

Deloitte CFO Survey Q2 2024

Confidence up, uncertainty down

The latest survey of UK Chief Financial Officers shows a sharp rise in corporate risk appetite following the UK general election. The second quarter survey opened five days after the election, on 9 July, and closed on 19 July. Business confidence increased for the fourth consecutive quarter and is now at the highest level since the start of 2023. This is not solely a sentiment story. CFOs' expectations for corporate revenues rose to their highest level in two and a half years in July and are running at twice the long run average.

The worries around Brexit, COVID-19, inflation and politics that have weighed on corporate spirits for much of the last eight years seem to be clearing. CFOs' perceptions of external uncertainty fell to the lowest level in more than eight years in July.

The proportion of CFOs who rate financial and economic uncertainty as being 'high or very high' is one-third the last peak seen in October 2022 following the Liz Truss mini-budget.

A more predictable business environment seems to have boosted the spirits of the corporate sector. Corporate risk appetite saw its biggest rise in more than four years in July and the willingness of business to take risk onto their balance sheet is at the highest level since the UK was recovering from the pandemic-induced recession in the spring of 2021.

Consistent with these findings, CFOs say they putting less weight on cost control and building up cash and rather greater weight on introducing new products.

This quarter's survey includes two extra questions related to the UK election. The first asked CFOs about the impact of the election on their own expansion plans over the next year. The great majority, 69% of CFOs, thought the election would have little or no impact on their spending plans. However, the balance of opinion among other CFOs was tilted towards the election having a mildly positive effect. CFOs were also asked to identify the top economic priorities for the new government. Industrial policy emerged as the top priority for CFOs, followed by planning reform and raising public sector productivity.

Along with reduced uncertainty and an improved outlook for revenues, CFOs have also reported an improvement in credit conditions. CFOs rate credit as being more available than at any time in the last two years. Better credit conditions and strengthening demand seem, in turn, to lie behind a sharp rise in the balance of CFOs expecting to increase their own borrowing over the next 12 months.

CFOs have entered the second half of the year in a confident mood. Uncertainty has fallen away and revenue prospects have brightened. CFOs have become much more willing to take risk onto their balance sheets. The corporate sector is gearing up for growth.

Chart 1. Uncertainty

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

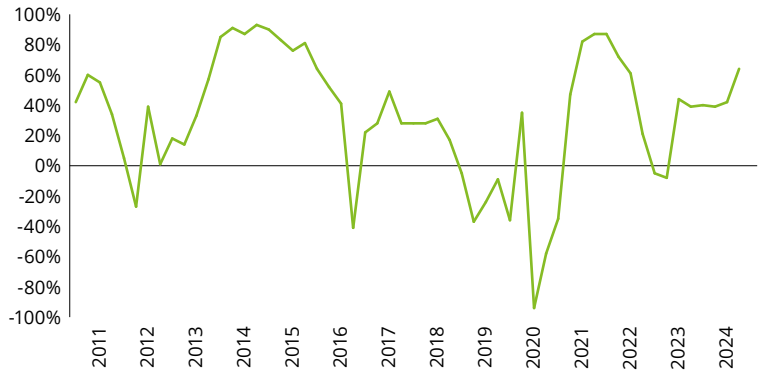


Improving outlook boosts risk appetite

CFOs' revenue growth expectations have risen sharply. A net 64% of CFOs now expect UK corporates' revenues to increase over the next 12 months, a significant jump from the net 42% seen last quarter and the highest reading since Q4 2021.

Chart 2. Outlook for corporate revenues

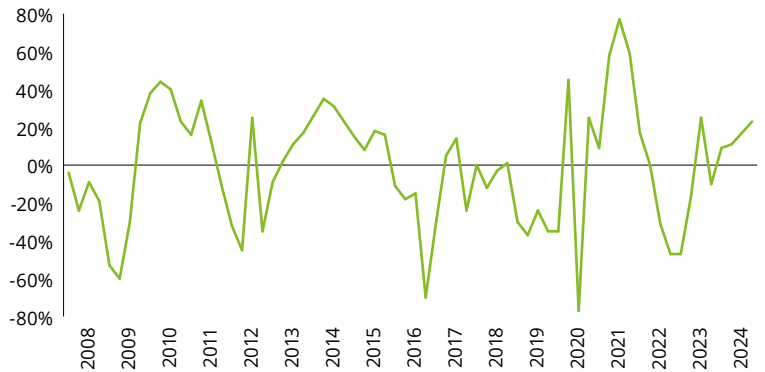
Net % of CFOs who expect UK corporates' revenues to increase over the next 12 months



Business confidence has increased for the fourth consecutive quarter to reach a net 23% of CFOs who are more optimistic about the financial prospects of their business and is at the highest level since the start of 2023.

