CFOSentiment

Confidence prevails | Edition 11 – H1 2021

The Leaders' Circle | Sharpening your edge

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Contents

Deloitte has surveyed senior finance executives of major Australian listed companies since 2009.
This CFO Sentiment survey covers the first half of 2021 and took place between 7 July 2021 and 21 July 2021

Please note: where graphs do not add up to 100%, this is due to respondents being able to select multiple responses.

Executive summary

2021 is posing more continued COVID challenges than most Australians had hoped after making it through a confronting 2020. The extended New South Wales lockdown is taking a large toll on the people and businesses directly affected.

Combined with snap lockdowns across other states, the NSW situation is driving Australia's economy backwards. However, strong economic momentum from early 2021 remains apparent. And the remarkable ability of the Australian economy to bounce back at the start of 2021 can give us confidence for making it through current setbacks.

Australian CFOs remain confident and steadfast in the face of ongoing challenges. Their hard-earned experience from 2020 lockdowns, and the subsequent rapid economic recovery, has armed them with the knowledge that we can make it through this.

84% of surveyed Australian CFOs are feeling optimistic or highly optimistic about the financial prospects of their company.

Feelings of uncertainty have fallen since 2020 but remain high compared to the long-term average.

While pandemic uncertainty continues to drag on optimism for 59% of CFOs, **the resilience of the Australian economy has offset fears**, boosting confidence for 72% of CFOs. Low interest rates, rising commodity prices and conditions in the broader Asia Pacific economy have also been a source of optimism.

With more confidence comes a greater appetite for risk. **Two thirds of CFOs agree that now is a good time to be taking greater risk onto their balance sheets**, with record low interest rates making bank borrowing an appealing prospect.

As CFOs have acclimatised to tumultuous times, their **attention is turning from the external back to the internal**. Internally driven risks such as securing and retaining key talent, an inability to execute strategies and technology implementation have now moved up into top spots of the risks concerning CFOs.

A focus on talent has become even more important in the face of the changing nature of work. Being an employer of choice to attract and retain the best talent has been **the largest driver for businesses changing the ways they work**.

More than a third of businesses have already launched new or refreshed policies on ways of working. For many businesses, this includes large changes in *where* they work and smaller changes to *when* and *how* they work. CFOs are open to new working arrangements while remaining wary of the potential risks posed to workplace culture and employees' mental health.

CFOs are also wary of the risks posed by ESG and climate issues, but **they also recognise the potential for substantial value creation**.

72% of Australian CFOs see environmental, social and corporate governance (ESG) including climate change, as an important consideration across various parts of their business.

Cloud transformation is also a source of value creation for CFOs, with productivity improvements recognised as the top driver of investment in cloud technology. **More than two thirds of surveyed CFOs have already made substantial progress in their business cloud transformation**.

Looking ahead, dangerous new strains of COVID-19 and delays in vaccine rollouts continue to pose key risks in Australia. But we have learnt many lessons from the challenges we have faced so far, and **CFOs are using these lessons to help them face the future with optimism and determination.**

72%

of Australian CFOs see environmental, social and corporate governance (ESG) including climate change, as an important consideration across various parts of their business.

"These findings are particularly encouraging, with strong business confidence such an important driver of Australia's COVID recovery. That our survey was conducted in July, in the midst of Delta-induced lockdowns, is testament to CFOs' resilience and positivity and it's the remarkable ability of the Australian economy to bounce back six months ago that appears to be driving CFO confidence. Experience from operating in a pandemic-stricken world in 2020, and the knowledge that Australia can recover from COVID impacts, has translated into greater confidence in the face of our latest challenges."

Stephen Gustafson
CFO Program Leader
Deloitte Australia

Economic update – Australia

Australia's economic recovery in the first half of 2021 was remarkable, but the Delta strain has put paid to that fine period. Sydney's lengthy lockdown along with sporadic lockdowns around the country will be measured in a big loss of economic activity, with GDP set to go backwards again in the September quarter. Yet while activity is going backwards, it's still hard for most businesses to find workers, and both business and consumer confidence remain relatively robust. That suggests when vaccination levels move high enough to ease restrictions, we could once again see a rapid economic rebound.

Australia's economy was a superstar performer for much of 2020–21. COVID shut down a lot of the country during 2020, bringing economic activity to a standstill before the V-shaped recovery emerged in the second half of 2020, and with Victoria allowed to join the party from late in the year. A stunning rebound in jobs and high levels of business and consumer confidence were hallmarks of success.

The game changer for the world late last year was the emergence of effective vaccines to fight COVID-19. Delta is clearly a more virulent strain, but the good news is that so far vaccinations continue to beat mutations. So, while caseloads have soared in the US and UK, hospitalisations and deaths haven't, and those have always been the key targets.

The bad news for Australia of course is that we have little protection at present against the highly infectious Delta strain.

That means the next few months in Australia will be ugly, and lockdowns alone may merely keep infections down. For Australia there are few questions about the economic outlook which don't include 'more vaccinations' in the answer. But until we reach that point, restrictions look set to curtail key parts of the Australian economy.

Yet, once again it's an odd version of economic downturn. High export prices, low costs driven by low interest rates, and significant momentum in consumer and business spending will continue to drive growth in many areas.

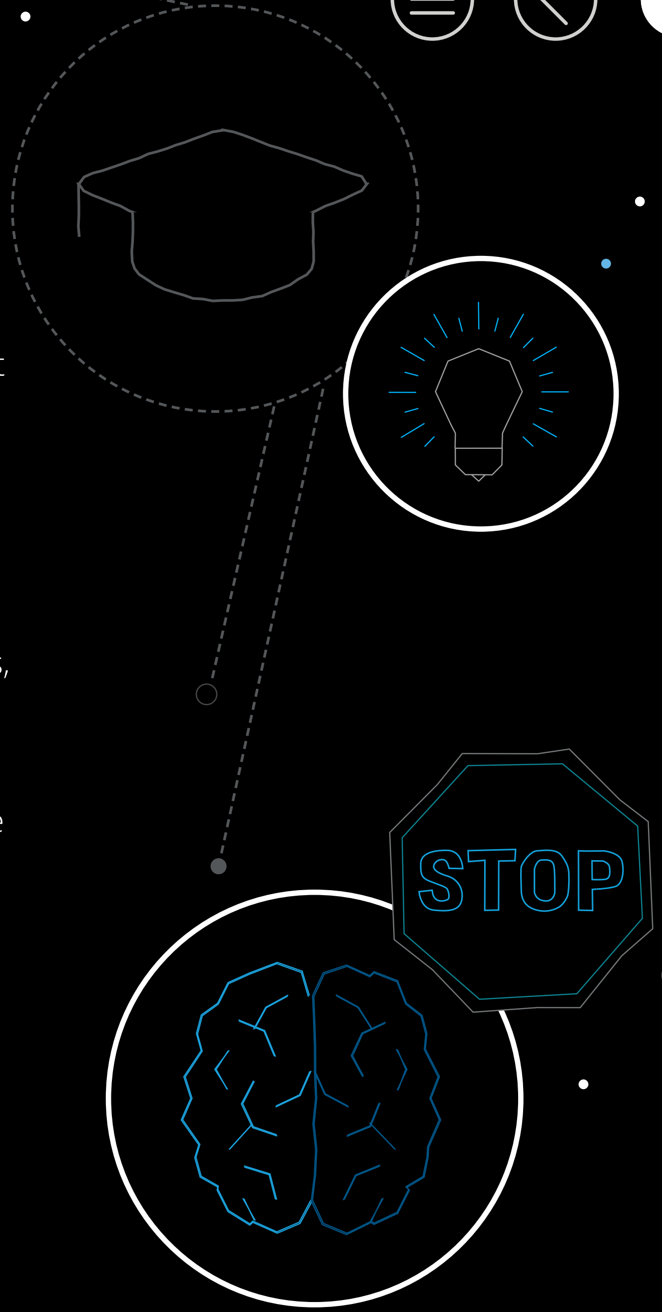
Much of the economic recovery through the first half of 2021 was better (and faster) than many had expected – particularly for jobs. The labour market has shown incredible strength, **with the national unemployment rate falling below 5.0% in June, a level not seen for around a decade.**

There are 130,000 more people employed across Australia than before COVID hit. And this may not be the end of the story in terms of the jobs surge, with a very strong pipeline of job vacancies only partially toppled by current lockdowns. Indeed in May 2020 the number of unemployed people per job vacancy was at an all-time low – for every job opening there were only 2 unemployed people, down from a peak of 7 a year ago, and a range of 3 to 4 before COVID.

While the rebound in demand has been very strong, a big part of the skills shortage story has been supply constraints, as Australia continues to operate without international migration inflows. The latest impacts of the Delta strain may mean the opening of international borders is pushed even further beyond the mid-2022 date that has been flagged.

Closed international borders generate a lot of costs, but key amongst them is the fact that fewer migrants means a smaller economy, given that Australia has been so reliant on migration for economic growth over the last decade. Vital skills shortages are emerging in positions usually filled by migrants, leaving many industries scrambling to find local staff and looking to alternate (technology) solutions, or just not able to service customers.

While Australia's economic rebound was strong overall, there has also been a very wide diversity of experience. While some sectors have performed strongly (such as mining and retail), others hurt badly last year (such as tourism and international education) continue to struggle. Lockdown exposed sectors will now struggle once again through the current period of restrictions.



"However necessary, lockdowns are incredibly costly in health, social and economic terms. The current spate of lockdowns will see Australia's economy track backwards once again. But there is an underlying degree of economic momentum which was absent in 2020, suggesting that when we open up again the bounce back could be very strong."

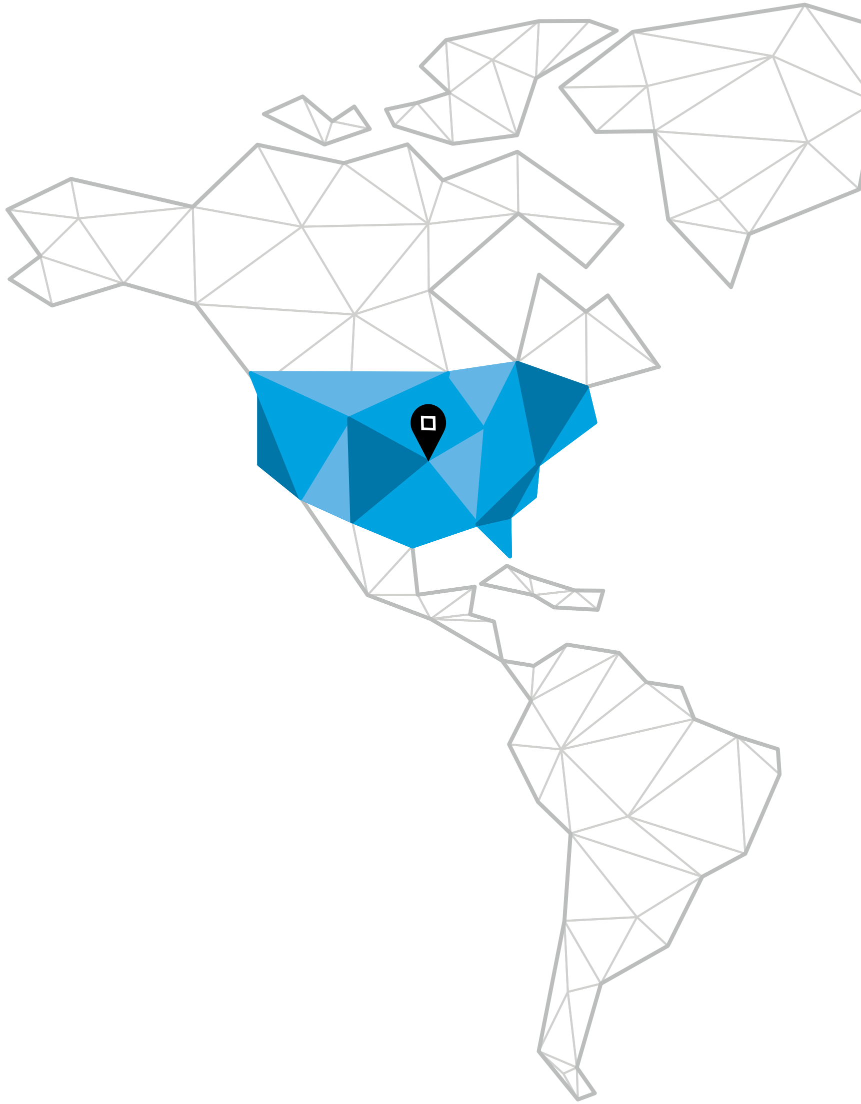
David Rumbens
Partner, Deloitte Access Economics
Deloitte Australia

