Edition 14: **H2 2022**

CFOs hold firm as risks grow

CFO Sentiment

The Leaders' Circle | Sharpening your edge

Deloitte.

Contents

Deloitte has surveyed senior finance executives of major Australian listed companies since 2009. This CFO Sentiment survey covers the first half of 2022 and took place between 14 October 2022 and 28 October 2022.

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

Executive summary

Risks on CFO agendas are growing

As 2022 comes to an end, uncertain economic conditions characterised by a post-COVID-19 environment continue to cast a shadow over Australia's domestic outlook.

CFOs are in two minds: while CFO optimism about their own business (66% net optimism) has remained stable since six months ago, optimism about the Australian economy (-22 net optimism) is worryingly low. This disparity reflects growing concern around the Australian and global economy, but CFOs appear able to see a path through the turmoil when it comes to their own business.

As well as rising pessimism about Australia's economic outlook, surveyed levels of uncertainty have also risen. As a result, CFOs risk appetite has taken a significant dip with only 20% saying now is a good time to take more risk onto their balance sheets – the second lowest on record.

Some risks are familiar ones, but newer risks have entered CFO agendas. Securing and retaining key talent remains the number one concern for businesses for the fourth survey in a row, while inflation and the threat of a global economic recession round out the top three risks. Sixty-five percent of CFOs believe inflation will peak at 7-8%, but interestingly, there's more variance in *when* they think inflation will peak than *where* (whether it's late 2022 or through 2023) and this timing impacts their decision making around mitigating the impacts of inflation on their business.

In this edition, a new risk – data management, cybersecurity and analytics capabilities – has entered the arena, rising from 13th risk of most concern in H1 2022 to top four risk of most concern – one of the largest movements between surveys.

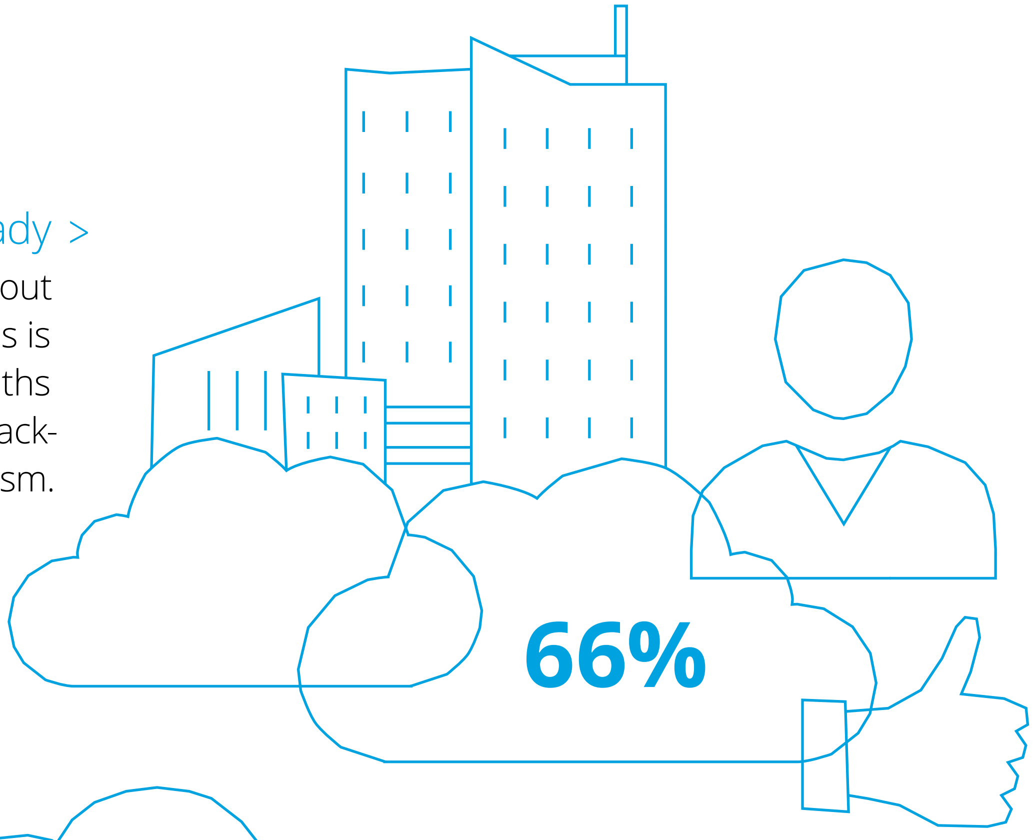
The rise of cyber risks reflects the impact and frequency of high publicity cybersecurity incidents in recent months – including impacts to CFO businesses. In the last 12 months, one in three surveyed CFOs (32%) has experienced at least one cybersecurity incident, with 86% of those same CFOs reporting the frequency of cyber incidents had increased.

Yet less than half of surveyed CFOs (45%) agree they're prepared to handle a significant cyber incident – leaving a large share of businesses vulnerable, or at the very least worried, about the risk of a cyber incident. As a result, investment in cybersecurity is on the rise.

Finally, CFOs are reporting a more diverse spread of ESG drivers than a year ago. While investors and shareholders remain the primary influence, boards are increasingly driving action on ESG from within, as they focus on their reputation and ability to attract and retain talent. This represents a shift in the narrative, as ESG is increasingly considered a core component of business and organisations focus on their responsibility to 'do the right thing' in the community. While organisations are making solid progress on key ESG initiatives, there's still much to be done. However, ESG priorities are now competing with other emerging risks across the broader business, making ESG considerations more complicated.

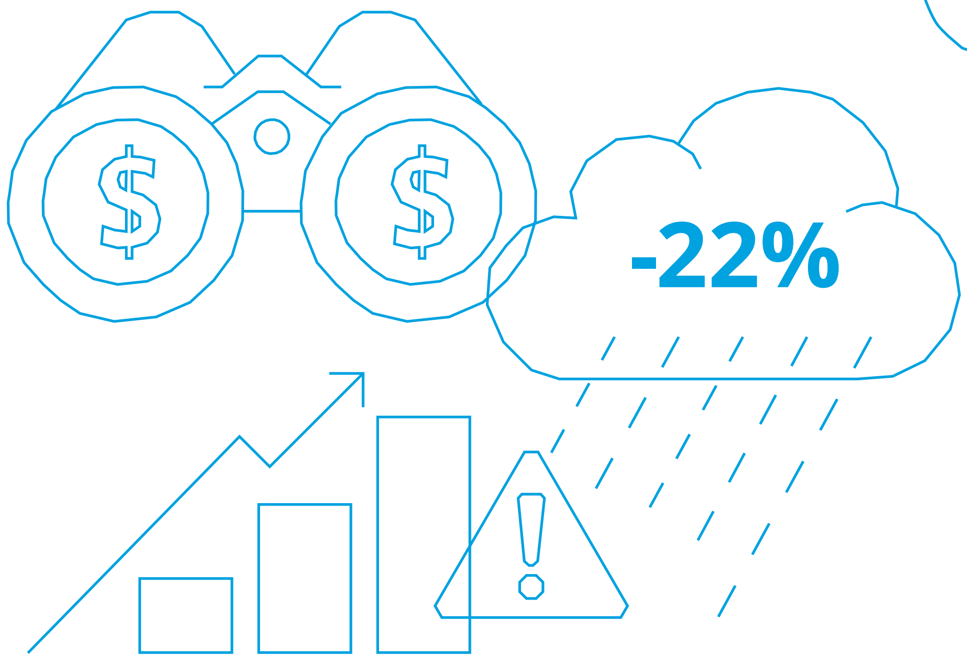
CFOs hold firm as risks grow

Edition highlights



Business confidence remains steady >

A net 66% of CFOs are optimistic about prospects for their own company. This is relatively stable compared to six months ago, which was marked by an end to back-to-back declines in net optimism.

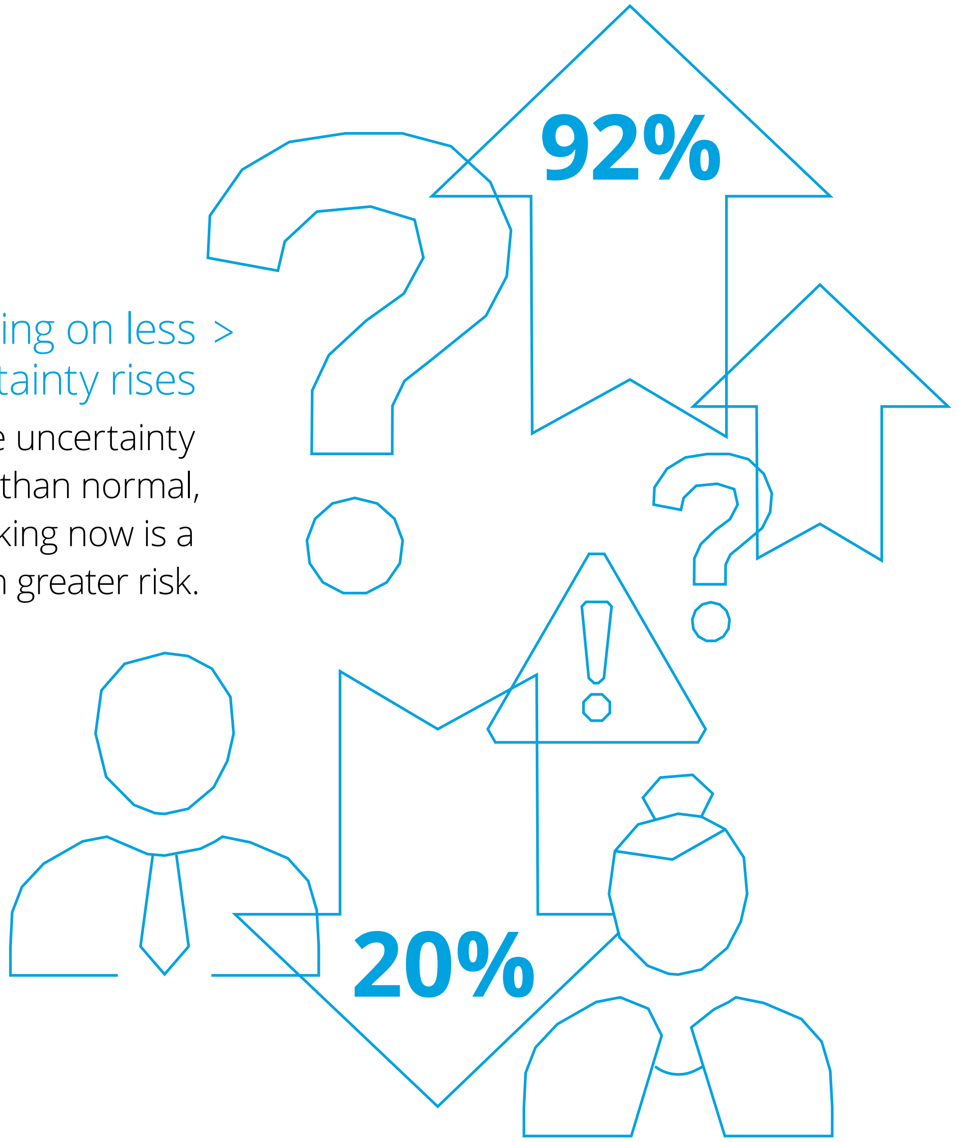


< But CFOs are wary about Australia's economic outlook

A low net -22% of CFOs are optimistic about the Australian economy. This comes as inflation and interest rates rise, while other risks grow.

CFOs are taking on less risk as uncertainty rises >

92% of CFOs rate uncertainty levels as higher than normal, with only 20% thinking now is a good time to take on greater risk.



1
2
3
4
5
6
7
8
9

CFOs hold firm as risks grow

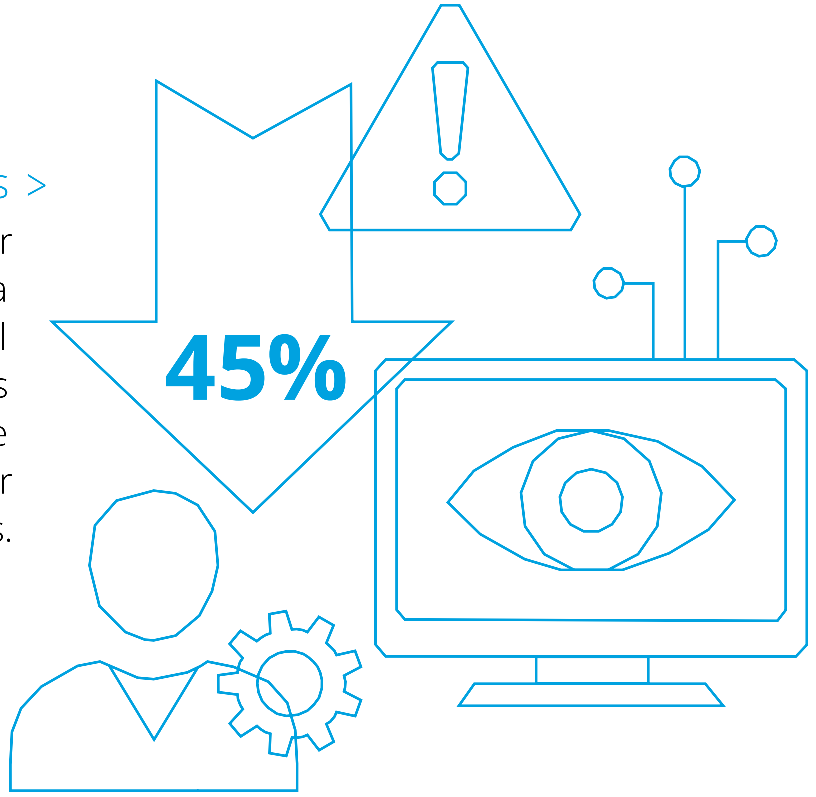
Edition highlights

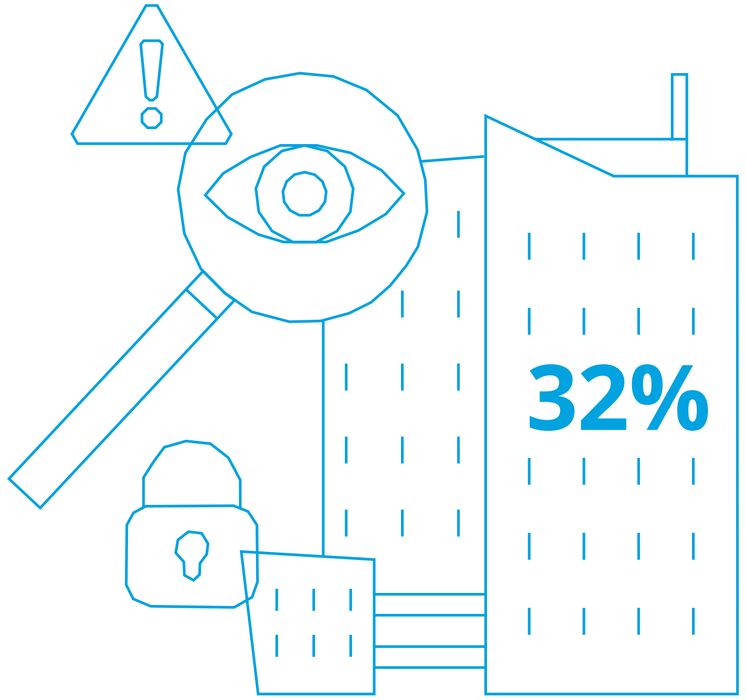
Securing and retaining key talent remain top of the risk list, while newer risks (think cyber security) emerge >

Data management, cyber and analytics capabilities now sit in the top four risks of most concern.

