Deloitte.

CFO Sentiment
Economic reality kicks in

H1 2023

Contents

Deloitte has surveyed senior finance executives of major Australian listed companies since 2009. This CFO Sentiment survey covers the first half of 2023 and took place between 31 May 2023 and 19 June 2023.
Please note: where graphs do not add up to 100%, this is due to respondents being able to select multiple responses.

01. Summary

Edition highlights

Economic reality kicks in

10%

of CFOs feel optimistic about the Australian economy going forward

The economic outlook remains weak: only 10% of CFOs feel optimistic about the Australian economy going forward. This is similar to the sentiment CFOs were feeling about the economy six months ago. However, the pessimism CFOs already felt about the economy is now bleeding into expectations about their own business performance.

Business confidence has dropped but remains positive: the resilience in business confidence felt by CFOs at the end of 2022 has fallen away amid the more difficult economic environment. While optimists still outnumber pessimists, net optimism on business performance has fallen to 29%, a lower rate than seen at the start of the pandemic.

Net optimism on business performance has fallen to

29%

85%

of CFOs rate uncertainty as higher than normal

Uncertainty high but CFOs have seen this before: it's no surprise uncertainty remains high (85% of CFOs rate uncertainty as higher than normal) and risk appetite low. However, CFOs are no longer strangers to high uncertainty – they've seen this before during COVID-19 and the subsequent recovery, and this experience will support CFOs through these challenging times.

Securing and retaining key talent is still the top risk: talent remains the top risk for CFOs, despite the weakening economic environment. However, forward-looking questions indicate businesses plan to hire fewer people compared to previous surveys as economic uncertainty increases.

Talent remains the top risk for CFOs

Summary

Edition highlights
Economic reality kicks in

35%

of CFOs still expect spending and hiring activity to increase in the next 12 months

CFOs still expect business spending and hiring to increase in FY24: expectations for capital expenditure and employment activity remain positive, although they've weakened since the previous survey. Around 25% of CFOs now expect spending and hiring activity to decrease in the next 12 months, compared to around 8% six months ago.

CFOs focusing on core business: cost control is a top area of focus for three out of four CFOs (75%) in the next year, as CFO priorities shift towards financial discipline relative to growth initiatives.

Cost control is a top area of focus

67%

of businesses feel somewhat prepared to tackle their ESG priorities

New rules, new ESG reporting: in general, most businesses (67%) feel somewhat prepared to tackle their ESG priorities, suggesting that Australian businesses are still in a period of transition.

2023 challenging, but 2024 will be better: current conditions and sentiment are low but could improve over 2024 as economic conditions stabilise supported by strong population growth and easing inflation.

Economic conditions could improve in 2024

Summary

CFOs face into the economic challenges

It's been a challenging start to 2023. The foreshadowed economic downturn from interest rate rises and mounting cost pressures is here and starting to impact businesses. Six months ago, CFOs were still optimistic about their own business prospects, but this resilience is fading as the weak economic conditions start to bleed through to business.

Net optimism about company financial prospects has fallen from 66% six months ago to 29%, lower than during the first wave of COVID-19. This comes as CFOs were already cautious about the economic outlook six months ago, which has been reaffirmed by the weakness in consumer spending and business confidence so far in 2023. That said, and despite the difficult environment, there are still more CFO optimists than pessimists when it comes to their own business performance.

Against the backdrop of a stuttering economy, it's no surprise that CFO uncertainty remains elevated and risk appetite low – although both measures are down slightly from peak uncertainty and low risk appetite. Some 85% of CFOs rate external financial and economic uncertainty as higher than normal, while only 24% of CFOs think this is a good time to take on risk.

But it's also important to remember CFOs have had experience dealing with high uncertainty recently. The past three years have seen CFOs grapple with a pandemic, a sudden recovery, and now a sudden downturn. While sentiment levels are low, and likely to stay that way until the economic conditions stabilise, CFOs do have strong experience to lean on over the next six months, which proves that high uncertainty environments can improve (and improve quickly) in the right conditions.

Securing and retaining key talent remains the number one risk to CFOs for the fifth survey in a row – perhaps a surprising result given the weakening economic environment, which would typically see hiring activity fall. However, the dominance of this risk is starting to give way as inflation and the risk of an Australian recession looms. Six months ago, the risk of an Australian recession seemed unlikely and was low on the agenda for CFOs – now, more CFOs are worried about a recession at home than a global recession.

The outlook for many key business metrics remains in positive territory, despite the economic outlook. On balance, CFOs still expect capital expenditure, employment, and revenue to increase in FY24, although expectations have weakened in the last six months. Hiring and business spending have shifted significantly: about 25% of CFOs believe both capital expenditure and employment in their business will decrease over the next twelve months, compared to only 8% six months earlier.

The combination of high borrowing costs, high uncertainty and a low-risk appetite is likely contributing to businesses shifting away from capital expenditure which, if realised, would not bode well for the economic outlook. Weakening employment expectations likely reflects two factors: right now, talent remains a key business risk for CFOs who are finding it hard to hire or retain workers, but looking ahead to the next 12 months, this will be less of a problem as the labour market loosens.

With the challenging economic outlook starting to feed through to business optimism, CFOs are turning their attention to what strategies they can implement to manage the impact on their bottom line. Cost control is the top priority for CFOs, as focus shifts towards financial discipline relative to growth initiatives. When looking at risk management, CFOs again were most likely to be managing costs more aggressively, but many were also taking proactive long-term measures by investing in technology and automation.

As new ESG considerations emerge and old ones remain, most businesses (67%) feel somewhat prepared to meet their ESG priorities – suggesting Australian businesses are still in a period of transition. New international financial reporting requirements from the International Sustainability Standards Board (ISSB) will be the most significant change to corporate reporting in a long time, and CFOs already recognise the impact this will have on their business. Most businesses are not yet prepared to meet these reporting requirements, but they recognise the challenge ahead.

And finally, while the short-term economic and business environment is challenging, going forward there is potential for better news. The Australian economy may well perform better in calendar 2024 than 2023, spurred by strong population growth and easing inflation. As these upside factors start to materialise, CFOs may move back to focusing more on market growth rather than current challenges.

02. Economic update

Australia is working through significant economic challenges

Australia's strong economic performance in 2022 (in large part due to a successful post-COVID-19 rebound) is firmly in the rear-view mirror. The economy now faces the dual problem of persistently high inflation and slowing economic activity. Navigating a soft landing is proving to be a challenging task for the Reserve Bank of Australia (RBA). On the upside, a strong rebound in population growth is supporting the economy through this difficult period.

Inflation and interest rates

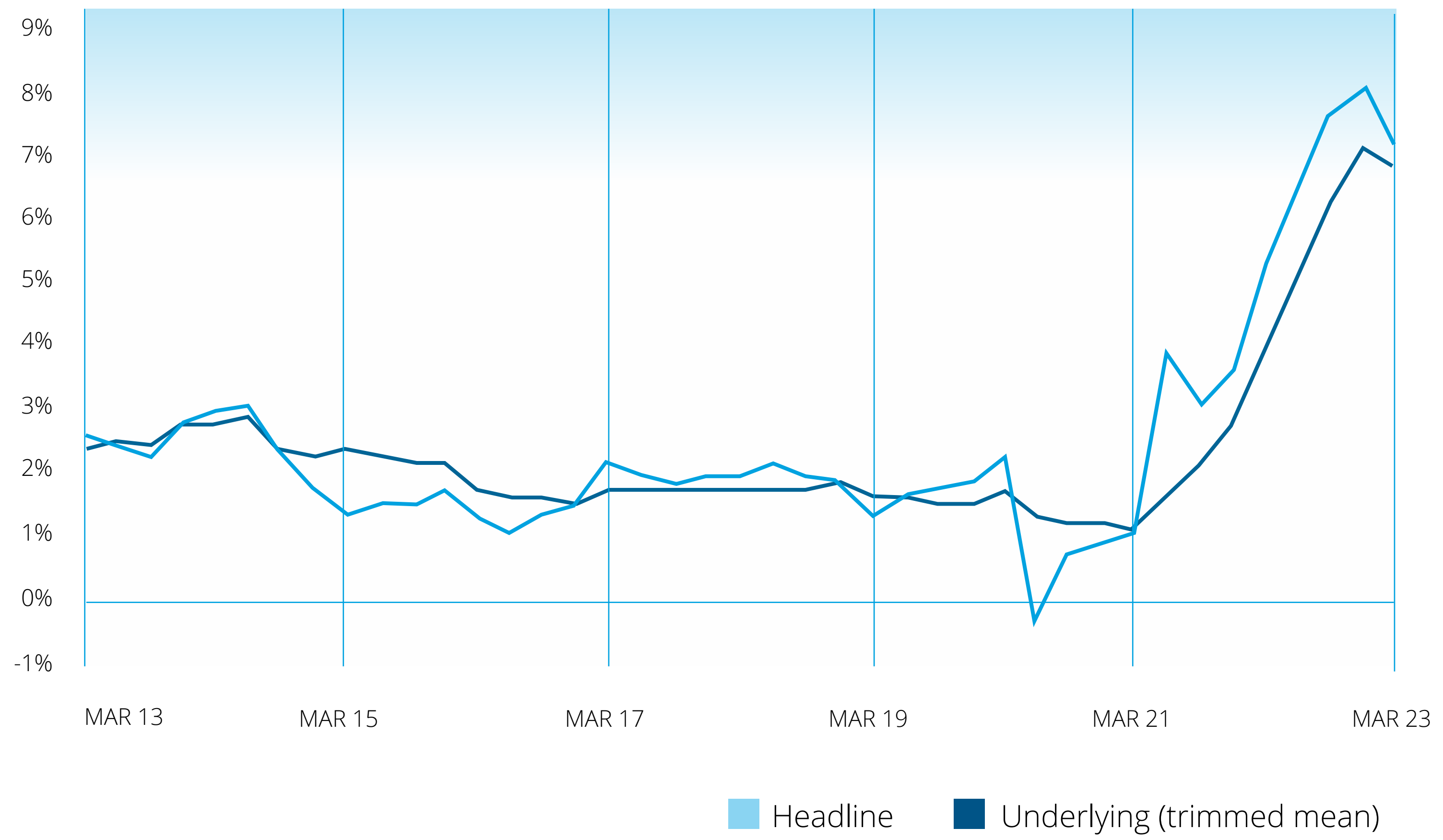
Headline inflation has moderated over early-2023. Annual CPI growth was 7.0% in the year to March 2023, decreasing from annual growth of 7.8% in December 2022, and is expected to go even lower in the upcoming June quarter release. Underlying inflation (excluding volatile items) has remained high though, sitting at 6.6% in the year to March 2023. Although it's clear inflation has peaked, it may be a relatively slow descent, with the RBA not expecting inflation to fall back into its 2%-3% target range until mid-2025.

Electricity prices have been the biggest driver of inflation over the past year. They're likely to continue rising, with the Australian Energy Regulator announcing 20% to 25% electricity price increases for much of eastern Australia from 1 July. Rents have also strongly contributed to recent inflation, and this will likely continue as more leases signed in 2022 end. More broadly, the latest inflation data reflects a two-pace economy in terms of price growth. With supply chains recovering from disruptions related to the war in Ukraine, the cost of goods has stabilised and even fallen in some cases. By contrast, services inflation remains high, and is trickier to get down, which has been noted as a significant concern by the RBA.

In response to these inflationary pressures, the RBA has increased the overnight cash rate to 4.1% across 12 cash rate decisions in only 14 months. This represents the fastest tightening cycle in a generation and is dampening consumer spending. Consumer confidence continues to be impacted and after briefly rising following the RBA rate pause in April, confidence is now moving back to around historic lows.

Chart 1: Annual change in CPI

Inflation



Economic update

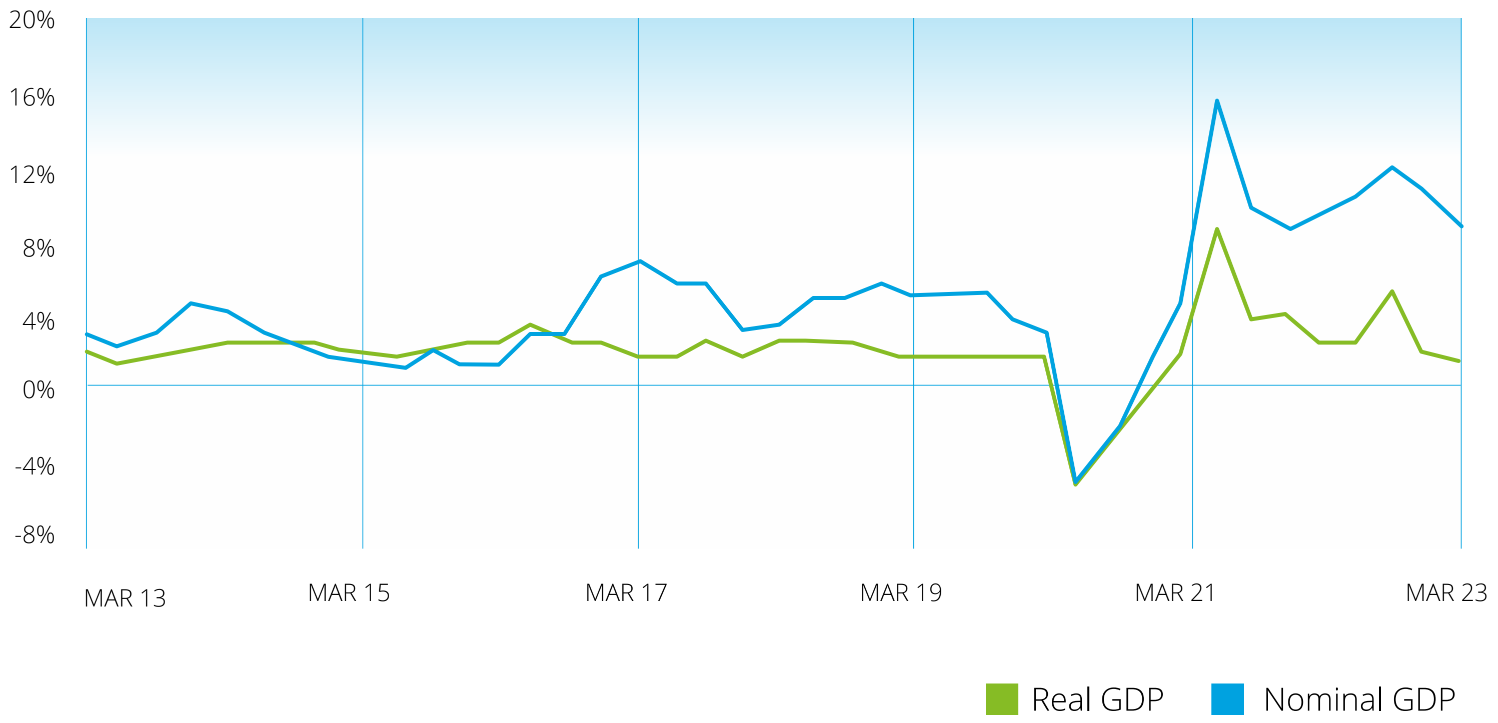
Economic growth and consumer spending

Turning to economic growth, the Australian economy grew by only 0.2% in the March quarter of 2023, and 2.3% over the year to March 2023. This barely positive growth was only possible because of strong population growth, with GDP per capita falling over the quarter. The one positive result was that business investment grew 3.4% over the quarter, partly driven by increased investment in machinery and equipment, and infrastructure spending on renewable projects. However, overall business investment is still relatively low as a proportion of GDP, which will weigh on productivity growth going forward.

