The Deloitte CFO Survey

Going for Growth

2022 will be a year of rising business investment, according to the Chief Financial Officers of the UK's largest companies. A record 37% of CFOs rate increasing capital investment as a strong priority for their business in the next 12 months, with CFOs citing growth at home and abroad and the climate transition as the main drivers of investment. This is only partly about catching up with a cyclical surge in demand. An overwhelming majority of CFOs expect to invest more in workforce skills and digital technology over the next three years than in the years before the pandemic.

The latest CFO survey took place in the first half of December, against a backdrop of the emergence of the Omicron variant, the government triggering its 'Plan B' restrictions and rising inflation. Despite these head winds, CFOs' perceptions of external uncertainty fell slightly and corporate risk appetite nudged higher.

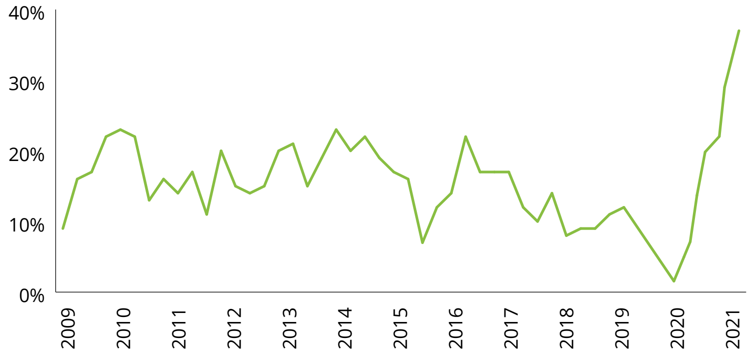
CFOs think the wider business landscape will change in the longer term in the wake of the pandemic and Brexit in three important respects. First, this will be an era of rising labour costs and surging business investment in technology. Second, a lasting expansion in the size and role of government is underway, and will be accompanied by rising levels of business regulation and taxation. Third, Brexit will be a significant negative for trade with, and migration from, the EU.

It is a measure both of the speed of the snap back in activity from the pandemic, and of the scale of the threat today, that CFOs rate labour shortages as the greatest threat to business, ahead, even, of the pandemic in second place.

Like equity markets, which rallied into the new year, CFOs seem to be looking past Omicron and plan to run their businesses for growth in 2022. CFOs believe that the pandemic and Brexit will be followed by lasting structural change and rising investment, above all in people and technology. It is perhaps for these reasons that CFOs expect productivity growth over the next three years to outperform pre-pandemic trends.

Chart 1. Corporate capital expenditure

% of CFOs who rate increasing capital expenditure as a strong priority for their business in the next 12 months



