The Leaders' Circle | Sharpening your edge

CFO Sentiment

H1 2022

New forces driving uncertainty

Deloitte.

Contents

Deloitte has surveyed senior finance executives of major Australian companies since 2009. This CFO Sentiment survey covers the first half of 2022 and took place between 14 June 2022 and 29 June 2022.

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

Executive summary

New risks emerge

Coming into 2022, CFOs were optimistic about the financial prospects of their companies. However, as 2022 unfolded, the economic environment has become far more challenging. CFOs are aware of these new challenges and, while still broadly confident about their own prospects, are more cautious about the broader environment.

It's been more than three decades since Australian CFOs have had to face an environment of persistently high inflation. That's what we have right now, and the key remedy is to rapidly increase interest rates at a time when consumers are far more leveraged than they have ever been, with no clear sign as to how far rates will need to rise. Hence, the caution amongst CFOs.

CFO confidence relative to recent history has taken a large dip. Net optimism about financial prospects relative to six months prior is at -8% (a significant drop on the strong net optimism seen over the previous three surveys). General economic sentiment for the next 6 months has become more pessimistic.

A feature of the current CFO survey is that it's a different type of uncertainty. Over the past 18 months our CFO survey has reported a curious type of business confidence. Uncertainty levels have been high, yet CFOs were still confident to take on risk. This time a different sense has emerged. Uncertainty remains high – albeit driven by the new risks of rising inflation and interest rates – but risk appetite has fallen significantly. The result is that only 25% of CFOs now think it is a good time to take on risk, down from 58% six months ago – the starkest result in this survey.

But there are areas where CFOs are taking action. One thing that CFOs are certain about is that difficulties in securing and retaining key talent continues to pose a risk to their business. 90% of the CFOs we surveyed cited this as one of the top risks on their mind this year for the second time in a row.

Some 85% of CFOs surveyed believe that the best strategy to skill, reskill and upskill their employees is to offer them practical, on-the-job experience. Along with supporting productivity, we also know that on-the-job training can be a powerful tool for employee engagement (and retention).

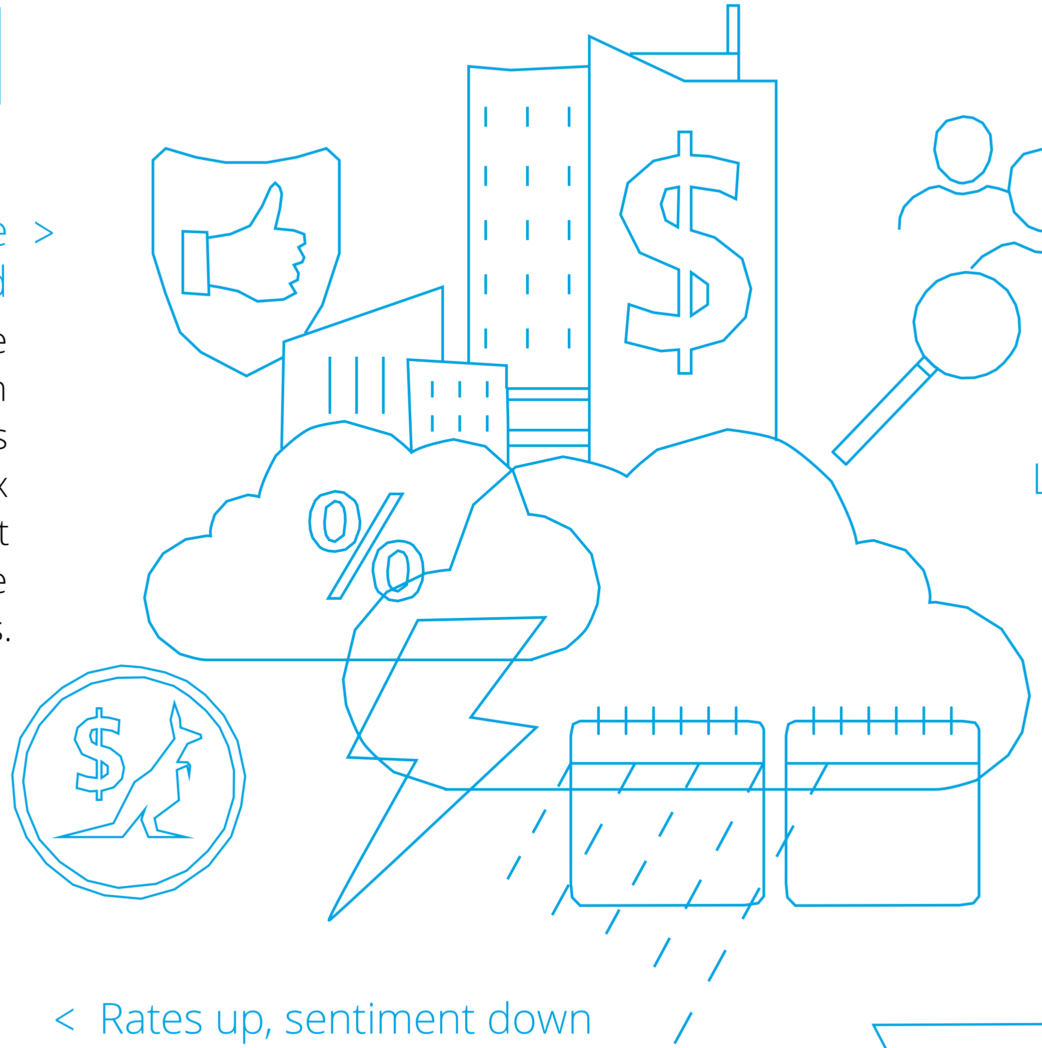
However, the majority of CFOs (77%) believe their company's limited in-house training and reskilling capability is the biggest factor inhibiting the growth and development of employees.

In light of potential mismatches in inherent capabilities, CFOs (32%) are determined to accelerate the long-term transformation to business models, which is driving their M&A strategy. Despite supply chain disruptions and inflation influencing short-term performance, businesses are still wary of the benefits that business model transformation through M&A can provide by strengthening their positioning within the market.

Interest rates front of mind

Concern about the economic path ahead >

CFOs are attuned to the economic environment with more pessimists than optimists compared to the situation six months ago. However, most are still comfortable about the position of their own business.

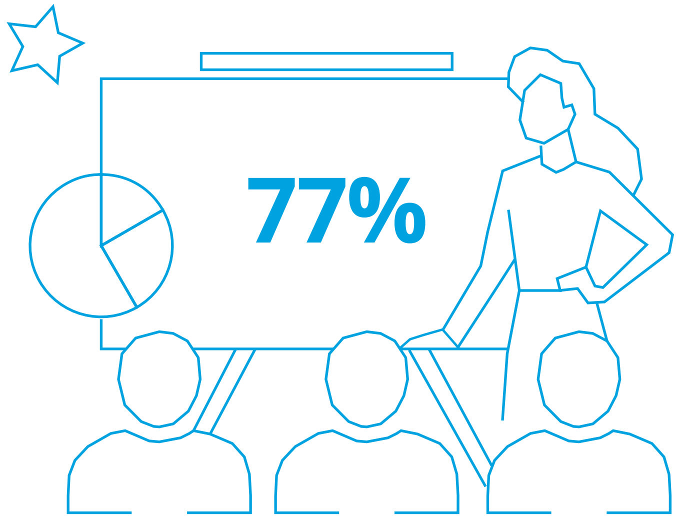


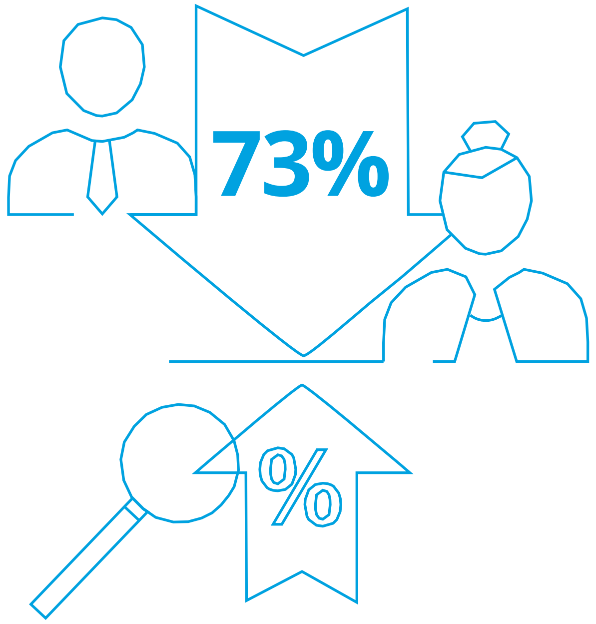
< Searching for talent

Securing and retaining top talent remains the top risk in CFOs' minds and a key call to action.

Lacking the skills to upskill >

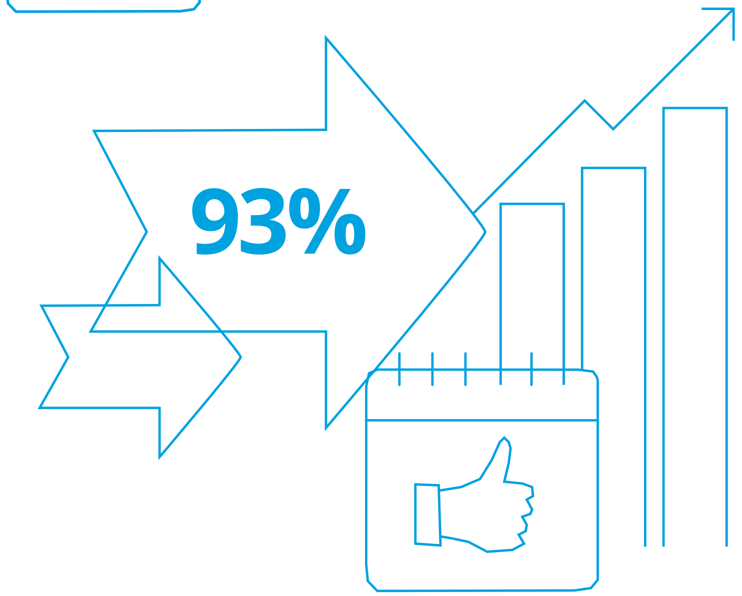
However, 77% of CFOs report a lack of in-house capability as the biggest barrier to skilling and reskilling their workforce.





< Rates up, sentiment down

Rapid interest rate rises weigh on CFO sentiment more than any other factor. 73% of CFOs report that interest rates have had a negative impact on sentiment.



< M&A for the future

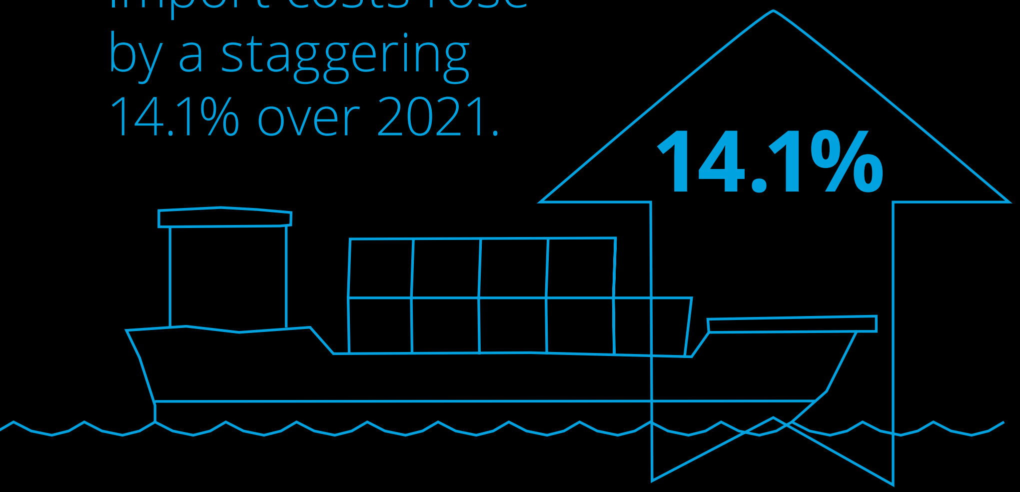
Accelerating long-term transformation is currently CFOs' top driver of M&A strategy. Despite the weaker economic outlook and rising interest rates, 93% of CFOs expected no change or an increase in their M&A activity over the next 12 months.