The slowdown is particularly seen in consumer spending as households respond to inflation and interest rate rises. Consumers are moving away from discretionary spending as essential spending becomes the priority. To date, consumers have been sacrificing their savings to try to maintain their spending, with the household saving ratio now at its lowest rate since 2008. However, the draw down on COVID-19 savings has largely come to an end, with many households depleting their funds. These factors coupled with declining real wages mean a "consumer recession" is anticipated in 2023.

Chart 2: Australian GDP growth

Economic growth



Economic update

Labour market and migration

Despite the slowing economy, the labour market has remained remarkably resilient, with Australia's unemployment rate still historically resilient, with Australia's unemployment rate still historically low at 3.5% in June 2023. However, there are signs that labour market tightness is easing. Underemployment (the proportion of workers wanting more hours) ticked up to 6.4% in May and stayed there in June, the highest rates in over a year. Recruitment activity has also begun easing. As the economy continues to slow, unemployment is expected to pick up. The RBA has noted that it sees an unemployment rate of around 4.5% as consistent with slower inflation and a more sustainable balance between supply and demand in the labour market.

Off the back of the tight labour market, wages rose 3.7% over the year to March 2023, the highest rate of growth in over a decade. However, this still represents a real wage decline of 3.3% due to high inflation. This enforces why cost of living is such a concern for consumers: real wages are now 5.4% below where they were before the pandemic. Notably, real wages won't significantly pick up in coming years unless Australia can boost its sluggish labour productivity growth (such as by increasing capital expenditure and better adoption of technology).

However, there's one silver lining; population growth is at the highest annual rate in more than a decade. This is being driven by international student arrivals moving closer to pre-COVID19 levels.

The 2023-24 Budget revealed a predicted surge in net overseas migration to 400,000 in 2022-23, and a further 315,000 in 2023-24, which is well above pre-COVID 19 levels. This population growth is aiding the economy through its slowest phase in 2023 and is likely to then support the economic pick-up expected to take shape in 2024.

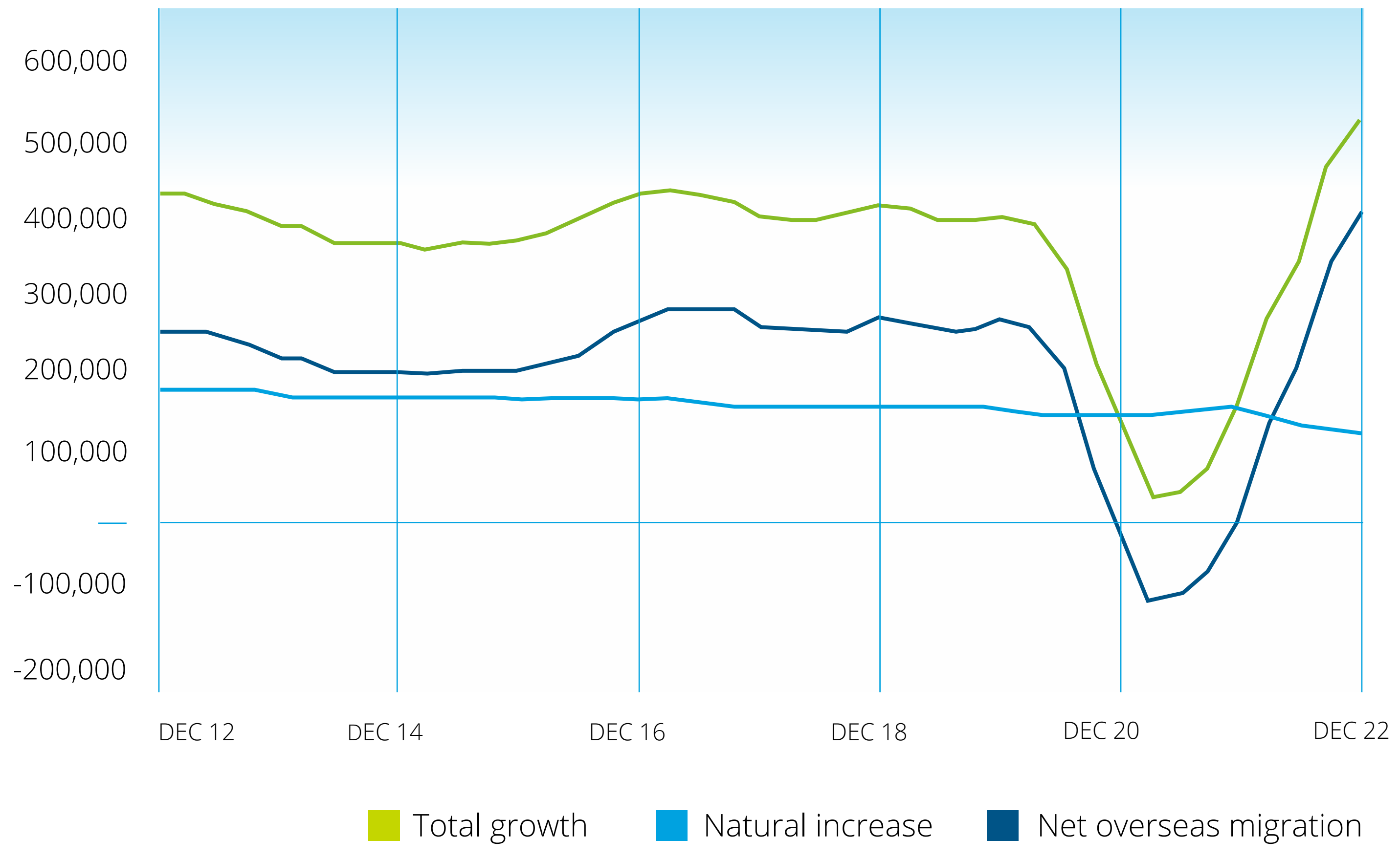
Australia's unemployment rate still historically low at

3.6%

in May 2023

Chart 3: Annual population change

Population growth



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"Mid-2023 may be the low point in this economic cycle as consumer spending draws back but inflation remains high. Business planning for calendar 2024 should factor in some economic improvement, supported by strong population growth and an eventual return to real wage growth."

David Rumbens
Partner, Deloitte Access Economics
Deloitte Australia

"Economic realities are hitting home. The divide between company sentiment, which had been holding up, and economic sentiment has narrowed. Whilst half of CFOs remain optimistic about their company's financial performance, the size of this group has fallen and the numbers that are pessimistic are on the rise. In this environment, cost control has become the biggest priority for the year ahead."

Stephen Gustafson
Partner, Audit & Assurance
Deloitte Australia
CFO Program Leader

Global update

A delicately balanced global economy

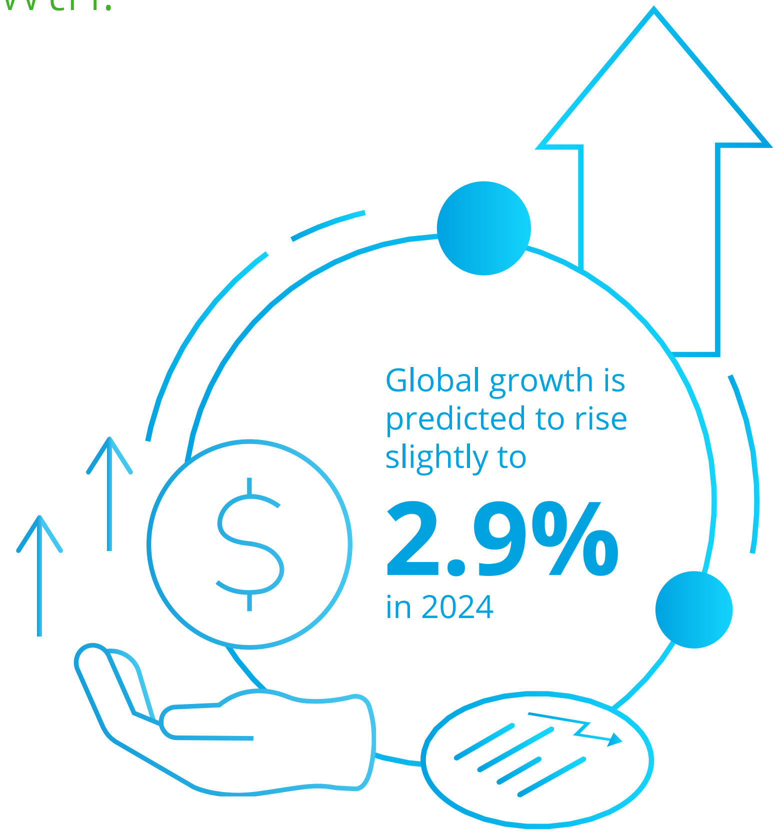
Like Australia, the global economy is currently delicately balanced. According to the latest OECD forecasts, global growth is predicted to moderate from 3.3% in 2022 to 2.7% in 2023, before slightly rising to 2.9% in 2024. This forecast growth rate for 2023 is the lowest since the GFC (aside from the 2020 pandemic period). It illustrates the weakness in the global economic outlook, particularly for advanced economies. While lower energy prices are reducing headline inflation and China's re-opening has provided a boost to global activity over early-2023, downside risks remain high. Core inflation is proving persistent and most central banks in advanced economies do not see inflation returning to target in the coming year. High interest rates in response will continue to dampen growth.

The situations in the UK and European economies are particularly difficult, with inflation remaining high. Although energy price pressures have been fading, core inflation remains elevated. Tighter monetary policy to combat this will further weaken economic activity, with consumer spending having already contracted in parts of Europe.

In the US, household consumption has remained relatively resilient. This is partly because US real wages (compared to pre-pandemic levels) are notably higher than Europe and the UK. However, US core inflation remains significantly elevated for services. Although the US Federal Reserve paused interest rate hikes in their June meeting, it expects to raise rates twice more this year to combat high core inflation. These higher rates will dampen consumer spending and business investment, and thus US growth is expected to remain weak over the next 6 to 12 months.

China's economic outlook remains a key uncertainty in the global economy. Economic activity in China has picked up after the removal of COVID-19 restrictions, but not necessarily to the levels anticipated. Consumer spending has been lower than expected, and youth unemployment has recently hit an all-time high. The property sector remains troubled, with debt levels still high. As a result, inflation in China has remained low, with monetary policy easing there, in contrast with the rest of the world, although this is not yet stimulating significant additional spending.

Global downside risks remain high: core inflation is proving persistent and high interest rates in response will continue to dampen growth.



03. Key policy measures

A budget with modest cost-of-living relief as the RBA continues its war against inflation

The recent 2023-24 Federal Budget announced that a modest surplus was achieved over 2022-23. This is far better than the $36.9 billion deficit forecast last October for 2022-23 and is a consequence of welcome revenue tailwinds: favourable commodity prices, a strong labour market and a large rebound in migration. The government has largely opted for fiscal restraint in relation to this windfall, banking 82% of the revenue upgrades.

Of new spending announced, the $14.6 billion cost-of-living package was a cornerstone of the budget. This included support for low- and middle-income families such as energy bill savings, cheaper medicines and an increase to JobSeeker. The support is modest, as the Budget sought to balance providing much-needed cost-of-living relief with the knowledge that any additional spending places additional pressure on the RBA to lift rates further (which indeed has played out since the budget was delivered).

The budget also included measures targeted at the highly constrained housing and rental markets, including a modest 15% increase in rent assistance and measures to boost new residential construction. A further $2 billion has been provided to State governments since the budget to support social and affordable housing. While the increase in rent assistance will provide short-term support to many in-need households, boosting supply is the underlying answer, and that will still take considerable time. In Deloitte Access Economics' latest forecasts, housing construction starts are expected to fall, with the number of new builds in 2023 estimated to be 21,000 below 2022 levels and 70,000 below 2021. On these figures, new housing supply would barely keep pace with population growth, let alone ease a significant undersupply.

After leaving interest rates on hold in April, the RBA increased rates in May and June (to the surprise of markets and many economists), doubling down on their commitment to reducing inflation without delay. As the economy slows while measured inflation remains relatively high, it will be increasingly difficult for the RBA to balance tackling inflation without creating more significant economic damage, particularly in terms of higher unemployment and more business failures. Hence the short-term economic climate is a challenging one.

