

## The Deloitte CFO Survey

### CFO optimism reaches record levels

Optimism among the Chief Financial Officers of the UK's largest businesses has risen to the highest level in the 13-year history of the CFO Survey, far surpassing previous peaks seen after the global financial crisis and in the wake of the December 2019 general election.

CFOs continue to see the pandemic as posing the greatest risk to business, but even here concerns have eased. It is a sign of the times that the only category of macro risk where concerns have risen sharply relates to the side effects of strong growth, in the form of inflation and asset price bubbles.

The fog of uncertainty that engulfed the economy last year is clearing. CFO perceptions of uncertainty have plummeted from the record levels seen a year ago. The successful rollout of vaccines in the UK, the prospective reopening of the economy and a gathering US recovery have all helped. So, too, has an end to the long Brexit saga.

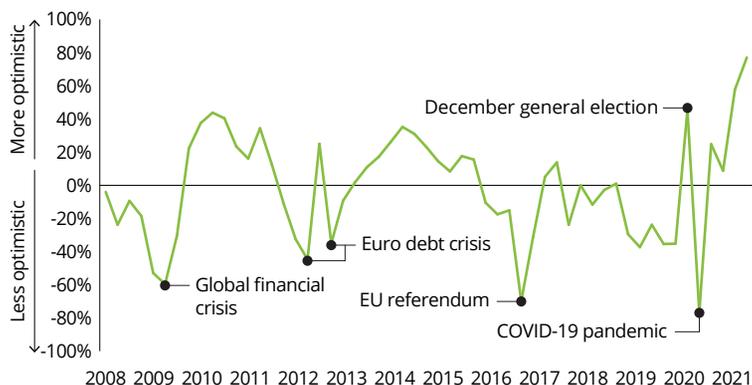
CFOs continue to think by a wide margin that Brexit will adversely affect the UK business environment. But, with the UK's departure from the EU, the issue has dropped sharply down CFOs' worry list, from the first or second place it has occupied since the referendum, to eighth.

The profit cycle is turning and CFOs' expectations for margins have returned to the previous high seen in mid-2014 at the top of the economic cycle. A brighter backdrop has tilted companies away from defensive strategies, such as cost control, while expectations for hiring and investment have reached their highest level in nearly six years. Meanwhile two-thirds of CFOs expect the bulk of their workforce to return to working in the office by September.

This is a very upbeat survey, the most consistently positive of any since we started surveying UK CFOs in 2007. On these results the UK is heading for a strong recovery. Whether it materialises is heavily predicated on continued suppression of the virus.

#### Chart 1. Business optimism

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



### 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  
davidanderson@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](http://www.deloitte.co.uk/cfosurvey)

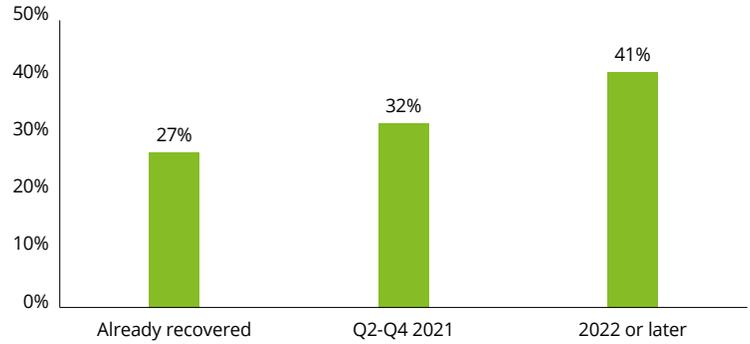
# CFOs expect a strong recovery

CFOs expect a strong recovery in the second half of this year following the planned reopening of the economy.

A majority, just under 60%, report that demand for their businesses' products and services has already returned to pre-pandemic levels or will do so by the end of this year.

