

Deloitte CFO Survey Q4 2023

A positive start to 2024

The UK's largest businesses enter 2024 in a positive mood. The latest Deloitte CFO Survey, conducted between 28 November and 12 December, shows sentiment among the Chief Financial Officers of large UK firms rising for the second consecutive quarter and running at well above average levels. On balance CFOs are optimistic about an improvement in their own companies' prospects in 2024. Corporate risk appetite, though subdued relative to long term measures, has risen to an 18-month high.

These findings may seem at odds with recent economic news, particularly a contraction in third quarter GDP and forecasts of sluggish UK growth in 2024.

Part of the explanation is that inflation and rate worries that have dominated the CFO Survey for much of the last two year have eased since our last survey in September.

Inflation and high interest rates have dropped down CFOs' list of worries and respondents expect price and wage pressures to soften over the next two years. Moreover, while the pace of UK GDP growth softened through 2023, activity proved more resilient than expected, with unemployment at low levels, corporate profitability holding up and an absence of stress in financial markets. Unlike in 2008-09, the financial system is operating, and larger corporates can access debt, albeit at higher rates.

Scale also matters. The large corporates represented in the survey panel are generally better able to manage periods of stress than smaller and medium sized businesses (SMEs). Large corporates tend to have stronger balance sheets, more diversified sources of income and are less vulnerable to tightening credit conditions than SMEs.

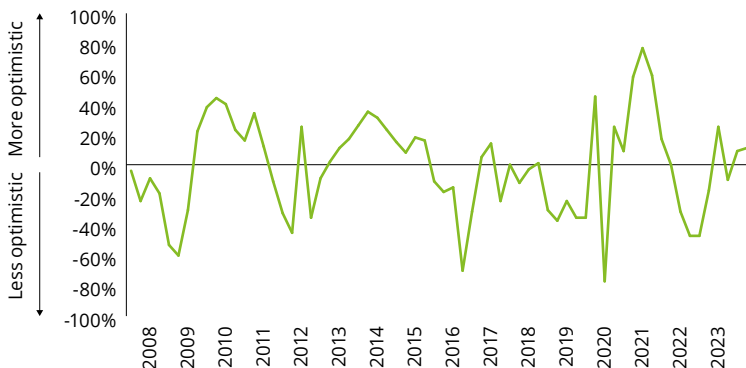
Nonetheless, CFOs continue to see significant near-term risks. Perceptions of external financial and economic uncertainty have risen, and are running at above-average levels. CFOs think geopolitics poses the greatest external risk to their own businesses over the next 12 months. Crucially, CFOs foresee growth ahead – but not imminently. Corporates are focussed on cutting costs and building up cash rather than hiring, capital spending or M&A.

Three powerful long-term themes emerge from this quarter's survey. First, CFOs expect labour costs to remain elevated in the long term, something which helps explain why CFOs also expect to see sustained businesses investment in new technology. Second, CFOs expect short rates to average 3.5% over the next 5 years, far higher than the average of 0.5% that prevailed between 2009 and 2022. Third, CFOs believe that we are in an era of big government which will be associated with rising levels of regulation and taxation.

CFOs start 2024 in a positive mood, albeit one tempered by high levels of uncertainty and concerns around geopolitics and poor UK productivity. Most economists expect GDP growth to pick up from around the middle of 2024. CFOs foresee better times ahead, but based on their defensive balance sheet stance, not yet.