The Federal Government also released its much-anticipated review of the migration system in April 2023, which is particularly relevant given strong overseas migration right now. One of the review's main criticisms was the system's focus on program numbers without providing clear pathways to permanent residence. This is resulting in many "permanently temporary" workers in Australia and is of particular concern due to the increase in temporary migrants over the last 15 years. Addressing this issue, among others, will be crucial to ensure Australia continues attracting skilled migrants in the face of growing international competition.

04. Business resilience is weakening

The resilience of Australian CFOs is waning. Although half of the CFOs surveyed for this report were feeling optimistic or highly optimistic about the financial prospects of their company going forward, this is lower than we've seen in the past. Some 29% of CFOs are neutral, while the remaining 20% are pessimistic or highly pessimistic. **This puts net optimism (optimism less pessimism) at 29%.**

Net optimism has fallen from 66% six months ago to 29%, lower than seen during the first wave of COVID-19. While still positive, this decline suggests that the weaker business environment that has been foreshadowed for the last year or so has started to feed through to businesses on the ground.

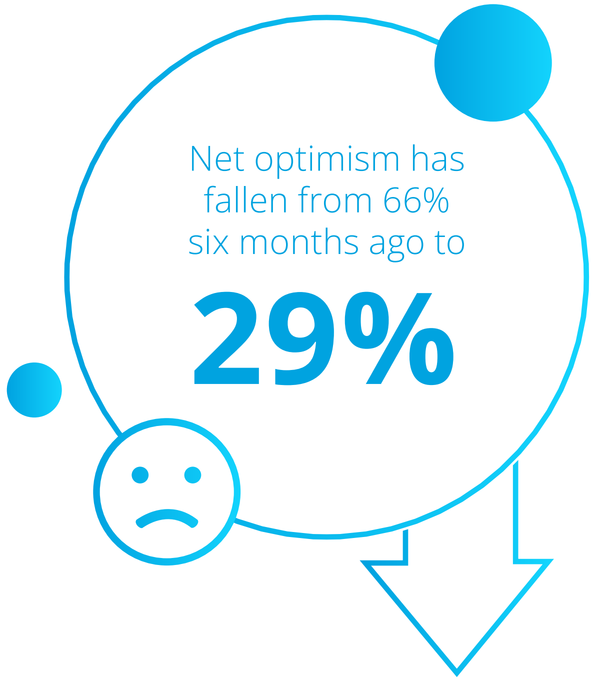
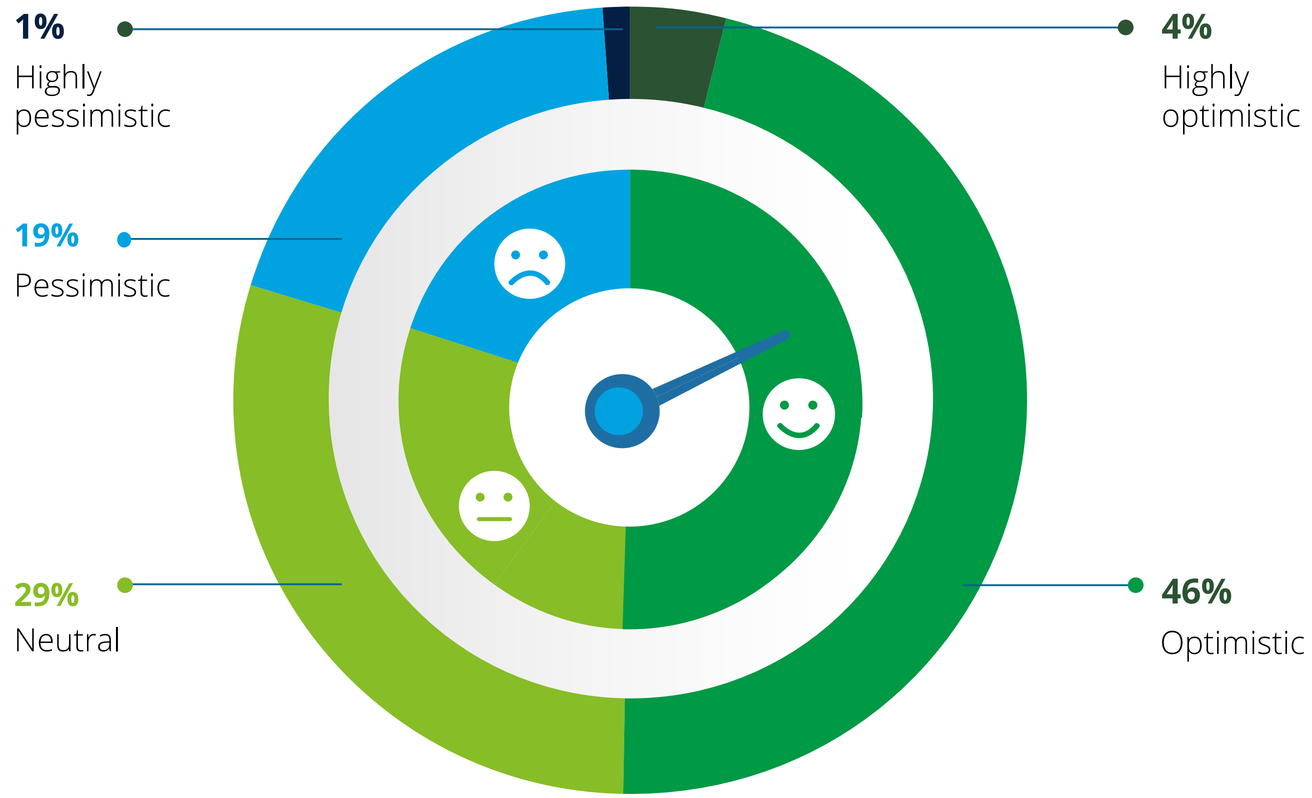


Chart 4: Business confidence

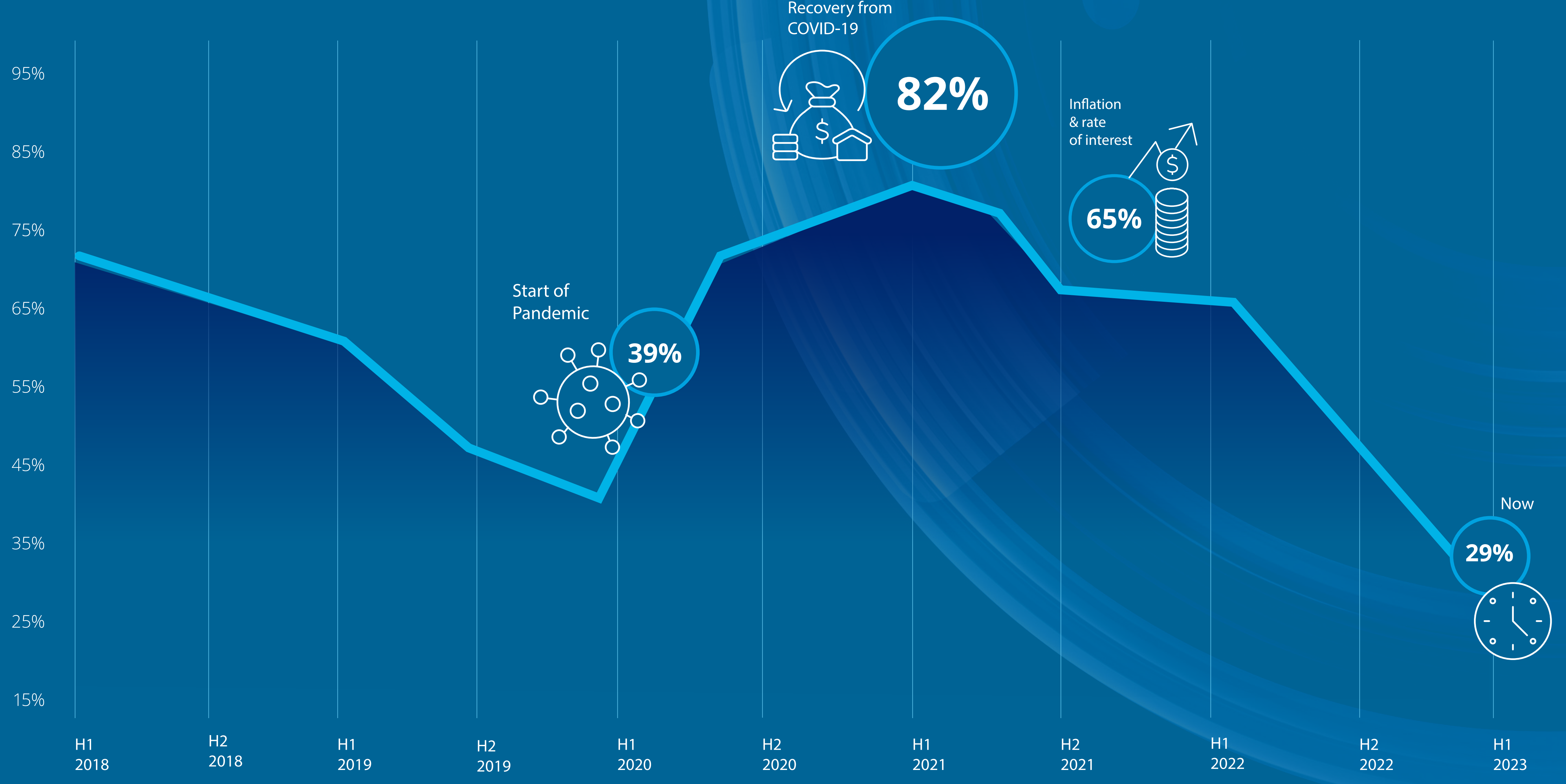
How do you feel about the financial prospects of your company going forward?



Business resilience is weakening

▶ Chart 5: Net business confidence over time

How do you feel about the financial prospects of your company going forward? (net optimism)



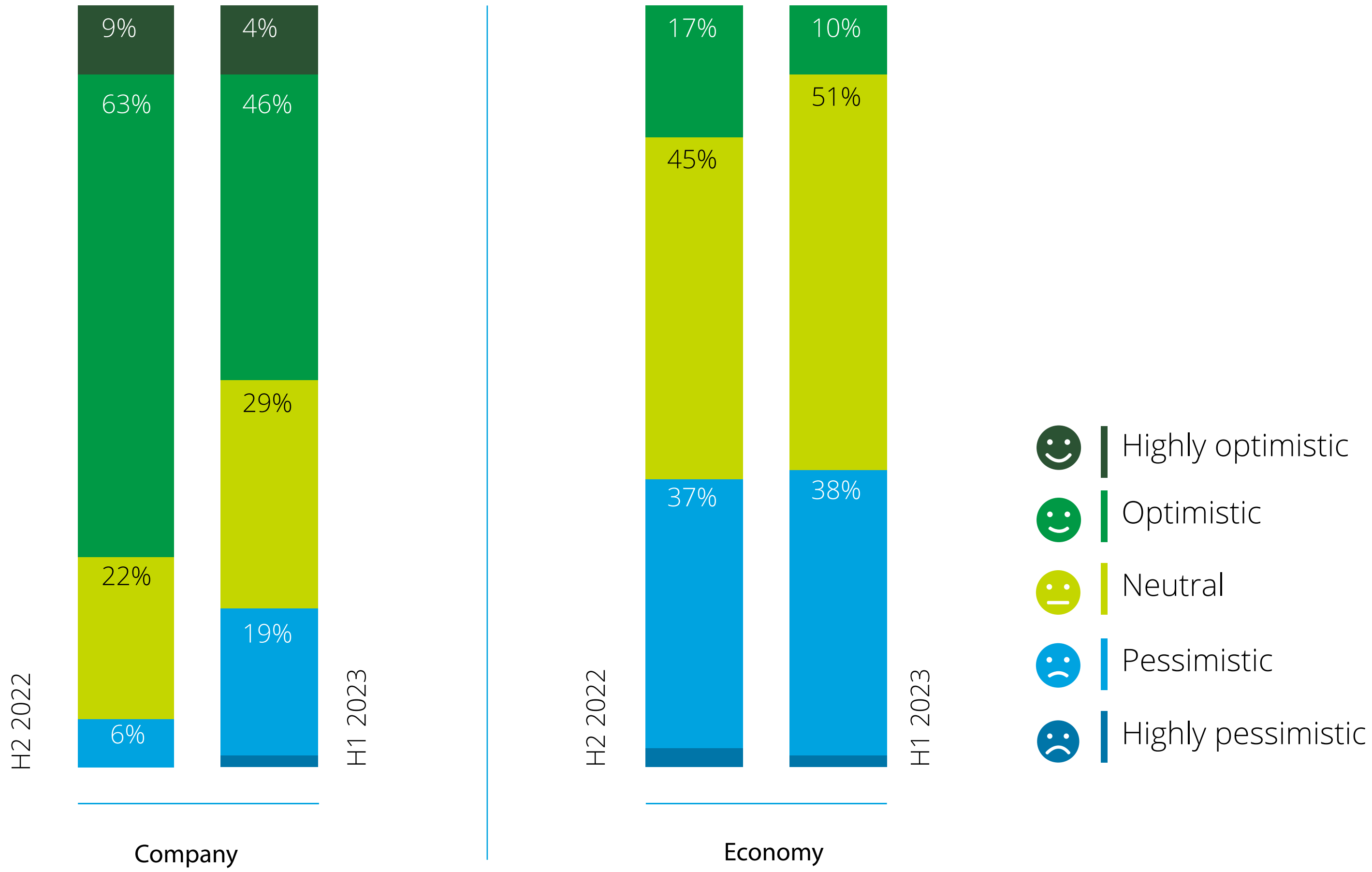
Business resilience is weakening

Only 10% of CFOs felt optimistic about the Australian economy going forward, with more than half feeling neutral (51%) and 39% pessimistic. Chart 6 shows that the share of CFOs who are pessimistic about the economy has stayed the same as six months ago, with a slightly lower share of optimistic CFOs (who have now shifted to neutrality). While net economic sentiment worsened a bit (net -29% this edition compared to net -22% six months ago), the larger shift was in business sentiment (which saw net optimism drop from 66% to 29%).