**Chart 2. Recovery of demand to pre-pandemic levels**

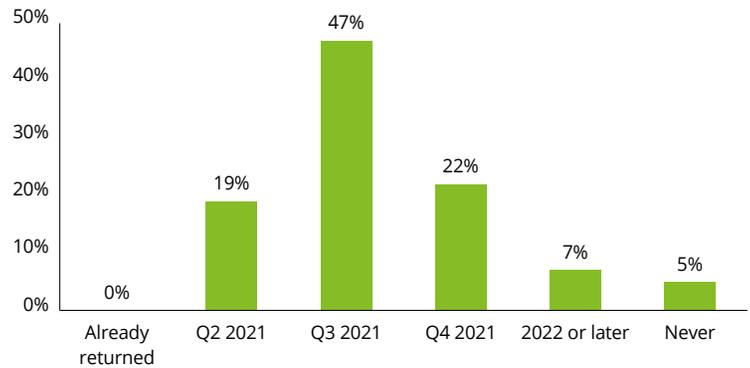
% of CFOs who expect demand for their businesses' products and services to return to pre-pandemic levels in the following periods



Two-thirds of CFOs expect the bulk of their firm's workforce to return to working from an office by the third quarter of this year.

**Chart 3. Expectations for the return to offices**

% of CFOs who expect the bulk of their firm's workforce to return to working in the office in the following quarters

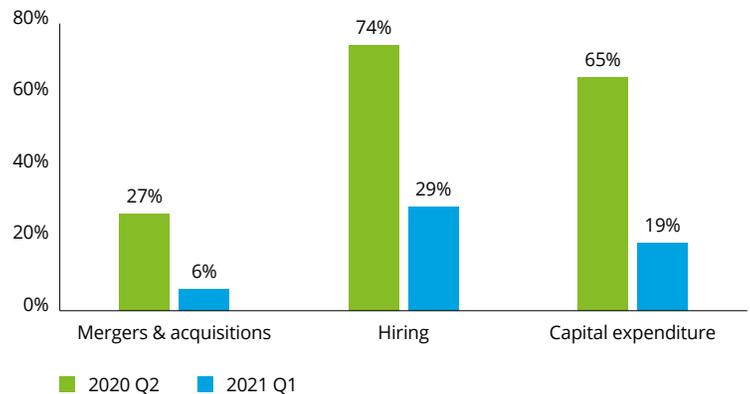


CFOs see COVID-19 as a less potent depressant to activity in the near future than they did last summer.

Nearly one-fifth expect the pandemic to lead to a decrease in capital expenditure over the next three years, down from 65% in the second quarter of last year.

**Chart 4. Effects of COVID-19**

% of CFOs who expect to decrease their business activities in the following areas over the next three years due to the COVID-19 pandemic



# Improved revenue outlook

CFOs' perceptions of external uncertainty have fallen sharply this quarter.

46% of CFOs now rate the level of external financial and economic uncertainty as high or very high, down from 71% the previous quarter.

**Chart 5. Uncertainty**

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



CFO risk appetite continues to grow.

33% of CFOs think now is a good time to take greater risk onto their balance sheets, the highest reading since 2015.

**Chart 6. Corporate risk appetite**

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



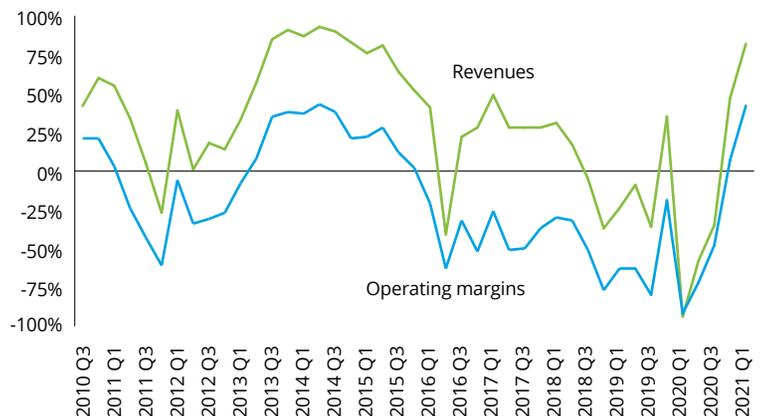
CFOs' expectations for UK corporate revenues have improved significantly over recent quarters.

A net 82% of CFOs now expect revenues to increase over the next year, the highest reading since 2014.

CFOs expect revenue growth to outstrip a rise in operating costs. A net 42% think operating margins will increase over the next 12 months.

