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Global CFO Signals

Uncertainty returns with a vengeance

Q4 2018 Deloitte CFO Surveys

Australia, Belgium, Central Europe, Japan, North America, Russia, and United Kingdom

Deloitte Global CFO Signals
February 2019

Contents

About the Deloitte Global CFO Program

The DTTL ("Deloitte Global") Global Chief Financial Officer (CFO) Program is a CFO-centric strategic offering that brings together a multidisciplinary team of senior Deloitte member firm partners and experienced professionals to help CFOs effectively address the different challenges and demands they experience in their role. Deloitte Global's CFO Program and network of Deloitte member firms harness the breadth of Deloitte member firms' capabilities to deliver forward-thinking perspectives and fresh insights to help CFOs manage the complexities of their role, drive more value in their organization, and adapt to the changing strategic shifts in the market.

About Deloitte CFO Surveys

Twenty-three Deloitte CFO Surveys, covering more than 65 countries, are conducted on a quarterly, biannual, or annual basis. The surveys conducted are "pulse surveys" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. They are not, nor are they intended to be, scientific in any way, including the number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed populations but does not necessarily indicate economic or industrywide perceptions or trends. Further, the focus, timing, and respondent group for each survey may vary. Please refer to "About Deloitte Member Firms' CFO Surveys" (page 14) for contacts and information on the scope and survey demographics for each survey.

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About the Deloitte Global CFO Signals

The purpose of Deloitte Global CFO Signals report is to provide highlights of recent CFO survey results from Deloitte member firms. This issue includes the results of the fourth-quarter 2018 CFO surveys from Deloitte member firms in the following geographies:

Australia: It's now a glass half empty
Belgium: Fasten seatbelts
Central Europe: Outlook optimistic, but is confidence past its peak?
Japan: Global economic environment causes concern
North America*: Tariff and gridlock expectations stoke recession fears
Russia: Worries over demand and stagnation suppress optimism
United Kingdom: Cost is king

*All numbers in the North American survey with asterisks are averages that have been adjusted to eliminate the effects of stark outliers

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Global CFO Signals

CFO Sentiment Q4 2018

Uncertainty returns with a vengeance

As they closed out 2018, CFOs around the world were greeted by two old "friends:" uncertainty and ambiguity. And that double whammy resulted in mixed—and increasingly downward—trends in the Q4 2018 edition of *Global CFO Signals*.

Just consider some of the overhangs many of the CFOs in the seven surveys included in this round-up (representing the views of finance chiefs in 25 countries) faced as they headed into the new year:

- For UK CFOs, the uncertainty caused by the non-resolution of Brexit drove a marked shift toward defensive balance sheet strategies;
- In North America, lack of clarity over US trade policy and what a split Congress means for the long term, sent CFO net optimism falling from +36 to just +3;
- Meanwhile, in Australia, the same US-China trade tensions along with a weaker global and domestic outlook led 42% of CFO respondents to factor a global economic slowdown into their strategic planning.

Add in equity market volatility, the continued spread of protectionist policies, and the ongoing slowdown of the Chinese economy, and it is little wonder that many CFOs voiced declining outlooks. In Belgium, for example, all the key indicators turned red, with optimism reaching its lowest level since 2013. In Russia, the fear of economic stagnation, among others, drove net optimism from +27 six months ago to -6. And even in Central Europe, where optimism remains mostly positive across the 17 countries reporting, expectations for the region's businesses and economies have slightly declined, which may be an early indication that sentiment is set to change.

"CFOs have been facing a cacophony of global question marks lately," says Greg Dickinson, managing director, Deloitte LP (US), who leads the North American *CFO Signals*™ report, noting that "this quarter, you can add demand to the list." In fact, in the Q4 survey, he says, while about half of CFOs expect strong consumer spending in 2019 (similar to last year), just 32% expect strong business spending (about half of last year's level).

Together, the above factors have amplified perceptions of uncertainty. In Australia, for example, net uncertainty has been steadily rising since the end of 2017, when just 50% of survey respondents rated the general level of external financial and economic uncertainty above normal. That figure has risen to 66% in the final half of 2018. Among Belgian CFOs, 53% now rate uncertainty as high, up from 25% last quarter. And in the UK, the understandable worries about the fate of the Brexit deal, led 58% of CFOs to rank uncertainty as high or very high—the highest reading since mid-2016.

