

## The Deloitte CFO Survey

### Corporates shift to growth

The fears about political risk and policy uncertainty, which dampened corporate spirits in the run up to the General Election, have fallen away. Despite the intensifying crisis in Greece, corporate risk appetite rose in the second quarter and CFOs have become markedly more enthusiastic about pursuing growth strategies. In a striking sign that the recovery is gaining ground the prospect of higher interest rates now tops CFOs' list of potential business risks.

The election of a majority Conservative government has turned a referendum on membership of the EU from a possibility to certainty. Yet CFOs are now more relaxed about holding an EU referendum than they were before the election, perhaps because they believe the vote will endorse continued membership. 74% believe that it is in the interests of UK business for the UK to remain within the EU while 2% disagree.

A majority of CFOs expect the government's renegotiation of Britain's relationship with the EU to deliver positive results in all seven areas identified by the Prime Minister. Sentiment is most positive about the scope for the government to be able to tighten benefit rules and reduce excessive regulation.

The results of the renegotiation are set to have a significant effect on corporate attitudes to the EU.

23% of CFOs say that their judgement about membership will depend on the results of the discussions with the EU.

Our survey period in June coincided with a sell-off in equity markets and an escalating crisis in Greece. Yet perceptions of external financial and economic uncertainty have fallen for the first time in a year. Risk appetite has risen, with 59% of CFOs saying that now is a good time to take risk, up from a two-year low of 51% recorded in the previous survey, before the General Election. Our index of corporate expansion has risen sharply, to the highest level in four years.

It is indicative of the shift in mood in the corporate sector that after years of easy monetary policy CFOs are contemplating the prospect of higher interest rates. CFOs now rate interest rate rises in the UK and US, along with euro area weakness, as the two main risks to their business.

CFOs became more cautious towards the end of 2014 and in early 2015, partly in response to perceptions of growing policy uncertainty at home. These effects seem to have unwound and CFOs enter the second half of the year in expansionary mode. Our latest results suggest that the UK recovery is regaining momentum.

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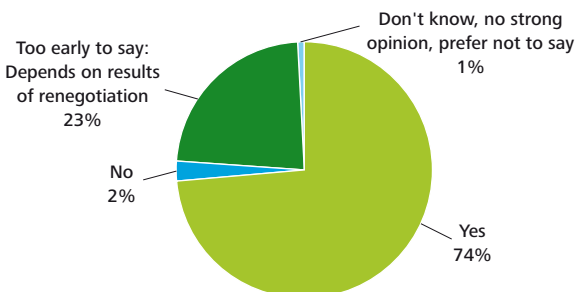
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For current and past copies of the survey, historical data and coverage of the survey in the media and elsewhere, please visit:

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

**Chart 1. Favourability of EU membership**

% of CFOs who gave the following responses when asked whether it is in the interests of UK businesses for the UK to remain a member of the EU

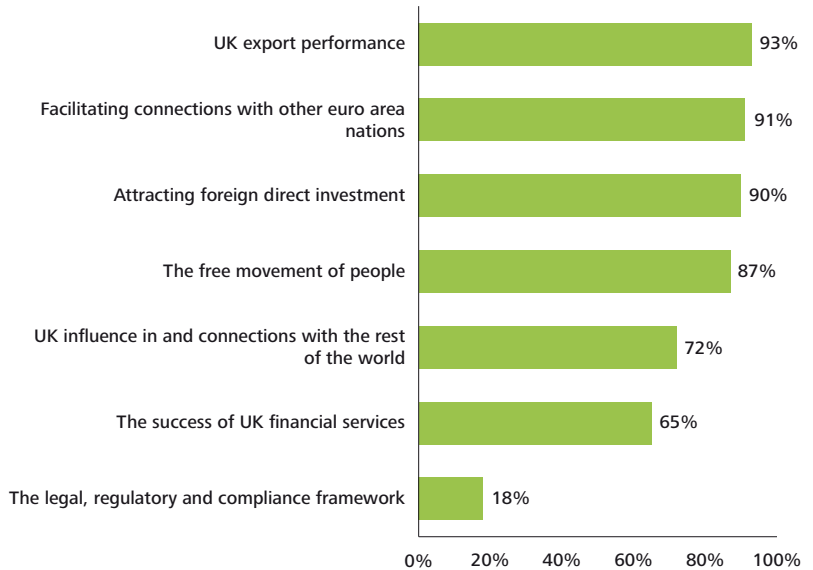


# Views on EU membership

A large majority of CFOs see the UK as having benefited from EU membership in terms of its export performance, facilitating connections with other European nations and in attracting foreign direct investment.

