Global economic performance and equity market valuations are off to a rocky start in 2016, according to Deloitte's first quarter *CFO Signals* survey.

CFOs' expectations for revenue, earnings, capital spending and domestic hiring — tracked for 24 consecutive quarters by this survey — all declined, and are now at or near survey lows. Revenue growth expectations fell to 3.3 percent from 5.9 percent last quarter, earnings growth expectations fell to a new survey low of 6.0 percent from 8.3 percent last quarter, capital spending expectations hit a new survey low of 1.7 percent from 4.9 percent last quarter, and domestic hiring growth expectations declined sharply to just 0.6 percent, from last quarter's 1.2 percent — matching the previous survey low.

While assessments of the North American economy had been a steadying influence for many quarters, those now appear to be faltering as well, with CFOs' confidence about the trajectory of that economy hitting its lowest level in three years. Additionally, CFOs' assessments of China hit another new survey low. Forty-one percent of CFOs now describe North American conditions as good (down from 55 percent last quarter), and only 36 percent expect better conditions in a year (down from 47 percent last quarter). Only 9 percent regard China's economy as good, and just 5 percent describe Europe's economy as good.

"This quarter marked a decidedly downward turn in CFOs' sentiment, and a rocky start to 2016 appears to have taken its toll on expectations for company prospects and confidence in major economic zones," said Sanford Cockrell III, national managing partner of the U.S. CFO Program, Deloitte LLP. "If equity markets remain volatile, and if we continue to see uninspiring reports on the performance of major economic zones, we may continue to see low CFO confidence for some time."

The survey, which tracks the thinking and actions of more than 100 CFOs from large

North American *CFO Signals* survey. "Past surveys have shown that election run-ups tend to have a rather negative impact on CFO confidence, and in previous election years, net optimism had turned negative into the third and fourth quarters."

One potential bright spot in CFO sentiment is that more surveyed CFOs this quarter believe U.S. equity markets are undervalued than overvalued. Just 30 percent of CFOs surveyed say U.S. markets are overvalued, a sharp decline from 56 percent last quarter (note that the S&P 500 index averaged 1,865 while the survey was open, about 8 percent below the average level during the Q4 2015 survey, but has since rebounded).

Top risks cited by CFOs show very strong concerns about the interplay of economic volatility, financial markets and consumer confidence. The top two risks cited overall were external: global economic performance (growth, recession and volatility), followed by oil/commodity prices. There was a three-way tie for third place between two additional external risks — capital market risks (liquidity and stability) and the possibility of new/burdensome regulations. The dominant internal risk related to the talent category: growing concerns about retaining key employees.

Perhaps signaling a growing orientation toward conservatism, 65 percent of CFOs cited a bias toward focus on current markets over new ones, a new survey high and an increase from 61 percent last quarter. Additionally, while CFOs indicated plans to impact their companies in a variety of areas in 2016, a pervasive and strong theme emerged around helping their companies to stay focused and perform well in a tough, shifting business environment.

Additional findings from the Deloitte Q1 2016 *CFO Signals* survey included:

- **Low oil prices paint a mixed picture.** Nearly 75 percent of CFOs said low oil prices are impacting demand and/or profitability, with 59 percent citing positive impacts, just over half citing negative impacts. This adds up to more than 100 percent total, as some CFOs cited both positive and negative impacts. Only 18

- **Use of relatively aggressive derisking tactics related to retirement plan obligations has increased over time.** Sixty-three percent of those who have or have had pension plans have utilized at least one aggressive derisking tactic, and this quarter's survey found another rise in the use of voluntary lump-sum payouts, retiree medical buy-outs and plan terminations.

Deloitte's first quarter (Q1 2016) *CFO Signals* survey also provides CFOs' responses related to income taxes and the Organisation for Economic Cooperation and Development (OECD)'s Base Erosion and Profit Sharing (BEPS) initiative, changes to the Fair Labor Standards Act (FLSA) overtime rules, impact of trade partnerships and CFOs' focus for 2016. To download a copy of the survey, please visit: http://www.deloitte.com/us/cfosignals2016Q1.

Accounting • Staffing