

The Deloitte CFO Survey

Growth is the priority

Spending by UK businesses is set to surge in the coming months, according to the Chief Financial Officers of the UK's largest companies. With the economy reopening, CFOs' perceptions of external uncertainty have dropped below the average of the last five turbulent years, and businesses have tacked away from the defensive strategies that helped them through the downturn.

Cost reduction was by far the top corporate priority last year. Now growth heads the priority list with 76% of CFOs expecting an increase in hiring and 71% expecting increased investment in the next 12 months. Investment in technology features as a strong priority. M&A seems set to play an outsized role in reshaping the business landscape, with CFOs rating expansion through acquisition a higher priority than at any time in the last ten years.

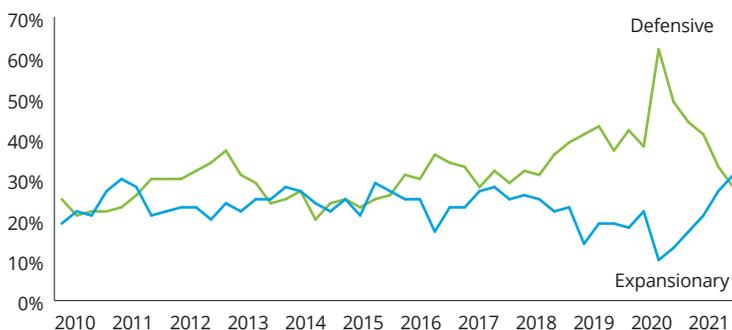
The risks facing business have changed. For the in the last eleven years our CFO risk list has been dominated by Brexit and, since spring 2020, the pandemic.

Today COVID, rising inflation and climate change are ranked as almost equal risks, with COVID topping the list by the narrowest of margins. The bounce back from the recession has fuelled commodity prices and supply bottlenecks, pushing inflation in the US, UK and euro area higher. CFOs believe this has further to run and anticipate that over the next 12 months their own operating costs will rise at the fastest rate in ten years.

Expansion is the order of the day for CFOs. The switch to growth points to a coming surge in hiring, investment and M&A. Yet this is no normal economic cycle. Years of normal growth are likely to be compressed into a few months. The pandemic, like all major shocks, will reshape the economy. In this CFOs see an opportunity – to use investment and technology to jolt productivity onto a higher growth path. Indeed, eight in ten CFOs believe that productivity will run higher in the wake of the pandemic. That offers the hope of a more comprehensive recovery than after the global financial crisis.

Chart 1. 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.

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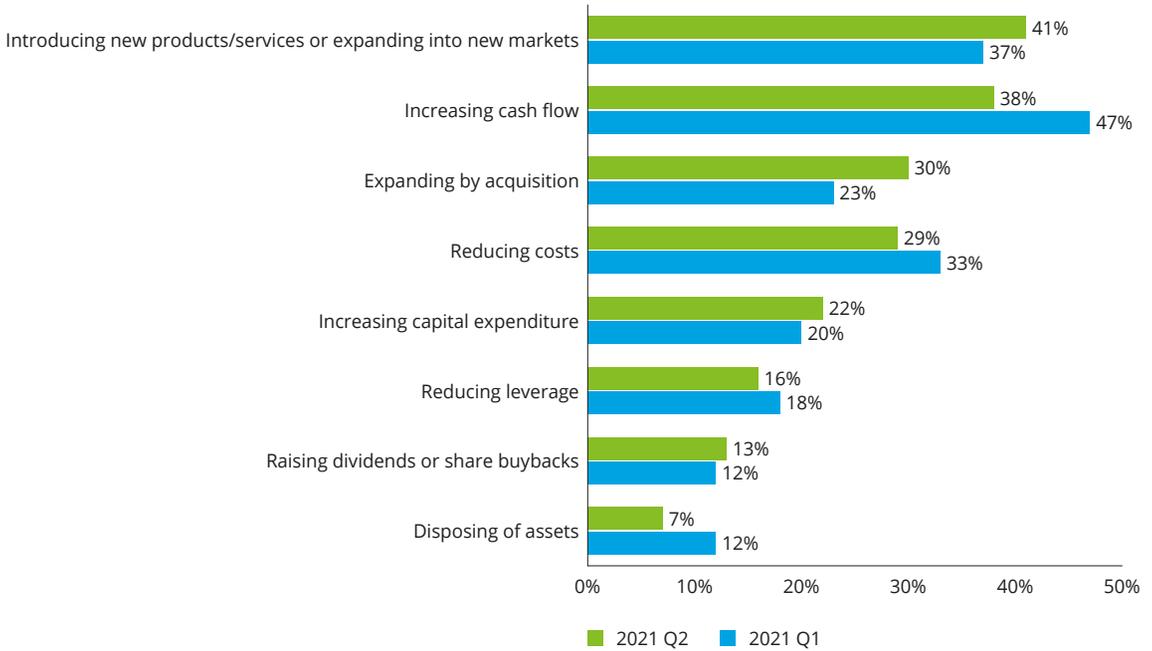
For current and past copies of the survey, historical data and coverage of the survey in the media and elsewhere, please visit:

