

The Deloitte CFO Survey

Record risk appetite

Risk appetite among the Chief Financial Officers of the UK's largest companies rose to a six-and-a-half-year high in the first quarter of 2014. 71% of CFOs say now is a good time to take risk onto their balance sheet, more than twice the level of a year ago and higher than the levels prevailing before the onset of the financial crisis in late 2007.

Significantly reduced economic uncertainty and much improved financing conditions have helped drive corporate risk appetite higher.

Our economic and financial uncertainty index has fallen by one-third over the last year. Easy monetary policy and favourable financing conditions have created a capital-rich environment for big UK corporates. Buoyant risk appetite means that CFOs are likely to draw down on that capital. CFOs report that credit is more available, and more keenly priced, than at any time in the last six-and-a-half years. Expectations for equity issuance and bank borrowing have seen a strong recovery since the lows in late 2011.

The default position of large corporates in the past six years – bullish on emerging markets, cautious on developed markets – seems to be reversing.

CFOs have become more confident about growth in developed economies, particularly the UK. CFOs increasingly see growth here in the UK, and established markets such as the US and euro area, as the key drivers of their corporate investment plans.

Plans for all forms of corporate spending – hiring, capital spending and discretionary spending – are at new three-and-a-half-year highs. A record 95% of CFOs expect merger and acquisition activity to rise over the next year.

CFOs have become markedly more confident about the outlook for UK inflation. Last quarter a majority expected inflation to overshoot significantly its 2.0% target in two years' time. Most now expect inflation to be around 2.0%. On average CFOs expect interest rates to rise by 0.25% over the next year.

Consumer spending has been a significant driver of the UK recovery so far. This quarter's CFO Survey suggests that corporate spending will play an increasingly prominent role as the recovery matures.

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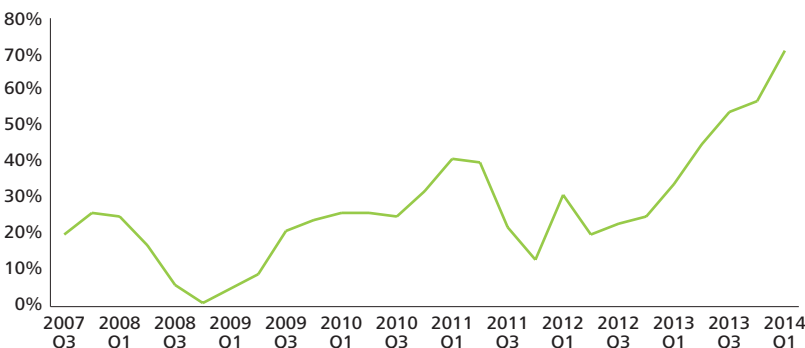
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To access current and past copies of the survey, historical data and media coverage, please visit:

www.deloitte.co.uk/cfosurvey

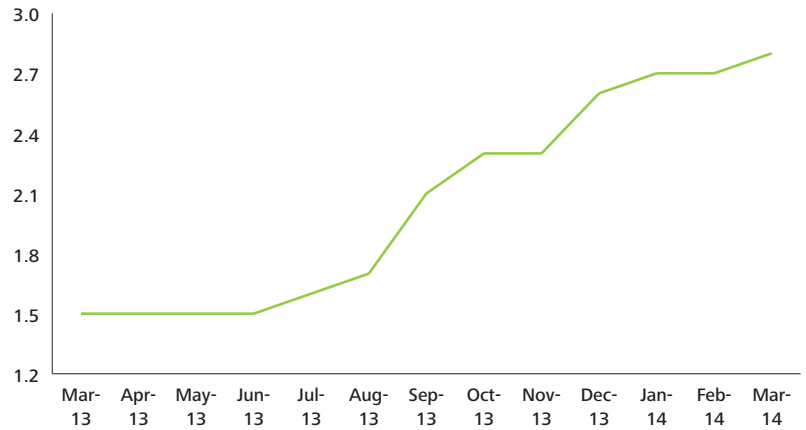
Chart 1. Risk appetite
% of CFOs who think this is a good time to take greater risk onto their balance sheets



Greater risk appetite

Economists have become increasingly optimistic about the UK's growth prospects. Among major advanced economies, the UK has seen the biggest upgrade to 2014 growth forecasts.