**Chart 7. Outlook for corporate revenues and operating margins**

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



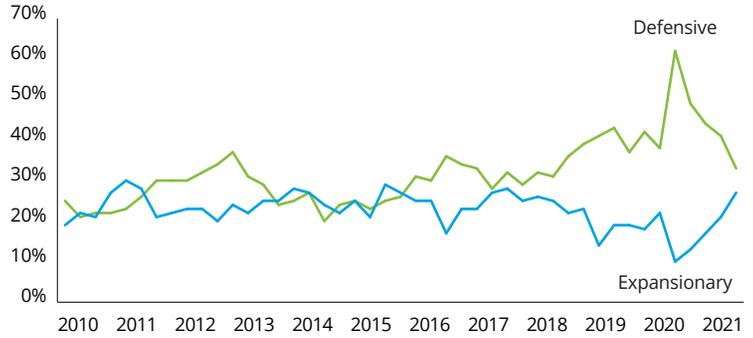
# Spending expectations up

The gap between defensive and expansionary strategies\* narrowed further in the first quarter.

Despite maintaining their defensive stance, CFOs are less focused on defensive strategies and more focused on expansionary strategies than at any time since the pandemic began.

**Chart 8. 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

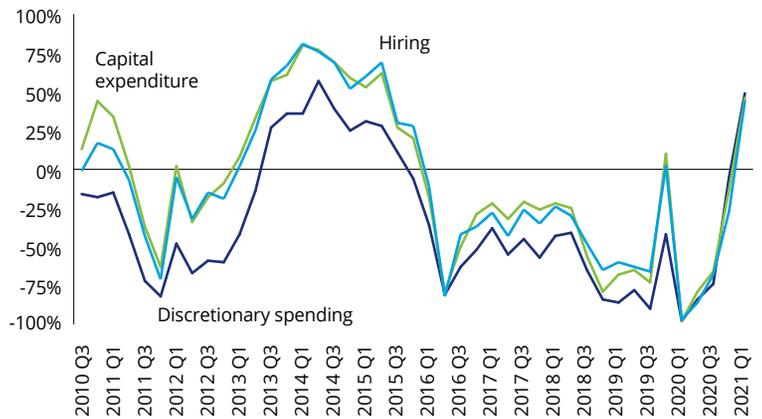


\* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

CFO expectations for an increase in hiring and capital expenditure in the next 12 months have reached their highest levels in nearly 6 years.

**Chart 9. Outlook for corporate spending**

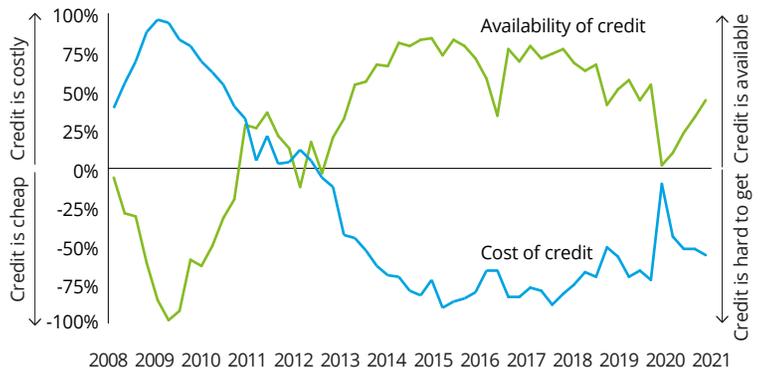
Net % of CFOs who expect UK corporates' hiring, capital expenditure and discretionary spending to rise over the next 12 months



The large corporates on our panel report that credit conditions have improved from the previous quarter. They continue to view credit as cheap and easily available.