www.deloitte.co.uk/cfosurvey

CFOs foresee capex boom

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 have sharpened their focus on expansionary strategies – introducing new products or services, expanding by acquisition and increasing capital expenditure – and are now placing the greatest emphasis on acquisitions since 2009.

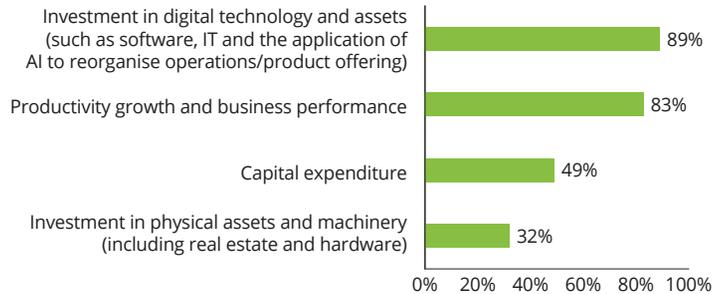
This has coincided with a fall in popularity for defensive strategies – increasing cash flow, reducing costs and reducing leverage. The emphasis on cost reduction, which has been a key priority since the pandemic began, is now the lowest in seven years.

The five years before the pandemic were characterised by disappointing productivity growth and weak business investment, despite apparent gains in technology.

In a post-pandemic recovery featuring low rates, rising demand and the government’s super-deduction, the overwhelming majority of CFOs expect to increase investment in digital technology and realise gains in business performance and productivity.

Chart 3. Post-pandemic trends

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



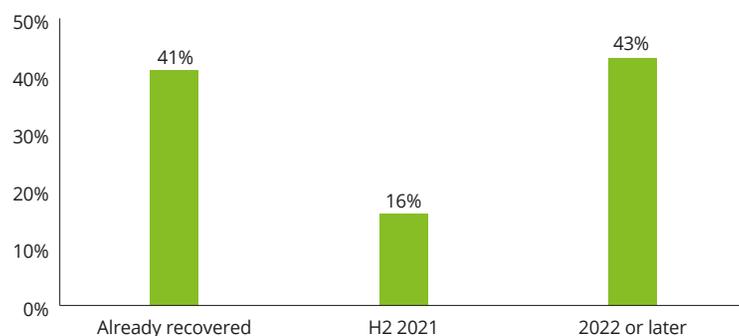
CFOs bullish on revenue growth

With vaccinations enabling a gradual reopening of the economy and a strong rebound in activity, 41% of CFOs report that demand for their businesses' goods and services has already returned to pre-pandemic levels, up from 27% in the first quarter.

A majority, 57%, have either reported a full recovery in demand or expect to do so by the end of this year.

