

Deloitte CFO Survey Q3 2024

Geopolitical risk to the fore

Optimism among the UK's largest businesses edged lower in the third quarter following a strong bounce in the wake of the general election, in July. Nonetheless, the latest Deloitte CFO Survey, conducted between 17th and 29th September, shows that sentiment and risk appetite among Chief Financial Officers are continuing to run at above-average levels.

The survey closed shortly before Iran's missile attack on Israel, on 1st October, and encompassed a period of escalating tension in the Middle East. As has been the case for the last five quarters, CFOs say that geopolitical developments represent the greatest external risk to their businesses. Concerns about a potential hard landing in the US have risen sharply, and CFOs now rank this as joint second greatest risk alongside weak UK productivity.

Unlike the period following the invasion of Ukraine in 2022, when CFOs' worries about energy supply and prices spiked in tandem with geopolitical concerns, CFOs today are relatively sanguine about the risks around energy, in part, perhaps because of the decline in the oil price between July and late September.

The CFO Survey has mapped CFO perceptions of external uncertainty since 2010. The third quarter survey registered a modest increase in perceptions of uncertainty, but the absolute level remains low by the standards of the last eight years.

The UK labour market has softened since the start of the year and CFOs expect wage growth to slow markedly, from 4.6% in the last 12 months to 3.2% in a year's time.

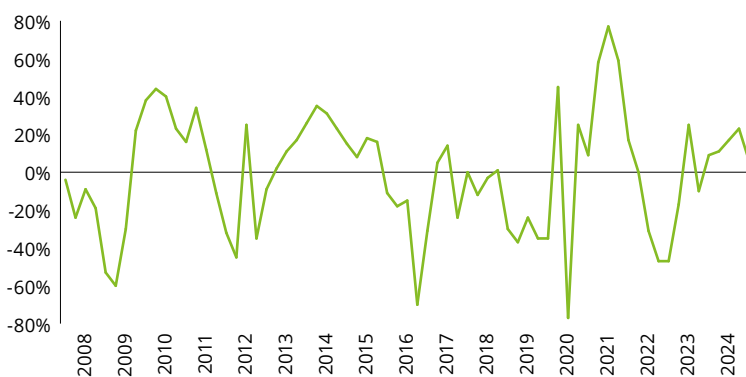
As inflationary pressures wane, CFOs expect the Bank of England to cut interest rates from the current 5.0% to 4.0% by next September. Credit conditions are improving, with CFOs reporting that credit is cheaper than at any time since the second quarter of 2022.

Our special question this quarter shows that the overwhelming majority of CFOs expect to raise spending on digital technology and assets, such as software, IT and AI, both over the next 12 months and on a five-year time frame. Investment in workforce skills and improving productivity and business performance also remain significant focus areas, especially in the longer term. CFOs are most cautious on spending on real estate, machinery and other physical assets.

The UK economy saw an unexpectedly strong recovery in the first half of the year, with GDP growth outstripping that in any other G7 economy. The latest CFO Survey points to continued growth ahead, albeit probably at a rather slower pace than in the first half of the year.