Economic update – Australia

All eyes on inflation and interest rates

The first half of 2022 has seen a host of new challenges emerge – **though this time, the challenges are very different to the COVID-driven disruptions we've faced for the last two years.** After initial disruptions from Omicron and flooding in New South Wales and Queensland, Australia has settled into some form of 'COVID normal' – with high vaccination rates, open borders and eased isolation requirements, the Australian economy continued its COVID recovery faster and better than initially expected in early 2022.

Import costs rose by a staggering 14.1% over 2021.



However, the emergence of high (and growing) inflation has introduced new challenges that businesses haven't faced in decades. Inflation in Australia is at its highest since the GST-affected price spike over 2000–01 and well outside the Reserve Bank of Australia's target band. This higher and faster than expected price growth has largely been imported from overseas – import costs rose by a staggering 14.1% over 2021. This comes amidst skyrocketing energy and commodity prices stemming from the ongoing Russia-Ukraine conflict, rising labour costs and supply chain disruptions around the world.

As a result, the Reserve Bank of Australia has begun to raise interest rates, including in supersized 50 basis point increments of late. Importantly, **this is the first time interest rates have risen in over a decade.** While high levels of savings over COVID will help equip households for rising debt repayments, this sudden change to interest rates compounded with high inflation is seeing consumers' cost of living rise – especially as wage growth remains sluggish in comparison. Central banks around the world are playing a tricky balancing act – trying to stop inflation from becoming embedded, without doing major damage to their economies at the same time. The combination of rising costs of living, higher borrowing costs and global uncertainties has seen consumer and business confidence fall recently. **Consumer confidence in June 2022 is at its lowest point since mid-2020, around when the pandemic first started.** Measures of business confidence have also fallen, though to a lesser extent. Though increasing input prices and borrowing are weighing on businesses, many industries are still rebounding from COVID lows with company profits growing substantially over the last year.

It's important to keep in mind that Australia is approaching this period of difficult inflation management from a position of strength. **Australia is essentially operating at full employment.** Unemployment is at its lowest in a decade, while labour force participation is at record highs. Employment continued to rise month on month for the first half of 2022, holding strong despite uncertainties and rising inflation. The lack of spare capacity in Australia (particularly as migration is slow to return) is making it hard for businesses to find enough staff, with job vacancies and job advertisements at record levels and increasing.

Economic update – Australia

Strength in the labour market and strong business performance will underpin economic activity over the next six months. Despite inflation uncertainties, **Australia's economy should still experience strong growth in 2022 though the best of the cycle is likely behind us.** Unemployment can't go much lower, commodity prices can't go much higher and cheap borrowing costs are already disappearing. Deloitte Access Economics forecasts real GDP to grow 3.4% over 2022 – below the 4.8% over 2021 but still above the 10-year pre-COVID average of 2.5%.

Business should take some comfort from the likelihood that imported inflation will soon peak. There are indications that global supply chain pressure has already eased considerably from its peak earlier this year. The RBA is taking action to try to stop that temporary imported inflation surge from becoming embedded in the meantime.

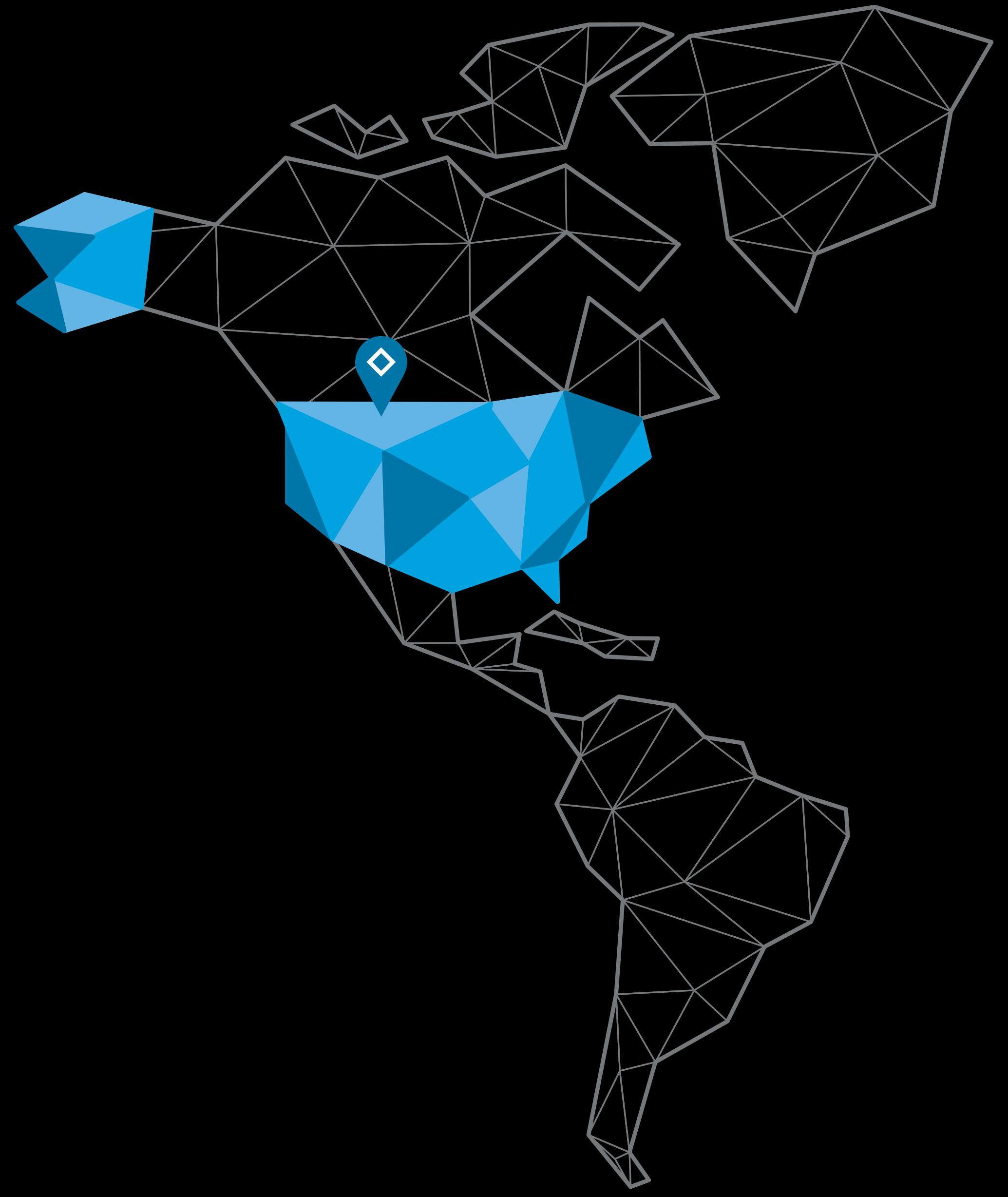
Though businesses face new economic uncertainty, they can still play a large role in mitigating the impacts. The current high inflationary environment is an opportunity for businesses to revisit key pricing, cost and investment strategies. Businesses can create ways to lower costs and rebalance debt, such as by moving towards shorter-term debt obligations to avoid higher financing costs when interest rates eventually fall. And with talent shortages holding businesses back, **now is the time for investment in the business and its people.** Developing training capabilities, talent pipelines and automation, while potentially costly in the short term, can have immense productivity benefits – particularly once the economic outlook improves.

Australia's economy should still experience strong growth in 2022 though the best of the cycle is likely behind us.

"We haven't seen interest rate rises for a decade, and we haven't seen embedded inflation in Australia since the late 1980s. Though we face new uncertainties and risks, businesses can look at a range of strategies to mitigate the impacts of cost pressures. As well as pricing decisions, for many businesses this will include a fresh look at technology solutions, as well as investment back in their workforce – to raise skill levels and encourage staff retention."

David Rumbens
Partner, Deloitte Access Economics
Deloitte Australia

Economic update – Global



Inflation is currently one of the biggest risks to global growth. As most countries move further away from COVID-19–driven disruptions, strong economic recovery and demand coupled with significant supply side disruptions and the impact of the Ukraine invasion on energy prices is creating a perfect storm for broader price growth.

Most central banks around the world are now responding to this shift in economic activity, moving quickly to contain inflation via rapid and successive rate hikes. One notable exception is China, which after experiencing significant lockdowns in recent months is using expansionary fiscal policy to accelerate its recovery. As a result, the global economy is forecast to grow 3.5% in 2022, lower than the strong 5.9% in 2021.

United States of America

While there is some concern that in the short term the US could enter a technical recession, most economic indicators suggest the US economy is in a relatively strong position at present. Employment levels are high and consumer spending is strong, with increases in consumer indicators such as weekly movie theatre ticket sales and hotel occupancy rates. However, rising inflation (the highest in more than four decades and rising much faster than most other advanced countries) is a concern. The Federal Reserve, wary of this, has aggressively increased the Federal funds rate to levels last seen in 2019 (with more increases anticipated), which is driving a decline in consumer and business confidence. Real incomes are also falling as average hourly earnings are being outstripped by inflation, even in an extremely tight labour market. The overlapping factors of tighter financial conditions, high commodity prices, the withdrawal of fiscal support, and inflation outstripping wages growth will all likely contribute to slower growth in the US going forward.

Economic update – Global

China

China's economy is facing challenges from multiple fronts. With its 'zero COVID' policy, China is currently experiencing far tighter COVID restrictions than most other nations. The world's rapid tightening of monetary policy and slowdown in economic growth have negatively impacted demand for Chinese products from the US and Europe. Additionally, with China's exports being predominantly goods, a global shift in consumer preferences to services is also hurting its economy. This effect is also being felt by individuals, with the urban unemployment rate rising (particularly for young people) and the level of manufacturing remaining well below previous levels. Supportive fiscal settings have been in place in China since earlier this year aimed at propping up the economy through the slowdown, but renewed lockdowns place a question mark over how quickly China's economy can rebound.

New Zealand

New Zealand, like many other nations, has recently seen inflation reaching levels not seen in three decades. The Reserve Bank of New Zealand (an early and aggressive mover) has rapidly increased the cash rate to levels last seen in 2016. Significant drivers of such inflation are factors all too familiar in Australia, with new dwelling construction in New Zealand seeing its biggest increase ever. Consumer and business confidence has dropped as a result, offsetting some of the rebound occurring from New Zealand reopening its borders to the world over 2022.

Economic update – Global

United Kingdom

The United Kingdom has also seen its growth slow as it battles inflationary pressures and disruptions from the Russia-Ukraine conflict. While growth was strong in 2021, year-to inflation is now at a 40-year high of over 9%, placing significant pressure on costs of living. This has prompted the Bank of England to raise the Bank Rate, raising borrowing costs at the same time as the UK grapples with extraordinary gas and electricity prices. Moreover, the temporarily reduced value-added tax (VAT) rate aimed at stimulating leisure and hospitality activity ended in March 2022, compounding price pressures faced throughout the UK economy.

Europe

The European economy has been one of the hardest hit by the Russia-Ukraine conflict, mainly through rising energy prices and energy security. Surging commodity prices have been a key driver of inflation in Europe, as have food prices. As a result, the Euro has recently depreciated to its lowest point against the US dollar since 2002. Manufacturing activity in Europe (especially Germany) has also weakened, as the rising cost of energy and continued supply chain disruptions have reduced demand. Declining business confidence and a build-up in inventory may also see manufacturers cut output, further slowing down the economy. However, in contrast to other central banks, the European Central Bank (ECB) has taken a self-proclaimed 'gradual' approach to rising interest rates. More cautionary monetary policy tightening is hoped to shield the weaker European economy, though this is becoming increasingly difficult as European inflation continues to reach record highs.

Economic update – Global

India

Inflation is also impacting activity in India. Rising global energy and food prices have had the largest impact on price growth, but inflation is widespread with almost 75% of consumer price index (CPI) sub-components exceeding inflation targets. This has led to the Reserve Bank of India undertaking monetary policy tightening in May with the aim of reaching a more neutral monetary stance. However, the Reserve Bank of India faces the prospect of weakening the wider economy with further rate hikes. Most recently, the Indian rupee has hit a record low against the US off the back of India's widening trade deficit (which hit an all-time high in June).

Japan

While inflation in Japan is relatively low compared to overseas, it is starting to hurt Japanese consumers who have become accustomed to a low (and even negative) inflationary environment. Low wage growth has made the impact of rising inflation even more noticeable for consumers, with Japan's household spending falling lower than most expected in May. This fall comes despite some eased COVID restrictions (though Japan's borders remain largely closed), which indicate it may be a while before consumer activity fully recovers. The Bank of Japan is so far focused on Japan's economic recovery, with interest rates maintained at ultra-low levels.

