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Global CFO Signals

Time to be bold?

Q4 2017 Deloitte Member Firms' CFO Surveys

Australia, Belgium, Central Europe, Japan, Netherlands, North America, Russia, and United Kingdom

Deloitte Global CFO Signals
February 2018

CELEBRATING 10 YEARS OF EXCELLENCE
10
CFO PROGRAM

Contents

About the Deloitte Global CFO Program

The Deloitte Touche Tohmatsu Limited ("Deloitte Global") Global Chief Financial Officer (CFO) Program is a CFO-centric strategic offering 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. Deloitte Global's 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 15) for member firm contacts and information on the scope and survey demographics for each survey.

About the Deloitte Global CFO Signals

The purpose of Deloitte Global CFO Signals report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the fourth-quarter 2017 CFO surveys from Deloitte member firms in the following geographies:

Australia: A strong global economy underpins rising optimism and risk appetite
Belgium: Ready for another solid year
Central Europe: Balancing optimism with risk aversion
Japan: Costs are all that matter
Netherlands: CFOs are hiring, but concerned about a skills shortage
North America: Global economic growth drives optimism entering 2018
Russia: Optimistic despite weaker domestic demand
United Kingdom: Focus on cost control, no retreat from growth

*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 Q4 2017

Time to be bold?

In the fourth quarter of 2017, economic fundamentals were generally sound, if not ideal. Monetary policy remained favorable, uncertainty was muted, consumer demand was solid, and, in the United States, tax reform was quickly moving from promise to reality. Little wonder, then, that there are multiple signs of optimism in the Q4 2017 edition of *Global CFO Signals*.

In fact, in the eight surveys included in this quarterly round-up, many of the responding CFOs voice positive outlooks about their organizations' financial prospects, growth metrics, and, in many cases, their countries' economic outlooks. In North America, net optimism rose sharply from last quarter's +29 to +47, despite continued uncertainty about future government policy. In Australia, 62% of CFOs say now is a good time to take greater risk onto their balance sheets—a new high. And across Central Europe, the proportion of CFOs expecting high or very high GDP growth in the next year has nearly doubled since the last survey (to 41% from 21%).

Recent stock market volatility aside, "fundamentals remain in great shape," says Patricia Buckley, managing director, Economic Policy and Analysis, Deloitte Services LP (US), pointing to upticks in productivity growth and business investment in equipment as key. "If I were a CFO, I'd be pretty optimistic too."

The question is: Given all the positive signs, will CFOs and their companies take the opportunity to make bold moves?

In some cases, there are indications that CFOs are at least considering doing so. In Belgium, for example, most growth indicators are higher than they were one year ago, and 85% of CFOs say implementing expansionary strategies has priority over defensive strategies. Across North America, CFOs indicate a strong bias toward revenue growth over cost reduction (61% vs. 18%). Meanwhile, more than half of Dutch CFOs say they will enter strategic partnerships in the next 12 months.

