

The Deloitte CFO Survey

2021: Lasting change and growth

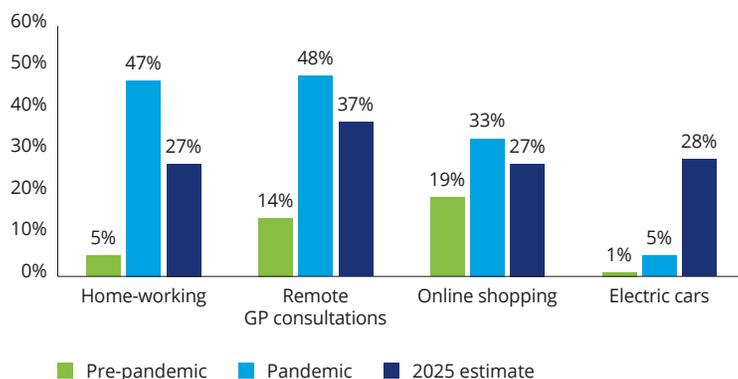
UK Chief Financial Officers expect 2021 to bring a return to growth and lasting business change. The latest CFO survey took place between 2-14 December, before the announcement of new restrictions on 19 December and the UK-EU trade agreement on Christmas Eve. CFO sentiment, which dropped to its lowest ever level as the pandemic took hold, reached a 12-year high in the fourth quarter buoyed by the prospect of mass vaccinations and a return to growth in 2021. Expectations for revenues, costs and inflation have also risen and CFOs are more positive about the outlook for profit margins than at any time in the last five years. The rebound in sentiment occurred despite a backdrop of continued Brexit negotiations and with two thirds of CFOs seeing a no-deal outcome having a severe or significant negative effect on the economy. Just 19% of CFOs took a similarly negative view of the effect of a trade deal, meaning the announcement of a deal after the survey closed is likely to have offered

an end-year boost to CFO sentiment. Yet none of this means a quick return to normal. CFOs' perceptions of uncertainty remain elevated and 78% expect restrictions on movement and activity to continue through the first half of 2021, with 57% expecting them to be lifted permanently in the third quarter of the year. Despite the rebound in business optimism two thirds of CFOs think it will take until the second half of 2021 or later for their own revenues to return to pre-pandemic levels.

The pandemic is set to trigger fundamental change. CFOs expect levels of home-working to rise five-fold by 2025 compared to pre-pandemic levels and see diversification and 'near-shoring' of supply chains increasing. In the long term CFOs foresee greater government activism in the economy, more regulation and higher levels of corporate and individual tax. Growth is likely to come back in 2021, but businesses will be operating in a changed world.

Chart 1. Post-pandemic change: CFO expectations for 2025

Pre-pandemic, 2020 peak and average of CFO estimates of the % share in 2025 of work location, GP consultations, retail sales and car sales of the below respectively.



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

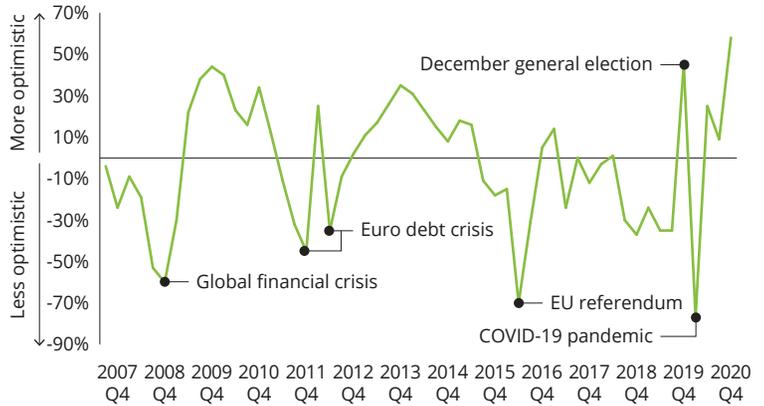
Better outlook for revenues

CFOs report the greatest improvement in business optimism since the survey began in 2007.