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Economic update – Global

East Asia – Malaysia, Indonesia & Thailand

The relaxation of COVID restrictions has helped increase economic activity in East Asia for the first half of 2022, particularly as East Asia begins to accept tourists. However, US interest rate hikes may have large impacts on these economies as assets are sold off in emerging markets and investment is redirected to 'safer' assets, leading to depreciation of East Asian currencies against the US dollar. Inflation is also rising across East Asia, with Malaysia, Thailand and Indonesia all putting forward cash payments to citizens to help ease the pain of surging prices. However, this risks exacerbating already strained national debt levels – with Malaysia and Thailand having both raised their government debt caps last year.

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Key policy measures

What now and what next?

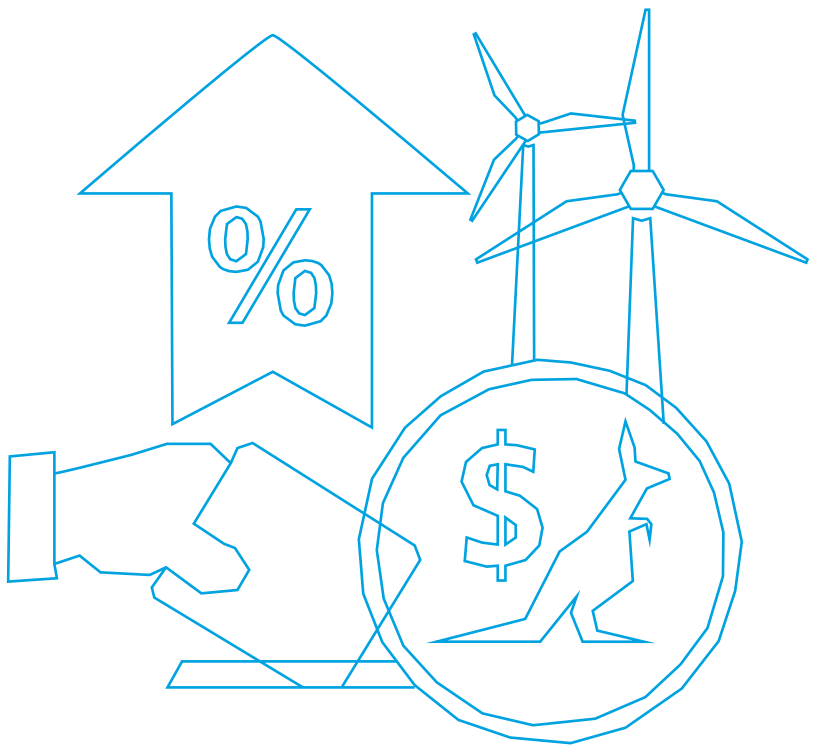
Australia faces a dramatically different monetary and fiscal environment now compared to only a year ago. In 2021 the RBA cash rate was just 0.1% and government spending (particularly pandemic spending) had accelerated sharply. Now Australia faces a Reserve Bank on a mission to bring inflation back under control and fiscal settings which are looking to bring the federal budget back towards balance.

The new federal government has announced several new policy priorities. Key changes on the agenda include a greater focus on child care (to improve workforce participation) and climate change. Climate change ended up being a decisive driver of the election result and will soon enter the political spotlight further with the return of climate change modelling (last done by the Treasury almost a decade ago). The new government has also shown a keen interest in easing international tensions, which could be a turning point for international partnerships and diplomacy. The full suite of this government's new fiscal measures (and Australia's debt levels) will be revealed in October, when the government hands down a revised 2022–23 budget.

On the states front, state and territory government budgets continue to shift expenditure away from pandemic support measures and toward capital spending and reform. Recent state budgets have benefited from significant revenue upgrades due to strong consumer spending and housing activity (and commodity price increases for Western Australia and Queensland). However, some budget deficits are still increasing despite revenue upgrades as new big-ticket policies are announced to lift productivity. For example, New South Wales and Victoria have announced the biggest ever reform to early education with the introduction of a new free year of pre-Kindergarten by 2030.

And finally, the Reserve Bank of Australia (RBA) has shifted gears in its monetary policy position as inflation runs well above its target range. The RBA has raised the cash rate three times so far in 2022 and is expected to keep going further, at least in the short term. This is the first time interest rates have risen in more than a decade, though they remain very low compared to historical norms.

The RBA faces complex trade-offs as it eyes the future of Australia's inflationary pressures: increase rates too passively and risk inflation being entrenched, or increase rates too aggressively and risk tipping the economy into recession.



“What a difference 6 months makes. Having navigated 2 years of COVID uncertainty, the first half of 2022 has seen new forces emerge. Rising inflation, rising interest rates and the flow through impact of the Ukraine war, have all combined to present new challenges for CFOs in the last 6 months. As a result uncertainty is high and many feel now is not a good time to take on risk. The good news is that CFOs still feel upbeat about their prospects, with 75% optimistic about their financial prospects for the future.”

Stephen Gustafson
Partner | Audit & Assurance
CFO Program Leader

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2022 proves turbulent for CFOs

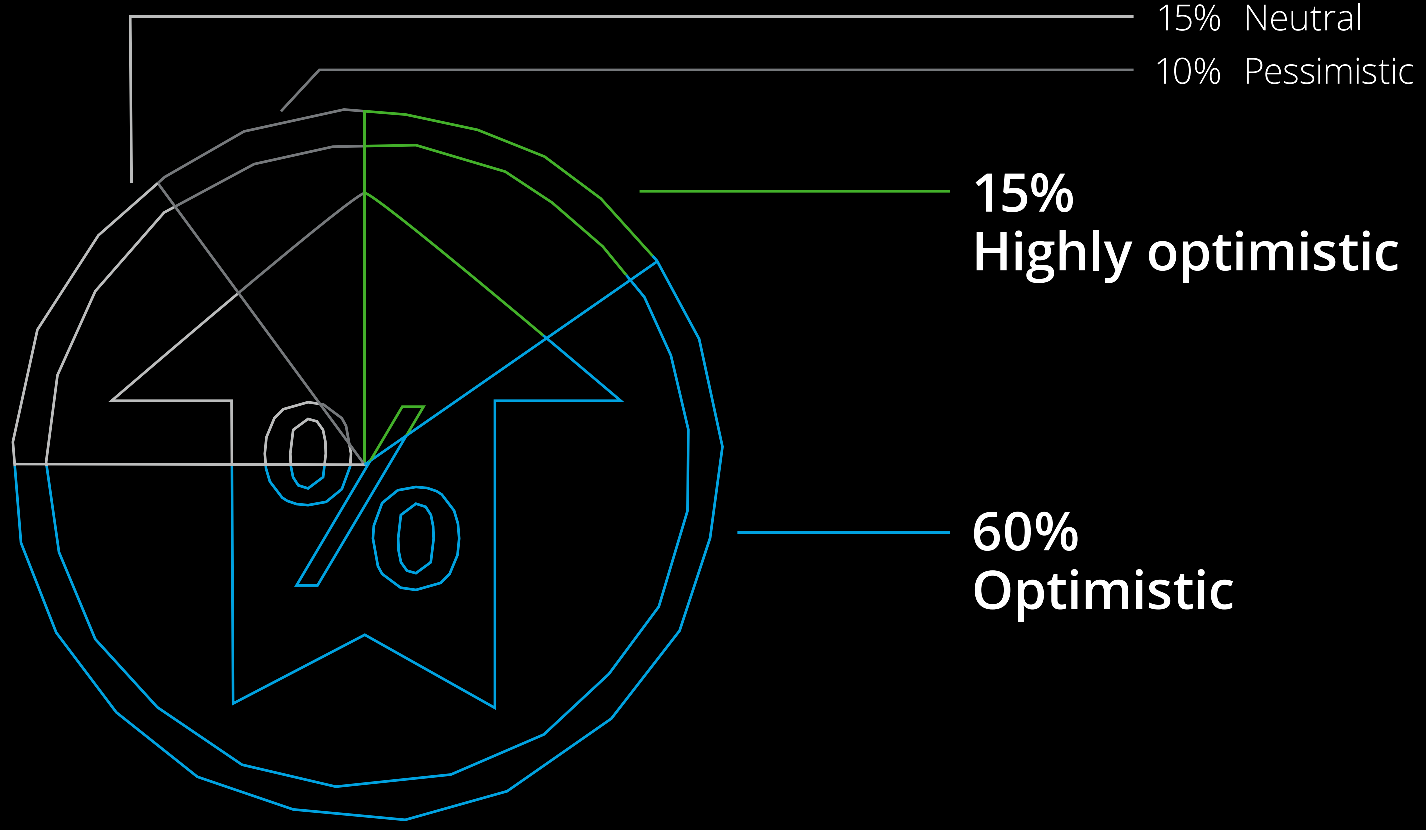
Sentiment shifting

Despite the challenging economic environment, Australian CFOs are still feeling optimistic about the financial prospects of their company.

Some 75% of respondents to our survey felt optimistic or highly optimistic about the financial prospects of their company going forward (shown in Chart 1). While none reported feeling highly pessimistic, general pessimism came in at 10%. This puts net optimism among Australian CFOs at 65% (2021 H2 net optimism was 79%).

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

Chart 1:
Business confidence



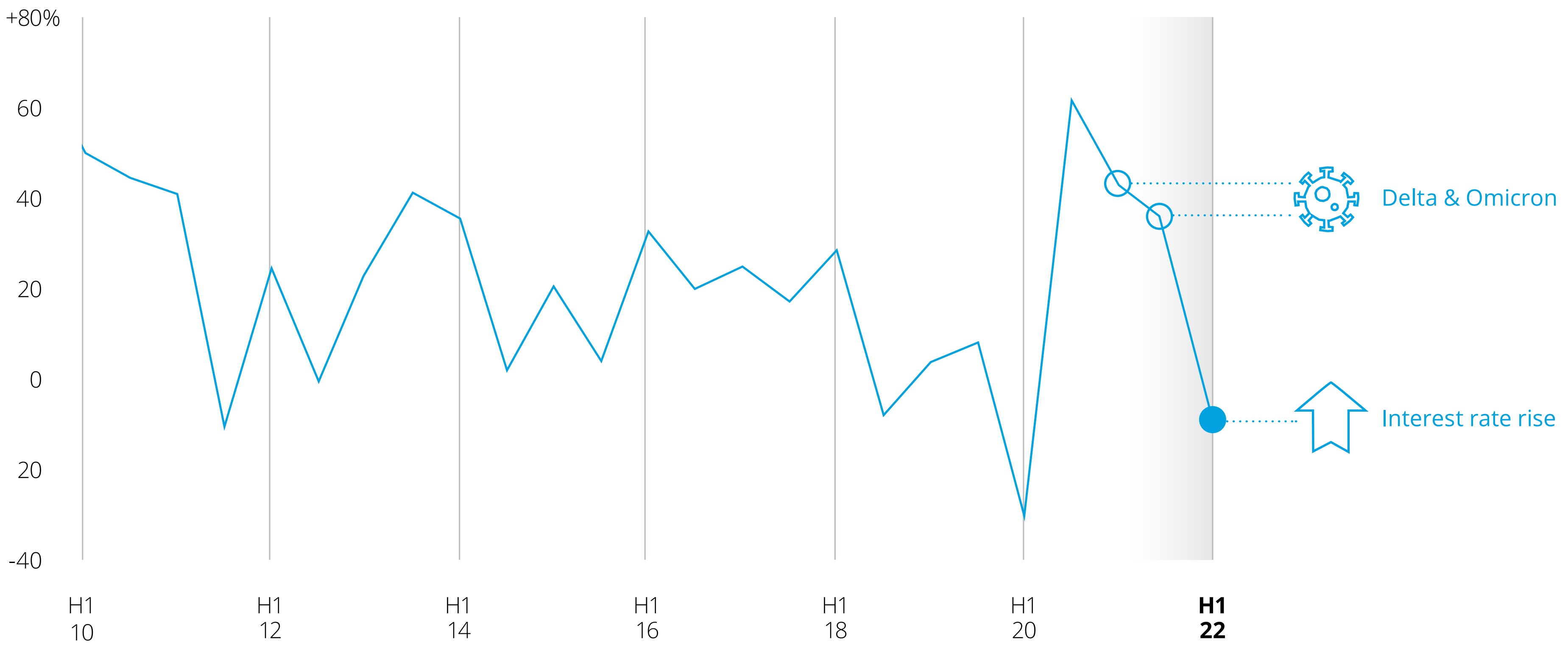
2022 proves turbulent for CFOs

While CFOs are broadly still smiling, for many it is a grimace when they consider how the economic environment has changed with inflation now so prominent. **Confidence relative to recent history has taken a large dip. Net optimism about financial prospects relative to six months prior is at -8%** (a significant drop on the strong net optimism seen over the previous three surveys – see Chart 2).