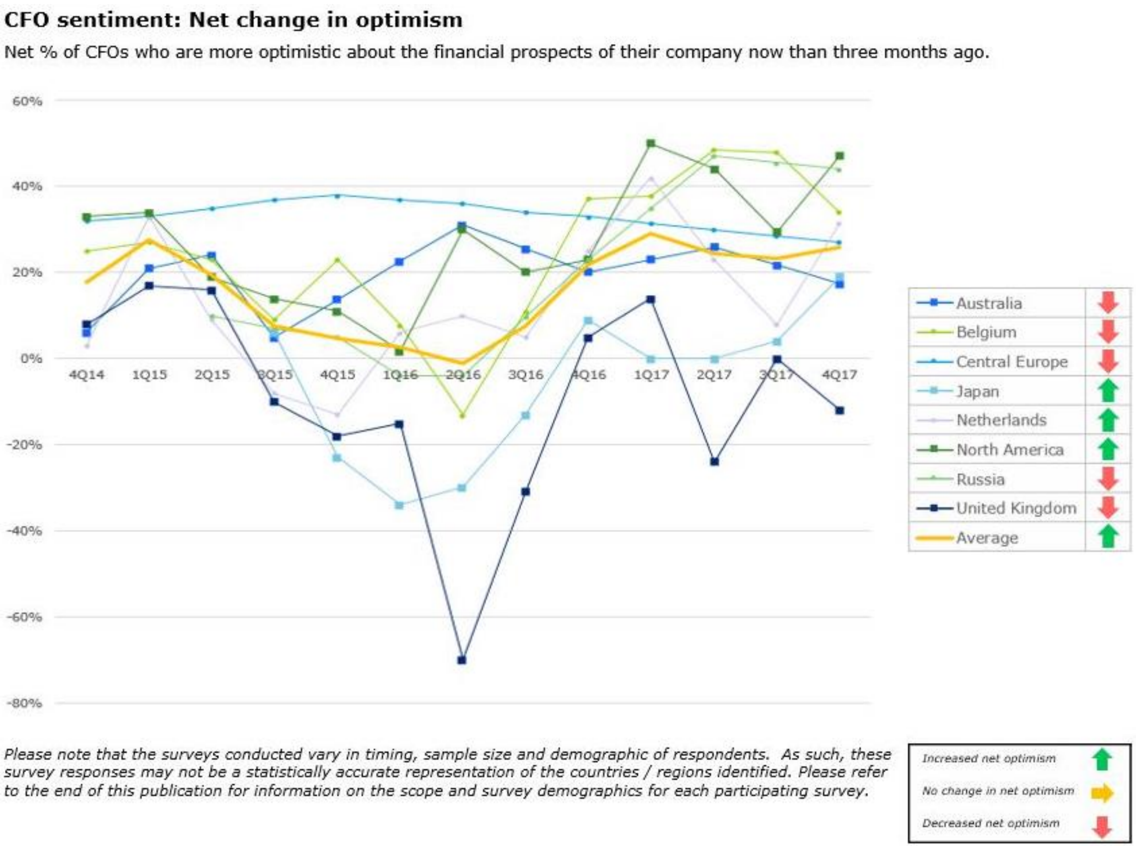
There are still plenty of undercurrents worth noting, however. In the UK, CFOs expect Brexit to negatively impact discretionary spending (55%), hiring (41%), and capital spending (39%) over the next three years. Australian CFOs voiced concerns about the impact that new regulatory changes and emerging technologies, such as artificial intelligence, might have on their bottom lines. And in North America, 84% of CFOs cautioned that equity markets were overvalued—a new survey high.

One issue that has become a larger concern this quarter is talent. In North America, nearly two-thirds of CFOs say securing and retaining quality talent will be difficult over the next year, and more than half say changing demographics will influence their talent strategies. In Central Europe, some 53% of CFOs point to a shortage of qualified workers as their greatest concern. That possible skills shortage is also the number one risk factor cited by 66% of CFOs in the Netherlands.

Whether the recent rumblings in the equity markets—or any of these other undercurrents—derails how bold CFOs can be remains to be seen. In the meantime, what follows is a synopsis of CFO sentiment by region in Q4 2017:

Americas

While political turmoil captured many of the headlines in the fourth quarter, CFOs in North America were buoyed by global economic growth and equity markets that hit new highs. CFOs' optimism about their own companies' prospects rebounded to the third-highest level in the survey's history. Earnings expectations rose further above their two-year average; and, although lower than last quarter, expectations for revenue, capital investment, and domestic hiring all remained above their two-year averages. Looking forward, CFOs' perceptions of Europe's economy rose and their optimism regarding China's future prospects reached its highest level in five years. As for the North American economy, CFOs' perceptions rebounded, with 74% saying current conditions are good (versus 64% last quarter). Their future outlooks are also positive despite trade policy being named one of their top concerns. From a CFO's point of view, says Pierre Pettigrew, executive advisor, Deloitte Canada, all the talk of new trade policies supplanting NAFTA or other treaties may be unsettling given how "integrated" the economies are. After all, he asks, "How do you unmake the omelet?"



Asia-Pacific

Positive signs for the future are on the rise in the two countries reporting in Asia-Pacific—Australia and Japan. In Japan, for example, 27% of surveyed CFOs indicate that they are "more optimistic" or "very optimistic" about their companies' financial prospects, up from 14% last quarter. As for most worrisome risks, CFOs there are concerned about labor shortages and workstyle reforms on the domestic side, and relations between the US and North Korea and the stability of the Trump administration globally. In Australia, CFO sentiment remains relatively optimistic, bolstered by improved hiring conditions and an uptick in both government and business investment in the Australian economy. In fact, says, David Rumbens, partner, Deloitte Access Economics (Australia), business investment bottomed out last year after four and a half years of declines. "Now, Australian CFOs are not only talking about being confident, but starting to put their money where their mouths are," he says.

Europe

Finally, in Europe, the outlooks are somewhat mixed. In the UK, for example, the Brexit overhang continues to plague CFOs. The largest businesses there entered 2018 more focused on controlling costs than at any time in the last eight years. Still, this hasn't led to a collapse in business sentiment compared with other times of uncertainty, such as during the euro debt crisis. Cost control remains a priority among Russian CFOs, too, even though 53% report being more optimistic about their companies' financial prospects. Across Central Europe, CFOs optimism has dropped to 27% from 33% last year, despite optimism regarding revenue, operating margins, and GDP rates. Meanwhile, in the Netherlands, CFOs' views toward uncertainty have also dropped, with 45% now saying it is high or very high, down from 71% in Q3 2017. And, in Belgium, where net optimism is strong, expansionary strategies, including organic growth and digitalization, are top priorities. Michael Grampp, chief economist, Deloitte Switzerland, expects that those priorities might not be limited to Belgium. "This year, we will see a lot of impact from additional investments, and a large focus will be on digitalization," he says.