This comes as CFOs were *already* cautious about the economic outlook six months ago, which has only been reaffirmed by the weakness in consumer spending and business confidence in 2023 so far. The divide between company sentiment (which had been holding up despite economic turmoil) and economic sentiment is now closing. Concerns about the economic environment are now bleeding into a less optimistic view among CFOs.

Chart 6: Optimism about company and economy, H1 2023 vs H2 2022

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



05. Uncertainty remains high

Some 85% of CFOs rate external financial and economic uncertainty levels as higher than normal.

This is a 7% decrease from six months ago, which possibly reflects CFOs getting (slightly) more used to interest rate hikes after almost a decade in a low interest environment.

However, uncertainty is still elevated compared to historical surveys, as CFOs continue to maintain considerable caution with their balance sheets. Uncertainty about how long weakness in the economy will last is now a key issue for CFOs.

CFO risk appetite also remains low, with only one in four CFOs (24%) believing now is a good time to take more risk onto their balance sheets. This cautious risk appetite is mostly evenly spread across CFOs from different industries but was particularly notable in one industry: no Financial Services CFOs thought it was a good time to take on risk, reflecting troubling economic times.

But there's one important upside we should keep in mind. Uncertainty is high but it's no longer unfamiliar, nor even at peak uncertainty levels. CFOs have spent more than three years grappling with volatile economic conditions – from suddenly entering a pandemic, to the rapid post-pandemic recovery, then a new environment of high inflation and rising interest rates.

CFOs have been through this before. And uncertainty can sometimes change quickly – we've seen record-high uncertainty during the first wave of COVID-19 (in the H1 2020 survey, see chart 7) start to fade just six months later (H2 2020 and H1 2021 surveys). While current optimism is low and business expectations have weakened, CFOs can lean on experience over the past three years to help them navigate the next six months.

As CFOs get more accustomed to this new economic reality, and economic conditions improve, uncertainty ratings will also improve. This could be sooner rather than later, as a few upside factors (strong population growth and easing inflation) could mean 2024 is a much better year for Australian businesses.

Securing and retaining key talent is the number one concern for businesses (as shown in chart 8) for the fifth consecutive survey (since H1 2021).

This was understandable in a red-hot labour market but perhaps a little surprising in an environment where spending is much tighter. The rapid rebound from COVID-19 over 2022 saw demand for workers spring to all-time highs, while businesses also reported ongoing and sometimes crucial skills shortages as they struggled to keep up with customer demand. As a result, we've entered this economic downturn with a much stronger labour market than previously experienced and, so far, there's still strong demand for labour.

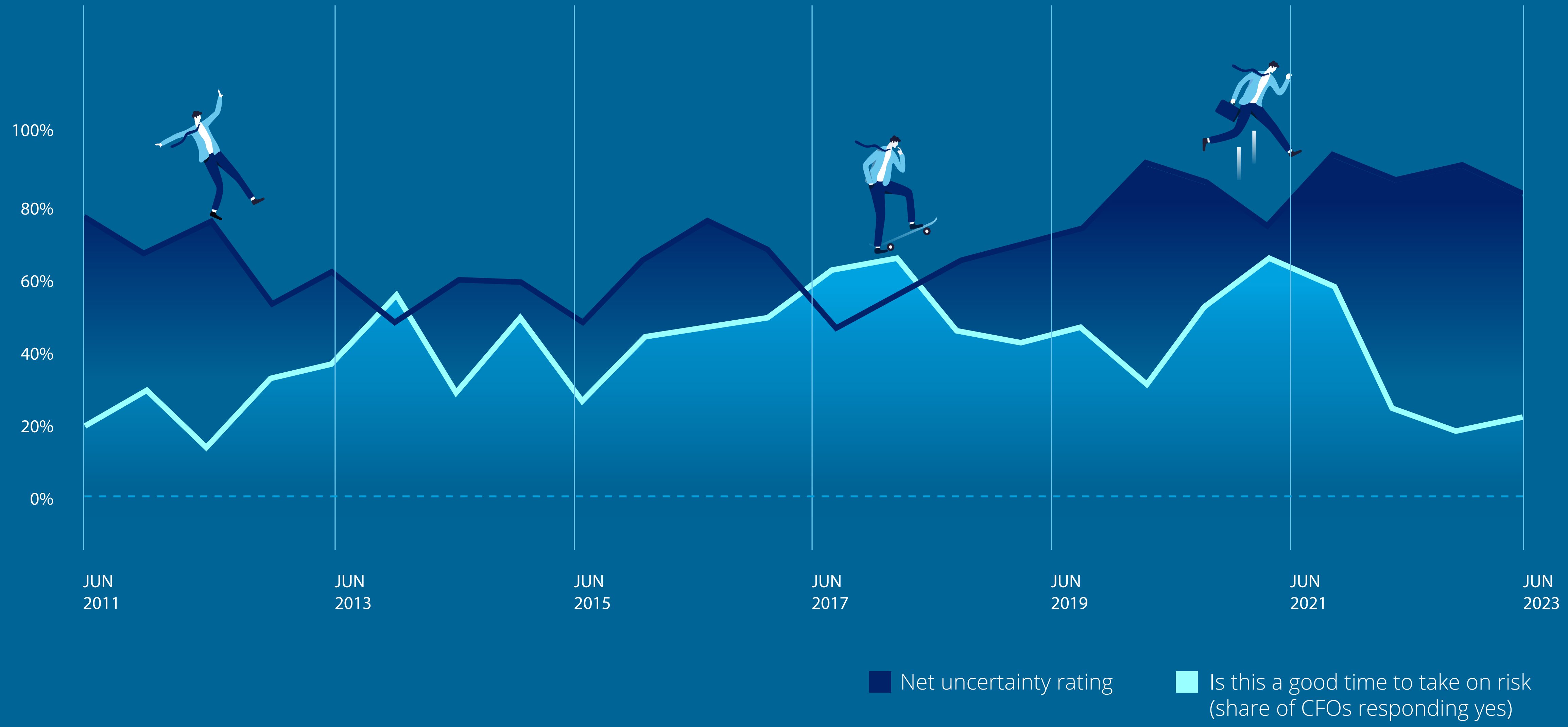
However, in line with a slowing economy, the dominance of talent over other risks is waning. In this edition, securing and retaining key talent was chosen by 71% of CFOs, down from 93% for the same option just a year ago.

At 51%, inflation is the number two concern for CFOs, followed by an Australian economic slowdown/recession (47%), which has now moved above a global slowdown/recession (42%). Where six months ago an Australian recession felt unlikely, CFOs are now re-evaluating. Overall, CFOs' current top risks were broadly similar to six months ago – indicating no major new risks have jumped on CFO agendas.

Uncertainty remains high

Chart 7: Balance sheet risk and uncertainty about economic and financial conditions

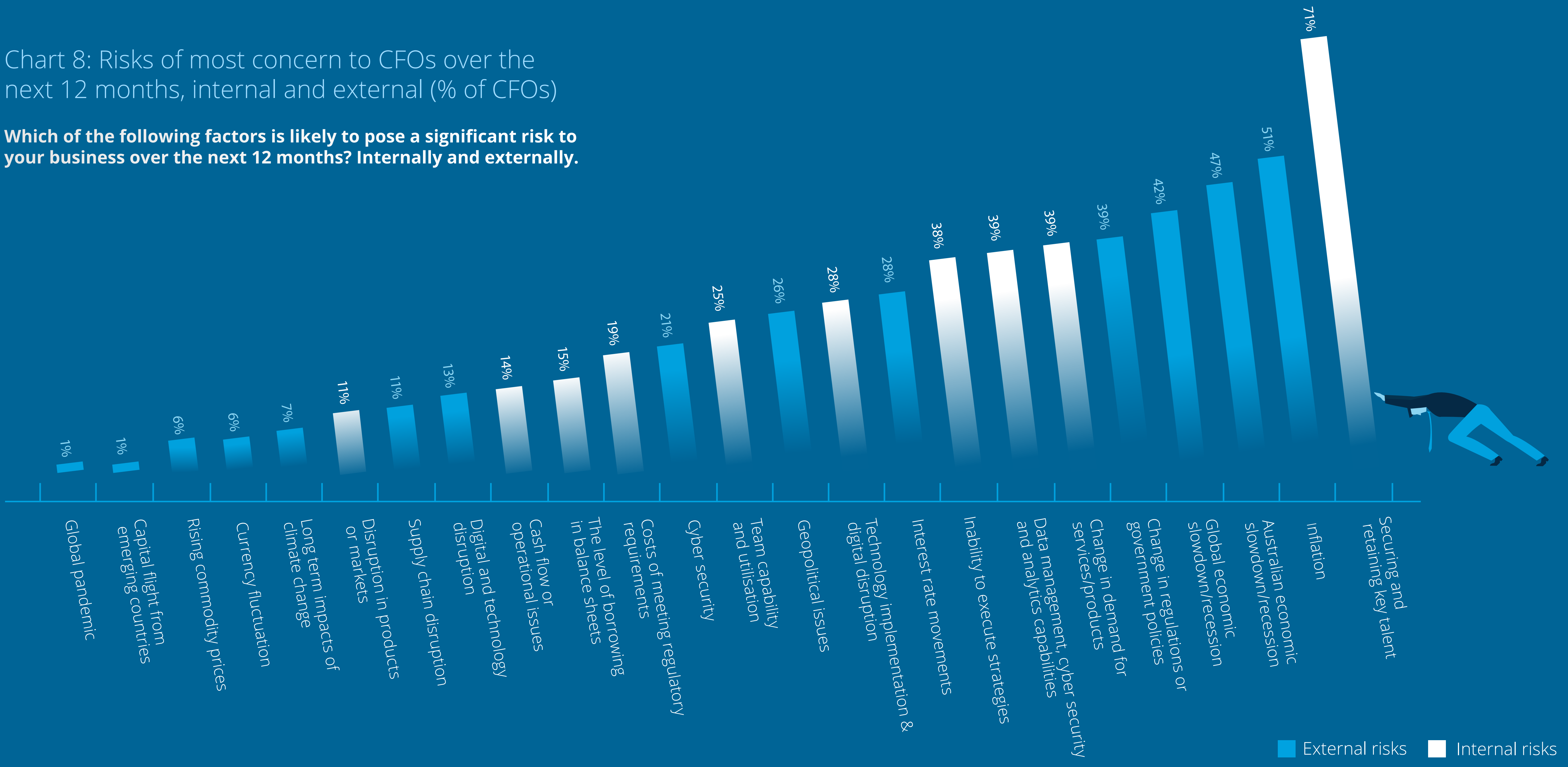
How would you rate the general level of external financial and economic uncertainty facing your company?



Uncertainty remains high

▶ Chart 8: Risks of most concern to CFOs over the next 12 months, internal and external (% of CFOs)

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



06. Hiring and business spending slows, but still positive

Net expectations (share of CFOs expecting an increase, less share expecting a decrease) for capital expenditure, employment and revenue have remained in positive territory, a good sign despite troubling times.

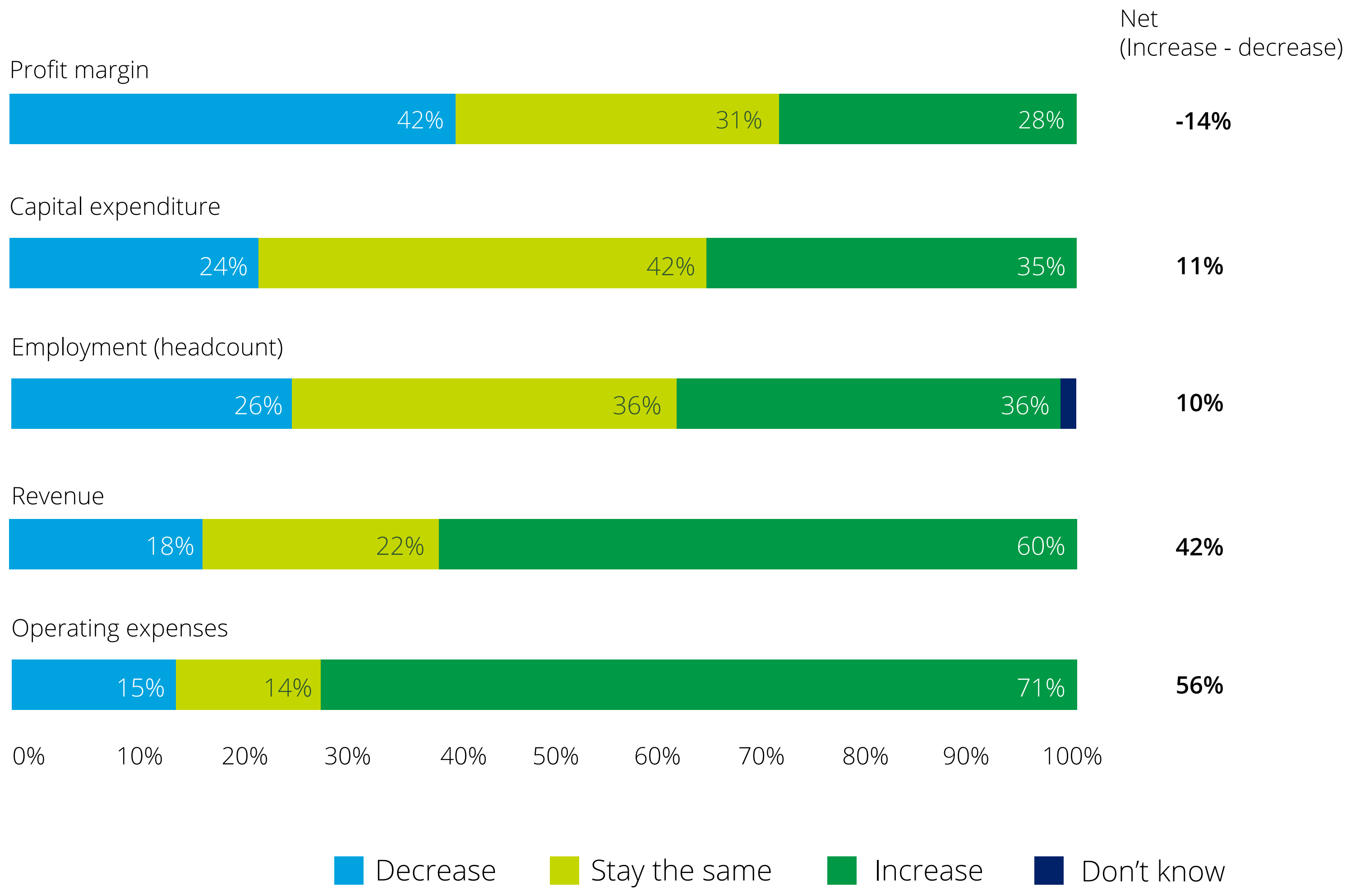
Profit margins are the only outlier, with more CFOs expecting profit margins to decrease as operating expenses are expected to rise. Notably, this was already the case six months ago, so it's unsurprising profit expectations remain muted in the current economic environment.

