Deloitte.

Q3 2020

# The Deloitte CFO Survey

## The long COVID recovery

After the post-lockdown surge in activity over the summer, CFOs expect challenging times ahead. The Chief Financial Officers of the largest UK businesses have pushed back the timing for a full recovery, with more than 60% expecting demand to remain below pre-COVID-19 levels until the second half of next year or beyond. CFO perceptions of external uncertainty remain close to the ten-year high reached at the start of the pandemic and corporate risk appetite is very weak.

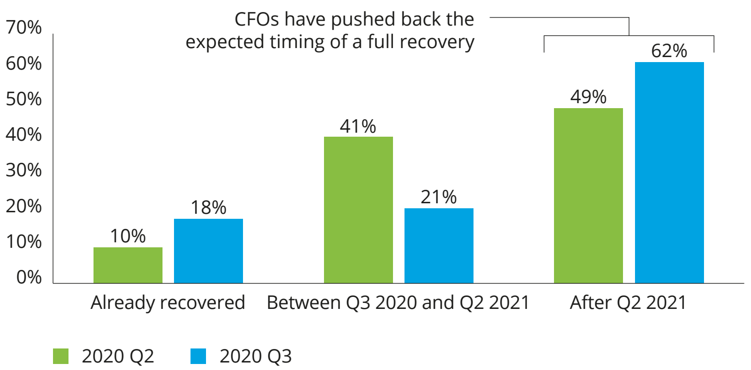
The pandemic dwarfs all other concerns for CFOs. Amid tensions with China, the US election and wider political uncertainty, geopolitical concerns now rank in second place on CFOs' worry list with Brexit in third place. The survey suggests that even a limited trade agreement with the EU would significantly reduce the shock of Brexit on activity. Twice as many CFOs expect a negative shock to hiring and investment from exiting without a deal than with one.

Nonetheless, COVID-19 remains, by far, the greater risk. Three-quarters of CFOs expect the pandemic to have either a 'significant' or 'severe' negative effect on their businesses over the next 12 months; less than a quarter see Brexit having such negative effects.

In an uncertain world, investment and expansion are taking a back seat. Business transformation is the order of the day with a strong focus on digitisation, automation and streamlining to strengthen businesses and drive productivity. CFO expectations for new hiring are weak, but the survey shows that large businesses overwhelmingly plan to retain furloughed staff. CFOs expect to retain, on average, 82% of furloughed staff after the scheme ends in October.

With rising new cases and tighter social distancing restrictions, the strong summer recovery is likely to fade into an uncertain and weak autumn. British businesses are gearing up to fight a long COVID, one in which activity and demand make a full recovery by next autumn at the earliest.

**Chart 1. Recovery of demand to pre-pandemic levels**
% of CFOs who expect demand to return to pre-pandemic levels in the following quarters





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For current and past copies of the survey, historical data and coverage of the survey in the media and elsewhere, please visit:
**www.deloitte.co.uk/cfosurvey**