Going forward, the Deloitte economists interviewed note that there are a host of factors that could derail the positive outlooks, including inflation, a breakdown in Brexit talks, and the continued political turmoil in the US. There are also "risks that are not as visible," says Rumki Majumdar, an economist with Deloitte India, citing rising household debt in Asian markets. And then, she adds, there are the risks that have been visible for some time. "For example, we've known for a while that the optimism among investors may not justify the rise in equity prices we have seen."

Global CFO Signals

By the numbers

Risk appetite

Companies' risk appetites were mixed this quarter. In Australia, some 62% of CFOs said now is a good time to take greater risk onto their balance sheets—the strongest result since the survey's inception. Likewise, in Belgium, CFO's risk appetites improved to 45% from 39% in Q4 2016. But, in the UK, the Brexit overhang has kept CFOs risk appetites at around 21% for the last year. Meanwhile, 69% of Central Europe's CFOs do not think it's time to add risk, and neither do 67% of CFOs in the Netherlands (up from 42% last quarter).

Uncertainty

Many CFOs believe external financial and economic uncertainty will continue to moderate. In the UK, for example, 38% of CFOs in the UK rate the level of uncertainty as "high" or "very high," but that is significantly lower than during the euro crisis in 2011-2012 or following the EU referendum in 2016. Uncertainty in Japan dipped again, with the proportion of CFOs labeling uncertainty as "high" or "very high" falling to 44%, the first time it has dipped below 50% in the last year. A similar story can be found in Australia, where close to half of CFOs rate uncertainty as "above normal," down from 78% a year ago. But in Russia perceptions of uncertainty increased for the first time since 2015.

Metrics

In North America, Q4 2017's 4.7% expectation for year-over-year revenue growth was down from last quarter's 5.7%, but still above the two-year average. Elsewhere, CFOs are more upbeat, particularly in Belgium and Central Europe, where 85% and 73% of CFOS, respectively, expect increases. In line with increased optimism, 66% percent of Japanese CFOs expect an increase in earnings. Yet, in the UK, where revenue expectations remain positive, a net 66% of CFOs expect operating costs to rise, close to the highest percentage in more than six years.

Hiring

As for hiring, it is back on the agenda in several countries. Seventy percent of Belgium's CFOs expect to hire over the next 12 months, as do 48% of CFOs in the Netherlands, 46% of CFOs in Central Europe, and 29% of CFOs in Russia. Some 41% of the UK's CFOs think hiring will decrease because of Brexit, and in North America, this quarter's domestic hiring growth expectation fell from 2.6% to 2.0%. Meanwhile, fear of a skills shortage was a top concern in many of the survey reporting, including Belgium, Central Europe, and the Netherlands.

Corporate strategy

Expansion is the theme in several surveys. In Belgium, 85% of CFOs said implementing expansionary strategies was a higher priority than defensive strategies. In North America, about 61% of CFOs said they were biased toward revenue growth, while only 18% claimed a bias toward cost reduction. In the Netherlands, 74% of Dutch CFOs expect M&A activity to increase. But caution still reins in the UK: CFOs entered 2018 more focused on reducing costs (51%) than at any time in the last eight years. Meanwhile, in Russia, two of the top strategies cited involved reducing costs.

Interest rates

CFOs expect interest rate hikes, but seem to be taking the prospect in stride. In Belgium, there is a strong consensus among CFOs that the European Central Bank will raise rates this year, but most CFOs do not expect it to affect their growth strategies. Similarly, in Central Europe, 55% expect hikes, but CFOs say they won't change course, due partly to the low impact that rates have on their business. In the UK, 85% of CFOs believe the Bank of England's base rate will be 0.75% or above in a year's time, up from 42% in Q3. In Australia, however, 69% of CFOs expect rates to stay the same, up from 58%.

Deloitte Member Firm CFO surveys:

Fourth-quarter 2017 highlights

Australia

A strong global economy underpins rising optimism and risk appetite

Encouraged by economic developments

Entering 2018, CFO sentiment remained relatively optimistic (some 71% of Australia's CFOs report being optimistic about financial prospects going forward), bolstered by improved hiring conditions and a lift in both government and business investment in the Australian economy. CFOs are also encouraged by the strength of economic recovery in the United States, and they now have a stronger view on whether the Trump administration will affect their business activities. Europe also continues to deliver positive economic results and is another source of CFO confidence. In contrast, risks around China are no longer at the forefront of CFO minds, with only 19% concerned that there may be a hard landing for China's economy.