However, net expectations for the four positive metrics have weakened in this edition as more CFOs shift from 'increase' to 'decrease' or 'no change'. About one in four CFOs (24%) expect capital expenditure over the next twelve months to decrease, compared to just 8% six months ago. While 35% of CFOs still expect capital expenditure will increase, this is down from 45% six months ago.

This is worrying as now more than ever Australia needs business investment to help boost productivity and economic growth, but current intentions suggest a large share of businesses aren't willing to take on the risk.

Chart 9: Outlook for key business metrics

Compared to the past 12 months, how do you expect key metrics to change over the next 12 months?



Hiring and business spending slows, but still positive

Employment intentions have also shifted with 26% of CFOs now expecting employment to decrease (compared to only 9% six months ago). Although 36% of CFOs still expect employment to increase over the next twelve months (down from 51%).

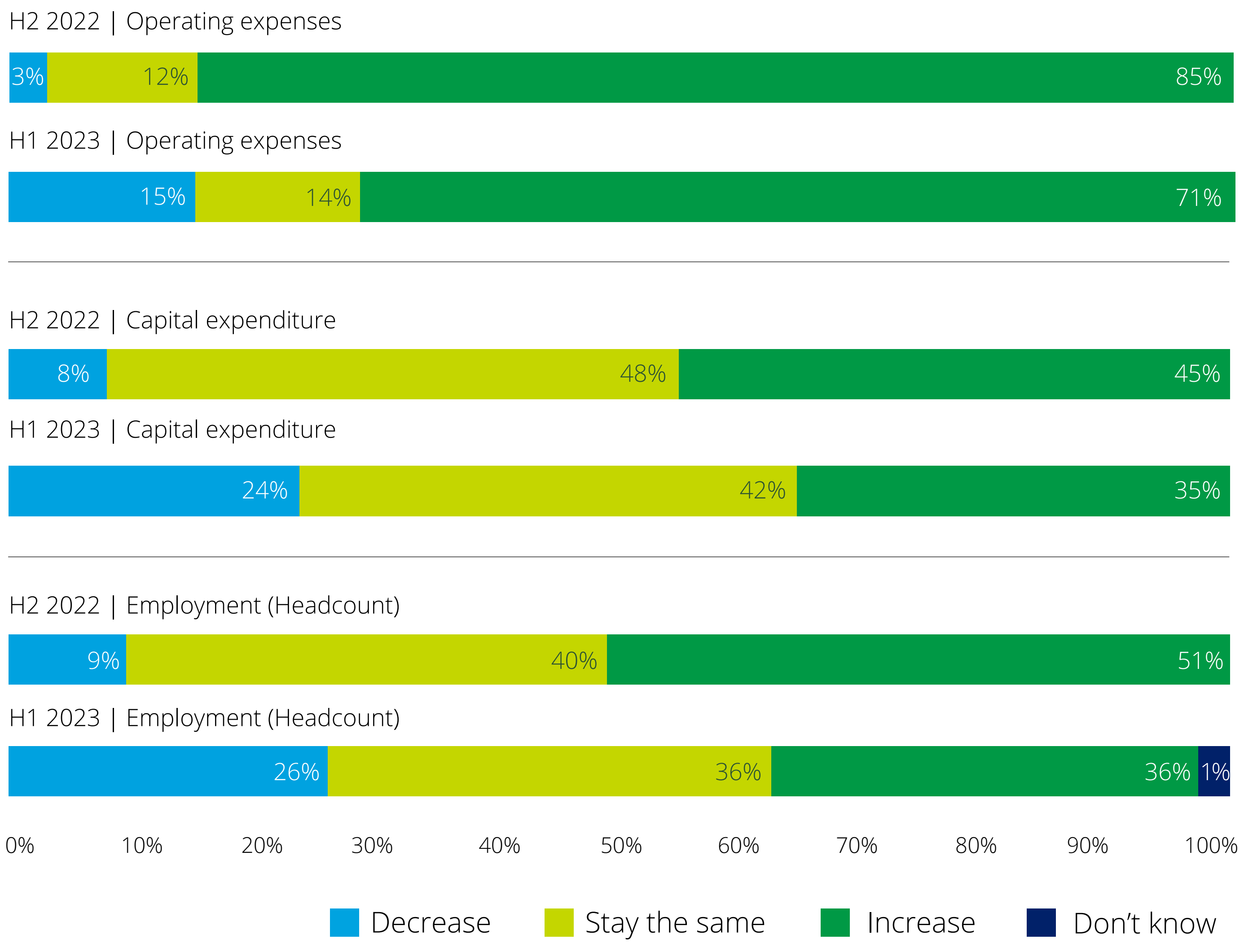
These weaker employment intentions come at a time when CFOs still rate securing and retaining key talent as the number one risk to business. The combination of indicators may represent two points in time: right now talent remains a key business risk for CFOs who are finding it hard to hire or retain workers in a stubbornly tight labour market, but looking ahead to the next 12 months, this is expected to be less of a problem. In the 12 months ahead, the labour market is expected to loosen and the weaker economy would suggest businesses need to hire less anyway – hence employment intentions are moderating.

Finally, 71% of CFOs expect operating expenses to increase, taking net expectations to 56%. On the bright side, 15% of CFOs now expect operating expenses to decrease over the next year, compared to just 3% six months ago.

This suggests inflation expectations remain varied across CFOs. The CFOs who expect operating expenses to increase will likely have an eye to cost control (see chart 11) and be cautious with business decisions over the next twelve months as risk appetite remains low.

Chart 10: Outlook for key metrics compared to last survey (H2 2022)

Compared to the past 12 months, how do you expect key metrics to change over the next 12 months?



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07. CFOs are in cost control mode

With the challenging economic outlook starting to feed through to business optimism, CFOs are turning their attention to what strategies they can implement to manage the impact on their bottom line.

Cost control is the top priority, with three out of four CFOs (75%) naming this as one of their top three areas of focus for the next year. This is understandable given the inflationary context and speaks to concerns over operating margins being squeezed by high levels of cost inflation, despite the possibility of inflation easing through the next year.

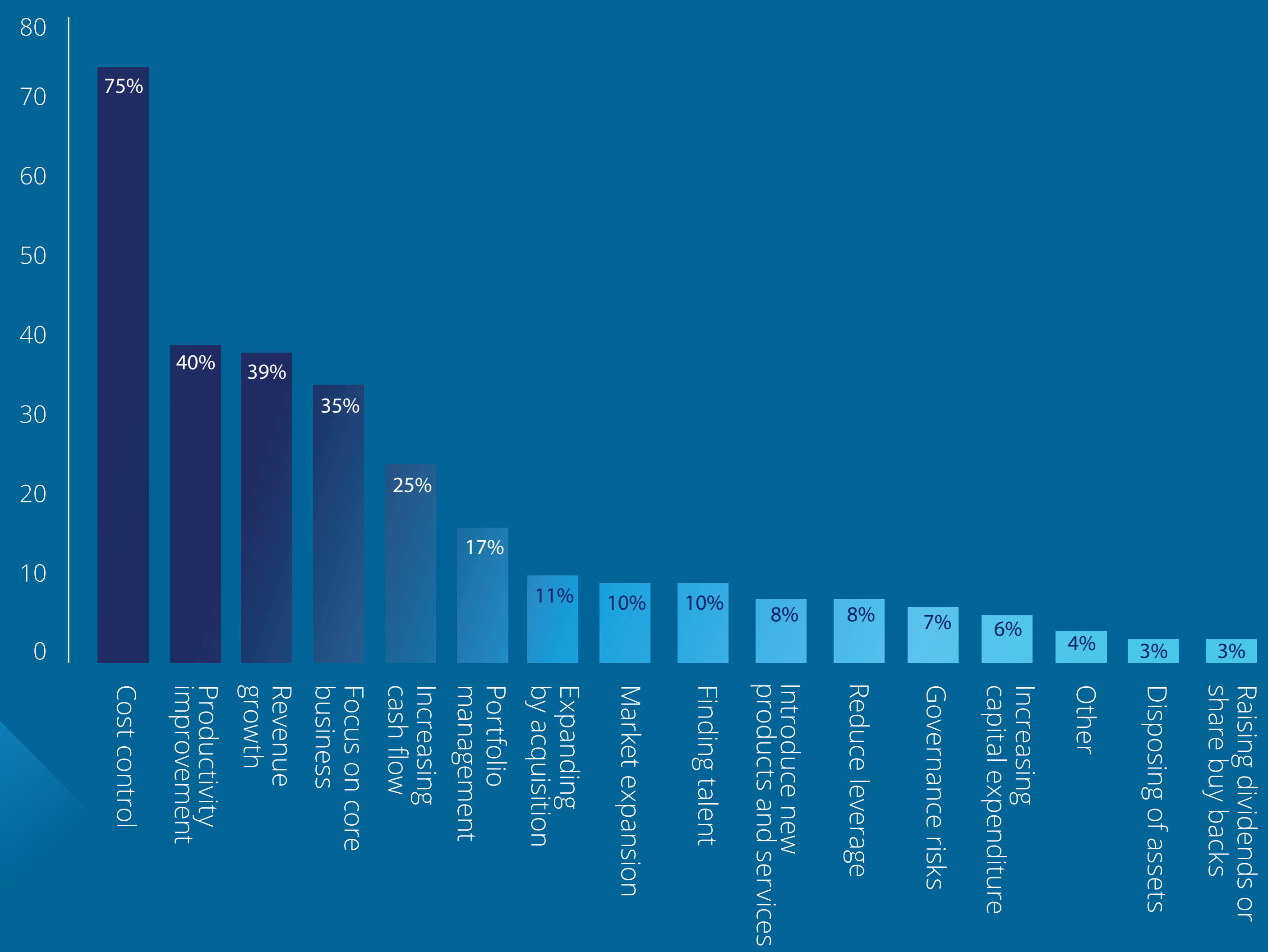
Many of the core areas of focus identified by CFOs for the year ahead reflect an increased focus on basic financial disciplines relative to growth initiatives, with a challenging 12 months anticipated. Growth areas such as expanding by acquisition, market expansion and introducing new products and services are much lower on CFO agendas in this economic environment.

The notable exception is productivity improvement, which is the second highest priority (though lower than cost control by a significant margin). Given the stubbornly sluggish productivity growth in Australia, this is welcome news that CFOs are turning their mind to productivity over the next year.

At an industry level, energy and resources businesses were particularly concerned about controlling costs, but much less concerned about revenue growth (only 10% of CFOs reporting this as one of their top areas of focus). Meanwhile property, infrastructure and construction CFOs were notably concerned about increasing cashflow with 55% of CFOs naming this a priority amid elevated levels of insolvencies in the construction sector.

Chart 11: CFO priorities

As a CFO what are your top three areas of focus for your business over the next year?



CFOs are in cost control mode

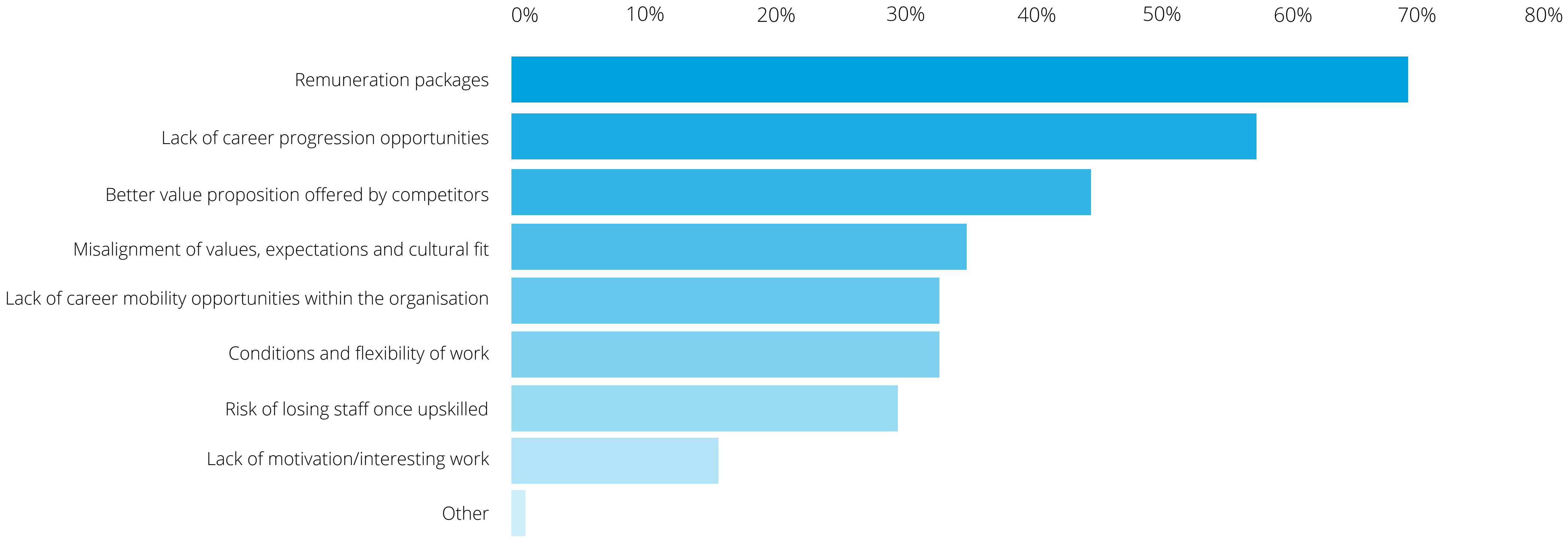
Attraction and retention of talent remains the top risk for businesses, and CFOs have named remuneration and progression opportunities as the biggest factors impacting talent.