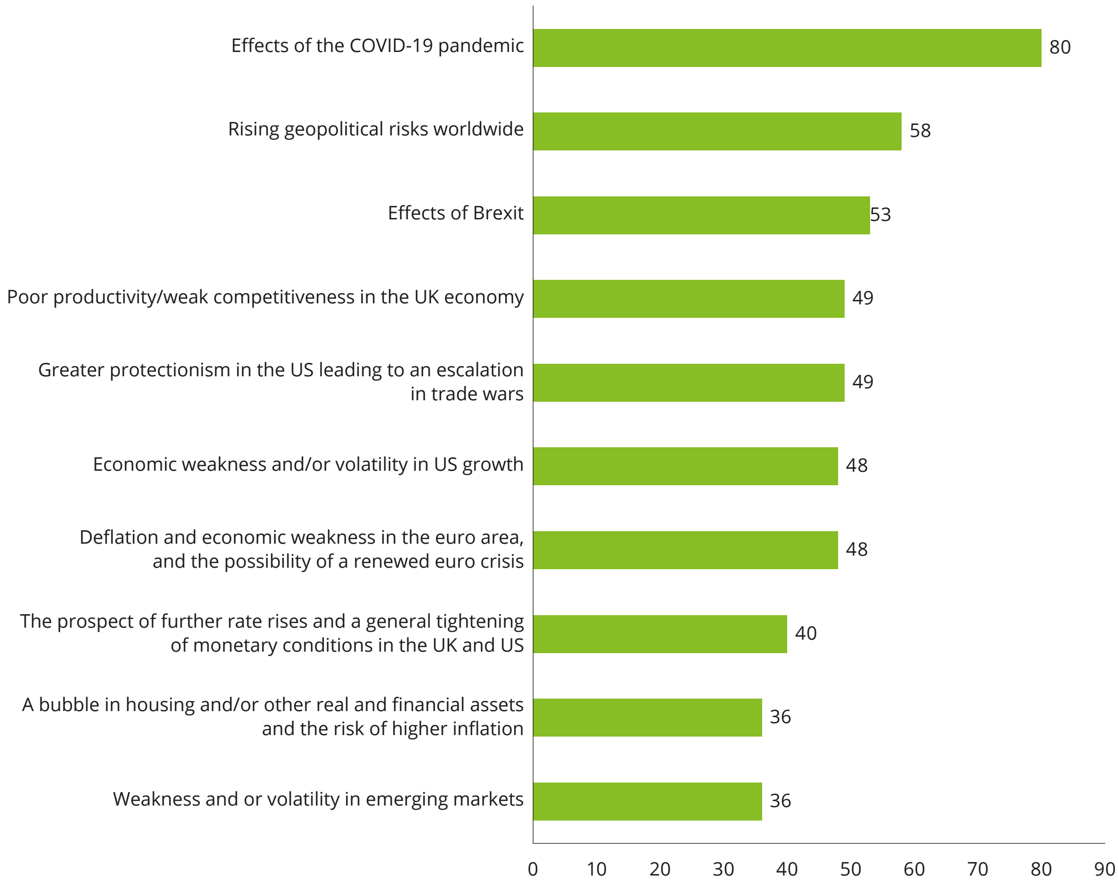
# COVID-19 is biggest risk

CFOs rank the effects of the COVID-19 pandemic as the biggest risk facing their businesses.

With the US-China economic conflict far from easing, geopolitics ranks second on their list of concerns. Brexit retains its third spot, and the same risk rating as in the second quarter, despite September's political developments, which have increased the chances of an acrimonious departure from the EU. Weak productivity in the UK and a further escalation in US protectionism are joint fourth on the risk list.

CFOs are relatively less concerned about growth in emerging markets and asset bubbles or an inflationary spike, which feature at the bottom of the list.

**Chart 2. Risk to business posed by the following factors**
Weighted average ratings on a scale of 0-100 where 0 stands for no risk and 100 stands for the highest possible risk



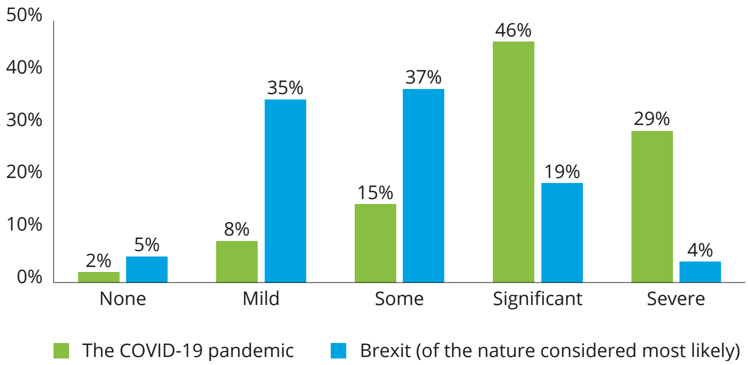
# Impact of COVID-19 overshadows Brexit

CFOs expect the negative effects of the COVID-19 pandemic to overshadow those of Brexit.

Three-quarters of CFOs expect the pandemic to have significant or severe negative effects on their business over the next 12 months. By contrast, less than a quarter expect similar negative effects due to Brexit.

**Chart 3. Negative effects of COVID-19 and Brexit**

% of CFOs who rate the negative effects of the COVID-19 pandemic and Brexit on their own businesses, over the next 12 months, as the following

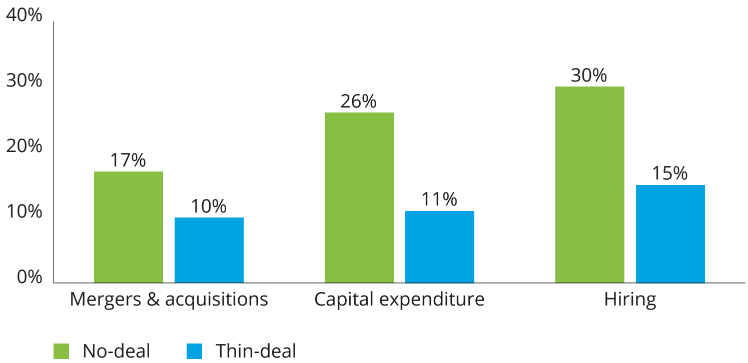



CFOs expect the dampening effect of a 'no-deal' Brexit, where the UK and EU resort to trading on WTO terms, to be significantly greater on their M&A, capital expenditure and hiring activity than that of a 'thin-deal' Brexit that ensures tariff-free goods trade only.