However, only a small minority see benefits from the EU's legal, regulatory and compliance framework.

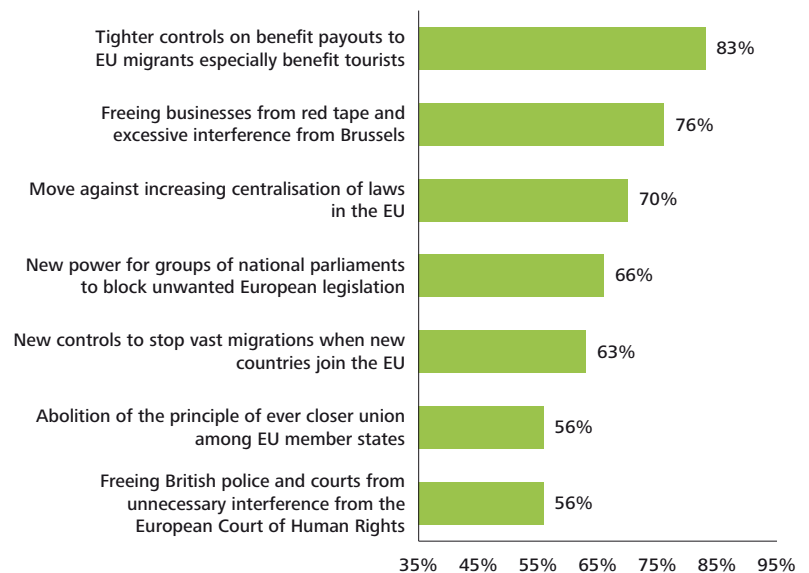
**Chart 2. Benefits of EU membership**  
% of CFOs who consider UK businesses and the UK economy to have benefited from EU membership in the following areas



CFOs are optimistic about the prospect of success in the Prime Minister's renegotiation of the UK's membership of the EU.

CFOs expect the renegotiation to have positive effects in each of the seven areas identified by the Prime Minister last year. They are especially optimistic about the prospects of tightening welfare payments to EU migrants and reducing red tape.

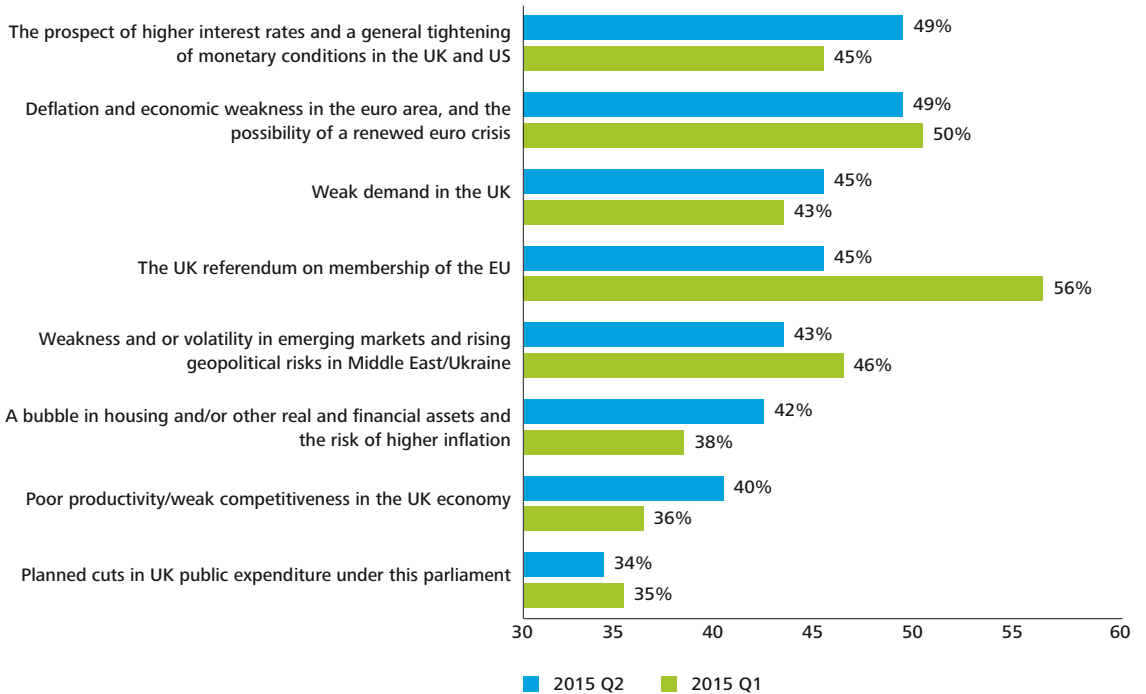
**Chart 3. Effects of renegotiation**  
% of CFOs who expect the UK to see positive effects from renegotiation of its terms of EU membership, in the following areas identified by the Prime Minister



