



4Q16 Highlights: All eyes on the next US administration

- Own-company optimism rose on strong sentiment among US CFOs.
- Expectations for growth in revenue, earnings, investment, and hiring mostly lower and at/below two-year averages.
- Better perceptions of North America's and China's economies, but subdued assessments of Europe's.
- CFOs expect better US economy, strong dollar, rising rates and labor costs, infrastructure spending, and higher debt.
- CFOs optimistic about industry growth; expect technology changes to be major factor and offerings to expand.
- CFOs expect rising competition and higher wages for highly-skilled talent; mixed on whether staffing will rise or fall.
- CFOs expect less gridlock, significant policy changes.
- 70% of CFOs say US equities overvalued—near survey high.

How do you regard the current/future status of the North American, Chinese, and European economies?

Perceptions of North America have improved, with 43% of CFOs rating its economic health as good and 58% expecting improvement next year. Perceptions of Europe remain pessimistic at just 8% and 13%, while China rebounded slightly to 24% and 17%.

What is your perception of the capital markets? Seventy-nine percent of CFOs say debt financing is attractive (down from 89% last quarter), while attractiveness of equity financing held steady for public company CFOs (at about 40%) and rose for private company CFOs (from 24% to 29%). Seventy percent of CFOs say US equities are overvalued—just under the survey high.

What external risks worry you the most? CFOs again mention global economic growth and government regulation. New for this quarter is uncertainty regarding the new US administration's future actions, with CFOs voicing concerns about the possibility of protectionism hurting global trade and about tax reform possibly slowing near-term business spending.

Compared to three months ago, how do you feel now about the financial prospects for your company? This quarter's net optimism rose from last quarter's +19.7 to +23.4 (slightly above the two-year average). Forty-three percent of CFOs express rising optimism (up from 35%), and the proportion citing declining optimism rose from 16% to 20%.

What is your company's business focus for the next year? CFOs indicate a bias toward revenue growth over cost reduction (45% vs. 31%), and investing cash over returning it (56% vs. 17%). CFOs again indicate a bias toward existing offerings over new ones (41% vs. 32%), current geographies over new ones (57% vs. 22%), and organic growth over inorganic (58% vs. 18%).

Compared to the past 12 months, how do you expect your key operating metrics to change over the next 12 months?* Revenue growth expectations fell from 4.2% to 3.7% and are near their survey lows. Earnings growth rose to 6.4%, above last quarter's 6.1% but again near 1Q16's survey-low 6.0%. Capital spending growth fell to 3.6% (well off the two-year average). Domestic hiring growth fell to 1.3% from 2.3%.

What are your expectations for the macroeconomic environment in 2017? By about a three-to-one margin, CFOs expect the US economy to improve in 2017; they are split on Canada's economy and overwhelmingly negative on Mexico's. They are lukewarm on prospects for domestic employment and consumer spending, and split on business spending. They largely expect interest rates to rise above 0.5% in 2017, but they are less likely to say rates will rise above 1.0% by the end of 2018. They foresee a continuing strong dollar and overwhelmingly expect the Mexican peso to decline.

What are your expectations for US government policy over the next four years? CFOs expect less congressional gridlock and generally anticipate the passage of significant changes to tax rates, health care, trade, infrastructure spending, and immigration. They overwhelmingly expect the national debt to rise. Very few expect Congress to pass trade deals with either Europe or Asia, and they have mixed expectations for NAFTA.

What are your expectations for your industry in 2017? CFOs are mostly optimistic about their industries' growth and expect technology changes to be a major factor. They expect rising competition for sales and for highly-skilled talent, and they are mixed on their expectations for regulation—perhaps indicating inconsistent understanding of where policy is headed in some areas. Predictably, expectations vary considerably by industry (please see the appendix of the full-detail report).

What are your expectations for your company in 2017? CFOs mostly say their companies are not likely to take above-normal risk in pursuit of higher returns, and most say they are not facing substantial pressures around board composition or activist investors. They are largely consistent in their expectations for capital, with relatively few expecting to repurchase shares, take on more debt, or hold more cash. They expect to hire more highly-skilled than lower-skilled workers and they are split (largely along industry lines) on whether they will hire more people than they let go.

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

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