

## The Deloitte CFO Survey

### Persistent uncertainty takes its toll

Against a backdrop of slowing growth and persistent uncertainty Chief Financial Officers (CFOs) of the UK's largest businesses are adopting an intense focus on cost control. Cost reduction is their top strategy, with a record 58% of CFOs rating it as a strong priority, higher even than when the economy was emerging from recession in late 2009.

Brexit again tops the list of risks and, in the last three months, CFOs have become significantly more concerned about the risks posed by slowing growth in the UK and the euro area.

New Bank of England research, based on anonymised data from the CFO Survey, sheds light on the corrosive effect of uncertainty on business activity. In a speech\* drawing on the research, Michael Saunders, a member of the Bank's Monetary Policy Committee, notes that whereas previous spikes in CFO uncertainty have been temporary, current uncertainties have become entrenched with roughly one-third of CFOs reporting high or very high uncertainty for four quarters, a previously unprecedented level of persistence.

The Bank's analysis shows that CFOs reporting elevated uncertainty are far less likely to prioritise expansionary strategies such as increasing capital expenditure.

\*"Shifting balance of risks", speech to the Barnsley and Rotherham Chamber of Commerce & Institute of Chartered Accountants, 27<sup>th</sup> September 2019

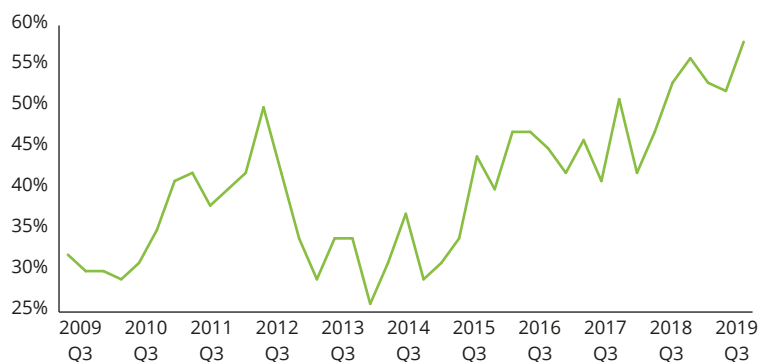
The speech was widely seen as making a case for lower interest rates and contributed to a marked decline in market expectations for rates over September and early October.

So far corporate caution has had its greatest effect on investment which has slowed dramatically since the EU referendum. The labour market has shown resilience with further falls in unemployment and earnings rising at the fastest pace in more than ten years. Now, with a sharper focus on curbing costs, 70% of CFOs expect hiring to decrease in the next 12 months and just 3% expect it to rise.

With CFOs firmly focussed on cost control the UK looks set for weaker job and wage growth ahead. The brunt of the UK's slowdown in the last year has been borne by the corporate sector with the jobs market remaining buoyant. That disconnect is unlikely to last.

#### Chart 1. Corporate priorities: Cost reduction

% of CFOs who rated reducing costs as a strong priority for their business in the next 12 months



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For current and past copies of the survey, historical data and coverage of the survey in the media and elsewhere, please visit:

[www.deloitte.co.uk/cfosurvey](http://www.deloitte.co.uk/cfosurvey)

# Persistent uncertainty

CFO perceptions of uncertainty are at their highest level in three years, with 62% of CFOs rating current levels of financial and economic uncertainty as high or very high.

Bank of England analysis of anonymised CFO Survey data shows that corporates are experiencing a period of persistently high uncertainty. Almost a third of CFOs had rated uncertainty as high or very high for four consecutive quarters by this summer, the highest reading in eight years.

The Bank's analysis also reveals that, on average, CFOs who report higher levels of uncertainty expect slower growth in investment and hiring by corporates.