The significance of cyber incidents >

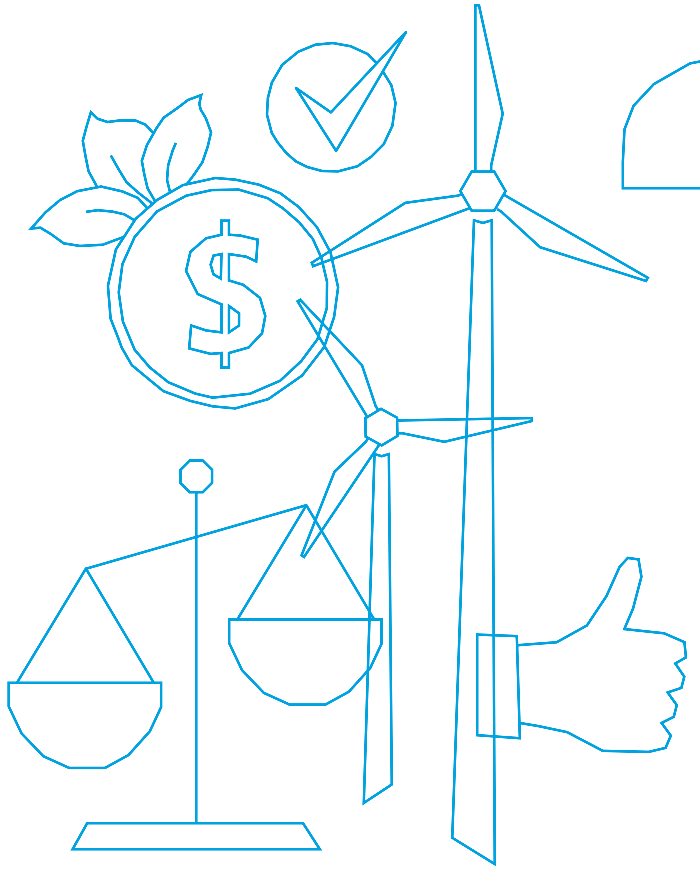
Less than half (45%) of CFOs agree their organisation is prepared to manage a significant cyber incident. Reputational loss, operational disruption and loss of customer trust/negative brand are considered by far the biggest threats or risks to their businesses.





< Cyber (and security) are top of mind

Thirty-two percent of CFOs say their business encountered at least one cybersecurity incident in the last 12 months, and 86% of those CFOs also experienced a higher frequency of incidents over the period – no CFO reported their business experiencing fewer incidents than before.



< The ESG narrative is shifting

Businesses are making solid progress developing their key ESG activities (though more still needs to be done) as the drivers of action become more broadly based, with increasing influence from boards and a focus on 'doing the right thing'.

Economic update

Australia: threading the needle to a soft landing

Australia's economic challenges have morphed from pandemic lockdowns and supply chain challenges driven by geopolitical events to something more akin to managing a business cycle.

Sure, we got here in unusual circumstances, but presently the RBA is taking action to stem inflationary pressure which coincides with a near full employment environment. We've been here before and history has taught us a couple of things:

1. Interest rates pack a punch, and probably more so now given how leveraged consumers are.
2. Central banks have a history of overshooting and driving the economy into recession.

This is a key risk now, but engineering a soft landing is still within reach. Partly because as the RBA slams on the brakes Australia has an important offset heading into 2023 – our population growth is picking up from almost nothing, to a robust rate once again as we head into 2023.

Inflation, interest rates and consumer spending

Inflation remains front of mind in determining Australia's financial stability and economic health. Annual CPI growth has risen to 7.3% in the year to September 2022, which is well outside the RBA's target band and also the largest annual CPI change since 1990. While supply chain challenges have eased since the beginning of the year, some challenges are proving more stubborn. Global shipping costs, for example, are down substantially from their peaks but remain well above pre-pandemic levels. Australia hasn't experienced the broad price pressures seen in other regions, in part due to slower rates of wage growth. As a result, labour costs are having a more moderate effect on services prices. On the other hand, elevated grocery inflation – due to the floods and rising supplier costs which are being passed through to prices in supermarkets – is expected to be sustained in the near term.

To combat inflationary pressures, the RBA raised the overnight cash rate seven consecutive times from May to November 2022. The RBA has indicated that further rate rises remain almost certain, but we may not be far off the point that the RBA 'pauses' and assesses the impact of the rate rises put through so far. As a result, market expectations on how far interest rates may rise are starting to cool.

Consumer spending continues to outpace the wider economy, with recent gains driven by spending on travel amid pent-up demand over COVID. However, 2023 will be a tougher year for consumer spending as high inflation and interest rates add to cost-of-living pressures. Given the time lag between RBA cash rate rises and a larger monthly mortgage repayment by households, the full impact of the current rate hike cycle is yet to be felt. Higher interest rates are also accelerating Australia's housing market downturn. This is expected to flow through to less private investment in new housing, as well as downward pressure on household wealth.

Economic update

Labour market and migration
The robust labour market will continue to support consumer spending, particularly as the pace of wage gains accelerates. However, the rate of post-pandemic improvement in employment and the number of hours worked has slowed. In addition, indicators of labour demand, job vacancies and ads, are also declining. While there may be an increase in employment in the near-term alongside Christmas-related hiring, the momentum in the labour market is beginning to unwind.

Australia has banked on population growth as a key source of economic growth for decades. After taking a significant hit during the pandemic there appears to be good news as migrants begin returning. It's estimated Australia's key working-age population (those aged 15-64) in September 2022 sits above the March 2020 peak. This uptick is largely due to a pick-up in net overseas migration which added an estimated 110,000 people to the population in the year to March 2022. The return of international students is providing options to key sectors such as hospitality and retail who often employ students part-time. While there's still uncertainty, it's expected the number of migrants, students and tourists will continue to pick up pace through 2023 and into 2024 – though the rate of their return is still somewhat unclear.

The rapidly improving net migration, firming (but still contained) wages growth, and elevated export prices will underpin economic activity over the next six months. Despite inflation uncertainties, it's expected Australia will avoid a recession, though a weakening global economy and domestic factors will see the rate of growth slow. Overall, Deloitte Access Economics forecasts Australia's economy to grow 3.2% in 2022-23, before the rate of growth halves to 1.6% in 2023-24.

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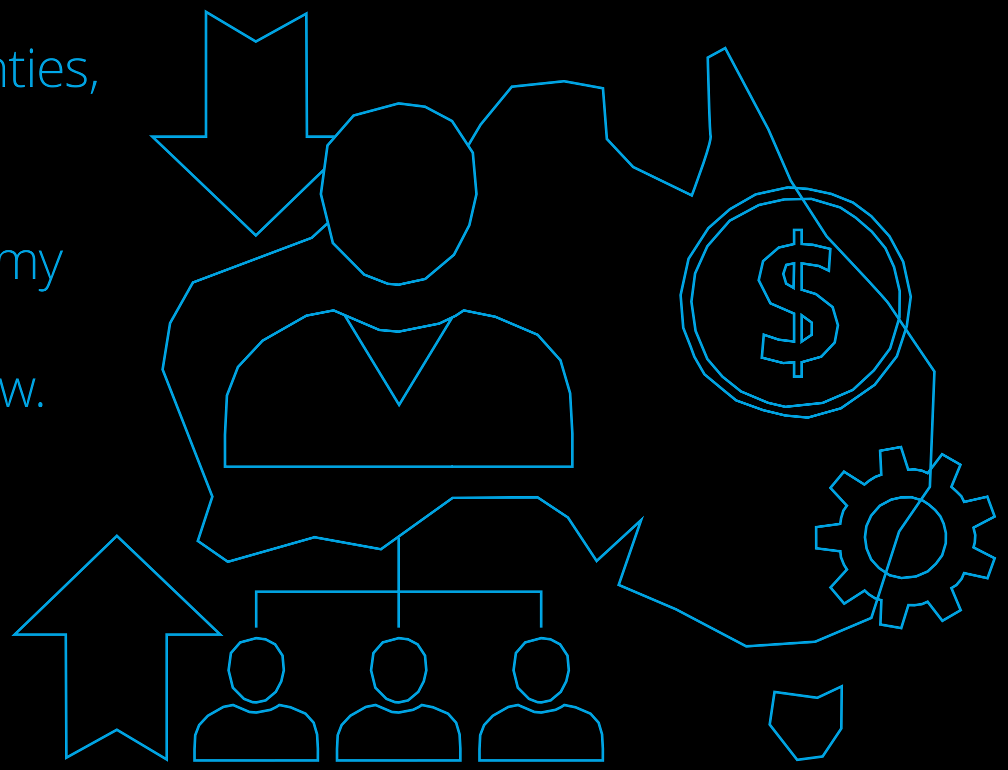

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“Though we face new uncertainties and risks, businesses can look at a range of strategies to mitigate the impacts of inflation.”

David Rumbens
Partner, Deloitte Access Economics
Deloitte Australia

Economic update

Global economy: a bleaker global backdrop emerges

One of the major economic uncertainties emerging over recent months is the weakness in the global economy, and the increasing risk of a global recession.

A significant slowdown in global economic growth is anticipated through 2023, as the outlook is troubled by broader and more persistent price pressures, higher interest rates, geopolitical tensions, volatile financial markets and weakening consumer confidence.

Weakness in the European and UK economies will be the key driver of a potential global recession. With energy supplies looking uncertain against the backdrop of geopolitical tensions from Russia's invasion of Ukraine, Europe and the UK are likely already in or very close to recession. Both the European Central Bank and the Bank of England have sharply raised interest rates – a tightening that's expected to continue through early to mid-2023 as energy supply remains uncertain.

There are also material economic risks in the US. To stifle inflation, the US Federal Reserve has continued rapidly raising interest rates with clear signals it will keep going in order to return inflation to 2%. However, inflation data released in November shows headline US inflation may have peaked, providing some good news to Wall Street and US consumers.

A slowdown in China also presents a significant risk to the global economy as the zero COVID policy remains in place, increasing the risk that lockdowns will continue to impact production and consumption. The property market also faces ongoing turmoil and will likely weigh on China's economic growth in 2023 – as well as demand for Australian commodities. With a lacklustre performance in 2022, the country enters 2023 from a relatively low base, giving it potential for higher economic growth. As a result, China is one of the only major economies forecast to have stronger growth in 2023 than 2022.

Key policy measures

What now and what next?

The recent Federal Budget, handed down in late October, reflects Australia's new economic climate. Revenues are predicted to be significantly higher than forecast due to rising inflation, higher energy prices and Australia's robust labour market. The result is an improved budget bottom line, though the Treasury is careful to caution this uplift won't last. However, this budget had to balance cost-of-living support for households combating higher inflation with fiscal constraints, against the backdrop of structural spending pressures and the risk of further accelerating inflation.

The new federal government's first budget was reasonably constrained, but will likely seek to make more significant changes in its next budget just six months away. Childcare was a cornerstone of this budget, with the government increasing childcare subsidy and expanding paid parental leave. Climate change, healthcare, aged care and the NDIS were also well supported. The budget didn't include any major tax reform, nor did it defer 'Stage 3' tax cuts supported by the previous government.

Over the next decade, the budget shows a structural deficit equivalent to approximately 2% of GDP which must be addressed through higher taxes or budget savings (or a combination of both). However, aside from some modest savings, this budget largely postponed addressing this issue, meaning the May 2023 Budget may have to include a tougher set of decisions. The need to balance deficits with spending commitments will impact state governments too, particularly given the upcoming NSW state election and the recently held Victorian state election.

Finally, the RBA is trying to balance tackling inflation without overly dampening employment and growth. They now expect inflation to peak during the December quarter, which increases the difficulty of this balancing act. It's difficult to know how much effect current rate rises will have on consumer and business spending, especially as there are second round effects from a weakening global economy as other central banks also aggressively lift rates. The RBA's made clear it's not on a pre-set path and noted, *"The Board is prepared to keep rates unchanged for a period while it assesses the state of the economy and the inflation outlook."* Though whether and when this happens is unclear.

The new federal government's first budget was reasonably constrained, but will likely seek to make more significant changes in its next budget just six months away.

"CFOs are in two minds: while business confidence among Australian CFOs remains steady, confidence about the economy is in very low territory as CFOs are wary about an uncertain Australian economic outlook dominated by inflation and interest rates rise. These external economic pressures has seen risk appetite take a significant dip as only 20% of CFOs think now is a good time to take more risk onto their balance sheets as new risks continue to emerge."