Chart 3. Business optimism

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



With improving revenue growth expectations and a rise in optimism, CFO risk appetite has seen the sharpest rise in more than four years. 36% of CFOs report that now is a good time to take greater risk onto their balance sheets, the highest reading since the summer of 2021.

Chart 4. Corporate risk appetite

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



Election result modest positive for activity

While over two-thirds of finance leaders do not see the recent UK election result impacting their plans for capex, deal-making or hiring over the next 12 months, on balance, the resolution of political uncertainty is expected to have a modest positive impact on business activity.

Chart 5. Impact of election result

% of CFOs who expect the recent UK election to have the following impact on plans for capex, deal-making and hiring at their own business over the next 12 months

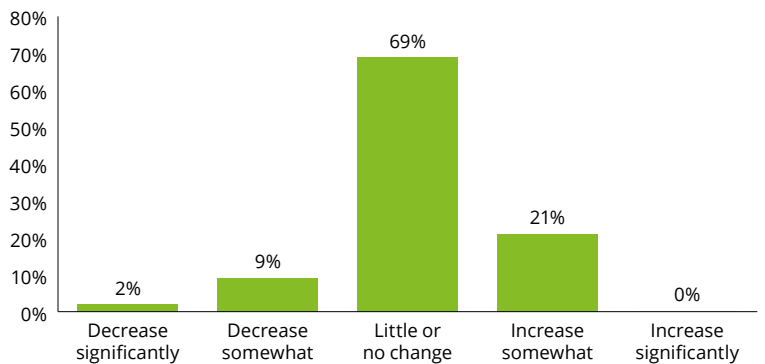
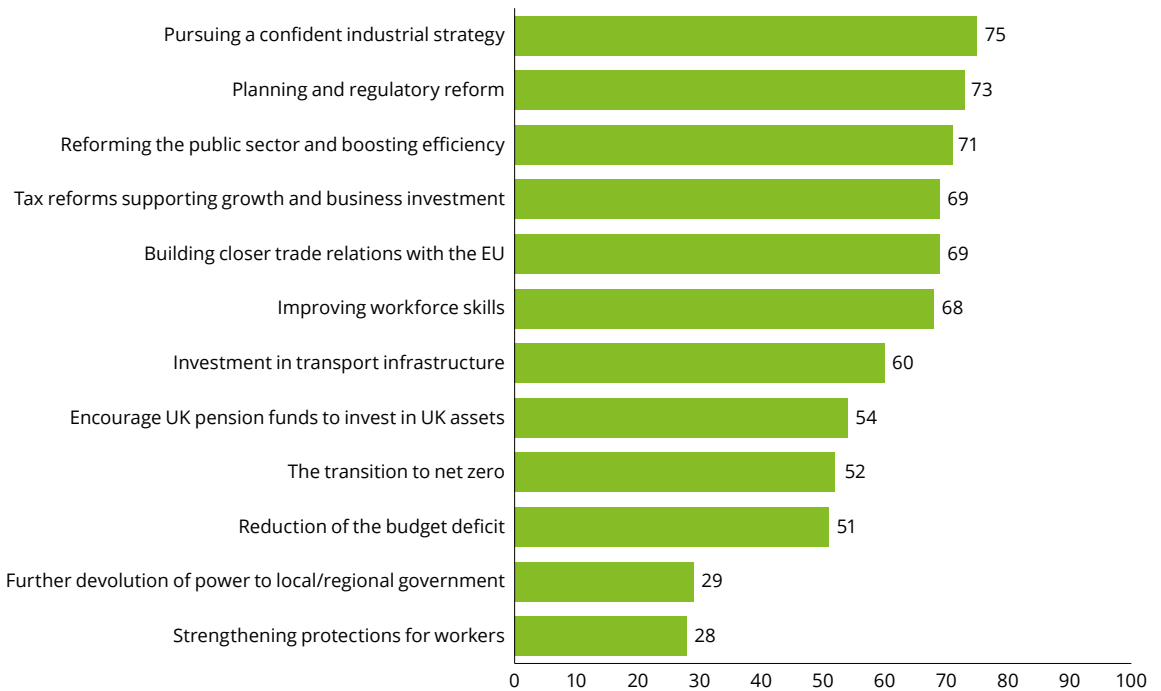


