low level: 30% of CFOs think that this is a good time to be taking greater risk onto their balance sheet.

Challenging external environment

In the run-up to the UK referendum on EU membership, fears grew about the impact a Brexit decision would have on Swiss companies. At the end of Q1, just 17% of CFOs believed Brexit would have a negative impact on their company, but this proportion had more than doubled to 42% in Q2. Only 2% of CFOs expect Brexit to have a positive impact on their company, while just over half (53%) believe it will have little or no impact.

As in Q1, Swiss CFOs' main concerns remain centered on geopolitical risk and increasing business regulation within Switzerland. Turbulence in the financial markets is once again a major risk: 40% of CFOs see this as the great current risk to their company, a rise of six percentage points from Q1 2016. As with the rise in geopolitical risk, this may have been triggered by fears over Brexit and expectations of greater market turbulence in the short and medium term following the UK's decision to leave the EU.

United Kingdom

Brexit hits confidence



Immediate response

Sentiment among CFOs of the UK's largest corporations has fallen sharply in the wake of the EU referendum. The second quarter survey took place between June 28th and July 11th, and provides a detailed picture of thinking among large UK-based businesses in the light of the vote.

The impact? Perceptions of uncertainty have soared in the wake of the vote to levels associated with the euro crisis five years ago. In addition, the spike in uncertainty has had a toxic effect on business sentiment with optimism dropping to the lowest level since the survey started in 2007. In fact, 73% of CFOs report being less optimistic about business prospects than three months ago.

Risk appetite plummets

Corporate risk appetite has also fallen—for the fourth consecutive quarter. Following the EU referendum, just 8% of CFOs say that now is a good time to take greater risk onto their balance sheets, the lowest level in more than six years.

In addition, expectations for revenue and margin growth, which have been cooling since late 2015, fell sharply in the second quarter. CFO expectations for both revenue and margin growth are now at their lowest levels since this question was first asked in 2010.

On the defensive

Defensive strategies—reducing costs and increasing cash flow—are the **top two balance sheet** priorities for major UK corporates. Some 47% of CFOs rate cost reduction as a strong priority, the highest reading in three-and-a-half years.

Conversely, expansionary strategies, such as introducing new products or services or raising capital expenditure, have dropped sharply down the list of priorities.

In keeping with the move toward defensive strategies, CFO expectations for growth in capital spending, hiring, and discretionary spending by UK corporations have fallen sharply in the second

Highlights from the Q2 2016 UK CFO Survey:

- Corporate willingness to take risk has seen its largest ever decline. Just 8% of CFOs say now is a good time to take on balance sheet risk.
- Reducing costs and increasing cash flow are the two top balance sheet priorities for CFOs.
- Some 47% of UK CFOs rate cost reduction as a strong priority, the highest reading in three-and-a-half years.
- Over the next three years, 58% of CFOs expect capital spending to be somewhat or significantly lower, and 66% expect hiring to be down too.
- More than two-thirds of CFOs believe that leaving the EU will lead to a deterioration in the UK business environment in the long-term.

quarter. They are now at levels last seen just before the so-called “double dip” slowdown of 2012.

Going forward

This quarter CFOs were asked what effect they expected an exit from the EU to have on their own spending plans over the next three years. Some 58% expect capital spending to be lower, and 66% expect hiring to also be constrained.

When asked what the authorities can do to support economic activity in the wake of Brexit, an overwhelming majority (91% of CFOs) said that giving a strong signal about the government's aims in the negotiations with the EU should be a strong priority.

Deloitte Member Firm CFO Surveys

About Deloitte Member Firms' CFO Surveys

Twenty-eight 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	Tom Imbesi Managing Partner, Victoria; Deloitte Executive Program Leader +61 3 9671 7329 timbesi@deloitte.com.au	Biannual	Conducted between April 28, 2016 and May 31, 2016; 61 CFOs participated, representing businesses with a combined market value of approximately \$476 billion or 25% of the Australian quoted equity market.
Belgium	Thierry Van Schoubroeck Partner, Finance Transformation + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between June 28, 2016 and July 20, 2016; 46 CFOs completed the survey. The participating CFOs are active in variety of industries: 23% have a turnover of over €1 billion, 48% of between €100 million and €1 billion and 30% of less than €100 million.
Japan	Masanori Shinoda Partner +81 80 4367 7938 mshinoda@tohmatu.co.jp	Quarterly	Conducted between June 27 and July 15; 30 CFOs completed the survey. The participating CFOs are active in variety of industries, representing listed companies and relevant private companies.
Netherlands	Frank Geelen Partner; CFO Program Lead +31 06 2239 7053 fgeelen@deloitte.nl	Quarterly	Conducted June 3-25, 2016; 32 CFOs representing a net turnover per company of approximately €2.4 billion completed the survey. The responding companies can be categorized as follows: publicly listed (41%), family owned (16%), privately owned (22%), state or government owned (6%), and other (16%).

Member firm	Contacts	Frequency	Survey scope and population
North America (U.S., Canada, Mexico)	Greg Dickinson N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between May 9, 2016 and May 20, 2016; 140 CFOs participated from across the United States, Canada, and Mexico. Seventy-two percent of respondents represent CFOs from public companies, and 78% are from companies with more than \$1 billion in annual revenue.
Russia	Lora Zemlyanskaya, PhD Senior Manager, Deloitte & Touche CIS +7 (495) 787 06 00 (x2299) melovskaya@deloitte.ru	Biannual	Conducted March 2016; 60 CFOs participated, representing CFOs from several industry groups in Russia.
Sub-Saharan Africa	Roy Campbell Africa CFO Program Leader +011 806 5580 rcampbell@deloitte.co.za	Annual	Conducted between May and June 2016; 349 CFOs from South Africa, Southern Africa, East Africa, and West Africa participated representing a range of industries and countries.
Switzerland	Dr. Michael Grampp Chief Economist +41 44 421 68 17 mgrampp@deloitte.ch	Quarterly	Conducted between May 30, 2016 and June 23, 2016; 115 CFOs participated, representing listed companies and relevant private companies.
United Kingdom	Ian Stewart Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between June 28, 2016 and July 11, 2016; 132 CFOs participated, including CFOs of 25 FTSE 100 and 57 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 94 UK-listed companies surveyed is £365 billion.

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