Comfortable with risk; worried about regulation

Against this backdrop, CFOs indicated they have the strongest desire to take on additional risk since the inception of the sentiment survey in 2009, with a record 62% of respondents comfortable with taking on more balance sheet risk. This is largely supported by improved perceptions of external financial and economic certainty—a big increase since the second half of 2016.

Despite an increased penchant for risk, developments, such as the royal commission into Australia's financial services sector, are weighing on CFO minds. In fact, 63% of respondents agreed that regulatory change and its implications are important for their companies' strategic planning in coming years.

Focused on innovation

Going forward, CFOs ranked digital disruption and innovation among the top five issues facing their firms in the next two years. Nearly half of respondents also recognized that exponential technologies (e.g., data analytics and automation) will drive company growth, and for this reason, 42% of CFOs agreed that innovation is the number one consideration for strategic planning. Yet, CFOs are grappling with the next steps, including training and upskilling their employees to make the most of technological opportunities.

Outlook optimistic

For 2018, the outlook is one of more good news to come. CFOs see a positive macroeconomic outlook that is supportive of business activity and may keep share markets relatively buoyant. In addition, CFOs expect interest rates to stay where they are and the Australian dollar to moderate.

Highlights from the H2 2017 Australia CFO Survey:

- Net optimism about financial prospects compared with six months ago dipped slightly to 17% in the second half of 2017.
- A record 62% of Australia's CFOs are comfortable with taking on more balance sheet risk.
- In the second half of 2017, 69% of CFOs expect interest rates to remain around the same level, compared with 58% in the first half of the year.
- CFOs ranked digital disruption and innovation among the top five issues facing their firms in the next two years, and 42% agreed that innovation is their number one consideration for strategic planning.

Belgium

Ready for another solid year

Optimism justified

A year ago, Belgium's CFOs had a positive outlook for 2017. The vast majority of CFOs expected top-line growth and higher profits, and they have not been disappointed: CFO optimism toward the financial prospects of their organizations remained significantly higher than in 2016 throughout the year. Reported levels of financial and economic uncertainty dropped to an historic low. Moreover, optimism was justified, as 48% of the surveyed CFOs reported that 2017 performance beat budgets.

The business environment evolved positively throughout the year. The National Bank of Belgium, the European Commission, and the OECD increased their economic growth projections. Continued quantitative easing policies kept interest rates low and external funding attractive. After a sharp drop at the end of 2016, companies gradually regained confidence in the current government's ability to set the right priorities for financial and economic policy making. Moreover, compared with one year ago, the importance of taxation and labor market policies has surged among CFOs.

Focus on expansion

The survey results indicate 2018 may potentially outperform 2017. Most of the CFO surveyed rated growth indicators higher than one year ago. In fact, half of survey participants expect to (further) increase capital expenditure. Moreover, 70% of CFOs expect headcount to (further) increase over the next 12 months.

In addition, 85% of CFOs say implementing expansionary strategies has priority over defensive strategies. Organic growth, productivity, and digitalization are the top business priorities for 2018.

Headwinds remain

Here are four things to watch out for throughout the year that might hinder the realization of our outlook:

Overall, companies' growth plans are aggressive, and CFOs, biggest concern is a **shortage of skilled labor** to fuel that growth.

Given announced reduced quantitative easing, long-term interest rates are likely to increase. Our survey results illustrate that **credit conditions** have already started to turn for the first time in years.

Although CFOs look very favorably on Belgian **financial and economic policy making**, much of what is announced for 2018 still needs to pass the vote in the parliament. Upcoming (local) elections may further complicate financial and economic policy making and implementation.

Finally, although perceived uncertainty remains low, the list of unpredictable **international events** remains long (i.e., German government coalition, Brexit, US and Chinese policy, Iran, migration, parliamentary elections in Hungary, Italy, Latvia, Luxembourg…).

Highlights from the Q4 2017 Belgium CFO Survey:

- A full 70% of Belgium's CFOs expect to increase headcount in the next 12 months.
- Some 85% of surveyed CFOs say that implementing expansionary strategies has priority over defensive strategies.
- On average, survey participants expect their companies' turnover to grow by 4.1% in 2018.
- Shortage of skilled labor is now the biggest concern for CFOs; 98% of respondents report concerns about such a shortage.
- There is strong consensus among Belgium's CFOs that interest rates will rise over the next 12 months. But the vast majority did not report changes to their strategy in response.