Chart 4. 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

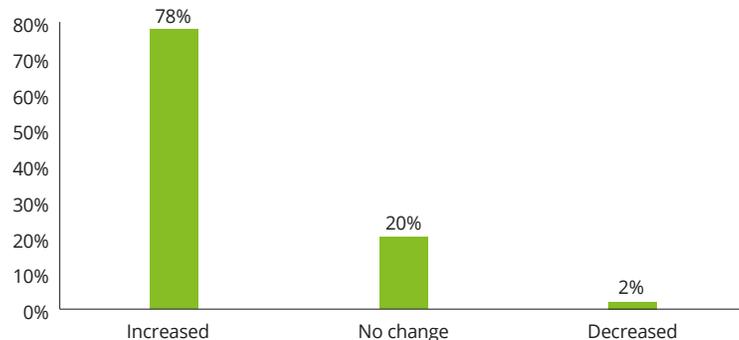


CFOs report a challenging environment for sourcing labour, as corporates respond to rapidly rising demand.

More than three-quarters of businesses represented on the survey panel have experienced a rise in recruitment difficulties or skills shortages over the last three months.

Chart 5. Recruitment difficulties

% of CFOs who report that the level of recruitment difficulties or skills shortages experienced by their business over the last three months has changed in the following ways

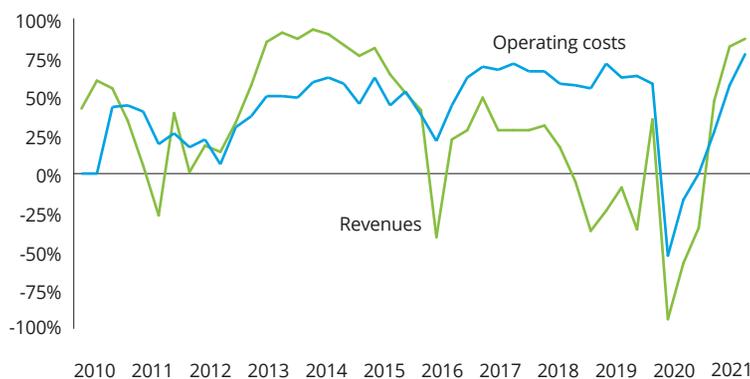


CFO expectations for an increase in corporate revenues have hit their highest level in more than six years.

But rising raw material prices and recruitment difficulties mean that expectations for an increase in operating costs have also risen sharply, to the highest level on record.

Chart 6. Outlook for corporate revenues and operating costs

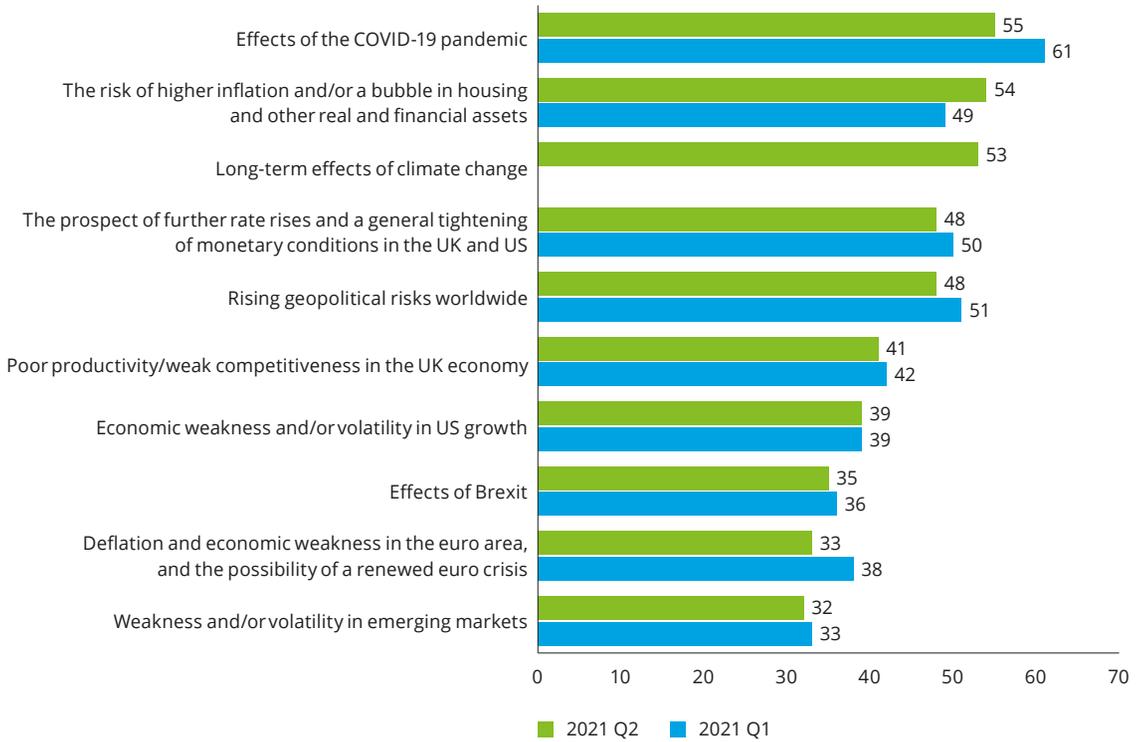
Net % of CFOs who expect UK corporates' revenues and operating costs to rise over the next 12 months