**Chart 10. Cost and availability of credit**

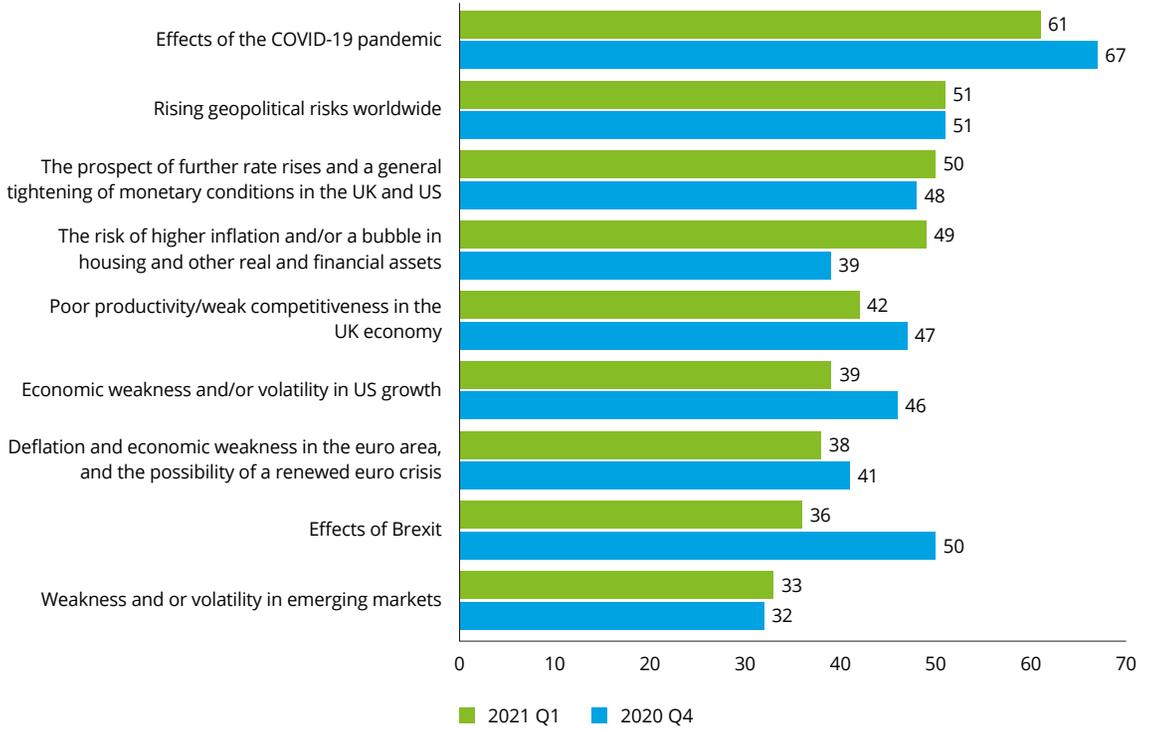
Net % of CFOs reporting credit is costly and credit is easily available



# Brexit drops down the risk list

**Chart 11. 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



CFOs continue to rank the effects of the COVID-19 pandemic as the top risk facing their businesses.

Following a rise in tensions between countries over vaccine supply, geopolitics ranks second on their list of concerns. The prospect of further rate rises and a general tightening of monetary conditions in the UK and the US is ranked third, followed by the risk of higher inflation and/ or a bubble in asset prices.

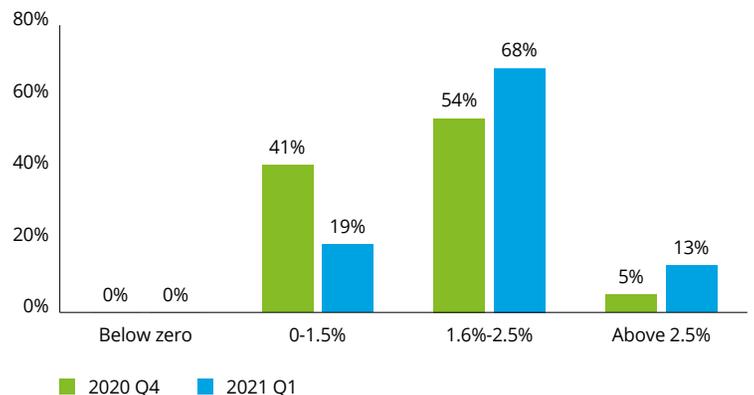
CFOs are less concerned about the effects of Brexit, which has dropped sharply down the list after having occupied the top spot for long periods since the 2016 referendum.

CFOs' inflation expectations have risen since the fourth quarter.

81% of CFOs expect inflation to be above 1.5% in two years' time, up from 59% the previous quarter.

**Chart 12. Inflation expectations**

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



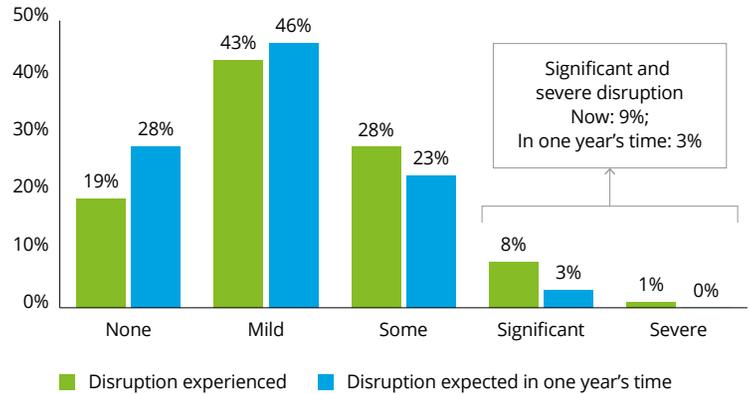
# Brexit disruption to fade

A majority of CFOs, of the predominantly large corporates represented in our survey panel, report having experienced either no or mild disruption to their businesses due to Brexit.