Central Europe

Balancing optimism with risk aversion

Upbeat, but risk adverse

The ninth Deloitte Central Europe (CE) CFO report contains survey results from 12 countries: Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

The broad picture developed from this year's survey of CFOs across Central Europe is a complicated one. On the one hand, the majority of CFOs anticipate favorable macro-economic conditions in 2018. On the other hand, some countries (e.g., the Czech Republic and Poland) have already achieved their historically low unemployment rates. They are therefore reliant on inbound workers to keep their economies growing.

Positive GDP outlooks

CFOs are more confident than last year that the next 12 months will bring GDP growth, with average predictions ranging from 1.8% in the Ukraine to 2.9% in Slovakia. This optimism seems to be supported by independent economists' GDP forecasts. For example, the CEEMEA Business Group thinks the Slovak economy will grow by 3.6% in 2018.

In addition, it is likely that rapid growth has contributed to the fact that the majority of CFOs expect interest rates to increase or remain the same in 2018; CFOs from eurozone countries are more likely to expect interest rate stability than their non-eurozone counterparts.

Business expectations

When it comes to financial prospects, CFOs are slightly more pessimistic compared with six months ago than they were in the previous survey. The net balance fell six percentage points from 33% to 27%.

As for metrics, CFOs' optimism about revenues has risen for the second consecutive year. The 63% net balance is up by 12 percentage points over CFOs' expectations for 2016. The majority of CFOs in all industries expect revenues to rise. Meanwhile, the proportion of CFOs expecting their companies to increase capital expenditure in the next year has decreased by five percentage points, from 49% to 44%. Nearly half (46%) of CFOs expect their workforces to expand in 2018, slightly more than in the 2017 survey.

A majority (57%) of surveyed CFOs expect their companies to face normal levels of uncertainty in 2018—nine percentage points more than in the 2017. But, the net balance of answers is negative for most countries. Polish CFOs have the most optimistic attitudes, while Romanian CFOs are the most pessimistic.

The majority of CFOs (69%) do not think 2018 will be a good time for companies to take on more risk.

Highlights from the 2018 Central Europe CFO Survey:

- CFOs predict average GDP growth of 2.4% in their countries (i.e., 0.5 percentage points more than in 2017).
- A significant majority of CFOs (69%) do not think 2018 will be a good time for companies to take on more risk.
- Nearly half (46%) of CFOs expect their workforce to expand in 2018, slightly more than in the 2017 survey.
- Some 55% of surveyed CFOs expect interest rates to rise during the year. But 44% believe the impact of interest rates on their business is too small to influence company strategy.
- A full 85% of CFOs think inflation will increase in 2018.

Japan

Costs are all that matter

Financial future looks bright

Optimism is taking hold among Japan's CFOs. Some 27% of those surveyed in Q4 2017 report being "very optimistic" or "more optimistic" about their companies' financial prospects. This is a marked increase from 14% in Q3 2017

Possible reasons for this uptick include strong global stock prices, successful tax reform in the United States leading to increased earnings and investment, and a predicted Japanese growth rate above 1%. Additionally, the Tankan for large manufacturers (i.e., Bank of Japan National Short-Term Economic Survey of Enterprises in Japan) posted an 11-year high.

It should be noted, however, that while optimism is trending upward, Japanese CFOs remain cautiously optimistic, with 65% reporting "little to no change" regarding their companies' financial outlooks.

Rising costs; robust earnings

Japanese CFOs have a solid outlook toward earnings, with 66% expecting them to rise "largely" or "somewhat," up from 62% in Q3 2017. However, rising costs stand out as a continuing area of concern.

In Q4 2017, 54% of CFOs thought operating profits would rise either "largely" or "somewhat," down from 62% in Q3. This drop-off reflects the rising cost of raw materials as well as the upward pressure on wages. In the near-term, Japanese companies may feel the pinch as international companies using e-commerce or artificial intelligence strategies to cut costs may intensify price-based competition.

Uncertainty in retreat?

Views of uncertainty among Japan's CFOs have dropped steadily over the last four quarters. Currently, 44% report "very high" or "high" levels of uncertainty in the business environment. This is also the first time this metric has dipped below 50% over the same time period.

As for the most worrisome risks, labor shortages and workstyle reforms take the top two spots in areas of domestic concern, with North Korea falling to fifth. When and how the Bank of Japan will raise interest rates and exit its quantitative easing program takes third. Finally, when asked about events abroad, CFOs are most concerned with relations between the United States and North Korea, the stability of the Trump administration, and rate rises by the US Federal Reserve Bank—largely unchanged from last quarter.

It is difficult to say if this trend of lowered uncertainty will continue. Brexit, the power vacuum in Germany, terror attacks, and general global uncertainty could change these outlooks at any time. Overall, Japanese CFOs reportedly feel they have been in a relatively advantageous position over the last few quarters.