Considering net optimism across industry groups, CFOs in the financial services sector had the most negative outlook about their financial prospects compared to six months ago, likely reflecting fear of a borrowing squeeze as interest rates move higher. By contrast, those in the energy sector were relatively more optimistic about their financial prospects compared to six months ago, reflecting the very high commodity prices which have been seen of late.

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

Chart 2:
Financial prospects compared to six months ago



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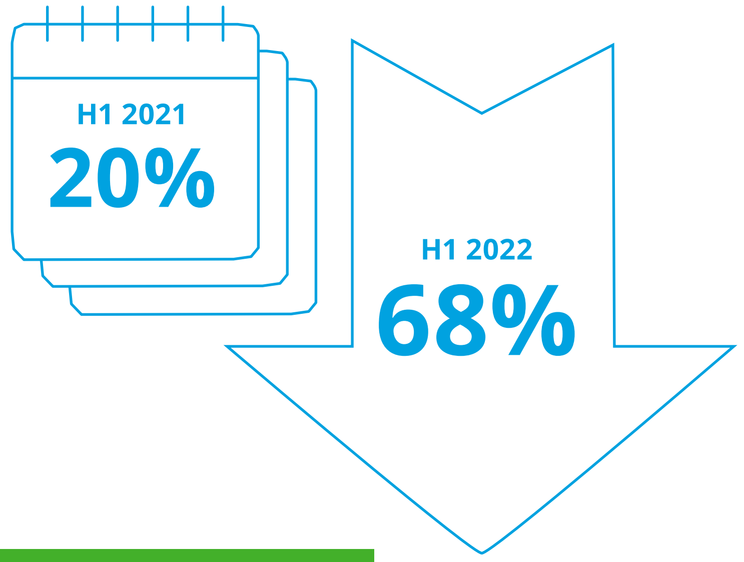
2022 proves turbulent for CFOs

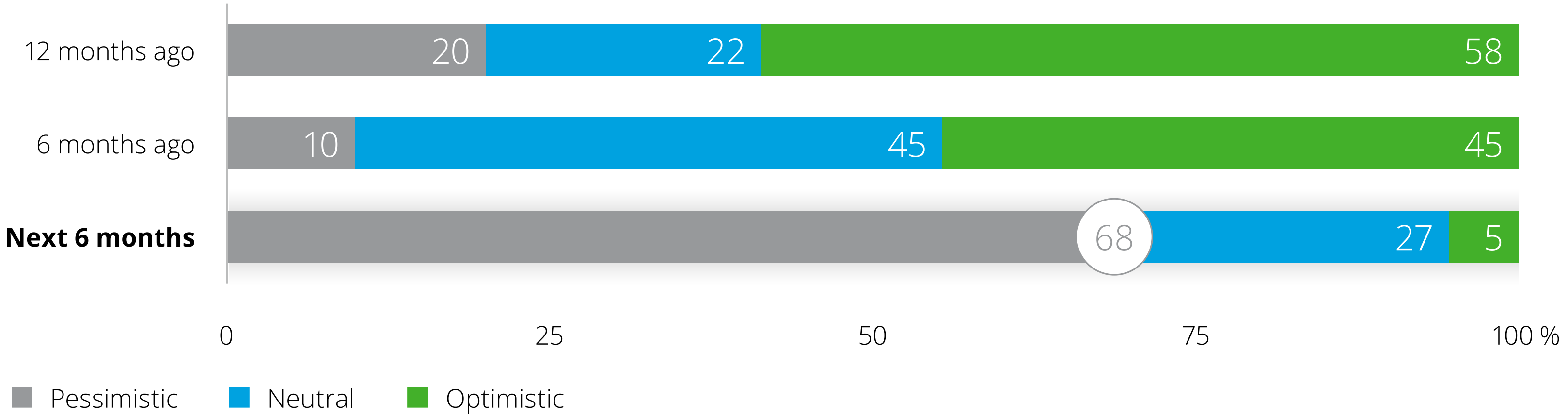
The negative turn in sentiment driven by the challenges of higher inflation and interest rates is also evident in Chart 3. **CFOs perceive economic sentiment to have been significantly better 12 months ago and 6 months ago compared to expectations looking forward.** The earlier positive sentiment reflects a post-lockdown boost. However, now that we are in the post-lockdown world, it's not looking quite so flash (global increase in inflation, skills shortages, tightening of monetary policy in response, and entrenched challenges in supply side conditions).

It seems that while CFOs are still quite confident about the financial state of their company going forward (Chart 1), they are less confident about the state of the economy going forward. The inflationary environment is creating a different kind of uncertainty now – different to the financial uncertainty felt during COVID.



What is your perspective towards economic sentiment at the following points in time?

Chart 3:
Business confidence about recent history



2022 proves turbulent for CFOs

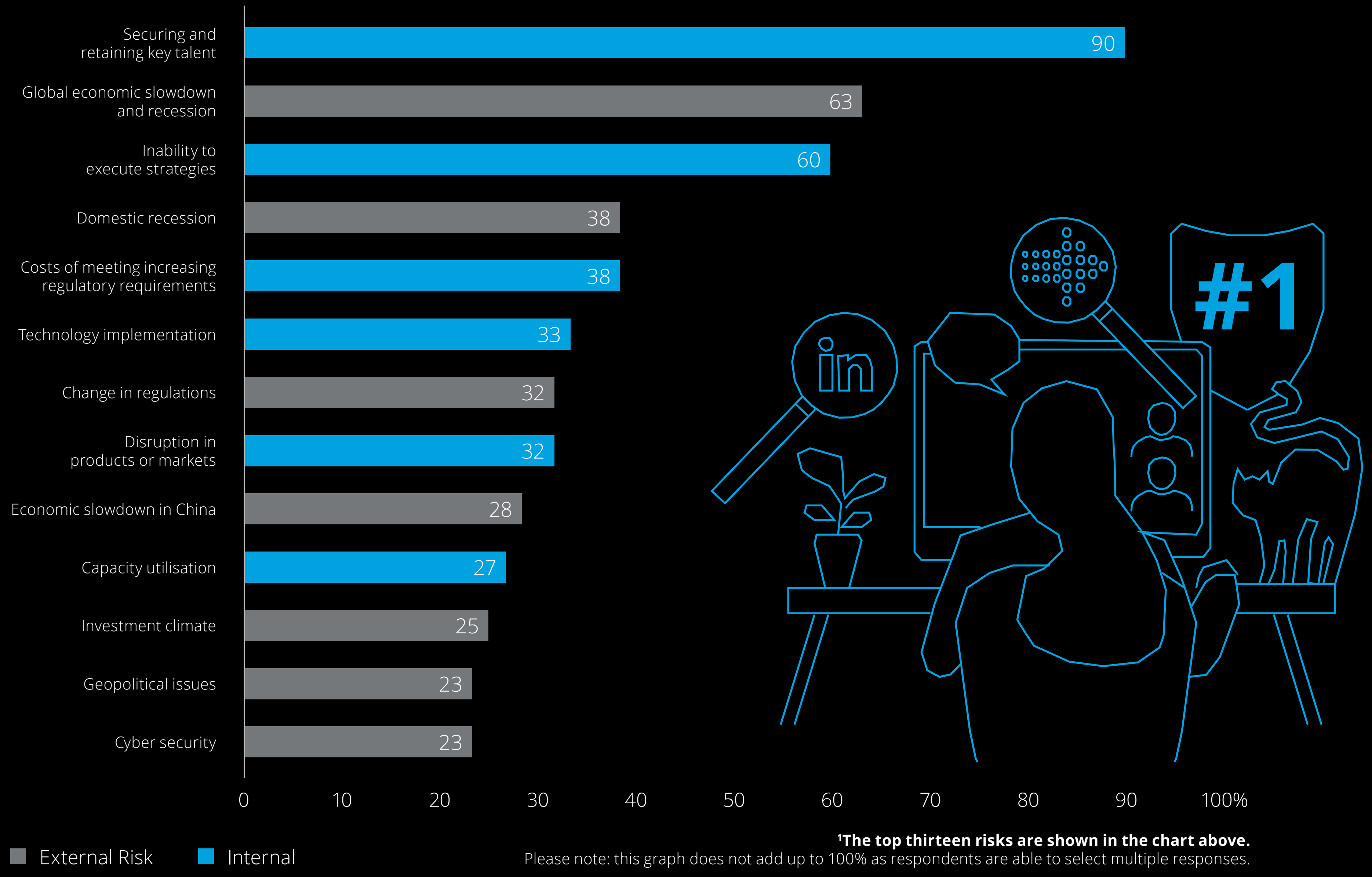
Securing and retaining key talent remains the #1 concern for businesses, with 90% of CFOs surveyed agreeing this is a risk to their business (shown in Chart 4). For some businesses the talent shortage has become business critical; for others it's manifesting in higher costs and/or an inability to grow the business as quickly as hoped.

The opening of Australia's international borders has eased some of the pressure on labour supply in some sectors, but it's still early days in the recovery phase with net overseas migration to Australia well below pre-COVID levels.

Other risks, while still not as dominant as talent risks, are increasingly weighing on the minds of CFOs in 2022. One of the largest movements in the past six months has been that of domestic recession, which has moved from the 11th spot up into the top four risks of most concern to CFOs. Moreover, risks that were already prevalent six months ago are even more worrisome to CFOs now, with CFOs increasingly concerned about global economic slowdown and an inability to execute strategies. This only goes to show the ever-changing climate businesses are facing, and the uncertainty causing them to adapt and overcome.

Chart 4:

Risks of most concern to CFOs over the next 12 months, internal and external[1] (% of CFOs)



[1]The top thirteen risks are shown in the chart above.
Please note: this graph does not add up to 100% as respondents are able to select multiple responses.

Risk appetite in decline

Risky business

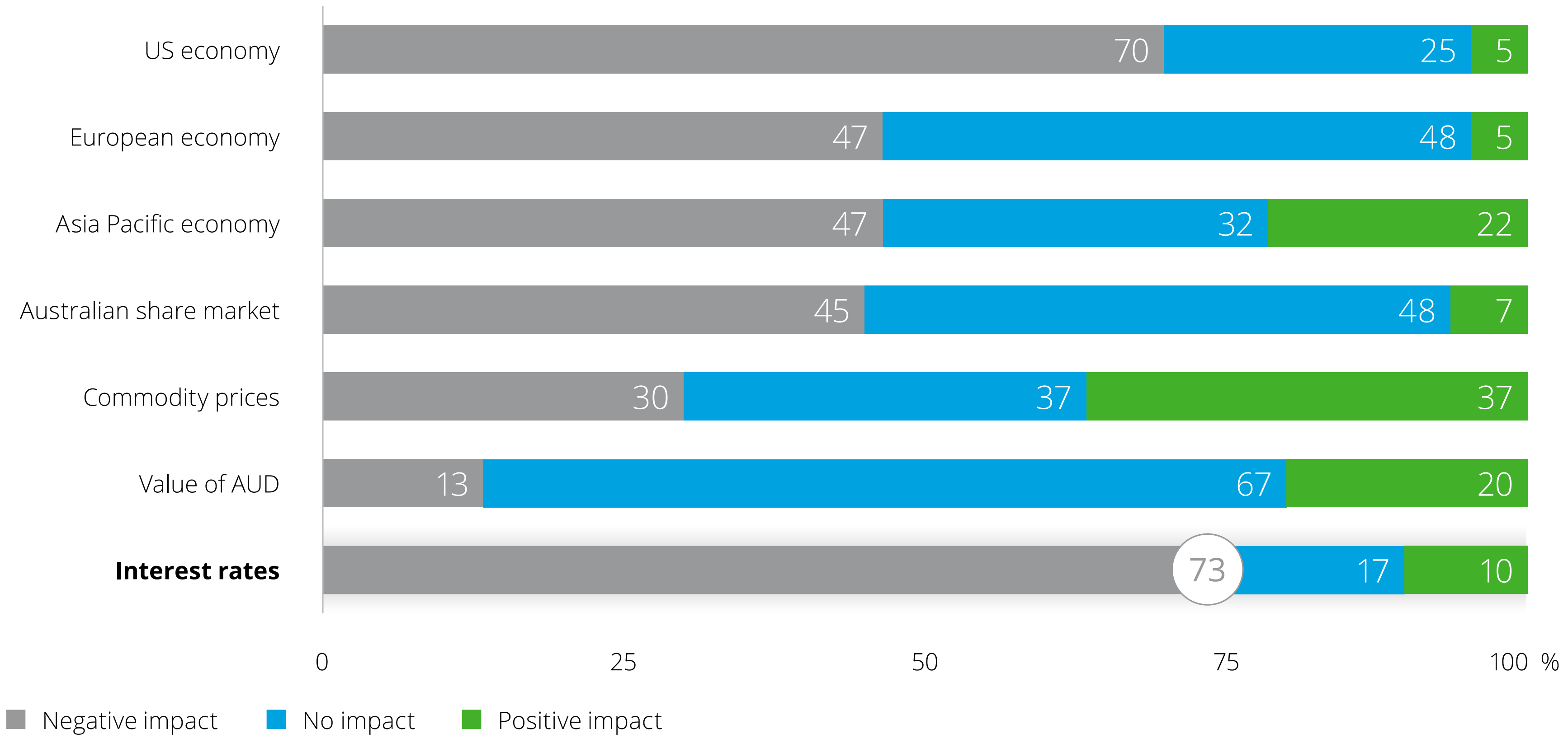
CFOs are recognising that the economic climate is changing both domestically and internationally, manifesting in labour shortages, high inflation and rising interest rates.

