

# Deloitte CFO Survey Q2 2023

## Interest rate worries

Confidence among the CFOs of the UK's largest corporates edged lower in the second quarter, partially unwinding the sharp pickup in business sentiment seen in the first quarter survey which took place in March.

Higher than expected inflation and a sharp rise in interest rate expectations are weighing on business confidence. Since the first quarter survey, financial market expectations for UK interest rates in 12 months' time have risen by over 150 basis points. CFOs now see tight monetary policy as posing the greatest threat to their business, eclipsing the concerns around geopolitics and energy prices that have dominated for the last two years. Credit is seen as being more costly than at any time since 2009, during the credit crunch.

The three months since the last survey have been marked by a series of unexpectedly high readings for UK inflation and earnings growth. For major corporates these numbers appear to signal a more prolonged period of high inflation, with CFO expectations for inflation in two years' time rising from 2.9% in the first quarter survey to 3.6% now. On these forecasts, the current bout of above-target inflation, which started two years ago, has at least another two years to run.

Yet it is not all doom and gloom. Recruitment difficulties have eased significantly since the start of the year.

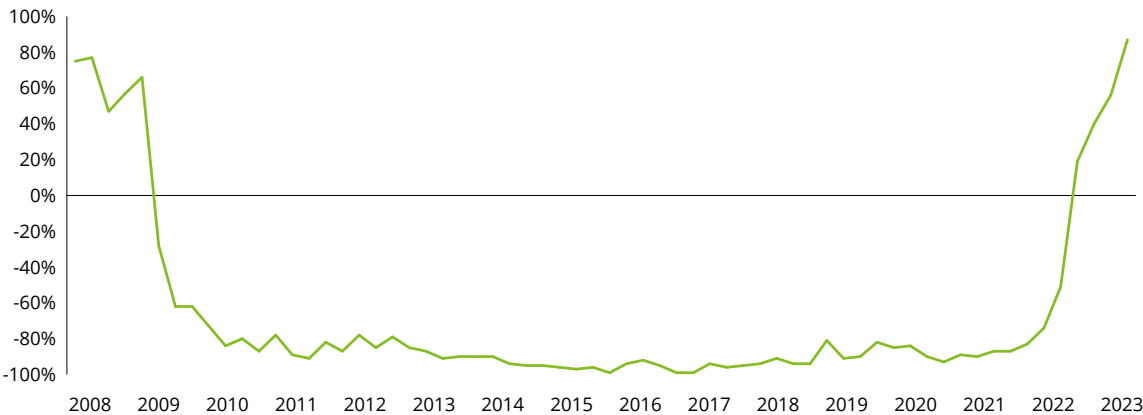
Supply chain disruption and labour shortages have dropped down CFOs' list of worries. While credit conditions are tight, CFOs see the Bank of England cutting base rates to 4.5% by the middle of 2024, well below the rate of about 6.25% priced into futures markets.

Our special question this quarter examines CFOs' views on hybrid working. Our respondents estimate that on average employees in their organisations, who can work remotely, split their time evenly between office and home. CFOs say they would prefer to see more time being spent in the office. 56% of CFOs also believe that employees will be spending more time in the workplace in two years' time, 38% think the current balance will continue and only 6% expect to see a further reduction in time spent in the office.

The burst of business optimism seen in spring has faded under the weight of inflation and rising interest rates. Corporates have responded with an increasing focus on cost reduction, which CFOs rate as their top balance sheet priority, and increasing cash flow, which is in second place. Businesses have negotiated a series of major challenges in the last four years: departure from the EU, the pandemic, supply shortages and an energy shock. The legacy of those earlier shocks, in the form of inflation and high interest rates, is now the central challenge.