Chart 1. Business optimism

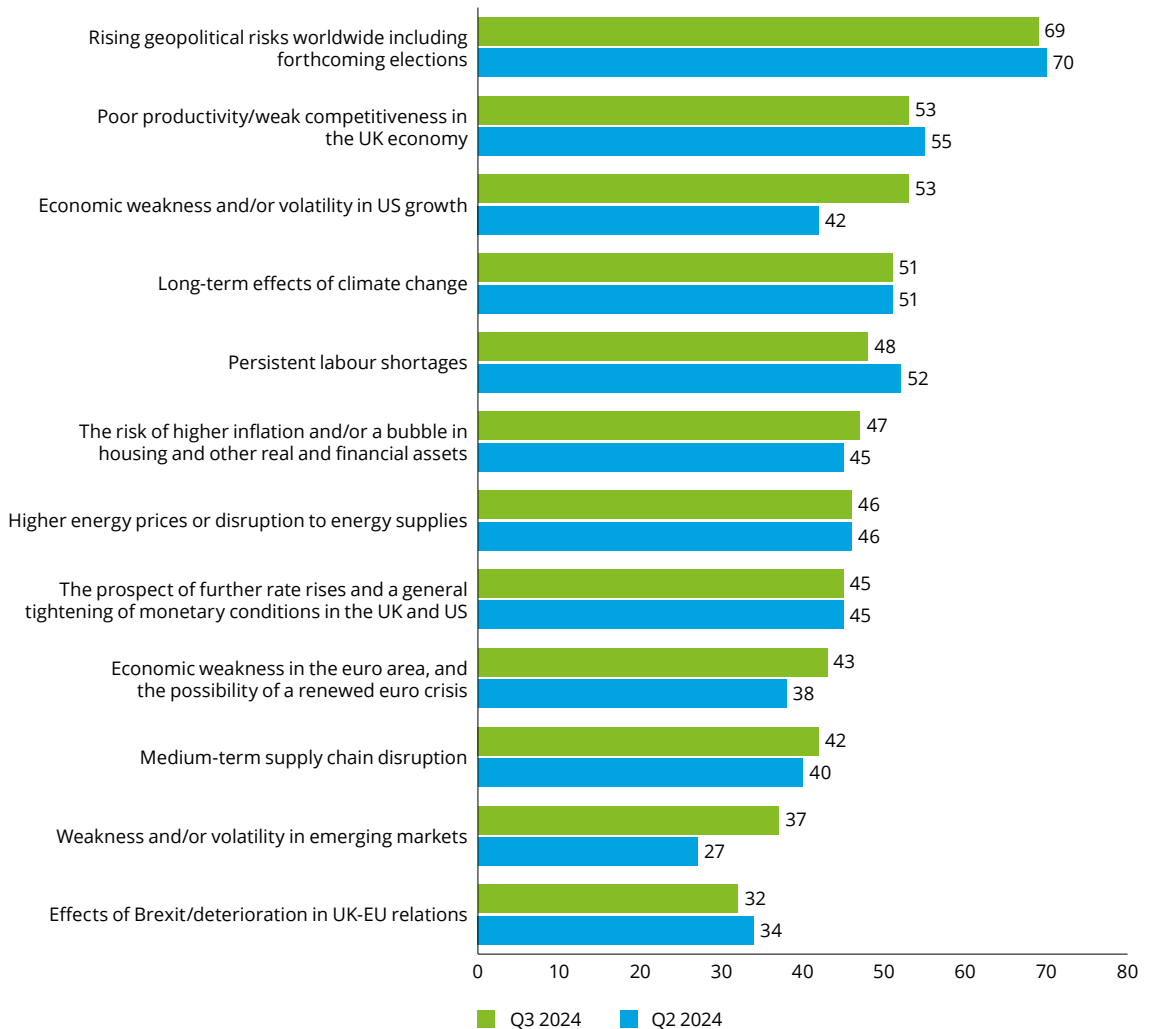
Net % of CFOs who are more optimistic about the financial prospects of their business than three months ago



Rising worries over US growth

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



CFOs rated geopolitics as the single-largest source of external risk for their businesses for the fifth consecutive quarter. The third quarter survey coincided with a period of escalating tensions in the Middle East.

While geopolitics has endured as one of the top risks since Russia’s invasion of Ukraine in 2022, we have witnessed a steady decline in CFO concerns over disruption in energy markets, the prospect of higher inflation or further monetary tightening. All of these now rank below the top five risks.

Worries over poor productivity and weak competitiveness in the UK have persisted but they are joint second in this edition’s risk list, tied with concerns over US growth, which have risen to their highest level since we included them in our risk list over four years ago.

Given the continued weakness in Chinese consumer demand, concerns over emerging market growth have also risen, although CFOs see this as a relatively minor threat to businesses.

Uncertainty ticks up

The sharp rise in energy prices that followed Russia's invasion of Ukraine and resulting economic downturn in the UK demonstrated how geopolitics can affect the economy through energy markets.

In the past two years, we have seen CFO concerns over geopolitics decouple from worries over energy prices. This could partly reflect the fact that the biggest western economies have largely weaned themselves off Russian gas. Meanwhile, despite the risk of supply disruptions posed by the conflict in the Middle East, oil prices remain well below their three-year average.

CFO concerns about weakness in the US economy have risen to the highest level in over four years.