Stephen Gustafson
Partner, Audit & Assurance
Deloitte Australia

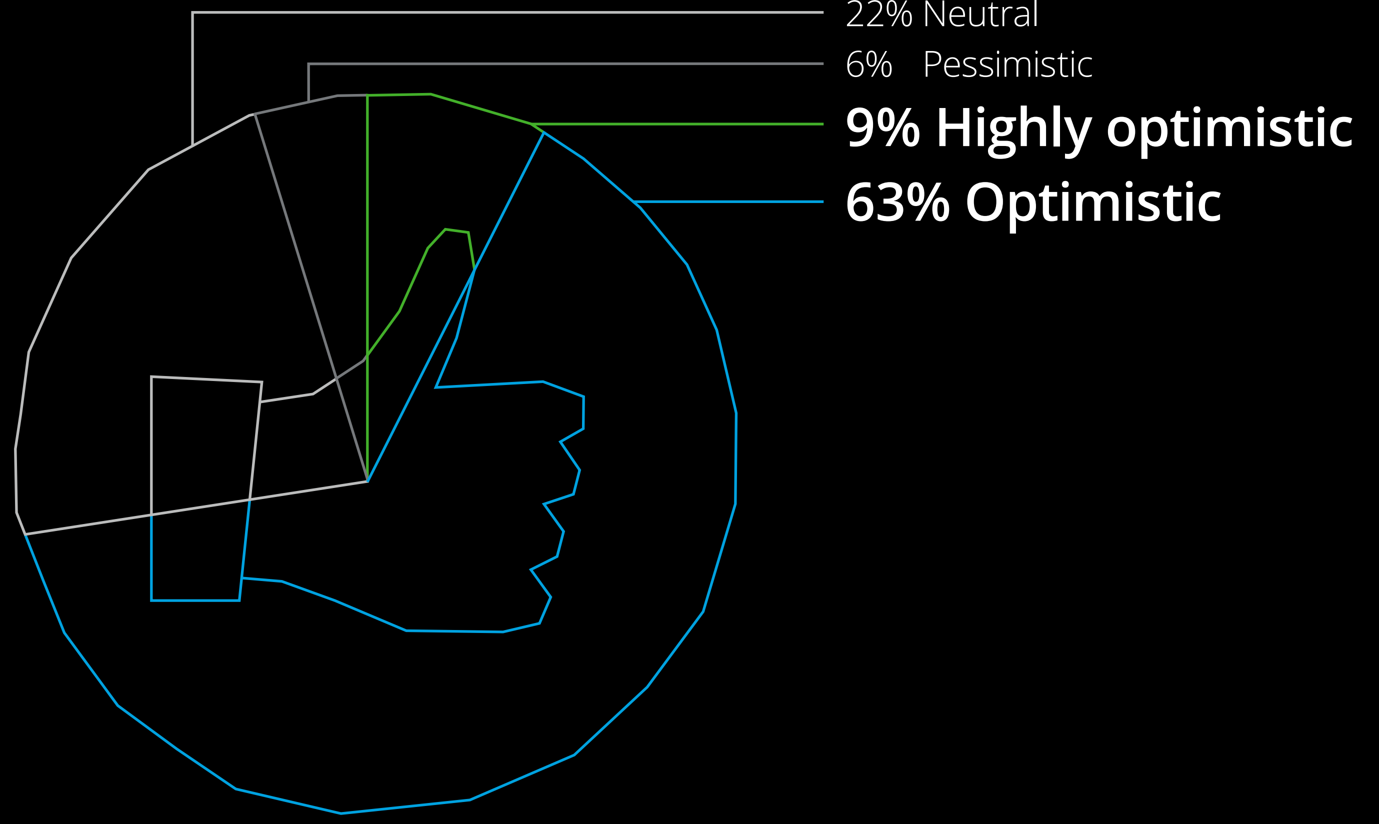
CFO Program Leader

CFOs hold firm

Australian CFOs are showing resilience in the face of continued economic challenges in 2022. Seventy-two percent of surveyed CFOs report feeling optimistic or highly optimistic about the financial prospects of their company going forward. None report feeling highly pessimistic and only 6% report feeling pessimistic. **This puts net optimism among Australian CFOs at 66%.**

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

Chart 1:
Business confidence



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4
5
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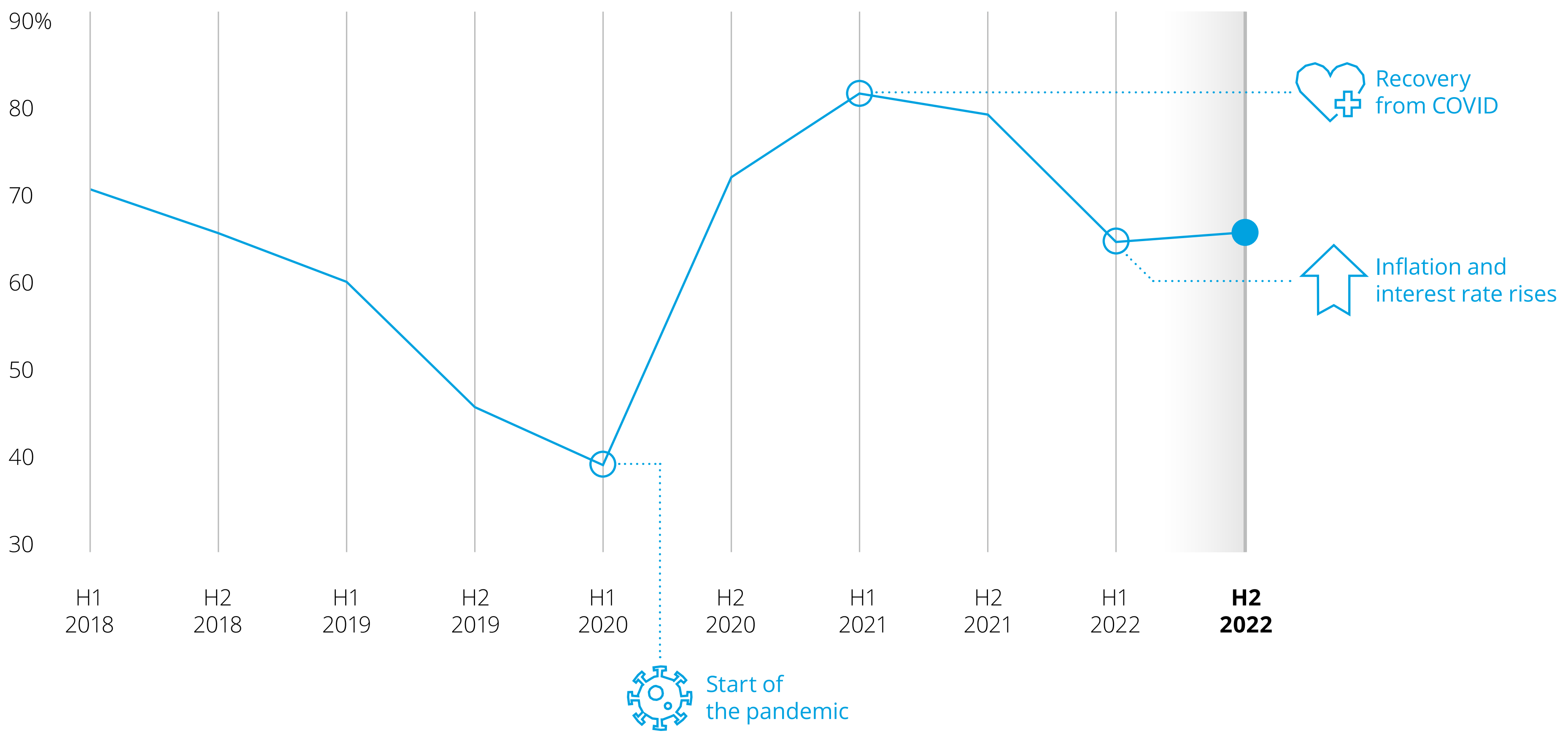
7
8
9

CFOs hold firm

Net optimism is on par with six months ago (65% in H1 2022). After back-to-back declines during a period of continued COVID lockdowns (late 2021) and emerging inflation (early 2022), this steady sentiment suggests business feels well placed to navigate through the difficult economic environment. As seen in Chart 2, the level of net optimism is in line with levels seen pre-pandemic, though remains lower than the peak of net optimism in 2021.

How do you feel about the financial prospects of your company going forward? *(Net Optimism)*

Chart 2:
Business confidence over time



CFOs hold firm

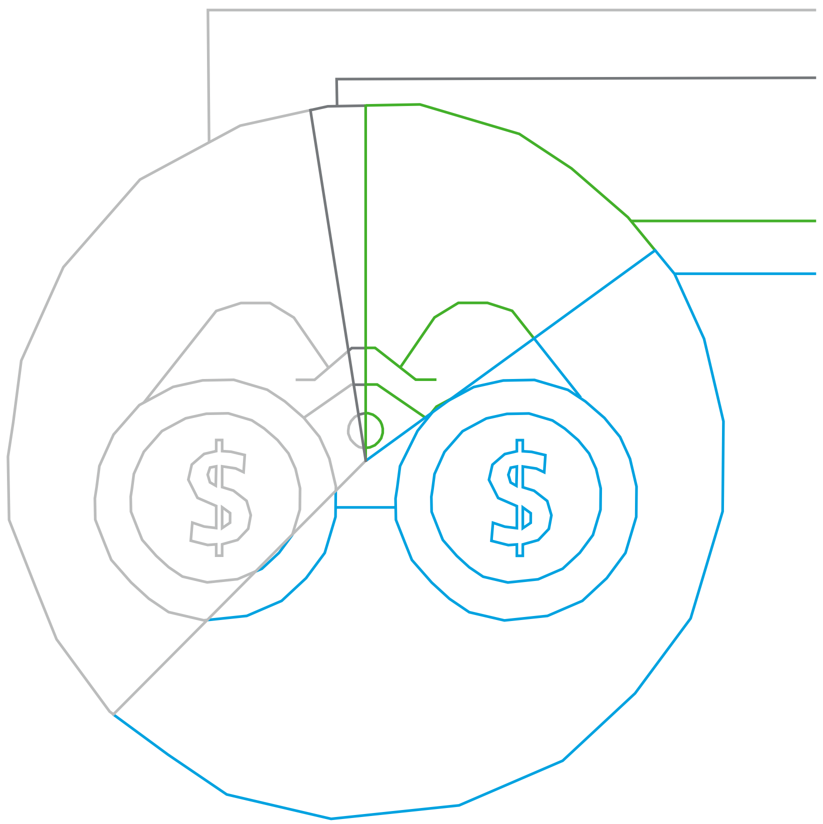
By industry, energy and resources report the highest net optimism at 72% as commodity prices remain high amid supply constraints and geopolitical turmoil. On the other hand, companies in financial services report the lowest level of net optimism at 60%, as financial markets remain volatile and interest rate rises hurt more credit-sensitive sectors.

Although CFOs are feeling optimistic about their own company, their sentiment towards the Australian economy is distinctly pessimistic. Thirty-seven percent of CFOs feel pessimistic about the outlook for the economy, with a further 2% highly pessimistic. Though 17% of CFOs report feeling optimistic about the economy, no CFOs report feeling highly optimistic.

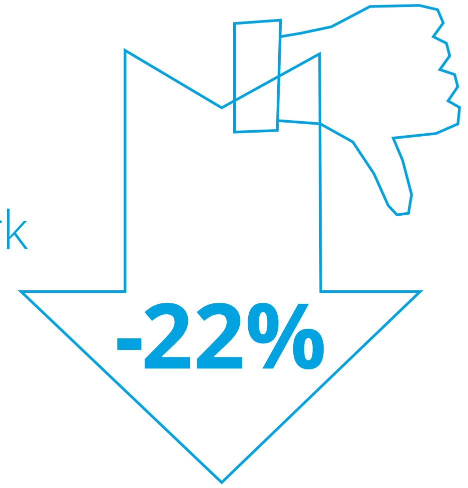
This puts net optimism about the state of the Australian economy at a low -22%, in stark contrast to 66% net optimism about business prospects. This disparity reflects growing concern around the performance of the Australian and global economy, though it appears CFOs can see a path through the turmoil when it comes to their own business.

How do you feel about the outlook for the Australian economy going forward?

Chart 3:
Confidence in the Australian economy



This puts net optimism about the state of the Australian economy at a low -22%, in stark contrast to 66% net optimism about business prospects.