Of course, CFOs are no strangers to uncertainty. The global financial crisis and the European debt crisis are just two examples of times when they managed through volatile environments. What's different this time, says Michela Coppola, who leads Deloitte's European CFO Survey, is that "companies are not sure countries will always work together on issues." Agrees Patricia Buckley, managing director, Economic Policy and Analysis, Deloitte Services LP (US), "Previously, parties could have been counted on to cooperate on issues if global growth depended on it. Now countries are behaving in a much more parochial manner."

How all these factors may impact global growth remains to be seen. In the meantime, here is a synopsis of CFO sentiment by region in Q4 2018:

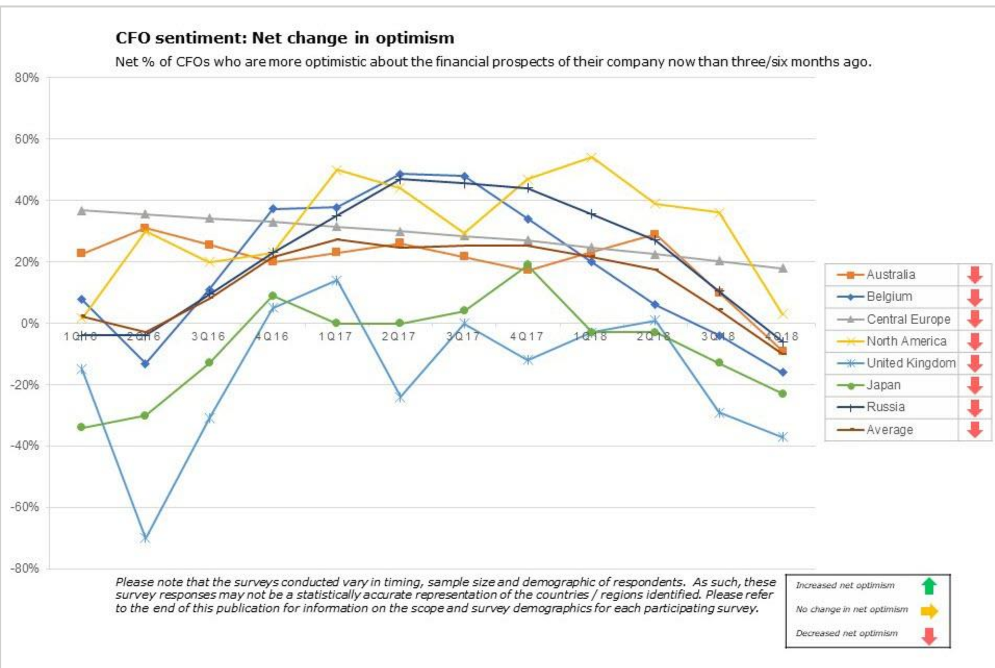
Americas

Amid continued trade tensions and political wrangling, CFOs in North America remained positive, albeit less so. Regarding their companies' prospects in the fourth quarter, 26% expressed rising optimism (down from 48% in Q3 2018), and 23% cited declining optimism (up from 12%). Still the caution signs are clear. For example, the proportion of CFOs expecting the North American economy to be better in a year fell to just 28%, continuing quarterly declines from a high of 59% in Q1

2018. Assessments of the Chinese and European economies also fell. In addition, just 27% of CFOs expect the US economy to improve in 2019 (half the level going into 2018), while only 22% expect the Canadian economy to improve in 2019, and only 18% say the same for Mexico. Compounding matters, says Dickinson, “CFOs are voicing very strong doubts about Washington’s ability to make good, timely legislative decisions—especially in response to a major economic downturn.”

Asia-Pacific

In the Asia-Pacific region, caution also reigned. In Japan, for example, only 15% of surveyed CFOs indicated that they were “more optimistic” about their companies’ financial prospects, slightly up from 12% last quarter. But the number of pessimists jumped from 25% in Q3 2018 to 38% now. CFOs also reported dampened expectations for earnings and operating profits, mostly driven by fears associated with the economic slowdown in China and other global risks. Meanwhile, in Australia, the number of CFOs feeling less optimistic about the financial prospects of their companies now outnumber those who feel more optimistic. That is the weakest result since the end of 2011, with net optimism regarding change in financial prospects falling to -8 from +29 in the first half of 2018. “The fall in optimism comes at a time when CFOs are concerned that the global environment is hurting their business prospects,” says David Rumbens, partner, Deloitte Access Economics (Deloitte Australia). “And given that weaker optimism, it is unsurprising that the majority of CFOs believe now is not a good time to be taking on risk.”