30% and 26% of CFOs expect to reduce their hiring and capital expenditure respectively, over the next year, in the event of a 'no-deal' Brexit. By contrast, 15% and 11% expect to make similar reductions in the event of a 'thin-deal' Brexit.

**Chart 4. Negative effects of a 'no-deal' or a 'thin-deal' Brexit**

% of CFOs who expect to decrease their business activities in the following areas over the next year in the event of a 'no-deal' or 'thin-deal' Brexit. 'No-deal' implies UK-EU trade under WTO rules while 'thin-deal' implies tariff-free goods trade only.

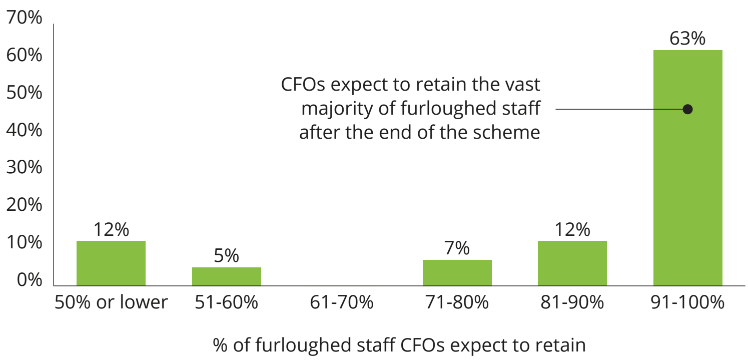



CFOs, of the typically large corporates on our survey panel, foresee keeping the vast majority of furloughed employees on their payrolls.

They expect to retain, on a weighted average estimate, 82% of their furloughed staff on payrolls after the scheme ends in October.

**Chart 5. Proportion of furloughed staff to be retained on payrolls**

% of CFOs, whose businesses have furloughed staff, that expect to retain the following proportions on payrolls after the furlough scheme ends in October



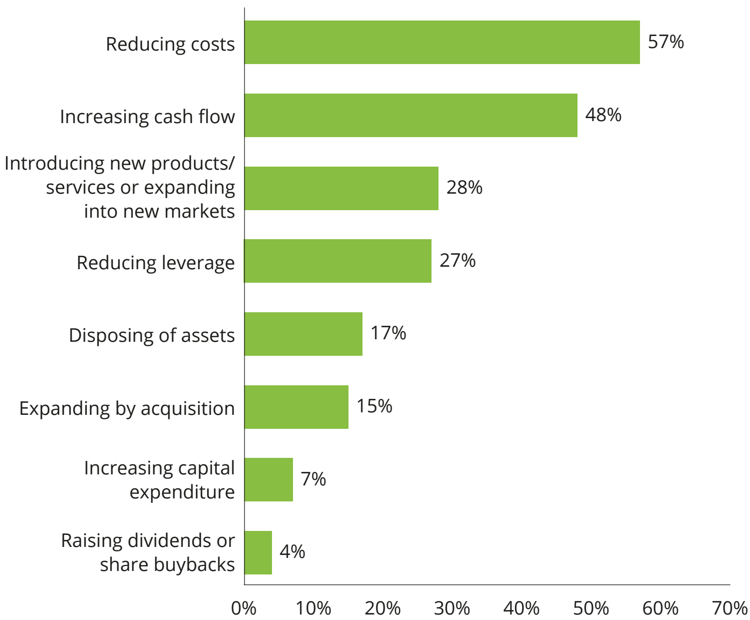
# Cost reduction remains top priority

Defensive strategies – reducing costs, and increasing cash flow – remain the top priorities for CFOs by some margin. Reducing leverage, another defensive strategy, ranks fourth in the list of priorities.

Expansionary strategies have risen slightly in popularity although are only favoured by a small minority of CFOs. Introducing new products now ranks among the top three priorities.