Domestically, interest rates are a negative for 73% of CFOs surveyed. For just 10% they are positive, with the remainder sitting in the middle. Internationally, the slowdown in the US economy is concerning CFOs, with 70% viewing the current state of the US economy as a negative and just 5% viewing it as a positive.

The financial factor having the most positive impact on CFO confidence is commodity prices, which have been on an upward surge over the past year and are boosting the optimism of more than a third of CFOs. This is likely due to the positive impact that higher commodity prices have on Australia's energy and resources sectors. Contributing considerably less to confidence are economic conditions in Asia Pacific, as well as the value of the Australian dollar. The share market was a negative concern for CFOs in the financial services sector, but much less so for CFOs in other sectors.

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

Chart 5:
Impacts on optimism



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Risk appetite in decline

Some 88% of CFOs rated uncertainty levels as being higher than normal. This is a 7-percentage point downgrade from the end of 2021. However, uncertainty levels presently are still amongst the highest recorded.

Despite uncertainty dropping compared to six months ago, only 25% of CFOs think now is a good time to take more risk onto their balance sheets (as shown in Chart 6). This is most likely reflective of the emergence of new risks of rising inflation and interest rates. This substantial drop is consistent with the decline in general economic sentiment (see Chart 3).

Considering risk appetites by industry, the energy sector is likely seeing the lowest need for borrowing in times of high interest rates and high commodity prices. CFOs in the financial services sector are also more hesitant to take on more risk at present, likely owing to their greater interest rate sensitivity.

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

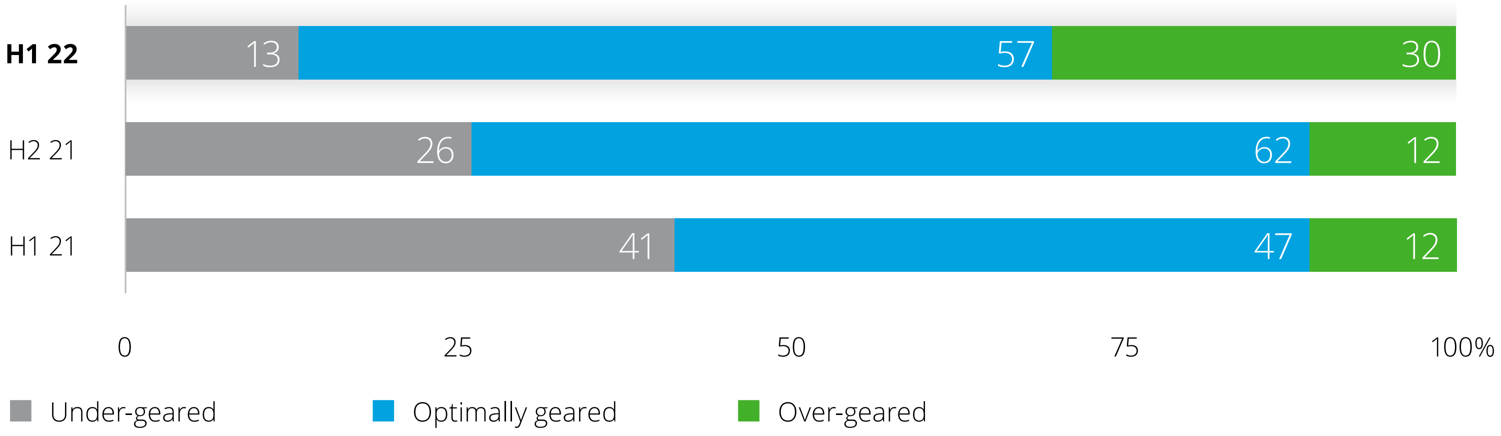
Chart 6:
Balance sheet risk and uncertainty about economic and financial conditions

Risk appetite in decline

An increased number of CFOs surveyed are of the view that Australian balance sheets are over-geared in 2022 (as shown in Chart 7). Despite 18% more CFOs sharing this view, it is likely explained by the rapid increase in the cash rate over 2022 compared to historic low levels over 2021. The higher cash rate is likely affecting the levels of existing and future debt that businesses will have, with those over-geared likely to start feeling it through higher interest repayments.

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

Chart 7:
Financial gearing sentiment (% of CFOs)



Risk appetite in decline

CFOs' expectations of domestic and international economic factors in 2022 are impacting their current views on the relative attractiveness of different sources of funding. Anticipating future interest rate rises to occur, only 30% of CFOs on net currently see bank borrowing as an attractive source of funding, and this rate is even lower for corporate debt issuance at just 8% net attractiveness. These results show bank borrowing and corporate debt issuance are respectively **37% and 55% less attractive to CFOs now than they were six months ago** (as shown in Chart 8). This is to be expected in an environment of higher interest repayments.

However, it's interesting to note that equity issuance is the most unattractive source of funding in the first half of 2022. Considering the state of the Australian share market, with the ASX200 being at its lowest since the start of 2021, this suggests businesses are not confident in the ability of the share market to raise capital efficiently. Even with interest rate rises, CFOs seem to prefer borrowing from the bank or issuing corporate debt rather than issuing additional equity.

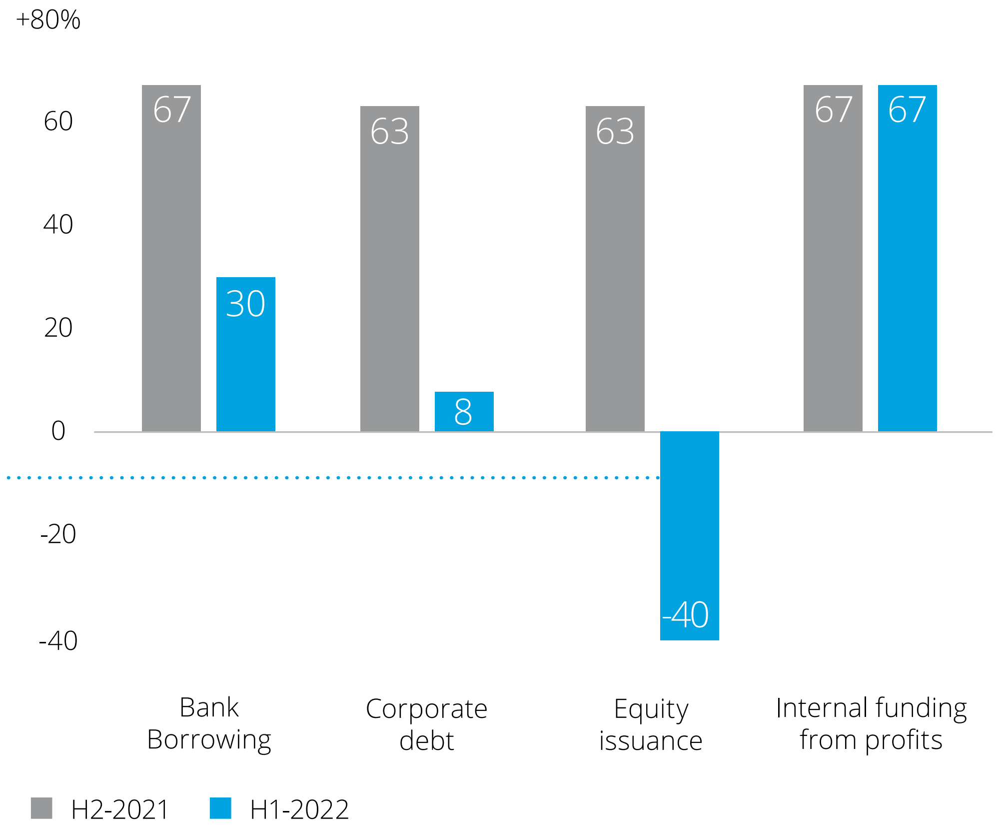
This is not to say that CFOs have lost confidence because businesses are making losses. Rather, as raising capital has become more expensive in the current economic climate, they prefer to fund future projects and expansions from internal profits instead of relying on external sources.

Equity issuance is currently the least attractive source of funding for CFOs and has fallen the furthest in attractiveness over the past six months, demonstrating the volatile nature of equity markets.

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

Chart 8:

Net attractiveness of different sources of funding



Business needs the skills to upskill

Increasing emphasis on talent

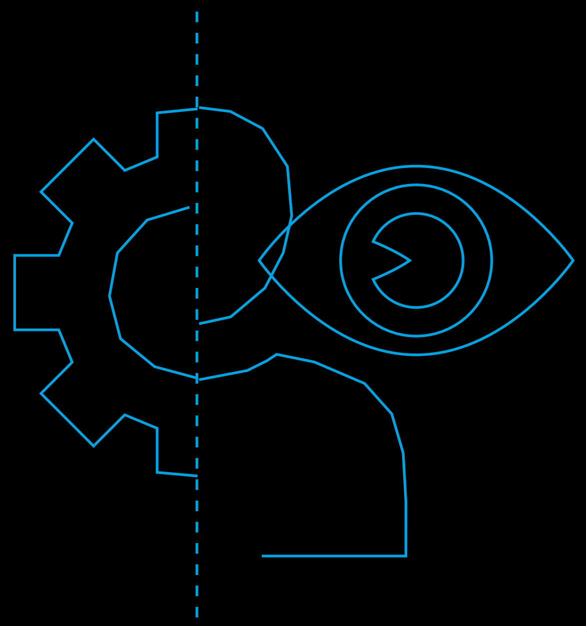
The disruptions created by COVID-19–driven lockdowns have emphasised the importance of upskilling employees for businesses to adapt to the rapidly changing environment. However, **implementing learning and development to upskill employees has not been easy for businesses in the context of COVID-19.** Chart 9 reports the top five barriers to skilling and reskilling the workforce as reported by CFOs during the previous year. Topping the list by a considerable margin is in-house capability and capacity, with 77% of CFOs believing their company's limited internal expertise and resources for training is one the main factors hampering the learning and development process of their employees.

The shift to remote and hybrid work could have been a major factor contributing to this result, as an underdeveloped or complete lack of digital platforms for delivering online training might be perceived by CFOs as a constraint to skilling employees.

42% of CFOs identified that a lack of visible future capability needs within the firm is another barrier to upskilling their employees. An equal share of CFOs believed the lack of business impact from investing in skilling and reskilling employees also acts as a barrier. The financial uncertainty and constrained budgets in this tighter financial environment has raised the costs for training employees, leading to more careful evaluation by businesses before investing in their human resources.

Lack of practical reskilling opportunities for employees and identifying strategic focus areas are also perceived as barriers to skilling the workforce, with 30% and 27% of CFOs choosing these options respectively.

42% of CFOs identified the lack of visible future capability needs within the firm is another barrier to upskilling their employees.

