

## The Deloitte CFO Survey

### Business confidence soars

The latest survey of UK Chief Financial Officers shows an unprecedented rise in business sentiment. The fourth quarter survey took place in the wake of the UK general election, between 13th December and 6th January. Confidence has seen the largest increase in the 11-year history of the survey taking it to its highest ever level. The scale of the improvement eclipses previous surges in the wake of interest rate cuts during the financial crisis in 2009 and following the European Central Bank president's pledge to "do whatever it takes" to save the euro area in early 2012.

The fog of uncertainty that has beset the UK since the EU referendum in 2016 seems to be lifting. CFO perceptions of external uncertainty have fallen from one of the highest ever readings to near-average levels. Brexit has topped CFOs' worry list since the EU referendum but has dropped to third place in the fourth quarter.

Clarity on the nature and timing of the UK's formal exit from the EU, if not future trading arrangements, seems to have bolstered CFO spirits. The election of a political party with a commanding parliamentary majority, and an end to the immediate possibility of a radical Labour government, have further reduced political uncertainty.

The bounce in CFO spirits extends beyond political factors, with concerns about US protectionism, weakness

in the euro area and financial bubbles easing. A marginally less gloomy global backdrop, reflected in easier financial conditions and buoyant equity markets, has also contributed to the boost in CFO confidence.

Recent Bank of England research\*, drawing on CFO Survey data, testifies to the toxic effect of uncertainty on investment. With reduced uncertainty has come a strong rebound in CFO expectations for business investment. Whether this translates into greater corporate activity this year will depend on a continuing positive trend in sentiment and uncertainty. But all things considered, CFOs go into 2020 with sentiment at levels that would have been unimaginable at any time in the last three years.

\* Shifting balance of risks, speech by Michael Saunders, member of the Bank of England's Monetary Policy Committee, to the Barnsley and Rotherham Chamber of Commerce & Institute of Chartered Accountants, 27th September 2019.

### Authors

**Ian Stewart**  
**Chief Economist**  
 020 7007 9386  
 istewart@deloitte.co.uk

**Debapratim De**  
**Senior Economist**  
 020 7303 0888  
 dde@deloitte.co.uk

**Tom Simmons**  
**Economic Analyst**  
 020 7303 7370  
 tsimmons@deloitte.co.uk

**Peter Ireson**  
**Economic Analyst**  
 0117 984 1727  
 pireson@deloitte.co.uk

**Maximilien Lambertson**  
**Economic Analyst**  
 020 7303 5316  
 mlambertson@deloitte.co.uk

### Key contacts

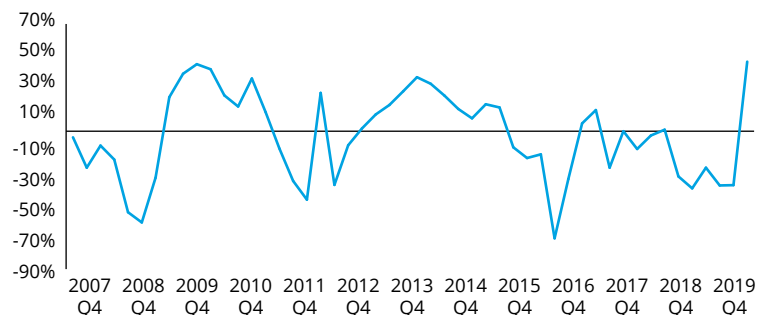
**Ian Stewart**  
**Chief Economist**  
 020 7007 9386  
 istewart@deloitte.co.uk

**Richard Muschamp**  
**CFO Programme Leader**  
 020 7007 0724  
 rmuschamp@deloitte.co.uk

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)

