

The Deloitte CFO Survey

Crash, slow recovery, lasting change

The Chief Financial Officers of the UK's largest businesses expect their revenues to be 22% lower, on average, than their pre-COVID plans this year. This decline is four times as great as the 5.4% contraction in UK GDP forecast, on average, by economists and testifies to the intense pressure on the revenues of even major, international businesses. Confidence among CFOs has declined to its lowest ever level, well below the trough at the height of the financial crisis in 2008.

The crisis has triggered radical changes in the corporate sector. 59% of CFOs have already furloughed or intend to furlough staff, 33% are diversifying suppliers and 30% have accessed or intend to access the Bank of England's COVID-19 Corporate Financing Facility. CFOs are overwhelmingly positive about the measures introduced by the government and the Bank to support business, with a particularly positive view of the Coronavirus Job Retention Scheme to protect jobs.

CFOs have reacted to the COVID-19 shock with a decisive shift from growth to strengthening balance sheets. Businesses have never adopted a more defensive stance, with an unprecedented focus on cost control, cash conservation, selling assets and debt reduction or deleveraging. While policymakers have sought to boost the flow of debt finance to business as a 'bridge' through

the crisis, CFOs report a marked deterioration in the availability and cost of debt in the last three months. Corporates seem to have frozen activity, with CFO plans for capital spending and expansion in the next year at all-time lows.

CFOs expect growth to begin to return in the coming months. 41% of CFOs expect the lockdown to start to ease in May and a further 41% expect it to begin in June. Most CFOs, 76%, expect demand for their own products and services to revive later this year, with the third quarter being seen as the key period of recovery. Yet there is no expectation of a quick snapback in activity in the second half of the year. Most CFOs do not expect demand for their products and services to return to pre-COVID-19 levels until 2021, and a majority, some 53%, believe that peak levels of activity will be only regained sometime after mid-2021.

CFOs see COVID-19 causing lasting change in the business sector and a strong focus on business resilience. Most CFOs expect to see significant increases in pandemic planning and most believe supply chains will become more diverse and resilient. Flexible working is seen as the big winner, with 98% of CFOs expecting it to increase as a result of the crisis.

CFOs believe the post-COVID-19 world will see a greater role for the state and higher levels of corporate and household taxation.

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

Maximilien Lambertson
Economic Analyst
020 7303 5316
mlambertson@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

Protracted hit to demand

41% of CFOs expect the UK government to start easing restrictions on movement in May.

58% of CFOs think the government will start easing restrictions between June and August.

40% of CFOs expect demand for their company's services or products to begin to recover in the third quarter.

One-third of CFOs think demand will start to recover in the fourth quarter, and 23% do not expect a rebound until next year.

CFOs expect a protracted hit to demand. Just over one-half of CFOs do not expect demand for their business to recover to pre-pandemic levels until at least the second half of 2021.

Only 10% of CFOs think demand for their business will fully recover this year.

Chart 1. Easing of lockdown restrictions

% of CFOs who expect the UK government to start easing restrictions on movement in the following months

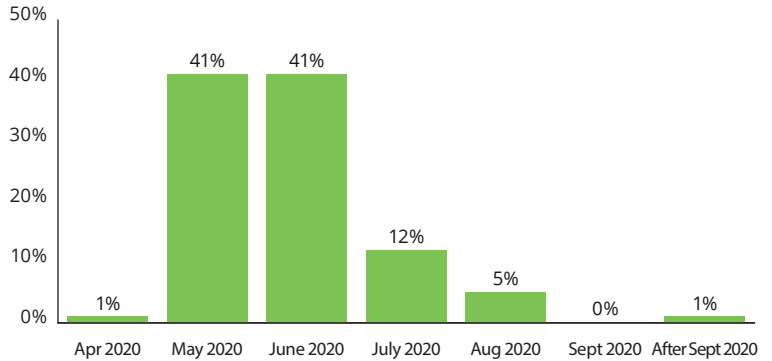


Chart 2. Expectations for recovery in demand

In businesses that have seen a fall in demand, % of CFOs that expect it to start recovering in the following quarters