A net 58% of CFOs are more upbeat about the financial prospects of their company than they were three months ago.

Chart 2. Business optimism

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

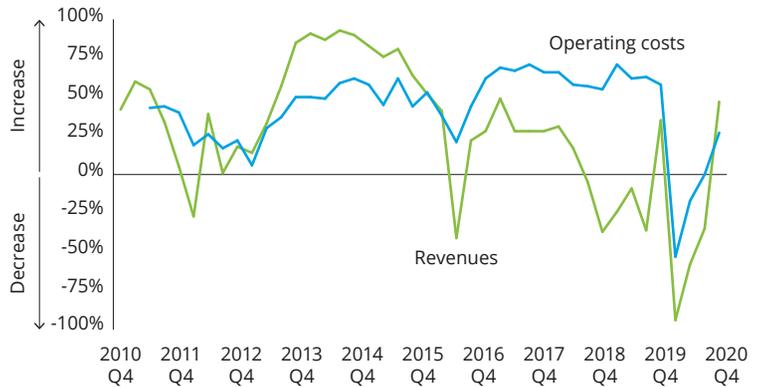


There has been a sharp improvement in CFOs' expectations for UK corporates' revenues over the next 12 months. A net percentage of CFOs now expect revenues to increase.

CFOs also expect operating costs to rise.

Chart 3. Outlook for corporate revenues and operating costs

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



CFOs are expecting UK corporates' operating margins to increase for the first time since 2015.

A net 7% expect operating margins to rise over the next 12 months, consistent with the improvement in revenue expectations.

Chart 4. Outlook for corporate margins

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



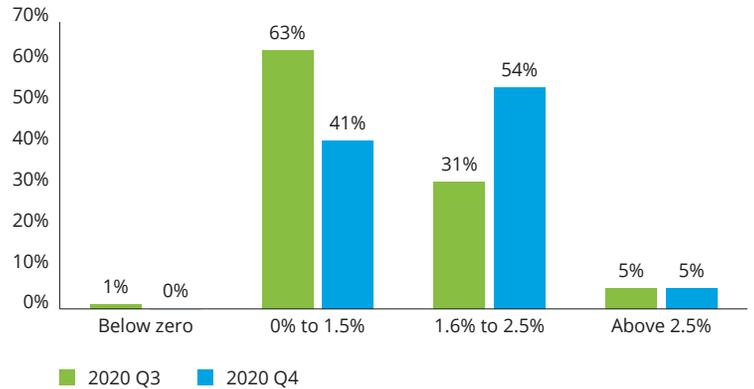
Rising inflation expectations

CFOs' inflation expectations have risen markedly since the third quarter.

59% of CFOs now expect CPI inflation to be at or above 1.6% in two-years' time, up from 36% three months ago.

Chart 5. Inflation expectations

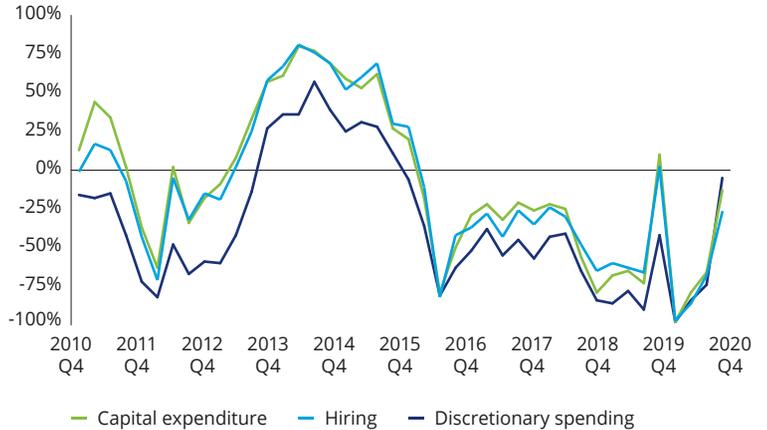
% of CFOs who expect UK inflation to be at the following levels in two-years' time



CFOs' expectations for hiring, capital spending and discretionary spending have increased from the previous quarter, but are still net negative.