### Chart 1. Short-term interest rates

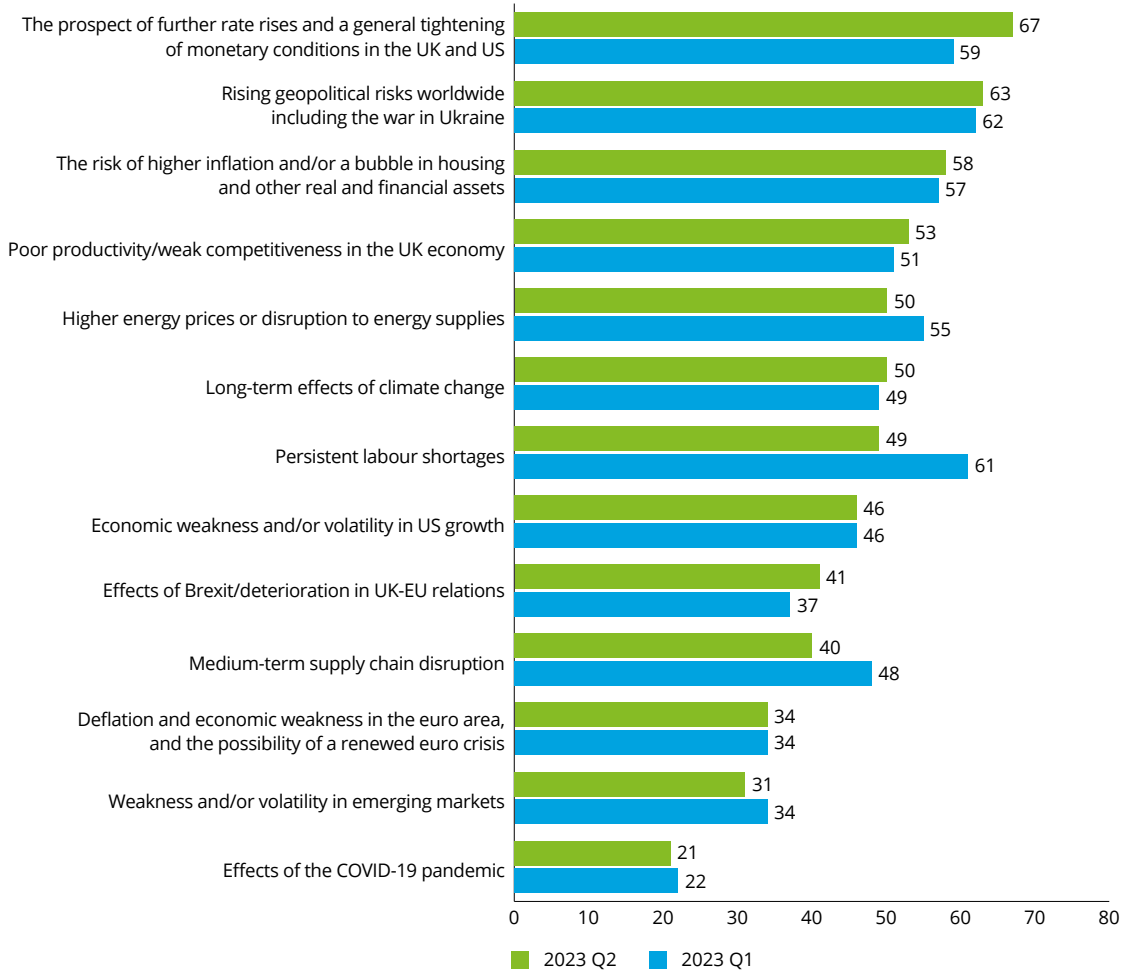
Net % of CFOs who characterise short-term market interest rates in the UK as quite high or very high



# Monetary tightening is top risk

**Chart 2. 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



With persistently high inflation and sharp rises in market rate expectations, CFOs now see the prospect of further rate rises as the biggest risk facing their businesses. They have assigned it the highest risk rating since we included monetary tightening in our list of risks in 2014.

Geopolitics is their second biggest concern, followed by higher inflation or bursting asset price bubbles. CFOs report a significant reduction in the risks posed to businesses by labour shortages and supply disruptions in the wake of the COVID-19 pandemic. They have assigned them the lowest risk ratings since their inclusion in our risk list in 2021. With wholesale gas prices now back to levels last seen in the summer of 2021, the risks posed by elevated energy prices and disruption to energy supplies have reduced further.

CFO sentiment on risks to US and euro area growth remains largely unchanged, while sentiment on emerging markets has improved slightly.