# Euro crisis and rate rise top risks

**Chart 4. 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



Chief Financial Officers see monetary tightening at home and the US, and the ongoing Greek debt crisis as the greatest challenges facing their businesses.

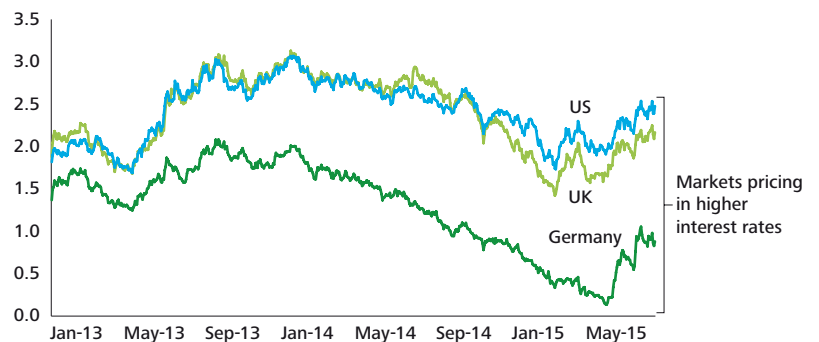
Certain economic and political issues at home also remain prominent risks. The EU membership referendum, now slated for 2017, is seen as a less immediate challenge than before the election, perhaps because recent opinion polls point to a 'Yes' vote.

Despite the scale of cuts in public expenditure likely during the term of this Parliament, CFOs rank spending cuts at the bottom of their worry list.

CFO concern over rate rises fits with recent shifts in financial markets, with government bond yields and interest rate expectations rising through the second quarter.

**Chart 5. Government bond yields**

Yields on benchmark 10-year US, UK and German bonds (%)

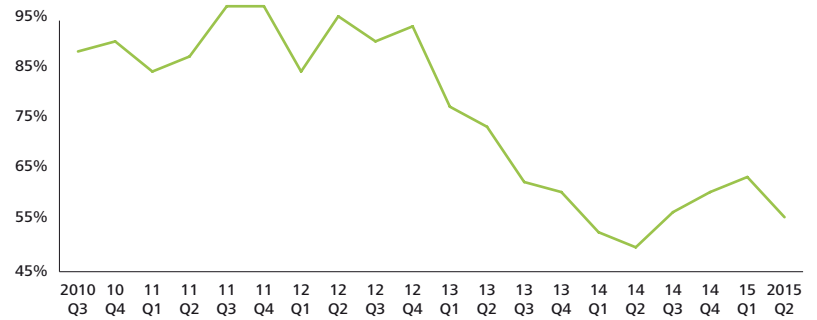


# Risk appetite up

Despite rising concerns over the possibility of a Greek exit from the euro area CFO perceptions of uncertainty have fallen in the second quarter.