Chart 6. Outlook for corporate spending

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



CFO risk appetite remains weak, but continues to grow.

19% of CFOs think this a good time to take greater risk onto their balance sheets, up from 3% in the first quarter of 2020.

Chart 7. Corporate risk appetite

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

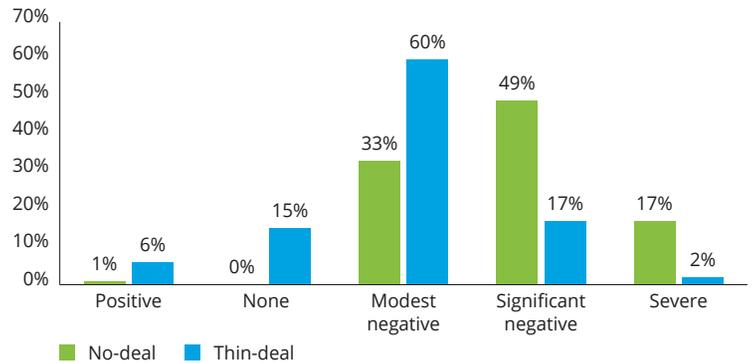


The effects of Brexit

Two-thirds of CFOs expected a significant negative or severe impact on UK growth in the event of a 'no-deal' Brexit. By contrast, only 19% expect a similar effect after the Brexit deal.

Chart 8. Impact of post-Brexit trading arrangements on UK growth

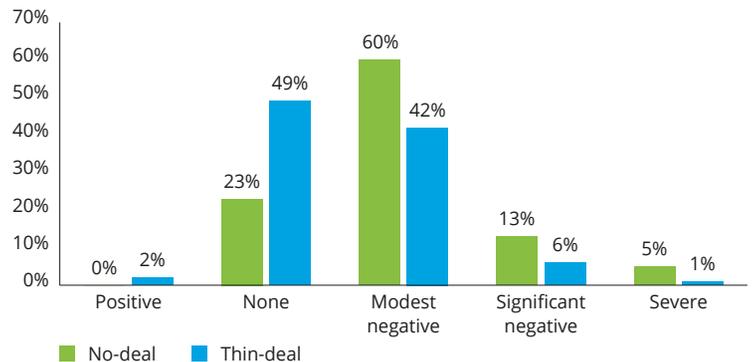
% of CFOs who expect the following impact on UK growth under both a no-deal and thin-deal exit from current trading arrangements. (No-deal implies UK-EU trade under WTO rules while thin-deal implies tariff-free goods trade only.)



CFOs see far less effect on their own businesses from either type of Brexit. 7% expect a significant or severe negative impact after the Brexit deal; this rises to 18% in the event of a 'no-deal'.

Chart 9. Impact of post-Brexit trading arrangements on own business

% of CFOs who expect the following impact on their own business under both a no-deal and thin-deal exit from current trading arrangements. (No-deal implies UK-EU trade under WTO rules while thin-deal implies tariff-free goods trade only.)

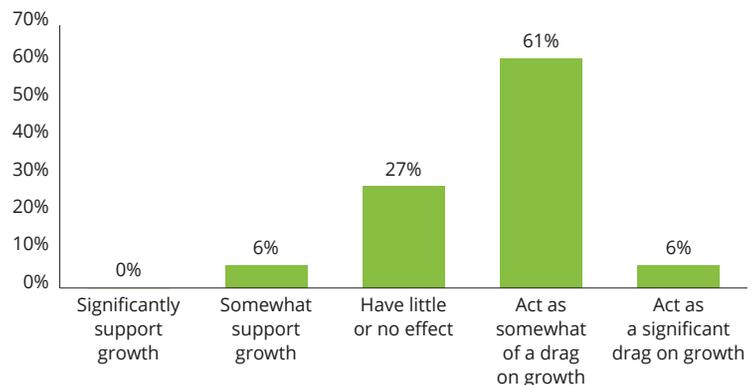


In short, the large corporates on our panel tend to see Brexit as a bigger problem for the economy than their own operations.