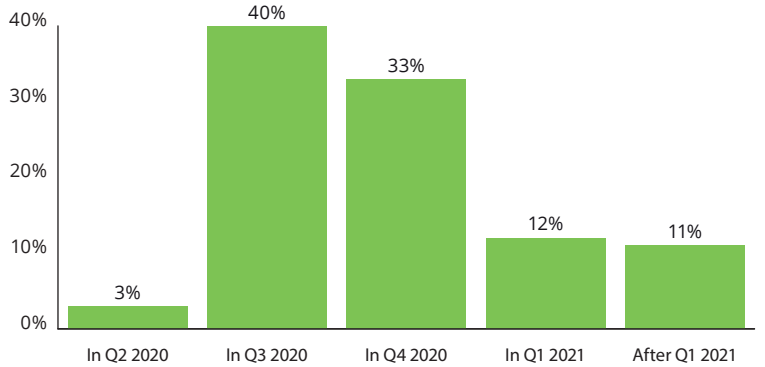
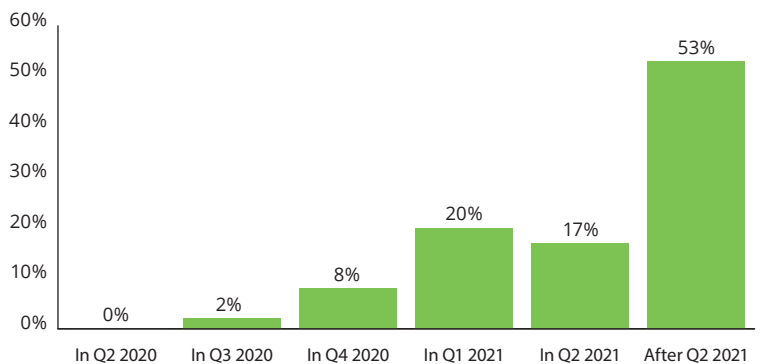


Chart 3. Recovery of demand to pre-pandemic levels

In businesses that have seen a fall in demand, % of CFOs that expect it to return to pre-pandemic levels in the following quarters



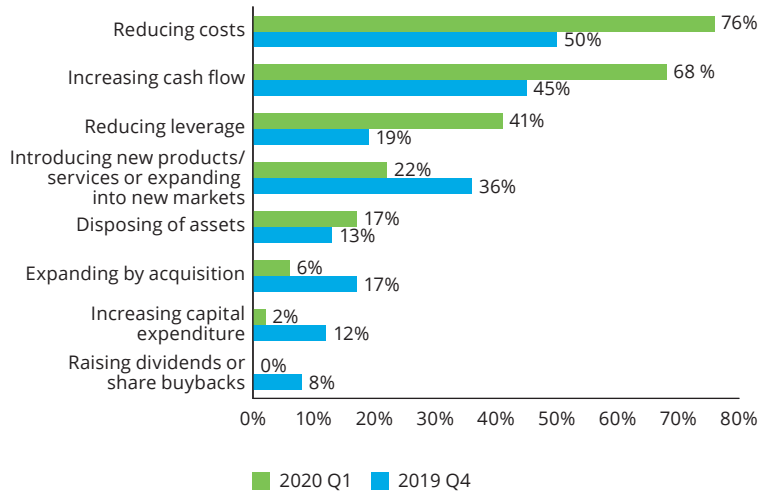
CFOs more defensive than ever

CFOs are placing more focus on defensive strategies than at any time since we began asking the question in 2010 as they face the huge economic shock wrought by COVID-19.

Defensive strategies – reducing costs, increasing cash flow and reducing leverage – remain the top priorities for CFOs, but their focus on these strategies has sharpened significantly compared to the previous quarter.