Highlights from the Q4 2017 Japan CFO Survey:

- Some 27% of Japan's CFOs report being "very" or "more optimistic" about their companies' financial prospects.
- The number of CFOs who believe the level of uncertainty in Japan is "high" or "very high" is 44%.
- A solid 66% of respondents expect earnings to rise "largely" or "somewhat," up from 62% in Q3 2017.
- Rising costs, due in part to a continued tight labor market, remain a point of concern in the near- and short-term.

Netherlands

CFOs are hiring, but concerned about a skills shortage

Economic outlook bright

The outlook for the Dutch economy is bright. After a 3.3% per cent increase in GDP in 2017, growth rates for 2018 and 2019 will be 3.1% and 2.3% respectively, according to the Dutch central bank DNB. Growth in those years will be fueled mainly by domestic expenditures. These are the highest growth percentages since 2007. In addition, household consumption is expected to increase markedly over the next two years, at 2.2% a year on average.

Against this backdrop, the level of concern about the financial and economic environment has decreased from 71% in Q3 2017 to 45% in Q4. In addition, CFOs' optimism about the financial prospects of their companies, increased from 25% to 45%. Optimism is back at the Q1 2017 level.

Metrics trends mixed

CFOs' expectations for growth, operating margins, capital expenditures, and workforce were mixed compared to the previous quarter.

For example, some 58% of CFOs expect their revenue to increase in 2018, compared with 75% in Q3 2017. Meanwhile, those who expect better operating margins remain stable at 47%.

But the percentage of CFOs who believe that their workforces will increase over the next 12 months increased sharply from 13% in Q3 2017 Q3 to 48% now. Hiring is obviously back on the agenda.

Still, only 33% of CFOs say that now is a good time to take greater risk onto their balance sheets—down from 58% in Q3 2017.

Concerned about skills shortages

Some 66% of CFOs see a skills shortage as the main business risk facing their companies over the next 12 months, compared with 52% in Q1 2017. Increasing wage costs are perceived as the second largest risk.

Geopolitical risk was the main risk in Q1 2017, but is now seen as the third-largest risk (44%).

M&A outlook remains positive

The M&A outlook for the next 12 months improved compared with the Q3 2017 report. Almost three quarters of the CFOs surveyed (74%) think that corporate M&A activity will increase over the next 12 months. In addition, some 73% expect deal activity among private equity companies to increase.

Strategic alliances, joint ventures, and other forms of partnerships are now the most preferred deal types for 53% of CFOs. The appetite for acquisitions came in at 31%, compared with 54% in Q3 2017. CFOs also say that they will focus less on divestments.

Highlights from the Q4 2017 Netherlands CFO Survey

- Some 48% of the Netherland's CFOs say that their workforces will increase over the next 12 months, compared with 13% in Q3 2017.
- A shortage of skills (66%) and increasing wage costs are perceived as the main business risks facing CFOs and their companies over the next 12 months.
- The general level of external financial and economic uncertainty facing CFOs' businesses dropped from 71% in Q3 2017 to 45% in Q4 2017.
- More than half of CFOs said their companies will enter a strategic partnership in the next 12 months, while appetite for acquisitions decreased.

North America

Global economic growth drives optimism heading into 2018

Positive trajectory for growth

Following the 2016 US presidential election, CFOs started off 2017 on a very positive note—with the first quarter survey registering the sharpest sentiment uptick in its seven-year history. The positive outlook continued in the second and third quarters, even as CFOs voiced steadily growing concerns about geopolitical conflict, US political turmoil, and Washington's struggles to deliver in key policy areas.

Underpinning CFOs' sentiment have been their positive assessments of the North American economy and improving perceptions of Europe and China. But confidence in the *trajectory* of the North American economy slid last quarter, with CFOs voicing still stronger concerns about Washington and geopolitics.

Turmoil continued on several fronts this quarter. But global economic growth remained on a positive trajectory and equity markets hit new highs, and CFOs' optimism about their own companies' prospects rebounded to the third-highest level in the survey's history. Earnings expectations rose further above their two-year average. And although lower than last quarter, expectations for revenue, capital investment, and domestic hiring all remained above their two-year averages.

Dissecting optimism drivers

What is driving CFOs' optimism? To answer this question, this survey explores CFOs' perspectives regarding major economies, government policy, megatrends and disruptors, and companies' plans.

When it comes to the macro-economy, CFOs overwhelmingly expect stronger economic performance in the US, and on balance expect improvement in Canada and Mexico as well. As for input prices and capital markets, they mostly expect higher labor costs, low interest rates and bond yields, and a weaker dollar.