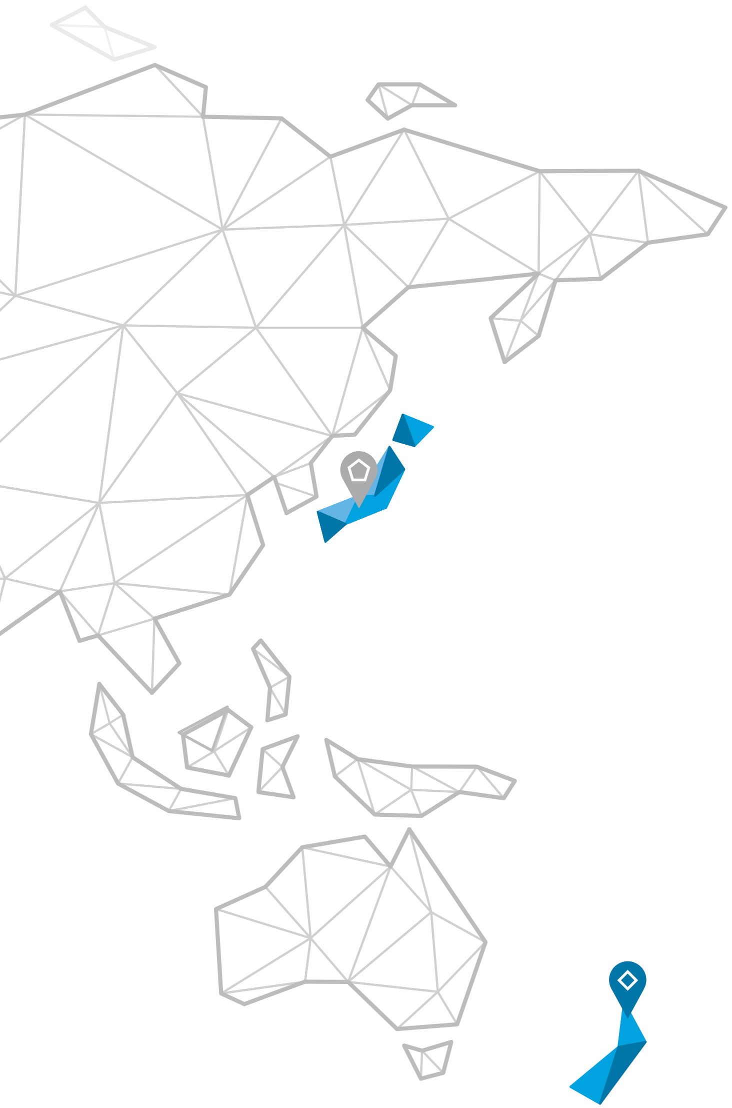
Economic update – Global

Challenges abound for the global economic recovery with the Delta strain becoming dominant, vaccine hesitancy in the developed world, and vaccine supply and distribution challenges in the developing world. But much of the developed world is in a phase of opening up, and experiencing the economic rebound which Australia was feeling in the first half of 2021. While China has led the global recovery to date, it already has one foot on the brake, and the baton of global growth is passing to the likes of the US and the UK as vaccinations enable them to open up.

United States (US)

The outlook for the United States is good. Vaccines have been rolled out rapidly (more than two thirds of adults are at least partially vaccinated), the government successfully passed the *American Rescue Plan*, and the Fed has confirmed it'll keep interest rates low for the foreseeable future, staring down a temporary hit to inflation. Economic activity has surged as COVID restrictions eased. The ability to spend on a broader range of services, combined with a recovery in jobs and elevated household savings rates, is setting the US up for a very strong 2021. There's also the potential for the *American Jobs Plan* and the *American Families Plan* to further boost activity in 2022 and beyond.





New Zealand (NZ)

The Economist Intelligence Unit has noted New Zealand's *'successful approach in containing the COVID pandemic, which allowed its society to remain open'*. With the nation essentially COVID-free, economic activity in New Zealand has been able to operate almost unabated. The major benefit of this success has been household spending, which hasn't experienced the same degree of collapse that has been seen in most other countries around the world. High house prices are also encouraging investment and giving some families a little boost from a wealth effect as well. But these drivers are fairly short term. While the New Zealand Government is stepping up its infrastructure spend, the country's economic prospects will continue to be dampened until the free flow of people across international borders returns. One-fifth of NZ's pre-COVID exports were directly linked to tourism. As with Australia, vaccinations are the only path out, and it's been slow going so far.

Japan

Japan has spent much of 2020 and 2021 in-and-out of lockdown, confronting multiple waves of COVID-19 cases, each increasing in size. Economic conditions in the country have followed this path, bouncing back and forth between downturn and recovery. Keeping cases supressed will be aided by an accelerating vaccine rollout (from a slow start) and this will remain key to Japan's economic recovery. Pulling off the Olympics through all of this has been a major organisational and cultural challenge. Household spending is expected to remain cautious in the immediate term before making up for some lost time through the end of the year. Business investment is also expected to gain speed, aided by government subsidies promoting digitalisation and decarbonisation.

United Kingdom

The United Kingdom's economy has had a very difficult run. At the height of the pandemic almost a quarter of the economy was shut down, and then opening up has led to more cases and subsequently more economic harm. Today, the UK economy is still almost 9% smaller than it was before the pandemic and doing about twice as poorly as the EU economy. The good news is that the vaccine rollout has been a huge success to date. As restrictions ease we should see a strong rebound in spending by families – particularly for services – supported by continued government spending and a return of business investment. Yet Brexit challenges remain a lingering impediment to the outlook, with the start of the year seeing a notable drop in trade with the EU.

Europe

A vaccine rollout that is still playing catchup to the likes of the UK and the US is delaying the recovery of the European economy. Despite delays, an economic recovery in Europe is still on the cards. The main economic challenge facing the region now is the large levels of public sector debt that have accumulated. While debt fuelled stimulus was required to support economies through lockdowns it makes abiding by now old fiscal rules almost impossible. And a push for fiscal austerity would be a limiting move at a time when economies are still on the recovery path. If a compromise is reached in relation to the EU's debt rules then the region's economy will likely continue to recover but at a slower pace than the bigger spending nations US and UK.

India

Just as India's economy was gaining some momentum in the first half of 2021, the country experienced a mammoth wave of COVID-19 cases. Advances in merchandise trade, financial markets, business investment and even household spending were all halted as the Delta variant ran rampant. Virus cases have dropped back down once again, and Government measures are supporting construction and manufacturing in particular. But a key risk remains in the nation's vaccine program possibly being insufficient to protect against further virus spread in large gatherings and mass movements around the country.

China

China was the first major economy to engineer a post-COVID recovery, passing pre-COVID levels of activity before 2020 was complete. Domestic infrastructure investment kickstarted the nation's recovery, and benefits have also come from higher export demand as the rest of the world returns to greater strength once again. As the composition of economic growth changes, China's economic recovery may slow. Restrictions to deal with regional COVID outbreaks are providing a constraint. Government spending is winding back after the provision of fast and robust government support in 2020, and it is not yet being fully offset by higher private spending. Further risks to China's outlook are a slowdown in construction which has been on hyperdrive in the past decade, and the continued decline in the country's working age population.

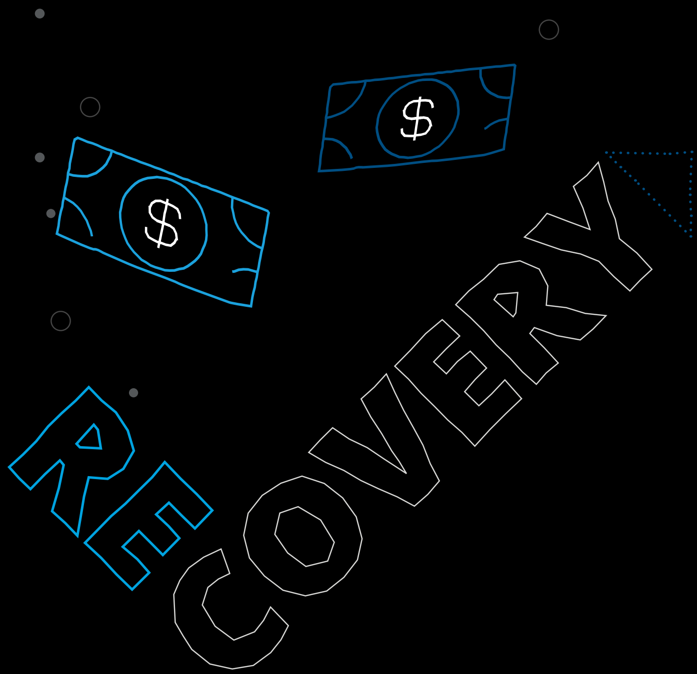
Key policy measures

Both fiscal and monetary policy settings in Australia have been at full tilt in the expansionary direction since COVID-19 hit the country. The Federal Government rightly abandoned its budget balance aspirations in favour of sending stimulus to households and businesses, particularly through 2020–21. State and Territory Governments also stepped up their spending levels substantially and the Reserve Bank of Australia (RBA) cut interest rates to their lowest feasible level while keeping longer term interest costs down through an expansive bond buying program.

These expansionary policy settings were a central component of achieving the strong V-shaped recovery seen through 2020–21. But the challenges brought on by the pandemic are by no means over and policy settings will continue to play a major role in the path ahead.

With Sydney now in an extended lockdown, there have been many calls for a return of the JobKeeper scheme. Instead, the Federal Government has opted to provide COVID disaster payments to individuals who have lost work through the lockdown. The Federal and New South Wales Governments are also providing support payments to affected businesses. These support payments will again provide a large injection of public funds and assist many individuals and businesses.

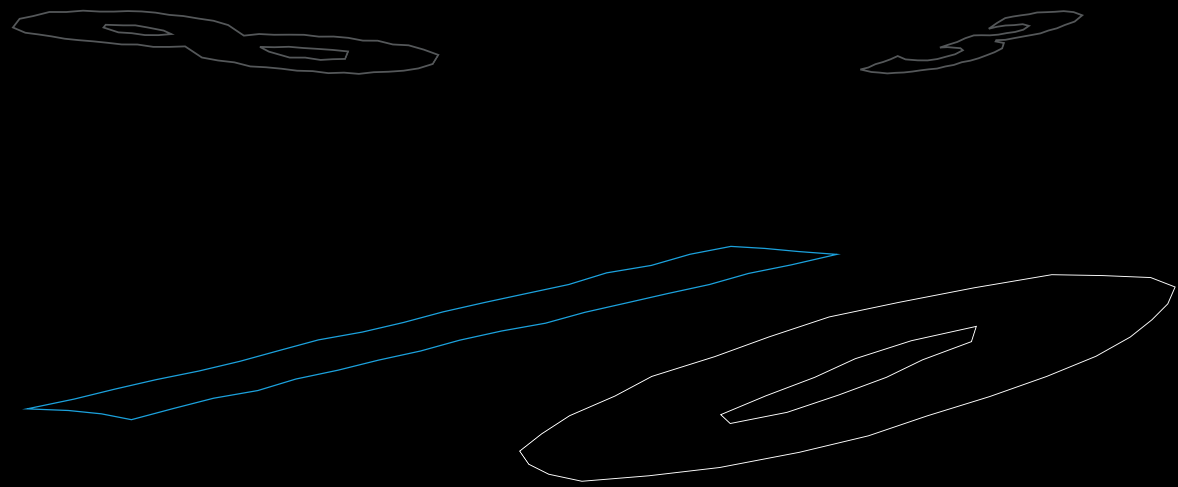
They will not have the added benefit that JobKeeper provided of maintaining an employment relationship, and hence there is a risk of a slower jobs recovery on the other side of the current lockdowns. That said, we also saw a significant head of steam in job vacancies heading into current restrictions (which was not at all a feature of the environment going into lockdowns in 2020).