Although we may also start to see hiring intentions fall over the next year, the push and pull factors of talent remain important. With pay at the top of minds for employees facing real wage decreases, this presents a huge challenge for CFOs over the coming months as they look to balance the competing priorities of attracting and retaining the best people alongside maintaining a stringent focus on controlling costs.

In response to this, many businesses are looking for alternative ways to maintain their workforce capabilities. When asked what strategies CFOs were undertaking to skill, re-skill or up-skill their workforce, some 63% of CFOs said they were implementing employee reward and recognition programs, while 42% are developing skills-led career pathways within their company.

Chart 12: Attraction and retention of talent

What factors, if any, impact the attraction and retention of talent in your workforce?



CFOs are in cost control mode

Most CFOs feel their responsibilities are either unchanged or broadening slightly, indicating their role has been largely stable over the last two years.

By areas of broadening responsibility, there are increasing demands on CFOs for engagement with internal company leadership and key stakeholders, as well as leading on the implementation of new regulations and business transformation projects.

Half of surveyed CFOs noted that reporting responsibilities have broadened slightly, with a further 17% noting it has broadened significantly. This comes as new ESG reporting requirements (discussed in detail in the next chapter) from the ISSB will start to roll out across Australian businesses, leading to significant change in corporate reporting.

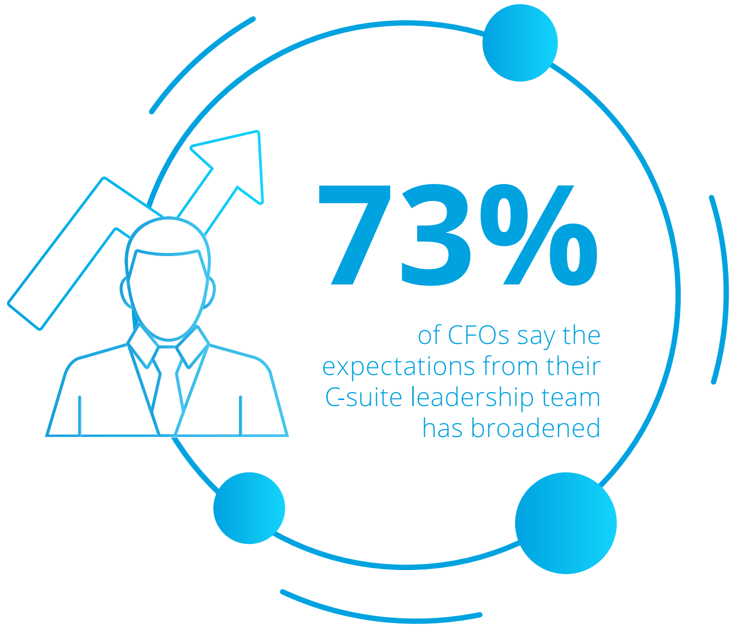


Chart 13: CFO responsibilities

Indicate how your responsibility as a CFO has evolved over the last two years

Response	Reduced significantly	Reduced slightly	Unchanged	Broadened slightly	Broadened significantly
Expectations from C-suite leadership team	1%	3%	22%	**47%**	**26%**
Demands to take the lead on transformations	1%	1%	35%	38%	25%
Engagement with partners and stakeholders	0%	0%	32%	50%	18%
Reporting due to emerging regulations and standards	0%	0%	33%	**50%**	**17%**
Functional responsibility in newer areas such as procurement, IT	1%	3%	47%	36%	13%
Volume of work within the traditional finance domain due to adoption of new standards/ regulations	0%	1%	49%	40%	10%
Responsibility to oversee newer/ more markets	0%	1%	74%	17%	8%

CFOs are in cost control mode

CFOs are taking a range of measures to protect enterprise value given the operational risks they're facing.

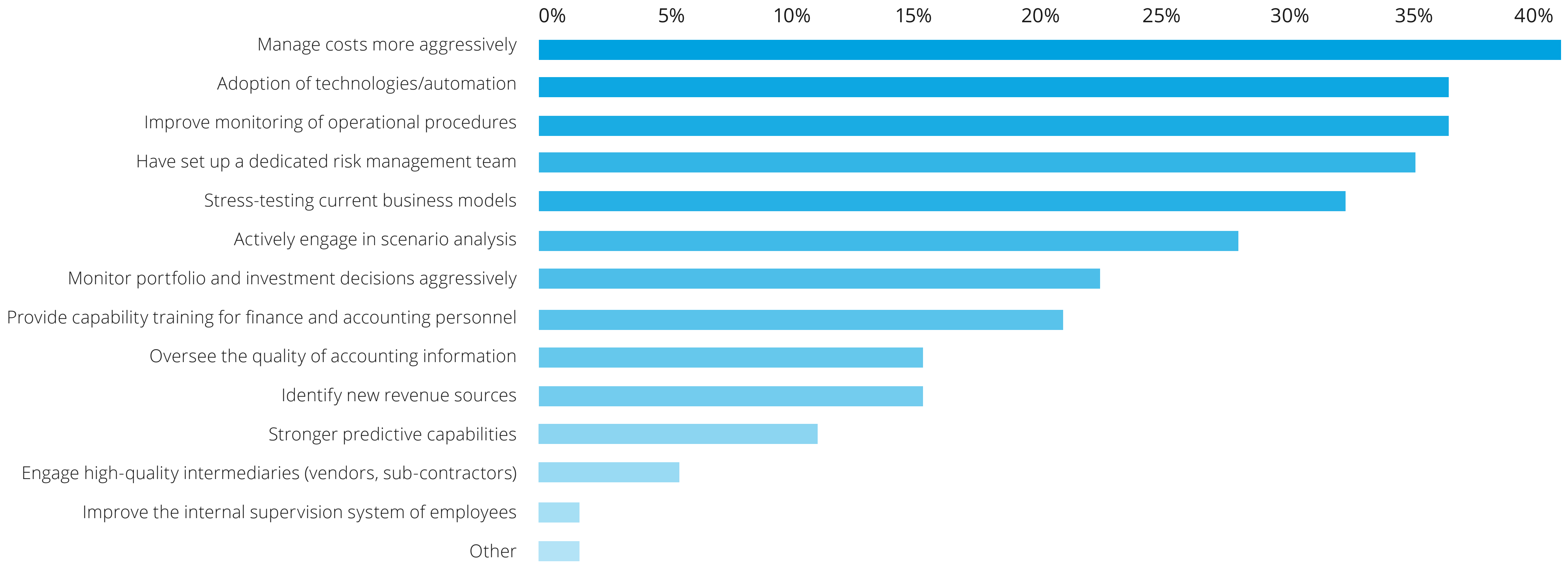
Aggressive cost management is the number one method of managing risk, unsurprising given current cost pressures and the top focus areas for CFOs discussed above.

Interestingly, many businesses are also investing in longer-term measures such as the adoption of technologies/automation and increasing the level of resources dedicated to risk management. This could reflect recognition of longer-term benefits of investing early, particularly as new and emerging technologies continue to enter the business domain.

Aggressive cost management is the number one method of managing risk, unsurprising given current cost pressures.

Chart 14: Risk management

Given the risks you are facing in your operating environment, what are the ways risk is being managed to protect/increase enterprise value?



08. CFOs gearing up for ESG priorities

Businesses are taking a range of actions to tackle ESG (environmental, social and governance) concerns.

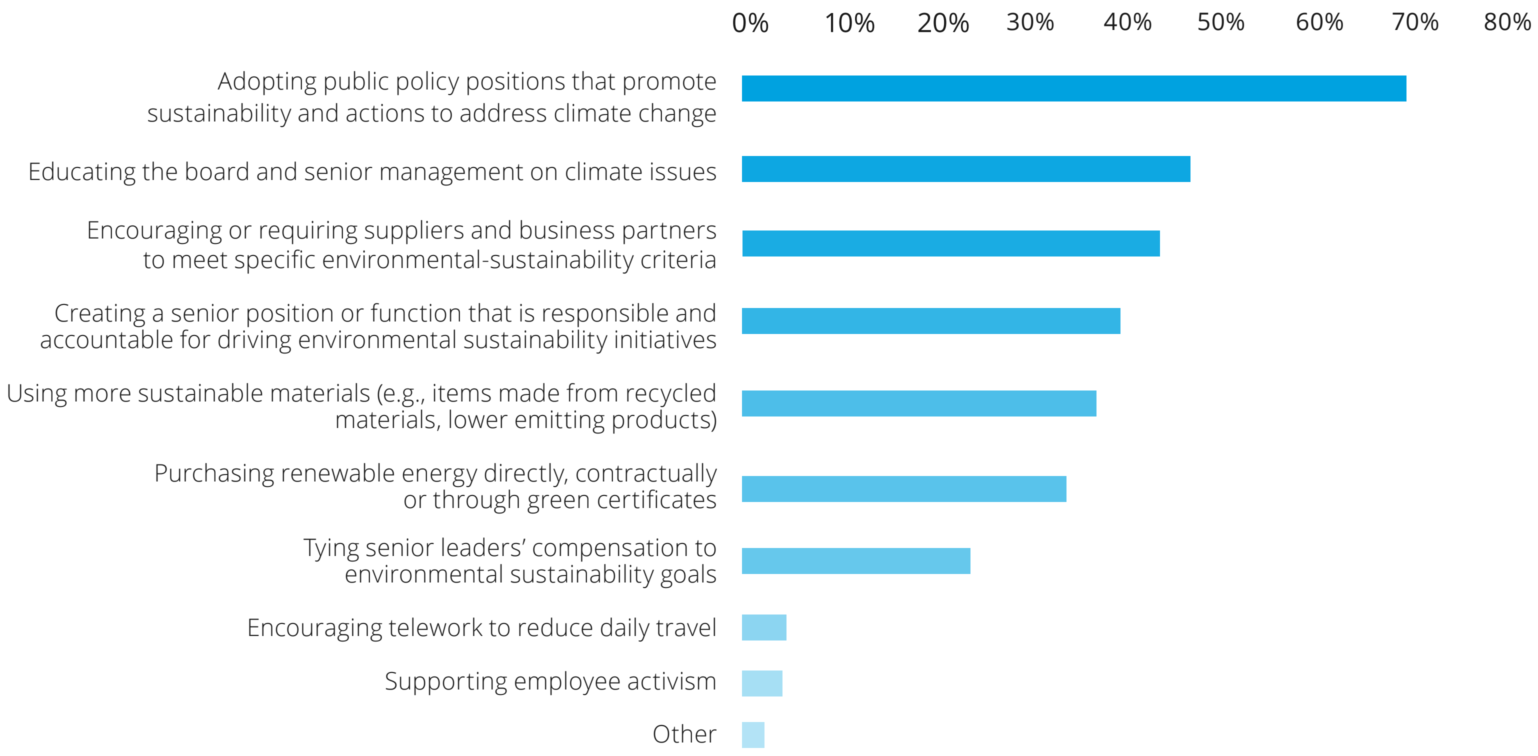
ESG continues to be a dominant theme for business leaders with increasing pressure to adapt both from within their business, as well as externally from public and investor demands, while regulatory changes simultaneously develop.

When asked about climate change actions, the most widespread measure taken by businesses was the adoption of public policy positions to promote actions that address climate change (68% of CFOs). This is especially true among the largest businesses that have the resources to act; 82% of businesses with revenues above $5 billion are taking this approach. It's also particularly prevalent in the energy and resources (90%) and financial services (85%) sectors. This reflects the significant media and community pressure these sectors face around ESG, and their close connection to ESG development.

Meanwhile consumer businesses, agriculture and manufacturers are particularly focused on using more sustainable materials with 82% of businesses in these industries adopting this measure. This is largely reflective of the goods-heavy nature of the sectors, and the growing community expectation of sustainable inputs.

Chart 15: Climate change action

What actions are your company taking in response to climate change?



CFOs gearing up for ESG priorities

Most businesses (67%) feel somewhat prepared to tackle their ESG priorities, suggesting that Australian businesses are still in a period of transition.

This is encouraging as it shows that businesses are serious about tackling these issues, while recognising the scale of the challenge it brings to their operations. Only one in ten CFOs say their company is not prepared to tackle its sustainability and ESG priorities.

Consumer Businesses, Agriculture and Manufacturing alongside Energy and Resources feel the most prepared, while Life Sciences and Healthcare feel the least prepared.