From a policy standpoint, corporate taxes are CFOs' preferred focus for policymakers, and they overwhelmingly expect a shift toward lower rates and a mandatory one-time tax on accumulated foreign profits. Trade policy was CFOs' second choice and, on balance, they expect US trade relations with Canada, Mexico, and China to change significantly.

Technology continues to disrupt

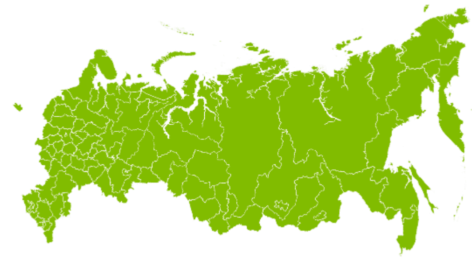
When it comes to the trends and disruptors affecting companies' strategies, *data/analytics* was the top trend overall and *convergence/disruption* came in second.

On the subject of technology, most CFOs point to the rapidly escalating impact of emerging solutions on their strategy and operations. More than half said their 2018 business models will have a substantial digital component. Nearly 60% said new technologies will substantially affect their products and services, and nearly the same proportion said new technologies will substantially affect their operations.

As they have for the last several years, CFOs voice rising concerns about talent. Nearly two-thirds say securing and retaining quality talent will be difficult over the next year, and more than half say changing demographics will influence their talent strategies.

Highlights from the Q4 2017 North America CFO Survey:

- Net optimism is +47 which is up from +29 last quarter. About 52% of CFOs express rising optimism (up from 45%), and 5% express declining optimism (down from 16%).
- Seventy-four percent of CFOs describe North American conditions as good (64% last quarter), and 56% expect better conditions in a year (45% last quarter).
- Some 84% percent of CFOs say US markets are overvalued, a new survey high.
- Nearly 40% of CFOs say their company will take above-normal risks in pursuit of higher returns, up from 25% a year ago.
- CFOs overwhelmingly expect stronger economic performance in the US, and on balance expect improvement in Canada and Mexico as well.



Russia

Optimistic despite weaker domestic demand

Barriers to growth still exist

The sixth Russian CFO Survey was designed to gauge CFOs' outlooks on business, financing, risk, and strategies, and to identify trends in the Russian market.

The survey found that over the last six months, general optimism about companies' financial outlooks remains essentially the same. Now, 53% of Russia's CFOs note positive changes for business prospects. However, the share of pessimistic responses has doubled over the past six months, moving up to 9%. Notably, pessimism mostly comes from foreign companies, with a third of them (33%) pessimistic about their business outlooks in Russia.

Asked about drivers of business development, CFOs mentioned innovative products, digitalization, expansion into new markets, and financial position. On the flip side, the top barriers to development include production costs, innovations, focus on core operations, and production abroad.

The optimism can also be seen in expectations for key financial metrics. CFOs' 2018 expectations are as follows: profits will double, capital expenditures will grow by 70%, and revenue will increase by 48%. At the same time, more than a fifth of CFOs stated that their staffs may be cut.

Tempered uncertainty

Some 44% of respondents cited a high level of uncertainty, which is eight percentage points more than six months ago. In fact, the second half of 2017 marks the first increase in uncertainty since early 2016, when it started to decline gradually.

Meanwhile, the risk appetites of large businesses in Russia have fallen: The overall risk appetite is negative, totaling -0.2%. Interestingly, a decrease in risk appetite goes along with an increase in uncertainty around business outlook.

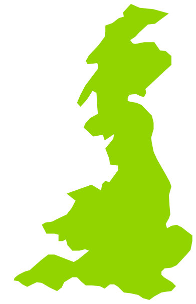
In the second half of 2017, the top risk factors included: weak domestic demand, which has moved from the second to first place, mostly due to high appreciation by foreign companies (75%); increased market competition; and general economic conditions (i.e., stagnation in the Russian economy). This concern is relevant for almost half (46%) of the companies with headcounts of 100 to 500 people.

Strategies still defensive

The top strategies CFOs are focused on over the next 12 months remain consistent with past surveys: ongoing cost restructuring, business development through organic growth, and cost control.

Highlights from the H2 2017 Russia CFO Survey:

- Overall, more than half (53%) of Russia's CFOs are reportedly optimistic about their companies' financial prospects.
- Some 60% of respondents expect their companies' operating revenue to increase in 2017, while 13% anticipate a decrease.
- Almost every third company (29%) plans to increase the number of staff; 58% plan to increase average payroll.
- About half of the CFOs surveyed (49%) plan to raise prices by 5% on average, while 44% expect prices to remain at current levels.