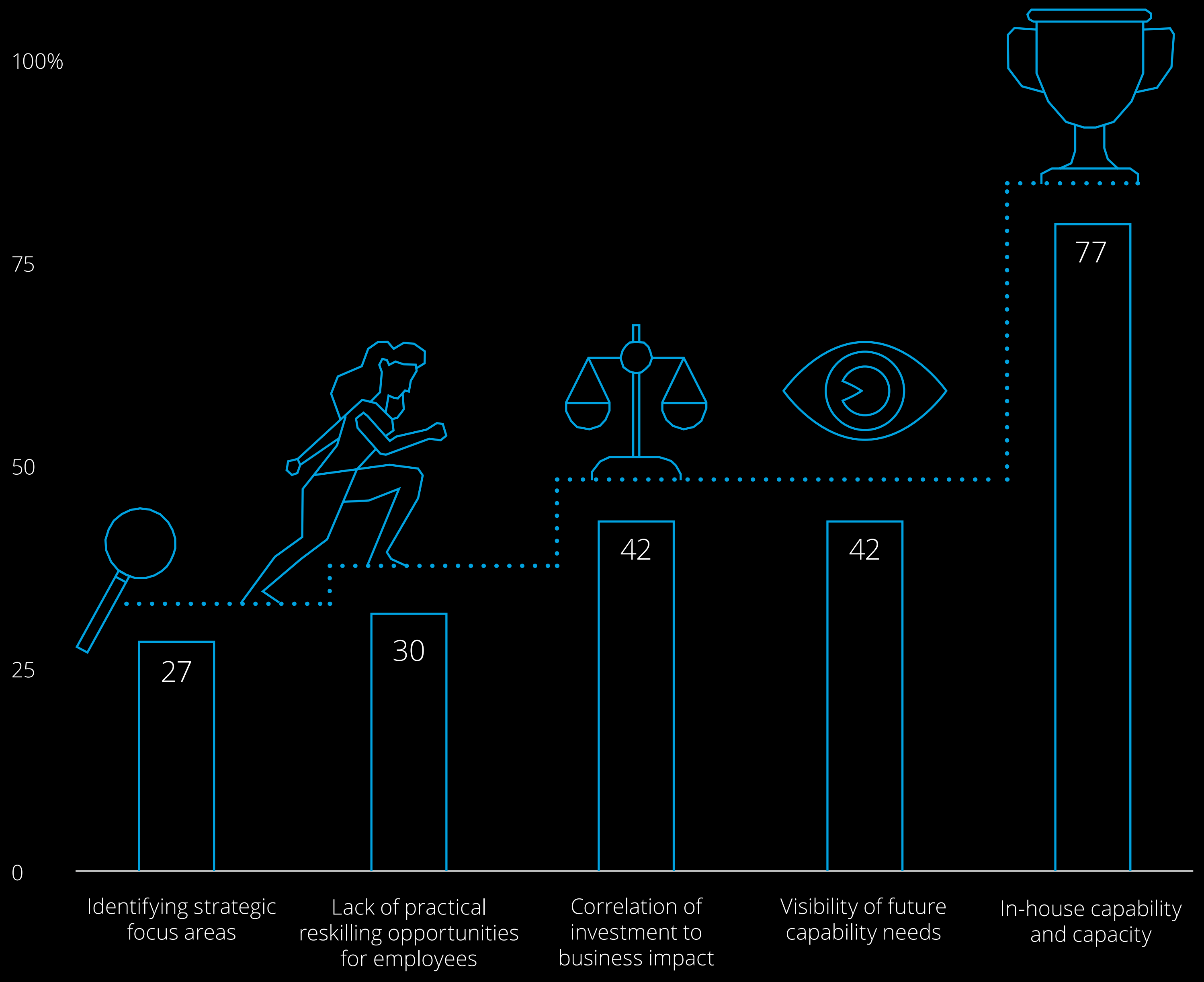


Business needs the skills to upskill

What are the barriers to skilling and reskilling your current workforce?

Chart 9:
Barriers to skilling and reskilling workforce

77% of CFOs believe that their company's limited internal expertise and resources for training is one the main factors hampering the learning and development process of their employees.



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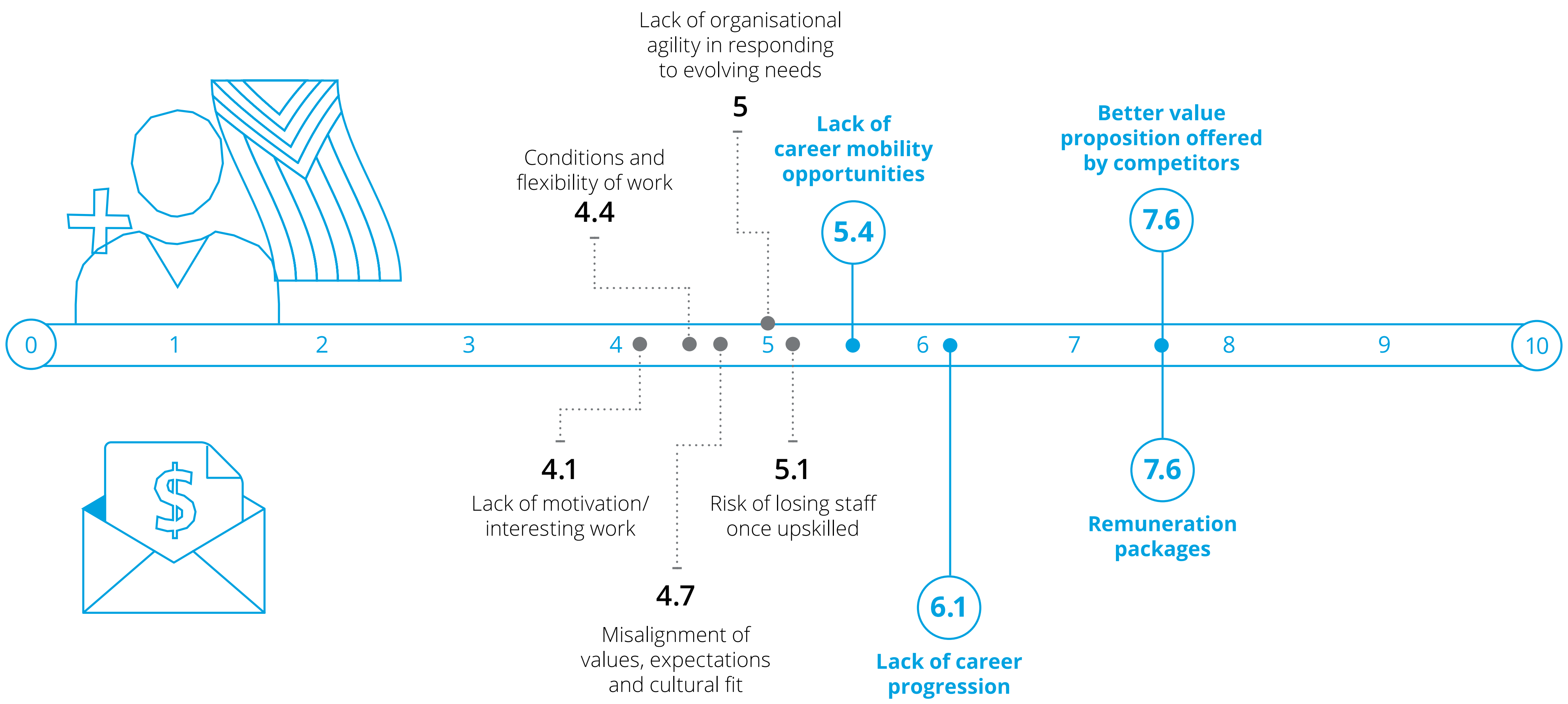
Business needs the skills to upskill

The current environment of skill shortages has made attracting and retaining talent a top concern for Australian businesses to maintain competitiveness and sustain growth, putting more bargaining power in the hands of employees. Chart 10 provides the results when CFOs were asked to rank the factors which impact their ability to attract and retain their workforce. Remuneration packages take the joint top spot in the ranking, with an average score of 7.6 out of 10. Fierce competition for workers among businesses has shifted the balance of power in favour of Australian workers, putting pressure on salaries that not all employers are able or willing to meet. On a similar theme, losing out to competitors in terms of value proposition is tied with remuneration for the top concern among CFOs.

Beyond salaries, there is also evidence of a wider gap between employer and employee expectations. In an increasingly competitive labour market, compensation is no longer the sole deciding factor for prospective employees when seeking a new firm to work for. Value propositions which highlight purpose, workplace culture, diversity and gender equality are also brought into consideration. Concerns such as the lack of career progression, career mobility opportunities and risks of losing staff once upskilled, ranking 3rd, 4th and 5th respectively, further solidify that the dynamic has changed, with workers now being at the centre of focus.

What are the top factors impacting on your ability to attract and retain your workforce?

Chart 10:
Weighted average of top factors impacting ability to attract and retain workforce (10=most impactful)

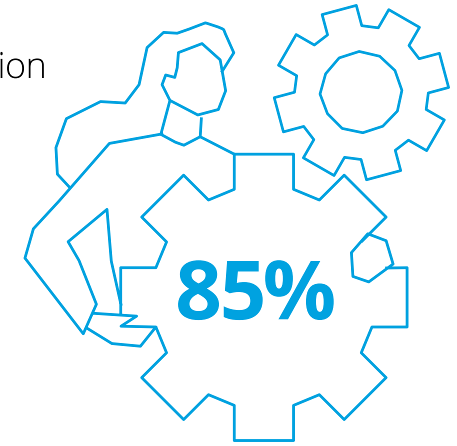


Business needs the skills to upskill

Some 85% of CFOs surveyed are offering practical, on-the-job experience to skill, reskill and upskill their employees. Offering employees the opportunity to learn by engaging in real work situations has always been one of the most cost-effective strategies for businesses to upskill their staff. Along with supporting productivity, we also know that on-the-job training can be a powerful tool for employee engagement (and retention).

57% of CFOs are promoting employee reward and recognition programs as a strategy to foster employees' development. If senior leaders consistently signal that good performance will be properly rewarded through appropriate financial incentives and recognition, then a learning culture will flourish within organisations as employees become aware that developing their skills through continuous learning is valued by the business. The impact of a great learning culture on employees' development is further highlighted by the fact that 48% and 45% of CFOs respectively mentioned mentoring, buddy programs or support initiatives and developing skills-led career pathways as chosen strategies to upskill their employees.

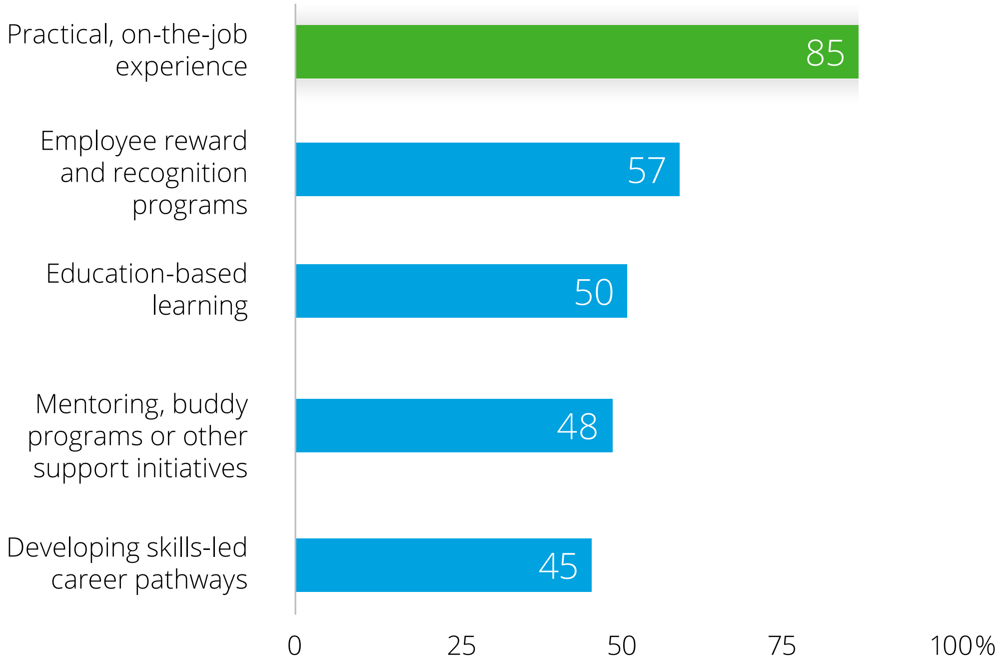
Employing education-based learning is another popular strategy that businesses use to skill their workforce, with half of surveyed CFOs selecting this option. In the current climate where employees' time is becoming an increasingly valuable asset, the use of micro-credentials, or 'short courses', for employee training can bring significant benefits to businesses.



Some **85%** of CFOs surveyed are offering practical, on-the-job experience to skill, reskill and upskill their employees.

Which strategies are you undertaking to skill, reskill and upskill your workforce so that they have the right capabilities?