Chart 1. Business optimism

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

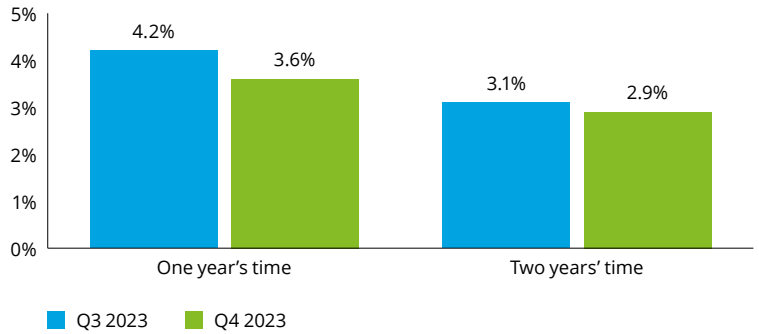


Inflation expectations ease

CFOs expect a slow decline in inflation over the next two years, with it remaining above the Bank of England’s 2% target over the period. Their inflation expectations have eased in the last three months but remain above forecasts by independent analysts.

Chart 2. Inflation expectations

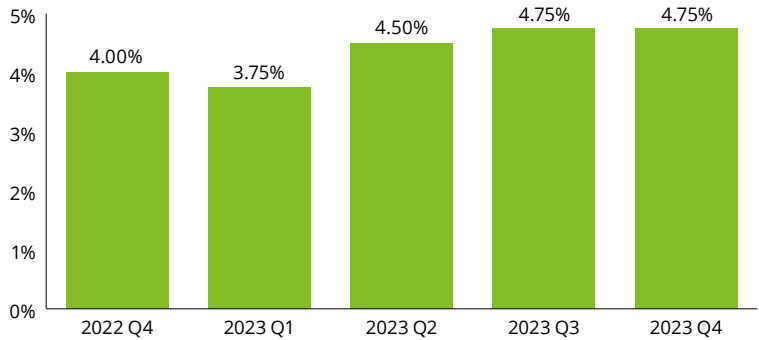
CFOs’ median expectations for inflation in one year’s time and two years’ time



CFOs see the Bank of England’s base rate falling from its current level of 5.25% to 4.75% in a year’s time. This is above market expectations, which have fallen in recent weeks and at the time of writing imply a base rate of 3.8% in a year’s time.

Chart 3. Interest rate expectations

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

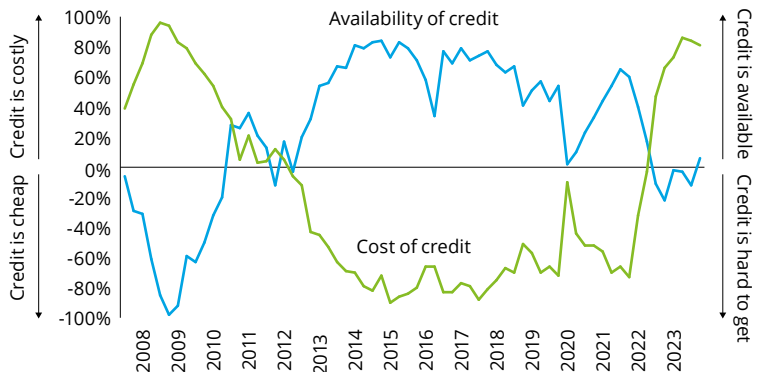


This quarter we also asked CFOs a question about their medium-term rate expectations. On average, they expect interest rates to average 3.5% over the next five years.

On balance, finance leaders of the large corporates represented in our panel report that credit is expensive but available.