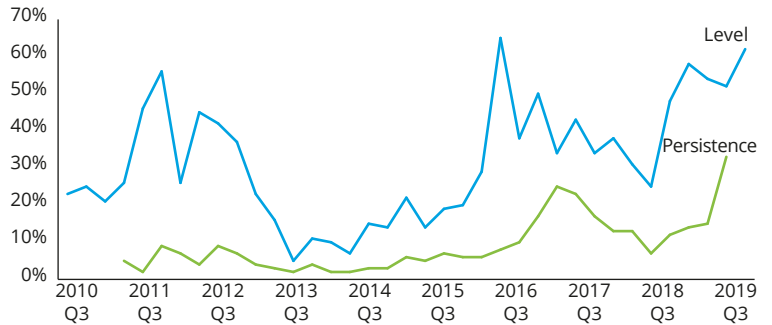
Those who report uncertainty as high or very high expect investment and hiring to decrease, on average.

CFO pessimism over the long-term impact of Brexit fell slightly in the third quarter.

An overwhelming majority of CFOs, more than three-quarters, continues to expect a deterioration in the overall business environment in the long term due to Brexit.

## Chart 2. Level and persistence of uncertainty

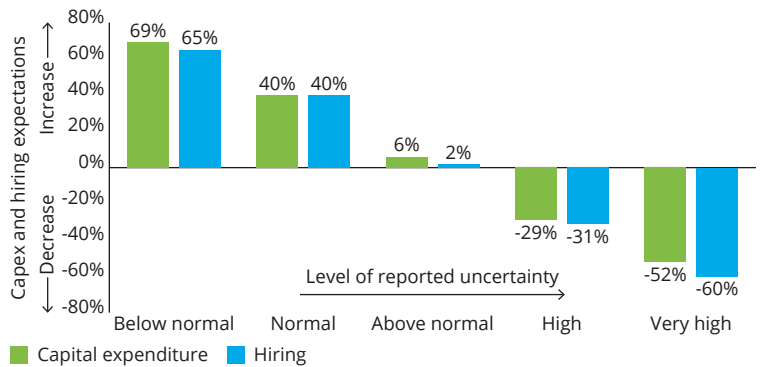
% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high and % of CFOs reporting those levels of uncertainty for four consecutive quarters



Persistence data from Bank of England analysis of anonymised Deloitte CFO Survey responses

## Chart 3. Uncertainty and expectations of capex and hiring

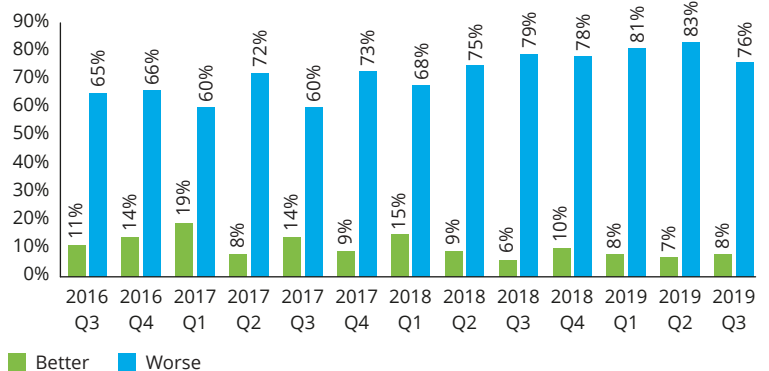
Net % of CFOs who expect UK corporates' capital expenditure and hiring to increase over the next 12 months by level of reported economic and financial uncertainty (readings averaged between 2010 Q3 and 2019 Q2)



Bank of England analysis of Deloitte CFO Survey data

## Chart 4. Long-term impact of Brexit

% of CFOs who think the overall environment for business in the long term will be better/worse if the UK leaves the EU (excluding those who expect no material change)



