

## 1Q19 Highlights: Anticipating a slowdown (but not a recession)

- CFOs' assessments of the current North American, European, and Chinese economies declined.
- Own-company optimism rebounded but remains at the third-lowest level in the last three years.
- Expectations for revenue, earnings, hiring, and wages declined (only capex rose); all metrics sit below their two-year averages.
- CFOs overwhelmingly expect a US downturn by the end of 2020, with a slowdown seen as much more likely than a recession.
- A minority of CFOs say they have detailed plans for a downturn; actions focus on discretionary spending and headcount.
- CFOs rate trade policy the most important federal policy area, with infrastructure investment a distant second.
- Most CFOs cite a formal D&I strategy; roughly half say it is known throughout their company and part of their talent brand.
- Companies are using a variety of programs to promote D&I; flexible work arrangements are the most common.
- To promote equitable advancement, CFOs cite diverse candidate slates, merit-based decisions, and hiring diverse senior leaders.
- The average number of CFO direct reports is 7.60, with an average diversity of about 40% (women and/or minority).

**How do you regard the status of the North American, European, and Chinese economies?** Perceptions of North America declined, with 80% of CFOs rating current conditions as good (down from 88%), and 28% expecting better conditions in a year (same as last quarter). Perceptions of Europe declined to just 16% and 8%; China slid to 20% and 16%.

**What is your perception of the capital markets?** Seventy percent of CFOs say debt financing is attractive (up from 62%). Equity financing attractiveness fell for both public (from 35% to 25%) and private (37% to 27%) company CFOs. Just 46% now say US equities are overvalued—a three-year low.

**Overall, what risks worry you the most?** CFOs express even stronger concerns about trade policies/tariffs, economic risks/slowdowns, and US political turmoil. Talent is again the dominant internal concern.

**Compared to three months ago, how do you feel about the financial prospects for your company?** The net optimism index rebounded from last quarter's dismal +3 to +16—better, but still the third-lowest level in three years. Thirty-two percent of CFOs express rising optimism (26% last quarter), and 16% express declining optimism (23% last quarter).

**What is your company's business focus for the next year?** CFOs indicate a bias toward revenue growth over cost reduction (51% vs. 25%), investing cash over returning it (46% vs. 19%), current offerings over new ones (40% vs. 36%), and current geographies over new ones (64% vs. 12%).

**How do you expect your key operating metrics to change over the next 12 months?** YOY revenue growth expectations fell from 5.5% to 4.8%; earnings growth slid from 7.3% to 7.1%; capital spending rose from 5.0% to 5.9%; and hiring fell from 3.2% to 2.1% (all sit below their two-year averages). Dividend growth declined from 4.5% to 3.9%, the lowest level since 4Q17.

**Where does your company stand with respect to downturn planning?** Nearly 85% of CFOs say they expect a US downturn by the end of 2020, and they overwhelmingly expect a slowdown rather than a recession. Those expecting a downturn were most likely to cite US trade policy, business and credit cycles, and the impacts of slowing growth in China and Europe on the US economy. A minority say they have detailed defensive or opportunistic plans; the most common expected defensive actions involve reducing discretionary spending and limiting or reducing headcount.

**In which policy areas would your company like to see Washington provide clarity/change first?** CFOs overwhelmingly rate trade policy the most important policy area, with infrastructure investment a distant second.

**How would you characterize your company's approach to Diversity and Inclusion (D&I)?** The majority of CFOs cite a formal D&I strategy; about half say the strategy is known throughout their company and embedded in their talent brand.

**What actions is your company taking to promote D&I?** Eight of the nine D&I tactics presented were selected by at least 40% of CFOs. Implementation of flexible work arrangements was the most-selected tactic.

**What has your company done to provide equitable opportunities for advancement?** CFOs cite consideration of diverse slates of candidates, ensuring merit-based decisions, and hiring diverse leaders into senior roles.

**How many people report directly to you?** The average is 7.60, with about 40% diversity (i.e., women and/or minority).

**What have you have done to promote D&I within finance?** Tactics for inclusion of women focus largely on helping them advance in their careers; those for inclusion of minorities focus largely on bringing more into the company.

\*Averages have been adjusted to eliminate the effects of stark outliers.

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