Policy changes worry CFOs

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- **Policy change is biggest concern for CFOs**
- **Perceptions of economic and financial uncertainty falls by half in two years**
- **High levels of corporate appetite for risk**
- **Corporates shift from balance sheet repair to growth**
- **45% of CFOs expect interest rates to be 1.0% a year from now**

Policy change has emerged as the biggest concern for chief financial officers, ahead of economic uncertainty, according to the Deloitte CFO Survey for Q2 2014.

CFOs were asked to rate (on a scale of 0 to 100) the level of risk individual policy issues pose to their business. CFOs gave the 2015 General Election and a potential referendum on the UK's EU membership ratings of 55 and 50 respectively. Interest rate rises and tightening of monetary conditions were rated at 46, volatility in emerging markets rated at 45 and a housing bubble was given a 39 rating. The referendum on Scottish independence was given a 38 rating by CFOs.

Despite worries about the policy backdrop, CFOs' perceptions of economic and financial risk have continued to decline. 49% said that the level of external financial and economic uncertainty facing their business is above normal, high or very high, down from 73% in Q2 2013 and 95% in Q2 2012. 65% of CFOs said now is a good time to take risk onto their balance sheet, the second highest level on record and up from 45% in Q2 2013.
Corporate defensiveness has dropped to its lowest level in four years while expansion has grown for the fourth consecutive quarter. 26% of CFOs said reducing costs is a priority, down from 34% in Q2 2013 while 26% said increasing cash flow is a priority, down from 40% on the year.

Further key findings from the latest CFO Survey, which gauged the views of 112 CFOs, including 31 from FTSE 100 and 37 from FTSE 250 companies, include:

- CFOs are upbeat on prospects for revenues and margins. A net 93% expect revenues to increase over the next 12 months, up from 57% in Q2 2013, while a net 43% anticipate operating margins will increase, rising from 8% over the same period;
- Forecasts for capital spending, hiring and discretionary spending have risen strongly. A net 76% of CFOs see hiring increasing in the next twelve months while 57% of CFOs expect discretionary spending to increase, the highest level ever recorded;
- 45% of CFOs expect the Bank of England's base rate to be at 1% in a year's time, up from 20% in Q1 2014, while 40% forecast rates to be at 0.75%

Ian Stewart, chief economist at Deloitte, said:

“The macroeconomic worries that have acted as a drag on corporate activity have eased and the policy environment is more stable. But, with the General Election less than a year away, uncertainties around political and policy risk have moved centre stage.

“Nonetheless, UK corporates have shifted from balance sheet repair to growth and business spending is emerging as a driver of the UK recovery. Cost control, debt reduction and building cash helped get business through the recession but the weight CFOs attach to such defensive strategies dropped to a four year low in the second quarter. Credit is cheap and available for large companies and a record 83% rate bank credit as an attractive form of credit for their business.

“With secure balance sheets and strong risk appetite, growth is the top balance sheet priority for UK corporates. CFOs' expectations for capital spending, hiring and discretionary spending have risen strongly in the last year.

“The positive sentiment we see in the Survey is now coming through in the official data. Hiring by corporates has risen by 3.2% in the last year and investment is up 10.6%. In May corporate bank borrowing saw the first year-on-year rise in five years.”

- **ENDS -**

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About the Deloitte CFO Survey

This is the 28th quarterly survey of chief financial officers and group finance directors of major companies in the UK.

The Q2 2014 survey took place between 6th and 23rd June.

112 CFOs participated, including the CFOs of 31 FTSE 100 and 37 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 68 UK-listed companies surveyed is £473 billion, or approximately 21% 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.

For copies of previous CFO Surveys, please visit www.deloitte.co.uk/cfosurvey.

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