Chart 6. Priorities for the incoming government

CFOs' weighted average ratings on a scale of 0-100 where 0 stands for not a priority and 100 stands for the highest priority when asked which policies the incoming government should prioritise to boost growth and productivity in the UK



This quarter we asked our panel which policy areas the newly elected Labour government should prioritise to boost growth and productivity in the UK. On average, our panel thought that the greatest priority should be given to industrial strategy, planning and regulatory reform, and raising public sector productivity. Other areas, including tax reform, better trade relations with the EU, boosting workforce skills and investment on transport infrastructure were also deemed high priority.

Credit conditions improve

Credit conditions for the large UK corporates on our panel continued to improve this quarter. Our measure of cost of credit declined for the fourth consecutive quarter, with a net 52% of CFOs rating credit as costly in this edition of the survey.

Availability of credit has improved in each of the last three quarters, with a net 42% of our panel reporting that credit is easily available.

Despite slightly diminished expectations, CFOs continue to foresee a reduction in interest rates. They now expect the Bank of England's base rate to fall to 4.5% in a year's time, in alignment with investor expectations at the time of writing.

In line with falling credit costs, CFOs report a significant jump in demand for credit at their own businesses. A net 34% expect their businesses to borrow more over the next 12 months, the highest reading in over four years.

Chart 7. Cost and availability of credit
Net % of CFOs reporting credit is costly and credit is easily available

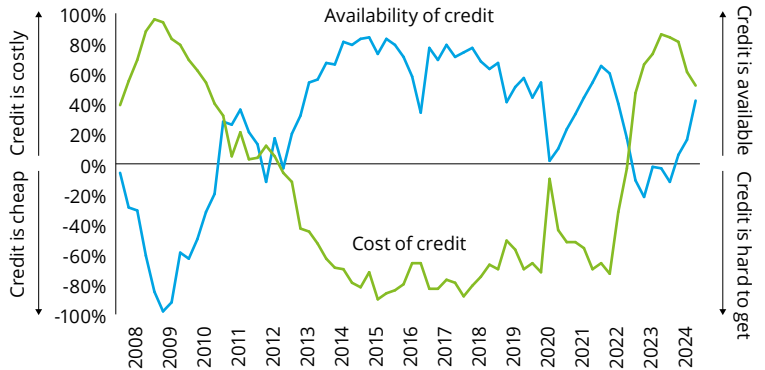


Chart 8. Interest rate expectations
CFOs' median expectations for the Bank of England's base rate in one year's time