Chart 4. Cost and availability of credit

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

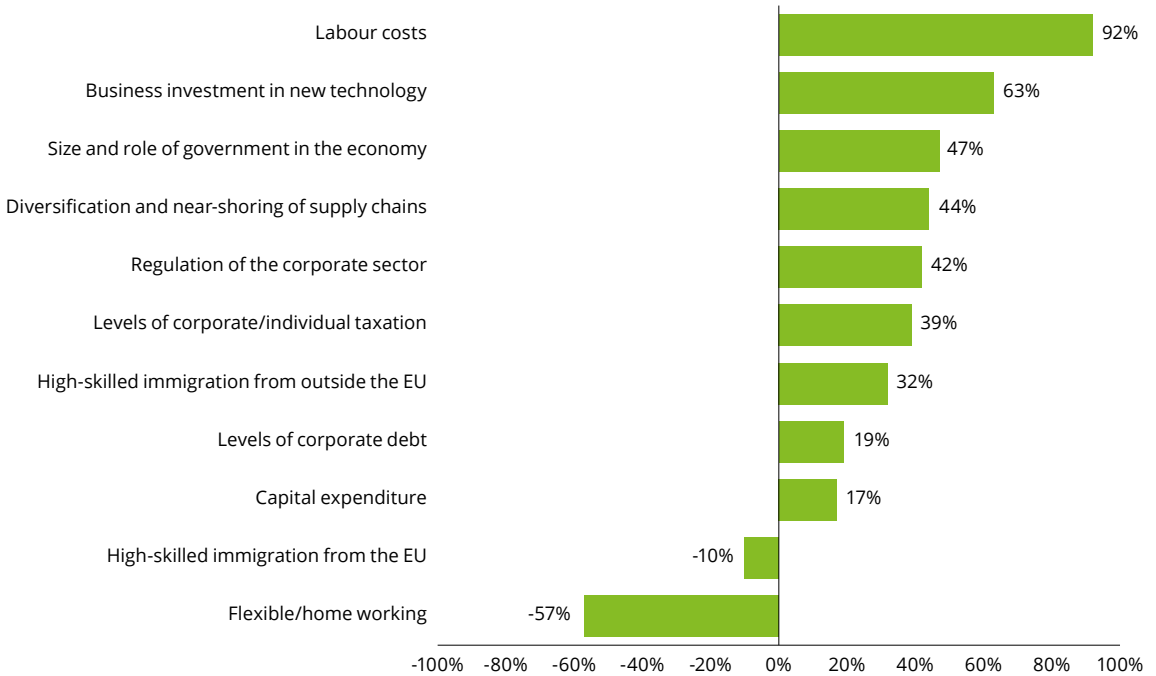


CFOs continue to rate the cost of credit at near its highest level since the financial crisis. The availability of credit has improved slightly.

Long-term changes to the business environment

Chart 5. Long-term change

Net % of CFOs who expect an increase in the following over the long term compared to 2023



When asked about their expectations for the external and business environment in the long term, CFOs report that the most likely change relative to 2023 is increased labour costs, with a net 93% of CFOs expecting them to rise. They expect a structural shift in the supply of labour from outside the UK, with a long-term decrease in high-skilled immigration from the EU and a rise in high-skilled immigration from elsewhere.

The expectation of higher labour costs helps to explain why CFOs anticipate sustained investment in new technology, with a net 63% expecting higher investment in the long term.

CFOs also anticipate a greater role for the state in the economy, with higher levels of taxation and regulation.

Perhaps reflecting the risk from heightened geopolitical issues, a net 44% of CFOs expect greater diversification and near-shoring of supply chains.

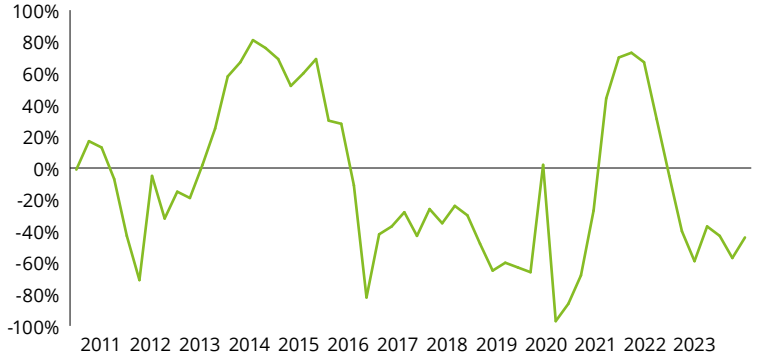
Levels of flexible or home working look to have peaked, with a net 57% of CFOs expecting a decline over the long term.