Europe

Finally, in the European countries reporting, events at home and abroad are fueling retrenchment. In the UK, for example, 78% of CFOs believe Brexit will lead to a deterioration in the business environment. This sentiment is leading CFOs to emphasize defensive strategies, with cost reduction as their top priority and increasing cash flow not far behind. Says Debapratim De, senior economist, Deloitte UK, “CFOs seem to be preparing for the worst. They have a sharper focus on cost reduction now than at any time since we started asking them about their preferred strategies—nine years ago.” Meanwhile in Russia, concerns about stagnation are joined by weaker domestic demand and the weakening of the ruble on CFOs’ list of top risks. Their response? Continuous cost control and cost cutting are their top two near-term strategies. In Belgium, cost control and efficiency also moved up on the list of CFOs’ business priorities (although organic growth still holds the top spot). And across Central Europe, where 35% of CFOs consider the level of uncertainty to be high and increasing costs are seen as a significant threat to businesses, finance chiefs are looking to manage operating expenses and restructure as their top strategic priorities moving into 2019.

Deloitte economists note that some of the current uncertainty will resolve itself in the near-term. For example, there will either be a Brexit deal—or there won’t. The current trade truce between the US and China is set to conclude in March. And the much-anticipated European Parliament elections have been set for late May. In this environment, says Coppola, “CFOs seem to be in a ‘wait and see’ mode, but one way or the other much of this may be resolved in the second half of the year.”

Global CFO Signals

By the numbers

Risk appetite

Risk appetites have, for the most part, retreated this quarter. In line with greater uncertainty and weaker optimism, 53% of Australian CFOs say now is not a good time to take greater risk onto the balance sheet. In Central Europe, an average of 73% agree with that assessment, with finance chiefs in the eurozone even more risk adverse at 77%. Meanwhile, risk appetite among Belgian CFOs has slowed (21%, down from almost 40%). And in the UK, risk appetite has dropped to its lowest level in more than nine years, as Brexit weighs heavily on investment decisions.

Uncertainty

Uncertainty comes in many forms—financial, economic, and political. Yet, all seem to be complicating CFOs' lives this quarter. In Belgium, 53% of CFOs rate the levels of uncertainty as above normal, up from 25% last quarter. In Russia, 67% of respondents also point to high uncertainty around the current economic and political situations, up from 49% six months ago. Similarly, in Japan, 69% of CFOs report a high level of uncertainty, up from 67% in Q3. Meanwhile, in Australia, net uncertainty has been steadily rising since the end of 2017, and sits at 66% in the final half of 2018.

Metrics

Business prospects are being negatively affected by uncertainty. In North America, expectations for sales, earnings, and capital spending declined and are at or below their two-year averages this quarter. In the UK, revenue expectations have dropped to their lowest level since the summer of 2016 and the outlooks for both capital spending and discretionary spending are at their lowest levels in more than two years. Japanese CFOs are also lowering their expectations for earnings and operating profit. Meanwhile, across Central Europe, most CFOs believe that revenues will be higher in 2019 (66%), but the share that holds this view has decreased since last year by seven percentage points.

Hiring

Shortages of skilled labor remain a top concern among CFOs worldwide. For CFOs in Belgium, scarce labor ranks as a top concern, with 82% reporting they are at least somewhat worried about their ability to attract and retain the talent they need. Similarly, in the UK, 42% of CFOs report that recruitment difficulties or skills shortages have increased in the last three months. Meanwhile North American CFOs remain in a hiring mode, citing hiring expectations of 3.2%, up from 2.7%. And in Russia, where more than half of CFOs expect their workforces to remain unchanged, 63% expect salaries to increase.

Corporate strategy

Strategies are mixed this quarter, with playing defense a strong priority. North American CFOs, for example, indicate a smaller bias toward growth over cost reduction (50% vs. 21%) this quarter and a lower bias toward investing cash over returning it (48% vs. 18%). But defensive strategies have a firm footing in the UK, with 56% of CFOs focused on cutting costs—the highest in nine years—and 47% reporting that increasing cash flow is a top priority. Across Central Europe, CFOs are looking to manage increasing operating expenses and restructuring as top strategies going into 2019. Still, despite declining optimism, CFOs in Belgium cite organic growth and digitization as two main business priorities.

Interest rates

What's in store for interest rates in 2019? In Australia, 95% of CFOs expect rates to stay the same or go up, while 41% of Russian CFOs believe the Bank of Russia's key interest rate will increase. Across North America, 58% of CFOs expect the US federal funds rate to rise above 2.5% during 2019. For UK CFOs, however, interest rate expectations have fallen back from the previous quarter, with 58% (down from 84%) of respondents expecting the Bank of England's base rate to be 1% or higher in a year's time.