Chart 4. Corporate priorities in the next 12 months

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

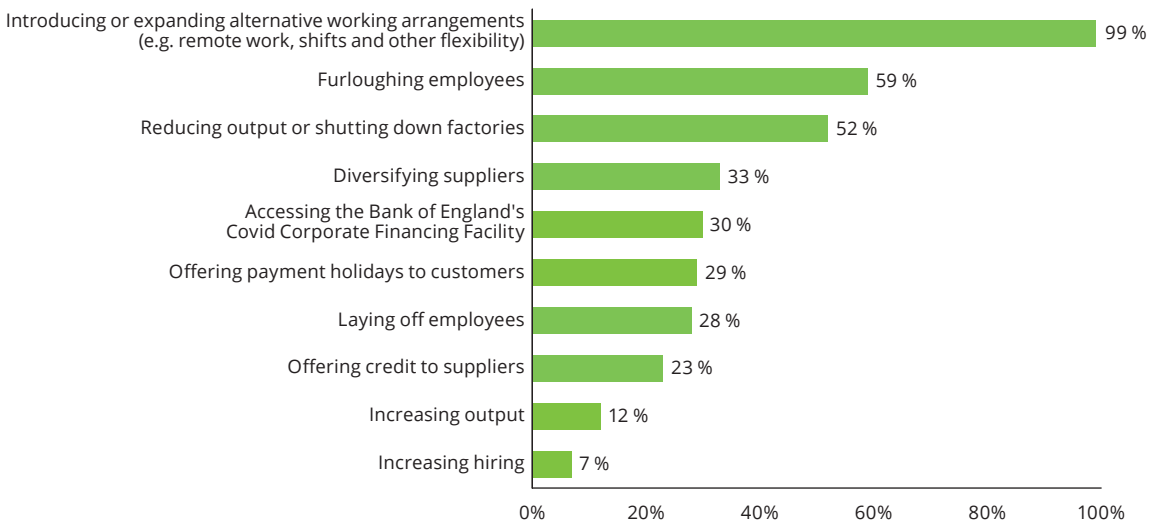


The COVID-19 crisis is driving significant responses from the large corporates on our panel. Almost all CFOs report that their business is introducing alternative working arrangements. 59% of businesses on the panel have furloughed or plan to furlough workers and 28% are making redundancies. Around half are reducing output.

In an attempt to improve the resilience of their supply chains one-third of businesses are taking steps to diversify their suppliers and 23% are offering them credit. Just under a third of companies are accessing the Bank's Covid Corporate Financing Facility.

Chart 5. Business responses to COVID-19

% of CFOs whose businesses have taken or intend to take the following actions in response to the COVID-19 pandemic



Positive view of policy response

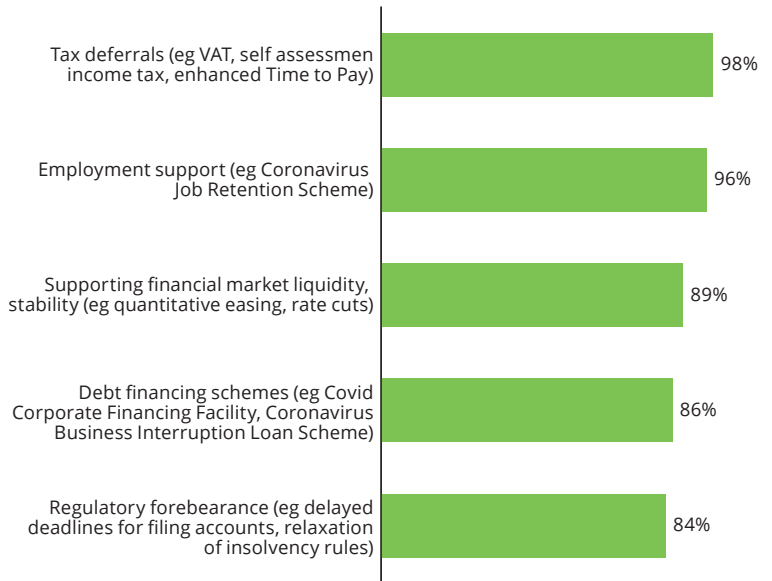
Most CFOs have a positive view of the policies to support business during the COVID-19 pandemic.

CFOs report almost unanimous approval of the government’s tax deferrals and furlough scheme.

The Bank of England’s actions to support financial market liquidity are also seen very positively.