**Chart 6. Corporate priorities in the next 12 months**

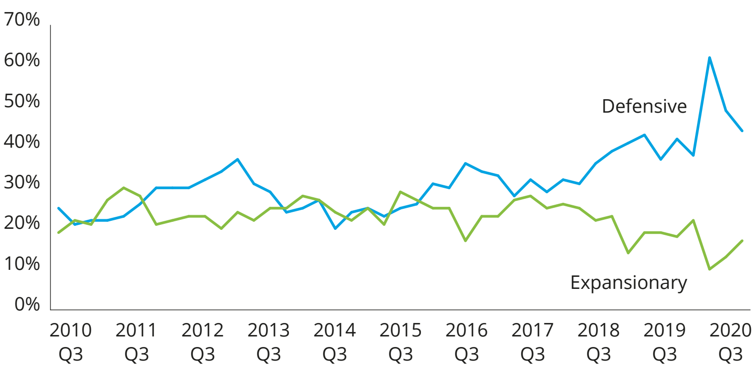
% of CFOs who rate each of the following as a strong priority for their business in the next 12 months




The gap between expansionary and defensive strategies narrowed slightly in the third quarter. But corporates still maintain a more defensive strategy stance than at any point before the COVID-19 pandemic.

**Chart 7. Expansionary and defensive strategies**

Arithmetic average of the % of CFOs who rate expansionary and defensive strategies as a strong priority for their business in the next 12 months




Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure.

Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

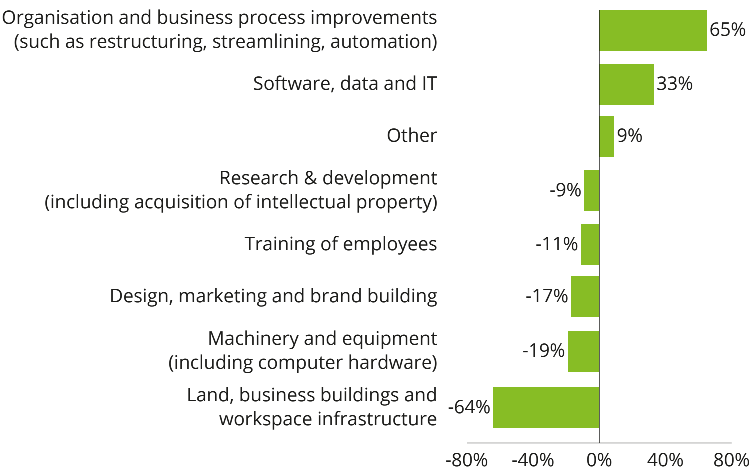
# COVID-19 shapes business planning

Compared to pre-pandemic plans, CFOs expect to increase their investments in organisation and business process improvements, and software, data and IT over the next 12 months.

In contrast, they expect to reduce investment in physical infrastructure, machinery and equipment, and design and marketing.

**Chart 8. COVID-19 and capital expenditure**

Net % of CFOs who expect their businesses' investments in the following areas to increase over the next 12 months, compared to pre-pandemic plans

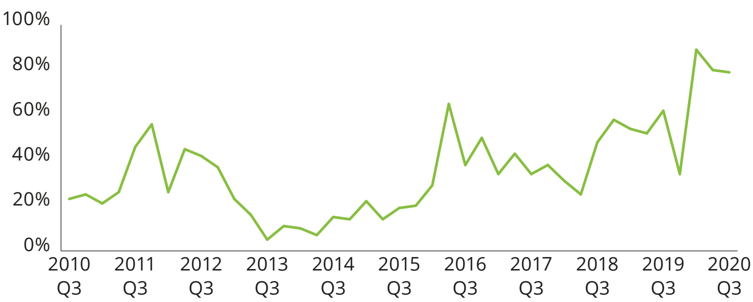



CFO perceptions of external uncertainty remain at an elevated level, and well above the pre-pandemic range.

79% of CFOs now rate the level of external financial and economic uncertainty as high or very high.

**Chart 9. Uncertainty**

% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high




Ending its recent run of sharp movements, business optimism has fallen slightly in the third quarter but remains in positive territory.

On balance, 9% of CFOs are more optimistic about the financial prospects of their business than three months ago, down from 25% in the second quarter.

