



3Q16: Tenor of worldwide geopolitics creating concerns

Executive summary

- **Continuing CFO optimism regarding their companies' prospects:** After falling to +1.7 in the first quarter, net optimism bounced back strongly to +30.0 last quarter. This quarter's +19.7 is still relatively strong, with 35% of CFOs expressing rising optimism (down from 49%), and 16% citing declining optimism (down from 19%). Sentiment improved in Manufacturing, and Technology is again strong; only Retail/Wholesale is net-negative.
- **Sales and earnings expectations relatively weak; capital spending and domestic hiring better*:** Revenue growth expectations rose from 4.0% to 4.2%, but are still among their survey lows. Earnings growth expectations fell from 7.7% to 6.1%, barely above 1Q16's survey-low 6.0%. Capital spending expectations rose slightly from 5.4% to 5.6% (again well above the two-year average). Domestic hiring expectations rose from 1.1% to 2.3%.
- **Assessments restrained for North American economy, worse for Europe, and better for China:** Forty-six percent of CFOs describe the North American economy as good or very good (up from 40% last quarter), but just 37% expect better conditions in a year (down from 39%). Ten percent regard China's economy as good (up from 9% last quarter), and 14% expect improvement in a year (up from 10%). In the aftermath of the Brexit vote, just 4% describe Europe's economy as good (down from 6%), and only 10% see it improving in a year (down from 15%).
- **Equity markets overwhelmingly regarded as overvalued:** Seventy-one percent of CFOs say US equity markets are overvalued, up substantially from 56% last quarter and a new survey high.
- **Significant exposure to the UK, but few Brexit-driven changes:** Nearly two-thirds of CFOs cite business exposure to the UK (mostly through selling into the UK from North America and/or from the rest of the EU), but about 75% cite no significant business changes resulting from Britain's vote to exit EU.
- **Rising worries about rates, economies, and geopolitics:** Nearly 90% of CFOs say low interest rates are significantly impacting their business planning, and more than 80% say the same for a strong US dollar. About 70% cite impacts from slow European growth, and nearly 65% cite slow Chinese growth. Fifty-seven percent cite impacts from upcoming US elections, and the same proportion cites the UK's Brexit vote.
- **Proportion of Republicans the same; proportion of Democrats down:** About 75% of US CFOs say they consider themselves Republicans—matching the 4Q12 proportion—while the proportion of Democrats shrank from 16% to 8%. Nearly 20% chose "Independent or Other," up sharply from 10% in 4Q12.
- **US elections expected to impact performance:** Nearly 85% of CFOs believe their company's future performance depends at least somewhat on the election outcome, with the strongest effects in the US and Mexico, and within the Services and Technology sectors. Following the election, nearly two-thirds of CFOs say corporate tax policy is a top priority for improved clarity, with monetary/rate policy second and fiscal/spending policy and international trade policy tied for third.
- **Substantial investments in digital technologies:** Cloud-based services are by far the most widely implemented. Nearly 50% of CFOs say they are using this technology in at least a few areas, and just over 30% say they use it broadly. Robotic process automation and visualization technologies are next, both implemented by about 30% of companies. Adoption rates for particular technologies vary considerably by industry.
- **Analytics investments mostly focused on customer and finance/accounting data:** Customer analytics (behaviors, history, profitability, etc.) leads the pack with nearly half of CFOs citing past investments and nearly 60% expecting future investments. Finance/accounting analytics (forecasting, working capital optimization, etc.) is next, with about 45% citing past investments and just over 50% expecting future investments. Predictably, the focus for the respective industries varies considerably.
- **Primary purposes for analytics investments center on customer service and operational decision-making:** CFOs were most likely to cite exploration of customer data (for better experience, retention, and service) with about 55% citing this purpose. Next was visualization, aggregation, and reporting on operational performance (for better understanding of performance, trends, and opportunities) at 50%.

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

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