Chart 6. Assessment of policy measures to support business

% of CFOs who have a somewhat positive or very positive view of the following UK policy measures in response to the COVID-19 pandemic

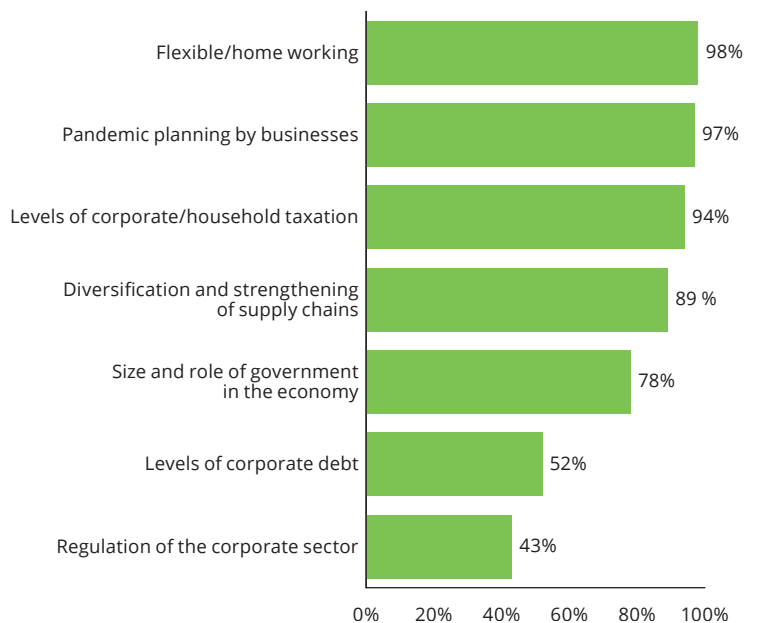


CFOs expect COVID-19 to drive long-term changes including more home working, pandemic planning and supply chain diversification.

A net 52% of CFOs expect a long-term increase in corporate debt levels which is somewhat at odds with their prioritisation of reducing leverage.

Chart 7. Long-term effects of COVID-19 on business

Net % of CFOs who expect the following to increase in the longer term as a result of the COVID-19 pandemic



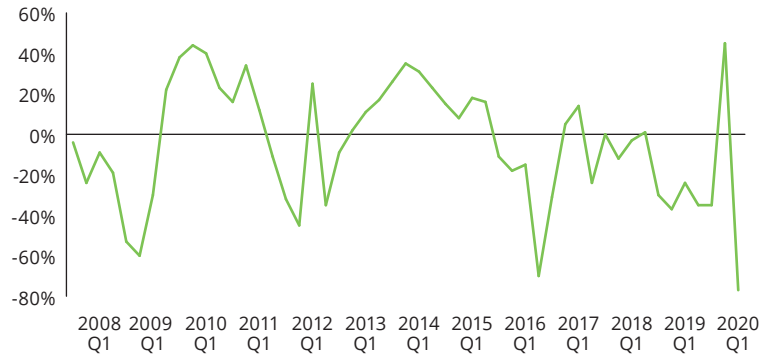
Optimism hits record low

The COVID-19 shock triggered the largest decrease in business confidence in the 12-year history of the survey, taking it to its lowest ever level.

83% of CFOs are somewhat or significantly less optimistic than three months ago.

Chart 8. Business optimism

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

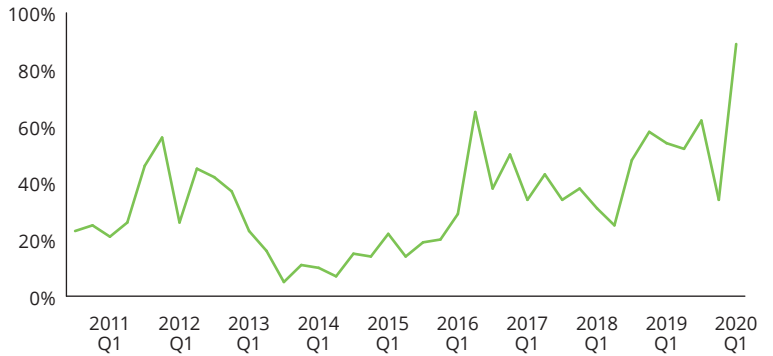


CFO perceptions of external uncertainty have risen to the highest ever level.

89% of CFOs now rate the level of uncertainty as high or very high, up from 34% in the fourth quarter of 2019.