**Chart 10. Business optimism**

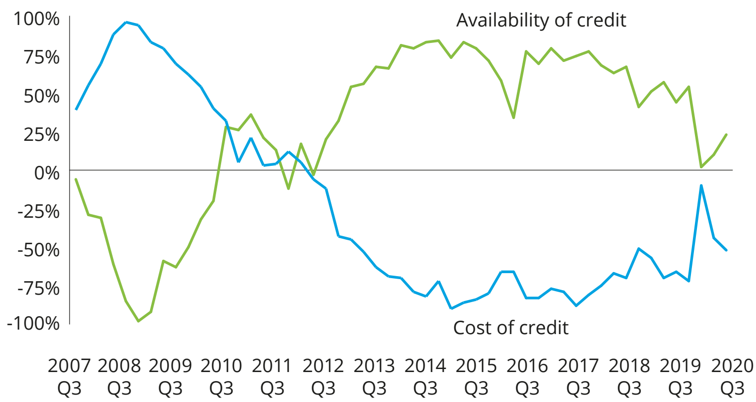
Net % of CFOs who are more optimistic about the financial prospects of their business than three months ago

# Slight easing in credit conditions

The large corporates on our panel have reported an improvement in credit conditions in the last two quarters, following a sharp deterioration in the cost and availability of credit in the first quarter of the year.

**Chart 11. Cost and availability of credit**

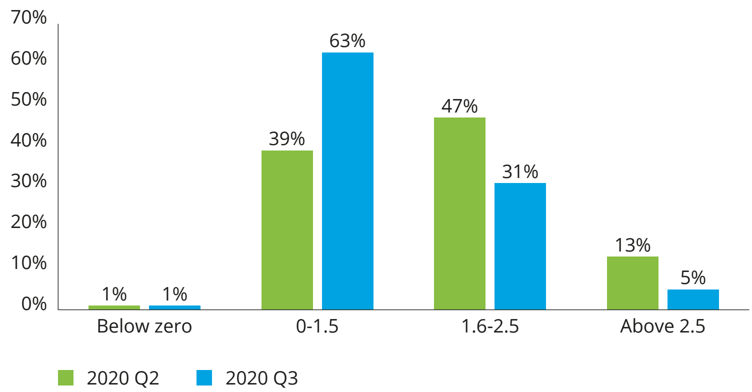
Net % of CFOs reporting credit is costly and credit is easily available




64% of CFOs expect inflation to be below 1.6% in two years' time, up from 40% in the second quarter.

**Chart 12. Inflation expectations**

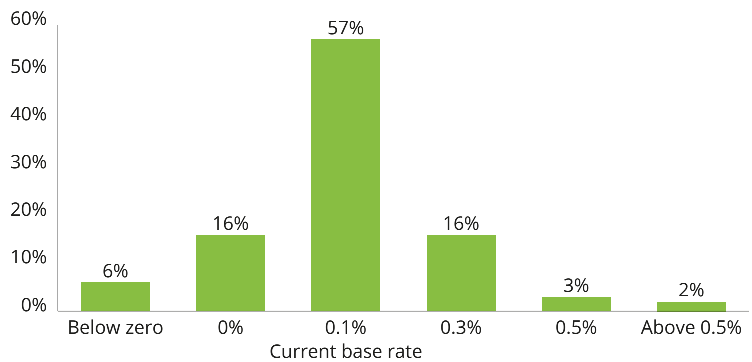
% of CFOs who expect UK inflation to be at the following levels in two-years' time




79% of CFOs expect the Bank of England's base rate to be at the current level of 0.1% or lower in a year's time. 6% think rates will be negative by then.

**Chart 13. Interest rate expectations**

% of CFOs who expect the Bank of England's base rate to be at the following levels in a year's time