A focus of Federal, State and Territory Government budgets in 2021 is spending on infrastructure. This is a go-to measure when economic stimulus is required. Infrastructure spending will benefit the construction sector in the short term and will also provide greater capacity for economic growth in the long term. But with a massive pipeline of works already underway in early 2020, there was not a lot of room for huge infrastructure spending increases.

On the monetary policy front, record low interest rates have fuelled strong growth in the housing market (alongside the Federal Government's HomeBuilder scheme). The RBA have also stated that interest rates will remain at record lows for the next two to three years. This will continue to encourage expansion in both housing and business investment.

The policies that now have the attention of most Australian households and businesses are those relating to domestic and international borders and COVID-19 vaccinations. The targets of 70% of eligible adults to be fully vaccinated (to move on from domestic lockdowns) and 80% of eligible adults to be fully vaccinated (to start opening international borders) will loom very large on the horizon over the coming months.



Confidence is the new COVID normal

CFOs are keeping optimistic despite the ongoing lockdowns from the dangerous Delta variant. 84% of survey respondents feel optimistic or highly optimistic about the financial prospects of their companies. CFOs and their businesses are adapting to this new pandemic normal. It appears the experience gained from 2020 lockdowns and the rapid economic recovery has reduced fear about ongoing setbacks and has increased confidence.

Feelings of uncertainty have fallen since 2020 but remain high compared to the long-term average. As CFOs have got to grips with what to expect from the pandemic, their attention is turning from the external back to internal risks such as securing key talent. This is a positive sign that businesses are keeping focused on operations in an ever-challenging economic environment.

CFOs have remained highly optimistic despite ongoing lockdowns driven by the more severe Delta variant of COVID-19. More than 72% of surveyed Australian CFOs are feeling optimistic about the financial prospects of their company, and a further 12% are highly optimistic.

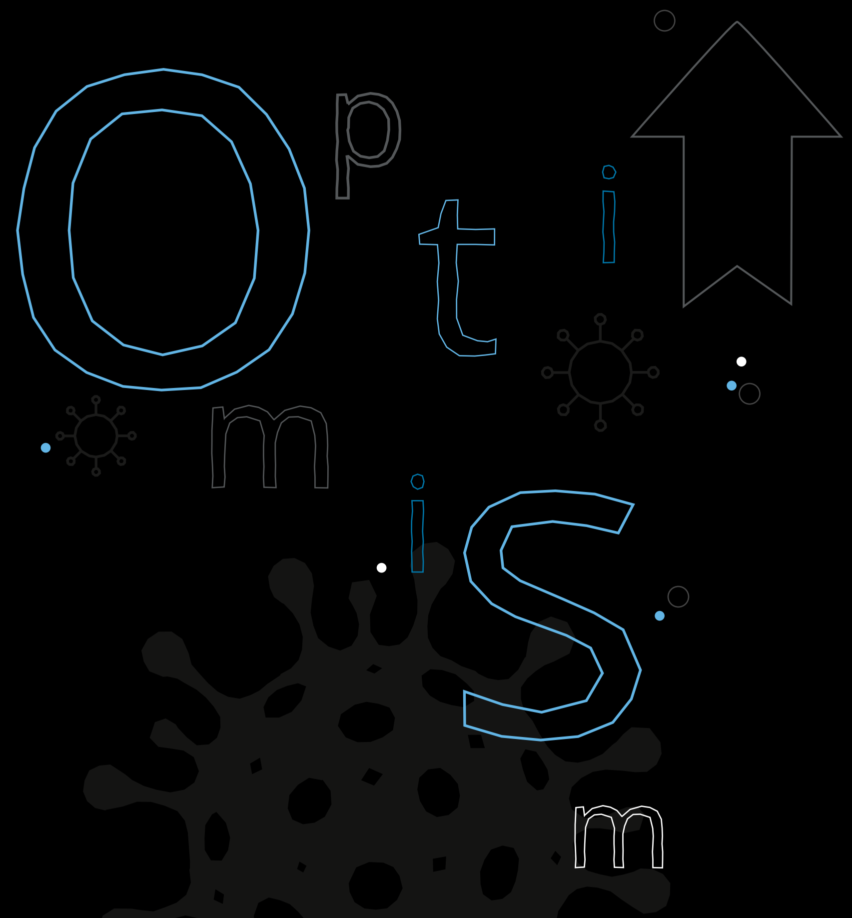
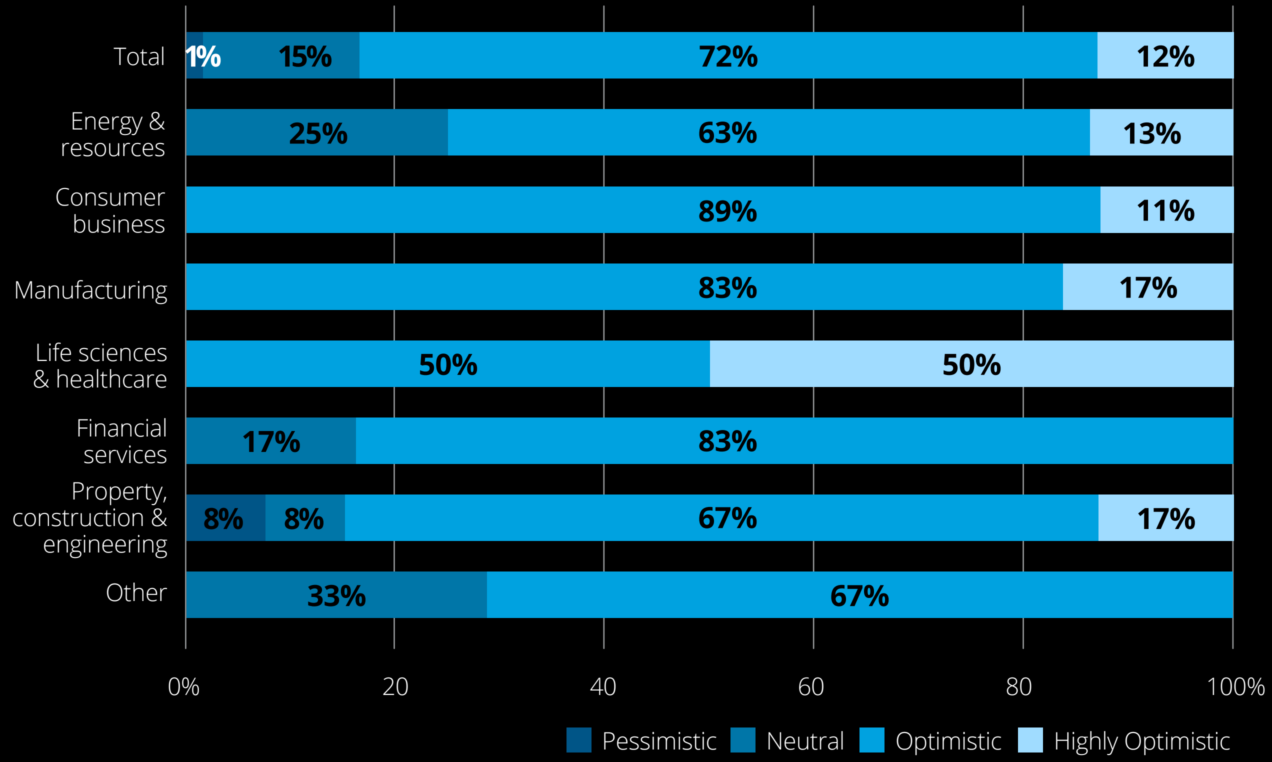


Chart 1 shows that optimism is strong across all broad industry groups. CFOs in life sciences and healthcare, consumer business and manufacturing are all feeling particularly optimistic, with none of the respondents in these industries reporting a neutral or pessimistic result. For consumer business and manufacturing this has likely been supported by continued strong demand for consumer goods both during lockdowns and in post-lockdown recoveries. While in life sciences and healthcare, the timeline for vaccine rollouts provide some assurance that we will in the coming months move to a broader focus on health and wellbeing, and not just COVID.

Chart 1

How do you feel about the financial prospects of your company going forward?

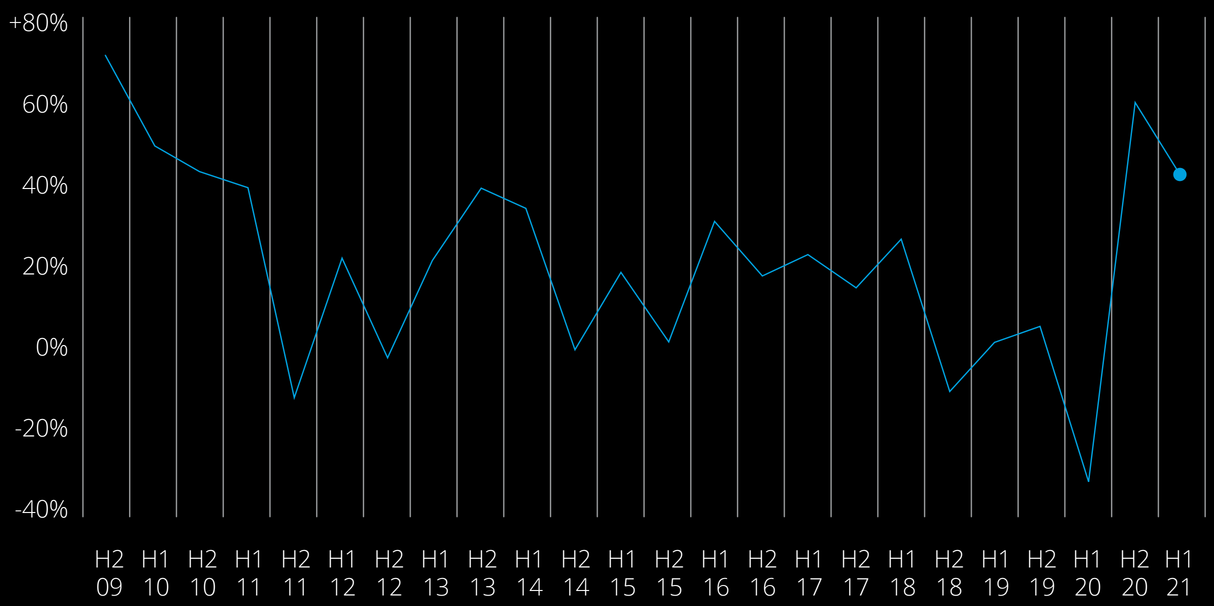


This enduring optimism may be a surprise to some given Sydney's extended lockdown, and the return of sporadic lockdowns elsewhere across the country. But it is clear that CFOs are much more optimistic (or at least comfortable) with the impacts of the pandemic now than when it first forced the country into lockdown over a year ago. **Experience from operating in a pandemic-stricken world in 2020 and the knowledge that Australia *can* recover from COVID impacts, has translated into far less pessimism in the face of these latest challenges.**

Relative confidence measures have also remained strong. Net optimism for financial prospects relative to six months prior is still holding at a high 43%, down from the 62% rating recorded at the beginning of 2021. CFOs entered 2021 with relief and hoping that Australia had moved past the worst of COVID, towards economic recovery. But the emergence of the dangerous Delta variant has shown that pandemic impacts will continue to be felt in the second half of 2021. But this time CFOs are armed with knowledge and experience that was lacking in 2020 – in particular that vaccines are available and effective (even if in short supply at present).