**Chart 1. Business optimism**

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



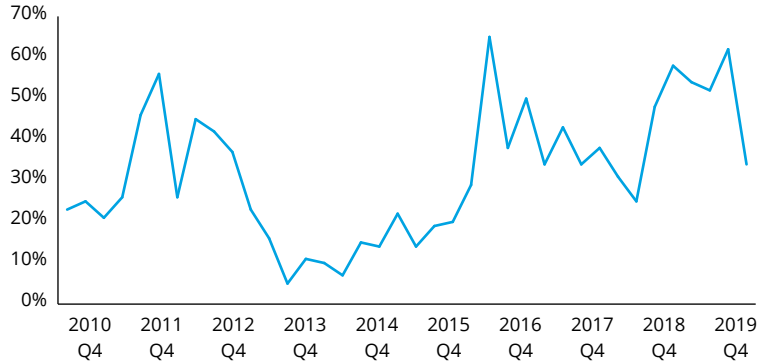
# Uncertainty falls

CFO perceptions of economic and financial uncertainty have fallen sharply.

34% of CFOs now rate the level of uncertainty as high or very high, down from 62% in the third quarter.

**Chart 2. Uncertainty**

% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high

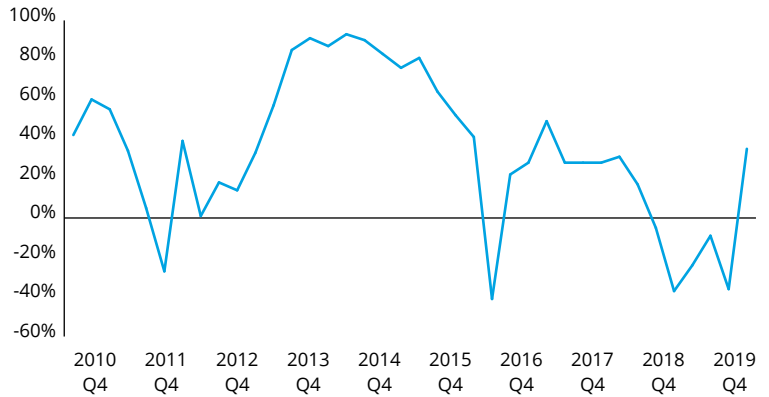


CFO expectations for revenue growth have increased.

On balance, CFOs now expect an increase in UK corporate revenues over the next 12 months.

**Chart 3. Outlook for corporate revenues**

Net % of CFOs who expect UK corporates' revenues to increase over the next 12 months

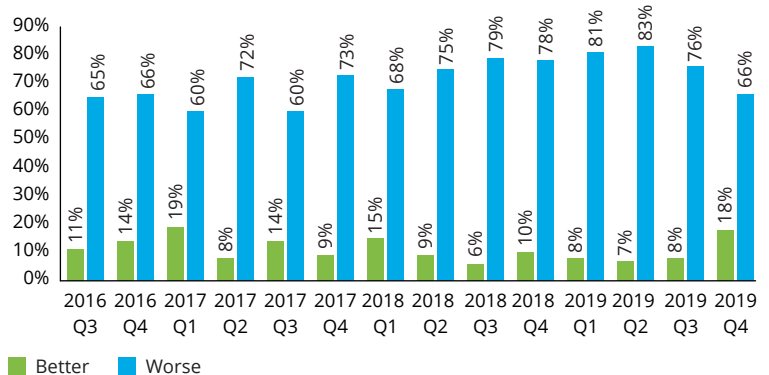


CFO pessimism over the long-term impact of Brexit fell to its lowest level since 2017.

66% of CFOs expect the overall environment for business in the long term to be worse if the UK leaves the EU, down from a high of 83% in the second quarter of 2019.