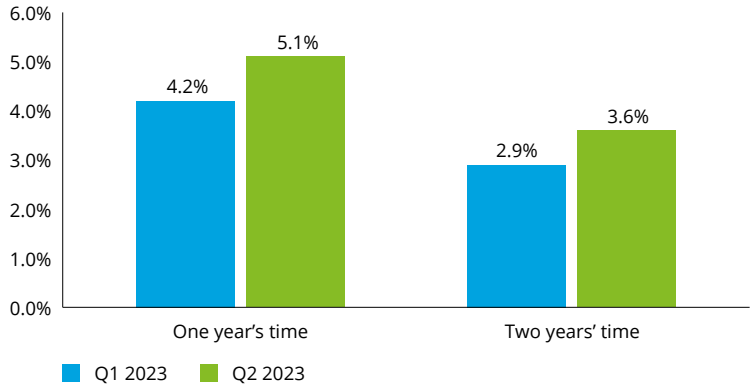
# Cost of credit at 14-year high

CFOs' expectations for inflation have risen since the first quarter's survey.

They now expect inflation to fall to just 5.1% in a year's time and settle at 3.6% in two years' time, well above the Bank of England's forecasts from its latest Monetary Policy Report.

**Chart 3. Inflation expectations**

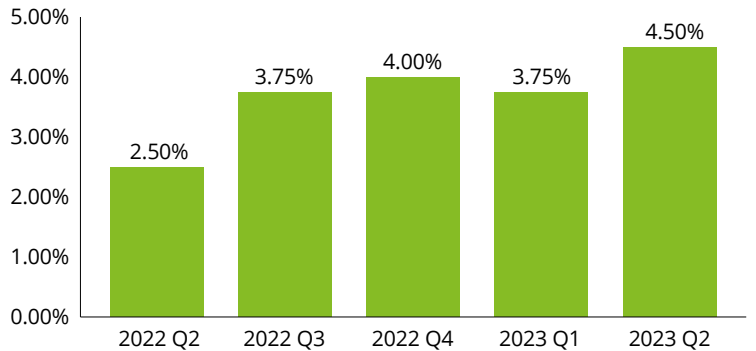
CFOs' median expectations for inflation in one year's time and two years' time



CFOs have also raised their interest rate expectations and now expect Bank Rate to be at 4.5% in a year's time. By contrast, at the time of writing, markets expect Bank Rate to be about 6.25% in June next year.

**Chart 4. Interest rate expectations**

CFOs' median expectations for the Bank of England's base rate in one year's time

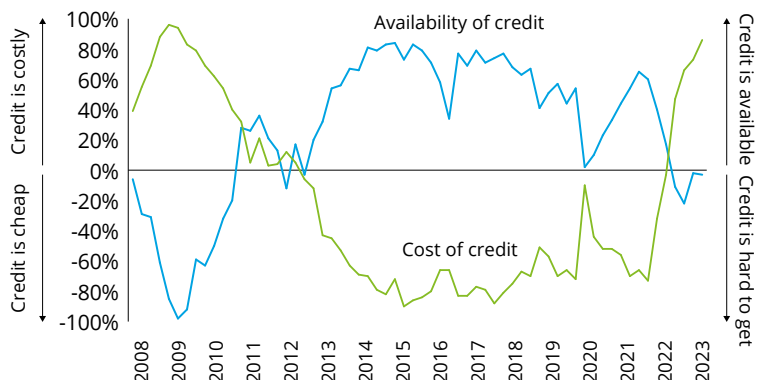


Between December 2009 and December 2021, UK base rates averaged 0.5%. Now, with Bank Rate at 5%, CFOs rate credit as being more expensive than at any time since the end of 2008.

The availability of credit remains largely unchanged from the first quarter's survey.

**Chart 5. Cost and availability of credit**

CFOs' median expectations for the Bank of England's base rate in one year's time



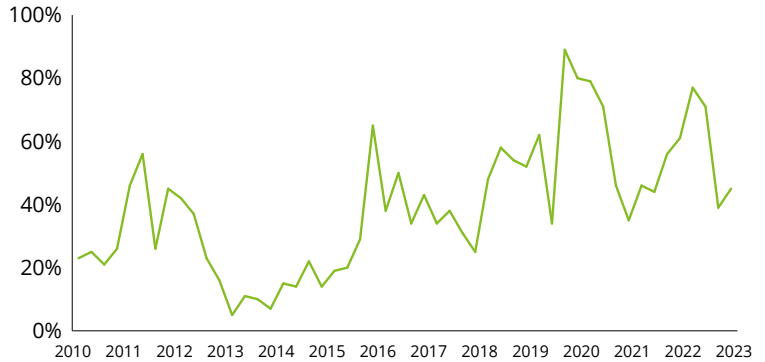
# Uncertainty up, optimism down

With growing concerns over persistent price pressures and the potential implications of further rate rises, CFO perceptions of uncertainty have risen in the second quarter.

