

## The Deloitte CFO Survey

### 2015: Growth in an uncertain world

Policy uncertainty at home and economic and geopolitical risks overseas are the central challenges facing the UK's largest companies as they enter 2015. Concerns about policy change after May's General Election have risen significantly and this is seen as the biggest risk facing UK business in 2015. Chief Financial Officers rate deflation and weakness in the euro area as an increasing concern and the second greatest business risk. A UK referendum on European Union membership and emerging market weakness rank as the third and fourth most prominent business risks. Again, CFOs believe that the level of threat posed by both has risen over the last three months.

This marks a big shift in thinking. Going into each year, from 2008 to 2013, CFOs' main concern has been the state of the UK economy. Now the risks are seen as lying elsewhere and CFOs are upbeat on the UK's economic fundamentals. Unlike policymakers, a clear majority of CFOs are not especially concerned by the UK's productivity record and they overwhelmingly see the UK as a "good" or "excellent" place to do business. Corporates believe that the long consumer squeeze has ended. On average, CFOs expect wages in their businesses to rise by 2.9% in 2015. With inflation likely to run at the 1.3% mark, real earnings look set to register the first annual increase in eight years in 2015.

Nonetheless, rising levels of uncertainty have fed through to a weakening of corporate risk appetite. 56% of CFOs say now is a good time to take risk onto their balance sheet, down from a peak of 71% in the third quarter – though still well above the long-term average. Cost control is CFOs' top balance sheet priority for 2015, but CFOs also expect business investment to remain buoyant. On average, CFOs expect their investment in the UK to rise by 9% in 2015, following growth of about 8% in 2014. That would put the UK at the top of the league for investment growth in the major industrialised nations. If realised it will take the share of UK GDP accounted for by business investment to the highest level in 15 years by the end of 2015.

The UK General Election and economic uncertainty overseas are central concerns for UK business. But at home CFOs expect 2015 to be a year of investment and of recovering real earnings. Corporate and consumer spending look set to lend the UK economy important support, suggesting the UK will post decent growth through 2015.

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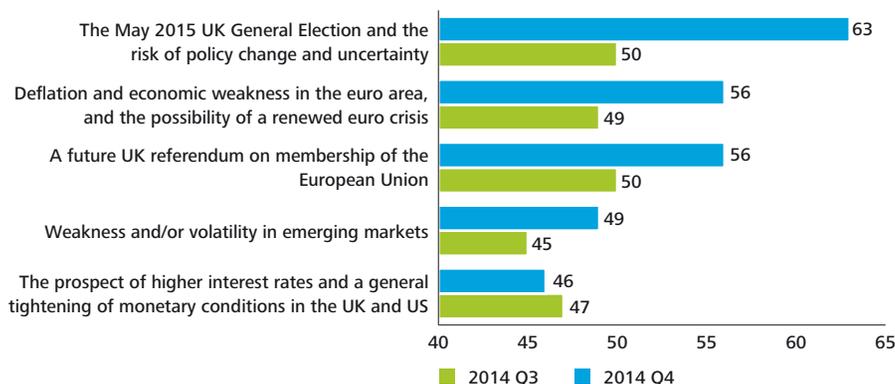
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For current and past copies of the survey, historical data and coverage of the survey in the media and elsewhere, please visit:

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

**Chart 1. 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



# Rising uncertainty

CFO perceptions of economic and financial uncertainty rose in the fourth quarter.

60% of CFOs enter 2015 reporting above normal, high or very high levels of uncertainty facing their businesses – the same reading as a year ago.