Jobs market slowing but wage pressures continue

CFOs, on balance, expect hiring at UK corporates to fall over the next 12 months.

Chart 6. Outlook for corporate hiring

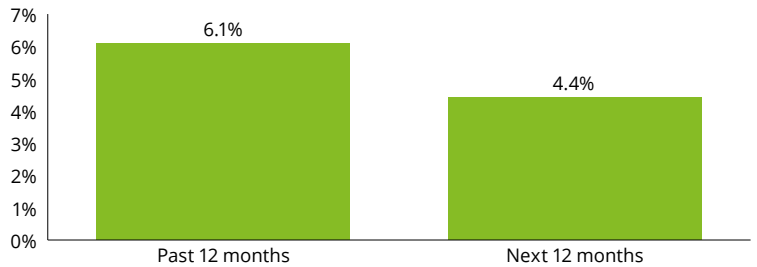
Net % of CFOs who expect UK corporates' hiring to increase over the next 12 months



CFOs expect wage growth in their businesses to slow over the next 12 months, but to 4.4%, which is well above pre-pandemic averages.

Chart 7. Wage expectations

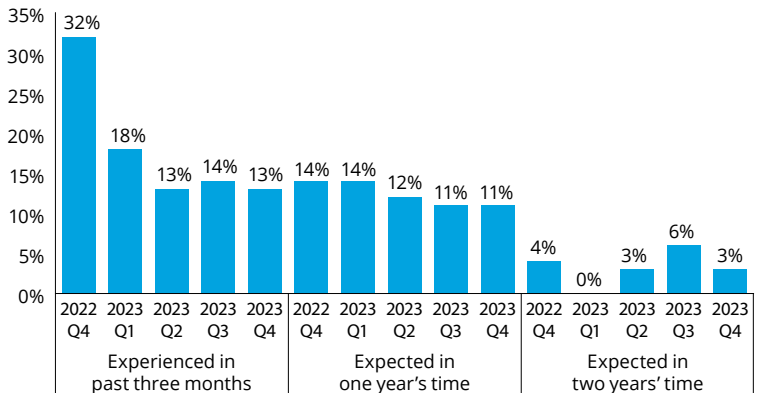
CFOs' median reported increase in average wages in their business over the past 12 months and their expectation for the next 12 months



Recruitment difficulties or labour shortages have eased significantly from a year ago, but haven't changed much over the fourth quarter. CFOs anticipate a similar environment one year from now, before an easing in two years' time.