Deloitte Member Firm CFO surveys:

Fourth-quarter 2018 highlights

Australia

It's now a glass half empty

Weaker global/local backdrop

A weaker domestic and global economic outlook weighed on Australian CFO sentiment in the final half of 2018. The US-China trade war and broader share market declines have emerged as major drivers of weaker confidence, and this is limiting risk appetite. This shift means CFOs are now looking to government to provide further economic support through investment activities.

The CFO outlook for Australia's economy has also become more subdued, with expectations of further house price declines. There are still some positives, with expectations of a stable dollar and share market recovery.

Overall, sentiment has shifted—from a glass half full on outlook and risk appetite, to more of a glass half empty.

Sentiment takes a hit

CFOs remained optimistic in late 2018 about their future prospects (66% net optimism), but confidence has dropped compared to earlier in 2018 (when net optimism was 73%). Much of this is due to rising uncertainty, with 66% of CFOs uncertain about the economic and financial environment facing their company, up considerably from earlier in 2018. Their optimism about their financial prospects compared with six months ago fell from a net +29 to a net -8.

Global concerns rise

CFOs feel the global environment is hurting prospects for their businesses, with the US, European, and Chinese economies all negatively impacting business confidence. The possibility of global economic slowdown has emerged at the forefront of CFO minds, with 42% considering this scenario when undertaking forward-looking strategic planning.

Rising trade tensions between China and the US pose multiple risks for CFOs, with 39% feeling they are negatively impacting their business, and 66% feeling they will negatively impact their business over the next four-year period. On a positive note, the trade war has so far played out slightly better than feared, as 56% of CFOs expected the trade war would negatively impact their business when asked earlier in 2018.

Preparing for disruption

Transformation remains the number one issue facing companies over the next year. Most CFOs (net 84%) feel that leveraging digital transformation is key to becoming a trusted advisor to their business and delivering real time, accurate financial reporting at a low cost.

As a consequence of ongoing digital transformation, CFOs are changing (47%) or expecting to change (42%) their talent strategies as their finance operations continue to change. Despite evolving finance team skills needs, CFOs are confident about meeting their recruitment targets over the next two years.

Highlights from the H1 2018 Australia CFO Survey:

- Net optimism about financial prospects compared with six months ago fell to -8 from +29 in H1 2018.
- A key driver of weaker domestic sentiment has been the downturn in the Australian share market, which has hurt the confidence of 47% of CFOs.
- CFOs feel greater government emphasis should be put on assisting the economy given the improved federal budget position – and 55% feel additional revenue should be invested in areas such as infrastructure and education.
- The possibility of global economic slowdown has emerged at the forefront of CFO minds, with 42% considering this scenario when undertaking forward-looking strategic planning.

Belgium

Fasten seatbelts

Business sentiment down again
There is little positive news to share in the 10th anniversary edition of the Belgium CFO Survey.

Whereas one year ago CFOs were quite optimistic about the financial prospects of their organizations and expected a continuation of the prosperous 2017 into 2018, the mood has reversed. All the survey's key indicators have turned red. While optimism indicators have gone down quarter after quarter in the past year, they are currently at their lowest level since 2013.

In addition, although expansionary strategies remain on top of the agenda for just over half of survey respondents, defensive strategies are most important for 45%, up from only 15% last year. And whereas investment plans had so far not been affected by the lower optimism, capital expenditure and headcount growth projections plunged in the last quarter.

Uncertainty has continued its advance. At the end of 2018, 53% of CFOs rate the levels of financial and economic uncertainty as above normal, up from 25%. Meanwhile, risk appetite has slowed down toward the end of the second quarter, with only 21% of CFOs still reporting that it is currently a good time to be taking greater risk onto the balance sheet.

Shortage of skilled labor
The shortage of skilled labor remains a top concern for CFOs, with 82% reporting they are at least somewhat concerned about their ability to attract and retain the talent they need.

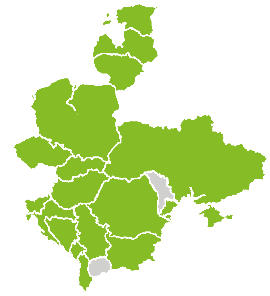
Still, more than half (55%) of CFOs still expect headcount to (further) increase over the next 12 months, with just 11% planning to decrease their labor force. This seems to reflect predictions from the European Commission that the Belgian unemployment rate will come in at 6.4% for 2018 and drop to 6.1% in 2019.

Eyes on policymaking
CFOs have in general been positive about the Michel I government sworn in at the end of 2014. The current political crisis, upcoming federal and regional elections, and ensuing government formations risk halting or reversing financial and economic policy reform.