Almost half of our CFO respondents now rate the levels of external financial and economic uncertainty facing their businesses as high or very high.

**Chart 6. Uncertainty**

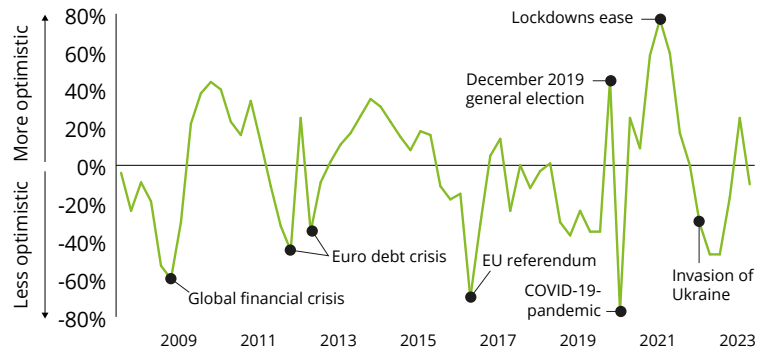
% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high



CFO optimism has also deteriorated in the second quarter and now runs below its long-term average.

**Chart 7. Business optimism**

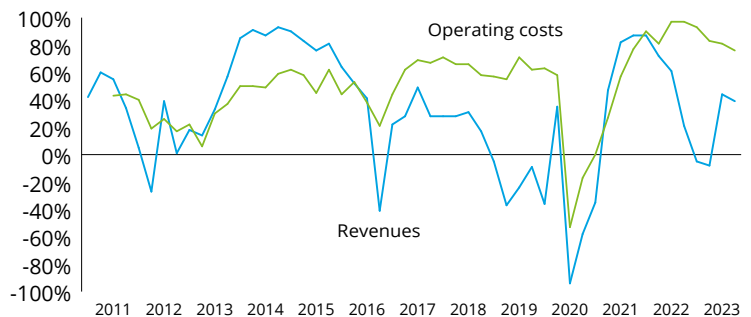
Net % of CFOs who are more optimistic about the financial prospects of their business than three months ago



On balance, CFOs expect revenues for UK corporates to rise over the next 12 months but a large majority expect corporate margins to continue decreasing, reflecting persistent cost pressures.

**Chart 8. Outlook for corporate revenues and operating costs**

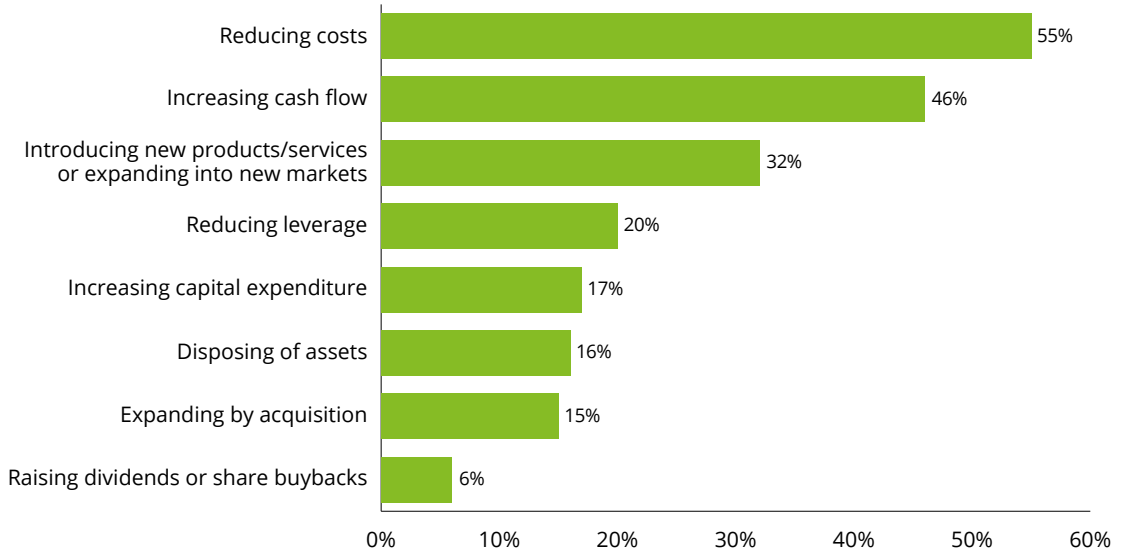
Net % of CFOs who expect UK corporates' revenues and operating costs to increase over the next 12 months