Chart 9. Uncertainty

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

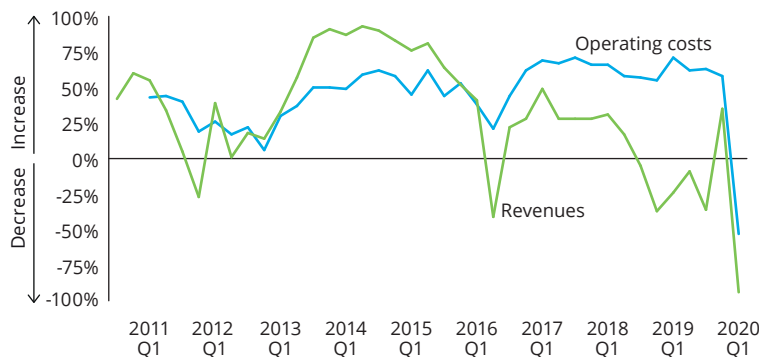


A net 53% of CFOs expect operating costs to fall over the next 12 months.

Almost all CFOs (94%) expect a fall in revenues.

Chart 10. Outlook for corporate revenues and operating costs

Net % of CFOs who expect UK corporates' revenues and operating costs to rise over the next 12 months



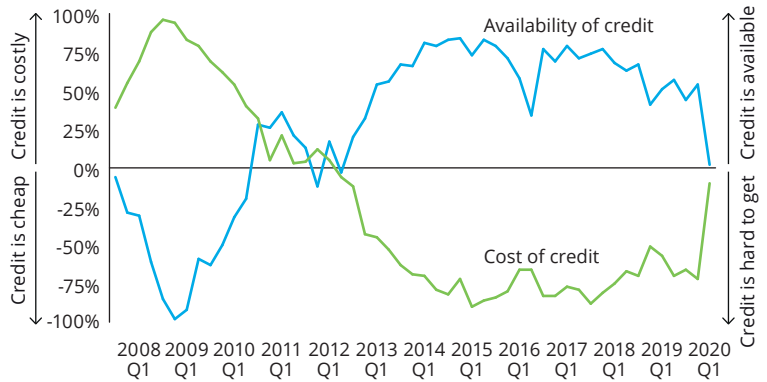
Sharp deterioration in credit conditions

CFOs report the sharpest squeeze in financing conditions since the survey began in Q3 2007.

Although credit conditions are at their tightest since 2012, credit remains cheaper and more easily available now than in the depths of the financial crisis.

Chart 11. Cost and availability of credit

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



Deteriorating credit conditions seem to have brought a renewed focus on corporate leverage.

A net 41% of CFOs see UK corporates' balance sheets as overleveraged, the highest reading in more than ten years.

Chart 12. Corporate leverage

Net % of CFOs who think UK corporates' balance sheets are, in general, overleveraged

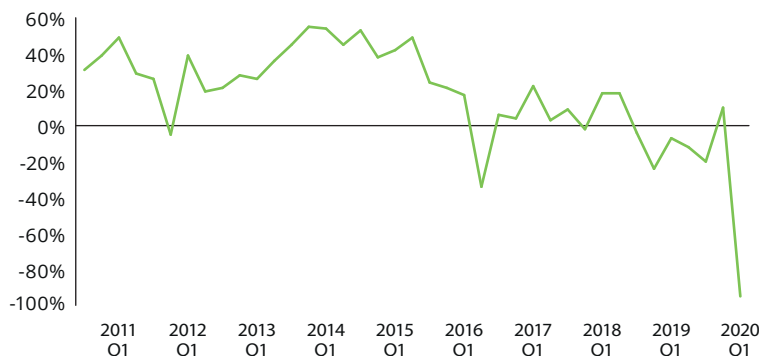


Corporates are scaling back their plans for cash returns to shareholders in the face of the COVID-19 pandemic.

CFO expectations of dividend payouts and share buybacks by UK corporates have hit their lowest level in almost ten years.