**Chart 2. Uncertainty**

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

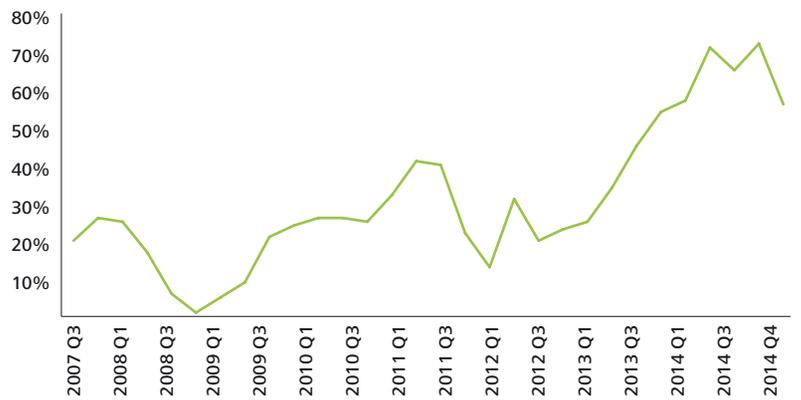


Rising uncertainty has fed through to an easing in corporate risk appetite.

56% of CFOs say that this is a good time to take greater risk onto their balance sheets, down from a record reading of 71% in the third quarter but still well above the long-term average.

**Chart 3. Risk appetite**

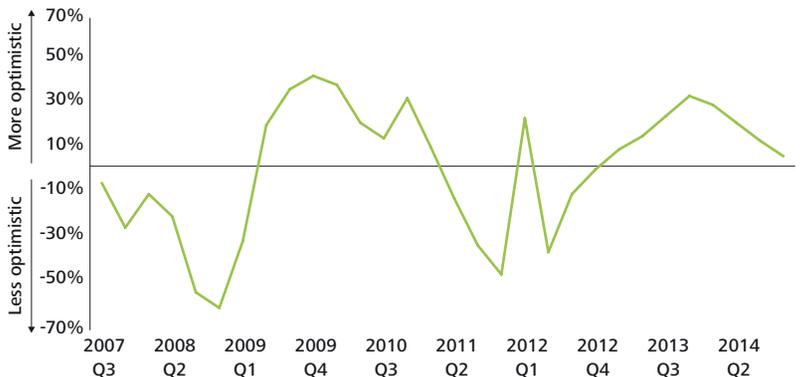
% of CFOs who think this is a good time to take greater risk onto their balance sheets



CFO optimism has declined to its lowest level in two years. Nonetheless, the proportion of CFOs who are more optimistic continues to outnumber those who are less optimistic.

**Chart 4. Business confidence**

Net % of CFOs who are more optimistic about financial prospects for their company now than three months ago



## Policy risks to the fore

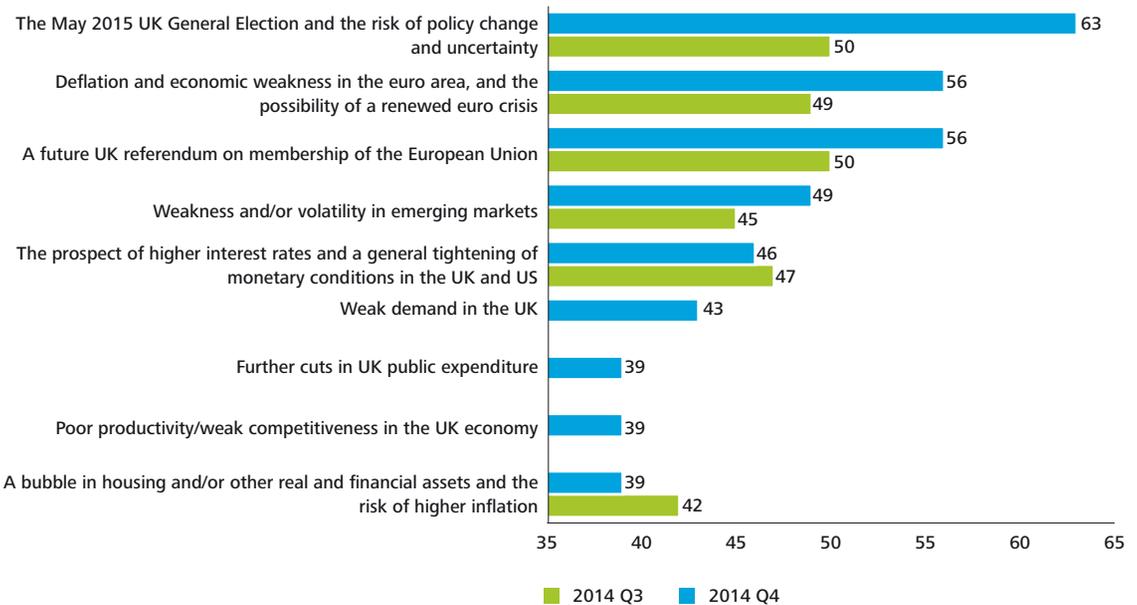
Chief Financial Officers see policy uncertainty at home and economic weakness in emerging markets and the euro area as the greatest challenges facing UK businesses in 2015. CFO concerns about policy change after May's General Election have risen significantly and it remains the biggest risk facing their businesses this year.