CFOs hold firm

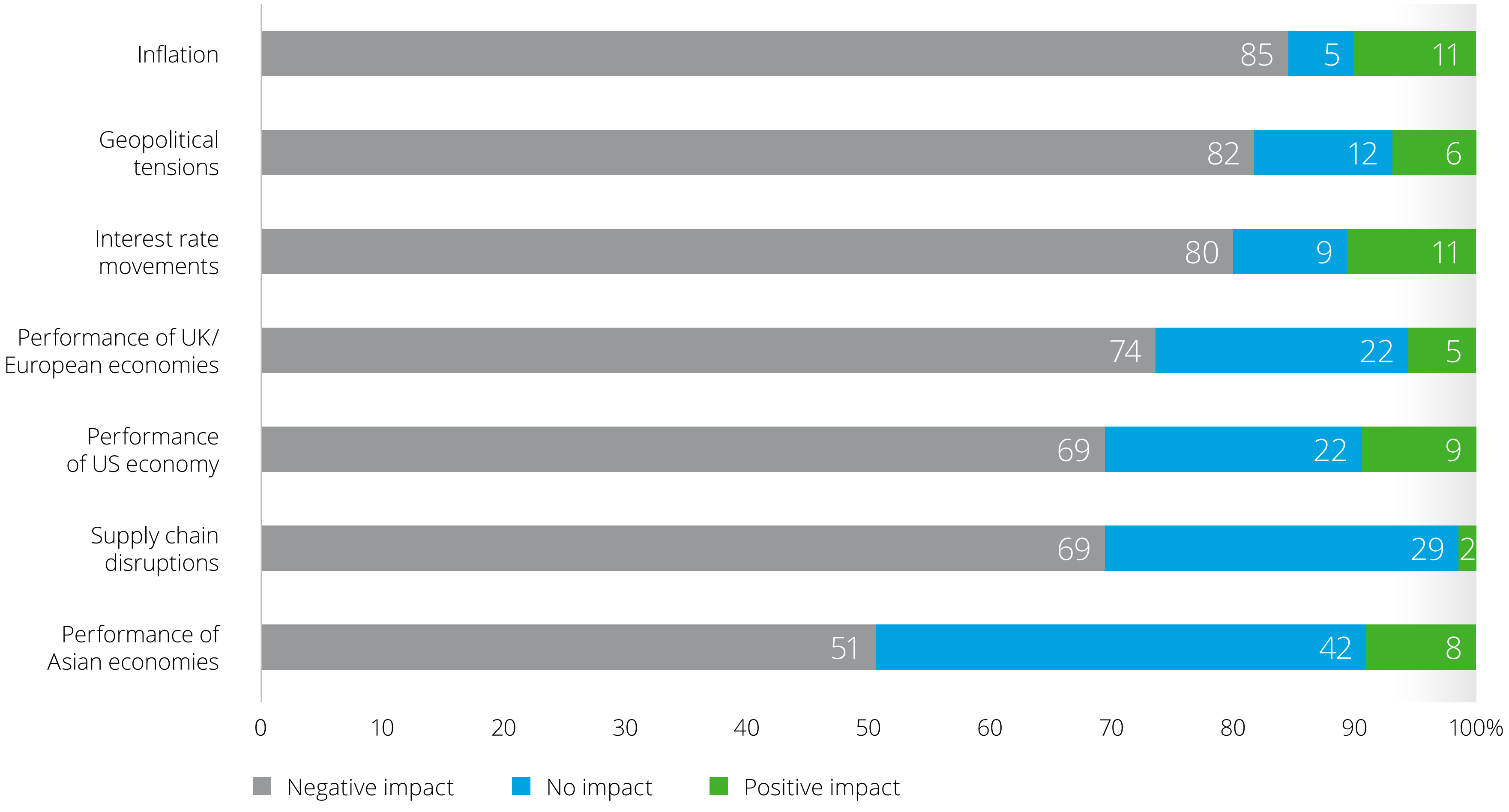
A range of domestic and international factors are weighing on CFO optimism. Domestically, with inflation measuring its highest in three decades, it's unsurprising that 85% of CFOs report it having a negative impact on optimism. The extent of RBA interest rate increases may be slowing but 80% of CFOs still report interest rate movements having a negative impact.

Internationally, geopolitical tensions are concerning 82% of surveyed CFOs, while the performance of UK/European economies also emerges as a key concern with 74% of CFOs, as UK/Europe continues to struggle with sky-rocketing energy prices.

In contrast to six months ago, the financial services industry is least concerned about interest rate movements and more anxious regarding the US and European economies and inflation as the threat of a global recession looms. Increased volatility in the financial markets abroad has drawn the attention of CFOs back home, with many likely watching closely to prepare for impacts for their business.

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

Chart 4:
Impacts on optimism



Uncertainty takes a leap

As CFOs become increasingly pessimistic about the outlook for the Australian economy, 92% of CFOs rate external financial and economic uncertainty levels as higher than normal, a 4% increase from six months ago.

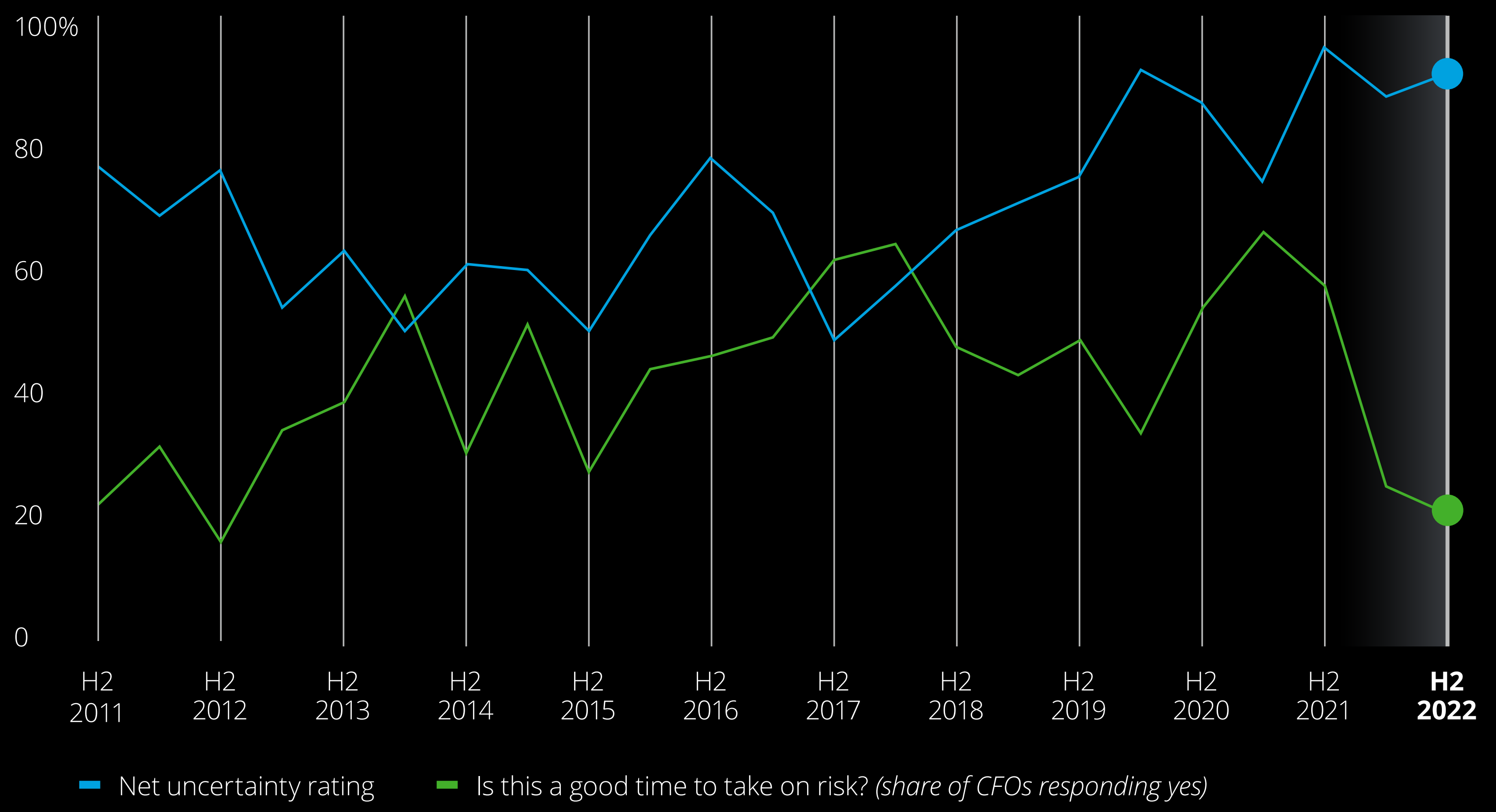
As uncertainty grows and new risks continue to emerge, CFOs are more cautious with their balance sheets. Only 20% of CFOs think now is a good time to take more risk onto their balance sheets – this is the second lowest on record.

Considering risk appetites by industry, risk taking increased in the energy and financial sector but declined considerably for other industries.

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

Chart 5:

Balance sheet risk and uncertainty about economic and financial conditions



Uncertainty takes a leap

Securing and retaining key talent remains the number one concern for businesses for the fourth survey in a row (since H1 2021). The war for talent remains front of mind, with a sizeable lead on a range of internal and external risks on CFO agendas.

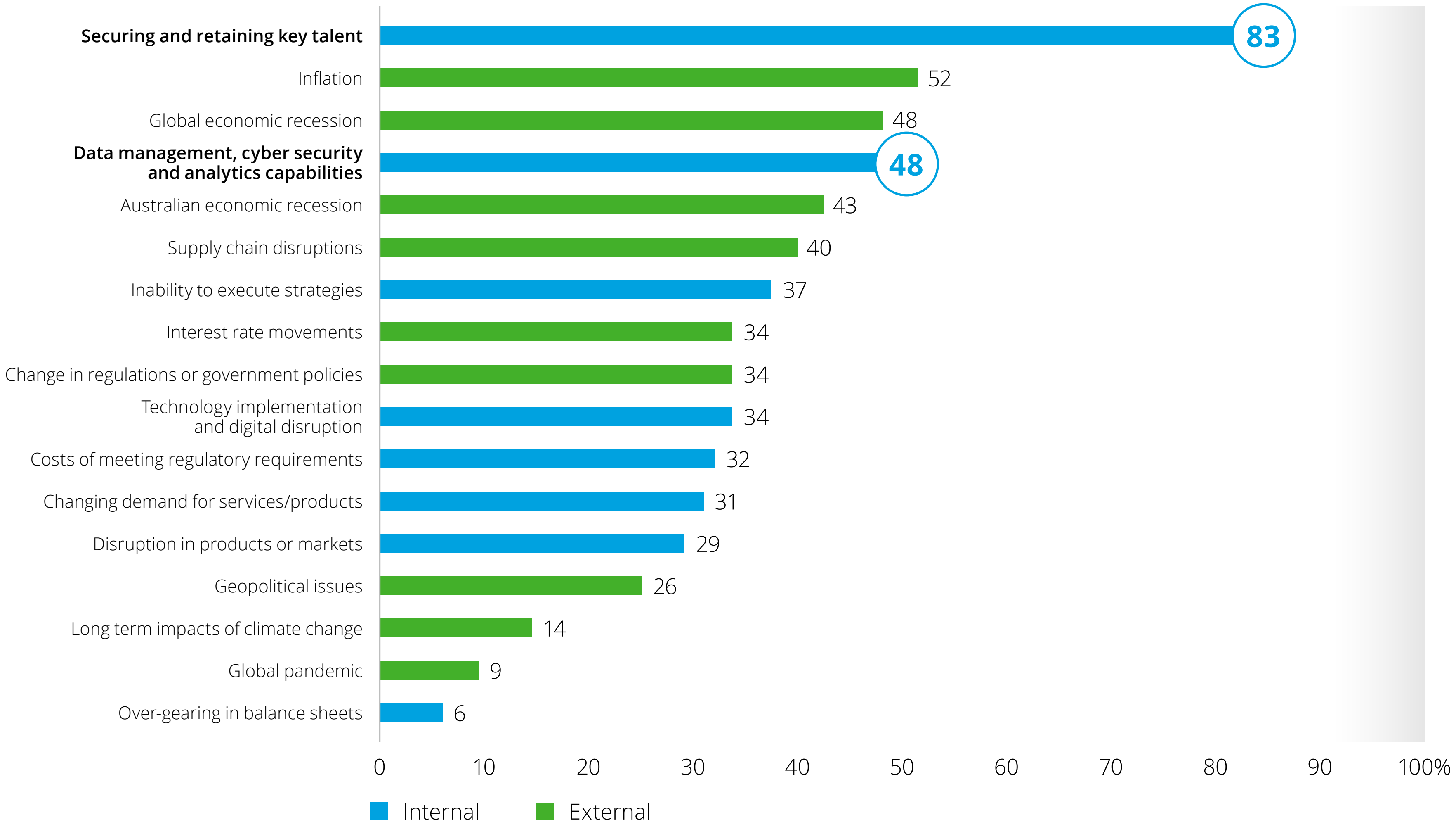
Inflation (52%) and the threat of a global economic recession (48%) are the major external risks identified by CFOs. This is followed by the risk of an Australian recession at 43%, which remains contingent on weakness in the global economy and uncertainty around domestic inflationary risks.

Another risk shooting to the top for CFOs is 'data management, cybersecurity and analytics capabilities', which leapt from 13th risk of most concern in H1 2022 to a top four risk (one of the largest movements between surveys), reflecting the impact and frequency of recent high publicity cybersecurity incidents.

Which of the following factors is likely to pose a significant risk to your business over the next 12 months? Internally and externally.

Chart 6:

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



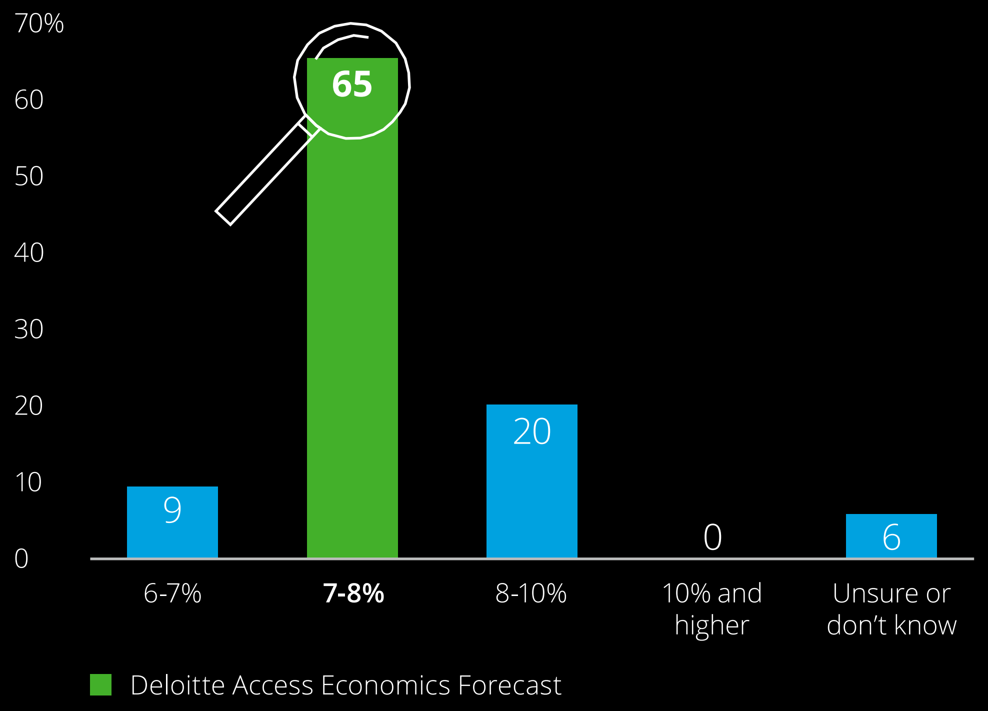
When will inflation peak?