**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)



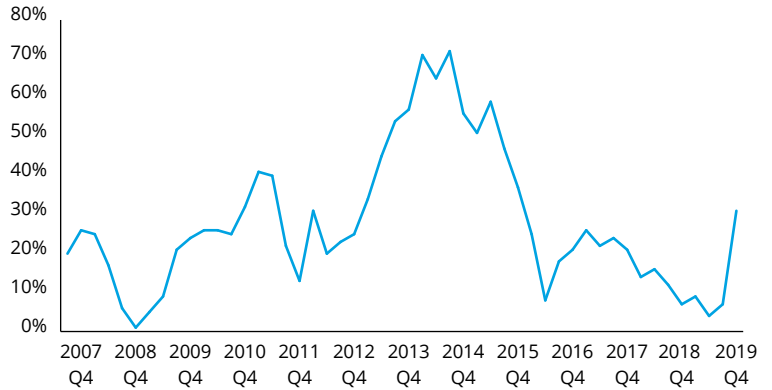
# Risk appetite rebounds

CFO risk appetite has shot up to its highest level in almost four years.

31% of CFOs think now is a good time to take greater risk onto their balance sheets, up from just 7% in the third quarter.

**Chart 5. Corporate risk appetite**

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



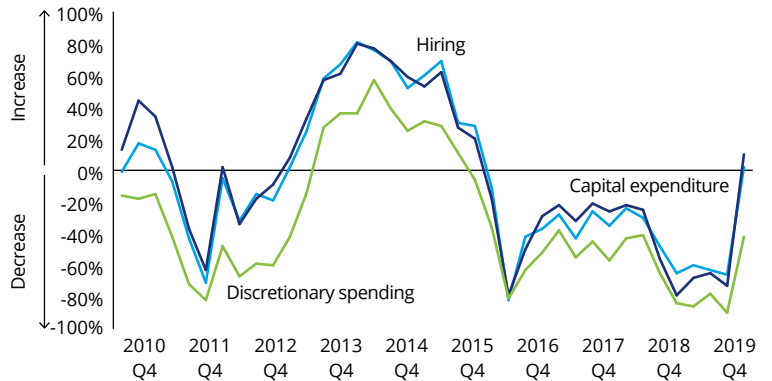
CFO expectations of capital expenditure and hiring have risen sharply.

For the first time in four years, on balance, CFOs expect UK corporates to increase capital expenditure and hiring over the next 12 months.

CFOs still expect UK corporates to reduce discretionary spending over the next 12 months.

**Chart 6. 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

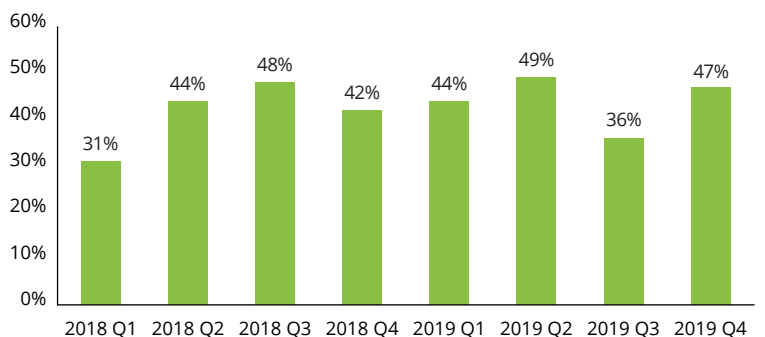


Almost half of CFOs report that their businesses have experienced a rise in recruitment difficulties or skills shortages over the last three months.

This is consistent with a tight UK labour market – the unemployment rate at 3.8% is a 45-year low.

**Chart 7. Recruitment difficulties**

% of CFOs reporting an increase in recruitment difficulties or skills shortages experienced by their businesses over the past three months