61% of CFOs expect the post-Brexit points-based immigration system to act as somewhat of a drag on long-term economic growth.

Chart 10. Effect of post-Brexit immigration system on long-term growth

% of CFOs who expect the post-Brexit points-based immigration system to have the following effect on long-term UK growth



27% expect little or no effect, while 6% expect the new immigration system to support growth.

Lasting change

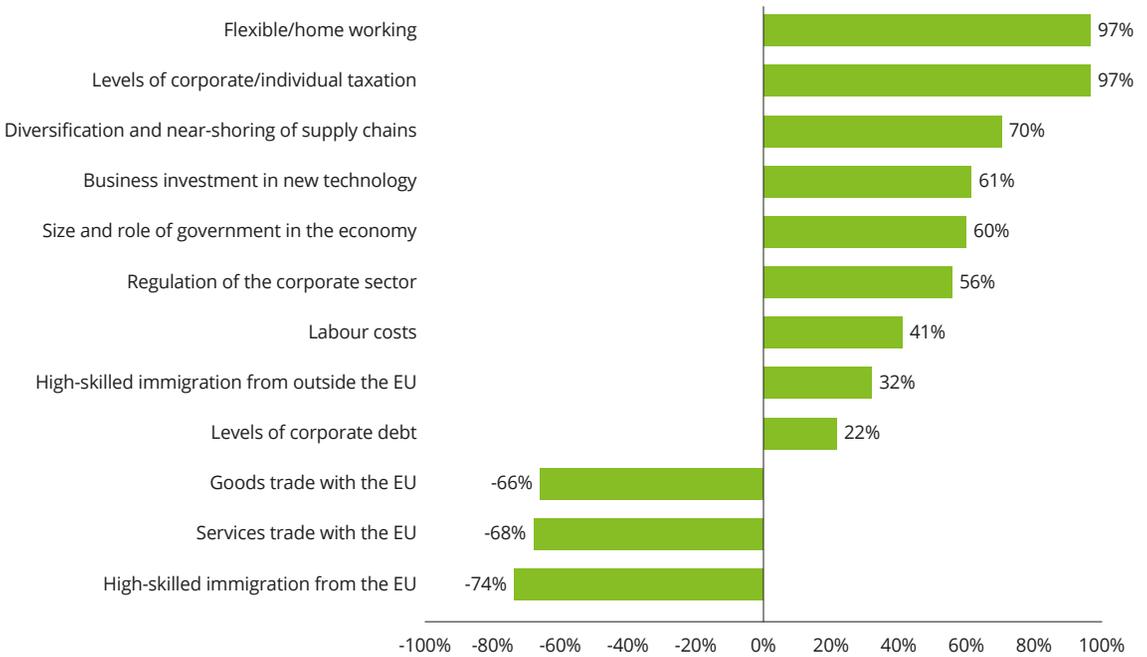
CFOs overwhelmingly expect homeworking and levels of taxation to increase in the longer term. They also foresee an increase in regulation of the corporate sector and in the size and role of government in the economy.

Supply chain diversification, near-shoring and business investment in new technology, areas that have come under greater focus during the pandemic, are also expected to increase in the longer term.

A sizeable majority of CFOs expect goods and services trade with the EU and high-skilled immigration from the bloc to decrease in the longer term, a likely consequence of Brexit.