Pandemic risk recedes, inflation risk climbs

Chart 7. 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



The risk rating assigned by CFOs to the COVID-19 pandemic has fallen since the winter months, but it retains its position at the top of their risk list.

With vaccines enabling the gradual reopening of economies and a strong recovery in demand, price pressures have built up. Accordingly, the risk of higher inflation has risen up CFOs' worry list and now ranks a close second. CFOs have assigned it the highest risk rating since we started asking this question in 2014.

The long-term effects of climate change, an option added to the risk list this quarter, is ranked as the third biggest concern. The prospect of a general tightening of monetary conditions in the UK and US, and rising geopolitical risks worldwide also remain high up the list of CFO worries.

CFOs are relatively less concerned about the effects of Brexit or economic weakness in the euro area and emerging markets.

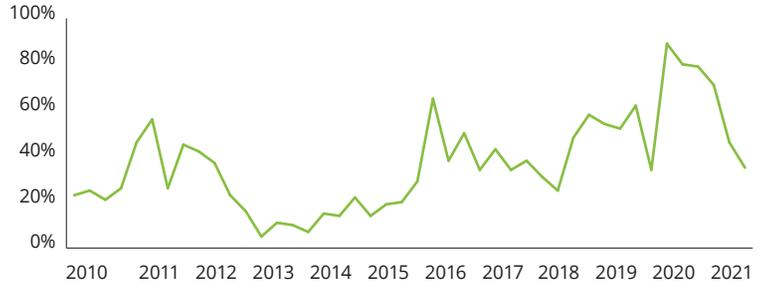
Risk appetite continues to strengthen

CFOs' perceptions of external uncertainty continued to fall in the second quarter.

35% now rate the level of uncertainty as high or very high, similar to the pre-pandemic reading in December 2019.

Chart 8. 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 rise.

40% of CFOs think now is a good time to take greater risk onto their balance sheets, the highest level for almost six years.

Chart 9. Corporate risk appetite

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

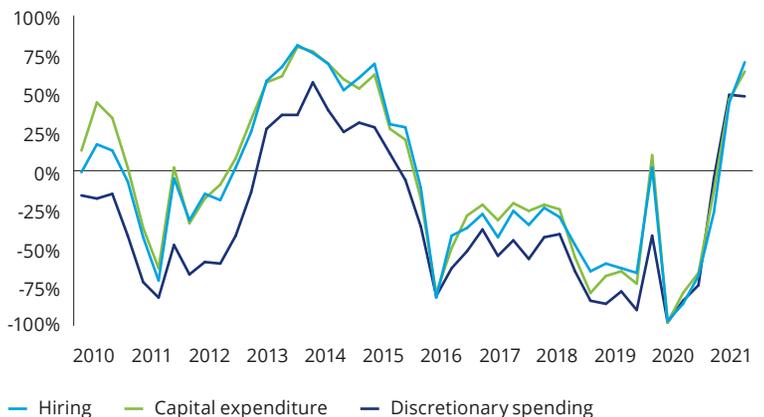


CFO expectations for an increase in hiring and capital expenditure are at their highest levels in almost seven years.