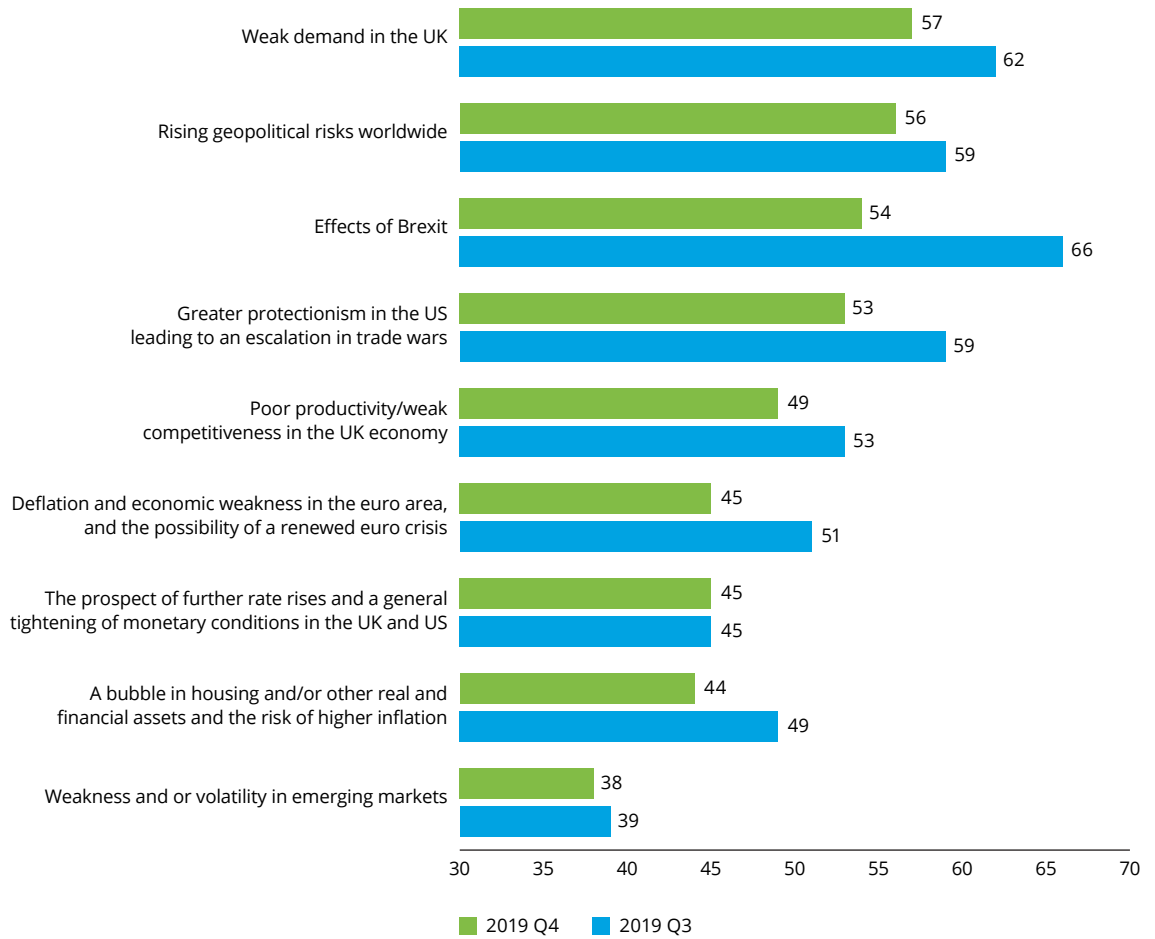
# Risks recede

CFOs judge the risks posed by the factors in Chart 8 to have fallen across the board compared to the third quarter. They rank weak demand in the UK as the top risk facing their businesses, knocking the effects of Brexit down to third place for the first time since the EU referendum. Rising geopolitical risks is now second on the list of concerns.

Hopes of an easing in trade tensions between the US and China following a 'phase one' deal with the two countries seem to have assuaged concerns over the risks posed by greater protectionism and an escalation in trade wars.