Chart 13. Cash returns to shareholders

Net % of CFOs who expect dividends and share buybacks by UK corporates to increase over the next 12 months

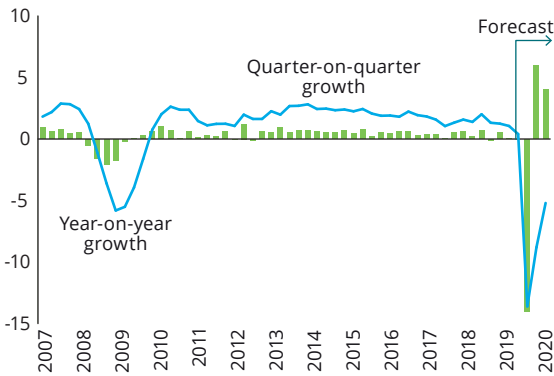


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q1 2020

The first quarter of 2020 saw the spread of COVID-19. In an effort to reduce infection, authorities ordered a halt to non-essential activities and ordered people to stay home. China was the first country to impose a lockdown, quickly followed by others, including the UK in late March. Concerns over the impact on supply chains from the shutdown of Chinese factories quickly morphed into widespread concern over the economic cost of business closures. Leading indicators of economic activity fell to unprecedented levels and equity markets plunged. The rapid deterioration of the economic data led to dire predictions for growth, including from the International Monetary Fund who forecast the worst global recession since the Great Depression of the 1930s. Policymakers scrambled into action. Central banks around the world slashed rates and boosted asset purchases as governments launched a broadside of initiatives to cushion the blow. In the UK, businesses received grants, tax holidays and low cost loans. Struggling households were offered mortgage and payment holidays while welfare and sickness benefits were strengthened. In a bid to prevent large rises in unemployment, the government offered to pay up to 80% of the wages for the four million workers who were furloughed. The UK government did not respond to calls to extend the post-Brexit transition period in light of the disruption, meaning a disorderly exit from current trading arrangements at the end of the year remains a risk for business.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index



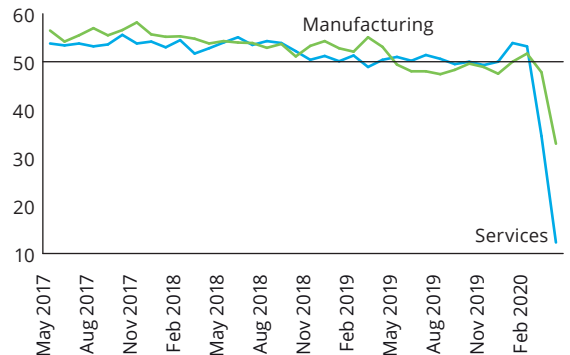
Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)



Source: Refinitiv Datastream

Markit Purchasing Manager Indices (UK)

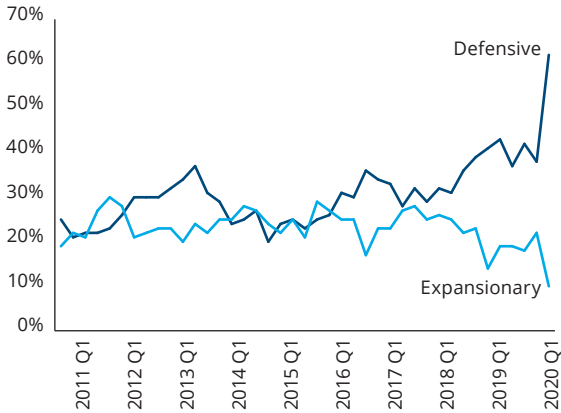


Source: Refinitiv Datastream

Two-chart summary of key survey messages

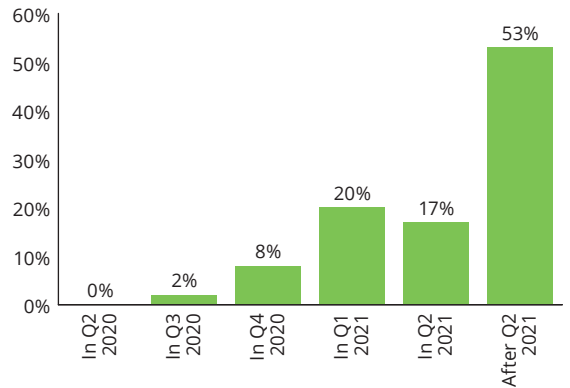
Expansionary and defensive strategies

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



Recovery of demand to pre-pandemic levels

In businesses that have seen a fall in demand, % of CFOs that expect it to return to pre-pandemic levels in the following quarters



About the survey

This is the 51st quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2020 first quarter survey took place between 8th April 2020 and 22nd April 2020. 104 CFOs participated, including the CFOs of 23 FTSE 100 and 43 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 72 UK-listed companies surveyed is £418 billion, or approximately 21% 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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