The pre-election rise in economic policy uncertainty has partially unwound. The proportion of CFOs rating the level of financial and economic uncertainty facing their businesses as above normal, high or very high has fallen from 63% to 55%.

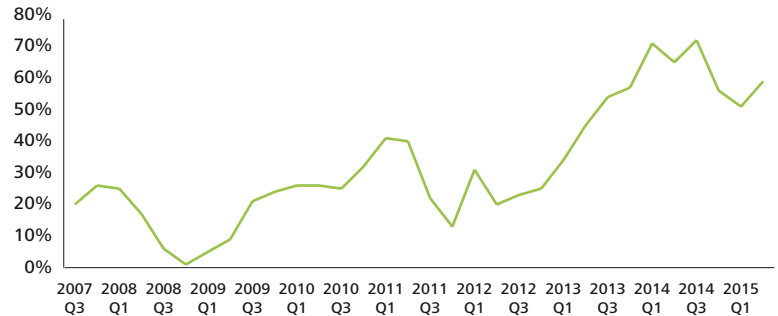
**Chart 6. Uncertainty**  
% of CFOs who rate the level of external financial and economic uncertainty facing their business as above normal, high or very high



This decline in uncertainty has coincided with a rebound in corporate risk appetite.

59% of CFOs say that now is a good time to take greater risk onto their balance sheets, up from a two-year low of 51% recorded in the previous survey, before the General Election.

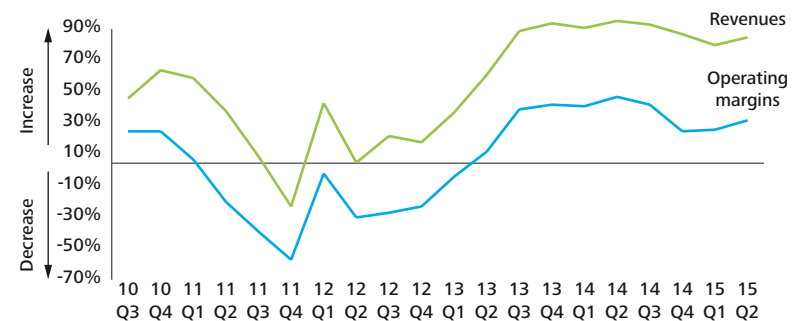
**Chart 7. Risk appetite**  
% of CFOs who think this is a good time to take greater risk onto their balance sheets



Corporates also remain optimistic about profitability.

CFO expectations for growth in revenues and operating margins rose in the second quarter and remain well above their long-term averages.

**Chart 8. Outlook for corporate revenues and margins**  
Net % of CFOs who expect UK corporates' revenues and margins to increase over the next 12 months



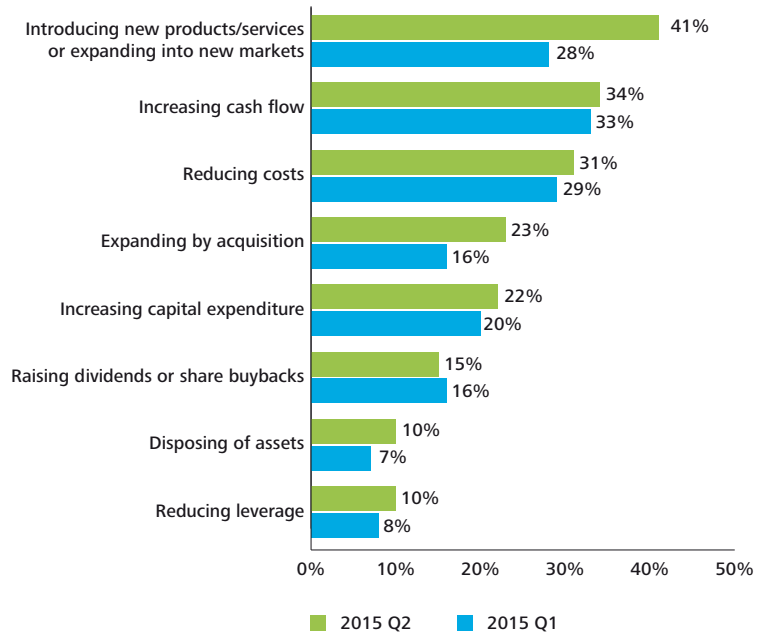
# Expansion is top priority

Introducing new products and services or expanding into new markets is the top priority for CFOs. 41% have rated it as a strong priority, the highest reading in more than four years.