Authors

Ian Stewart
Chief Economist
020 7007 9386
istewart@deloitte.co.uk

Debapratim De
Senior Economist
020 7303 0888
dde@deloitte.co.uk

Tom Simmons
Economic Analyst
020 7303 7970
tsimmons@deloitte.co.uk

Peter Ireson
Economic Analyst
0117 984 1727
pireson@deloitte.co.uk

Key contacts

Ian Stewart
Chief Economist
020 7007 9386
istewart@deloitte.co.uk

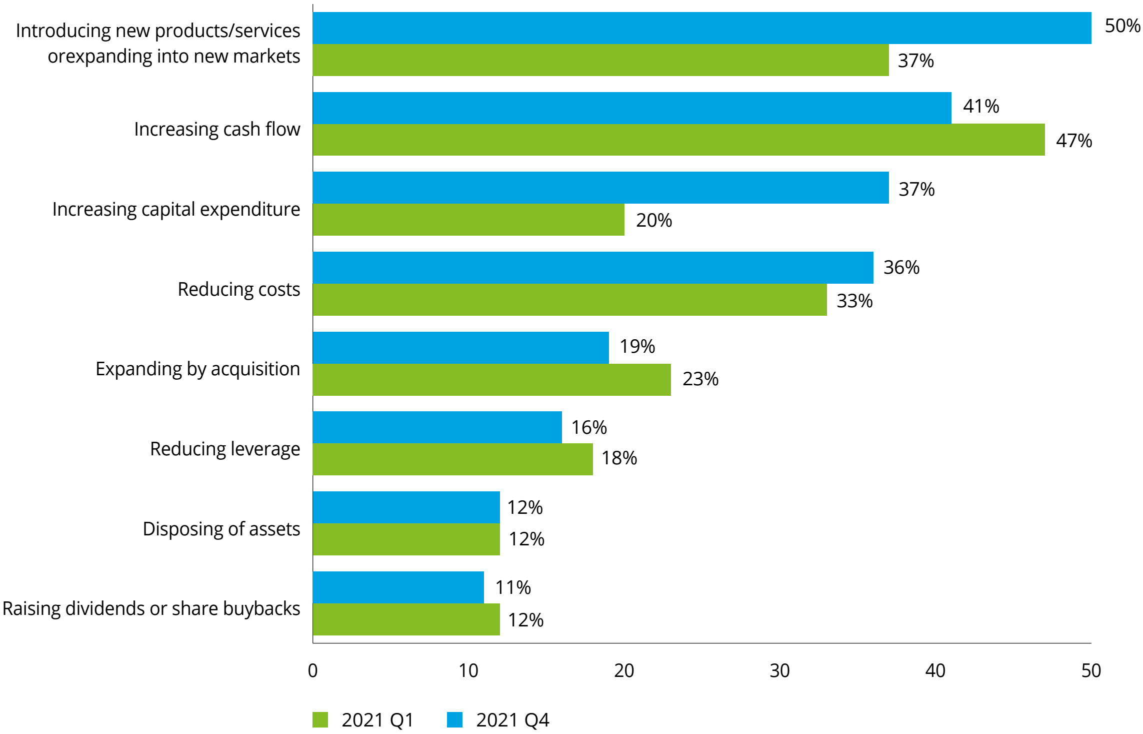
David Anderson
CFO Programme Leader
020 7303 7305
davidjanderson@deloitte.co.uk

Anna Marks
CFO Programme Leader
0118 322 2316
amarks@deloitte.co.uk

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**

Sharpest focus on expansion

Chart 2. 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

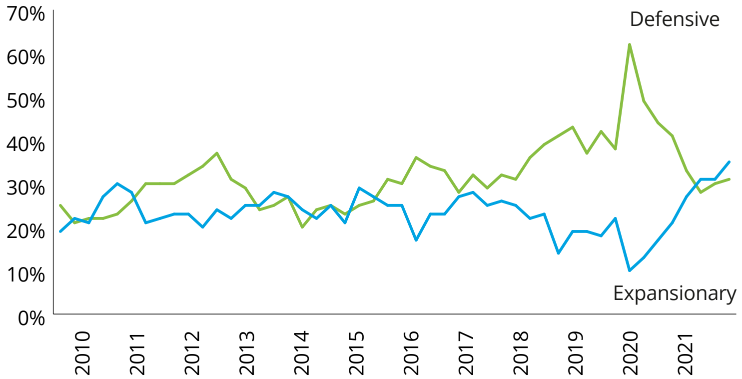


CFOs start the new year with a sharp focus on expansion. Just under four in ten CFOs say that increasing capital expenditure is a strong priority for their business – a record in the history of this survey and almost double the reading in March 2021, when a successful vaccination programme and the easing of lockdown restrictions had resulted in a peak in optimism. CFO emphasis on expanding into new markets and introducing new products and services is also at a record high.

CFOs are placing greater emphasis on expansionary strategies now than at any time since we started asking the question in 2009.

Meanwhile CFOs have shifted away from the defensive balance sheet strategies, including cost control, that have dominated corporate strategies over the last six years.