Chart 2

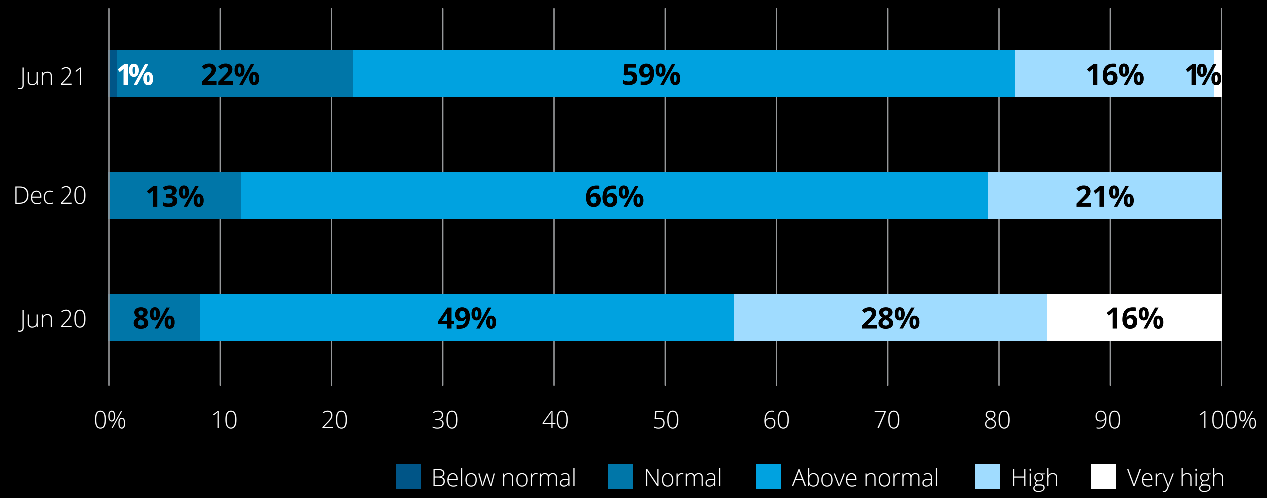
How do you feel about the financial prospects of your company compared to six months ago? (Net optimism)



While CFO sentiment levels are strong, there still remains considerable uncertainty about the path forward for Australia and the business community. Some 76% of CFOs rate the current environment as having above normal, high or very high levels of uncertainty. So, confidence is high despite uncertainty, though some CFOs are acclimatising to a pandemic-stricken world. A higher percentage of respondents are rating uncertainty levels as normal – 22% compared to 13% in December 2020 and 8% in June 2020.

Chart 3

How would you rate the general level of external financial and economic uncertainty facing your company?



As CFOs adapt to the new post-pandemic normal, their focus is shifting slightly away from external risks and back towards internal ones. Six months ago, the global pandemic and other external risks dominated the risks of most concern to CFOs. While the global pandemic is still a major concern for most CFOs, securing and retaining key talent, an inability to execute strategies and technology implementation have now moved up into top spots.

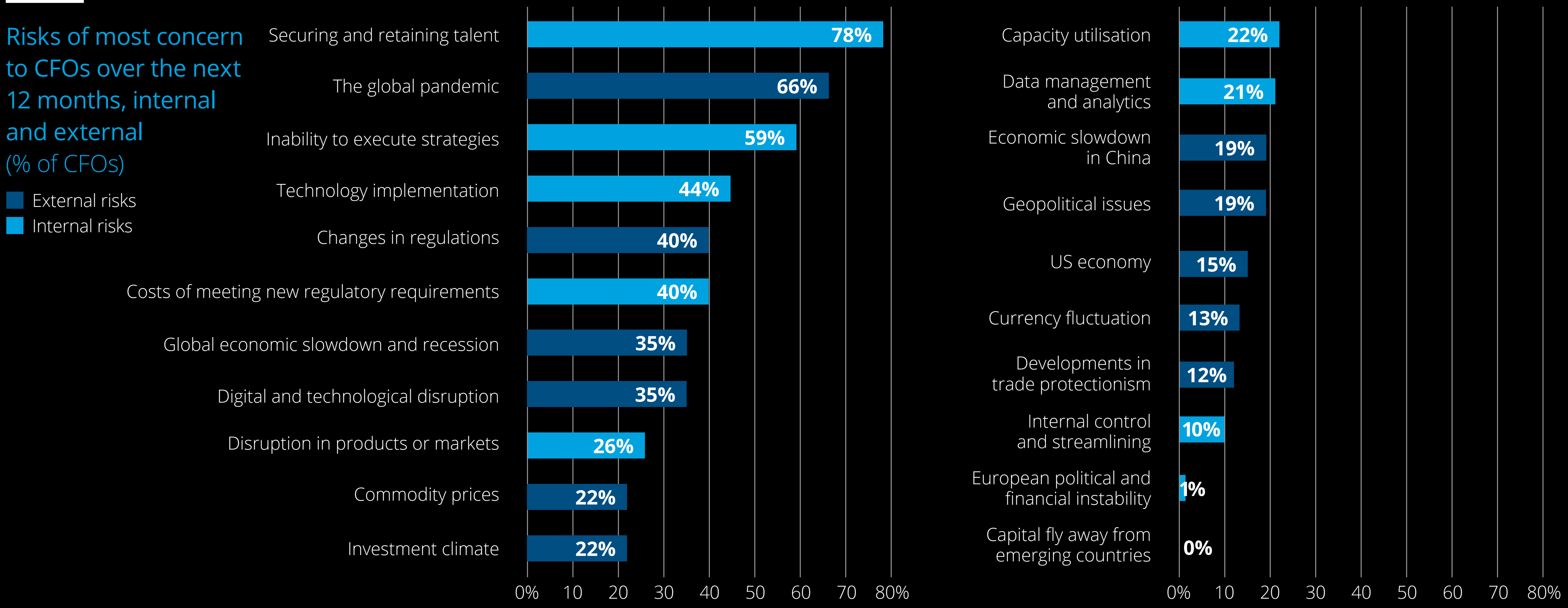
Chart 4 shows that more than three quarters (78%) of CFOs list securing and retaining key talent among their top three risks. This reflects the high job vacancy rates and low unemployment rates currently observed in the Australian economy: companies are searching for key talent to drive their businesses, but it is a major challenge when inbound migration is severely limited.

The shift away from external risks continues to reflect the growing acceptance of pandemic uncertainty and other external factors like trade tensions. As CFOs become accustomed to elevated uncertainty, they are growing more confident and ready to handle an ever-challenging environment.

Chart 4

Risks of most concern to CFOs over the next 12 months, internal and external

(% of CFOs)



Borrowing bounces back

Australia's economic recovery has been the largest driver of increasing optimism among domestic CFOs. Low interest rates continue to influence CFO opinions about levels of gearing, with the large majority believing that Australian companies are either optimally geared or under-geared. This translates into a growing appetite for balance sheet risk among CFOs who are ready to make the most of Australia's economic momentum.

Higher confidence and optimism have been driven by a range of economic and financial factors but the greatest influence by far is the rapid recovery of the Australian economy that was evident in the first half of 2021. Chart 5 shows that 72% (almost three quarters) of CFOs report the Australian economy as having a positive impact on their optimism levels. Low interest rates, rising commodity prices and the broader Asia Pacific economy have also been a source of optimism.

Unsurprisingly, pandemic uncertainty remains the largest negative impact on optimism for CFOs (59%). This survey was completed by CFOs during the Sydney and Melbourne July 2021 lockdowns, so there is no doubt the pandemic's impact was front of mind.

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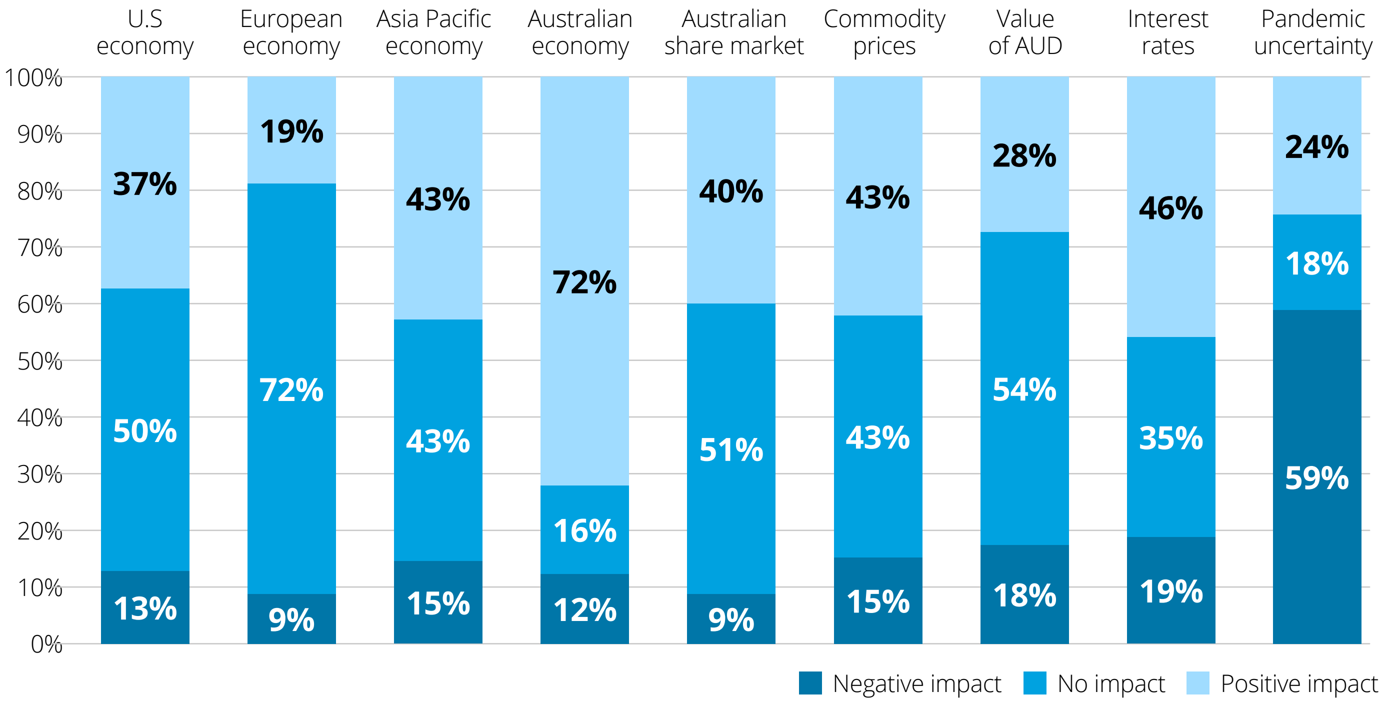
Chart 5

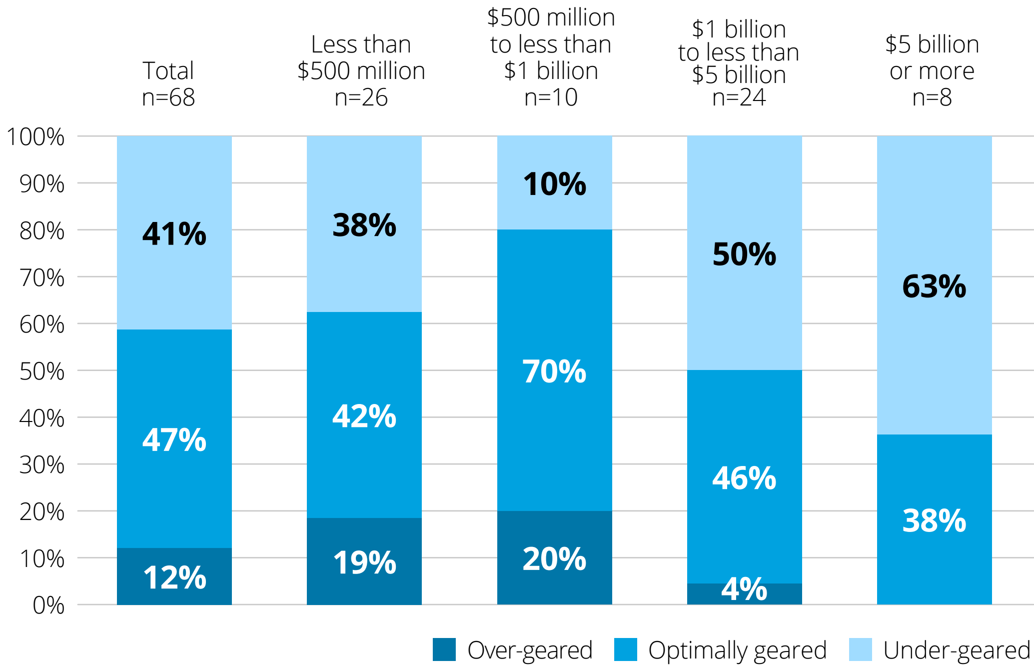
How has your level of optimism been impacted by the following factors?