Compared to the first quarter, CFOs are placing greater emphasis on other expansionary strategies such as expanding by acquisition and increasing capital expenditure.

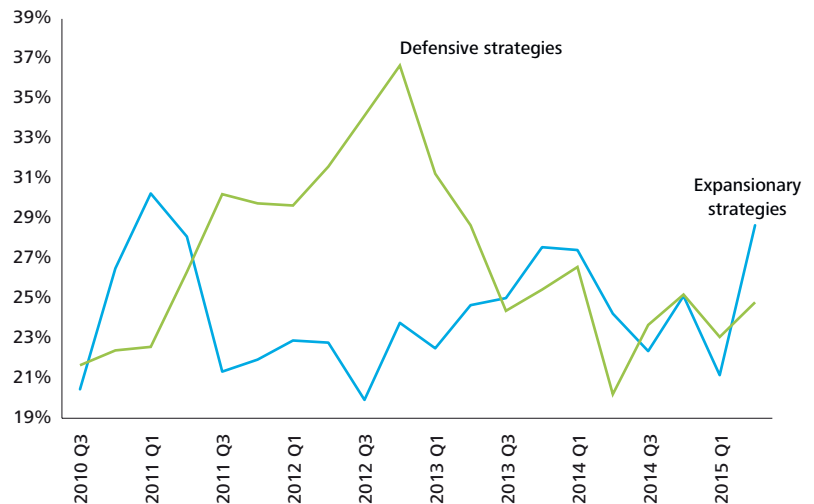
Despite an increasing emphasis on growth, CFOs are also maintaining their longstanding focus on increasing cash flow and reducing costs.

**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



CFOs' strategies have turned markedly more expansionary. Our index of corporate expansion rose to the highest level in four years in the second quarter.

**Chart 10. 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.

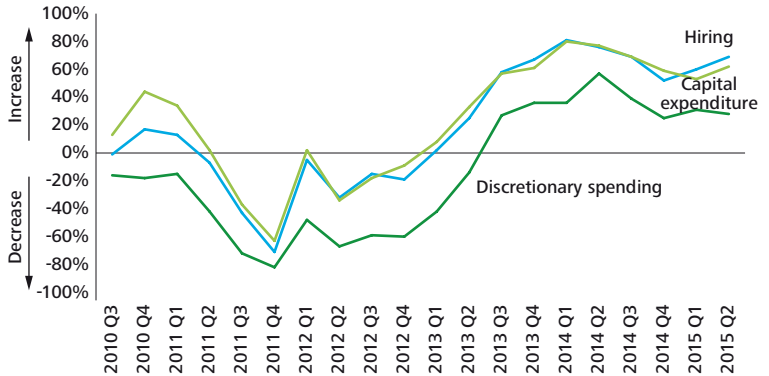
Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

# Strong fundamentals

CFO expectations for hiring and capital expenditure have risen close to their highest levels in five years.

Expectations for discretionary spending also remain well above their long-term average.

**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

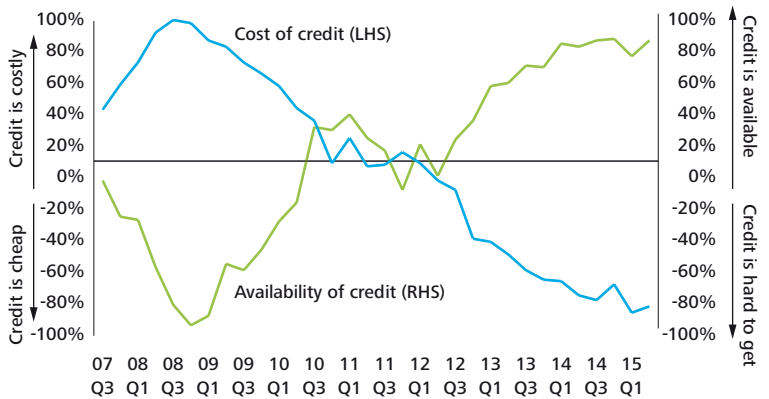


The large corporates on our survey panel have easy access to credit.