CFOs continue to list labor market and taxation policy as most important for the long-term success of businesses in Belgium. On average, CFOs report a -11% net-appreciation of current labor market policy. Opinions are balanced on taxation policy, with 39% of survey respondents expressing a positive view compared to 39% expressing a negative view.

Environment and climate policy is set to shape the Belgian political landscape in 2019. Balancing growth and sustainability will be a challenging, but necessary duty for corporations and policy makers.

- **Highlights from the Q4 2018 Belgium CFO Survey:**
- CFOs' net optimism declined again and is now down to -16.
- Some 53% of CFOs say that the levels of financial and economic uncertainty are high or very high.
- Shortage of skilled labor is still one of the biggest concern for CFOs.
- CFOs' expectations for key metrics declined across the board. Seventy-one percent of CFOs expect increases in revenues, for example, down from 76% last quarter; 37% now expect operating margins to increase, down from 51%.
- More than half of CFOs still expect headcount to increase over the next 12 months.



Central Europe

Outlook optimistic, but is confidence past its peak?

Optimistic for now

The 10th Deloitte Central Europe CFO report contains surveys from 17 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine.

Broadly speaking, expectations around the outlook for the region's businesses and economies are largely in line with those from 2018, but with a slight decrease in optimism. This in turn has driven a decline in the CFO Confidence Index, from 23% in 2018 to 16%, which maybe an early indication that sentiment is set to change.

Declining GDP expectations

Confidence in GDP growth has faltered a bit, with the average expectation coming in at 2.3% in 2019, 0.1% less than in 2018. This change is not large, but it is the first time since 2016 that CFOs have not been expecting a higher value than that from the previous year. Average predictions range from at least 2.6% in Latvia (61%) and Kosovo (58%) to less than 1.6% in Poland (51%).

In addition, the majority of CFOs still expect Consumer Price Index inflation to increase, but their share has slightly diminished since last year from 85% to 82%. This situation is mostly influenced by respondents from non-EU countries, especially from Montenegro (where only 29% expect a rise) and Serbia (49%).

Business expectations

When it comes to financial prospects, CFOs are more pessimistic compared with six months ago than they were in the previous survey. Net optimism, in fact, fell from +27 to +18.

As for metrics, CFOs' optimism about revenues remains positive, with 66% expecting increases. A decreasing tendency is visible in most industries, with Manufacturing experiencing the biggest fall in net balance (from 66% in 2018 to 40% in 2019). Meanwhile, the largest share of CFOs (44%) expect capital expenditures to stay at the same level as in 2018. However, the share of respondents who expect an increase fell from 42% in 2018 to 40% in 2019. Nearly more than a third (37%) of CFOs expect their workforces to expand in 2019.

While there has not been a major shift in perceived levels of uncertainty, there is an increased tendency toward pessimism. The share of respondents who believe there is a high level of uncertainty has increased from 31% in 2018 to 35% in 2019, and the share of those who believe it will be low fell from 12% to 11%. CFOs in Romania, Albania, and Kosovo have the most pessimistic attitudes, while Hungarian CFOs are the most optimistic.

The majority of CFOs (73% up from 69%) do not think 2019 will be a good time for companies to take on more risk.

Highlights from the 2019 Central Europe CFO Survey:

- CFOs in Central Europe expect GDP growth in 2019 to average 2.3%, which is 0.1% less than in 2018.
- Almost three-quarters (73%) believe now is not a good time for companies to take on more risk.
- While 66% of CFOs believe that revenues in 2019 will be higher than last year, this is a seven percentage point decrease since last year.
- The largest share of CFOs (41%) expects no change in unemployment levels in 2019, but the share of those who expect an increase grew from 13% in 2018 to 21% in 2019.
- Appropriate technical knowledge (57%) and work experience (55%) are the two skills that are hardest for companies to find.

Japan

Global economic environment causes concern

CFOs turn pessimistic

Japanese CFOs' outlook on economic conditions dampened in Q4 2018. While 15% reported being "more" or "somewhat" optimistic (up from 12% in Q3), those who felt "somewhat pessimistic" grew sharply to 38% (up from 25%).

A laundry list of global uncertainties have likely put Japanese CFOs on edge in Q4: the Chinese economic slowdown and the muddied direction of the US/China trade negotiations, a newly established Democratic majority in the US House, a rising likelihood of a no-deal Brexit, and the sharp drop in stock prices at the end of 2018 have all contributed to the general pessimistic outlook. The Chinese economic slowdown is particularly worrisome for Japan as this is likely to have a major impact on Japanese corporate earnings.