Chart 3. 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

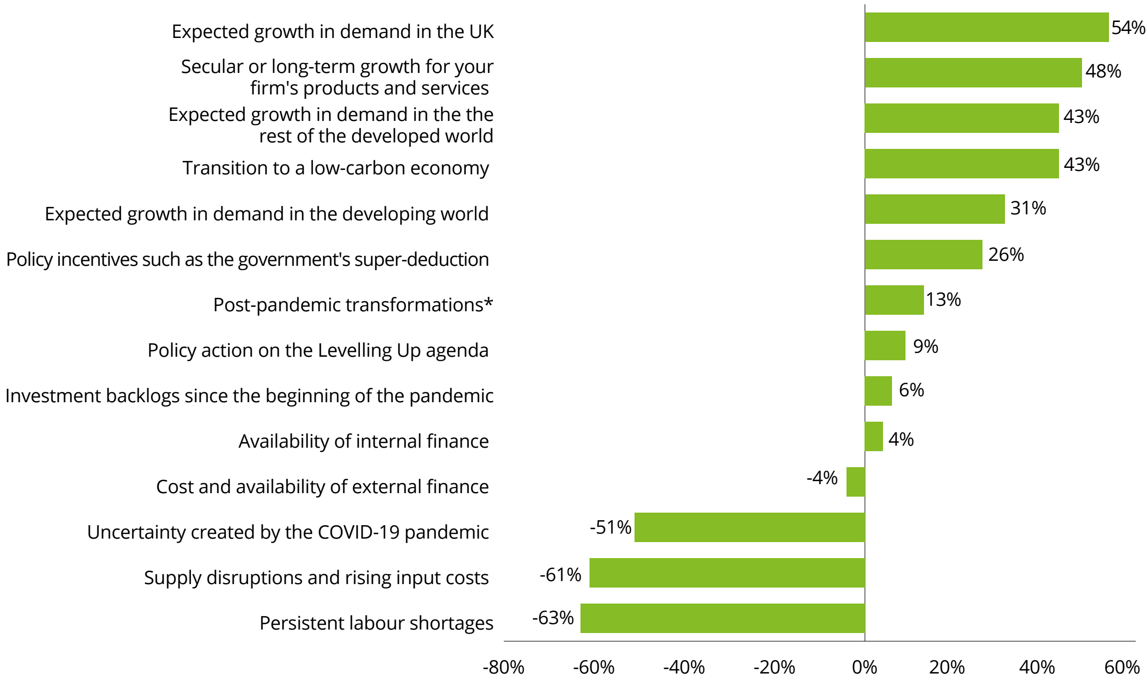


Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

CFOs anticipate investment rebound

Chart 4. Factors influencing investment

Net % of CFOs who expect the following factors to have a positive effect on their investment plans over the next 12 months



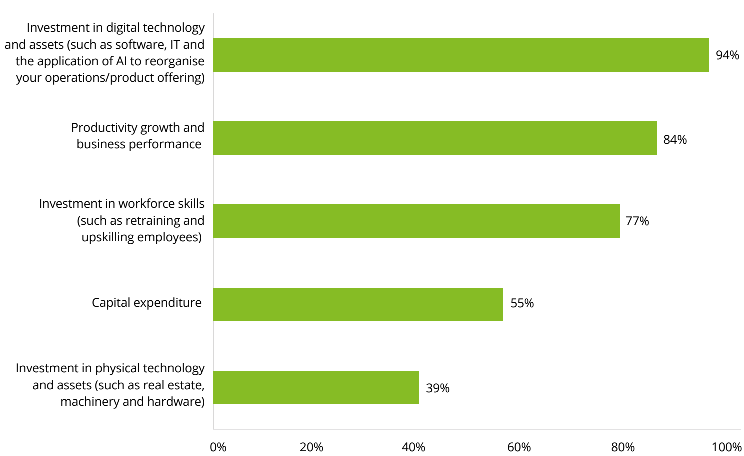
*Such as the move towards hybrid working, rise of online retail or readjustment of demand in urban areas

The five years before the pandemic were characterised by poor productivity growth and weak business investment. In the post-pandemic recovery, an overwhelming majority of CFOs expect investment in digital technology and workforce skills to increase – along with an attendant improvement in productivity.