Although most forecasters predict a soft landing for the US economy, three short-lived global sell-offs in April, August and September, partly driven by worries over US growth, brought to life the risks posed by a hard landing to financial markets and businesses across the globe.

CFOs report a modest increase in uncertainty – 31% now rate the level of external financial and economic uncertainty facing their business as high or very high. This is well above levels seen over most of the last eight years.

Chart 3. Divergence in the risk that geopolitics and energy pose to business

Weighted average ratings on a scale of 0-100 where 0 stands for no risk and 100 stands for the highest possible risk

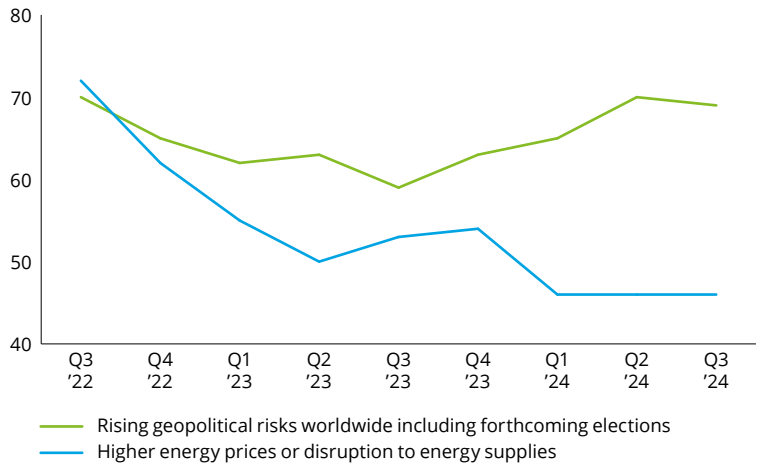


Chart 4. US equity markets

Datastream total return index, 1 January 2024 = 100



Chart 5. Uncertainty

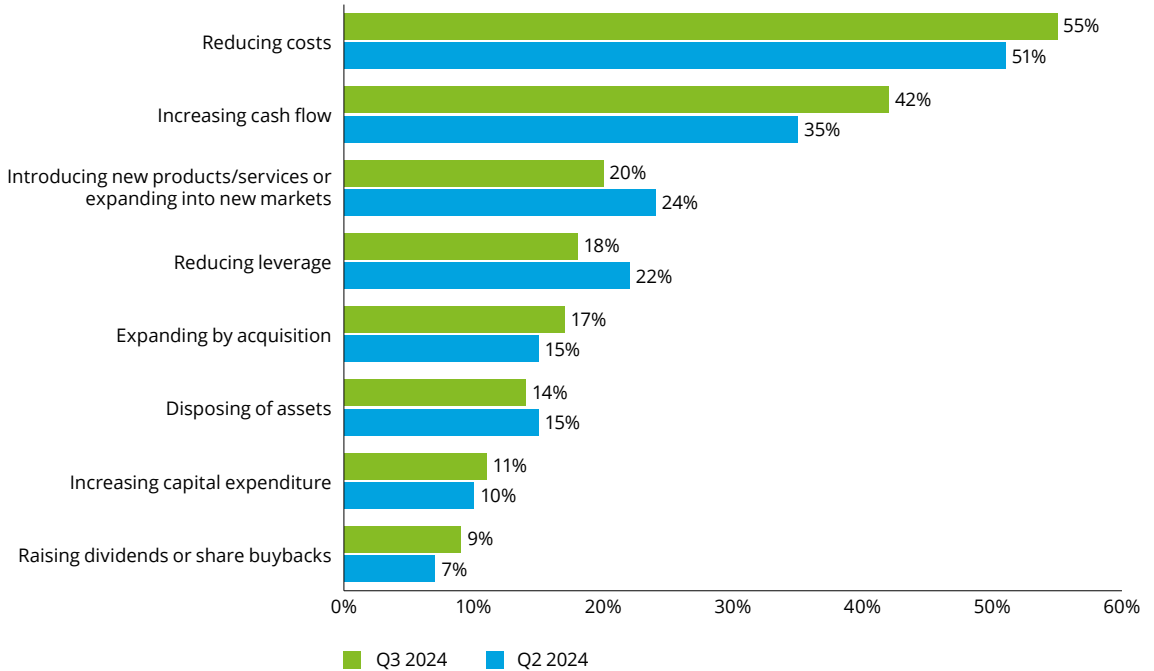
% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high