**Chart 8. 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



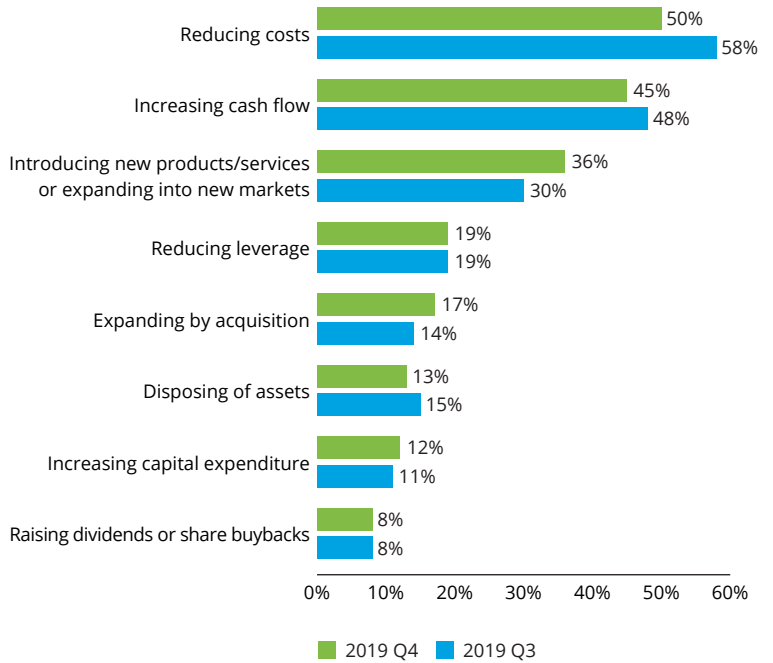
# CFOs remain defensive

Defensive strategies – cost control and increasing cash flow – remain the top priorities for CFOs. However, their focus on these defensive strategies has softened slightly compared to the previous quarter.

CFOs rate introducing new products/services or expanding into new markets as their third highest priority.

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

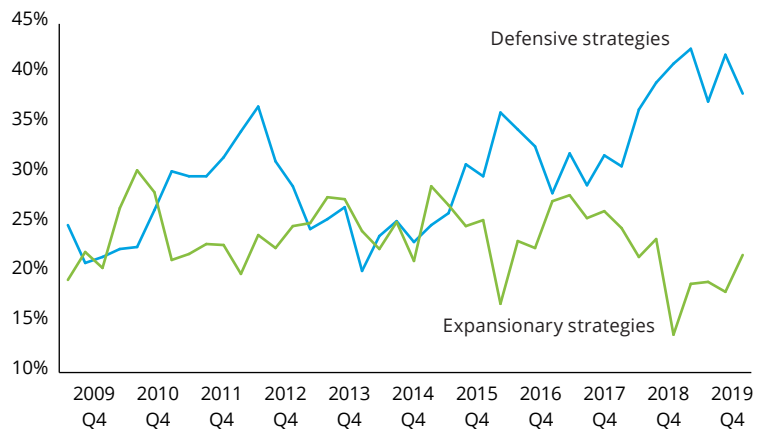
% of CFOs who rated each of the following as a strong priority for their business in the next 12 months



Despite a modest rise in their emphasis on expansionary strategies in the fourth quarter, CFOs remain defensive on balance.

**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.

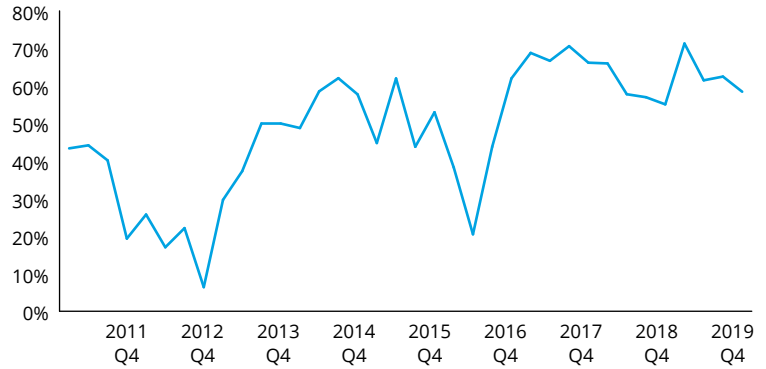
Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

# Continued focus on costs

A net 58% of CFOs expect operating costs to rise over the next 12 months.