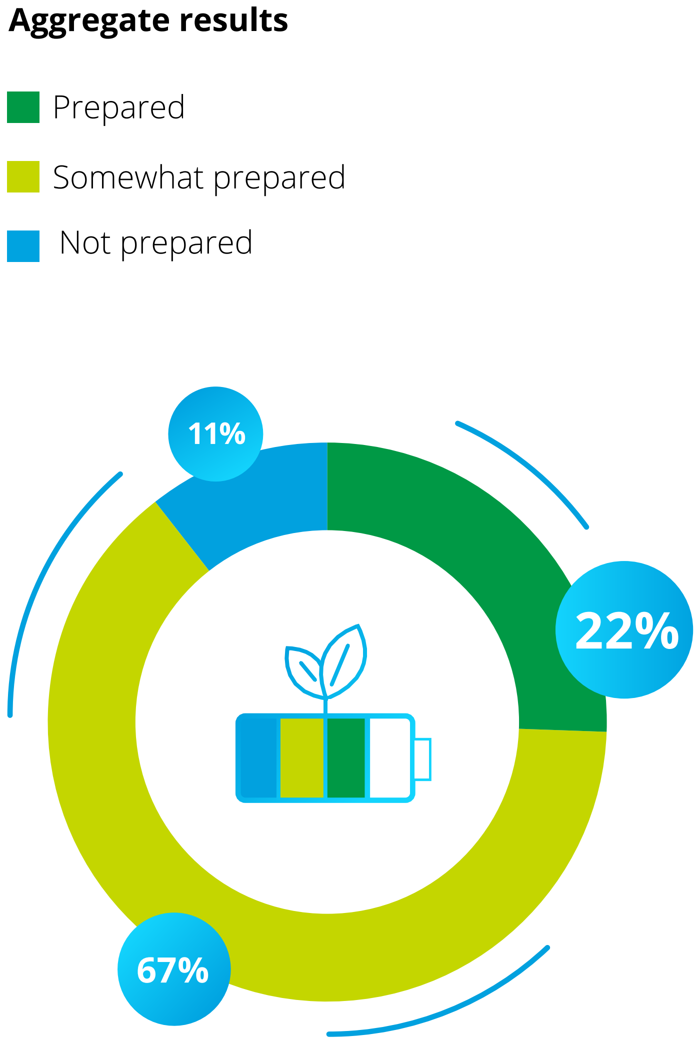
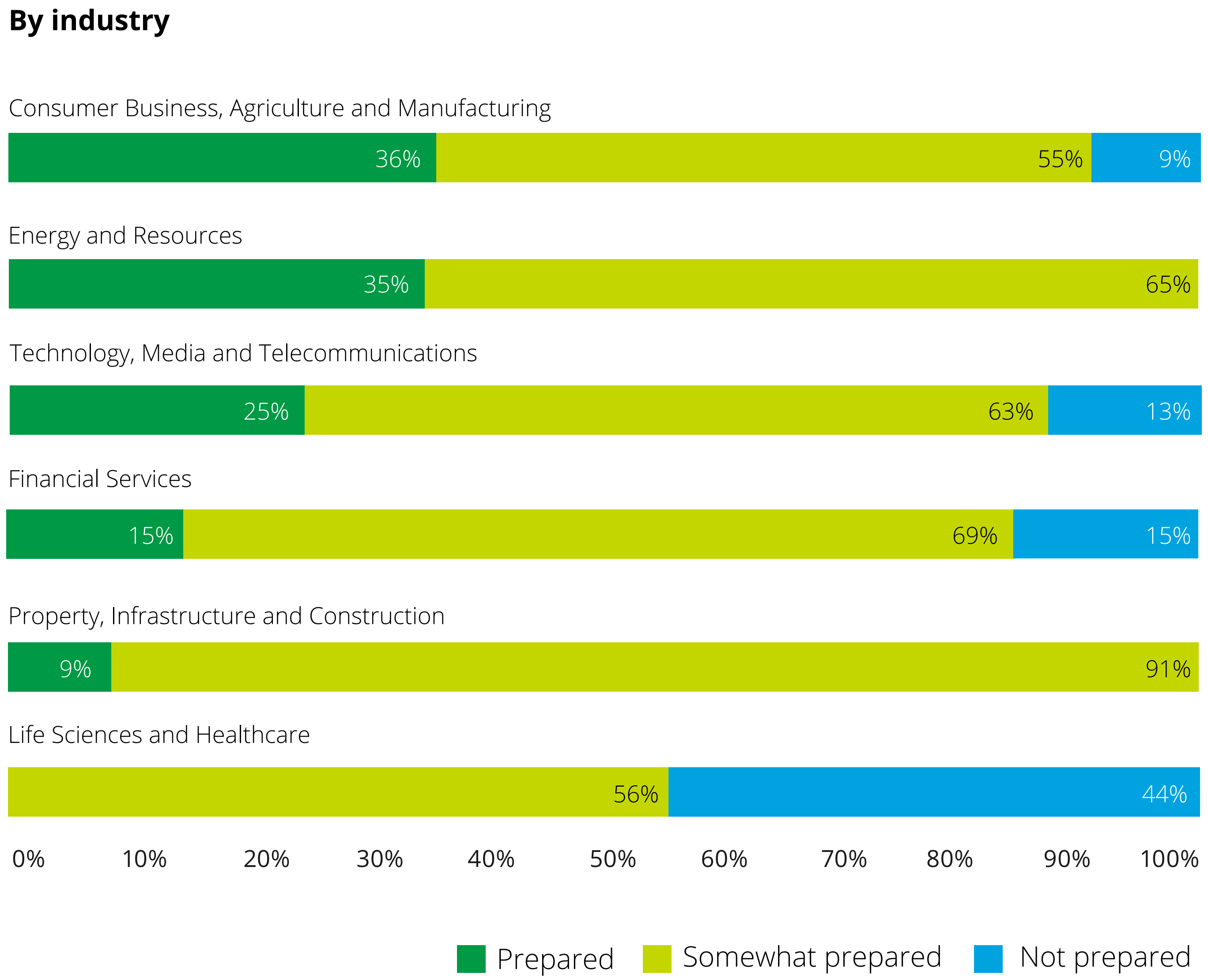


Chart 16: Business preparedness

How prepared is your company to tackle its sustainability/climate/ESG priorities?



CFOs gearing up for ESG priorities

When asked about the impact of new mandatory climate reporting requirements, all CFOs agreed it will have an impact, but there was disagreement over the extent of the impact.

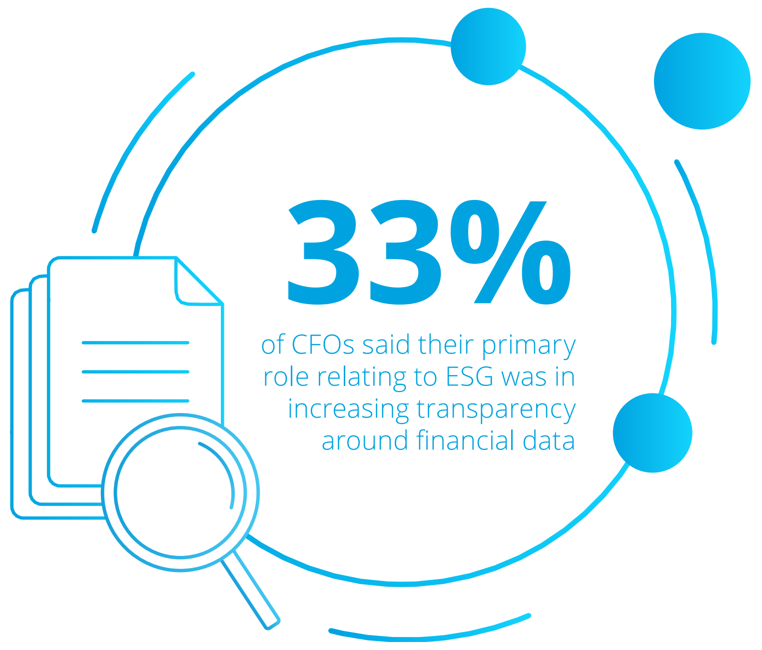
These new reporting requirements largely refer to the globally consistent sustainability and climate-related disclosure standards developed by the International Sustainability Standards Board (ISSB). Over time it's anticipated these standards will become a regulatory requirement across major global markets, including Australia. This would represent a significant change to corporate reporting, requiring organisations to disclose certain climate and sustainability-related information as a part of their regular financial reporting.

Larger businesses expect more significant impacts with 94% of companies with turnover greater than $5 billion expecting at least a moderate impact, of which 41% anticipate significant impacts. These responses were anticipated: the expected rollout period of the standards means large companies will be required to meet these new standards sooner, so may be more aware of the requirements than smaller businesses.

Most businesses are not yet prepared to meet these reporting requirements, but they recognise the challenge ahead. Most surveyed CFOs are either underway in enhancing their reporting processes (61%) or are making plans to implement processes in the future (32%).

It's no surprise then that when asked about the role of CFOs in relation to ESG, the largest number of surveyed CFOs (33%) said their primary role relating to ESG action was in increasing transparency around financial data. This priority comes before others such as advancing corporate green investment and financial, accounting for corporate carbon emissions and strengthening climate risk modelling.

New reporting requirements from the ISSB would represent a significant change to corporate reporting, although the extent of business impact varies.



CFOs gearing up for ESG priorities

Chart 17: Climate reporting impacts

To what extent will new mandatory climate reporting requirements impact your organisation's financial reporting two to five years from now?

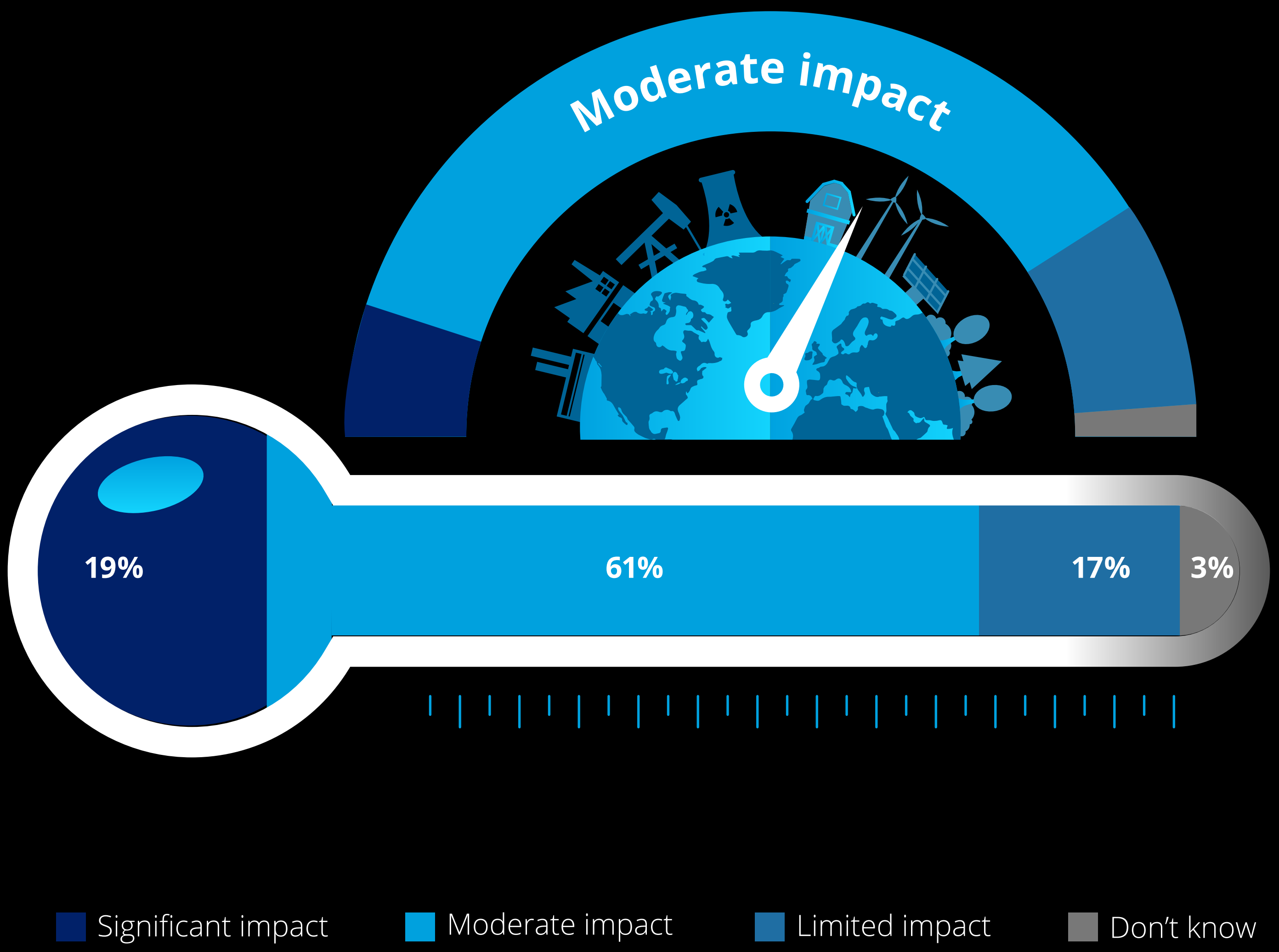
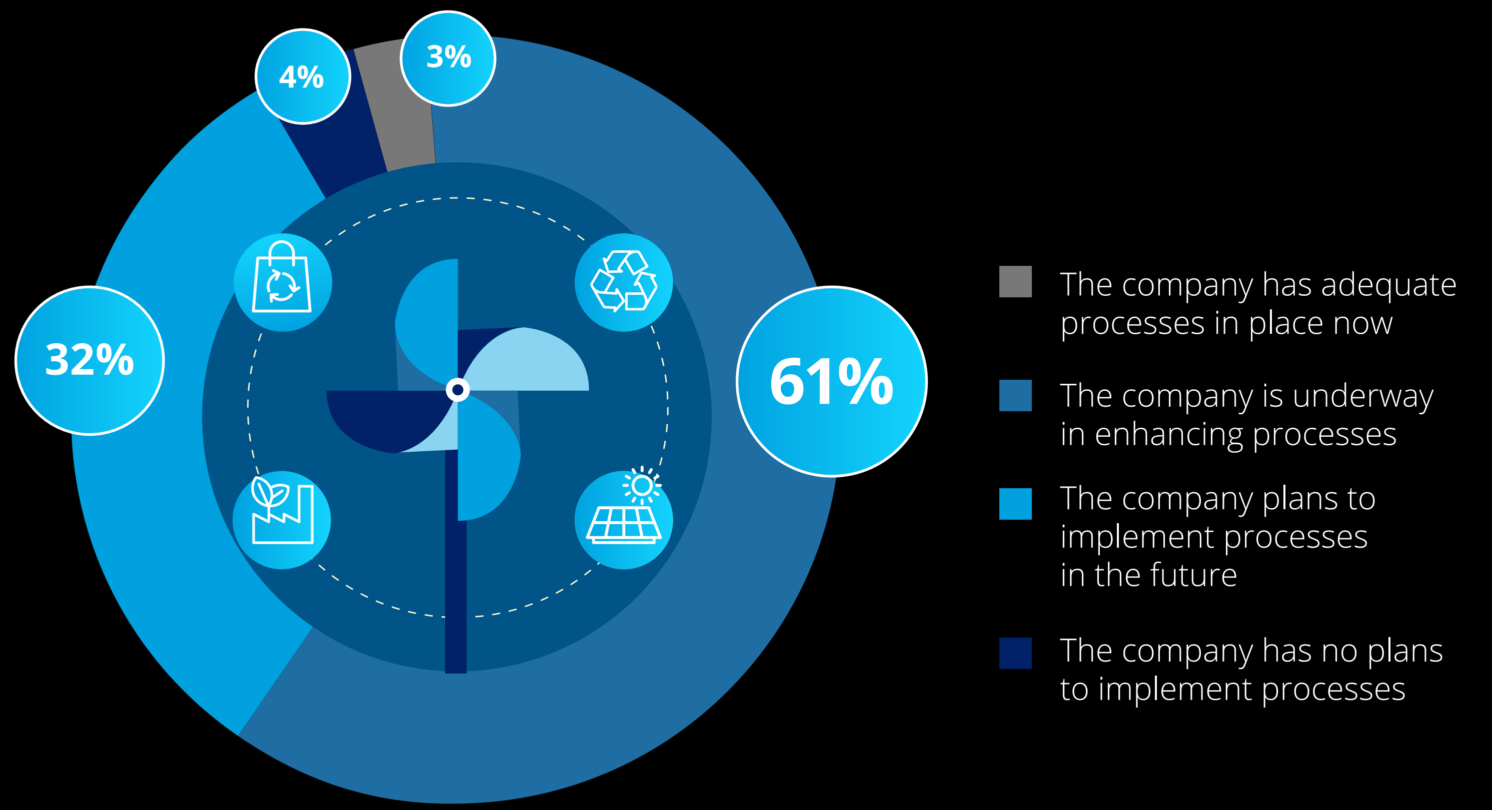