# Sharper focus on domestic risks

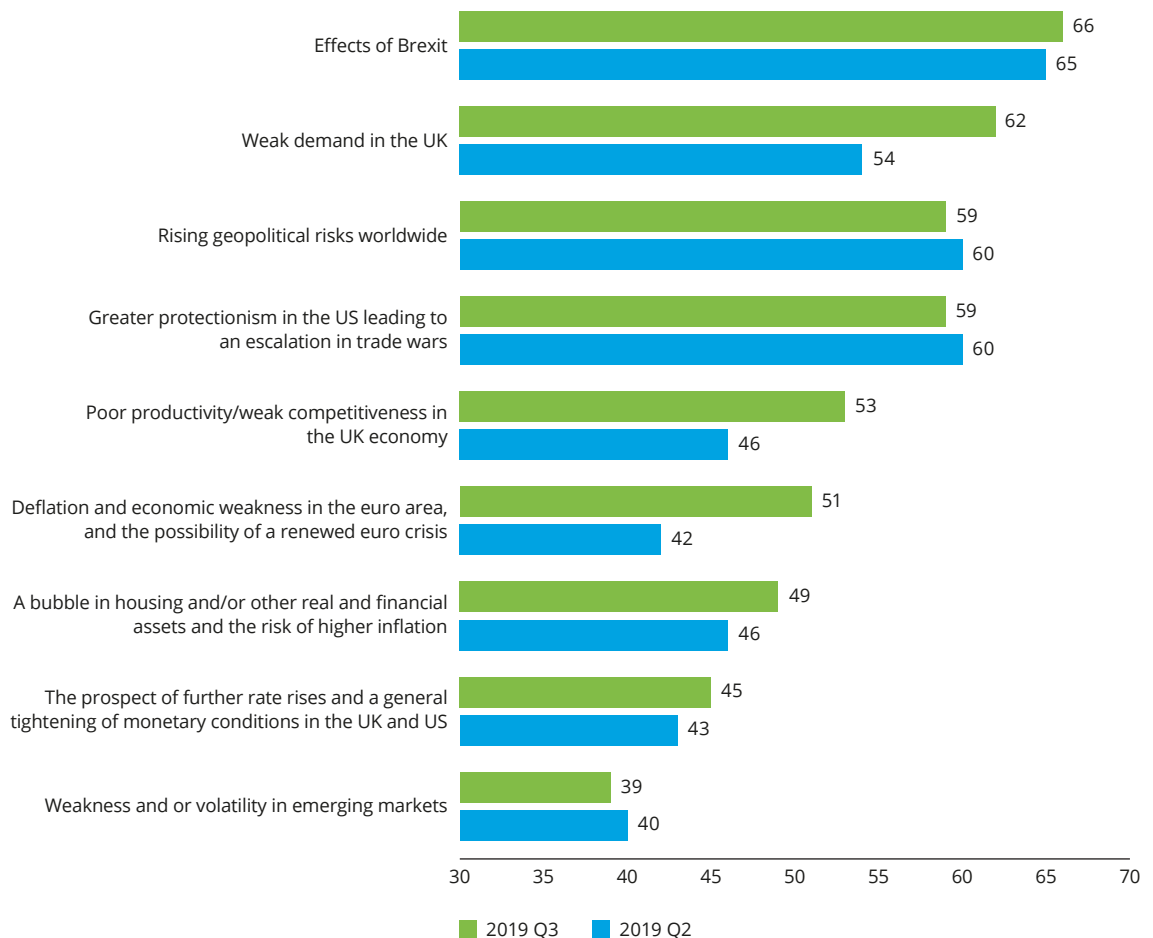
Brexit remains the top risk for CFOs. Weak demand in the UK comes a close second, to which CFOs have assigned the highest risk rating in five years. Adding to the list of domestic worries, CFO concerns over poor productivity/ weak competitiveness in the UK economy have also increased significantly over the last three months.

Rising global geopolitical risks and greater protectionism are rated as the joint third biggest risks. The continuing US-China trade dispute and a rise in geopolitical tensions in the Middle East following the attack on Saudi Arabia's oil production seem to have increased concerns.

Weaker growth in the euro area and a pronounced slowdown in Germany are reflected in growing CFO concerns over the risk of deflation and weakness in the euro area. By contrast, concerns over growth in emerging markets feature at the bottom of the risk list.

