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CFO Signals 2Q15: Declining expectations for company growth

Executive summary

- **Tenth straight positive quarter, but losing momentum:** Net optimism declined from a very strong +34.4 last quarter to +18.8 this quarter. Nineteen percent of CFOs express declining optimism, up from 14% last quarter. Worries about interest rates, high equity valuations, and a pullback in the US economy became more prevalent.
- **Sales and earnings expectations fell to survey lows; hiring expectations down, too*:** Revenue growth expectations fell from 5.4% last quarter to 3.1% this quarter, and earnings growth expectations fell from 10.6% to 6.5%. Both metrics now sit at their lowest levels in the five-year history of this survey (on a country basis, expectations for both Canada and the US are at their survey lows). Capital spending expectations rose slightly to 5.4% from last quarter's 5.2%, and domestic hiring expectations fell from 2.4% to 1.2% and are at their lowest level since 1Q14.
- **North America good but stalling; Europe improved; China languishing:** Fifty-nine percent of CFOs describe North American conditions as good (even with last quarter), and 54% expect better conditions in a year (down from 64%). Twenty-three percent regard China's economy as good (up from 18%), and 16% expect improvement (up from 13%). Five percent describe Europe as good (up from 2%), but 30% see it improving (up from 10%).
- **Equity markets very expensive; debt still very attractive:** Sixty-five percent of CFOs say US markets are overvalued (up from 46%, and now at a survey high). Ninety-one percent say debt is currently an attractive financing option, and 42% of public company CFOs view equity financing favorably (up from 33% last quarter).
- **Strong, broad-based concerns about cyber attacks:** Concerns about cyber attacks and other malicious attacks (terrorism, tampering, etc.) are broad-based, with about 25% of CFOs claiming they are insufficiently prepared.
- **Companies overwhelmingly plan to make no compensation adjustments in response to a strong US dollar:** More than 75% of CFOs say they do not adjust executive compensation and that shareholders' and executives' situations should be similar whether exchange rates are favorable or not.
- **Compensation to rise modestly, with a focus on highly-skilled and managerial employees:** Salaries/wages are expected to rise 2.9% over the next year, with Financial Services highest at 3.6% and all other industries 2% or above. Nearly two-thirds of CFOs cite rising pay for highly-skilled staff. Just under half expect gains at managerial-levels, and 44% expect gains for lower-skilled staff. The US is highest for all levels.
- **Employees bearing more of their health care costs:** Nearly 80% of CFOs say they are shifting financial responsibility to employees as a strategy for managing health care costs. US CFOs are highest at nearly 95%.
- **Frequent CFO interactions with almost all key executives:** The vast majority of CFOs report interactions with almost all of their company's key executives on a daily or weekly basis. Board chair and audit committee chair are the only officers with whom CFOs say they interact less frequently.
- **CFOs report less time spent in their "strategist" role, more in their "operator" role:** Where previous surveys indicated a progressive shift toward the strategist role, this quarter's findings indicate a resurgence in time allocated to the operator role. This leaves the average CFO with a 27% allocation toward each of these roles.
- **Securing key finance talent a challenge; CFOs cite variety of approaches to ensuring they have the talent they need:** More than 70% of CFOs say insufficient consultative, partnering, analytical, and technical skills have been a challenge, and about 66% say outdated value propositions and recruiting mechanisms have gotten in the way. Many voice a strong desire to add staff who can use data to influence business decisions, and they frequently mention business acumen, leadership skills, and expertise in gathering, analyzing, and presenting analysis as skills they would most like to add. Many say their best steps for acquiring and keeping key talent revolve around three themes: raising the importance of effective talent management; cultural shifts around continuous learning and leader/staff relationships; and raising the value proposition for current and potential employees.

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