Dampened earnings expectations

Japanese CFOs who expected "large" or "somewhat large" earnings growth fell sharply to 38% in Q4 (down from 67% in Q3). Expectations for operating profits similarly dipped, with CFOs expecting "large" or "somewhat large" growth dropped to 35% in Q4 from 54% in Q3. In addition, CFOs who gave multiple or even no answers grew over the last two quarters and now sits at 25%.

Putting this into a larger context, the Chinese economic slowdown was given as major cause of depressed earnings by US companies' January earnings announcements. As we head into 2019, it is not just China that is slowing, the pace of growth in the entire global economy will likely slow. Adding in economic and political flash points, such as a no-deal Brexit, trade friction, rising populism in Europe, or disorder in the US, and there is little wonder that Japanese CFOs are more pessimistic about the outlook for their own corporate earnings.

A slowing China slows the world

Japanese CFOs reporting "very high" or "high" levels of uncertainty in the business environment rose in Q4 to 69% (up from 67% in Q3). China took the top two spots in a list of global risk factors (Chinese economic slowdown, 84%; US/China trade war, 81%) while a return to deflation (72%, up from 7th place), trade negotiations between Japan and the US (69%), and the impact of the October 2019 consumption tax hike (63%) were top concerns domestically.

Compared with Q3 2018, when domestic issues, such as work-style reform and a tight labor market rated highly as risk factors, there has been a distinct shift toward concern for the economic environment more generally. It is likely that Japanese CFOs will be very concerned about the impacts of global economic developments on Japanese corporate earnings as we head into 2019.

Highlights from the Q4 2018 Japan CFO Survey:

- Pessimism rose among Japanese CFOs in Q4 2018, with 38% reporting feeling "less optimistic" about financial prospects, up from 25% in Q3.
- CFOs expecting "large" or "somewhat large" earnings grown fell from 67% in Q3 to 38%; operating profit expectations also fell (54% to 35%).
- The impacts of the Chinese economic slowdown and other major global insecurities have become major areas of concern for Japanese CFOs.

North America

Tariff and gridlock expectations stoke recession fears

Election overhang?

Similar to Q4 2016, this quarter's findings show that North American CFOs' views are heavily influenced by their perceptions of election outcomes. After the 2016 elections, CFOs' already-positive sentiment carried over to the post-election period. Citing optimism about the prospects for lower taxes, lower health care costs, and less regulation, CFOs were bullish on the North American economy, and US CFOs indicated their highest own-company optimism in two years.

Much has happened since then: taxes and regulation have been reduced, interest rates and government spending have risen, and trade policy has shifted. Meanwhile, the last two years have seen strong economic growth, soaring stock markets, and record-low unemployment—and strong optimism among CFOs.

But despite strong economic performance, CFOs have recently begun to voice doubts about future global economic growth—fueled by worries about geopolitics, US political turmoil, and trade policy.

Declining expectations for economic growth

In fact, this quarter, the proportion of CFOs expecting the North American economy to be better in a year fell to just 28%, continuing quarterly declines from a high of 59% in Q1 2018. Assessments of the Chinese and European economies have also declined.

Expectations within North America show weakness as well. Just 27% of CFOs expect the US economy to improve in 2019 (half the level going into 2018), and 55% say they expect a US recession by the end of 2020. Only 22% expect the Canadian economy to improve in 2019, and only 18% say the same for Mexico.

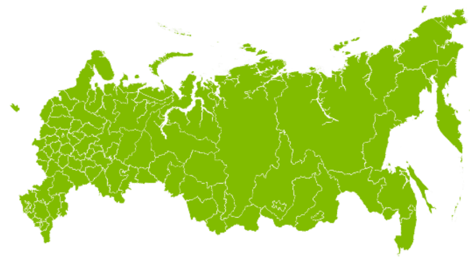
Behind these expectations are concerns about demand. About half of CFOs expect strong consumer spending in 2019 (similar to last year), but just 32% expect strong business spending (about half of last year's level). Concurrently, CFOs' outlooks declined, with net optimism falling to just +3—its lowest level in nearly three years, and well off its +54 peak in Q1 2018. Sales, earnings, and capital spending growth expectations all declined to at or below their two-year averages.

Trade and political worries

Concerns about US trade policy and gridlock appear to be strong contributors to CFOs' sagging expectations. Two-thirds of CFOs expect the US to impose new trade restrictions on China, but only 8% expect US-China policy to become more favorable for their company. Nearly 75% believe the NAFTA replacement will get passed, but only 19% expect favorable impacts. Overall, about 40% of CFOs expect tariffs to substantially elevate their input prices, and only 6% expect them to elevate demand for their offerings. And with US midterm elections yielding a split Congress, CFOs voice even stronger concerns about legislative gridlock—especially in the event of a recession.