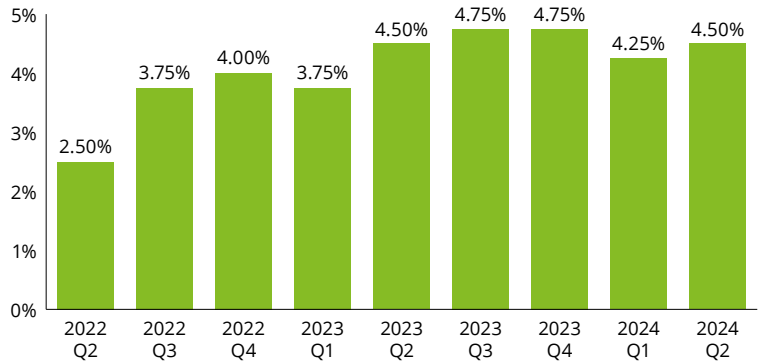


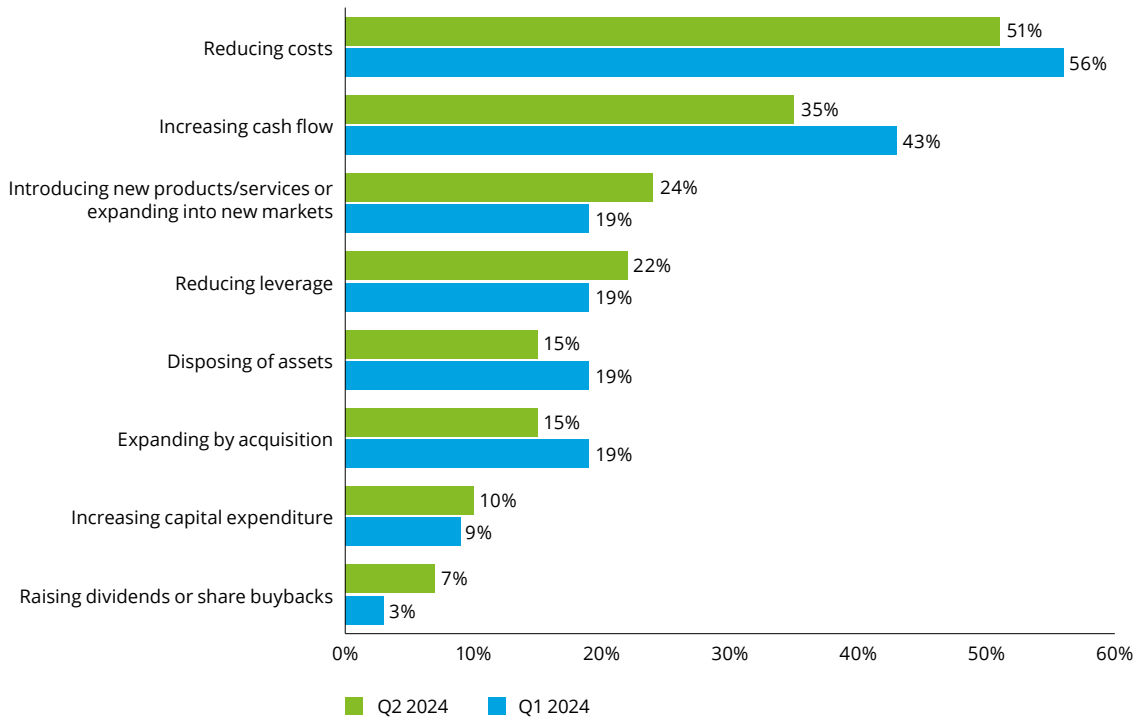
Chart 9. Demand for credit
Net % of CFOs who expect their business' demand for new credit to increase over the next 12 months



CFOs ease defensive strategy stance

Chart 10. 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



Reducing costs and increasing cash flow remain the top two priorities for CFOs over the next 12 months, though the percentage of respondents who rate these strategies as a strong priority has fallen from the previous quarter. Their focus on increasing cash flow is now at its lowest level in almost two years and below the average reading for the series, which started in 2010. CFOs also report a reduced emphasis on disposing of assets. Their focus on introducing new products/services or expanding into new markets has sharpened slightly.

CFOs have considerably softened their focus on defensive strategies over the last three quarters.