Concerns about economic weakness in Europe have come back to the fore. Deflation and slow growth in the euro area is seen as the second greatest risk facing UK businesses, up from fifth position six months ago. A future UK referendum on EU membership and weakness in emerging markets rank as the third and fourth greatest risks, both greater concerns than three months ago.

By contrast, CFOs are upbeat on the UK's economic fundamentals. UK-specific concerns – poor productivity, the risk of asset price bubbles or higher inflation and further cuts in public spending – feature at the bottom of the table of risks.

**Chart 5. 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



\* Options for weak demand in the UK, further cuts in UK public expenditure and poor productivity/weak competitiveness in the UK economy were not given in 2014 Q3.

# Investor risk aversion

The fall in corporate risk appetite has coincided with a rise in financial market volatility.

The VIX Index – a measure of financial market volatility often described as the “fear gauge” – rose sharply during the survey period.

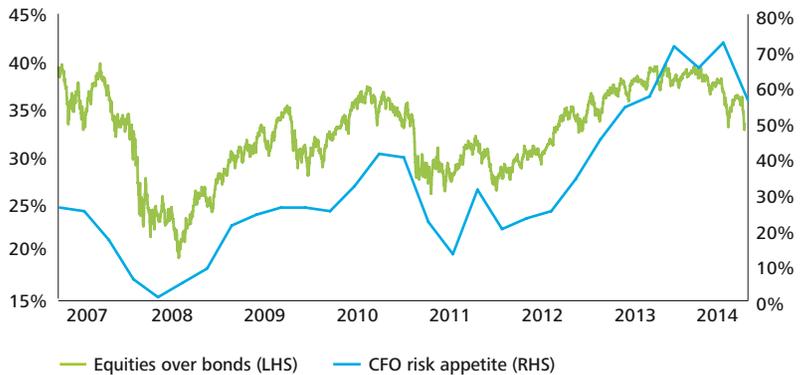
**Chart 6. Financial market volatility**  
The VIX Volatility Index



Source: Thomson Reuters Datastream

Changes in CFO risk appetite tend to mirror those in investor risk appetite. The decline in CFO risk appetite has taken place at the same time as investors have moved from equities into the supposed safe haven of government bonds.

**Chart 7. CFO and investor risk appetites**  
% of CFOs who think this is a good time to take greater risk onto their balance sheets (RHS) and change in UK equities over bonds (LHS)



Source: Thomson Reuters Datastream

CFO sentiment has also been affected by weaker growth prospects for the euro area – the UK’s largest export market – and a significant derating of growth forecasts for the major emerging markets of Brazil and Russia.

By contrast, 2015 growth forecasts for the UK have risen over the last year.