The cost of credit remains close to an eight-year low while availability is just shy of a seven-year high.

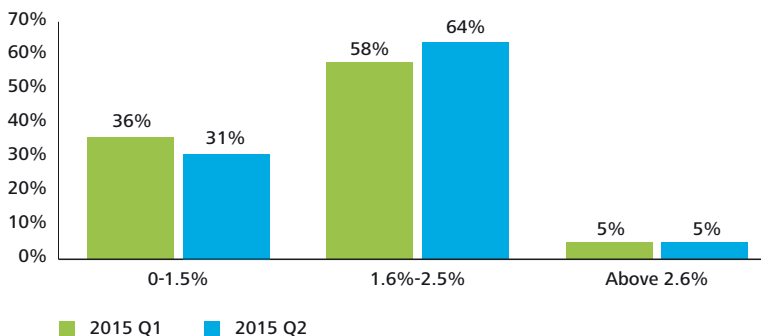
CFOs continue to rate debt finance – bond issuance and bank borrowing – as the most attractive source of external funding.

**Chart 12. Cost and availability of credit**  
 Net % of CFOs reporting credit is costly and credit is easily available



CFOs' expectations for inflation edged up in the second quarter with almost two-thirds expecting inflation to be around the Bank of England's 2.0% target in two years' time.

**Chart 13. Inflation expectations**  
 % of CFOs who expect consumer price inflation in the UK to lie between the following range in two years' time

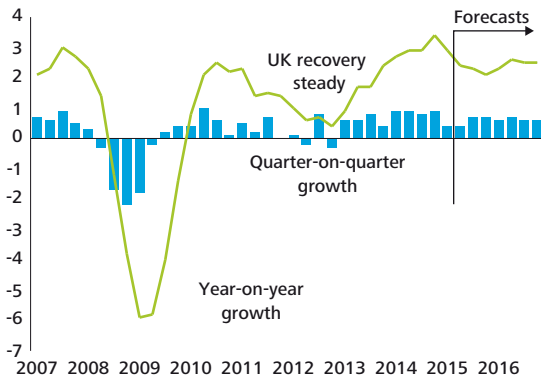


# CFO Survey: Economic and financial context

## The macroeconomic backdrop to the Deloitte CFO Survey Q2 2015

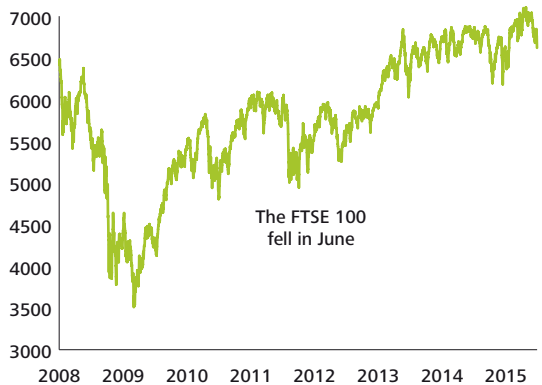
The Greek crisis intensified, weighing on investor sentiment. An unexpected majority victory for the Conservatives in the UK General Election dispelled market concerns that the election would deliver a new multi-party coalition or a minority government. Forecasts for US growth in 2015 were revised up following stronger than expected consumer spending. Japan's economy also fared better than expected in the first quarter. Despite signs of stabilisation, the outlook for Chinese growth remained uncertain, with bold monetary easing yet to kick-start an acceleration in activity. Chinese equities fell by more than 17% between late May and the end of June. The recovery in the euro area strengthened, with unemployment falling and the demand for and supply of credit improving. Growth in Spain in the first half of the year was particularly robust.