Chart 11. Defensive strategies*

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

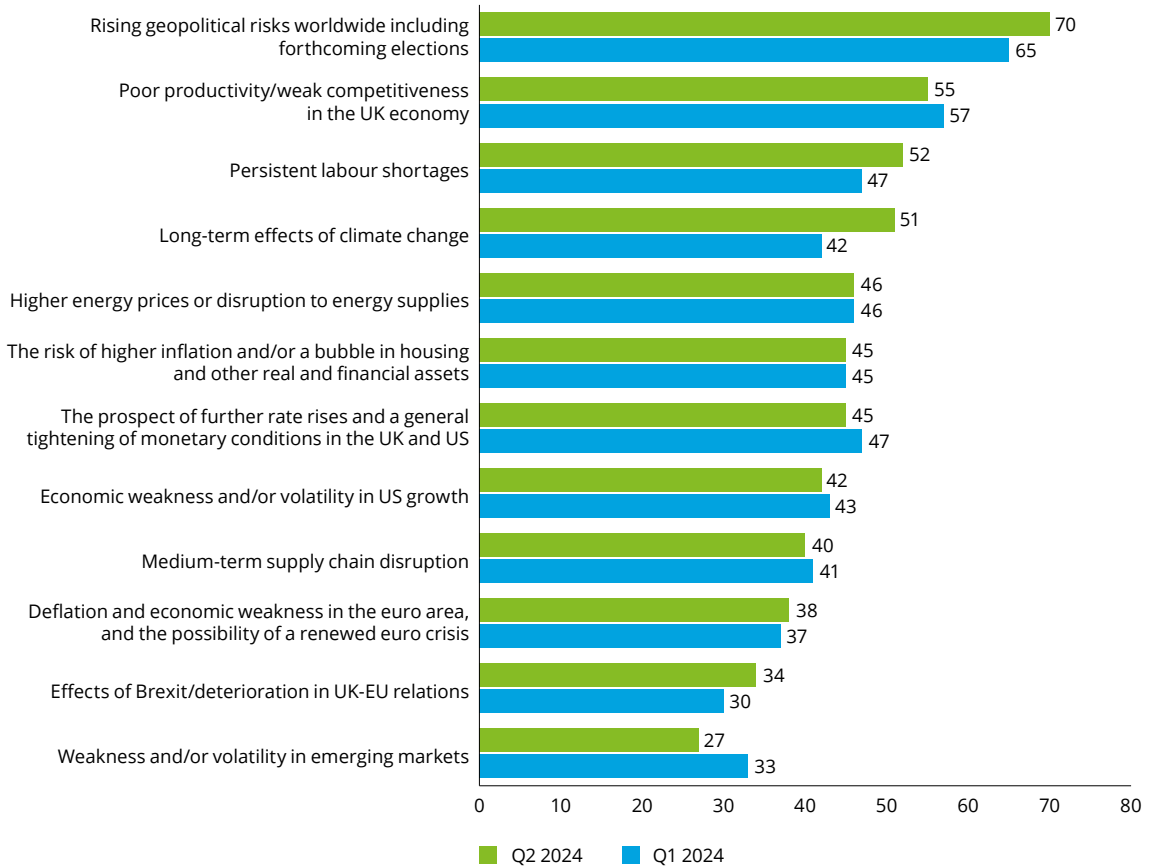


* Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

Geopolitics dominate CFO concerns

Chart 12. 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



Geopolitics is the top risk for CFOs, as it has been for much of the last two and a half years. This quarter's reading is the joint highest since 2022 Q1, when Russia invaded Ukraine. In addition to the ongoing conflicts in Ukraine and the Middle East, a snap election and hung parliament in France, and potential implications of the upcoming US presidential election, appear to have contributed to raising CFOs' perceptions of geopolitical risk.

CFOs continue to rank poor productivity and weak competitiveness in the UK economy as the second biggest risk to their business, reflecting the UK's poor economic performance over the medium term, despite the recent pickup in activity.

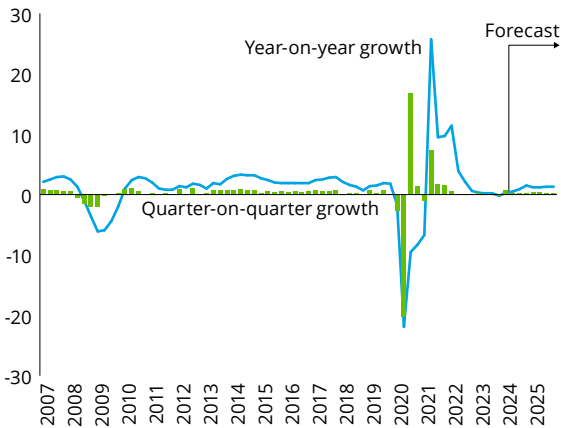
The long-term effects of climate change remains a top risk for CFOs, rising to fourth place on their risk list this quarter.

CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q2 2024

Economic growth is expected to have continued across developed markets in the second quarter of 2024 as inflation retreated further. The US remained a bright spot, UK momentum was robust, albeit slower than the rapid first quarter expansion, while the euro area experienced a more gradual recovery, according to high frequency PMI data. The outlook improved slightly over the last three months with lower inflation boosting real incomes and paving the way for an easing of monetary policy. China's economic growth slowed slightly in the second quarter, falling short of forecasts due to soft domestic demand. Further falls in inflation reduced price pressures to near central banks' target levels, though strong wage growth remained a concern for interest rate setters. The European Central Bank announced its first rate cut in early June while the Bank of England and US Federal Reserve intimated that they are likely to follow suit later this year. The UK Labour Party won a landslide majority and set out its ambition to boost growth, though it faces significant fiscal constraints. Geopolitical risks persist while political uncertainties in the light of the EU and French elections, and ahead of November's US election, have created new uncertainties. Equity markets continued their positive start to the year, boosted by large-cap tech stocks in the US and the FTSE 100 reaching an all-time high.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index