Chart 11. Long-term changes after Brexit and COVID-19

Net % of CFOs who expect the following to increase in the longer term

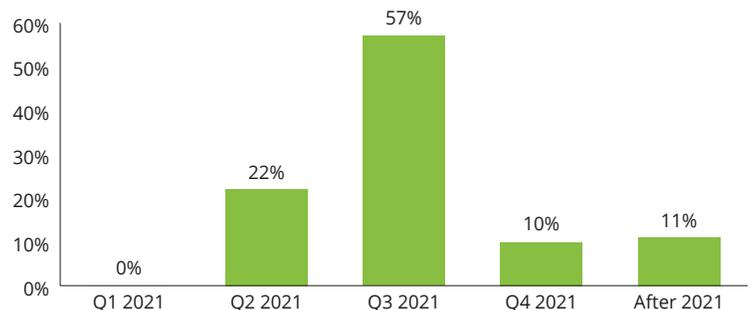


The majority of CFOs anticipate the COVID-19 restrictions on movement and activity to be permanently lifted after June 2021.

57% expect restrictions to be permanently lifted in the third quarter, and 22% as early as the second quarter.

Chart 12. Expectations for lifting of COVID-19 restrictions

% of CFOs who expect restrictions on movement and activity imposed in response to the COVID-19 pandemic to be permanently lifted in the following periods



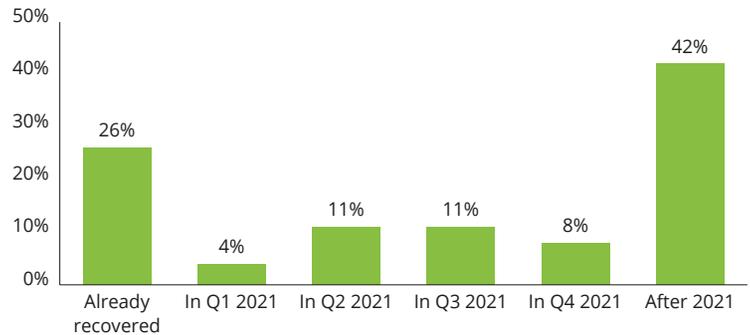
CFOs remain defensive

Half of the CFOs of the typically large corporates on our panel do not expect a full recovery in demand until after Q3 2021.

About a quarter report that demand has already fully recovered.

Chart 13. Recovery of demand to pre-pandemic levels

% of CFOs who expect demand to return to pre-pandemic levels in the following periods

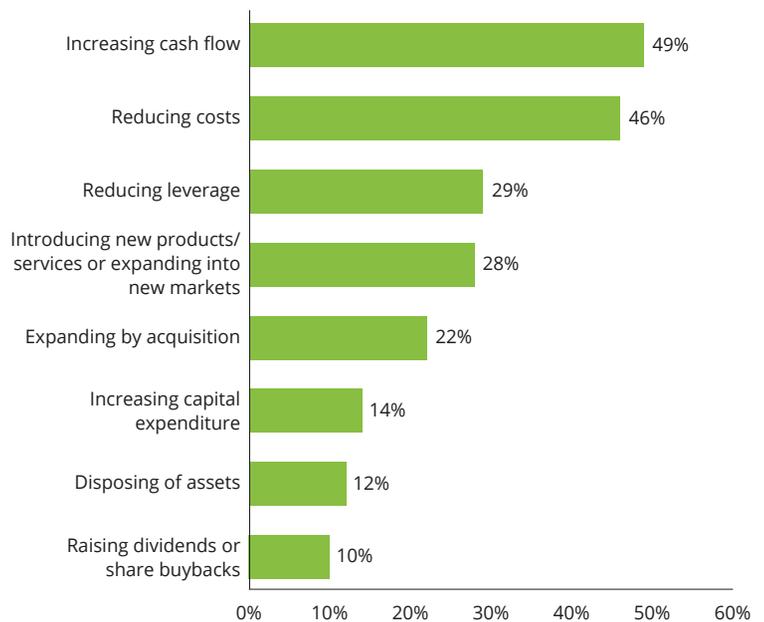


Defensive strategies – increasing cash flow, reducing costs and reducing leverage – remain the top priorities for CFOs, despite a slightly softer focus on them than in the third quarter.