## Chart 5. Risk to business posed by the following factors

Weighted average ratings on a scale of 0-100 where 0 stands for no risk and 100 stands for the highest possible risk

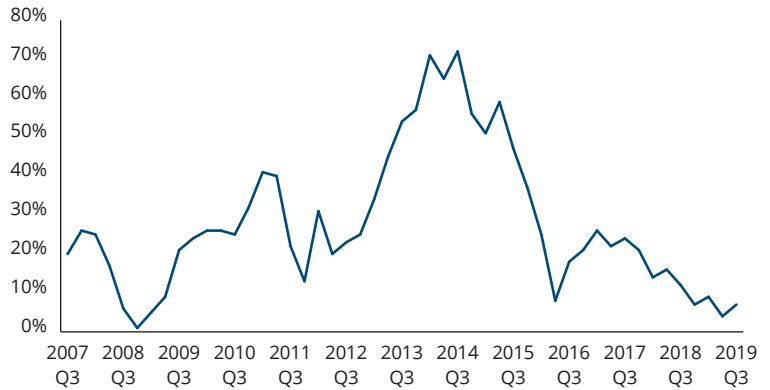


# Risk appetite depressed

Risk appetite edged up in the third quarter but remains close to its lowest level in ten years.

**Chart 6. Corporate risk appetite**

% of CFOs who think this is a good time to take greater risk onto their balance sheets

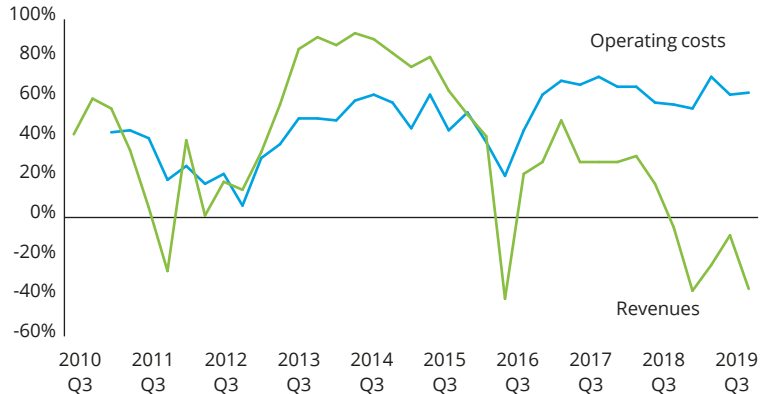


CFOs' expectations indicate growing pressure on margins and profitability.

On balance, they expect corporate revenues to decline and operating costs to rise over the next 12 months.

**Chart 7. Outlook for corporate revenues and operating costs**

Net % of CFOs who expect UK corporates' revenues and operating costs to rise over the next 12 months

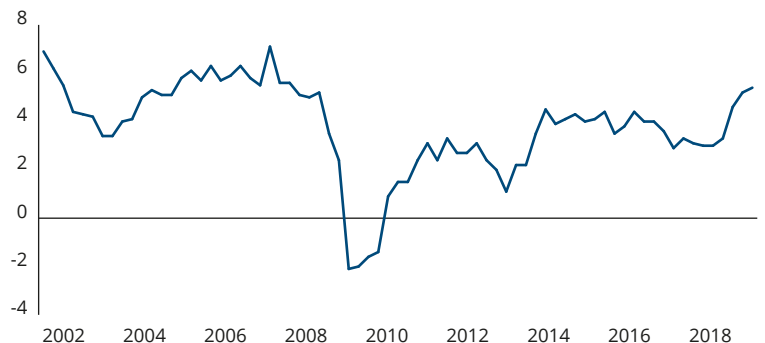


While investment growth has slowed dramatically since the EU referendum, the labour market has shown resilience.

With further rises in employment and wages growing at the fastest pace in more than ten years, labour costs have risen.

**Chart 8. Sum of employment and wage growth rates**

Sum of rates of total employment and nominal wage growth (% YoY)