# Sharper focus on cost reduction

**Chart 9. 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

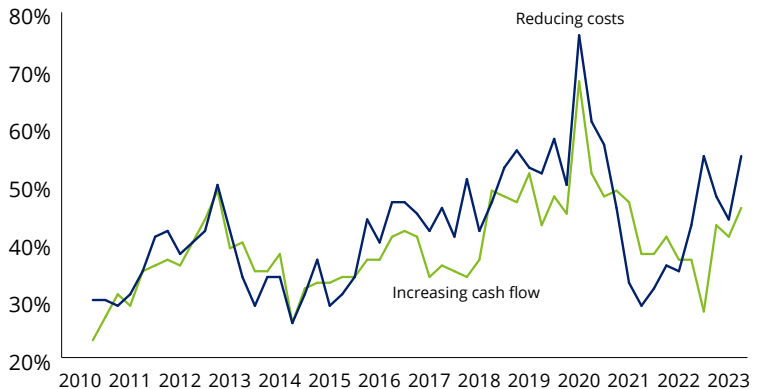


CFOs maintain an overwhelmingly defensive strategy stance. Defensive strategies – reducing costs and increasing cash flow – are the top two priorities for them. Introducing new products/services or expanding into new markets – an expansionary strategy – is a distant third in CFOs’ hierarchy of priorities.

CFOs have sharpened their focus on cost reduction and increasing cash flow. They are now placing greater emphasis on these strategies than their long-term average.

**Chart 10. Corporate cost reduction and cashflow**

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

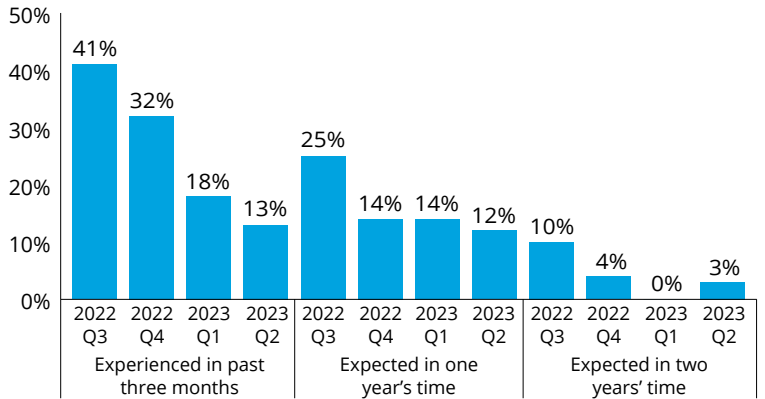


# Early signs of softening labour market

CFOs report a further easing of recruitment difficulties in the second quarter. They expect a marginal improvement over the next 12 months and significant or severe recruitment difficulties to ease to negligible levels in two years' time.