CFOs see investment being driven by growth at home and abroad and the climate transition.

Chart 5. Post-pandemic investment and productivity

% of CFOs who expect the following to increase relative to the pre-pandemic trend over the next three years

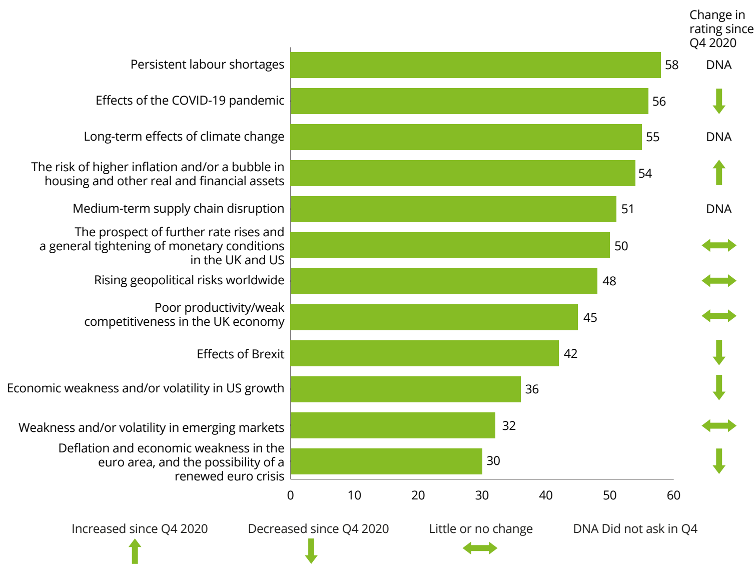


Labour shortages top CFO risk list

Persistent labour shortages, the COVID-19 pandemic, climate change and inflation make up the top four risks on CFOs' list of concerns for businesses, separated by very narrow margins.

With the exception of inflation, where concern has risen sharply, every other category of risk where we posed the question in late 2020 was either lower or largely unchanged in December 2021. The mass deployment of vaccines has weakened the link between COVID-19 cases on the one hand and human health and economic activity on the other, leading to a reduction in the pandemic's risk rating. Concerns about weak growth in the US and Europe have also eased as the economic recovery has taken hold. Finally, Brexit gets a lower risk rating, as corporates adapt to, and absorb the effects of, the UK's departure from the EU.

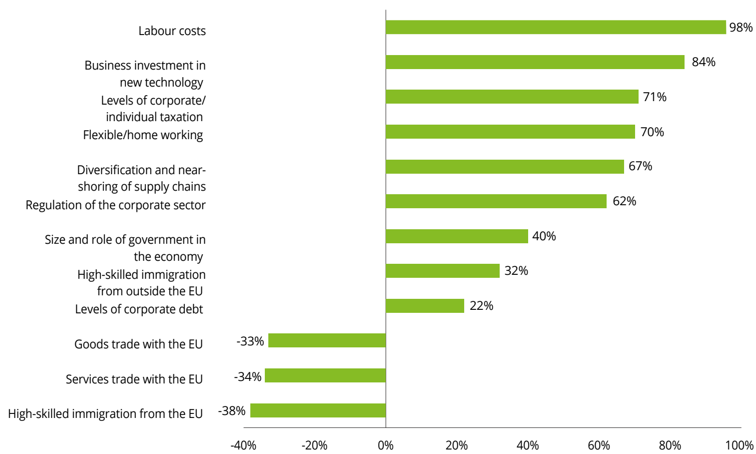
Chart 6. Risk to business posed by the following factors
Weighted average ratings on a scale of 0-100 where 0 stands for no risk and 100 stands for the highest possible risk



Events in 2021 have confirmed CFOs' expectations, in late 2020, of a lasting shift to home working and a bigger, higher taxing and more active state.