Source: Refinitiv Datastream

# Cost reduction is top priority

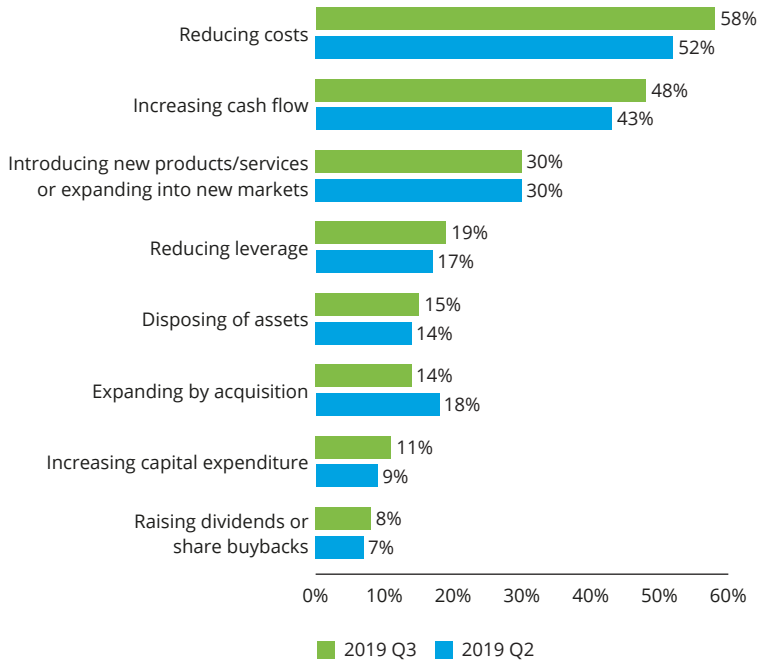
Cost reduction is the top priority for CFOs, who are placing the greatest emphasis on it since we started asking this question ten years ago. They have also sharpened their focus on increasing cash flow, another defensive strategy, which remains in second place.

CFO focus on expansionary strategies has softened somewhat, driven by a drop in preferences for expanding by acquisition.

Emphasis on defensive strategies – reducing costs, increasing cash flow and reducing leverage – is near a record high among CFOs.

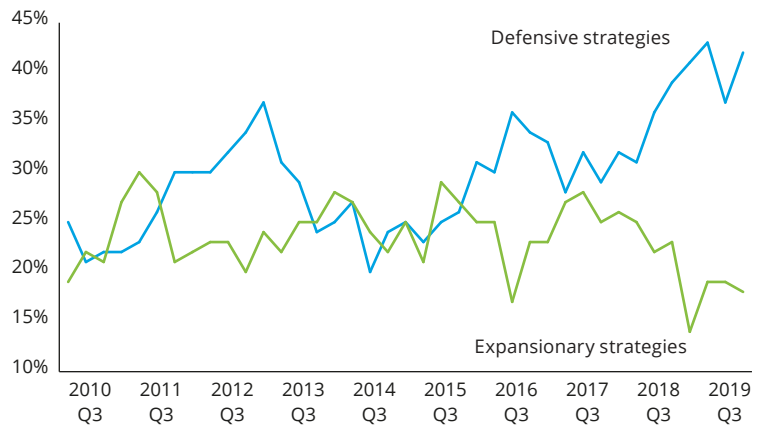
**Chart 9. Corporate priorities in the next 12 months**

% of CFOs who rated each of the following as a strong priority for their business in the next 12 months



**Chart 10. Expansionary and defensive strategies**

Arithmetic average of the % of CFOs who rated expansionary and defensive strategies as a strong priority for their business in the next 12 months



Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure.  
 Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

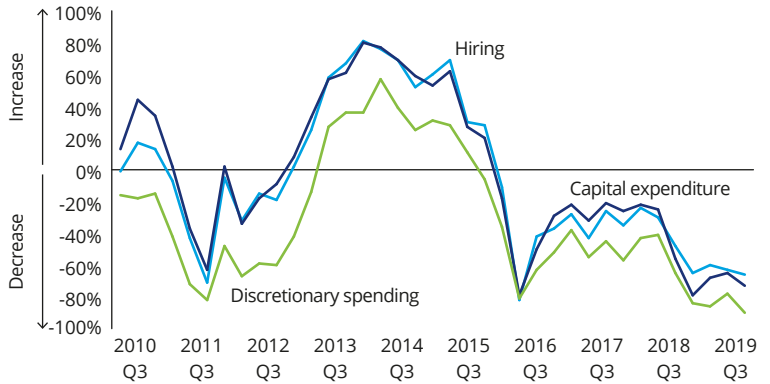
# Capex and hiring out of favour

Expectations for capital expenditure, hiring and discretionary spending have fallen further.

On balance, CFOs expect UK corporates to reduce activity in each area over the next year.