**Chart 11. Recruitment difficulties and labour shortages**

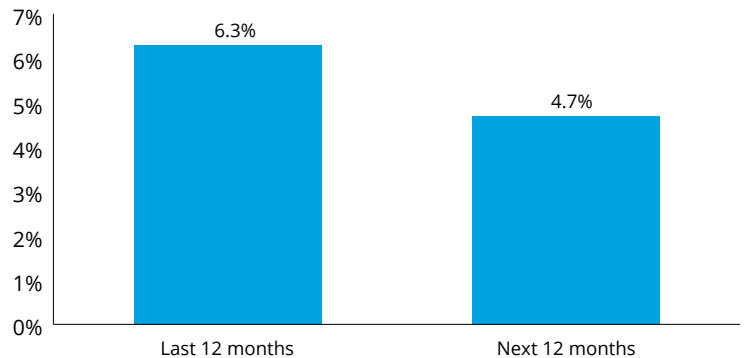
% of CFOs who report significant or severe levels of recruitment difficulties or labour shortages experienced by their business over the last three months and those expecting similar levels of disruption in one year's and two years' time



CFOs expect UK corporates to decrease hiring over the next 12 months and a slowdown in wage growth in their own businesses.

**Chart 12. Wage expectations**

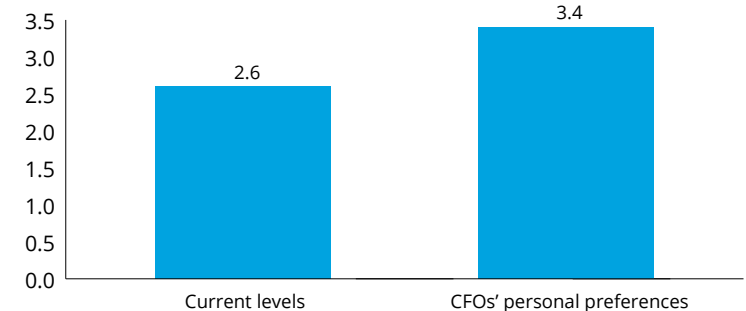
CFOs' median reported increase in average wages in their business over the past 12 months and their expectation for the next 12 months



CFOs would also like employees who work partly or wholly from home to work more from their offices.

**Chart 13. Hybrid working**

For staff in CFOs' businesses that are able to work partly or wholly from home only, the average number of days a week that are currently spent in the workplace and average of CFOs' personal preferences for the number of days a week their staff spend in the workplace



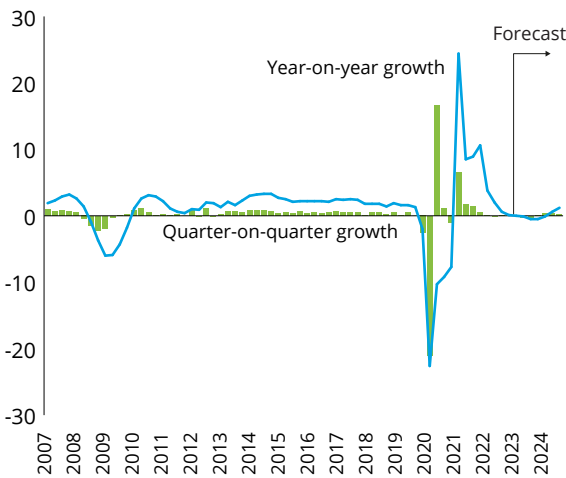
They say they would like employees to spend 3.4 days a week, on average, working from the office, compared to the 2.6 days a week they currently spend in the workplace.

# CFO Survey: Economic and financial context

## The macroeconomic backdrop to the Deloitte CFO Survey Q2 2023

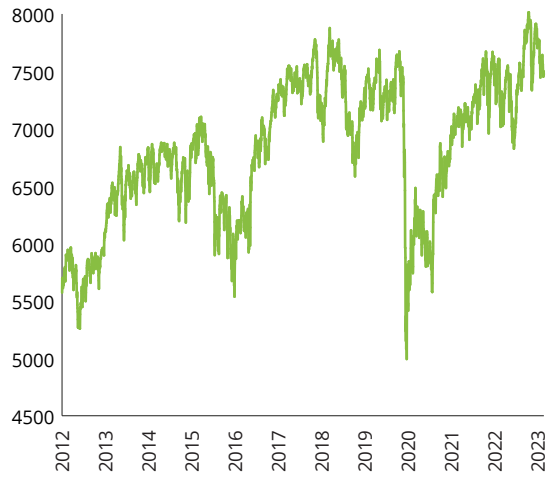
Despite continued falls in inflation, price pressures remained elevated across advanced economies and headline inflation remained well above Western central banks' targets. In the UK, inflation and wage growth surprised on the upside, leading to growing concern over embedded inflation and sharp rises in market rate expectations. At the time of writing, investors think rates in the UK will peak at 6.5%, 150 basis points above current levels. By contrast, markets expect US rates to be almost at their peak and the ECB just 50 basis points shy of its peak interest rate. The Bank of England and the ECB continued with their rate rises in the second quarter while lower headline inflation and concerns about the US regional banking system led the Federal Reserve to pause monetary tightening in the US. Falling inflation coincided with good economic growth in the US while activity in the UK stagnated and the euro area economy entered a recession. China's recovery seemed to be faltering, with lacklustre consumer demand even as the economy emerges from zero-Covid restrictions. Economists upgraded their growth forecasts for other emerging markets, on expectations of a broader easing of monetary policy in the second half of this year. Despite the challenging economic backdrop, equities made strong gains, partly driven by hopes of a boom in AI, with global stocks up 13% in the first six months of the year.