Expectations for discretionary spending also remain close to a seven-year high.

Chart 10. Outlook for corporate spending

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



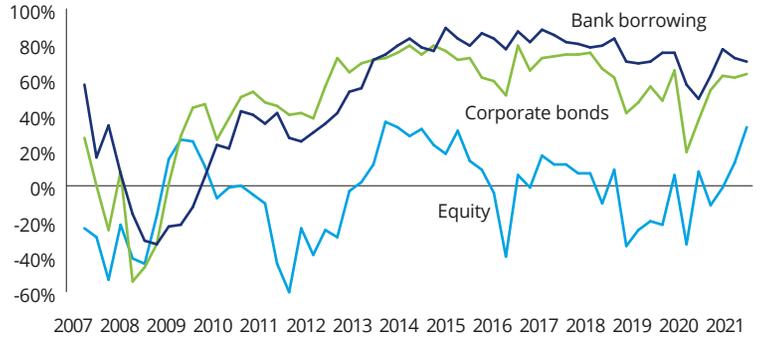
Inflation expectations rise

CFOs continue to rate debt finance – bank borrowing and corporate bonds – as the most attractive source of external funding.

With risk assets rallying, equities have risen in popularity and are now the most attractive they have been in more than seven years.

Chart 11. External funding

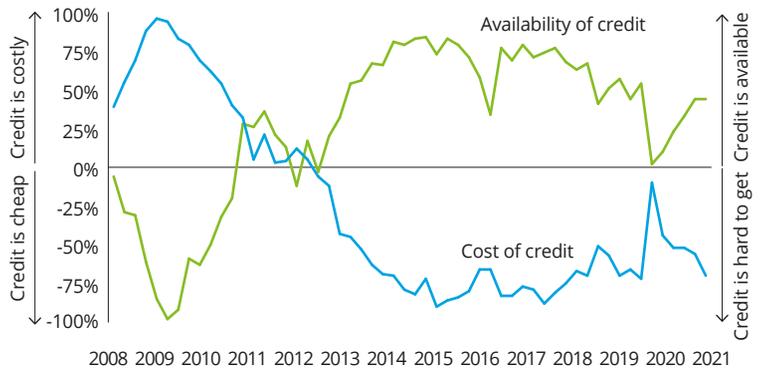
Net % of CFOs who rate bank borrowing, corporate bonds and equity as an attractive source of external funding for UK corporates



CFOs report a continued improvement in credit conditions for their, predominantly large, businesses. They continue to rate credit as cheap and easily available.

Chart 12. Cost and availability of credit

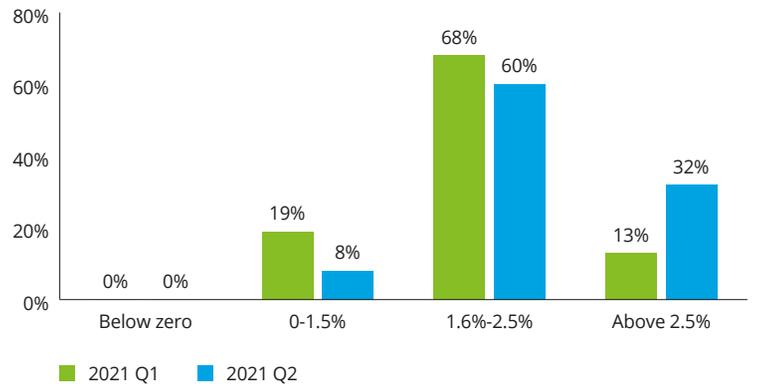
Net % of CFOs reporting credit is costly and credit is easily available



CFOs' inflation expectations have risen in the second quarter. A third of CFOs expect inflation to be above 2.5% in two-years' time, up sharply from 13% in the first quarter.