Chart 18: Climate reporting preparedness

Does your company currently have processes in place to comply with these requirements, or do you plan to implement them?



09. Looking ahead

CFOs expect lower or similar interest rates in 12 months' time

Interest rate expectations for surveyed CFOs have changed significantly compared to six months ago. This comes as the economic climate has undoubtedly worsened in the first half of 2023, with the Reserve Bank taking an aggressive approach to managing inflation.

Only 13% of CFOs believe rates will be higher in 12 months' time, compared to 82% six months ago. Importantly, about 50% of CFOs believe interest rates will be lower than at present, with the remaining 39% believing they'll remain around the same level as now. Interestingly, this expectation contrasts somewhat to financial market sentiment, which largely expects rates to be around the same level or slightly higher in 12 months' time.

These expectations are largely in line with Deloitte Access Economics' forecasts in chart 20. We expect interest rates to peak by the end of 2023, before beginning to decline in 2024 as inflation is brought under control. The key uncertainty is whether the RBA sees it the same way – and what the outlook for interest rates will be when it's clear the economy has stalled but measured inflation is not yet back in the RBA's 2%-3% target zone.

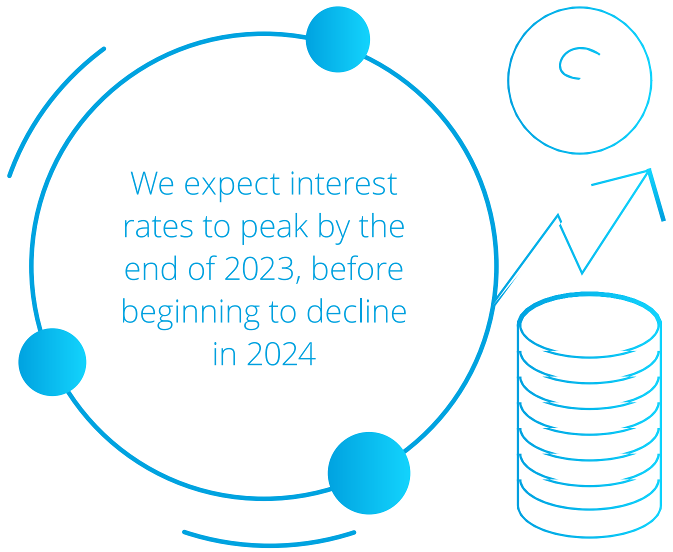


Chart 19: Interest rate expectations

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

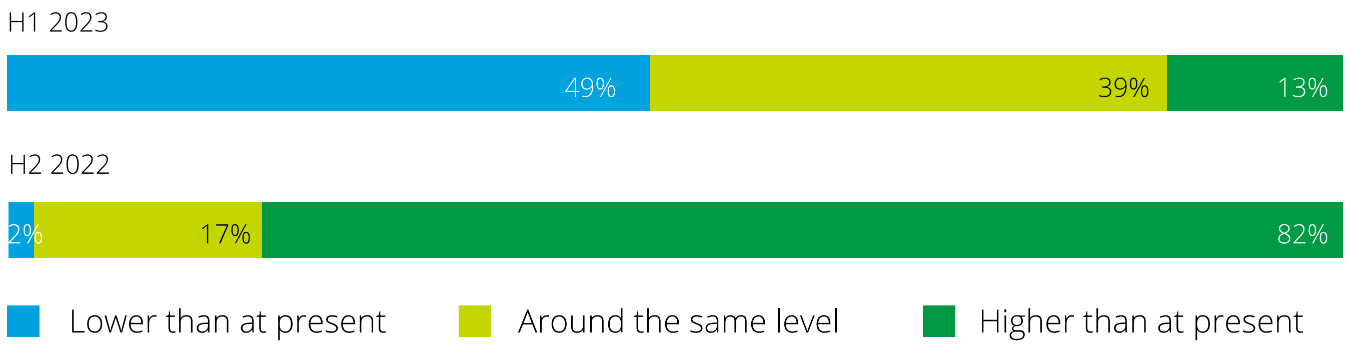
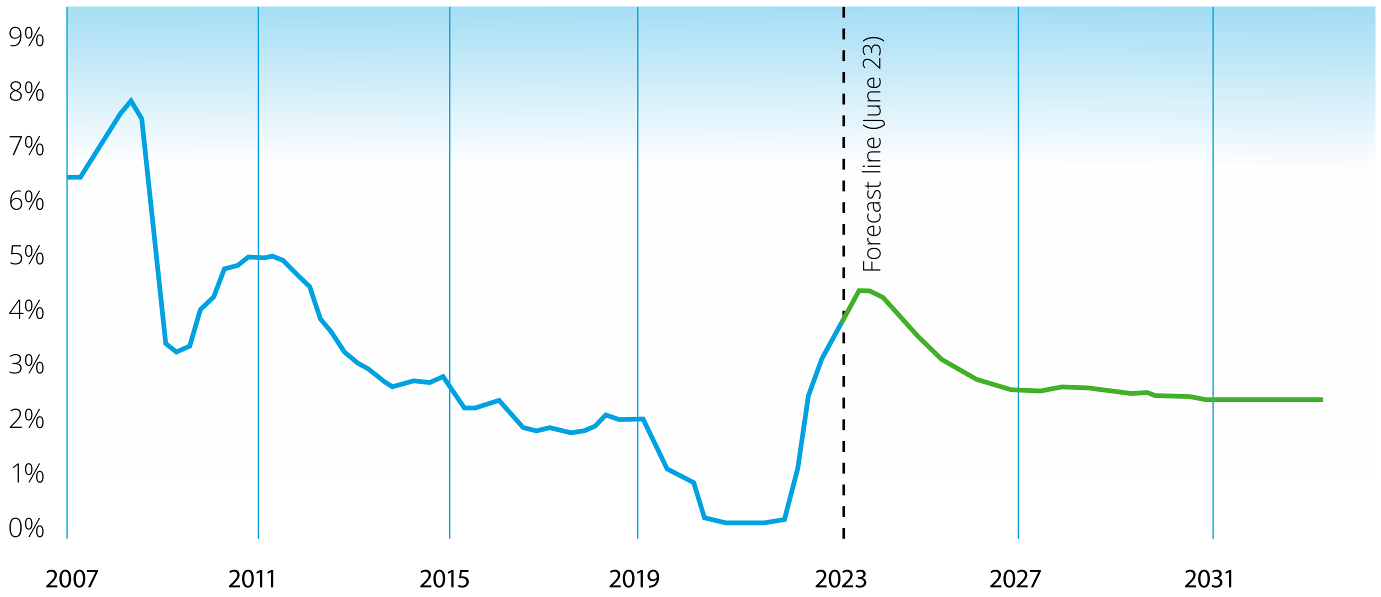


Chart 20: Deloitte Access Economics' 90-day bank bill rate forecast

Quarterly average



Looking ahead

Half of surveyed CFOs believe the Australian dollar will sit around its current level in 12 months' time. However, 39% of CFOs believe the Australian dollar will go lower over the next year, which is up from 12% six months ago. This is likely driven by relative optimism around the US economy and sentiment that Australian interest rates will come down in the next 12 months (see chart 21).

Deloitte Access Economics forecasts the Australian dollar will trend slightly upwards over the next year. This is driven by expectations that the Australian economy will outpace the US economy in growth over the next 18 months, and the likely levelling off of the interest rate differential between the two countries. However, flat commodity prices are expected in the slowing global economy, particularly as China's economic recovery has been disappointing to date, which will limit any rises in the Australian dollar.

Finally, it's worth flagging that there are some avenues of broader economic support for 2024. Strong population growth is a key upside factor, and likely to propel spending and demand up as a high number of students and migrants enter Australia over 2023-24.

The other key upside factor is seeing inflation decline throughout the year. It could be a slow descent, but a lower rate of inflation is expected nonetheless, and will be key to seeing interest rates peak and then eventually start to fall. These factors together may see CFO sentiment improve later in 2023 after a pessimistic start to the year.

Chart 21: Australian dollar expectations

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

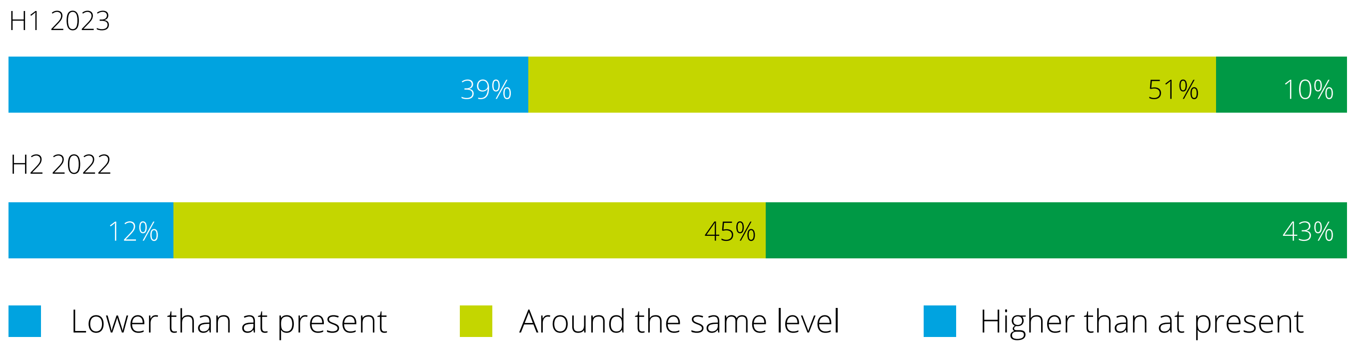
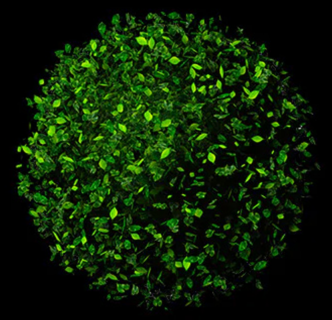


Chart 22: Deloitte Access Economics $US per $A forecast

Quarterly average

More publications for Australian CFOs



Environmental impact: How finance leaders can add value to sustainability efforts

In this edition of CFO Insights, we'll look at how increasing demands for accurate and transparent sustainability numbers offer the potential for finance chiefs to become better business partners to their C-suite peers.

The CFO Agenda 2023

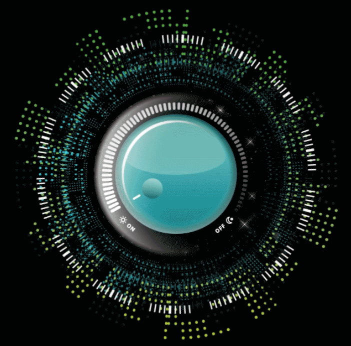
Ask CFOs today who and what are setting their agenda, and they might say: The CEO for sure. Certainly, shareholders and the Street. Employees: they're the engine. Customers and suppliers—a company couldn't exist without them. In many degrees, the environment. And there's also international conflicts and the head-spinning pace of technology changes. But with changes come new possibilities.

Employment Forecasts: Labour market resilience

The Australian labour market has remained resilient – further highlighted by today's Labour Force Survey release for May 2023. Since the end of last year total employment has grown by more than 219,900 workers (with 75,900 workers added in the month of May alone), the unemployment rate is very low at 3.6% and the labour force participation rate reached an all-time high at 66.9%.

It's time to get serious about data

It seems fundamental: Of course, data is vital. No finance leader would say differently—until you ask about other priorities. There's cost management and performance. Growth. Talent. Compliance. And on goes the list. But can you master those areas if you don't have your data under control? No matter what people say or do, data really is central. Do you treat it that way? It's time for CFOs to get serious about data.



New horizons for a future–forward finance function

As pressures increase on Finance to perform, one thing is clear: Disruption isn't going away—and neither will the pressures. Leaders are right to wonder how intelligent automation will truly streamline processes, get the best out of their talent, and partner at higher levels across the organisation, all while getting the books closed on time.

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