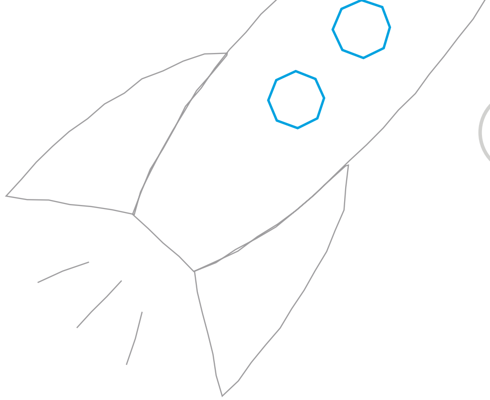


With borrowing costs cheaper than they have ever been before, Australia's record low interest rates have influenced CFO opinions about the current level of gearing on Australian corporate balance sheets.

Chart 6 shows that close to half (47%) of surveyed CFOs think Australian businesses are optimally geared, while a further 41% think they are under-geared. This is significantly higher than the 27% suggesting companies were optimally geared in December 2020. CFOs of large companies reporting revenue of $1 billion or more are more likely to suggest Australian companies are under-geared than CFOs of medium and smaller firms.

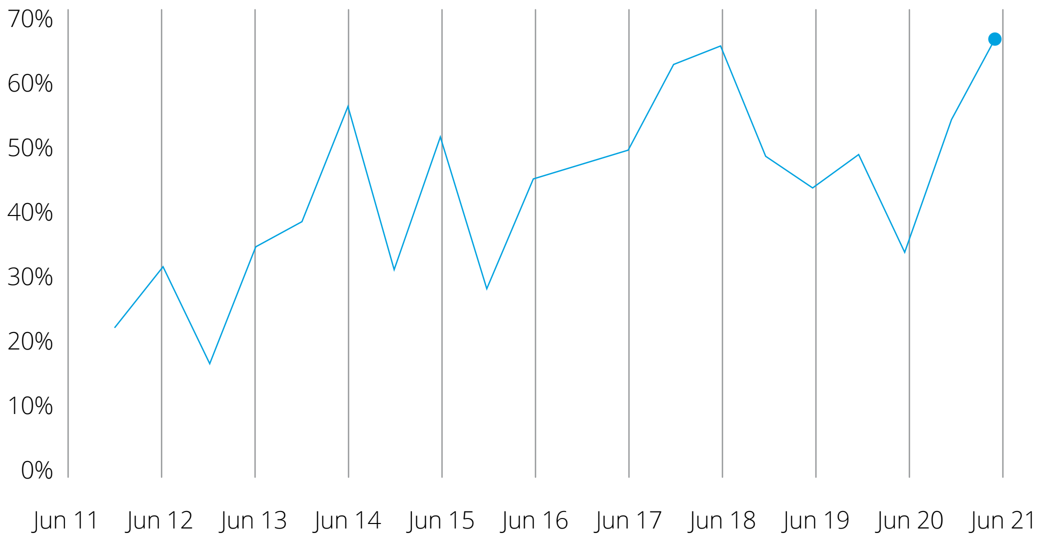
Chart 6 What do you think of the level of gearing on Australian corporate balance sheets?

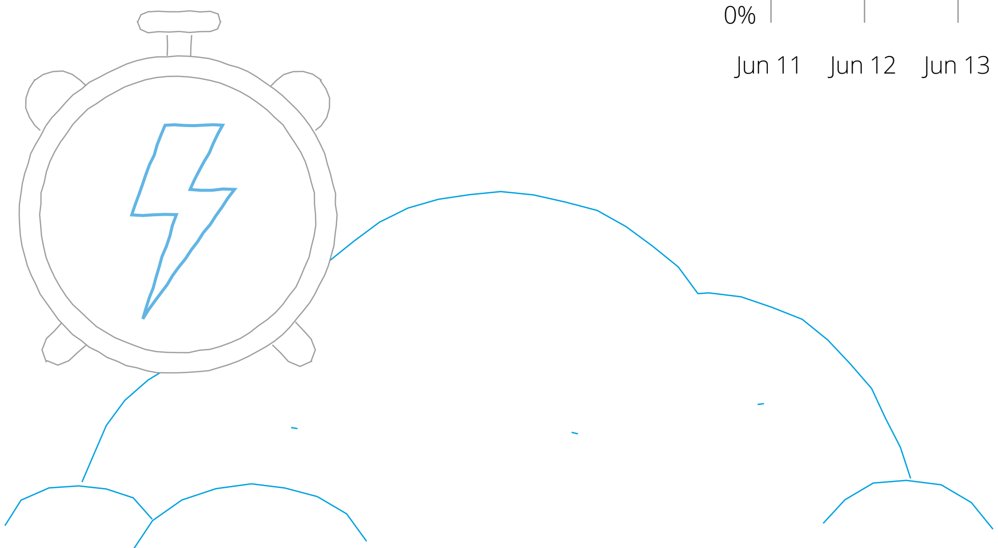




With a large proportion of CFOs believing that Australian companies are under-geared it is no surprise that CFOs are willing to take on more risk. Two thirds (66%) of CFOs agree that now is a good time to be taking greater risk on their balance sheets, an increase from 53% in December 2020. Despite the pandemic uncertainty felt by CFOs, it seems that overall optimism driven by economic momentum earlier in 2021 continues to drive a growing appetite for risk.

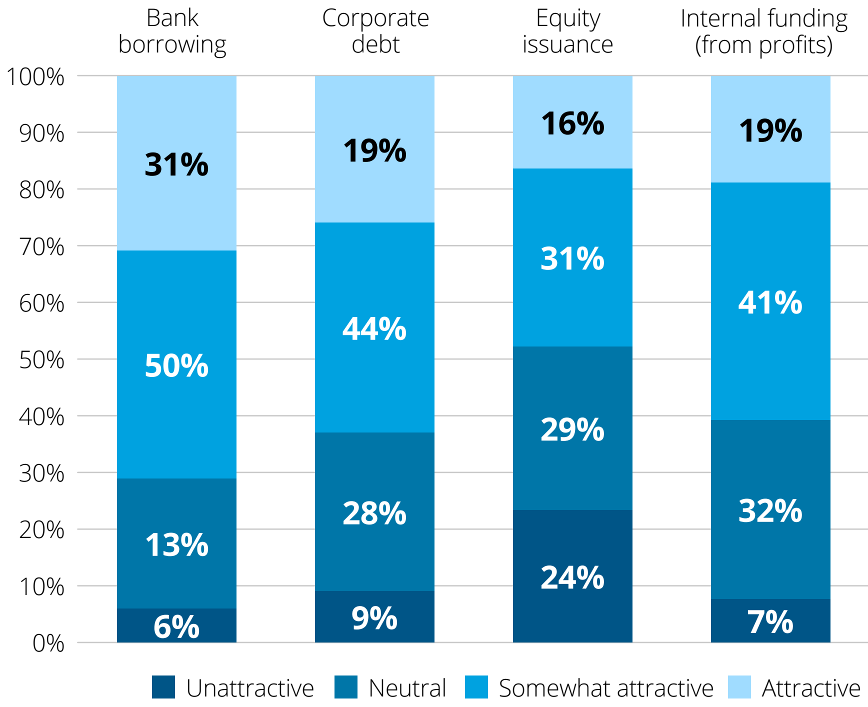
Chart 7 Is this a good time to be taking greater risk on your balance sheet? (Share of CFOs responding yes)





For businesses that are looking to take on additional debt, Chart 8 indicates that bank borrowing is viewed by CFOs as the most attractive current source of funding, with corporate debt following closely. This suggests CFOs are trying to make the most of low interest rates, driving business expansion and spending while the cost of borrowing remains at record lows.

Chart 8 How do you currently rate the following sources of funding for Australian corporates?



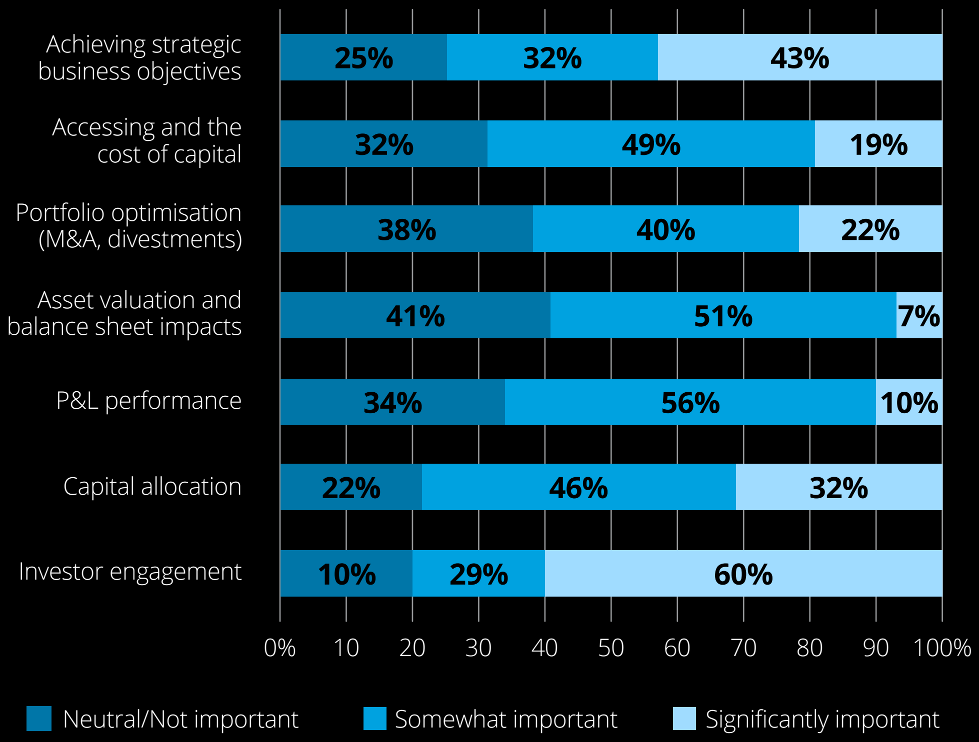
ESG on CFOs' radar

72% of Australian CFOs see environmental, social and corporate governance (ESG), including climate change as an important consideration across different parts of their business. There is a clear sentiment among CFOs that ESG and climate action present both long-term risks and opportunities, with decision-making most influenced by boards of directors and broader market sentiment.

Chart 9 shows Australian CFOs see ESG including climate change as an important consideration when it comes to investor engagement (89%) and achieving strategic business objectives (75%). ESG and climate considerations are seen as least impactful in relation to asset valuation and balance sheets, and portfolio optimisation.