Just under 10% have experienced significant or severe levels of disruption – a reading that CFOs expect to drop to 3% in a year's time.

**Chart 13. Brexit disruption**

% of CFOs who report the following level of disruption due to Brexit and the level they expect in a year's time

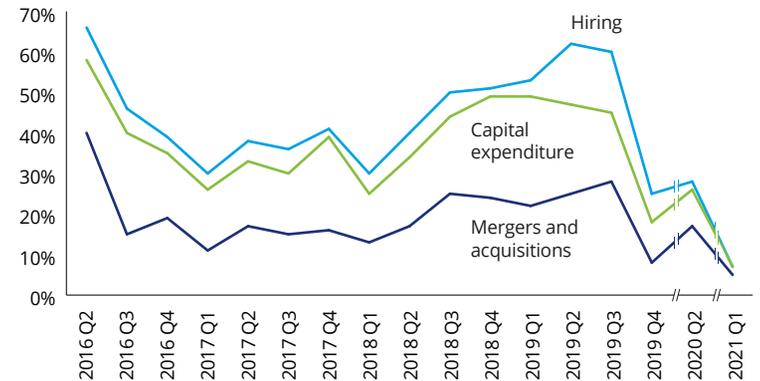


Brexit, which has weighed heavily on corporate decision-making since the EU referendum in 2016, is expected to have a more muted effect on business activity over the next three years.

The proportions of CFOs who expect to decrease hiring, capital expenditure and M&A over the next three years because of Brexit are at their lowest levels since the referendum.

**Chart 14. Effects of Brexit**

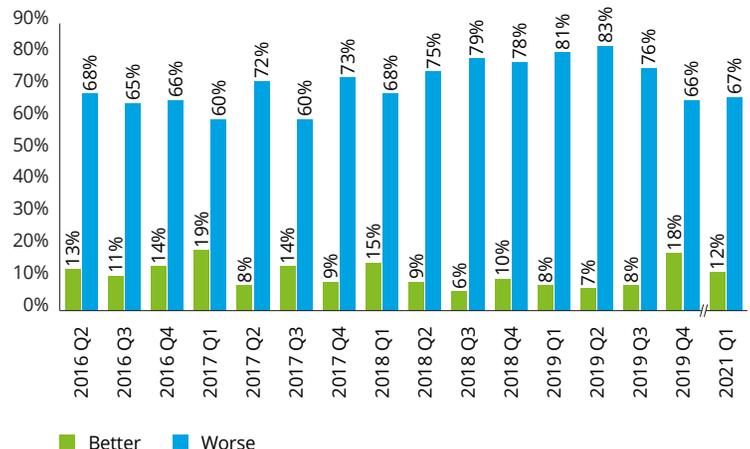
% of CFOs who expect to decrease their business activities in the following areas over the next three years due to Brexit



CFOs' assessment of the long-term impact of Brexit remains relatively unchanged. More than two-thirds think the overall environment for business will be worse in the long term due to the UK leaving the EU.

**Chart 15. Long-term impact of Brexit**

% of CFOs who think the overall environment for business in the long term will be better/worse if the UK leaves the EU (excluding those who expect no material change)