Chart 2. Evolution of 2014 consensus growth forecasts for UK (% YoY)



Source: *The Economist*

This is reflected in CFOs' perceptions of uncertainty which have continued to fall.

52% of CFOs rate the level of economic and financial uncertainty facing their businesses as above normal, high or very high, down from 77% a year ago.

Chart 3. Uncertainty

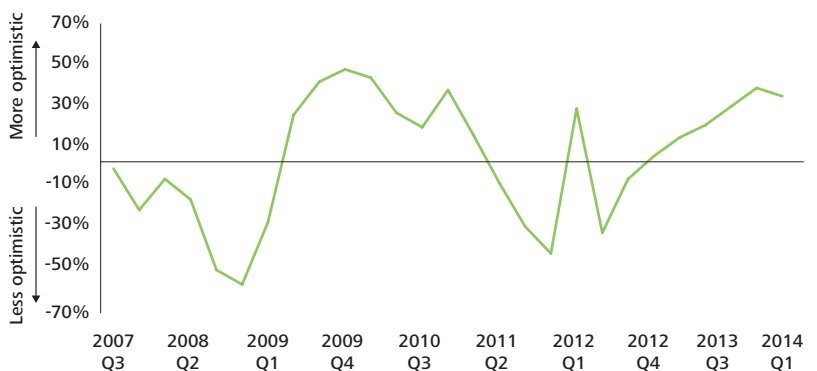
% of CFOs who rate the level of external financial and economic uncertainty facing their business as above normal, high or very high



CFO optimism has edged slightly lower this quarter but remains close to its highest level in four years.

Chart 4. Business confidence

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

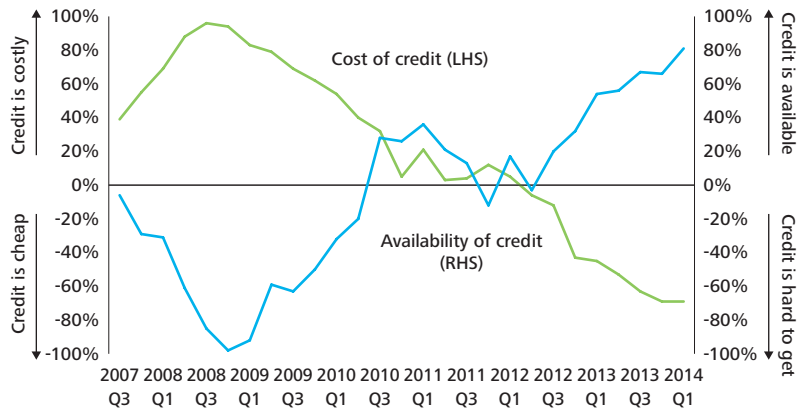


Easy finance

Financing conditions have continued to improve for the large corporates on our survey panel.

CFOs report credit as being cheaper and more easily available than at any time in the last six-and-a-half years.

Chart 5. Cost and availability of credit
Net % of CFOs reporting credit is costly and credit is easily available



The balance of opinion among CFOs is that UK corporate balance sheets are underleveraged.

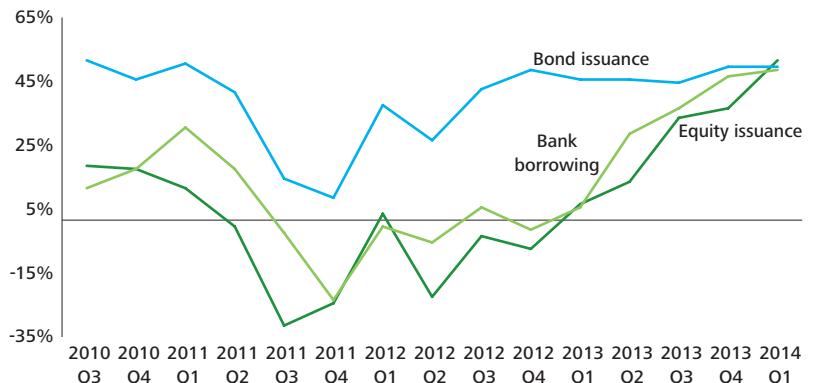
Chart 6. Attitudes to leverage
Net % of CFOs who think UK corporate balance sheets are overleveraged



This, along with easy financing conditions, has led to a sharp rise in CFO expectations of bank borrowing by UK corporates over the last year.