Greater emphasis on defensive strategies

Chart 6. 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



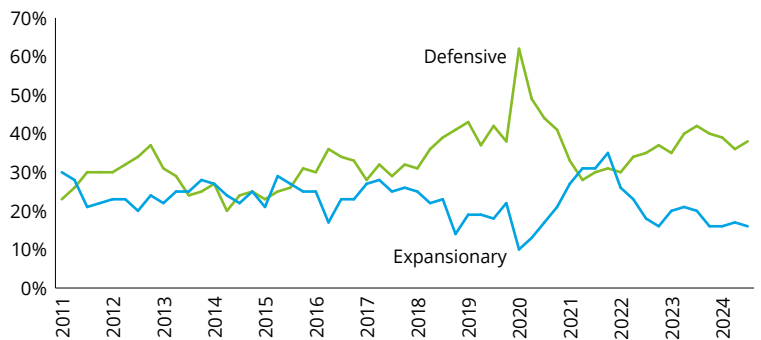
Finance leaders are now placing greater emphasis on cost reduction and increasing cash flow and continue to place less weight on expansionary strategies such as increasing capital spending or expanding by acquisition.

On balance, CFOs maintain a defensive strategy stance.

This could reflect greater caution given rising geopolitical risks and concerns about a US slowdown. The latest monthly GDP data also point to a slowing in the pace of UK activity, from surprisingly strong growth in the first half of the year.

Chart 7. 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.

Digital technology remains key focus area

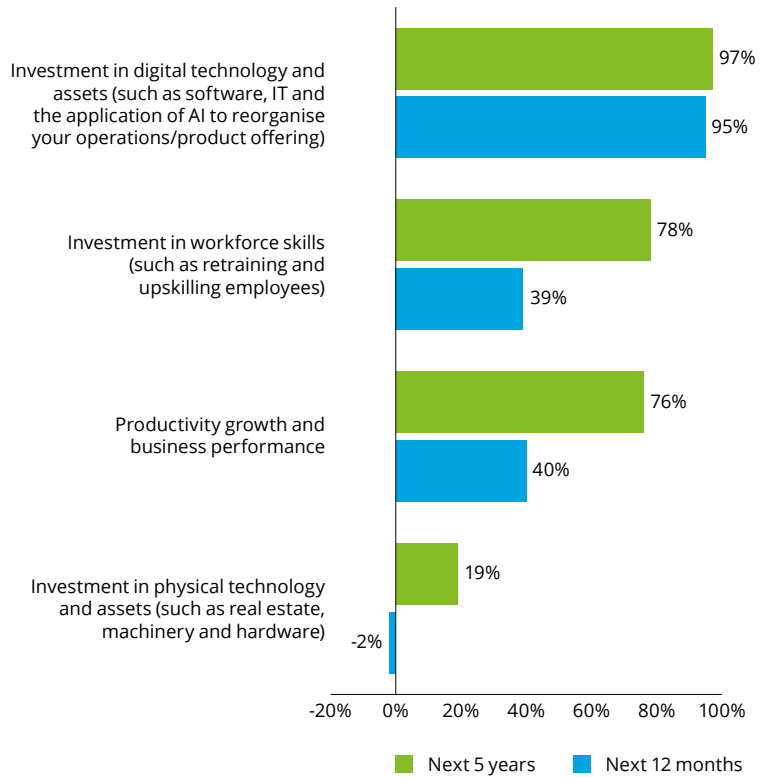
CFOs of the typically large businesses on our panel almost unanimously expect to increase investment in digital technology over both the next 12 months and in the medium term.

They are far more divided on the question of whether investment in physical assets and technology will increase, with a narrow majority expecting a decline over the next 12 months.

CFOs remain hopeful that business performance and productivity will improve but they see this as being more likely in the medium term than over the coming year.