Chart 11:
Strategies to skill, reskill and upskill the workforce so they have the right capabilities



Business needs the skills to upskill

The majority of surveyed CFOs (58%) believe that focusing on improving culture, wellbeing and experience within the business is key to lifting business productivity. Businesses are showing increasing awareness that building a healthy working environment where employees feel supported and appreciated must be their top priority to unleash workers' productivity and to retain their staff.

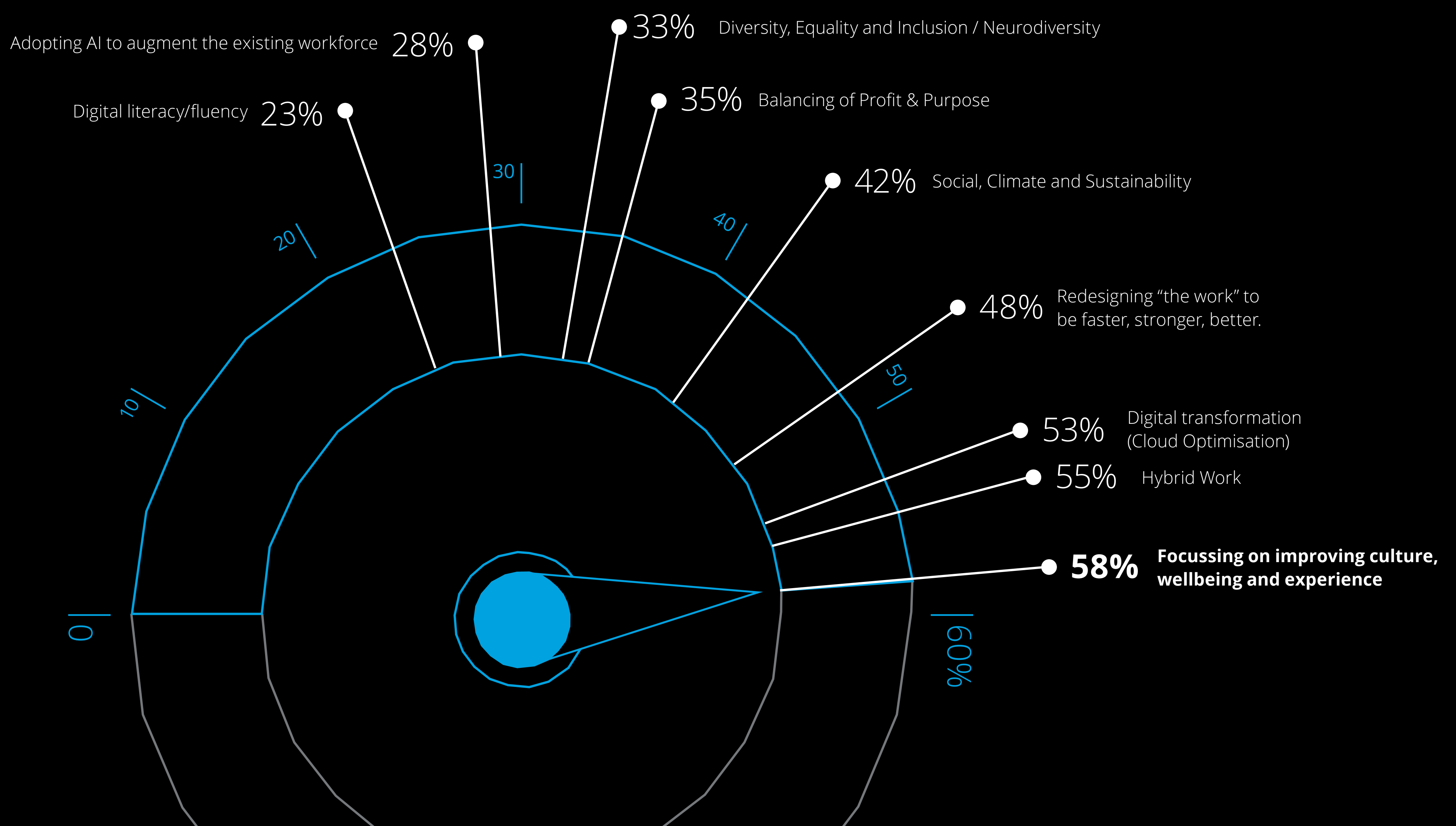
The emergence of COVID-19 also brought forth the hybrid working model. For many businesses, long gone are the days when employees were required to be in the office from 9 to 5. With digital working being so prevalent among businesses, 55% of CFOs thought the hybrid work model can have a significant and direct impact on their productivity.

COVID-19 also reminded CFOs how crucial digital transformation (cloud optimisation) is to modern business operations, with 53% of CFOs opting for this option.

Digital literacy/fluency remains at the bottom of CFOs' concerns list when it comes to impact on productivity. This is a surprising result seeing how important digitisation is to CFOs with their previous choices. Perhaps to many businesses, low levels of digital literacy/fluency among workers is perceived as a more minor problem which can be promptly and easily addressed.

Which of the following factors will have direct impact on your business productivity?

Chart 12:
Top factors having direct impact on your business productivity (% of CFOs)



M&A for a post-pandemic future

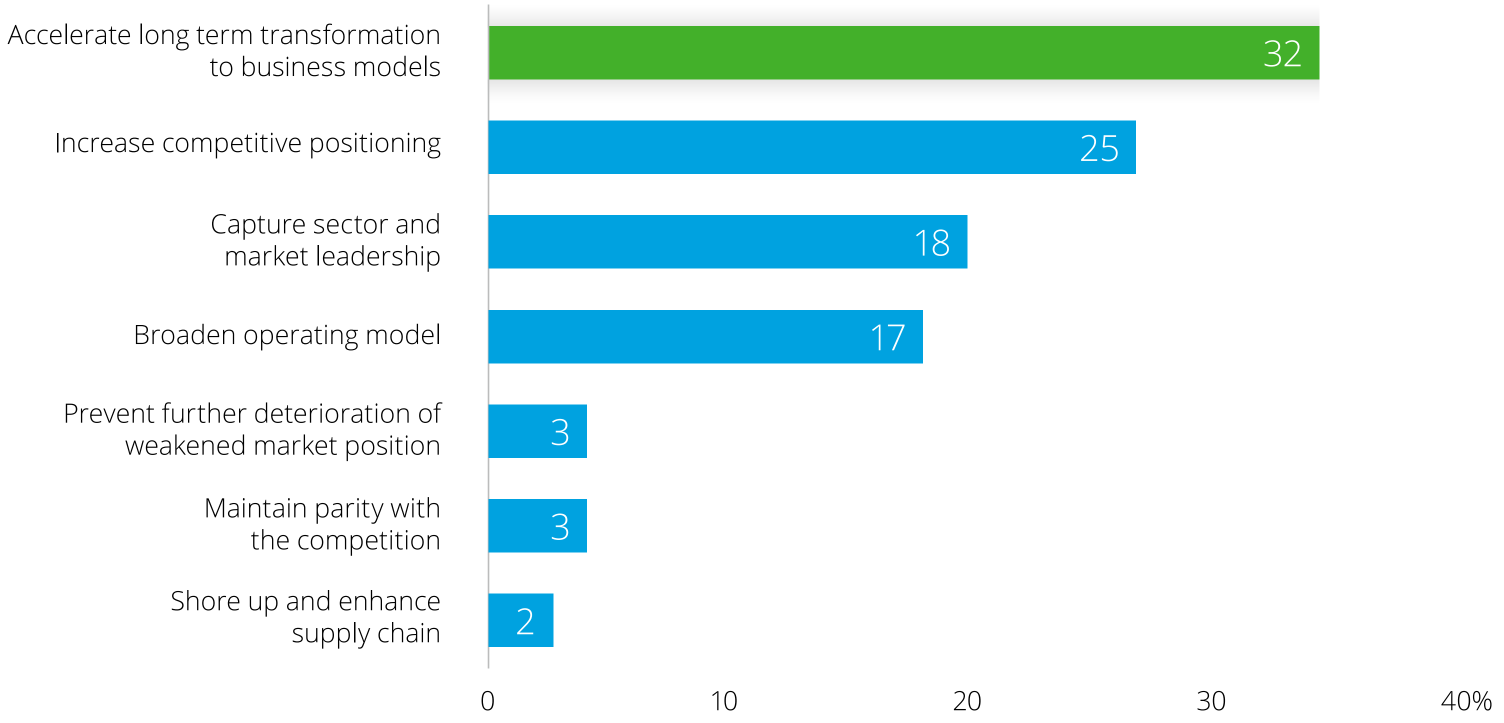
M&A holds strong

CFOs are undertaking mergers and acquisitions (M&A) activity to help create a strong, long-term business. Some 32% of CFOs have listed 'accelerate long-term transformation to business models' as the main focus of their current M&A strategy. This indicates that recent global supply chain disruptions and inflationary pressures have not caused businesses to lose sight of their long-term business goals. 25% of CFOs reported using M&A as a means to solidify their competitive positioning, while 18% listed M&A as a strategy to capture sector and market leadership.

Surprisingly, only 2% of CFOs listed M&A as a means to shore up and enhance their supply chain amidst the current global supply disruptions, indicating there might be more cost-effective solutions to businesses' supply chain problems.

What best describes your company's current M&A strategy?

Chart 13:
Current M&A strategy



M&A for a post-pandemic future

Despite the weaker economic outlook and rising interest rates, 93% of CFOs expected no change or an increase in their M&A activity over the next 12 months, and only 7% of CFOs expect that M&A activity will decline. This shows a high proportion of businesses are confident there will be growth opportunities in their sector. CFOs in the energy and resources sector have the highest expectation for future M&A activity, while those in the financial services sector are a little less optimistic on this score. This could be due to CFOs' expectations of rising interest rates in the coming months and the rising cost of capital.

Rate your agreement with the following statements

Chart 14:
M&A objectives

	Agree	Neutral	Disagree
Successful acquisitions provide a competitive advantage and reward investors	**83%**	12%	5%
Successful growth processes seek out good opportunities and avoid bad ones	84%	13%	3%
My organisation knows what we want and is prepared to act on acquisitions	72%	18%	10%
Good post-merger integrations cannot save bad deals, but bad PMIs can ruin a good deal	**95%**	3%	2%
Investors can smell a poorly considered transaction and will track the results	67%	25%	8%

< **83% of CFOs agreed to various degrees that successful acquisitions must both enable a company to beat competitors while rewarding investors.** This emphasised a common belief among CFOs that acquisitions to solidify the company's competitive position should not come as a cost or burden to the company's shareholders.

< Importantly, the process is not over at deal time. **95% of CFOs agreed that a good post-merger integration (PMI) will not save a bad deal,** but a bad PMI can ruin a good one.

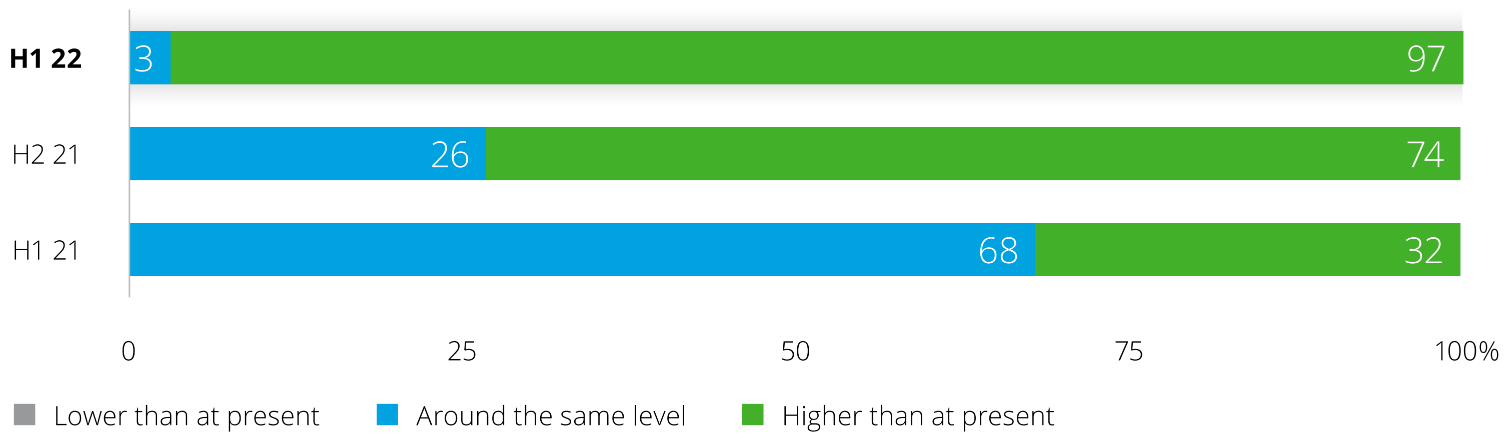
Looking ahead

Outlook weakens amid new uncertainty

CFOs' interest rate expectations have changed dramatically over the past year. Twelve months ago, two thirds of CFOs thought interest rates would stay about the same at their record low levels. Those CFOs were nearly correct, but over the past three months the cash rate has started to move up sharply. This has prompted CFO interest rate expectations to rapidly surge, with **almost all CFOs anticipating higher interest rates by the middle of 2023** (Chart 15), which raises the question: how high will the RBA go?