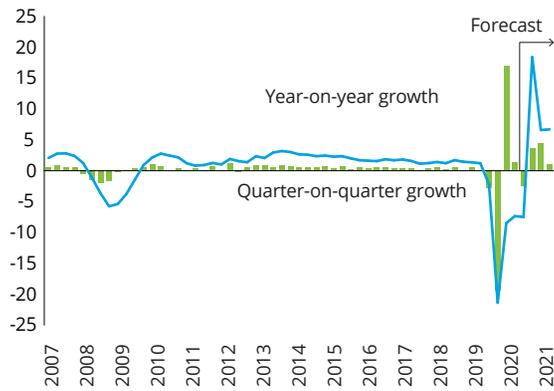


# CFO Survey: Economic and financial context

## The macroeconomic backdrop to the Deloitte CFO Survey Q1 2021

A resurgence of COVID-19 that begun in late 2020 peaked in the opening weeks of the first quarter. Many advanced economies saw widespread business closures endure into the first quarter. Renewed restrictions suppressed infections, lowering mortality rates by February. Towards the end of the quarter, however, cases were rising again in the US, EU and South America, likely driven by the spread of new more infectious variants. Restrictions continued to weigh heavily on consumer services, but activity overall was more resilient than in the spring of 2020 with no repeat of the large falls in industrial output. Almost 600m vaccine doses had been administered worldwide by the end of March, up from 10m at the start of the year. The UK and US have been among the fastest countries to vaccinate, while other major developed and emerging markets have lagged behind. The Bank of England, the ECB and the Federal Reserve have maintained their supportive monetary policy stance. The newly appointed US president Joe Biden approved a significant \$1.9tn stimulus package. Continued stimulus, better than expected economic data and vaccination programmes drove global equities to record highs. The post-Brexit transition period between the UK and the EU came to an end and while disruption was reported, the immediate impact was less severe than many had feared.

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



Source: Refinitiv Datastream, Deloitte calculations

### FTSE 100 price index



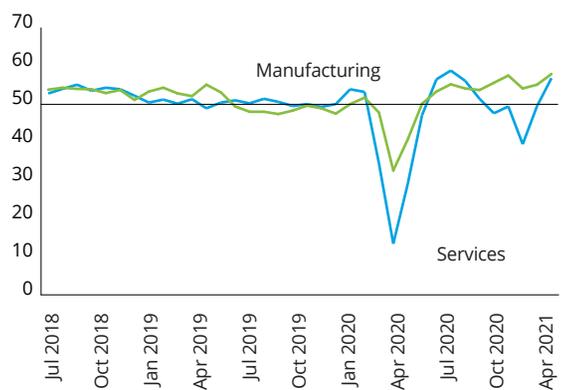
Source: Refinitiv Datastream

### GfK Consumer Confidence Index (UK)



Source: Refinitiv Datastream

### Markit Purchasing Manager Indices (UK)

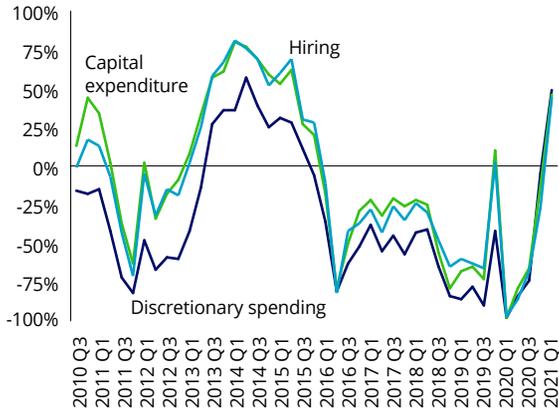


Source: Refinitiv Datastream, readings above 50 indicate expansion

# Two key survey messages

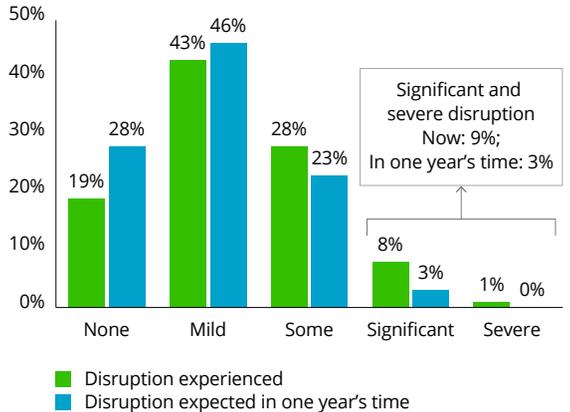
## Outlook for corporate spending

Net % of CFOs who expect UK corporates' hiring, capital expenditure and discretionary spending to rise over the next 12 months



## Brexit disruption

% of CFOs who report the following level of disruption due to Brexit and the level they expect in a year's time



### About the survey

This is the 55<sup>th</sup> quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2021 first quarter survey took place between 17<sup>th</sup> March and 29<sup>th</sup> March. 100 CFOs participated, including the CFOs of 21 FTSE 100 and 42 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 69 UK-listed companies surveyed is £547 billion, or approximately 22% 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](mailto:ehhoang@deloitte.co.uk).

# Deloitte.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

© 2021 Deloitte LLP. All rights reserved.

Designed and produced by 368 at Deloitte. J20909