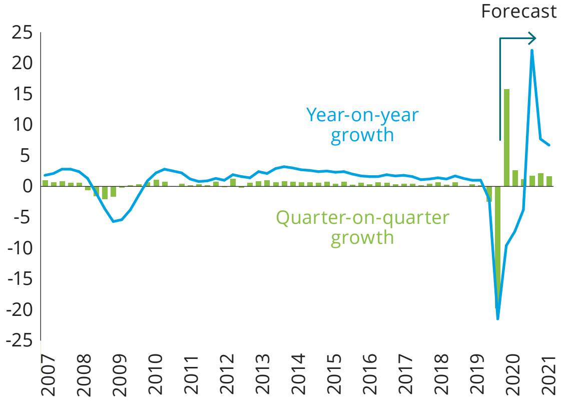


# CFO Survey: Economic and financial context

**The macroeconomic backdrop to the Deloitte CFO Survey Q3 2020**

The easing of lockdowns across the developed world led to a surge in activity over the summer months, driven by a rebound in personal consumption and industrial output. Yet activity remains well below pre-pandemic levels, while rising caseloads and tighter restrictions, especially in Spain, France and the UK, mean the recovery began losing steam in September. Service sector data from the US, UK and euro area reflect this phenomenon. The British government and the EU further extended their fiscal stimulus programmes, which have supported businesses and, so far, kept unemployment in check. By contrast, US policymakers failed to agree on any significant additional stimulus package. In other political developments, events in the UK raised the risk of an acrimonious Brexit at the end of the year while Democratic candidate Joe Biden set up a strong lead in opinion polls ahead of the US presidential election. Among major emerging markets, Brazil and India finally succeeded in establishing a downward trajectory for new cases but after significant economic pain. China remained the biggest exception among major economies, having effectively suppressed the virus and with a recovery that continues to gain ground. Despite selling off in September, US and global equities were up over the third quarter, supported by outperforming tech stocks.

**UK GDP growth: Actual and forecast (%)**




Source: Refinitiv Datastream, Deloitte calculations

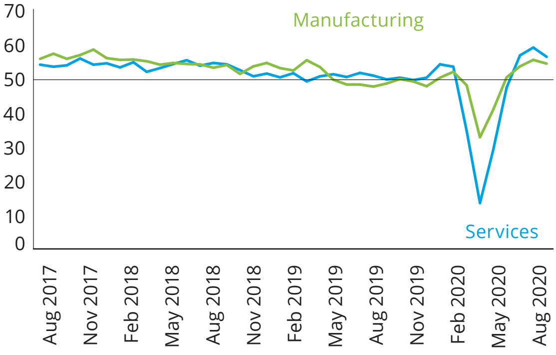
**FTSE 100 price index**


Source: Refinitiv Datastream

**GfK Consumer Confidence Index (UK)**


Source: Refinitiv Datastream

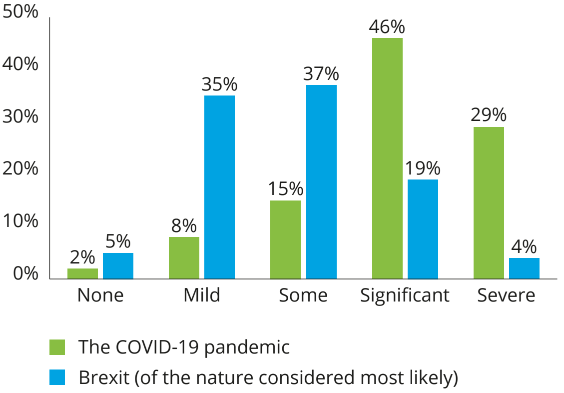
**Markit Purchasing Manager Indices (UK)**



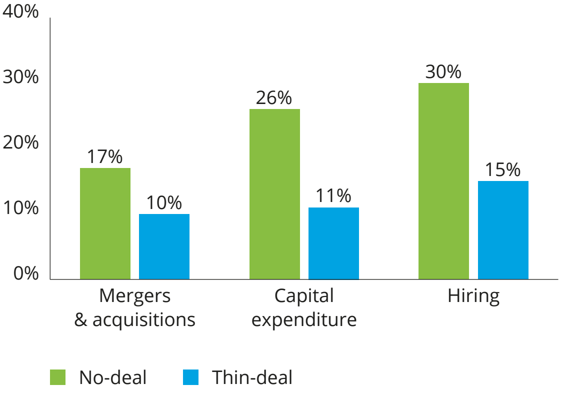

Source: Refinitiv Datastream, readings above 50 indicate expansion

# Two key survey messages

**Negative effects of COVID-19 and Brexit**
% of CFOs who rate the negative effects of the COVID-19 pandemic and Brexit on their own businesses, over the next 12 months, as the following




**Impact of a ‘no-deal’ versus a ‘thin-deal’ Brexit**
% of CFOs who expect to decrease their business activities in the following areas over the next year in the event of a ‘no-deal’ or ‘thin-deal’ Brexit. ‘No-deal’ implies UK-EU trade under WTO rules while ‘thin-deal’ implies tariff-free goods trade only.




**About the survey**
This is the 53rd quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2020 third quarter survey took place between 22nd September and 6th October. 102 CFOs participated, including the CFOs of 21 FTSE 100 and 37 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas. The combined market value of the 68 UK-listed companies surveyed is £417 billion, or approximately 20% of the UK quoted equity market.

The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitudes to valuations, risk and financing. To join our panel of CFO respondents and for additional copies of this report, please contact Elaine Hoang on 020 7007 4717 or email **ehhoang@deloitte.co.uk**.

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