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



Source: Refinitiv Datastream, Deloitte calculations

**FTSE 100 price index**



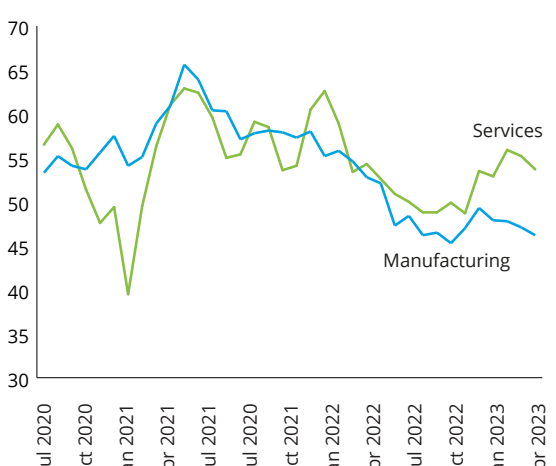
Source: Refinitiv Datastream

**GfK Consumer Confidence Index (UK)**



Source: Refinitiv Datastream

**Markit Purchasing Manager Indices (UK)**

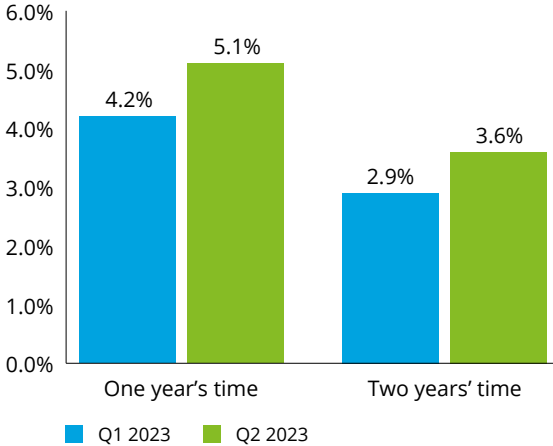


Source: Refinitiv Datastream, readings above 50 indicate expansion

# Two-chart summary of key survey messages

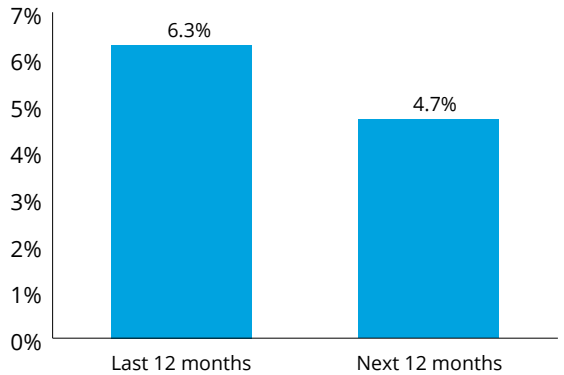
## Inflation expectations

CFOs' median expectations for inflation in one year's time and two years' time



## Wage expectations

CFOs' median reported increase in average wages in their business over the past 12 months and their expectation for the next 12 months



### About the survey

This is the 64th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2023 second quarter survey took place between 15th June and 27th June. 69 CFOs participated, including the CFOs of 13 FTSE 100 and 21 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 37 UK-listed companies surveyed is £317 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](mailto:ehhoang@deloitte.co.uk).



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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](http://www.deloitte.co.uk/cfosurvey)**



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