Chart 8. Corporate spending and productivity

Net % of CFOs who expect the following to increase for UK corporates as a whole over the next 12 months and 5 years relative to current levels

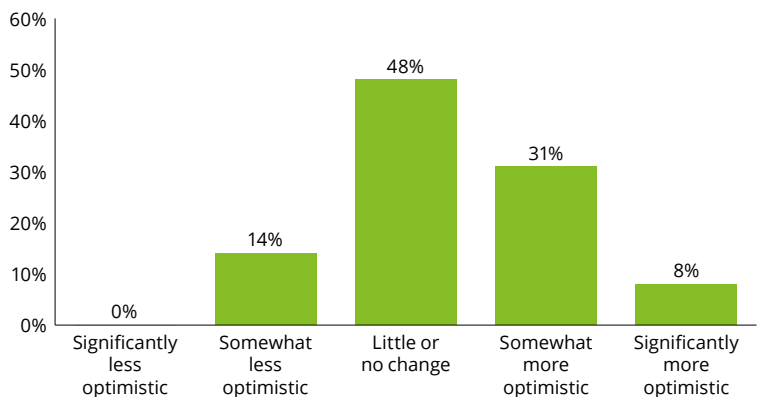


Despite recent readjustments in tech stock valuations and greater scrutiny of claims about the productivity benefits of artificial intelligence, CFOs are increasingly optimistic about its ability to drive improvements in business performance.

86% report either an increase in optimism or little to no change relative to this time last year.

Chart 9. Artificial intelligence

% of CFOs who reported the following when asked if, compared with a year ago, they are more or less optimistic that artificial intelligence has the capacity to deliver material improvements to their business' performance



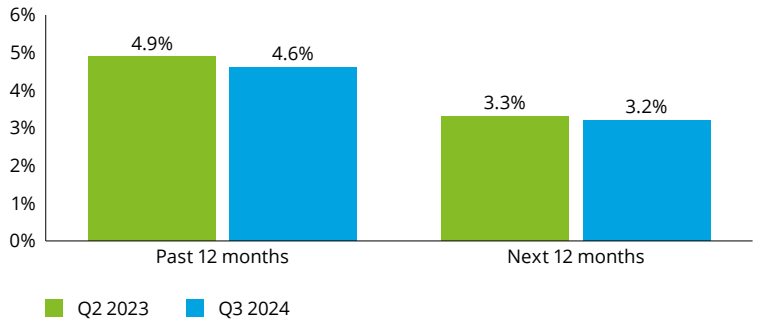
Credit costs decline

Finance leaders report a continued slowing in annual wage growth in their businesses – from 4.9% to 4.6% in this edition of the survey.

They also expect a further slowing, with average wages growing by 3.2% over the next 12 months.

Chart 10. Wage expectations

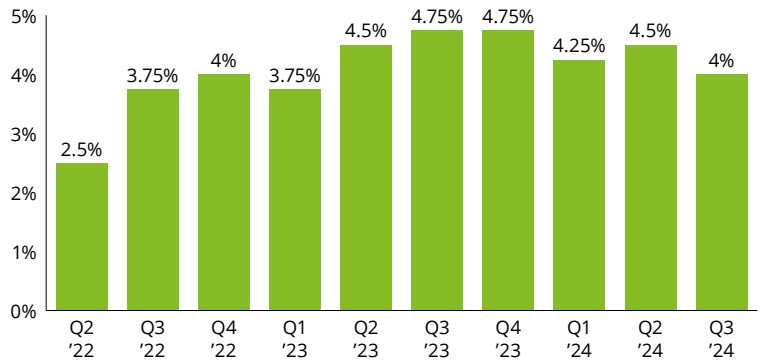
CFOs' median reported increase in average wages in their business over the past 12 months and their expectation for the next 12 months



Following the Bank of England's first interest rate cut in over four years in August, CFOs expect it to cut rates by 100bp to 4.0% over the next 12 months.

Chart 11. Interest rate expectations

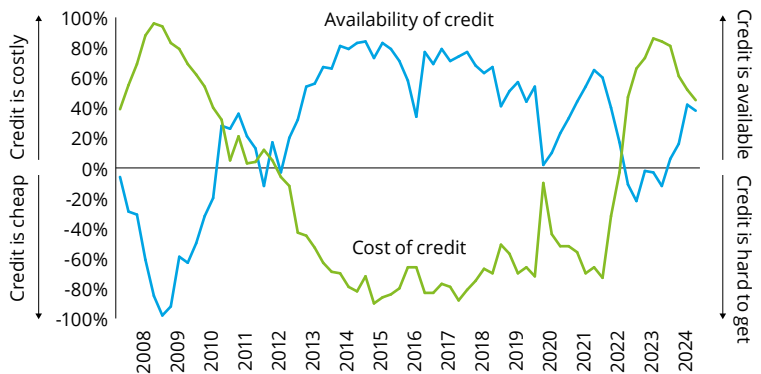
CFOs' median expectations for the Bank of England's base rate in one year's time



CFOs report that credit has become more available and cheaper in the last 12 months.