CFOs are also very positive on increased equity issuance. For the first time in three years, a greater proportion of panellists expect equity issuance to rise in the next 12 months than those expecting a rise in bond issuance or bank borrowing.

Chart 7. Outlook for bond issuance, bank borrowing and equity issuance
Net % of CFOs who expect bond issuance, bank borrowing and equity issuance by UK corporates to increase over the next 12 months



Focus on expansion

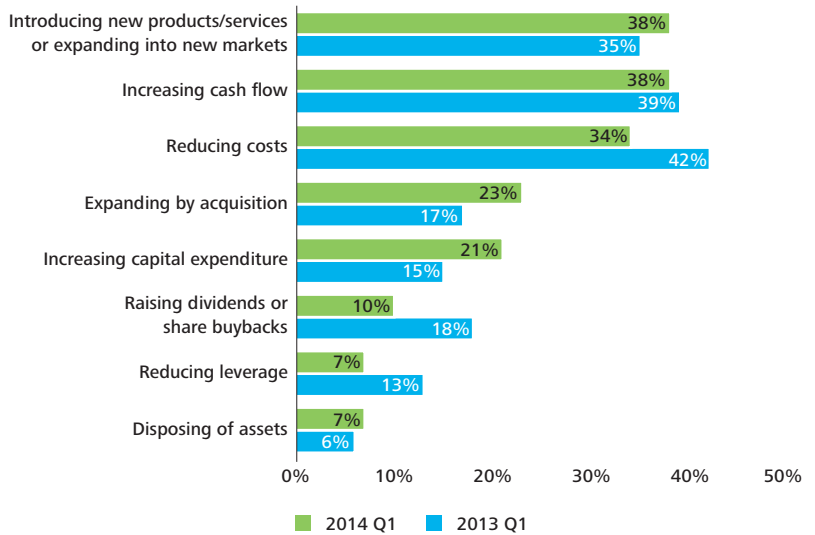
The top priorities for CFOs are introducing new products/services or expanding into new markets and increasing cash flow.

CFOs are placing greater emphasis on expansionary strategies such as expanding by acquisition and increasing capital expenditure than they did a year ago.

They have also softened their focus on defensive strategies such as reducing costs and leverage.

Chart 8. 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



Compared to last quarter, corporate defensiveness has edged higher as CFOs keep a closer eye on cash. Yet, on balance, corporates continue to focus on expansion.

Chart 9. CFO priorities: Expansionary vs. 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.

Investment to rise

CFO expectations for hiring, capital expenditure and discretionary spending have hit new three-and-a-half-year highs this quarter. This fits with the 8.7% year-on-year rise in business investment in the fourth quarter of last year.

Chart 10. Outlook for hiring, capital expenditure and discretionary spending
 Net % of CFOs who expect UK corporates' hiring, capital expenditure and discretionary spending to increase over the next 12 months