Where do you expect to see interest rates in 12 months' time?

Chart 15:
Interest rate expectations

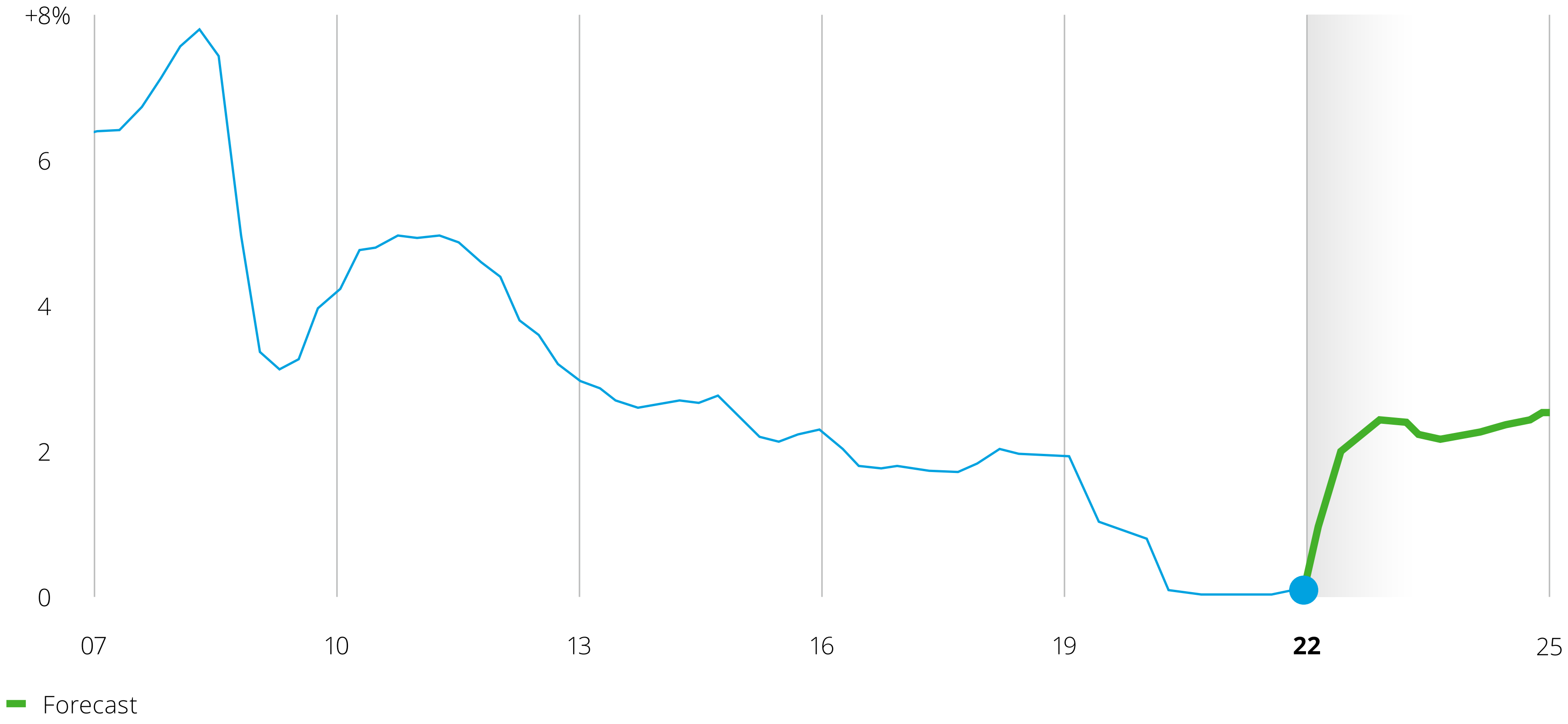


Looking ahead

Chart 16 shows Deloitte Access Economics' interest rate forecast for the 90-day bank bill rate. The forecast is for further increases in interest rates throughout 2022 and early 2023, before then levelling out as inflationary pressures ease.

Deloitte Access Economics 90-day bank bill rate forecast (quarterly average)

Chart 16:
Interest rate forecast

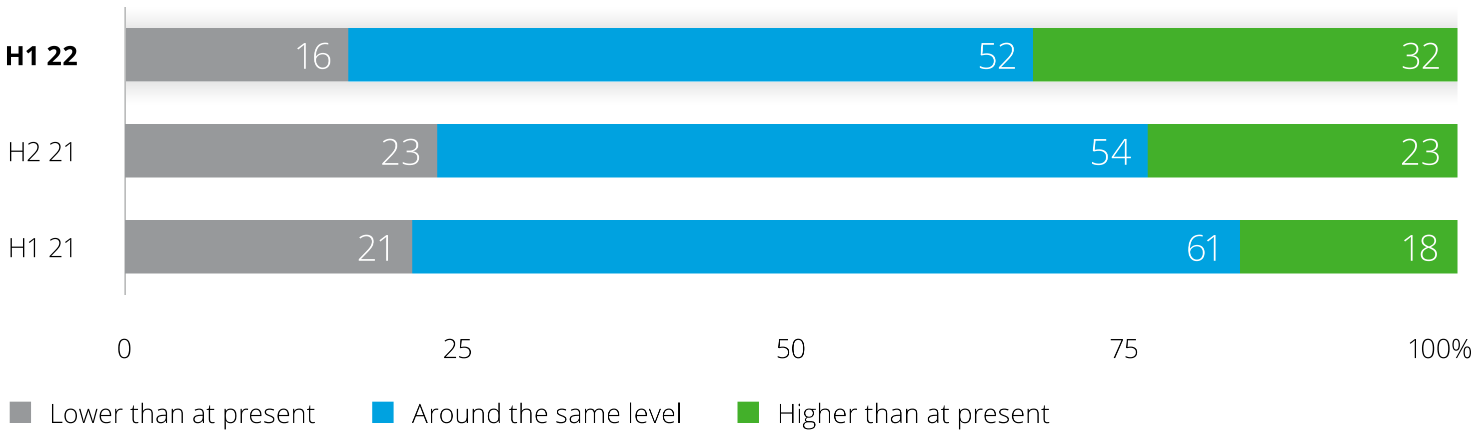


Looking ahead

CFOs aren't quite as certain about where the value of the Australian dollar will head as they are about interest rates. Chart 17 shows that just over half of CFOs expect the value of the Australian dollar to remain around its current level in 12 months' time. The rest are split between expecting an appreciation or depreciation in value, with almost two-thirds of those remaining bracing for a stronger dollar.

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

Chart 17:
Australian dollar expectations



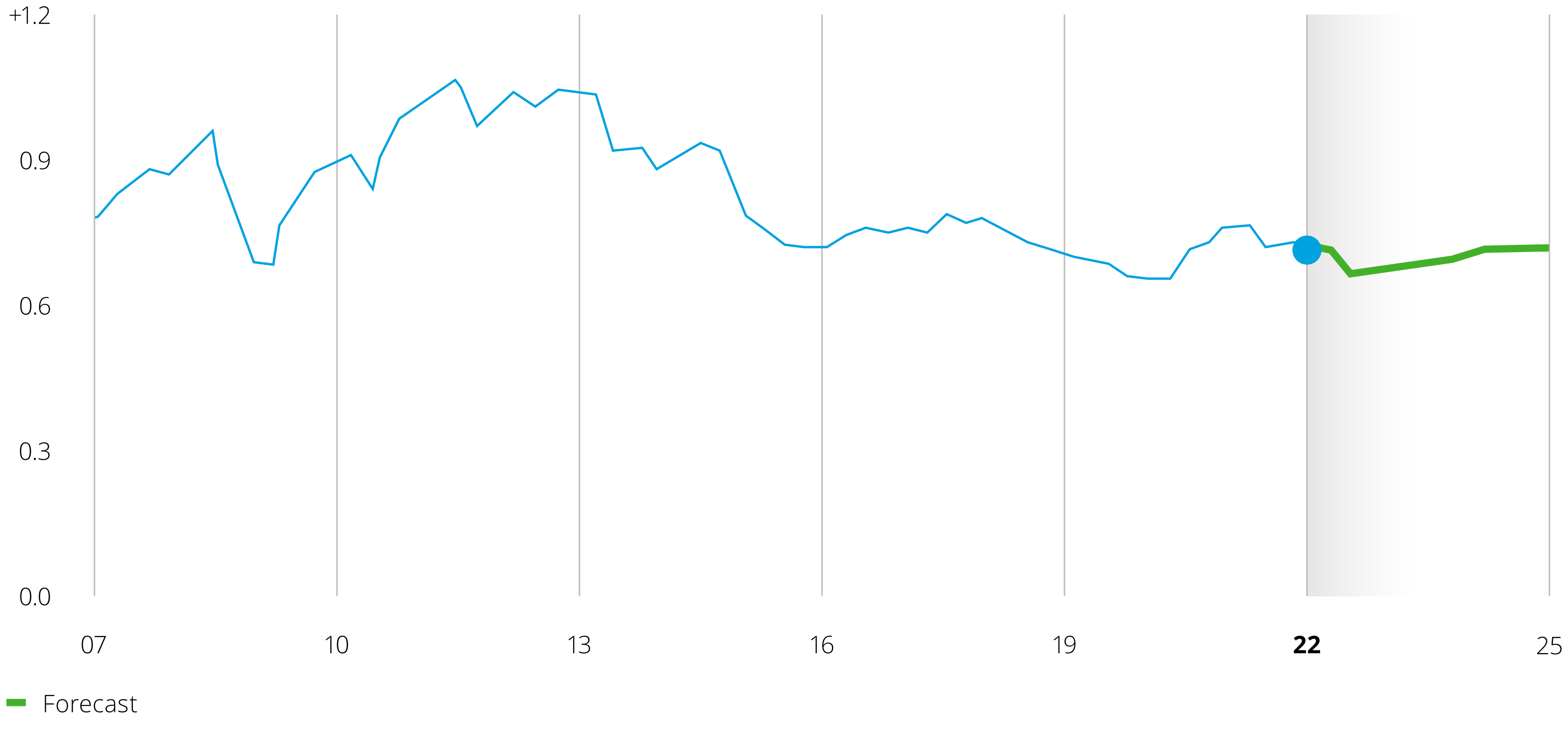
Looking ahead

Deloitte Access Economics forecasts that following a depreciation in the first half of 2022, the Australian dollar is expected to drop modestly until the end of 2022, as commodity prices come off their peaks. Thereafter it may trend up as global economic growth starts to improve once again, with the fortunes of the $A often following those of global economic performance.

Deloitte Access Economics exchange rate forecast (quarterly average)

Chart 18:

United States dollars per Australian dollar



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More publications for Australian CFOs

Making Fair Work FlexWork

The pandemic has disrupted work patterns and worker expectations across Australia. Our systems need to evolve and employers need to adapt.

The future of Finance is Dynamic

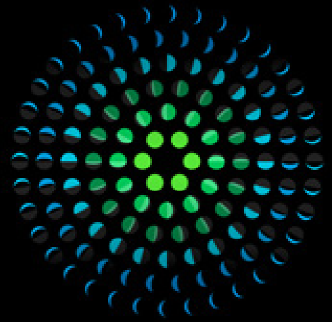
Transforming Finance for the future means creating a capability that can flex and adapt in the face of external forces with speed, strength, stability, and flexibility to create value.

Done deals: How companies can make M&A a winning growth strategy

In this edition of CFO Insights, we'll explore the factors that contribute to making some acquisitions successful. What does it take to qualify as a "prepared acquirer"?

Future scenarios: Are CFOs too worried about inflation – or not worried enough?

In this edition of CFO Insights, we'll present four potential scenarios of how inflation might unfold over the next three years.



Deloitte Weekly Economic Briefing

The Briefing provides the personal views of one of Deloitte's most highly respected economists on topical financial and economic issues, with regular analysis of key domestic and international economic issues impacting the Australian and global economy.

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