Expansionary strategies – introducing new products, expanding by acquisition and increasing capital expenditure – have risen in popularity slightly, but are still only favoured by a minority of CFOs.

Chart 14. 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

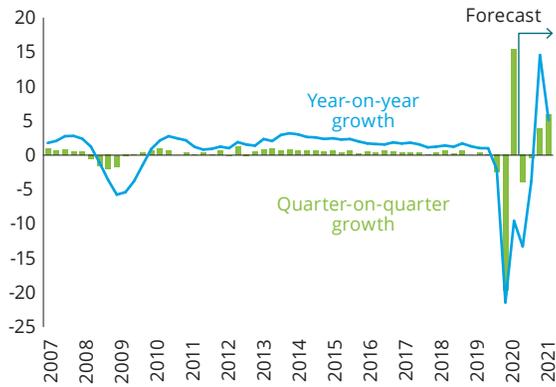


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q4 2020

COVID-19 deaths worldwide broke new records as infections rose in Europe and the US. A number of European countries including France, Germany and the UK imposed new restrictions to slow the spread of infection. Economic activity slowed towards the end of the year in much of Europe in response to higher levels of restrictions. Manufacturing activity showed greater resilience than services, where consumer caution and continued restrictions on hospitality, leisure and travel weighed on activity. Some countries, which were relatively unscathed in the first wave, including Switzerland, Denmark, Poland and South Korea, saw much higher case rates in the fourth quarter of the year. The UK and euro area announced new monetary and fiscal stimulus in response to the second wave. Joe Biden won the US presidential elections while political deadlock in Congress blocked new fiscal stimulus measures. UK-EU talks on their future trading relationship were yet to reach a conclusion at the time of the survey. Growing economic momentum in China and the softening of the dollar supported a rally in the price of oil and other commodities. The announcement of successful vaccine trials in the West, reduced political uncertainty in the US and continued easy money helped drive global equities to a record high.

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)

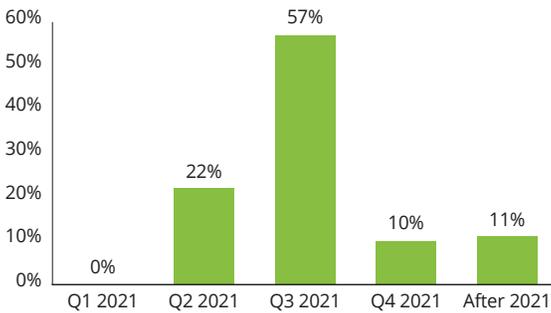


Source: Refinitiv Datastream, readings above 50 indicate expansion

Two key survey messages

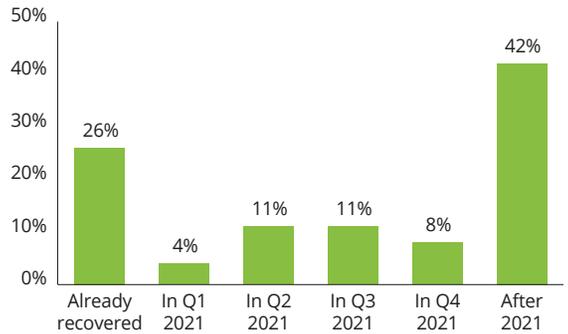
Expectations for lifting of COVID-19 restrictions

% of CFOs who expect restrictions on movement and activity imposed in response to the COVID-19 pandemic to be permanently lifted in the following periods



Recovery of demand to pre-pandemic levels

% of CFOs who expect demand to return to pre-pandemic levels in the following periods



About the survey

This is the 54th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2020 fourth quarter survey took place between 2-14 December. 90 CFOs participated, including the CFOs of 12 FTSE 100 and 44 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 £308 billion, or approximately 13% 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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