**Chart 11. Outlook for operating costs**

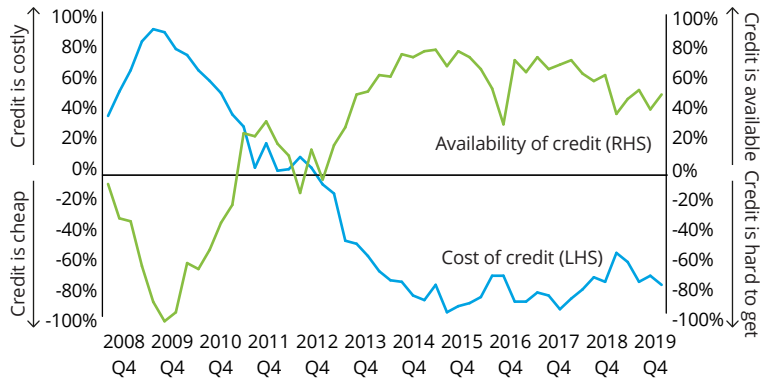
Net % of CFOs who expect UK corporates' operating costs to increase over the next 12 months



Compared to the previous quarter, credit is cheaper and more easily available for the large corporates on our panel.

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

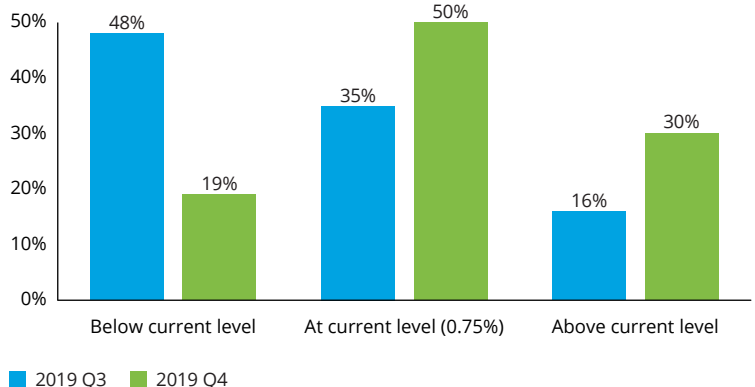
Net % of CFOs reporting credit is costly and credit is easily available



CFOs have brought forward their expectations for higher interest rates. 30% of CFOs now expect the base rate to be higher than the current level of 0.75% in a year's time, up from 16% in the previous 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



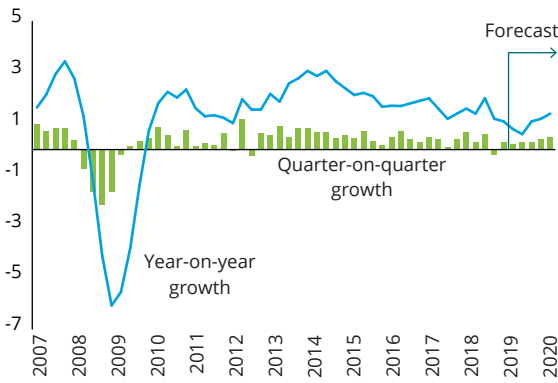
Only 19% of CFOs expect the base rate to be below its current level in 12 months' time, down from almost half of CFOs in the third quarter.

