

## CFO Signals 3Q15: China's woes creating broad-based concern

### Executive summary

Please note that CFOs' responses were collected over the two week period immediately before US equity markets declined sharply on Monday, August 24, 2015.

- **Optimists still outnumber pessimists, but by a narrowing margin:** Net optimism continued its recent downward trend, declining from +18.8 last quarter to +14.2 this quarter. Thirty-four percent of CFOs express rising optimism, down from last quarter's 38%, and now at the lowest level since 4Q12. Nineteen percent again express declining optimism, citing continuing worries about the effects of interest rates, exchange rates, oil prices, and burdensome regulations on domestic economic performance.
- **Sales, earnings, and capital spending growth expectations at or near survey lows\*:** Year-over-year revenue growth expectations rose to 4.4% from last quarter's survey-low 3.1%, but are still among the lowest in the five-year history of this survey. Earnings growth expectations held at last quarter's survey-low 6.5%. Capital spending expectations fell from last quarter's 5.4% to just 4.3%—only slightly above the survey low of 4.2% from 4Q12. Domestic hiring growth expectations are again sluggish, rising to 1.4% from last quarter's 1.2%.
- **Perceptions of China declined drastically; those for North America and Europe held:** Fifty-nine percent of CFOs describe North American economic conditions as good, and 55% expect better conditions in a year (both proportions are about even with last quarter). Just 4% regard China's economy as good (down sharply from 23% last quarter), and only 10% expect improvement (down from 16%). Five percent describe Europe's economy as good, and 30% see it improving in a year (both levels are about even with last quarter).
- **Equity markets expensive; debt becoming less attractive:** Sixty percent of CFOs say US markets are overvalued, down from 65% last quarter (*please see note above regarding survey timing*). Eighty percent of CFOs say debt is an attractive financing option, down significantly from the levels seen over the past several quarters.
- **Board concerns—economy, strategy, and cyber:** Compared to two years ago, CFOs say their boards' worries about Europe have declined. But they again cite strong concerns about the possibility of a US pullback, fueled by heightened concerns about China. Top internal concerns again include suboptimal business strategies and poor execution against chosen strategies. Concerns about cyber security have risen dramatically.
- **Tax policy uncertainty not a major impediment to growth plans:** Although few CFOs say tax uncertainty is substantially impacting their pursuit of growth opportunities, many do say uncertainty around extenders, tax treatment of offshore earnings, and high corporate statutory tax rates are complicating their planning efforts.
- **Generational shifts a factor in talent planning:** About 80% of CFOs say they have planned for generational shifts. About 55% say they have planned specifically for the retirement of Baby Boomers, and about two-thirds say they have planned for the working styles/preferences of Millennials and Generation X.
- **Expected shortages in talent who can identify and execute on growth opportunities:** CFOs expect future shortages of leaders (executives and function heads), innovators (engineers, researchers, developers, and designers) and business developers (sales and marketing professionals).
- **Improving talent brand and value propositions:** To ensure they have the talent they need going forward, CFOs cite a heightened focus on recruiting new/young talent, reworking compensation/benefits approaches, using professional development as a retention tool, and strengthening their reputation as a great place to work.
- **CFOs contribute to strategy development mostly as "Challengers" and "Architects":** The bedrock for most CFOs appears to be their Challenger and Architect contributions, with greater variability in how much they contribute as Responders and Transformers. Most focus on one or two roles, with Responder or Transformer most likely for single-focus CFOs, and Transformer/Architect and Responder/Challenger the most common combinations for double-focus CFOs.

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

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