**Chart 11. Outlook for capital expenditure, hiring and discretionary spending**

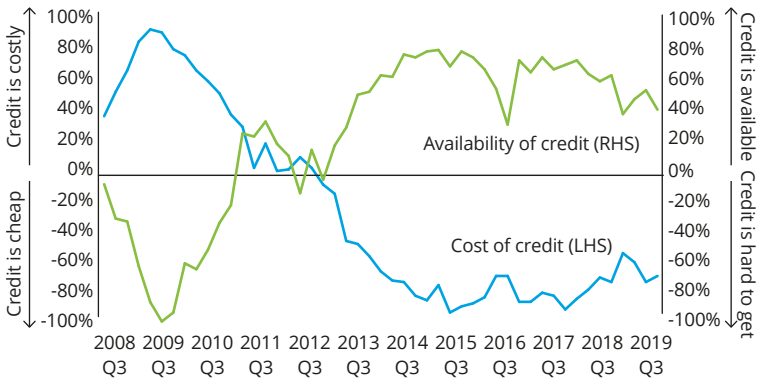
Net % of CFOs who expect UK corporates' capital expenditure, hiring and discretionary spending to increase over the next 12 months



Credit remains cheap and easily available for the large corporates on our panel.

**Chart 12. Cost and availability of credit**

Net % of CFOs reporting credit is costly and credit is easily available

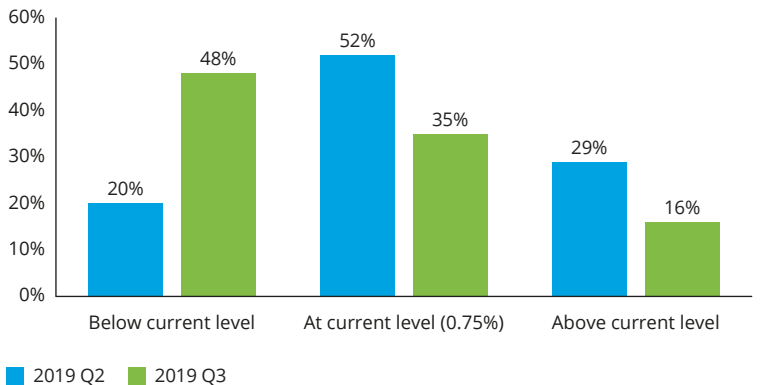


CFOs have brought forward their expectations of a cut in interest rates.

Almost half of them now expect the base rate to be lower than the current level of 0.75% in a year's time, compared to a fifth in the second quarter.

**Chart 13. Interest rate expectations**

% of CFOs who expect the Bank of England's base rate to be at the following levels in a year's time

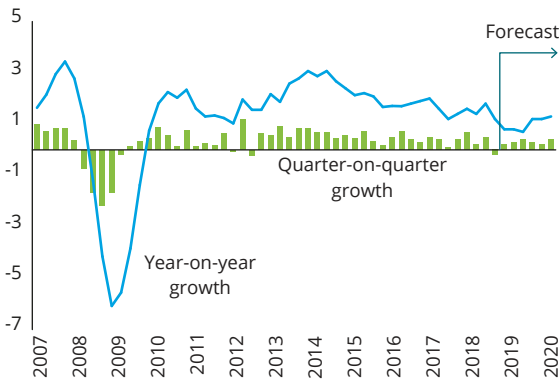


# CFO Survey: Economic and financial context

## The macroeconomic backdrop to the Deloitte CFO Survey Q3 2019

The global economy continued to slow over the third quarter with the OECD and IMF downgrading their growth forecasts for 2019. This was due in part to the ongoing US-China trade dispute, which escalated in August as both countries announced new tariffs. The economic impact of the trade dispute crystallised, with global trade volumes and manufacturing activity the hardest hit. Manufacturing output contracted in the US, the UK, Germany and Japan. German manufacturing has been particularly weak, sparking fears of a recession in the country. The US Federal Reserve and the European Central Bank (ECB) both eased monetary policy in the face of the slowdown, cutting interest rates and, in the ECB's case, restarting asset purchases. Financial markets reflected the deterioration in the outlook, with the yield on short-term US government debt rising above long-term yields, a so-called inversion of the US yield curve, which has preceded the previous seven US recessions. Geopolitical tensions flared in the Middle East, with an attack on Saudi Arabian oil production facilities prompting a sharp spike in the oil price. In the UK, Brexit uncertainty remained elevated, with a new government failing to break the political deadlock over the timing and nature of Britain's departure from the EU. Odds of a general election this year have risen. UK growth remains soft following a contraction in the second quarter. However, labour markets have broadly continued their run of good news. Real wages grew at their fastest rate since the financial crisis in the UK and unemployment remained close to multi-decade lows in the UK and US.