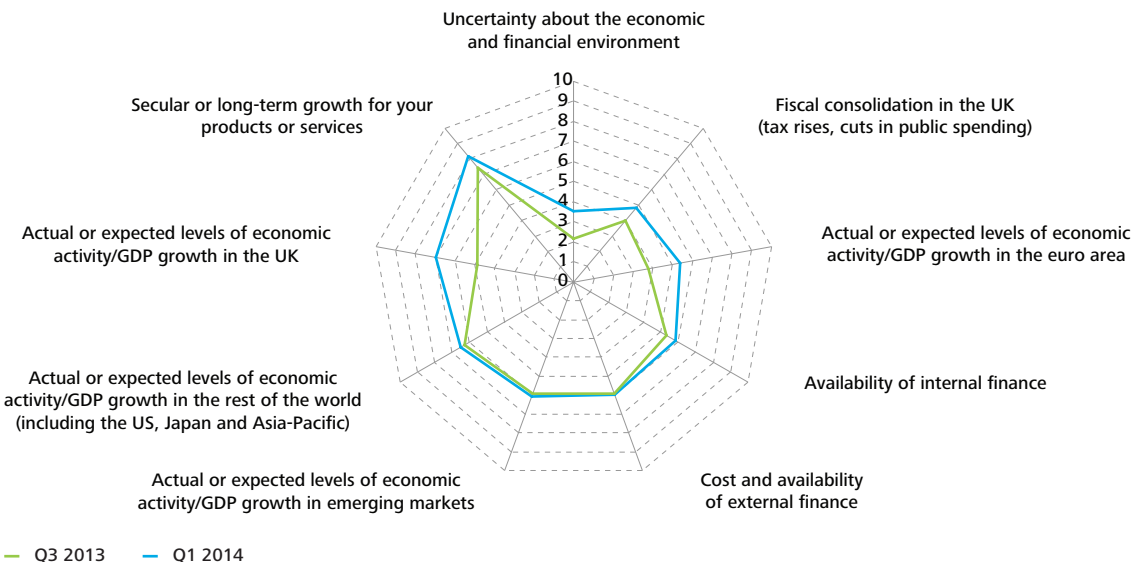


Chart 11 compares the effect of nine key factors on corporate investment plans between Q3 2014 and now.

CFOs report that all these factors have had a more positive effect on their investment plans over the period. Uncertainty and fiscal consolidation remain the greatest constraints on investment although their dampening effects have weakened. The biggest improvements have come from prospects for growth in the UK and euro area. In fact, CFOs report that growth in the UK now offers greater support to their investment plans than growth in emerging markets.

They also continue to be most optimistic on prospects for long-term growth in demand for their products and services.

Chart 11. Factors affecting corporate investment plans
 CFOs' assessment of the effect of each of the following factors on their investment plans
 On a 10-point scale where 0 implies the most negative effect and 10 the most positive



Improved UK growth prospects

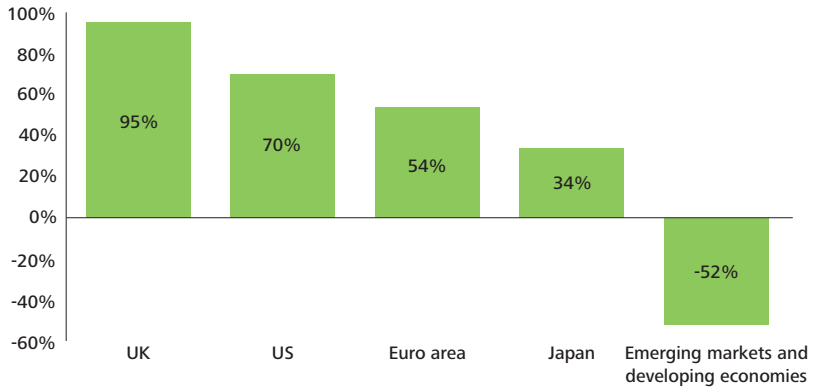
CFOs report an improvement in prospects for economic activity across the developed world.

They are especially positive on growth in the UK and US, which are forecast to be the fastest-growing G7 nations this year.

By contrast, prospects for growth in emerging economies have deteriorated.