Chart 8. Recruitment difficulties and labour shortages

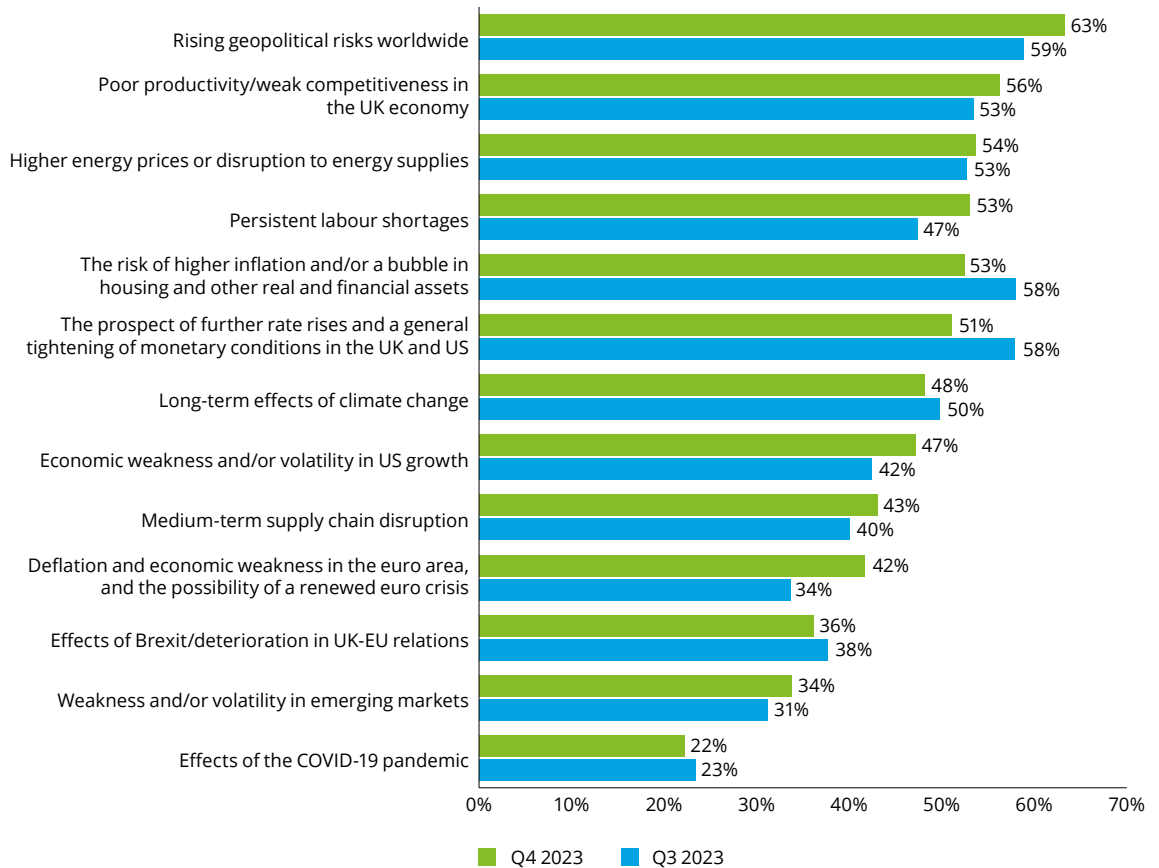
% of CFOs who report significant or severe levels of recruitment difficulties or labour shortages experienced by their business over the last three months and those expecting similar levels of disruption in one year's and two years' time



Geopolitics tops risk list, inflation concerns moderate

Chart 9. 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 remains on top of CFOs' worry list. CFOs report a rise in the risk to business posed by global geopolitics, likely due to the conflict in the Middle East.

There is also increased anxiety about poor productivity/weak competitiveness in the UK economy, which is now in second place and, further down the list there is a noteworthy deterioration in sentiment around euro area weakness.

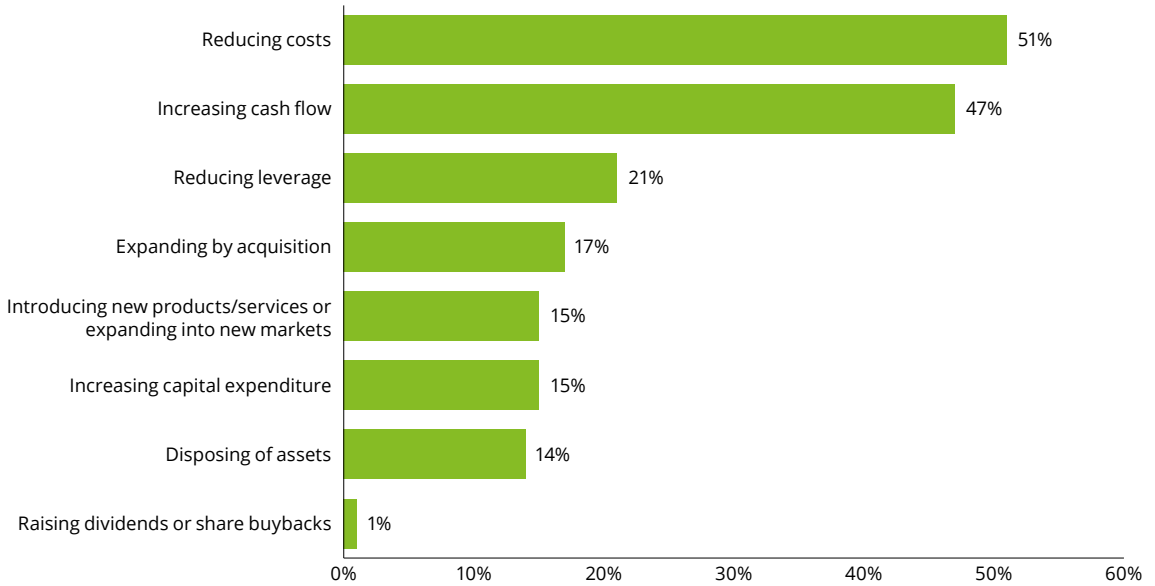
Higher energy prices or disruption to supply is seen as the third biggest risk but the risk-rating assigned by panellists remains well below the levels seen in the second half of last year. Concerns about labour shortages have ticked up, having fallen in the previous two quarters, and are now in fourth spot.