**Chart 8. GDP growth forecasts**  
Consensus GDP growth forecasts for 2015 in January 2014 and December 2014 (% YoY)

2015 GDP growth forecasts	Jan-14	Dec-14
US	3.0	3.0
Britain	2.2	2.6
Euro area	1.3	1.1
China	7.2	7.0
India	5.6	6.5
Brazil	2.9	0.8
Russia	2.8	0.0

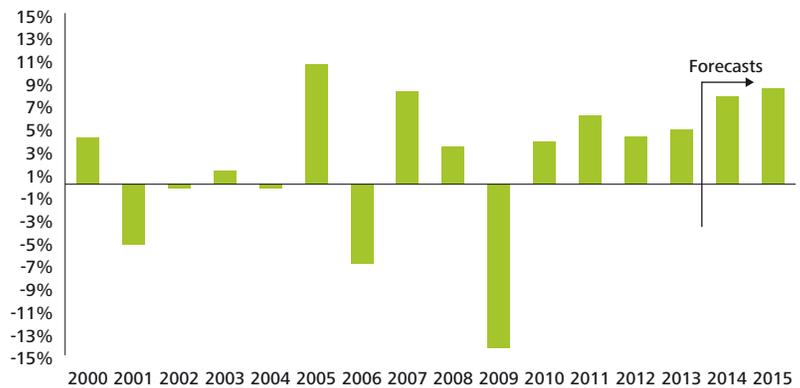
Source: EMED consensus forecasts

# Business investment strong

Data revisions made by the Office for National Statistics in September show that UK business investment has seen a stronger rebound after the financial crisis than previously thought.

Business investment growth is forecast to have hit a seven-year high in 2014 and the Office for Budget Responsibility expects a further acceleration in 2015.

**Chart 9. Business investment**  
UK business investment growth: Actual and official forecast (%YoY)

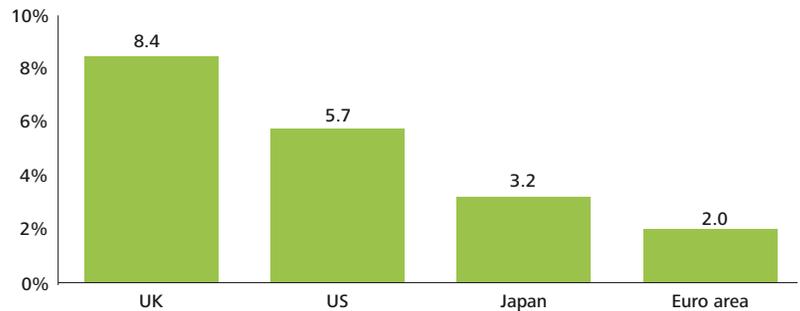


Source: Thomson Reuters Datastream and Office for Budget Responsibility

Investment is a stronger priority for CFOs than at any time in the last two years. On average, CFOs expect their investment in the UK to rise by 9% in 2015, following growth of about 8% in 2014.

As Chart 10 shows, economists expect UK corporates to raise investment in 2015 at a much faster rate than their counterparts in the US, Japan or the euro area.

**Chart 10. Business investment forecasts**  
Consensus forecasts for business investment growth in 2015 (% YoY)



Source: Various sources

The UK is seeing a continued rebalancing of growth from consumption and towards private investment.

Business investment is accounting for a rising share of GDP. By the end of 2015 investment's share of GDP is likely to have reached the highest level in 15 years.

**Chart 11. Business investment**  
Business investment as a percentage of UK GDP



Source: Thomson Reuters Datastream

# Upbeat on UK economy

CFOs expect the recovery in consumer spending power to gather pace in 2015.

On average, CFOs expect employee earnings in their businesses to rise by 2.9% in 2015, easily outpacing inflation, which is forecast to rise 1.3%.