### UK GDP growth: Actual and forecast (%)



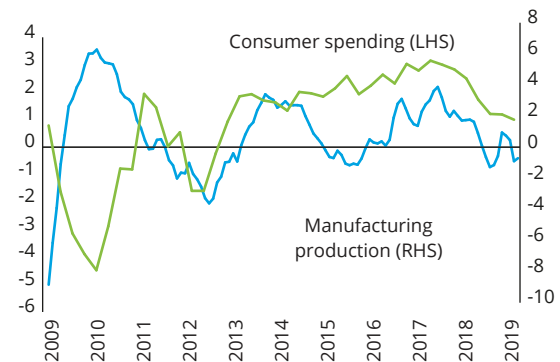
Source: ONS, Consensus Economics and Deloitte calculations

### FTSE 100 price index



Source: Refinitiv Datastream

### UK consumer spending and manufacturing production growth (%)



Source: Refinitiv Datastream

### UK annual CPI inflation (%)

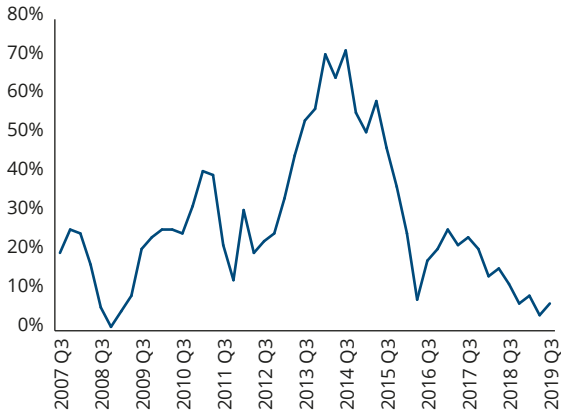


Source: Refinitiv Datastream

# Two-chart summary of key survey messages

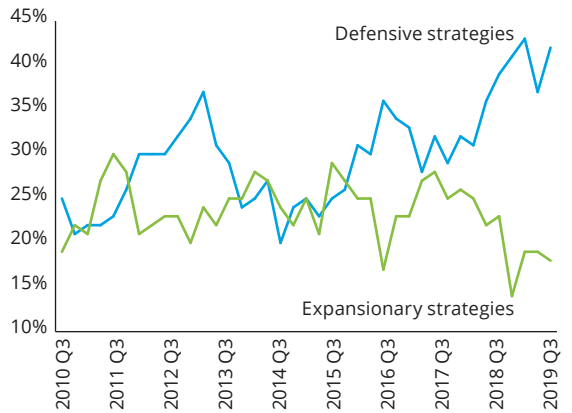
## Corporate risk appetite

% of CFOs who think this is a good time to take greater risk onto their balance sheets



## Expansionary and defensive strategies

Arithmetic average of the % of CFOs who rated expansionary and defensive strategies as a strong priority for their business in the next 12 months



### About the survey

This is the 49<sup>th</sup> quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2019 third quarter survey took place between 17<sup>th</sup> September and 30<sup>th</sup> September. 91 CFOs participated, including the CFOs of 23 FTSE 100 and 36 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas. The combined market value of the 70 UK-listed companies surveyed is £468 billion, or approximately 19% of the UK quoted equity market.

The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitudes to valuations, risk and financing. To join our panel of CFO respondents and for additional copies of this report, please contact Elaine Hoang on 020 7007 4717 or email [ehhoang@deloitte.co.uk](mailto:ehhoang@deloitte.co.uk).

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