Chart 9

In your opinion, how important are ESG, including climate change considerations in the context of the following:

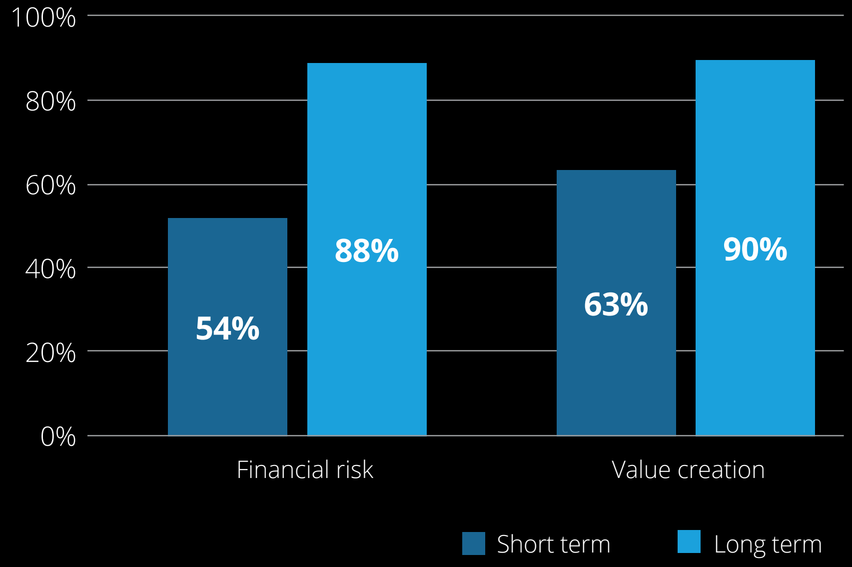


CFOs are viewing ESG, including climate change as a source of value creation as well as financial risk. Survey respondents acknowledge there are both risks and rewards which will impact what action they take and importantly, when they take it.

Almost all CFOs believe ESG and climate change are sources of risk and opportunity in the long-term. 88% of CFOs believe ESG to be a long-term financial risk and 90% believe ESG to be a long-term value creation opportunity. Substantially fewer (but still more than half) see ESG including climate change as a short-term risk and opportunity.

Chart 10

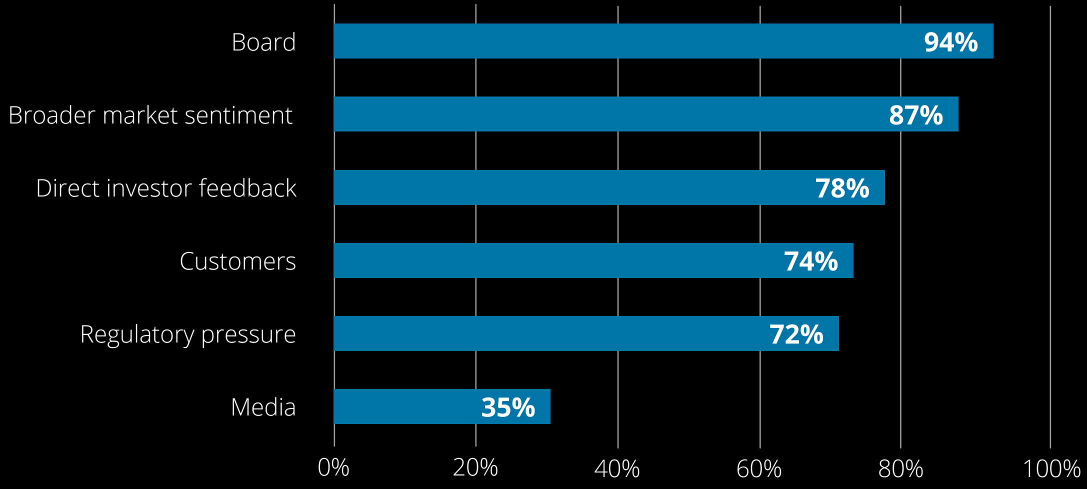
% of CFOs thinking about ESG, including climate change, as a source of some or significant risk and value creation



A variety of stakeholders influence decisions related to ESG and climate change, but 94% of CFOs reveal that the most influence lies with their Board. With broader market sentiment likely to affect both Boards and investor feedback, it is no surprise that CFOs are also heavily influenced by broader market sentiment (87%). The media was considered by far the least influential on ESG including climate change related decision making, but still influential for about a third of CFOs.

Chart 11

When making decisions related to ESG, including climate change, which stakeholders influence you the most as CFO?



Workplace change – here and now

The nature of work is constantly evolving, but it's fair to say that for many businesses it has evolved at a much more rapid pace over the past year. More than a third of businesses have already launched new or refreshed policies on ways of working. For many businesses, this includes large changes in where they work and smaller changes to when and how they work. CFOs see these changes as an opportunity to attract and retain the best talent but are also wary of risks to workplace culture and employees' mental health.

The future of work has changed dramatically since COVID disrupted where, when and how businesses work. Only 16% of surveyed businesses have not changed their ways of working post COVID, and most of these belong to the manufacturing and construction sectors which require a large degree of in-person and on-site work.

More than a third (38%) of CFOs have already launched a new or refreshed policy on ways of working, with another 15% working towards launching a new policy. The first movers on new ways of working are led by consumer businesses: 78% of consumer businesses have already launched new policies on ways of working. As consumers were locked down for parts of 2020 and 2021, it is no surprise that consumer businesses have adjusted their own policies in response.

Chart 12

What is your current position on new ways of working post COVID-19?

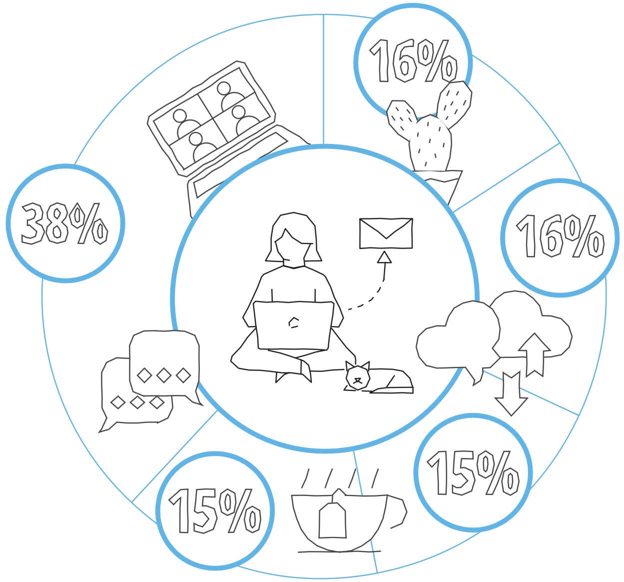
38% Launched an official new or refreshed policy

15% Working towards an official new or refreshed policy

15% Policy change with principles applied case-by-case

16% Unofficial guidelines managed case-by-case

16% No change to policies except when Government restrictions apply

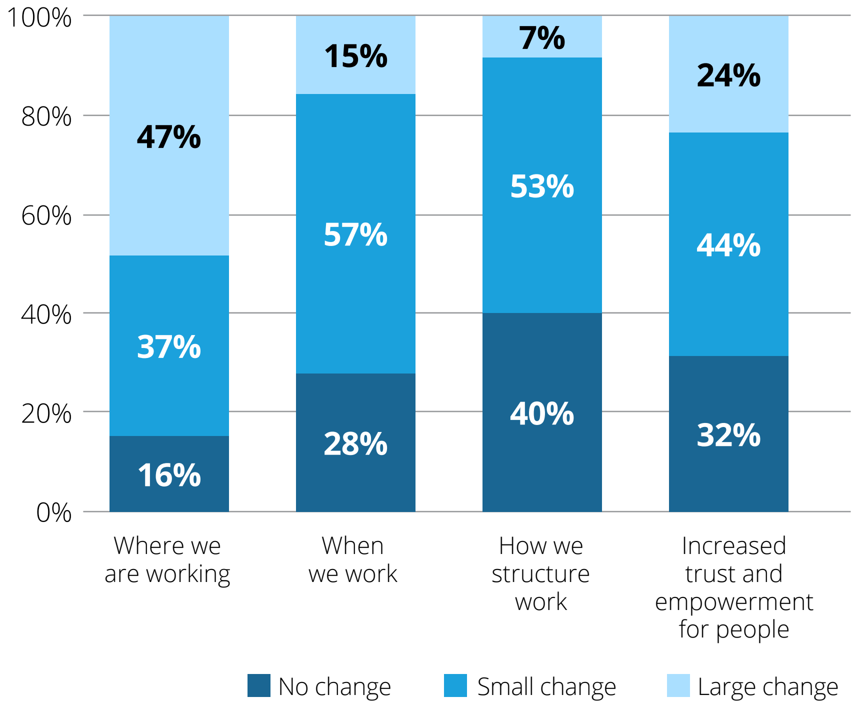


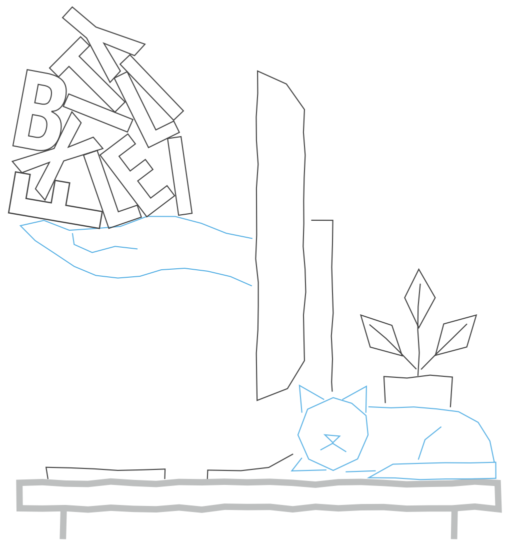
The most significant modification to ways of working has been *where* people are working. Almost half of surveyed CFOs have had a large change to where their employees are working. Only 16% reported no change in where they work. More than half of respondents also reported smaller changes to *when* their staff are working (57%), and *how* they are working (53%).

There has also been increased trust and empowerment given to employees due to new ways of working. Almost a quarter of businesses (24%) have seen a large change in trust and empowerment, and a further 44% have observed smaller changes.

Chart 13

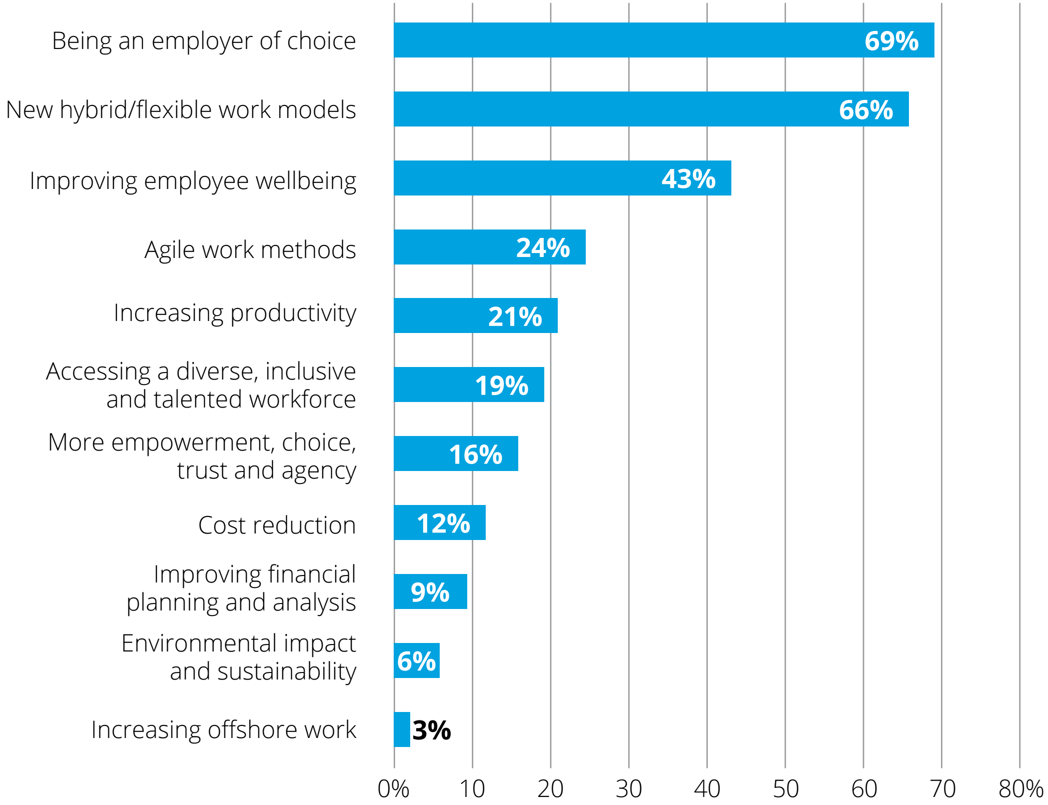
If your new ways of working position changed, what have you modified?