Highlights from the Q4 2018 North America CFO Survey:

- This quarter's net optimism declined to +3 (from +36), while 26% of CFOs expressed rising optimism (down from 48%), and 23% cited declining optimism (up from 12%).
- Perceptions of North America declined, with 88% of CFOs rating current conditions as good (down from 89% last quarter), and 28% expecting better conditions in a year (down from 45%, and a five-year low). Some 65% of CFOs say US equities are overvalued—down from 71% last quarter.
- Growth expectations for revenue (5.5%), earnings (7.3%), and capital expenditure (5.0%) all declined this quarter; hiring rose from 2.7% to 3.2%, matching its survey high.
- CFOs indicate a smaller bias toward growth over cost reduction (50% vs. 21%) and a lower bias toward investing cash over returning it (48% vs. 18%).



Russia

Worries over demand and stagnation suppress optimism

Turning pessimistic

Overall, expectations concerning financial prospects among Russia's CFOs have become more pessimistic in the second half of 2018. Some 37% of CFOs (up from 9%) now say that they are not optimistic about their prospects compared with six months ago. Among CFOs of manufacturing companies, however, the share of pessimists reached 50%. CFOs of small companies (less than RUB 5 million in revenue; less than 100 people) were also higher than the average.

Behind that decrease in optimism may be the rise in certain risk factors. CFOs see their top risk as a decrease in domestic demand, which is undoubtedly related to recent events, such as the VAT rate hike, a pension age increase, trade embargo, and their possible impact on consumers. Stagnation in the Russian economy is seen as the second biggest risk, and the weakening of the ruble reappeared third on the list of key risks that are of major concerns.

Profits and labor expectations

In line with their more pessimistic outlooks, there has been in increase in the number of CFOs who expect both corporate revenue and operating profit to decrease in H2 2018. This survey, some 17% of CFOs expect revenue decreases, up from 11%, and 23% expect operating profit to be down, up from 16%. Manufacturing CFOs tend to expect a growth in revenue more often than others (by 9 percentage points). On the other hand, they expect a decrease in operating profit more often than the rest (10 percentage points above the average).

In this quarter's survey, more than half of participants (56%) do not expect significant changes in the number of staff. Two-thirds of CFOs (63%) expect salaries to grow. However, that share has decreased by 10 percentage points in the past six months.

Popular strategies remain steady

Based on the results of surveys held since 2015, the opinions of Russian CFOs regarding the most attractive strategies have changed only slightly. According to 71% of respondents (down from 80%), continuous cost control remains the most attractive strategy, with organic growth strategy second at 62% and cost-cutting second at 63%, and organic growth strategy coming in third.

Uncertainty climbs again

Perceptions of uncertainty rose again among Russian CFOs. Now some 67% of CFOs view the level of political and economic uncertainty as high, up from 49% six months ago. The higher level of uncertainty appears to have again had an impact on risk appetite, as 78% of CFOs say now is not the right time to take on greater risk, up slightly from 75% six months ago.

Internal financing remains attractive

The list of attractive sources of financing has not changed since early 2017. The internal sources of financing remain the most attractive, followed by borrowing from Russian banks

Highlights from the H2 2018 Russia CFO Survey:

- The percent of Russian CFOs who feel optimism toward their companies' financial prospects fell again from 36% of respondents to 31%.
- The majority of CFOs (69%) do not expect cost of capital to change significantly in the next six months.
- More than half (56%) of respondents do not anticipate significant changes in the number of employees in their companies.
- Risk appetite decreased again, with 78% of CFOs saying now is not the right time to take on more risk.

United Kingdom

Cost is king

Brexit casts a long shadow

The fourth quarter survey of CFOs reveals that uncertainty over Brexit is driving a marked shift toward defensive balance sheet strategies among British businesses. With the UK's growth prospects heavily dependent on the so far uncertain nature of its exit from the EU, corporations are cutting back on plans for capital expenditure and hiring. Cost reduction is the top priority for CFOs, who are placing a greater emphasis on it now than at any time in the last nine years.

CFOs continue to be pessimistic about the long-term effects of Brexit, with more than three-quarters expecting it to lead to a deterioration in the business environment. They rate Brexit as the biggest threat to their businesses by far, followed by greater US protectionism and weak demand in the UK. But domestic risks seem to be the dominant concern. Despite slowing global growth leading to a weaker external environment, CFOs rate emerging market and euro area weakness among the bottom three risks to their businesses.