But CFOs' responses in December 2021 highlight some important changes in thinking since we asked this question a year earlier. Expectations of lasting growth in labour costs have become near universal. More CFOs expect an era of growth in technology investment. CFOs see Brexit as depressing trade and migration, though the readings here are less negative than a year ago.

Chart 7. Long-term changes after COVID-19 and Brexit
Net % of CFOs who expect the following to increase in the longer term

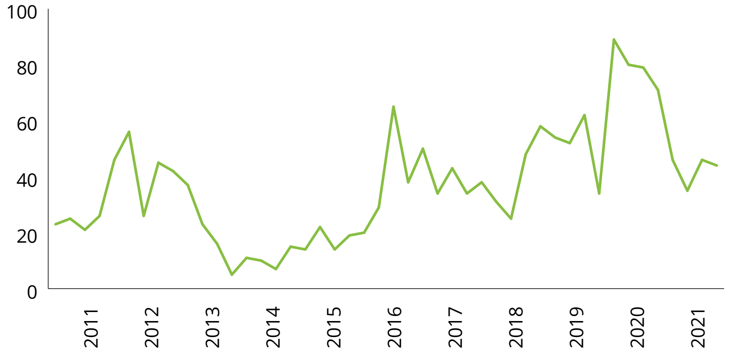


Uncertainty has edged lower

Despite the emergence of the Omicron variant just days before the survey was opened, CFOs reported a slight decrease in the levels of uncertainty facing their businesses.

Chart 8. Uncertainty

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



This is also reflected in corporate risk appetite, which has held up well. 31% of CFOs think now is a good time to take greater risk onto their balance sheets, well above the long-term average.

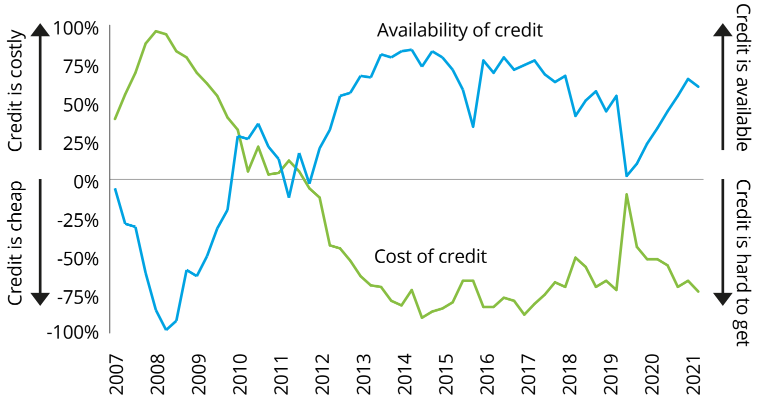
Chart 9. Corporate risk appetite

% of CFOs who think this is a good time to take greater risk onto their balance sheets

CFOs rate credit as being cheap and easily available.

Chart 10. Cost and availability of credit

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

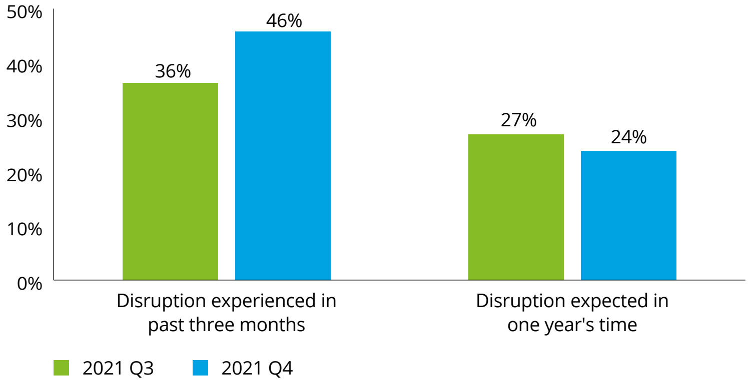


Persistent labour and supply shortages

Almost half of the CFOs surveyed reported that their businesses have faced significant or severe recruitment difficulties over the last three months. Things should improve somewhat in 2022, with just under a quarter of CFOs expecting significant or severe difficulties in a year's time.