Being an employer of choice to attract and retain the best talent has been the largest driver for businesses changing the ways they work. This reflects the need to secure and retain key talent being the largest current risk to business. Responding to new hybrid/flexible work models followed closely, as a driver of new ways of working for two thirds of CFOs as they face ongoing lockdowns and working from home orders. Improving employee wellbeing also made the top three, as a driver for 43% of CFOs.

Chart 14 What are the important drivers for your organisation with regards to new ways of working?
(% of CFOS)

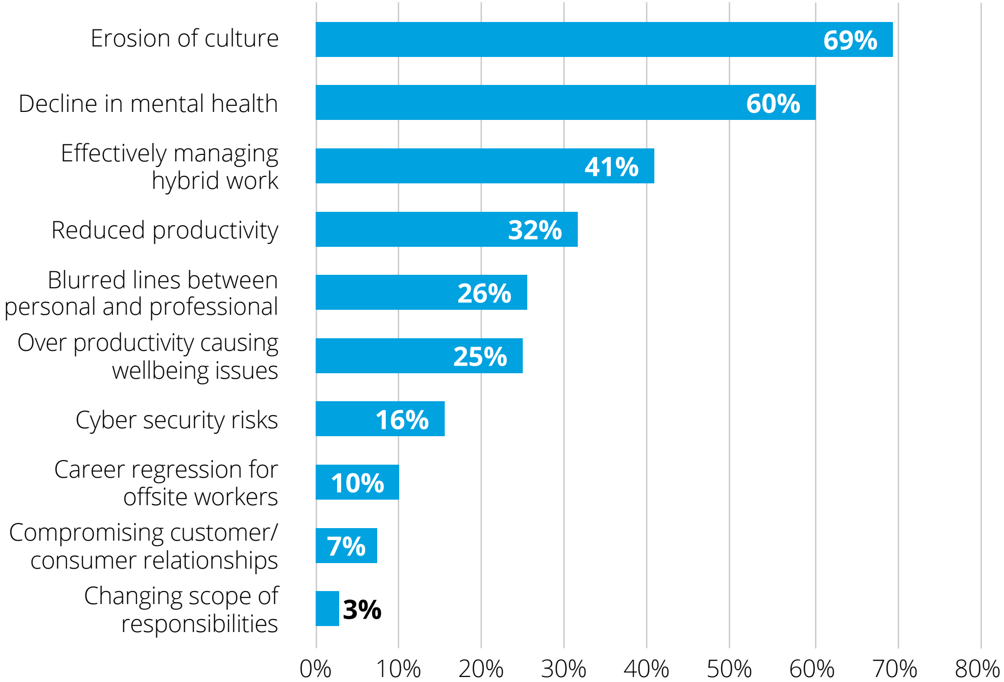


CFOs also recognise the risks in transitioning to new ways of work. 69% think erosion of culture is a top risk caused by news ways of working. Not far behind that, 60% of CFOs think there are risks to the mental health of their employees. The separation of colleagues from the physical workplace is likely the key worry to CFOs here, with working from home becoming isolating for staff members, while productivity can suffer from a lack of opportunities for team members to connect in-person.

Accordingly, effectively managing hybrid work was a concern to 41% of CFOs, followed by the risk of reduced productivity (32%). With new ways of working still in their infancy for many businesses, there are likely concerns about how to adapt and maintain employee engagement in the face of a rapidly changing environment.

Chart 15

Which risks related to the new ways of working are you most concerned about for your workforce? (% of CFOs)



Reaching for the cloud

More than two thirds of surveyed CFOs have already made substantial progress in their business cloud transformation. And more progress is still to come with only 13% having fully transitioned to cloud-based applications. CFOs have adopted cloud-based finance ERP more so than cloud-based planning, budgeting and forecasting platforms, while improved productivity across the whole business has been a driver of overall cloud transformation.

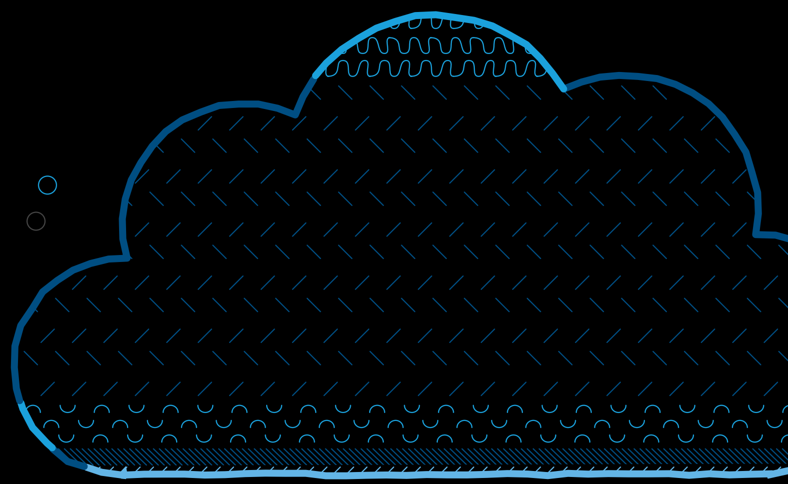
Two thirds of CFOs surveyed have made substantial progress in shifting from on-premise applications and infrastructure to the cloud. Only a small proportion of CFOs (13%) have fully shifted to cloud-based applications at the time of this survey, indicating more cloud transformation is still ahead for many businesses.

27% of CFOs from relatively smaller businesses with revenue less than $500 million, have made the full transition to the cloud. A much smaller share of larger businesses with revenue above $500 million have reached the same level of cloud transformation, although they are still making progress in the shift.

Chart 16

Which one of the following best describes your organisation's cloud strategy? (% of CFOS)

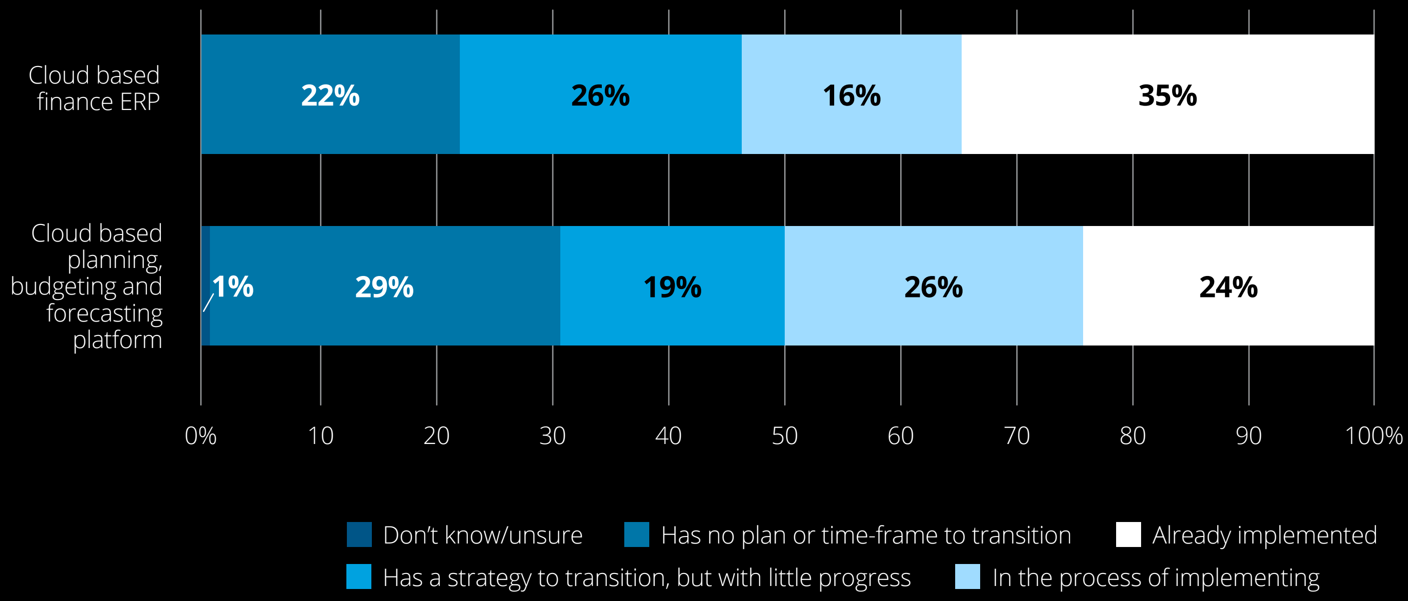
- **13%** We only use cloud-based applications and data hosting
- **66%** We have made substantial progress in shifting from on-premises applications and infrastructure to the cloud
- **15%** We have a strategy to transition from on-premises applications and infrastructure but haven't made much progress
- **4%** We mostly use on-premises application and infrastructure with no plans to change
- **1%** Not sure



More CFOs report that cloud-based finance enterprise resource planning (ERP) has been implemented or strategised (77%), than cloud-based planning, budgeting and forecasting platforms (69%). There is also a larger cohort of CFOs with no agreed plan to transition to cloud-based planning platforms (29%) compared to finance ERP (22%).

Chart 17

Which one of the following best describes your situation with regards to adoption of cloud-based Finance ERP and cloud-based planning, budgeting and forecasting platforms?

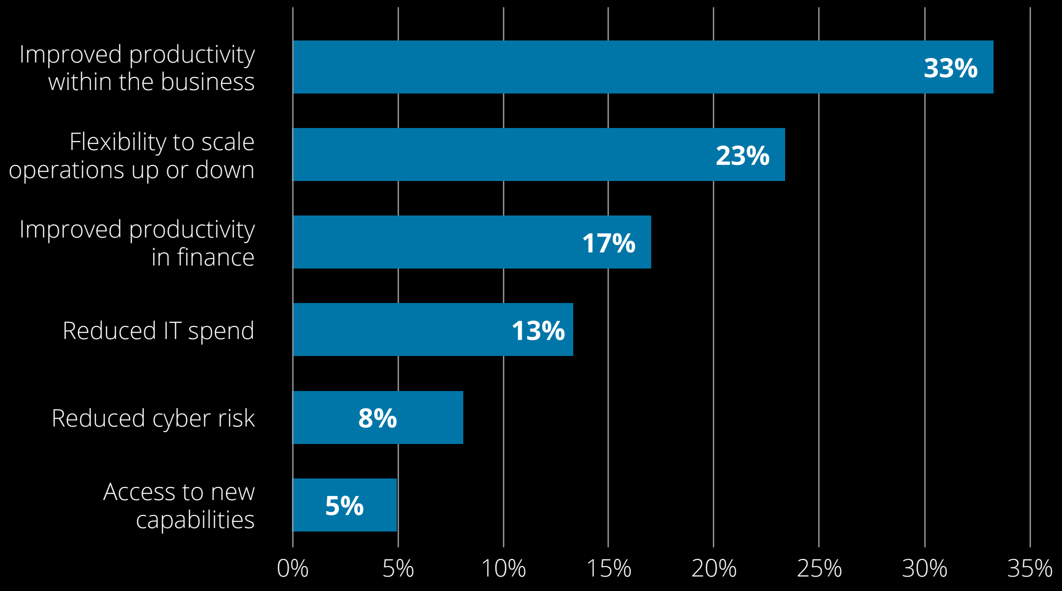


Improved productivity is the top driver of investment in cloud technology. One third of CFOs chose this as their top driver of investment in cloud technology and a further 20% chose it as their second largest driver. The next most influential factor was flexibility to scale operations up or down, with 23% of CFOs ranking it as the main driver of their cloud investment.

The two top drivers of cloud technology investment relate to the whole business, rather than showing a siloed focus on specific service lines such as finance or IT. This suggests most CFOs are using investments in cloud technology to assist their whole business, rather than targeting particular parts of the business.

Chart 18

What is the top driver of your investment in cloud technology?