Chart 12. Prospects for economic activity

Net % of CFOs reporting an improvement in prospects for economic activity over the last six months in the UK, US, euro area, Japan and emerging markets

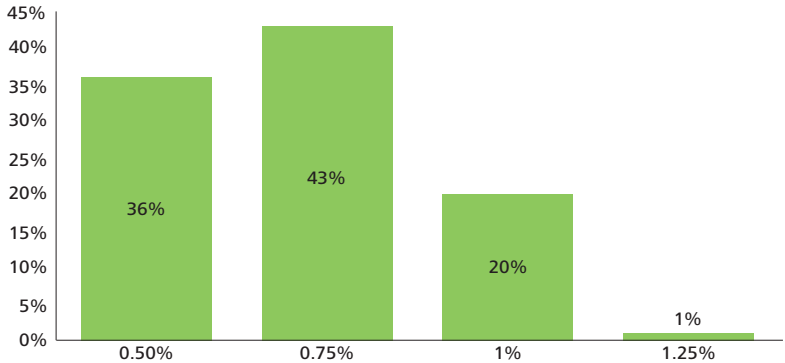


A majority of CFOs expect the Bank of England’s base rate to be above its current level of 0.5% in a year’s time.

The weighted-average interest rate expected by our panel is 0.71% which amounts roughly to a 25-basis-point rise by the first quarter of next year.

Chart 13. Bank rate expectations

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

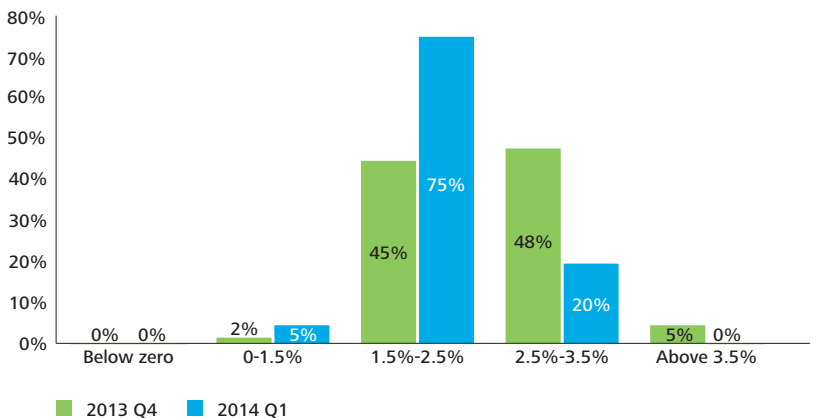


With inflation down from last year’s peak of 2.9% in June to just 1.7% in February, CFOs have lowered their inflation expectations.

Three-quarters expect CPI inflation to hover around the Bank of England’s 2.0% target in two years’ time. Only a fifth of our panellists expect inflation to be significantly above target, down from a majority last quarter.

Chart 14. Inflation expectations

% of CFOs who expect consumer price inflation in the UK to be within the following ranges in two years’ time

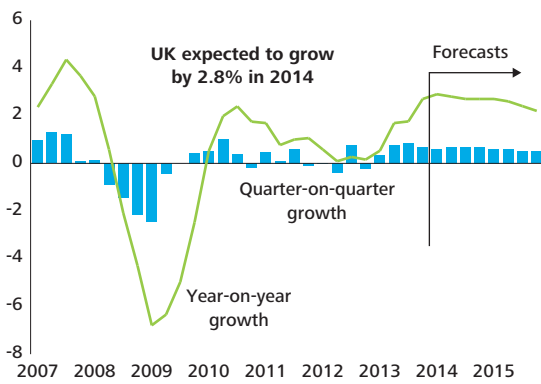


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q1 2014

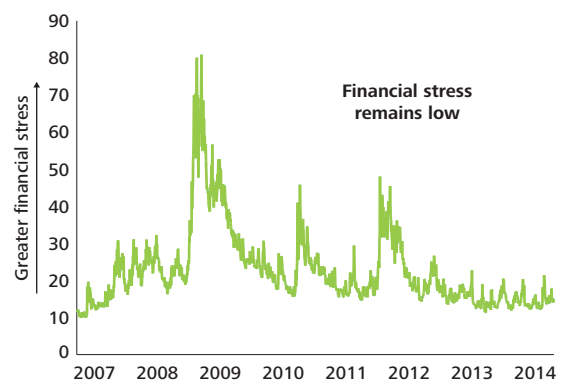
The underlying pace of growth in major advanced economies improved in the first quarter. UK data were particularly strong, with further upgrades to growth forecasts and inflation falling below the Bank of England's 2.0% target for the first time in more than four years. The recovery in the euro area broadened, with some gains in the peripheral economies that bore the brunt of the euro crisis. Fears of deflation in the euro area led to the president of the German Bundesbank to soften his stance on further monetary easing in the region. Events in Crimea and further downgrades to emerging market growth forecasts added to concerns about emerging market economies. Equities were volatile. Developed markets saw the largest gains with emerging market and UK equities lagging behind. Appetite for deal-making rose, with a number of large transactions driving the value of global M&A activity up by 54% in Q1 on a year earlier, while global initial public offerings almost doubled in value.