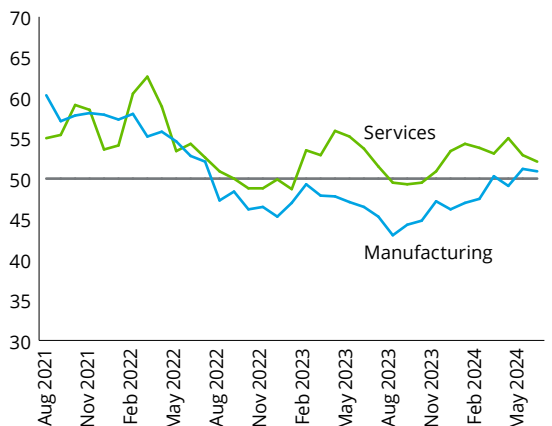
Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)



Source: Refinitiv Datastream

S&P Global/CIPS Purchasing Managers' Indices (UK)

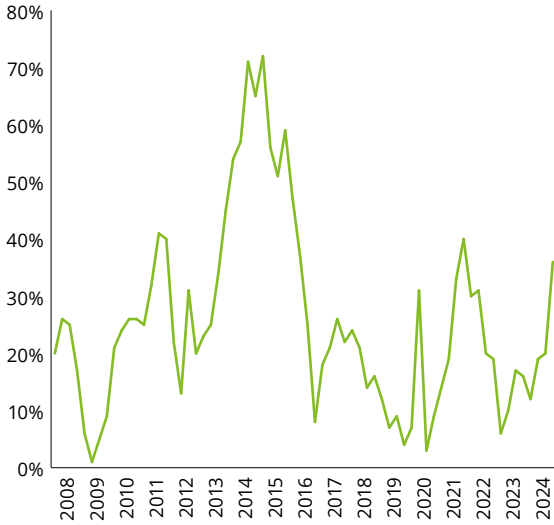


Source: Refinitiv Datastream, readings above 50 indicate expansion

Two-chart summary of key survey messages

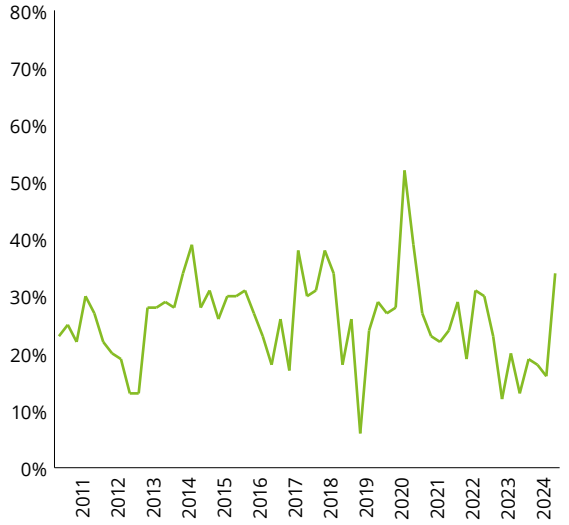
Corporate risk appetite

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



Demand for credit

Net % of CFOs who expect their business' demand for new credit to increase over the next 12 months



About the survey

This is the 68th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2024 second quarter survey took place between 9th July and 19th July. Overall, 61 CFOs participated, including the CFOs of 31 FTSE 350 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas.

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

Authors

Ian Stewart
Chief Economist
020 7007 9386
istewart@deloitte.co.uk

Debapatim De
Director, Economic Research
020 7303 0888
dde@deloitte.co.uk

Tom Simmons
Senior Economist
020 7303 7970
tsimmons@deloitte.co.uk

Peter Ireson
Economic Analyst
011 7984 1727
pireson@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

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



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 to learn more about our global network of member firms.

© 2024 Deloitte LLP. All rights reserved.

Designed and produced by 368 at Deloitte. J40029