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



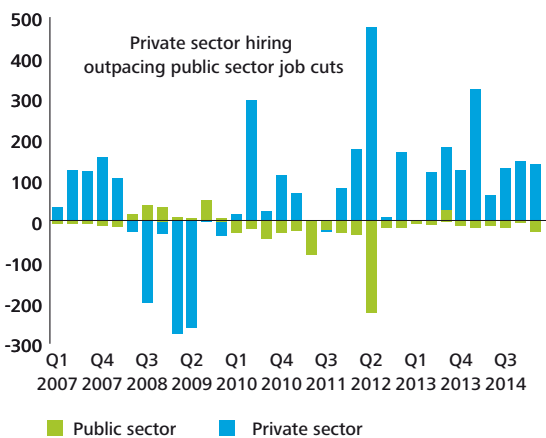
Source: ONS, consensus forecasts from *The Economist* and Deloitte calculations

**FTSE 100 price index**



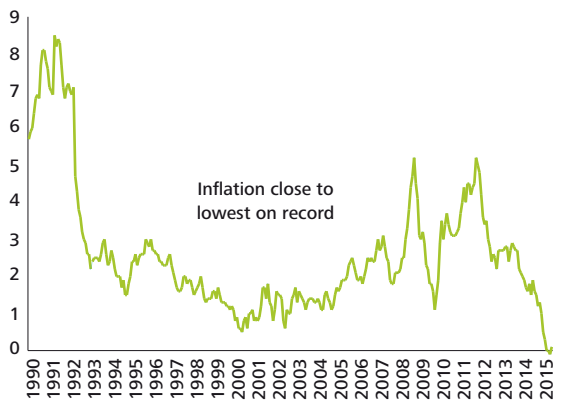
Source: Thomson Reuters Datastream

**UK private and public sector job growth (thousands)**



Source: Thomson Reuters Datastream

**UK annual CPI inflation (%)**

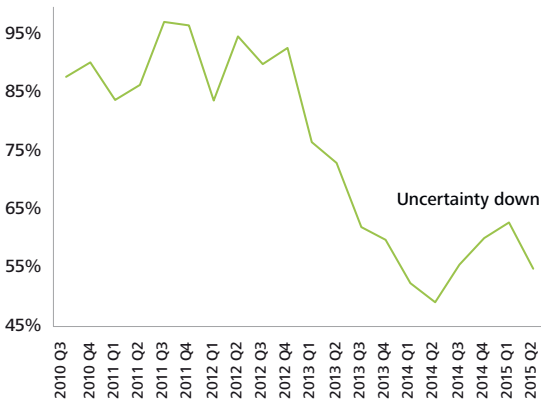


Source: Thomson Reuters Datastream

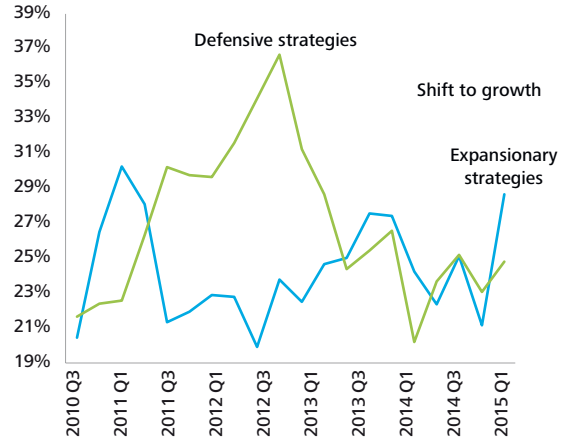
# Two-chart summary of key survey messages

### Uncertainty

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



### CFO priorities: Expansionary vs. defensive strategies



Expansionary and defensive strategies explained on page 5.

### About the survey

This is the 32nd quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2015 second quarter survey took place between 12th and 29th June. 122 CFOs participated, including the CFOs of 24 FTSE 100 and 49 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 82 UK-listed companies surveyed is £499 billion, or approximately 22% 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 Anthea Neagle on 020 7303 0116 or email [aneagle@deloitte.co.uk](mailto:aneagle@deloitte.co.uk).

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