Chart 13. Inflation expectations

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

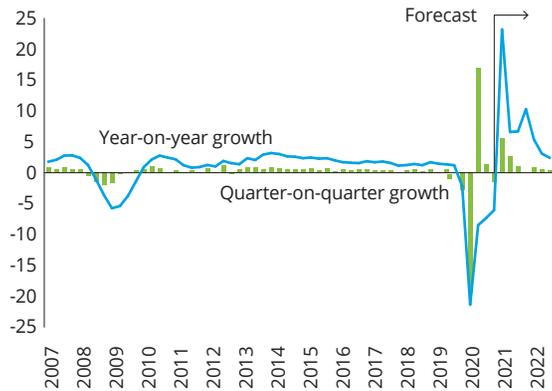


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q2 2021

The second quarter of 2021 saw activity accelerate in most advanced economies as the winter wave of COVID-19 infections receded. With the gradual reopening of economies and a rapid recovery in demand, high-frequency indicators of economic activity hit new highs. Economists also upgraded their growth forecasts for this year. The US, UK and EU had administered at least one vaccine dose to a majority of their populations by the end of June, raising hopes of a more permanent easing of restrictions. Emerging markets had a slower start to their vaccination programmes and remained susceptible to new outbreaks. The emergence of the more-contagious Delta variant led to a new peak in global infections at the end of April, driven by cases in India. Rising cases of the Delta variant also delayed reopening plans in the UK but, with higher-risk groups already vaccinated, its impact on the health system has been limited so far. Supply bottlenecks and rising energy and commodity prices drove inflation higher around the globe, including the US where annual growth in consumer prices reached 5%, raising the prospect of higher interest rates. Policymakers at the Federal Reserve, the Bank of England and the European Central Bank signalled that they see current price pressures as transitory and remained in favour of maintaining a supportive monetary policy stance. Despite jitters over inflation and the risk of rate rises, global equities rallied, hitting new highs in June.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index



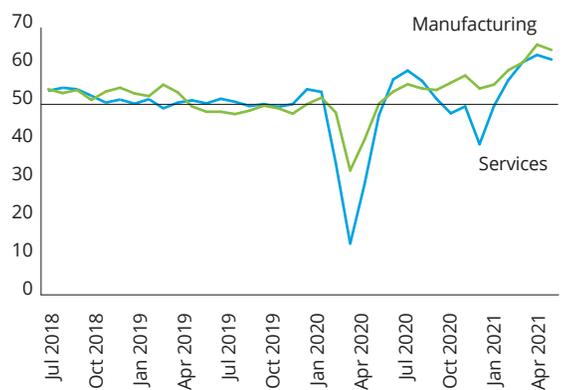
Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)



Source: Refinitiv Datastream

Markit Purchasing Manager Indices (UK)

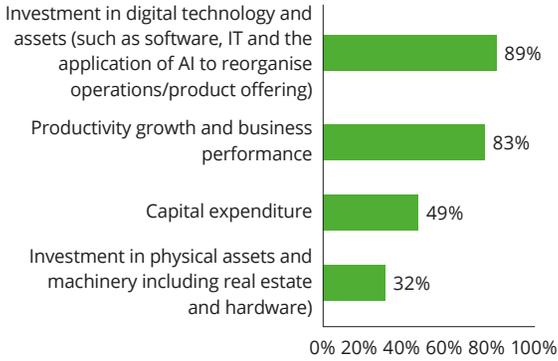


Source: Refinitiv Datastream, readings above 50 indicate expansion

Two key survey messages

Post-pandemic trends

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



Corporate risk appetite

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



About the survey

This is the 56th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2021 second quarter survey took place between 16th June and 29th June. 107 CFOs participated, including the CFOs of 21 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 69 UK-listed companies surveyed is £548 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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