# CFO Survey: Economic and financial context

## The macroeconomic backdrop to the Deloitte CFO Survey Q4 2019

The global economy appeared to stabilise in the fourth quarter, supported by a reprieve in the US-China trade dispute and loose monetary policy. Although trade volumes and manufacturing activity continued to contract, service activity supported economic growth in the euro area, the UK and the US. Chinese economic data in December showed an unexpected resilience in retail sales and industrial production. Growth in the UK and euro area remained weak but the labour market continued its run of good news. Employment hit a record high in Germany and the UK, and job growth was surprisingly strong in the US. Pork prices boosted inflation in China, but inflation remained low in developed markets, supporting leading central banks' dovish stance. The US Federal Reserve cut interest rates for the third time in three meetings, citing weak global growth. The appellate body of the World Trade Organization, which resolves trade disputes, ceased to function after the US refused to agree the appointment of new judges. However, the year ended with several developments that appeared to reduce uncertainty, including a modest 'phase-one' US-China trade agreement and the approval of a new Canada-Mexico-US trade deal. These factors drove a late rally in global equity markets. In the UK the commanding victory of the Conservative Party in the December general election drove an appreciation in sterling, only to be reversed after prime minister Boris Johnson ruled out an extension to the UK's transition period beyond the end of 2020.

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



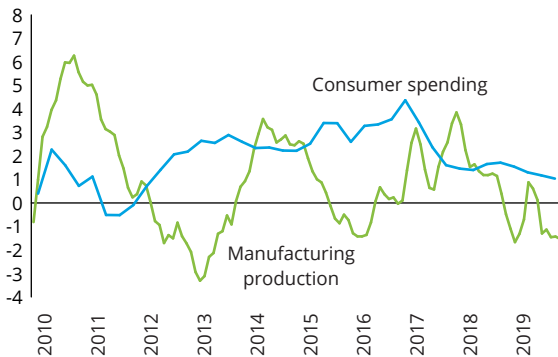
Source: ONS, Consensus Economics and Deloitte calculations

### FTSE 100 price index



Source: Refinitiv Datastream

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



Source: Refinitiv Datastream

### UK annual CPI inflation (%)

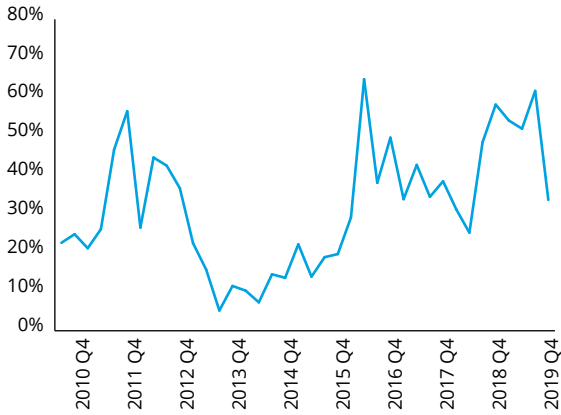


Source: Refinitiv Datastream

# Two-chart summary of key survey messages

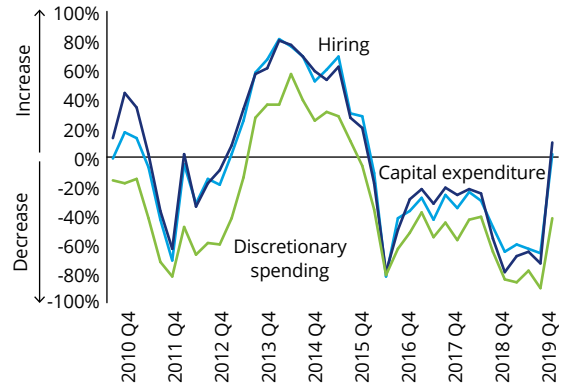
## Uncertainty

% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high



## 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



### About the survey

This is the 50<sup>th</sup> quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2019 fourth quarter survey took place between 16th December 2019 and 6th January 2020. 119 CFOs participated, including the CFOs of 26 FTSE 100 and 46 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 80 UK-listed companies surveyed is £695 billion, or approximately 27% 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).

# Deloitte.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

© 2020 Deloitte LLP. All rights reserved.

Designed and produced by 368 at Deloitte. J19196