More positively, sentiment on the threat of higher inflation and the prospect of further interest rate rises has improved, consistent with price pressures easing faster than expected in recent months.

CFOs maintain 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



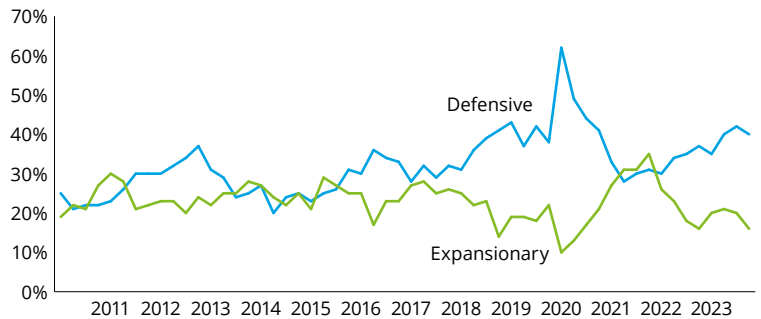
Defensive strategies such as cost reduction, increasing cash flow and reducing leverage remain the top priorities for CFOs.

CFOs' strategies remain defensive, on balance, despite a slight easing in defensiveness in this quarter's survey. The move was largely due to a softer focus on reducing leverage, in line with the recent decline in market interest rate expectations.

A sharp fall in the priority assigned to introducing new products/services or entering new markets drove the further downward movement on expansionary strategies.

Chart 11. 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



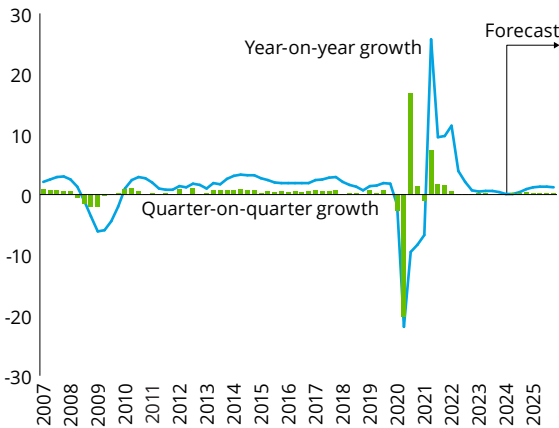
* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q4 2023