Uncertainty over the timing and nature of the UK's departure from the EU has hit corporate risk appetite, which is down to its lowest level in more than nine years. CFO expectations for revenue and margin growth have also hit multi-year lows.

Access to cash tightens

After a long period of easy access to cheap credit, funding conditions have begun to tighten for the large corporates on our survey panel. CFOs report that the cost of credit for their businesses has risen to its highest level in almost six years and availability has dropped to a two-year low. Rising interest rates have also brought a renewed focus on corporate leverage. For the first time in eight years, a net balance of CFOs rate UK corporate balance sheets as overleveraged.

The survey reveals a divergence of opinion between economists and CFOs on the likely nature of Brexit. The latest consensus growth forecasts suggest that economists expect a transition deal. But CFOs are positioned for the hardest of Brexits, with risk appetite at recessionary levels and an intense focus on cost control. Businesses seem to be increasingly pricing in a worst-case outcome. Anything better, including a delay or a deal, could deliver a Brexit bounce in sentiment.

Highlights from the Q4 2018 UK CFO Survey:

- More than three-quarters of UK CFOs (78%) expect Brexit to lead to a deterioration in the overall environment for business in the long term.
- Brexit tops CFOs' list of most worrisome concerns, followed by greater US protectionism and weaker UK demand.
- Revenue expectations among CFOs have dipped to their lowest level since the EU referendum in 2016.
- CFOs are placing greater emphasis on defensive strategies, such as reducing costs, which is their top priority at 56%, and increasing cash flow, their second highest priority at 47%.
- Some 58% of UK CFOs rate the current level of uncertainty as high or very high, the highest reading since the summer of 2016.

Deloitte Member Firm CFO Surveys

About Deloitte's CFO Surveys

Twenty-three Deloitte CFO Surveys, covering more than 65 countries, are conducted by Deloitte member firms on a quarterly, biannual, or annual basis. The objective of these surveys is to collect CFOs' opinions on a range of areas, including economic outlook, financial markets, business trends, their organizations, and CFO careers. The focus and timing of each survey varies.

The following summarizes the survey scope and population of the participating surveys for this quarter. Individual CFO surveys can be accessed at **www.deloitte.com/cfoconnect**.

Member firm	Contacts	Frequency	Survey scope and population
Australia	**Stephen Gustafson** CFO Program Leader Partner—Assurance and Advisory +61 2 9322 7325 sgustafson@deloitte.com.au	Biannual	Conducted between December 3, 2018 and December 17, 2018; senior financial executives at major Australian companies took part.
Belgium	**Thierry Van Schoubroeck** Partner, Finance Transformation + 32 2 749 56 04 tvanschoubroeck@deloitte.com	Quarterly	Conducted between December 21,2018 and January 16, 2019; a total number of 76 CFOs completed the survey.
Central Europe *(Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Serbia, Slovakia, Slovenia, and Ukraine)*	**Gavin Flook** Partner, CFO Program Leader +420 234 078 930 gflook@deloitteCE.com	Annual	Conducted between September and November 2018; 647 CFOs and other finance executives responded, representing 17 countries and a wide range of companies and industries.
Japan	**Yasushi Nobukuni** Partner +81 80 3367 2790 ynobukuni@tohmatsu.co.jp	Quarterly	Conducted between December 19, 2018 and January 17, 2019; 32 respondents participated, representing companies across a variety of industries, including listed and/or relevant private companies with major growth prospects.
North America *(United States, Canada, Mexico)*	**Greg Dickinson** N.A. CFO Survey Director +1 213 553 1030 gdickinson@deloitte.com	Quarterly	Conducted between November 7, 2018 and November 20, 2018; 147 CFOs participated from across the United States, Canada, and Mexico. Seventy-four percent of respondents represented CFOs from public companies, and 80% were from companies with more than $1 billion in annual revenue.
Russia	**Lora Nakoryakova, Ph.D.** Research Center Leader, Deloitte & Touche CIS +7 (495) 787 06 00 (x2299) lnakoryakova@deloitte.ru	Biannual	Conducted in fall 2018; 80 CFOs participated representing multiple industries.

Member firm	Contacts	Frequency	Survey scope and population
United Kingdom	**Ian Stewart** Chief Economist +44 020 7007 9386 istewart@deloitte.co.uk	Quarterly	Conducted between January 8, 2019 and January 24, 2019; 110 CFOs participated, including CFOs of 20 FTSE 100 and 41 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies, and UK subsidiaries of companies listed overseas. The combined market value of the 75 UK-listed companies surveyed is £390 billion.