UK GDP growth: Actual and forecast (%)



Source: ONS, consensus forecasts from *The Economist* and Deloitte calculations

VIX Index – a measure of equity market volatility



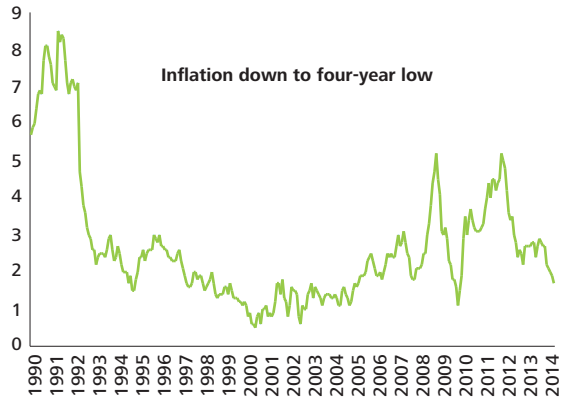
Source: Thomson Reuters Datastream

UK private and public sector job growth (thousands)



Source: ONS

UK annual CPI inflation (%)

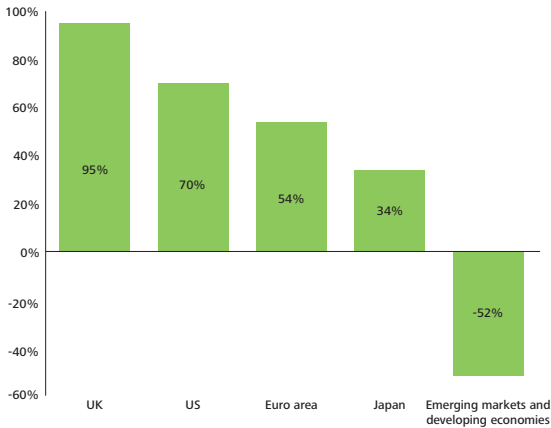


Source: ONS

Two-chart summary of key survey messages

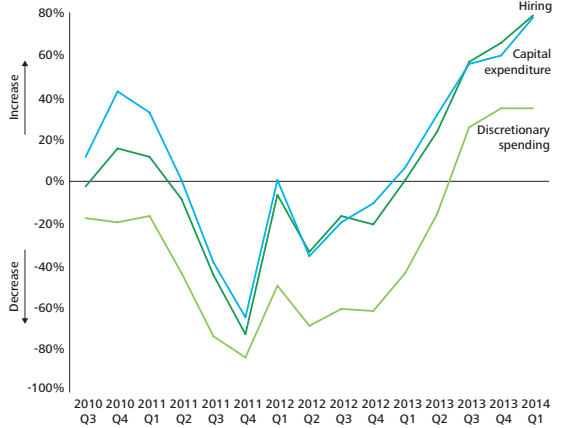
Prospects for economic activity

Net % of CFOs reporting an improvement in prospects for economic activity over the last six months in the UK, US, euro area, Japan and emerging markets



Outlook for hiring, capital expenditure and discretionary spending

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



About the survey

This is the 27th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2014 first quarter survey took place between 6th and 24th March. 126 CFOs participated, including the CFOs of 27 FTSE 100 and 45 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 81 UK-listed companies surveyed is £570 billion, or approximately 26% 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 Tulaine Trimble on 020 7007 1684 or email ttrimble@deloitte.co.uk

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