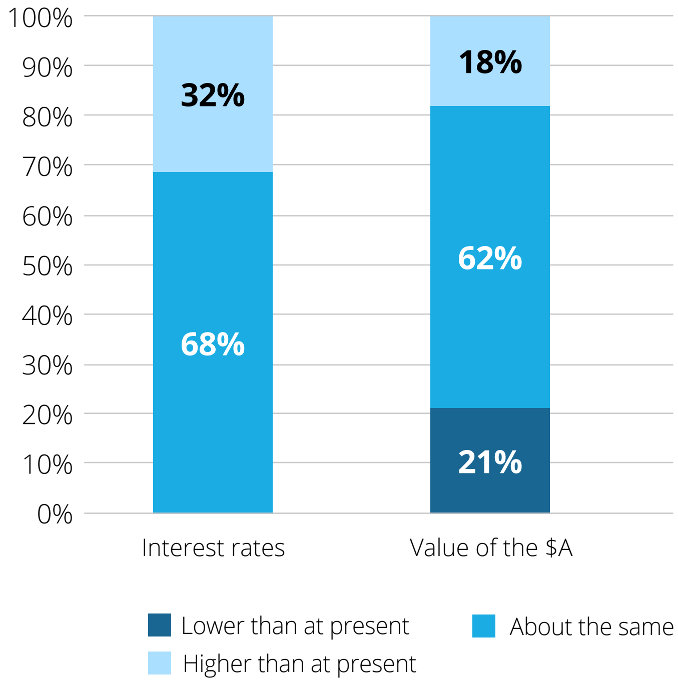
Looking ahead

More than two thirds of Australian CFOs are expecting interest rates to remain at their record low levels 12 months from now, in line with guidance from the Reserve Bank. Expectations are a bit more split on the value of the Australian dollar, but the majority still expect the $A to remain about the same as its current value by mid-2022.

Looking ahead to mid-way through 2022, most of the CFOs surveyed expect interest rates to remain at their current record lows. This is unsurprising given RBA Governor Philip Lowe has loudly pronounced that the official cash rate is not expected to increase for two to three years. Although almost one third of CFOs were either not listening to the Governor or think he will change his mind, expecting rates to be higher this time next year.

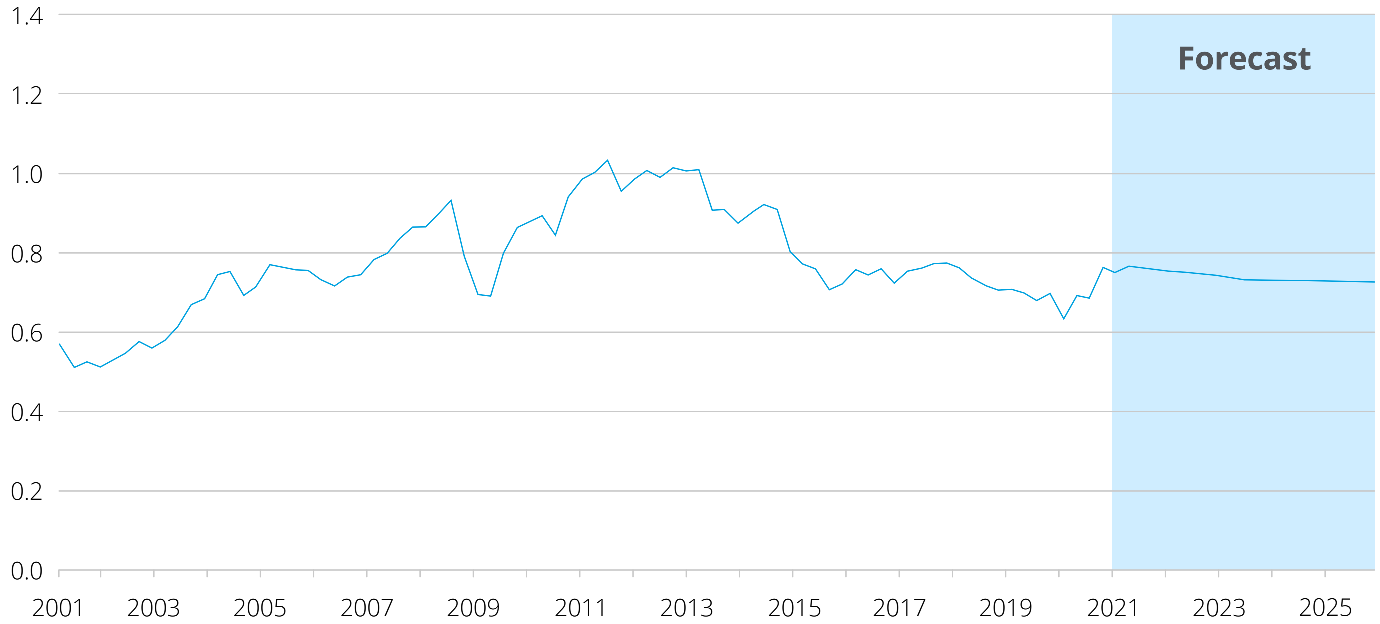
Chart 19

Where do you expect to see the following in 12 months' time?



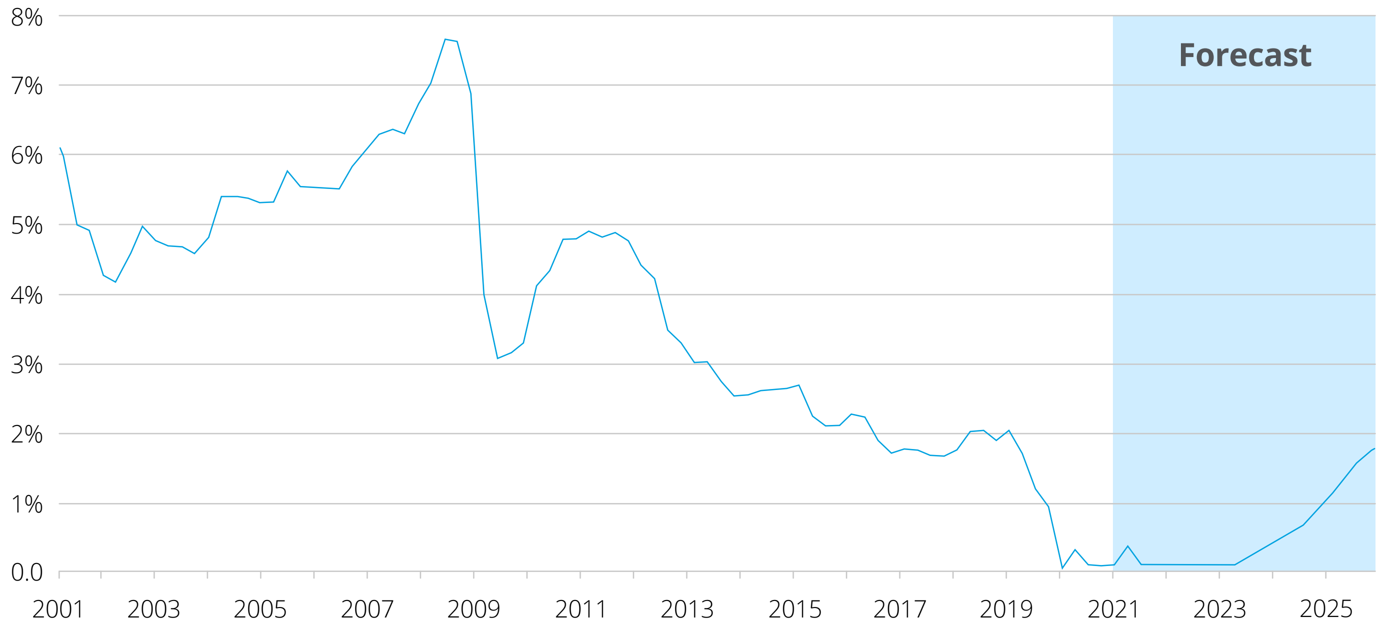
CFOs are slightly more divided in opinion on the value of the Australian dollar, but still mostly expect the current value to be maintained over the forward 12 months. This is consistent with Deloitte Access Economics' outlook for a fairly stable $A in the near future.

Chart 20 Deloitte Access Economics $US per $A forecast (Quarterly average)



On interest rates, Deloitte Access Economics expectations have been guided by the RBA's current advice of no increases for some time yet. But given the ability of the Australian economy to rebound from 2020 outbreaks and lockdown, it is likely that once rates do rise, they may rise quickly.

Chart 21 Deloitte Access Economics 90-day bank bill rate forecast (Quarterly average)



More publications for Australian CFOs

2021 Global Human Capital Trends

COVID-19 proved that people and organizations are capable of tremendous growth under the pressure of a crisis. The challenge for many will be to sustain that momentum to discover new ways to thrive in the long term, even as disruption constantly resets the path forward.

The Cloud Imperative

COVID-19 has turned the world on its head – and has changed the way we live, work and conduct business. In the last 12 months, we have seen organisations large and small rapidly transform their operations to become more digital and technology enabled.

Leading in a low-carbon future

Spurred by the climate crisis, the world has begun moving to a low-carbon future. As executives look to take charge of the shift in their industries and organisations, systems thinking can help make it a successful transition. A growing number of businesses and governments are confronting climate change, announcing emissions goals and climate initiatives daily.

The Deal in Focus 2021

A stronger than expected economic recovery has seen Australian M&A activity on the rise. M&A leaders are looking for the right deal and want it executed well to inspire confidence. We interviewed corporate Heads of M&A to discuss deal activity in the current climate, and how to realise greater value across the M&A lifecycle.

2021 Millennial & Gen Z Survey

Marking the report's 10th anniversary, the 2021 Millennial and Gen Z Survey provides a pulse check of millennials and Gen Zs and insight into their most pressing concerns. We surveyed 14,600 millennials and 8,200 Gen Zs from 45 countries around the world.

Contact us

CFO Program Leaders

Nicola Alcorn
Issues and Relationships
nalcorn@deloitte.com.au

Stephen Gustafson
CFO Program Leader
sgustafson@deloitte.com.au

Rachel Smith
Partner – Deloitte Private
rfsmith@deloitte.com.au

Paul Wensor
Partner – Consulting
pwensor@deloitte.com.au

Stephen Tarling
Partner – Assurance and Advisory
sttarling@deloitte.com.au

Carlton Lamb
Partner – CI&M
calamb@deloitte.com.au

Program Management

Leah Taylor
Head of CFO Program
leataylor@deloitte.com.au

Elise Gooda
CFO Program
egooda@deloitte.com.au

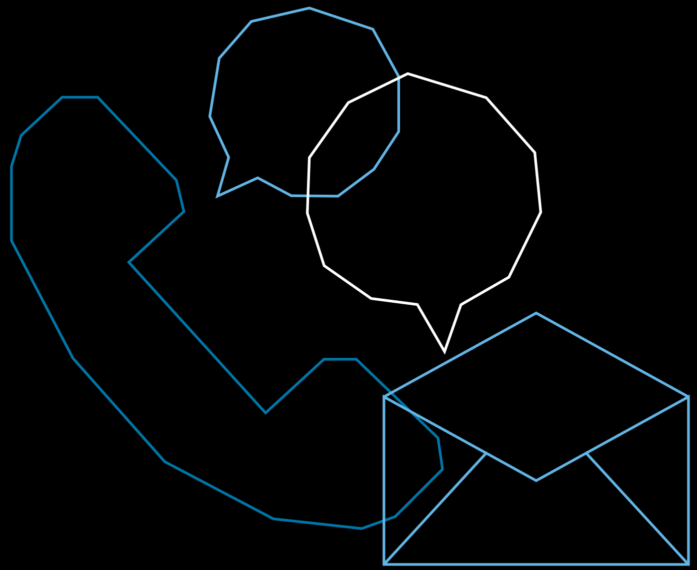
Media enquiries

Simon Rushton
Corporate Affairs
and Communications
srushton@deloitte.com.au

Deloitte Access Economics

David Rumbens
Partner – Deloitte Access Economics
drumbens@deloitte.com.au

Emma Grey
Manager Deloitte Access Economics
emgray@deloitte.com.au



Email us
leaderscircle@deloitte.com.au

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