Some 65% of CFOs believe inflation will peak at 7-8%, which is in line with market expectations, RBA guidance and Deloitte Access Economics forecasts. However, a fifth of surveyed CFOs believe headline inflation will peak higher than market expectations, at 8-10%.

Interestingly, there's more variance in *when* CFOs think inflation will peak than *where*. Only 12% of CFOs believe the peak will be at the end of 2022, compared to 42% who think early 2023 and 34% in mid-2023, meaning many businesses are preparing for an extended period of inflationary pressure.

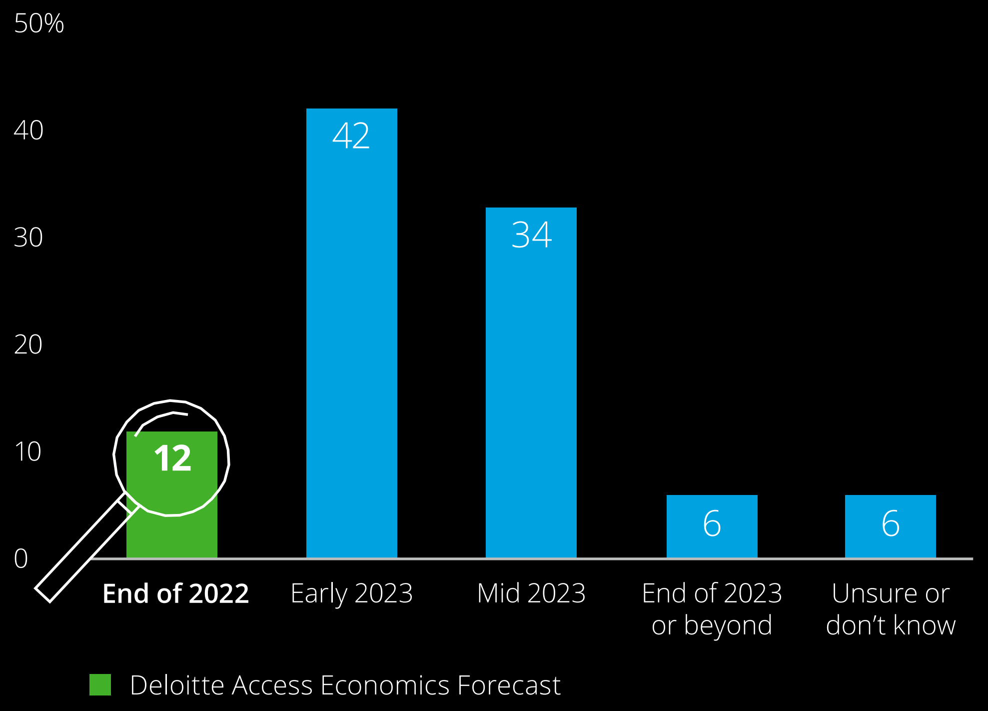
Where do you expect annual headline CPI to peak?

Chart 7:
Inflation peak (annual rate)



When do you expect annual headline CPI to peak?

Chart 8:
Inflation peak (timing)



When will inflation peak?

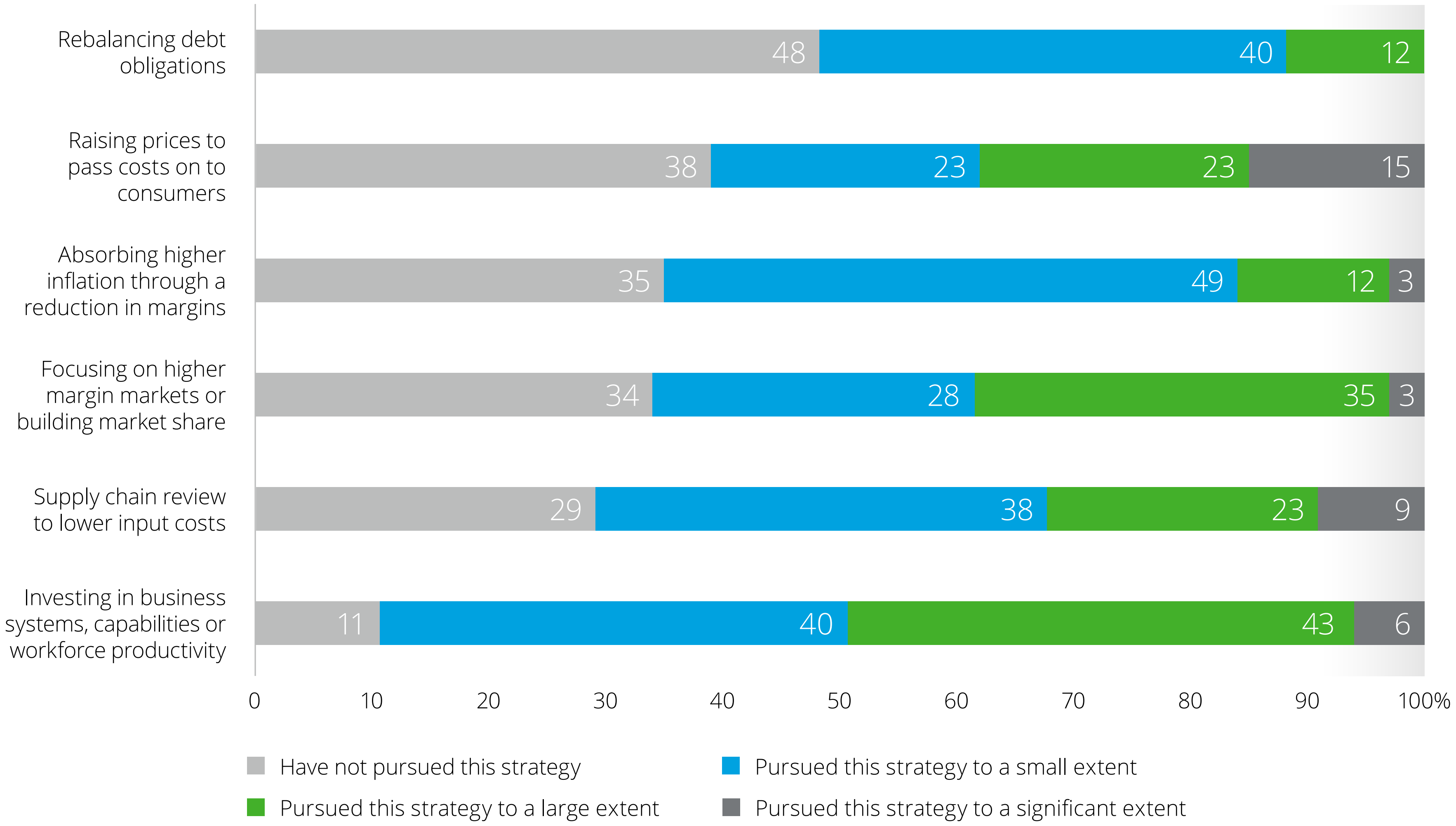
In the current inflationary environment, CFOs are facing added pressure to develop and adapt organisational strategies to cope with increased prices. When asked about these strategies, 'investing in capabilities or workforce productivity' came out on top at 89% of all CFOs. This strategy not only responds to rising costs but also addresses the difficulty of attracting and retaining talent, with the aim of lifting business productivity as well.

However, the strategy CFOs pursued with the most conviction was 'raising prices to pass costs to consumers', with 15% indicating they pursued it to a significant extent – though 38% of CFOs have not pursued price increases. This likely reflects the differences in pricing power between businesses, which may be contingent on their industry, market and customer base.

Rebalancing debt obligations was the least pursued with 48% of CFOs indicating that they had not pursued this strategy.

What strategies has your organisation pursued in response to rising costs?

Chart 9:
Inflation strategies



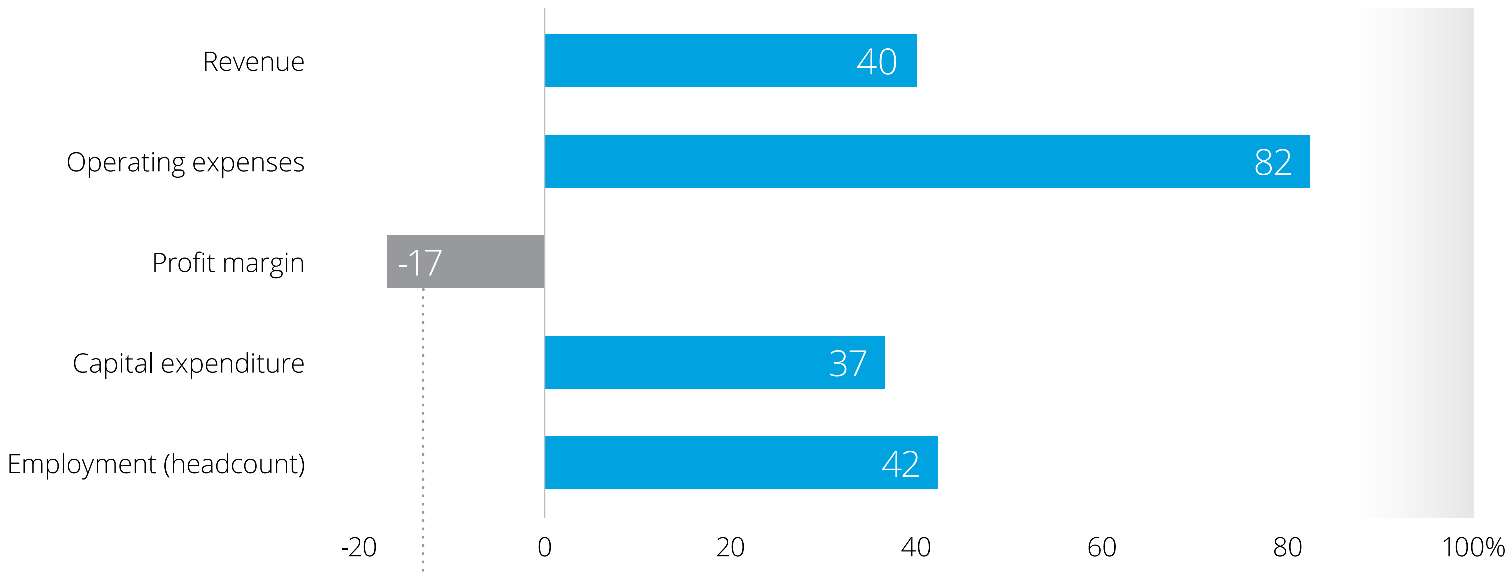
When will inflation peak?

Despite CFO efforts to curb the effects of increasing inflation, profit margins over the next 12 months are expected to take a significant hit. A huge 85% of CFOs expect operating expenses to increase while only 3% expect a decrease. In line with this, a net 17% of CFOs surveyed believe profit margins will decrease in the next 12 months.

On the other hand, given the ongoing concerns of securing and retaining key talent, the majority of CFOs believe employee headcount will increase over the next 12 months. This demonstrates CFOs expect to continue recruitment efforts, which may also be easier through 2023 as international migration to Australia continues picking up.

Compared to the past 12 months, how do you expect key metrics to change over the next 12 months? *(Net Expectations: CFOs indicating an increase – CFOs indicating a decrease)*

Chart 10:
Business performance expectations



A net 17% of CFOs surveyed believe that profit margins will decrease in the next 12 months.

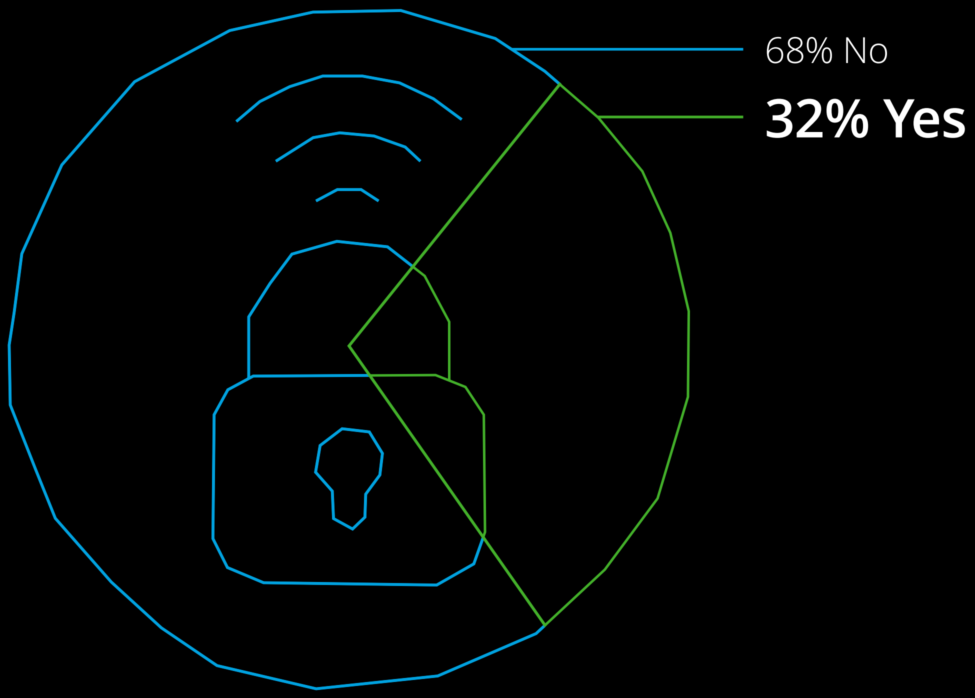
Cyber risks front of mind

Cybersecurity has become an increasingly prominent risk for organisations following recent high profile cyber incidents, and the increasing digitisation of work processes hastened by the global pandemic.