Chart 11. Recruitment difficulties and labour shortages

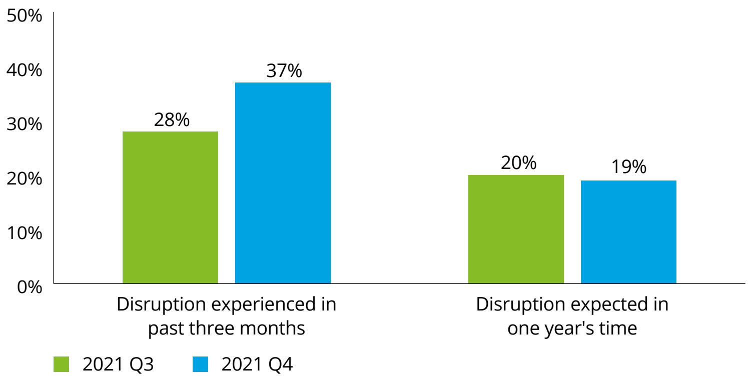
% of CFOs who report significant or severe levels of recruitment difficulties or labour shortages experienced by their business over the last three months and those expecting similar levels of disruption in one year's time



37% of CFOs reported significant or severe levels of supply chain disruption in the last three months of 2021. They expect some improvement, with one in five CFOs anticipating similar levels of disruption in one year's time.

Chart 12. Supply chain disruption

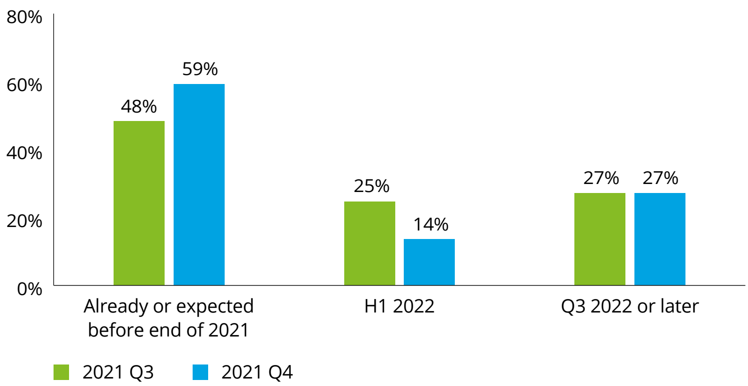
% of CFOs who report significant or severe levels of supply chain disruption experienced by their business over the last three months and those expecting similar levels of disruption in one year's time



Growth in corporate revenues surprised on the upside in the final quarter on 2021. 59% of CFOs report that demand had returned to pre-pandemic levels by the end of 2021 – a better performance than they had expected in the third quarter.

Chart 13. Recovery of demand to pre-pandemic levels

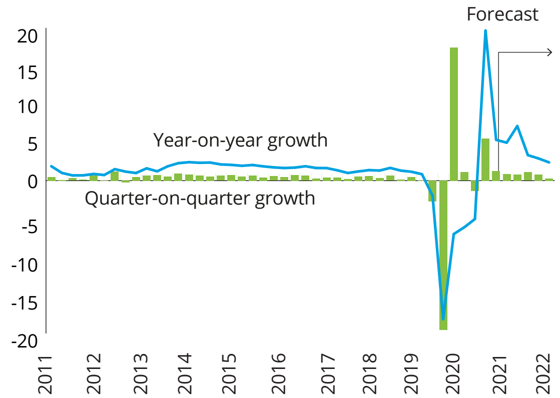
% of CFOs who expect demand for their businesses' products and services to return to pre-pandemic levels in the following periods



CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q4 2021
The global economy continued to grow in the final quarter of 2021 while concerns about inflation and, from December, the spread of the Omicron variant, mounted. Advanced-economy output rose above pre-pandemic levels, with the US outperforming the euro area and the UK. Rising energy costs, supply chain disruption and labour shortages drove inflation to multi-decade highs in the US and euro area. Central bankers signalled their intention to tighten policy in the medium-term and the Bank of England unexpectedly raised interest rates on 16 December. COVID-19 cases rose in Europe from October and many countries tightened restrictions. The World Health Organisation designated the Omicron strain of COVID-19 as a variant of concern. On 8 December the UK government shifted to its 'Plan B' to contain the virus, involving home working where possible. Global equity prices declined from mid November to early December on concerns about inflation and rising case rates. They then rallied into early 2022 as evidence grew that that Omicron causes less severe illness than earlier viruses. US equities hit an all time high on the first trading day of 2022.

UK GDP growth: Actual and forecast (%)

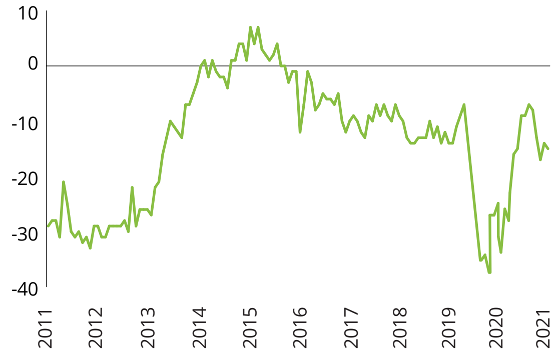


Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index

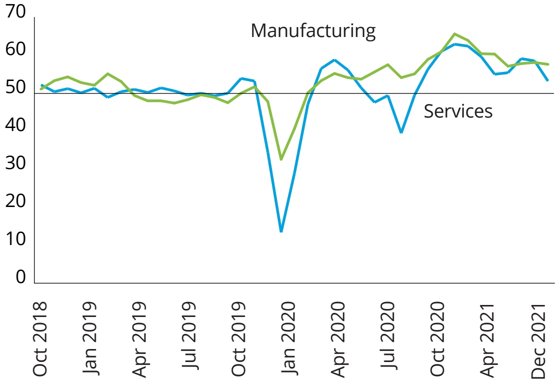
Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)



Source: Refinitiv Datastream

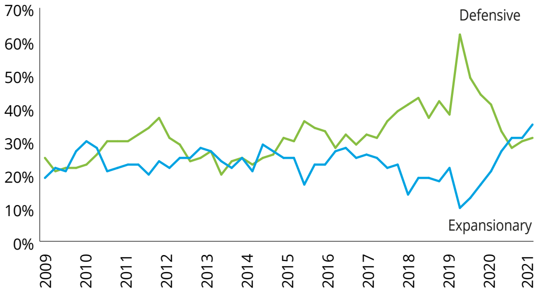
Markit Purchasing Manager Indices (UK)



Source: Refinitiv Datastream, readings above 50 indicate expansion

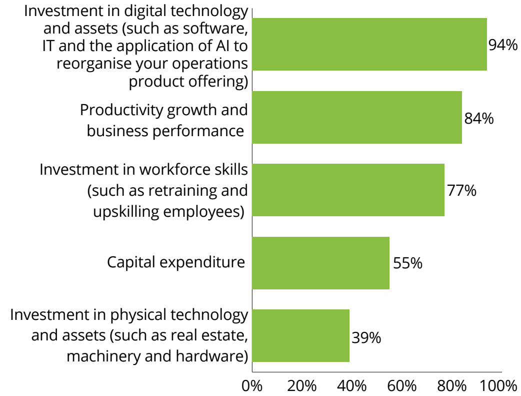
Two key survey messages

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.

Post-pandemic investment and productivity
% of CFOs who expect the following to increase relative to the pre-pandemic trend over the next three years



About the survey
This is the 58th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2021 fourth quarter survey took place between 1st December and 14th December. 85 CFOs participated, including the CFOs of 21 FTSE 100 and 29 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 60 UK-listed companies surveyed is £493 billion, or approximately 19% 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**.

Deloitte.

Designed and produced by 368 at Deloitte. J20909