United Kingdom

Focus on cost control, no retreat from growth

Cautious despite recovery

The UK's largest businesses enter 2018 more focused on controlling costs than at any time in the last eight years. Although the UK is in the ninth year of recovery, companies seem to be reacting to slower UK growth and Brexit uncertainties with a renewed focus on costs.

Despite December's agreement between the UK and the EU to proceed with trade talks, CFOs' concerns about Brexit have mounted. It tops the list of risks for businesses in 2018. Weak UK growth ranks as the second greatest risk facing businesses this year, with growing concern about productivity. In a world of accelerating growth and buoyant equity markets, domestic risks loom large for UK CFOs.

Buoyant about prospects

Yet strikingly, this sharp focus on risk and cost control has not led to a collapse in business sentiment. CFOs are more optimistic today than they have been, on average, in the last couple of years. In fact, perceptions of uncertainty are far lower than during the euro crisis in 2011-12 and following the EU referendum in 2016.

Far from backing away from growing their businesses, as happened during previous periods of uncertainty, CFOs are putting increased weight on growth. The priority CFOs attach to expansion over the next 12 months, whether organically or through acquisitions, introducing new products/services or moving into new markets, is at its highest level since this question was first asked in 2009.

Opportunities outweigh risks

Why, in an environment where home-grown risks and cost control loom large, are CFOs still committed to growth?

For a business, cost control counters the risk from weak UK growth. But beyond the UK, activity is accelerating and opportunities are increasing. In fact, 2017-2018 looks set to be the best two-year period for growth in Britain's core export market, the EU, in 10 years.

It is not all doom and gloom at home. On average, economists see the UK economy growing this year in line with projections from the Office of Budget Responsibility. Some CFOs may anticipate an easing of Brexit risks, or may feel that their own businesses are less directly affected by Brexit, or that they can mitigate the risks.

The backwash from Brexit is the dominant theme for UK companies as they enter 2018. But it has not crushed the animal spirits of the business sector nor forced a retreat from expansion. The central challenge for UK businesses will be to achieve growth in an environment of stringent cost-control.

Highlights from the Q4 2017 UK CFO Survey:

- After Brexit, CFOs see weak demand in the UK as the greatest risk facing their business, with growing concern about productivity.
- Just 21% of UK CFOs think now is a good time to take greater risk onto the balance sheet.
- Reducing costs (51%) and introducing new products/services (41%) are the top priorities for CFOs.
- Some 85% of CFOs expect the Bank of England's base rate to be above 0.75% within a year.
- Almost two-thirds of UK CFOs (73%) expect worsening business conditions in the long-term due to Brexit.

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	**Stephen Gustafson** CFO Program Leader Partner—Assurance and Advisory +61 2 9322 7325 sgustafson@deloitte.com.au	Biannual	Conducted between November and December 2017.
Belgium	**Thierry Van Schoubroeck** Partner, Finance Transformation + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between December 7, 2017 and January 5, 2018; a total of 53 CFOs completed the survey.
Central Europe *(Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine)*	**Gavin Flook** Partner, CFO Program Leader +420 234 078 930 gflook@deloitteCE.com	Annual	Conducted between September 2017 and November 2017; approximately 600 CFOs from 12 countries (see list) and a broad range of industries participated.
Japan	**Yasushi Nobukuni** Partner +81 80 3367 2790 ynobukuni@tohmatsu.co.jp	Quarterly	Conducted between January 11, 2017 and January 22, 2017; 48 respondents participated, representing companies across a variety of industries, including listed and/or relevant private companies with major growth prospects.

Member firm	Contacts	Frequency	Survey scope and population
Netherlands	**Frank Geelen** Partner; CFO Program Lead +31 (0)6 2239 7053 fgeelen@deloitte.nl	Quarterly	Conducted December 4, 2017 and December 22, 2017; 32 CFOs participated, representing a net turnover per company of approximately EUR 1.4 billion. The responding companies can be categorized as follows: publicly listed (34%), privately owned (9%), family owned (19%), state or government owned (6%), private equity portfolio company (16%), other and/or unknown (16%).
North America (US, Canada, Mexico)	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between November 6, 2017 and November 17, 2017; 147 CFOs participated from across the United States, Canada, and Mexico. Seventy-four percent of respondents represent CFOs from public companies, and 87% are from companies with more than $1 billion in annual revenue.
Russia	**Lora Zemlyanskaya, Ph.D.** Senior Manager, Deloitte & Touche CIS +7 (495) 787 06 00 (x2299) melovskaya@deloitte.ru	Biannual	Conducted in September 2017; 80 CFOs participated representing multiple industries.
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between December 3, 2017 and December 15, 2017; 112 CFOs participated, including CFOs of 23 FTSE 100 and 46 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 83 UK-listed companies surveyed is £512 billion.

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