**Chart 12. Average weekly earnings and CPI inflation**  
Change in average earnings and consumer price index (% YoY)

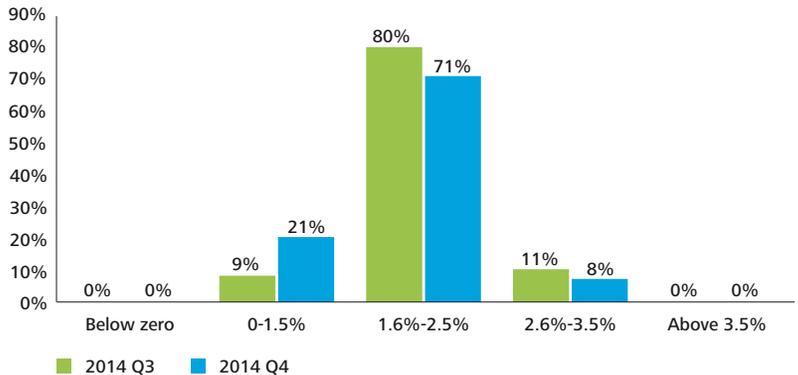


Source: Thomson Reuters Datastream

CFOs' inflation expectations have fallen slightly since the third quarter.

A majority of CFOs expect consumer price inflation to hover around the Bank of England's 2% target in two years' time and a fifth now expect inflation to stay below 1.5%.

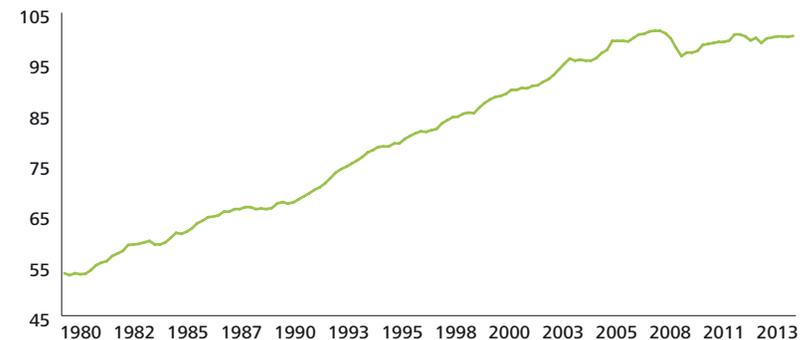
**Chart 13. Inflation expectations**  
% of CFOs who expect consumer price inflation in the UK to lie between the following ranges in two years' time



Weak productivity growth has been a key concern for policy-makers since the financial crisis.

However, almost four-fifths of CFOs do not see productivity as a significant threat to UK growth. In addition, 88% rate the UK as a "good" or "excellent" place to do business, with a quarter placing the UK in the top-tier of industrialised economies.

**Chart 14. UK labour productivity**  
Output per filled job (rebased to 100 in 2011)



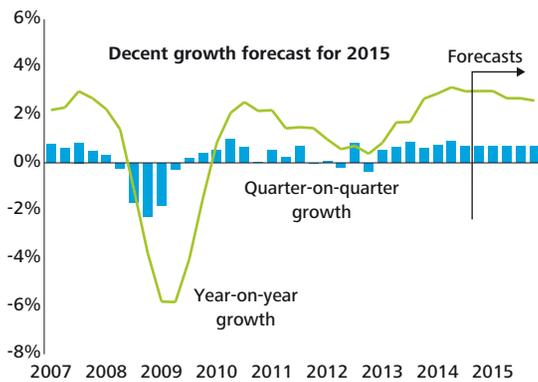
Source: Thomson Reuters Datastream

# CFO Survey: Economic and financial context

## The macroeconomic backdrop to the Deloitte CFO Survey Q4 2014

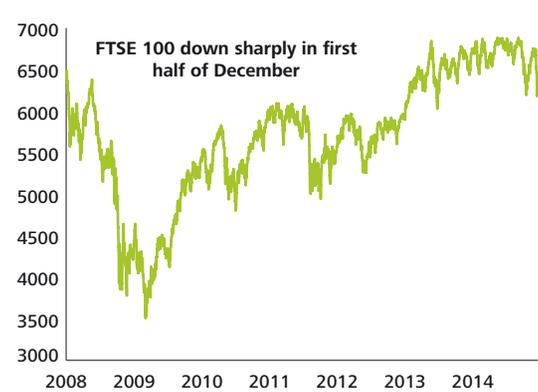
Concerns over growth prospects for emerging economies and the euro area mounted. Reflecting such uncertainties, low risk assets, including government bonds, outperformed riskier assets such as equities. The price of a barrel of Brent crude fell almost 40% in the three months to mid-December, providing a boost to consumers, but destabilising oil-producing economies and stoking concerns about a slowdown in global activity. Lower oil prices and Western sanctions over Ukraine are widely expected to push Russia into recession in 2015. Global monetary conditions shifted, with the Federal Reserve bringing an end to Quantitative Easing, while the Bank of Japan and the European Central Bank announced further policy easing. Economists scaled back their forecasts for euro area growth and now expect the region to post growth of just 1.1% in 2015. The US economy continued to show resilience and activity is widely expected to accelerate in 2015.