Chart 12. Cost and availability of credit

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

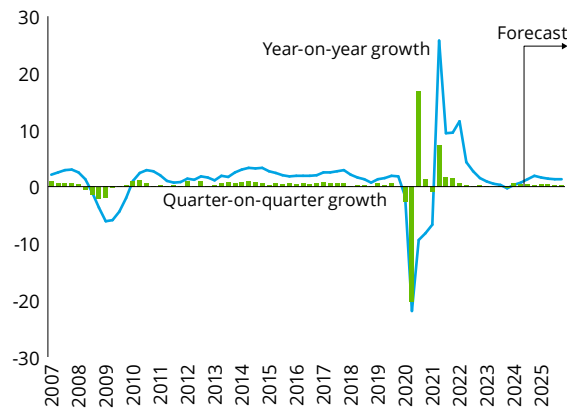


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q3 2024

High-frequency PMI data suggest continued growth continued across most large western economies in the third quarter despite a slowdown in momentum. The recovery weakened significantly in Europe while activity in the US and the UK held up better. Growth in China continued to underwhelm, given weak consumer demand and continued concerns about its property sector. Inflation remained close to central bank targets in the West, prompting the Bank of England and the US Federal Reserve to cut interest rates for the first time since 2020, by 25bps and 50bps, respectively. The European Central Bank also cut interest rates in September, having started easing policy in the second quarter. Despite sustained growth and a cut in interest rates, UK consumer confidence fell in September after several months of improvement, and retail sales remained soft as households prioritised saving. The new Labour government signalled tax rises in the upcoming Budget in October after warning about the poor state of public finances and estimating a £22bn overspend inherited from the earlier government. Volatility in US equity markets surged in August, due in part to concerns that the expected slowdown in US growth could turn into a recession after worse-than-expected labour market data. Despite this volatility, major equity markets maintained their positive momentum from the first half of the year, posting further gains. Geopolitical tensions, and particularly an escalating conflict in the Middle East, dominated the news while political uncertainty remained elevated ahead of the US election in November.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index



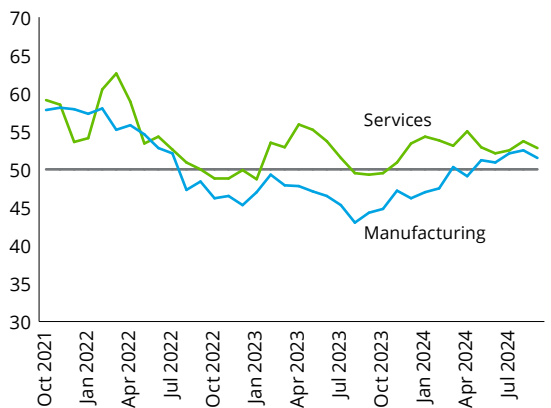
Source: Refinitiv Datastream

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

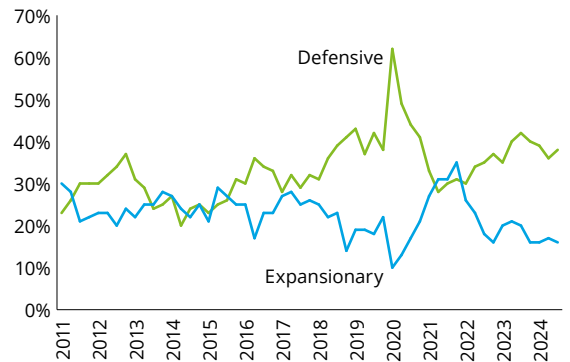
Uncertainty

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



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



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About the survey

This is the 69th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2024 third quarter survey took place between 17th September and 29th September. Overall, 68 CFOs participated, including the CFOs of 32 FTSE 350 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 66 UK-listed companies surveyed is £341bn, 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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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



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