Economic growth slowed further across advanced economies in the fourth quarter as the impact of higher interest rates continued to feed through, with stagnation or minor contractions in the UK and Europe likely, while the US remained a bright spot. Though growth was weak, economic activity held up better than expected considering the scale of monetary tightening, driven by consumer spending which was supported by robust labour markets and savings accumulated during the pandemic. Nevertheless, signs of economic stress, including unemployment, insolvencies and arrears picked up. Inflation declined more rapidly than anticipated over the period, due to softening energy prices. This easing of price pressures prompted central banks to halt their rate hiking cycles, which have driven interest rates to their highest level since the Global Financial Crisis. Financial market expectations for future interest rates fell considerably, with cuts now expected through 2024. Falling rate expectations boosted equity markets and encouraged investors to snap up bonds, lowering yields and easing credit conditions somewhat. In China, growth has disappointed as the economy struggles with several headwinds, including an ailing property market, but government stimulus has helped to support momentum in recent months. Global geopolitical tensions increased further due to the conflict in the Middle East.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index



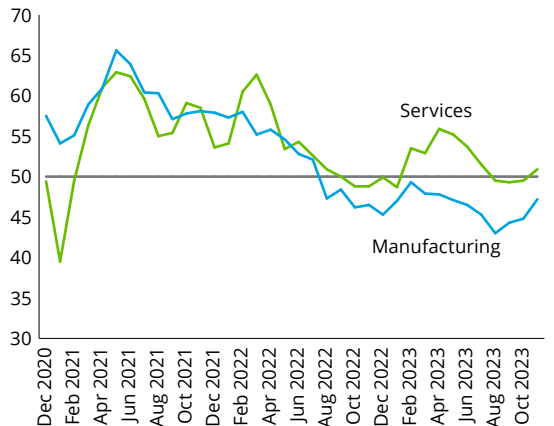
Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)



Source: Refinitiv Datastream

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

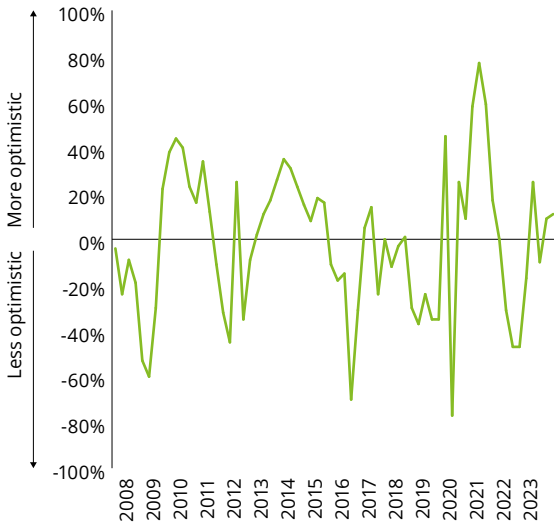


Source: Refinitiv Datastream, readings above 50 indicate expansion

Two-chart summary of key survey messages

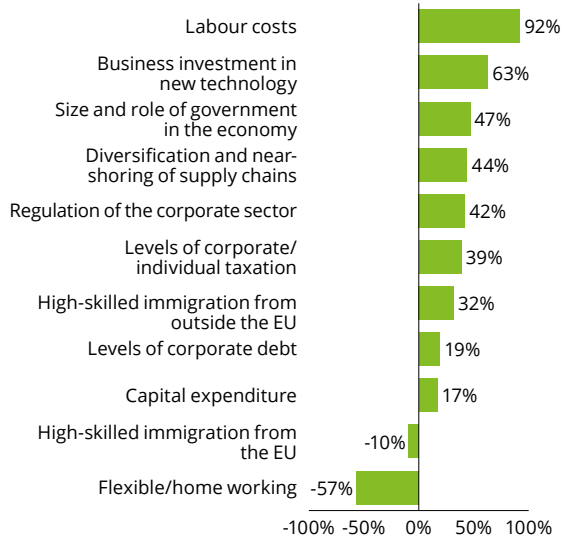
Business optimism

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



Long-term change

Net % of CFOs who expect an increase in the following over the long term compared to 2023



About the survey

This is the 66th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2023 fourth quarter survey took place between 28th November and 12th December. Overall, 72 CFOs participated, including the CFOs of 12 FTSE 100 and 26 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 35 UK-listed companies surveyed is £328 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

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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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