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CFO Signals™

What leading CFOs are thinking and doing.

3Q20 Highlights: Some economic recovery, but growing skepticism about the pace going forward

- Sixty percent of CFOs rate the North American economy as bad and only 43% expect better conditions in a year; views on China were better.
- Own-company optimism compared to last quarter rose sharply—a muted finding since last quarter's sentiment was a historic survey low.
- YOY growth expectations rebounded sharply (but not fully) from last quarter's historic lows; most are barely above zero.
- On average, CFOs say they expect to achieve 74% of their originally budgeted 2020 revenue; there are substantial industry differences.
- CFOs cite risks of new virus waves, more shutdowns, and the pandemic triggering a longer-term recession; 84% say equities are overvalued, the second-highest reading in survey history.
- Forty-two percent of CFOs say they are already at/above their pre-crisis operating level or will be by the end of 2020, but 25% say 1Q22 or later.
- CFOs cite strong strategic shifts toward remote work, business digitization, and remote/touchless customer interactions.
- CFOs report average cash levels 25% higher than pre-pandemic; more than half say they are using newly accessed cash to fund reserves for navigating uncertainty.
- CFOs' most-cited crisis roles center on managing costs and liquidity; also common are crisis-driven FP&A and communicating with boards, investors, and employees.

How do you regard the status of the North American, European, and Chinese economies? Seven percent of CFOs rate the North American economy as good, but 60% rate it is bad; those expecting better conditions in a year slid from 58% to 43%. Europe was flat at 2% and 32%. China came in at 22% and 47%—above North America for the first time.

What is your perception of the capital markets? Eighty-seven percent of CFOs say debt financing is attractive (up from 63%); equity financing attractiveness rose sharply to 39% (25% to 39% for public company CFOs, and 13% to 38% for private company CFOs). Eighty-four percent now say US equity markets are overvalued (up from 55%), the second-highest level in survey history.

Compared to three months ago, how do you feel about your company's financial prospects? The optimism index rose sharply from last quarter's survey-low -54 to +43—a muted finding since the metric is relative to last quarter when the reading was, by far, the lowest in survey history. Nearly 60% of CFOs expressed rising optimism, well above last quarter's 11%.

What is your company's business focus for the next year? Following last quarter's first-ever shift toward cost reduction over revenue growth, companies reverted to their revenue focus; a move toward new offerings may signal pandemic-driven market shifts.

How do you expect your key operating metrics to change over the next 12 months?* YOY growth expectations rebounded sharply (but not fully) from last quarter's historic lows. Revenue growth rose from -8.6% to 1.0%. Earnings growth rose drastically from -18.7% to 3.7%. Capital spending rose sharply from -12.3% to a still-low 0.2%. Domestic hiring rose from -6.0% to 0.2%, and dividend growth rose from -4.8% to 1.1%. Industry differences were stark.

At roughly what percent of pre-crisis capacity is your company currently operating? Eighty-four percent of CFOs say they are operating at or above 75% capacity—up from the roughly 75% who said so in April and June. Services, Manufacturing, and Retail/Wholesale continue to indicate the most constrained operating levels.

How do you expect your 2020 revenue to compare to pre-pandemic expectations? Less than 40% of CFOs say they expect 95% or more of their budgeted revenue, with the average CFO expecting 74%. Healthcare/Pharma and Energy/Resources are the most optimistic; Retail/Wholesale is the least.

What is your most worrisome risk for your company? Predictably, CFOs' most prevalent worries are about new COVID-19 waves and shutdowns. Rising this quarter, however, are concerns that the pandemic might trigger a longer-term recession.

When do you expect your company to return to a near-normal operating level? Forty-two percent say they are already at/above their pre-crisis level or will be by the end of 2020 (up from May and June); still, 25% say 1Q22 or later.

What is your company's most important pandemic-driven strategic change? CFOs cite shifts toward more and longer-term remote work. Also common were a higher focus on costs and productivity, acceleration of business digitization, and more remote/touchless customer interactions.

How does your current cash level compare to its pre-pandemic level? On average, CFOs report cash levels 25% higher than their pre-pandemic levels. Services and Retail/Wholesale were the most likely to report cash levels more than 50% higher.

What are you using newly accessed cash to fund? More than half of CFOs say they are using it to fund reserves for navigating uncertainty. Other relatively common uses were funding operations, acquisitions, and projects planned pre-pandemic.

What has been your most important role during the pandemic? CFOs' most-cited roles center on managing costs, cash, and liquidity. Also common were roles around planning and analysis (forecasting/modeling, decision support, and strategic planning) and leadership (communicating with employees, investors, and the board).

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