UK GDP growth: Actual and forecast (% YoY)



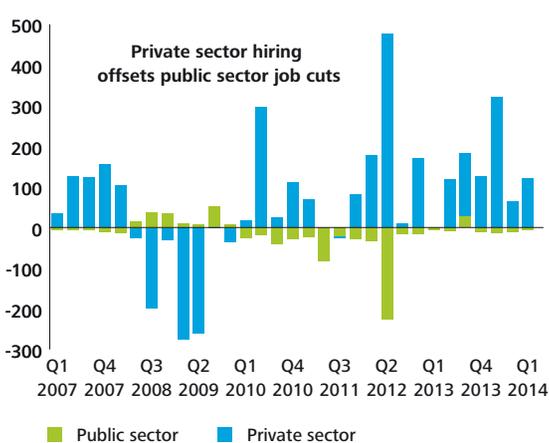
Source: ONS, consensus forecasts from *The Economist* and Deloitte calculations

FTSE 100 price index



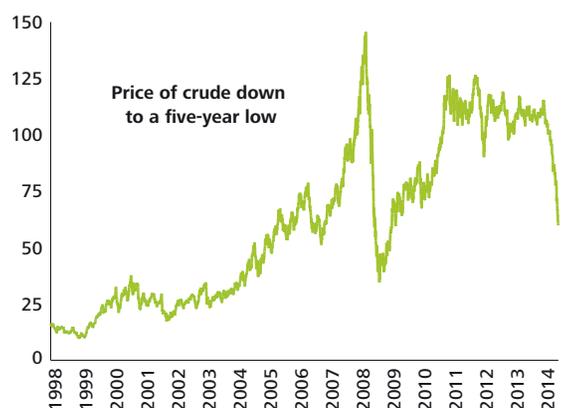
Source: Thomson Reuters Datastream

UK private and public sector job growth (thousands)



Source: Thomson Reuters Datastream

Brent crude oil price (\$/bbl)

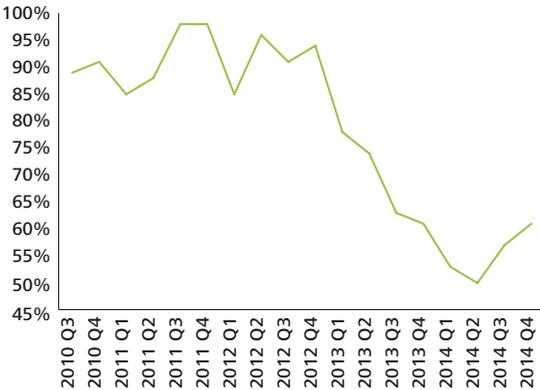


Source: Thomson Reuters Datastream

# Two-chart summary of key survey messages

### Uncertainty

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



### 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 30<sup>th</sup> quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2014 fourth quarter survey took place between 27<sup>th</sup> November and 15<sup>th</sup> December. 119 CFOs participated, including the CFOs of 32 FTSE 100 and 34 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies or UK subsidiaries of major companies listed overseas. The combined market value of the 77 UK-listed companies surveyed is £482 billion, or approximately 23% 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 Anthea Neagle on 020 7303 0116 or email [aneagle@deloitte.co.uk](mailto:aneagle@deloitte.co.uk).

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