In the last 12 months, one in three surveyed CFOs (32%) experienced at least one cybersecurity incident. The frequency of cyber incidents has also increased substantially, as 86% of those who experience an incident mentioned they've dealt with more incidents compared to a year ago, and no organisation reported experiencing fewer cyber incidents.

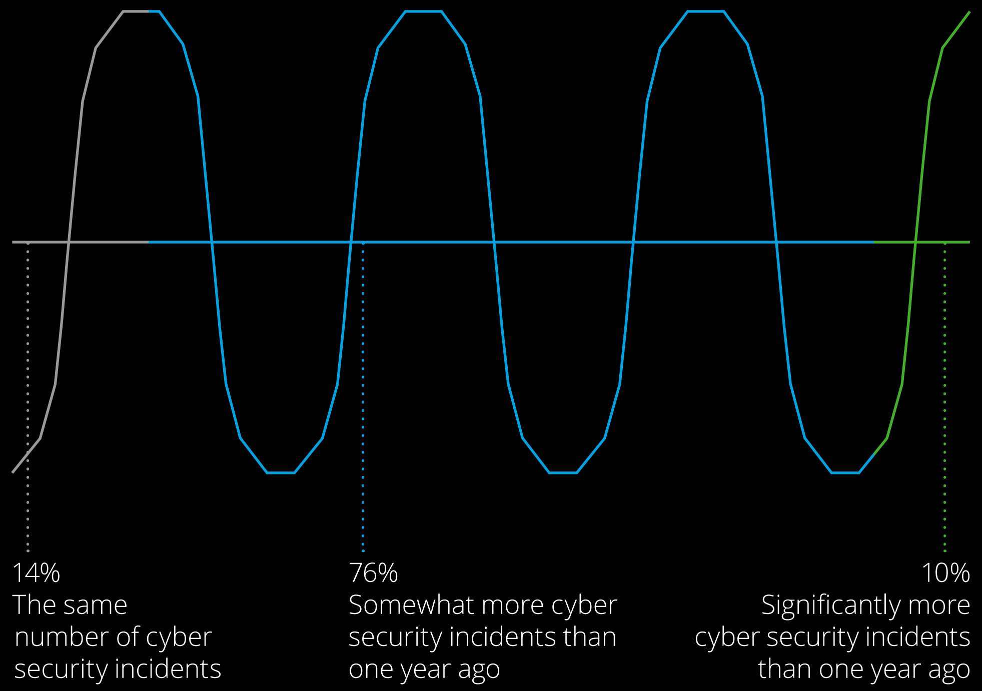
Has your business experienced a cyber security incident in the last 12 months?

Chart 11:
Cyber security incidents



If yes, are you experiencing more or the same frequency of cyber security incidents compared with one year ago?

Chart 12:
Frequency of cyber incidents



Cyber risks front of mind

As the frequency and significance rise, fewer than half (45%) of surveyed CFOs agree they're prepared to handle a significant cyber incident. A further 35% were neutral, with 20% outright disagreeing they're prepared to face a significant incident.

Readiness for cyberattacks also varies with business size, as smaller organisations (less than $500 million in revenue) and very large enterprises ($5 billion or more in revenue) tend to be more confident in their ability to deal with cyber incidents (60% and 57% respectively agree they're prepared). Middle-sized organisations (revenue from $500 million to less than $5 billion) report being more vulnerable to cyber incidents, with only 24% of businesses in the $1 billion to $5 billion revenue range reporting they're ready for cyber incidents.

I am confident that my organisation is prepared to manage a significant cyber incident *(by business size)*

Chart 13:
Preparedness to manage a significant cyber incident

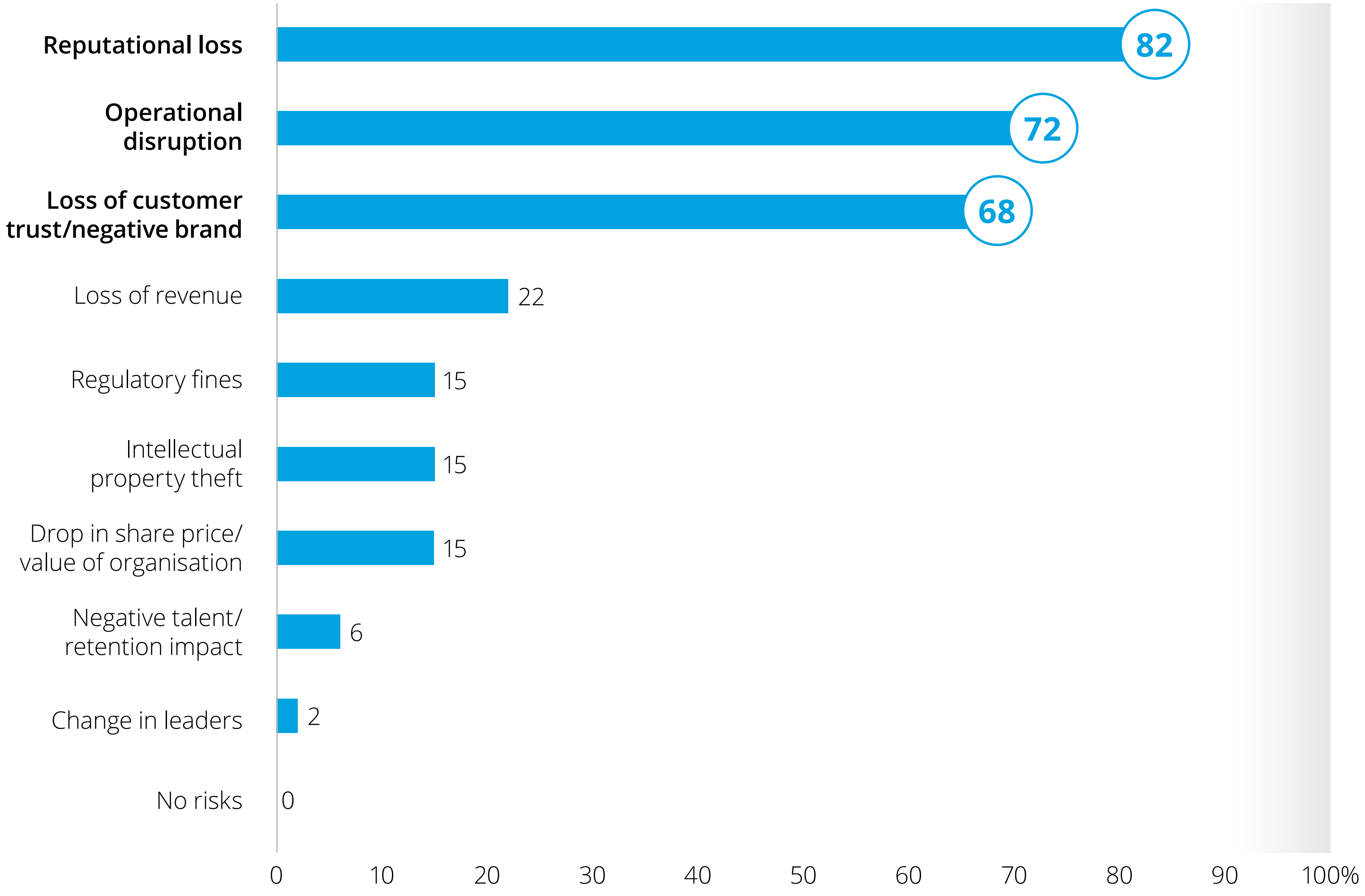
	Agree	Neutral	Disagree
Less than $500 million	60%	20%	20%
$500 million to less than $1 billion	40%	30%	30%
$1 billion to less than $5 billion	24%	52%	24%
$5 billion or more	57%	36%	7%
Total	**45%**	**35%**	**20%**

Cyber risks front of mind

Consequences from a cyber incident for an organisation are significant. By far the most damaging consequences for surveyed CFOs were loss of reputation (82%), followed by operational disruption (72%) and loss of customer trust/negative brand (68%). Only 15% of CFOs are worried that cyber incidents would cause regulatory fines, intellectual property theft or a drop in share prices.

The biggest risks or threats of a cyber incident to your business

Chart 14:
Risk or threats of a cyber incident



Only 15% of CFOs are worried that cyber incidents would cause regulatory fines, intellectual property theft or a drop in share prices.

Cyber risks front of mind

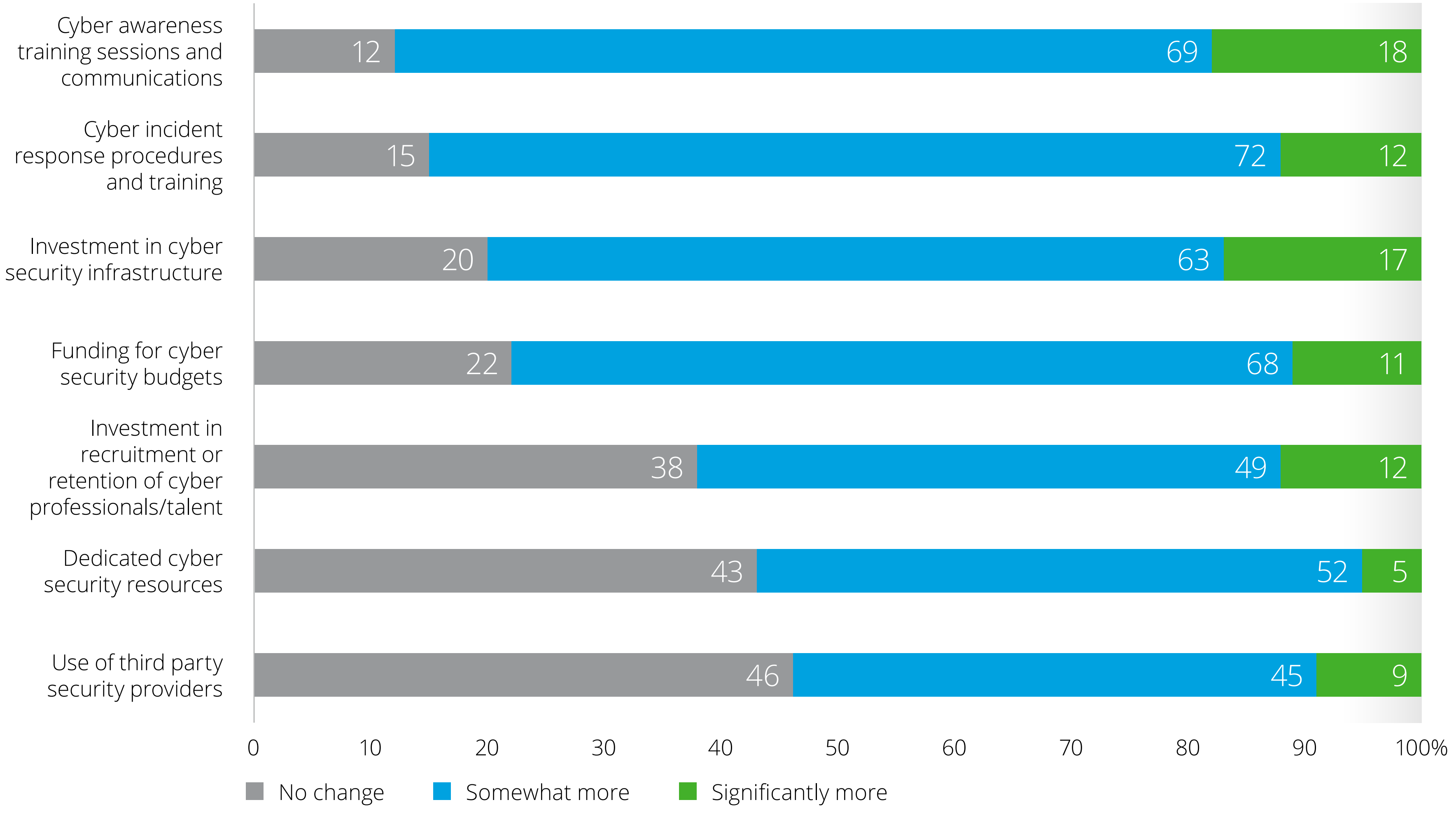
On cybersecurity investment, no surveyed organisations expect to decrease their investment in cybersecurity risk management efforts in the next 12 months. Instead, more than half of CFOs say they're expecting to increase investment in each of the listed risk management efforts in Chart 15.

Internally focused risk management efforts prove most popular, with 87% of CFOs opting to increase investment in cyber awareness training sessions and communications, including 18% of CFOs looking to significantly increase investment.

As another means of reducing cyber risk, 84% of CFOs expect an increase in investment on cyber incident response procedures and training. Cybersecurity infrastructure also plays an important role, with 80% of CFOs opting to increase investment in this category. In contrast, use of third-party security providers is the least nominated risk management effort – indicating that businesses are looking to shore up defences internally before looking externally.

How do you expect your investment in the following cyber security risk management efforts to change in the next 12 months?

Chart 15:
Cyber security investment



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The ESG narrative is shifting

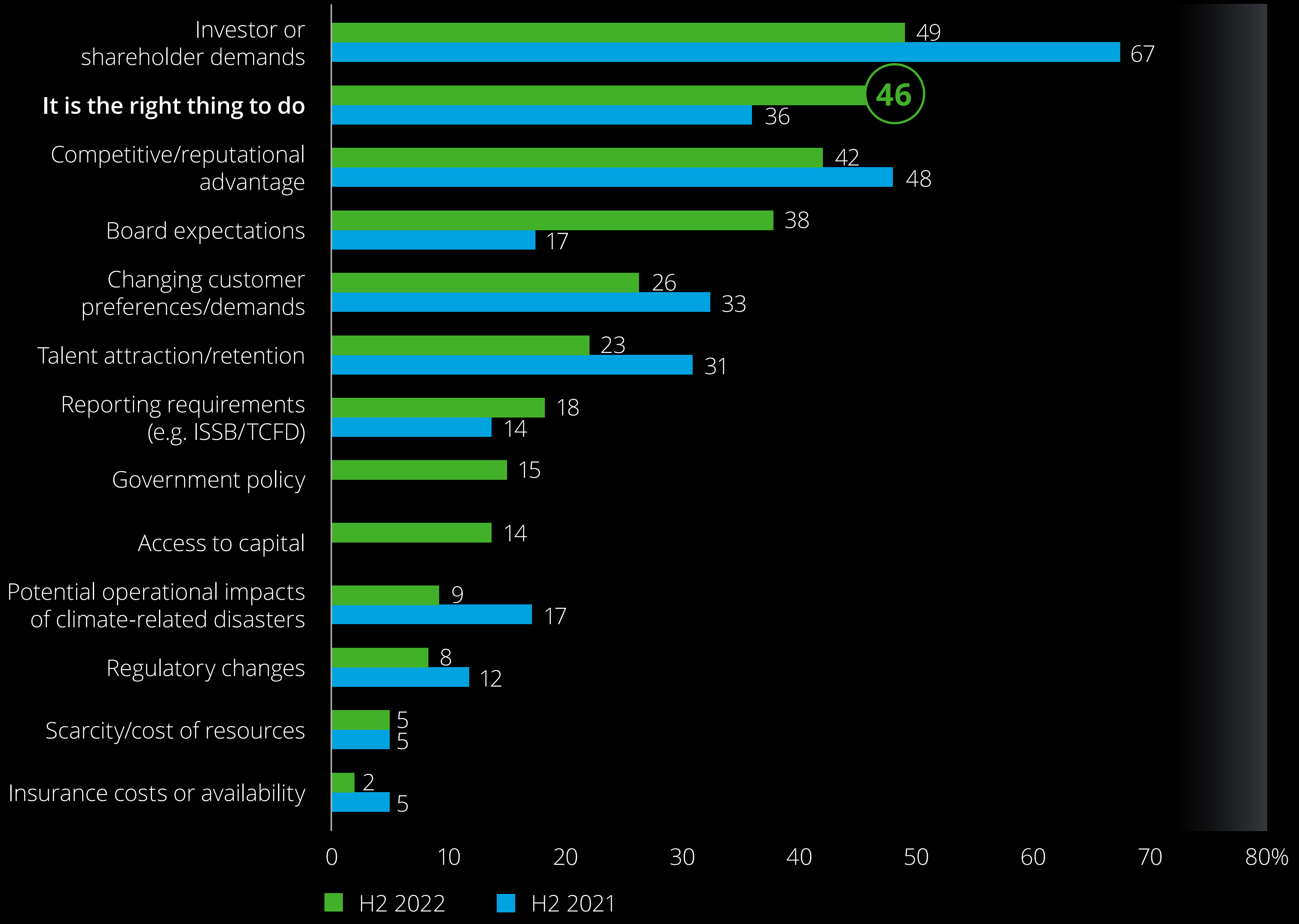
The drivers of environmental, social and governance (ESG) action are becoming more broad-based. ESG action is increasingly driven from within the business and no longer only stems from external demands. While investor and shareholder demands remain the number one driver of ESG action for 49% of CFOs (down from 67% in H1 2021), the wide gap between these demands and other drivers is closing.

There's been a fundamental shift in the narrative with 46% of CFOs reporting ESG action in their organisations is being taken because it's 'the right thing to do' – a 10 percentage point increase on H2 2021. Board expectations as a driver of ESG action more than doubled from 17% to 38%, reflecting the increasing priority and awareness of directors on ESG performance.

Recent developments in ESG reporting (18%) and government policy (15%) are also acknowledged as material drivers of ESG action.

Select the top three drivers of ESG action in your organisation

Chart 16:
Drivers of ESG action



Forty-six percent of CFOs report ESG action in their organisations is being taken because it's 'the right thing to do'.

Note: new ESG drivers introduced in this survey do not have a comparison in H2 2021

The ESG narrative is shifting

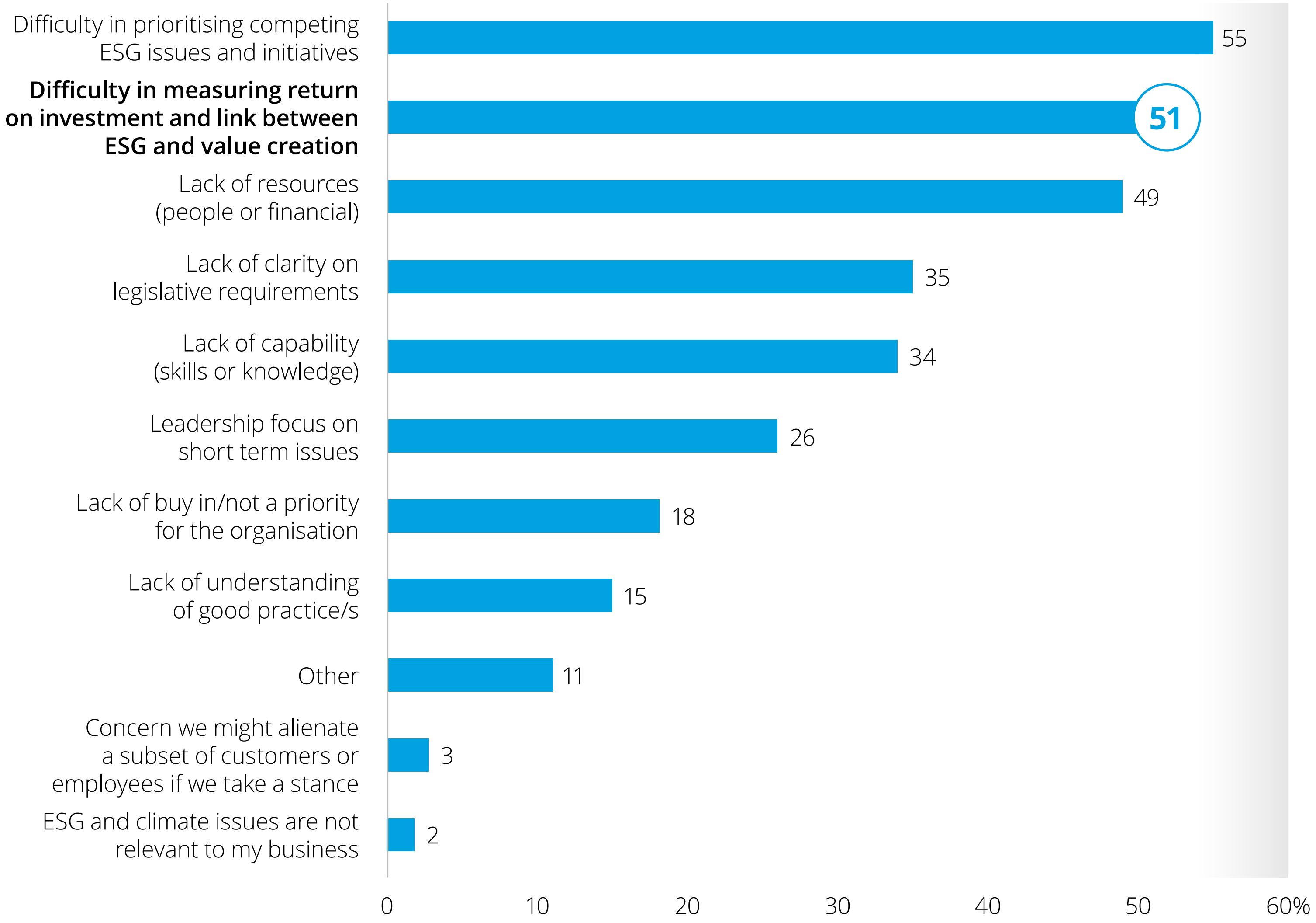
With the number of ESG issues and initiatives rapidly rising, most CFOs (55%) report the top barrier to ESG efforts in their organisation is 'difficulty in prioritising and allocating resources between issues and initiatives'. This comes as CFOs also balance ESG investment decisions against an uncertain economic environment, and reduced risk appetite.

'Difficulty in measuring return on ESG investment and value creation' fell from 65% in the H2 2021 survey to 51%. While businesses continue to navigate the difficult trade-off between long-term gains from ESG action and short-term costs, the broad range of drivers and benefits identified by CFOs indicate the non-economic gains from ESG are growing. While the link to value creation remains important, CFOs are increasingly looking beyond traditional ROIs to justify ESG action.

Only 2% of CFOs mentioned that ESG and climate issues are not relevant to their business operations.

Select the top three barriers to ESG action in your organisation

Chart 17:
Barriers to ESG efforts



'Difficulty in measuring return on ESG investment and value creation' fell from 65% in the H2 2021 survey to 51%.

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The ESG narrative is shifting

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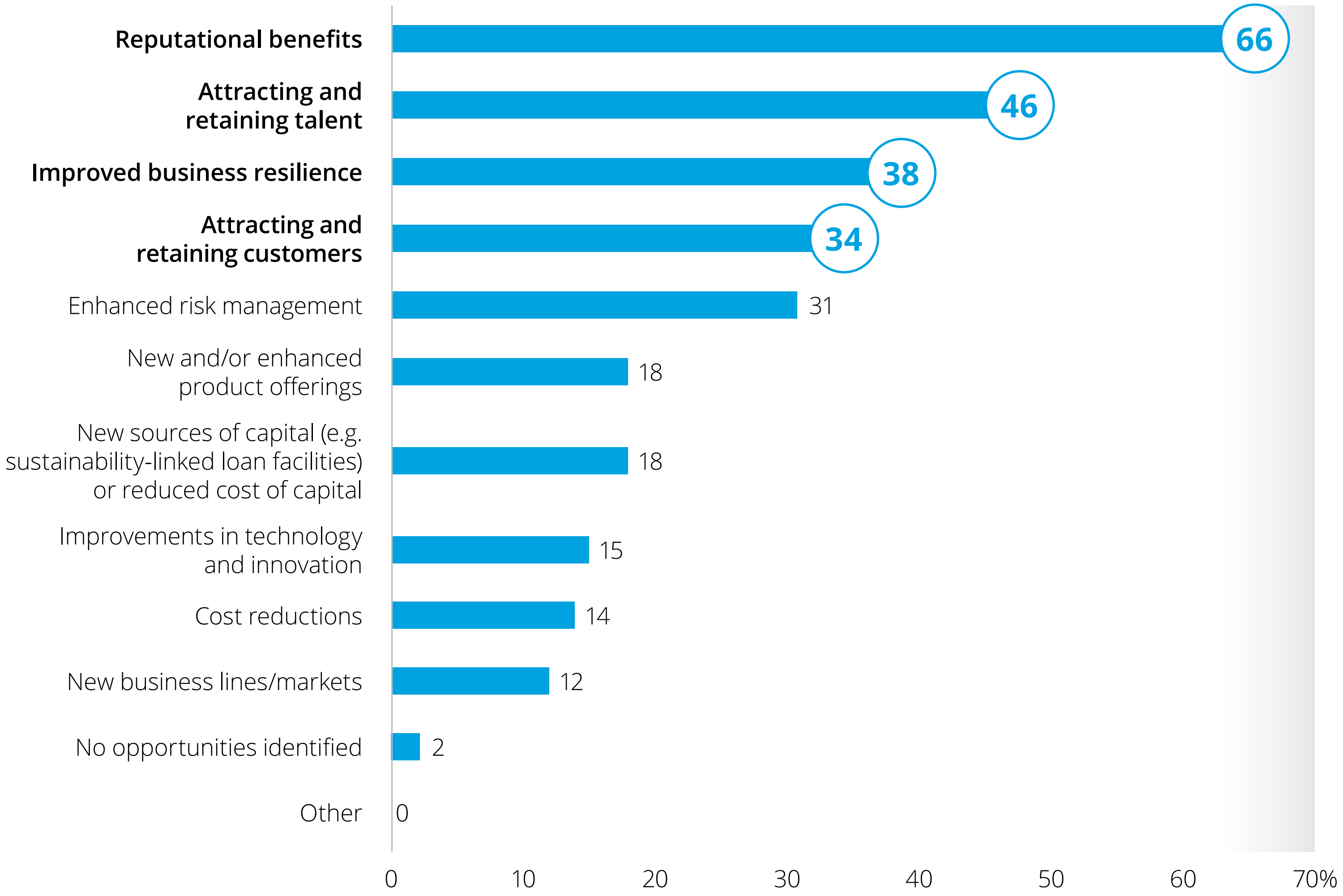
Interestingly, the biggest opportunity provided by ESG growth according to CFOs is reputational benefits, with 66% choosing this option. The reputational benefits from a strong ESG proposition enables businesses to expand their customer base and achieve better access to resources – including key talent. Amid current and ongoing labour shortages, many CFOs (46%) view ESG as an avenue to increase recruitment and retention activities.

Thirty-eight percent of CFOs believe the growth of ESG will provide an opportunity to improve business resilience, which may be highly relevant given the degree of economic uncertainty Australian businesses currently face. Only 2% of CFOs say ESG growth will likely bring no notable opportunity to their firms.

The top opportunities CFOs identified largely reflect the immediate or risk mitigation benefits of ESG action. But as ESG becomes ingrained in business DNA, and as its maturity advances, it will be important to watch whether opportunities in product, technology or innovation rise to the top of CFO agendas.

Select the three opportunities identified from the growth of ESG considerations in your organisation

Chart 18:
Opportunities from growth of ESG



The top opportunities CFOs identified largely reflect the immediate or risk mitigation benefits of ESG action.

The ESG narrative is shifting

When asked about the status of ESG activities, CFOs identified that 43% of all activities have been planned or are in early stages of progress within their organisations, while 22% are in advanced stages of progress. A further 17% of activities have been completed or are already in place. These figures suggest businesses are continuing to execute on their ESG journey, with a significant amount of ESG activity occurring in the market.

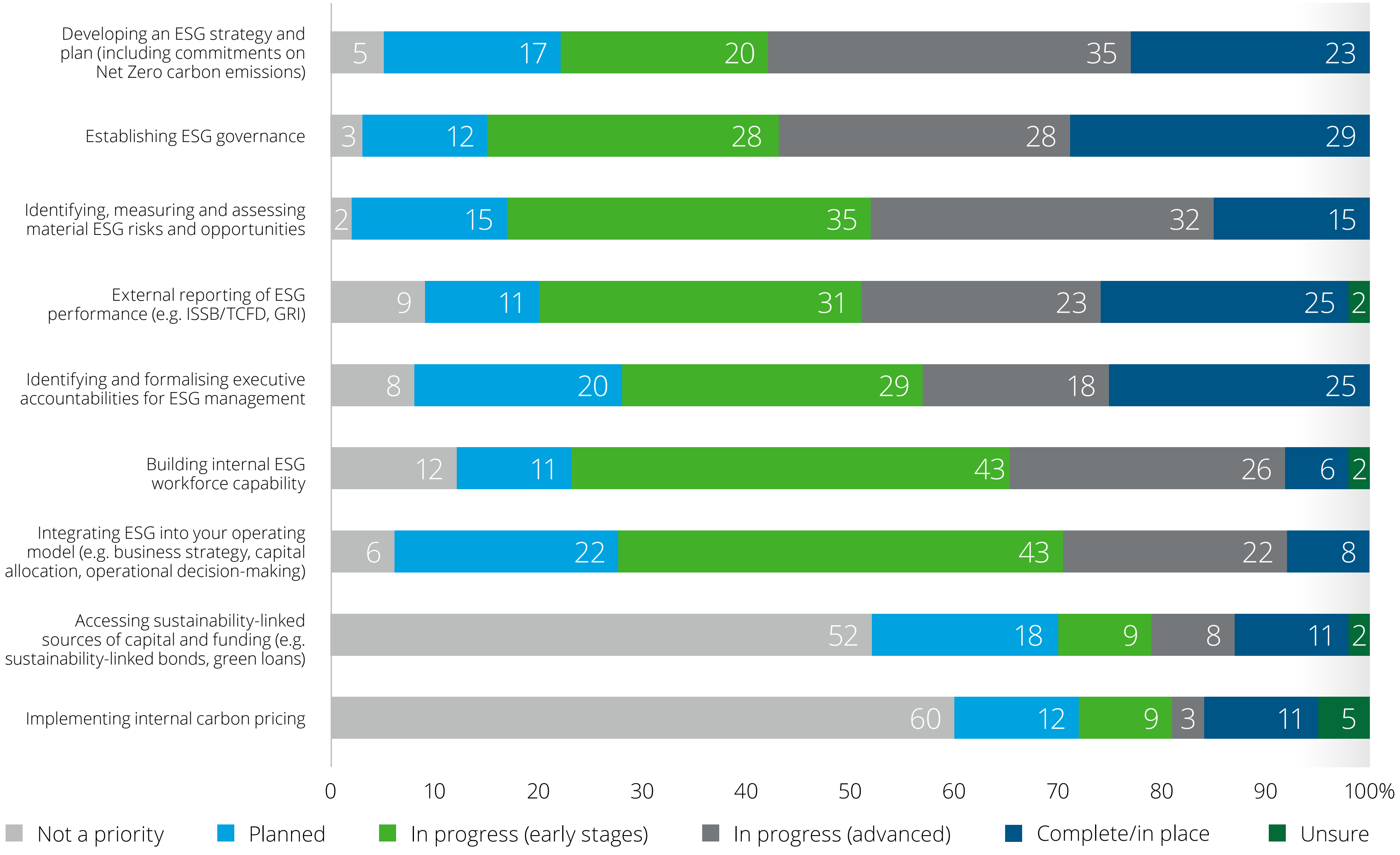
Developing an ESG strategy and plan is the activity most CFOs (58%) perceive as being completed or in advanced stages of progress, followed by establishing ESG governance (57%) and identifying, measuring and assessing material ESG risks and opportunities (47%). On the other end, implementing internal carbon pricing remains the least prioritised ESG activity for surveyed organisations.

However, it's also clear there remains much to be done across all ESG activities, in particular there's significant progress still to be made on workforce capability and operating model integration.

Nonetheless, the CFO survey results show organisations are increasingly alert to the risks, benefits and opportunities from ESG – and are taking action to address and progress them.

Status of each of the listed activities in relation to your organisation

Chart 19:
ESG status



Looking ahead

More interest rate rises expected

After facing seven consecutive interest rate rises, less CFOs (82%) now believe interest rates will be higher in a years' time than six months ago. However, the vast majority still believe interest rates will increase over the next 12 months and this mirrors the sentiment in financial markets and guidance from the RBA.

As a result, CFOs are bracing for operating expenses to increase over the next 12 months (see Chart 10), largely driven by higher interest rates and inflation, as well as supply shocks. But 17% expect interest rates to be about the same level in 12 months' time, as the peak of inflation passes and then potentially some downward pressure on interest rates from a weaker global economy.

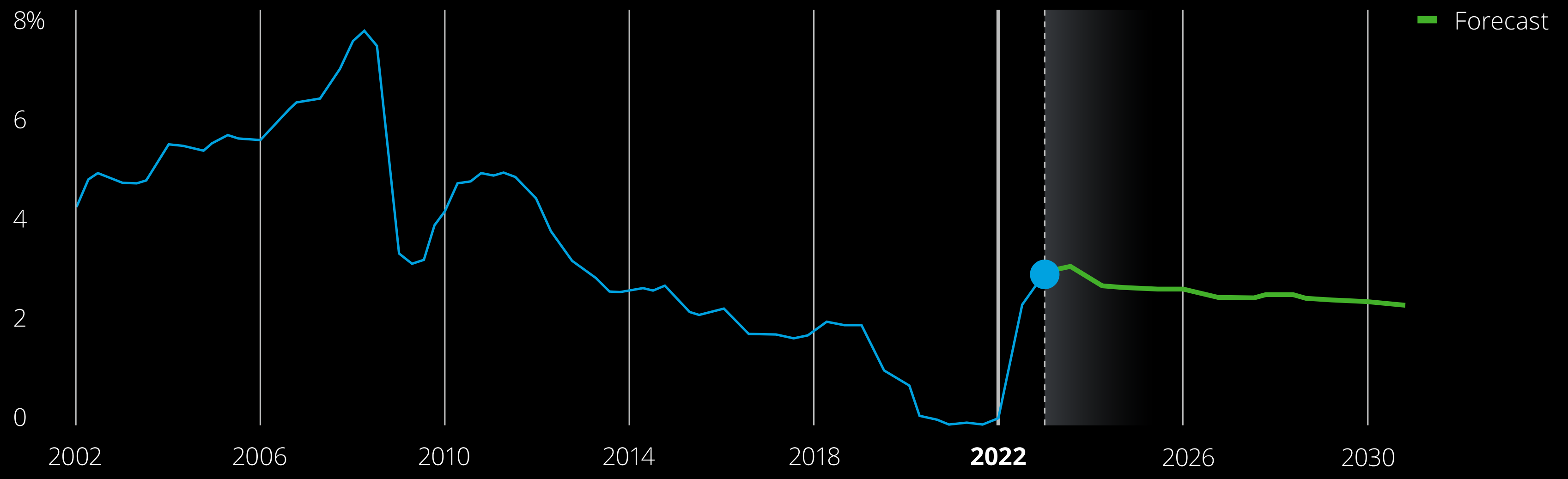
Chart 20 shows Deloitte Access Economics' interest rate forecast for the 90-day bank bill rate. This rate is forecast to peak in mid-2023, before levelling off as inflation becomes less of a concern.

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

Chart 20:
Interest rate expectations

90-day bank bill rate forecast

Chart 21:
Deloitte Access Economics forecasts, quarterly average



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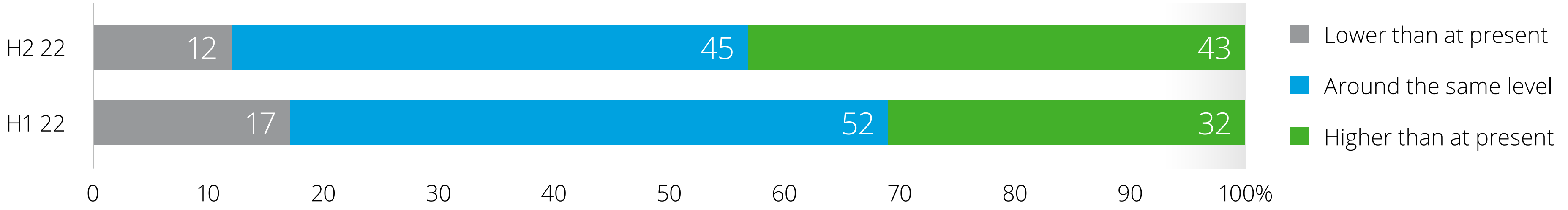
Looking ahead

Many CFOs still believe the Australian dollar will sit around its current level in 12 months' time. However, 43% also think it will be higher than present. This is likely driven by the bleaker outlook for the US economy than the Australian economy, causing CFOs to believe this may lift the Australian dollar. But, if the gap between US and Australian interest rates continues to widen (as predicted), this will put downward pressure on the Australian dollar.

Deloitte Access Economics forecasts the Australian dollar will start trending back up over the next six months after recent losses. The period of rapid interest rate rises led by the US Federal Reserve has pushed money into the US and seen the US dollar appreciate against most currencies, including the Australian dollar. But as we get into 2023, interest rates are expected to level off and the Australian dollar may trend up with the Australian economy expected to grow at a faster pace than the US economy.

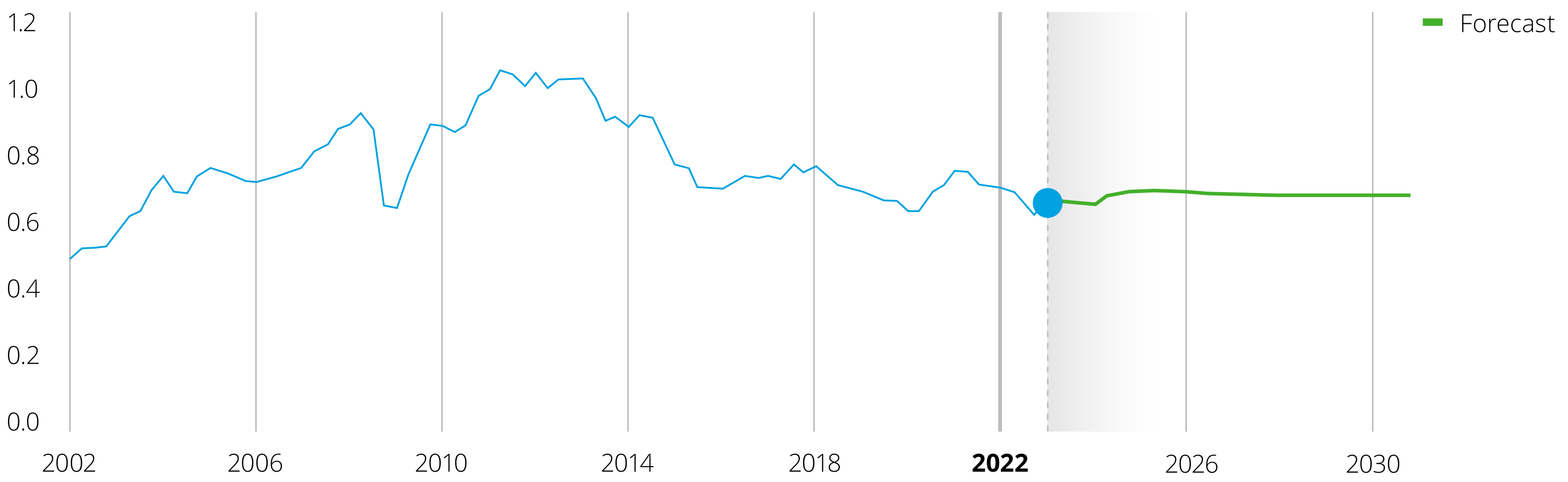
Where do you expect to see the value of the Australian dollar in 12 months' time?

Chart 22:
Australian dollar expectations



$US per $A forecast

Chart 23:
Deloitte Access Economics forecasts, quarterly average



More publications for Australian CFOs

Building Cyber Security into Critical Infrastructure

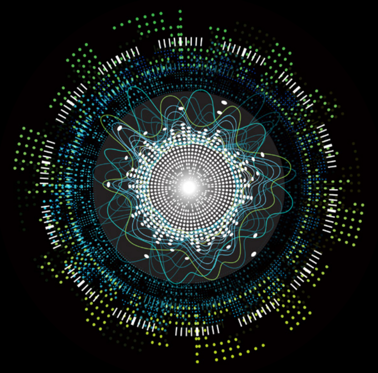
The digital revolution shows no signs of slowing down. This paper examines the changing risk landscape in Asia Pacific, highlights the urgency of addressing these challenges, and provides an approach to build cyber security into critical infrastructure.

Banking on Natural Capital

Nature is a fundamental – and fundamentally underappreciated – part of the economy and human wellbeing. But what if we valued it differently? Natural capital is an attempt to better convey the true value of nature and an untapped market opportunity rooted in truly sustainable returns.

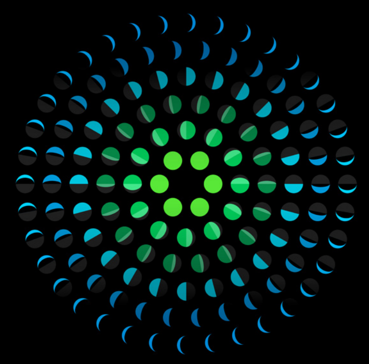
The Finance Workforce of Now

What asked finance workers about topics like flexibility, compensation, and meaningful work. Their answers reveal trends that are forging the workforce of the future. Creating a truly dynamic finance function will require the effective management of this future workforce. It will take an understanding of what they really do – and why.



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.



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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