Deloitte.

CFO *Sentiment*

H2 2023

Navigating the economic headwinds

Contents

Deloitte has surveyed senior finance executives of major Australian listed companies since 2009. This CFO Sentiment survey covers the second half of 2023 and took place between 26 October 2023 and 9 November 2023.

84 CFOs responded to the survey.

Please note: where graphs do not add up to 100%, respondents were able to select multiple responses.

Summary

CFOs are pessimists on the economic outlook

The bearish sentiment seen among CFOs six months ago has continued through the second half of 2023. **43% of CFOs are pessimistic about Australia's economic outlook,** far outweighing the 12% of optimists.

But they are still relative optimists on their own business prospects

The economic gloom is testing CFOs' natural positivity about their own business. However, CFOs are still net optimists about their own business prospects **(47% are optimists compared with 20% who are pessimists).**

CFOs are taking a cautious approach

Just 14% of CFOs believe now is a good time to take on risk. This is the lowest in more than a decade, but understandable given high uncertainty and unfavourable economic conditions.

External factors are now the biggest concern

Compared to six months ago, far fewer CFOs consider securing and retaining key talent among their top risks, a sign the labour market is cooling. Instead, inflation and interest rate movements are their biggest concerns with **the weak economic environment now top of the risk register.**

Summary

Cost control is a priority as headcount and spending intentions fall

Cost control is once again the top priority as CFOs focus on basic financial discipline. This is reflected in business spending intentions, with more CFOs expecting to reduce headcount in the next 12 months. Expectations around capital expenditure have also fallen sharply.

Generative AI has transformative potential, but adoption is lagging

More than half of the CFOs surveyed (57%) believe generative AI will transform their industry within the next five years. Yet adoption is lagging, particularly in finance functions.

There are opportunities for innovation in financial reporting

While CFOs see a range of benefits to new reporting approaches, **businesses are still in transition** with just 12% of surveyed CFOs adopting or piloting digital reporting. Firms are more advanced in plans for integrated reporting, with over half of CFOs (52%) at least evaluating this approach.

CFOs expect economic issues to linger

Fewer CFOs (38%) believe interest rates will be lower this time next year compared to the previous survey (49%). This signals many CFOs are resigned to the view that interest rates are going to stay higher for longer in Australia.

Summary

CFOs are taking action to best position their business against economic headwinds

CFOs are having a bruising time of it. Six months ago, we saw CFO optimism in their own business prospects fall sharply as the weakening economic climate began to bleed through to business activity. But there was hope the economic cycle may turn for the better. Fast forward to today and the economic headwinds remain strong. CFOs are hunkering down and facing difficult trade-offs as they navigate a path through the economic storm.

Sentiment in the outlook for the broader economy is extremely weak at -31% (proportion of optimists less pessimists) as higher interest rates take a toll on consumer spending and, increasingly, business spending.

In the challenging economic climate, CFOs are prioritising core financial disciplines. 61% name cost control as a top priority for the year ahead, which is reflected in business spending intentions: 40% expect to reduce headcount over the next 12 months, up from 26% six months ago. Meanwhile, just 27% expect to increase capital expenditure over the next year, down from 60% six months ago.

Due in part to these actions, CFOs have much stronger confidence in the prospects of their own business than they have in the wider economy. Whereas net optimism on the broader economy is at a low -31%, net optimism about their own business' performance is at a much healthier +27%.

Beyond those key cost-cutting measures, CFO uncertainty remains elevated and risk appetite low. It's the new normal for CFOs with net uncertainty exceeding 75% for nine straight surveys since 2019. In turn, their risk appetite has fallen to its lowest in over a decade with just 14% of CFOs believing now is a good time to take on risk.

In a sign the labour market may be turning, far fewer CFOs rate securing and retaining key talent among their top risks. This had topped CFO agendas for five straight surveys since the first half of 2020. Now, less than half (46%) rank it among their top areas of concern, with external factors such as inflation and interest rate movements now front of mind.

It's not all doom and gloom. A key upside opportunity comes from the emergence of generative AI. Over half of CFOs surveyed (57%) believe it will transform their industry within the next five years.

But adoption is lagging: only half of CFOs see some use of generative AI within their firms, and just 15% say it's used within their finance function. Internal capability ranks highly as a key barrier to adoption, indicating firms may be underinvesting in this transformational technology.

There's also evidence of untapped opportunities relating to innovation of financial reporting. Just 12% of surveyed CFOs are currently adopting or piloting digital reporting, with many still educating themselves or having no plans to adopt it. There's greater use of integrated reporting, but businesses are still transitioning. Over half of CFOs (52%) are at least evaluating plans to implement integrated reporting, suggesting they see its opportunities.

Looking ahead, CFOs are walking a tightrope. While inflation is trending downward, September's increase in quarterly inflation suggests the return to more typical rates of price rises may take longer than previously expected. In turn, CFOs have become more pessimistic about the outlook for interest rates. With economic headwinds set to persist in the near future, the signs point to CFOs prioritising short-term financial discipline. Yet we live in a time of widespread structural change, and history suggests the businesses that invest and innovate during a crisis are the ones that emerge stronger.

Economic update

Inflation and interest rates

Australia's economy in 2023 has been a story of managing two constraints: the ***cost-of-living crisis*** (price inflation exceeded wage growth for 12 quarters in a row), and the bitter medicine administered to bring inflation to heel – ***very rapid interest rate increases.***

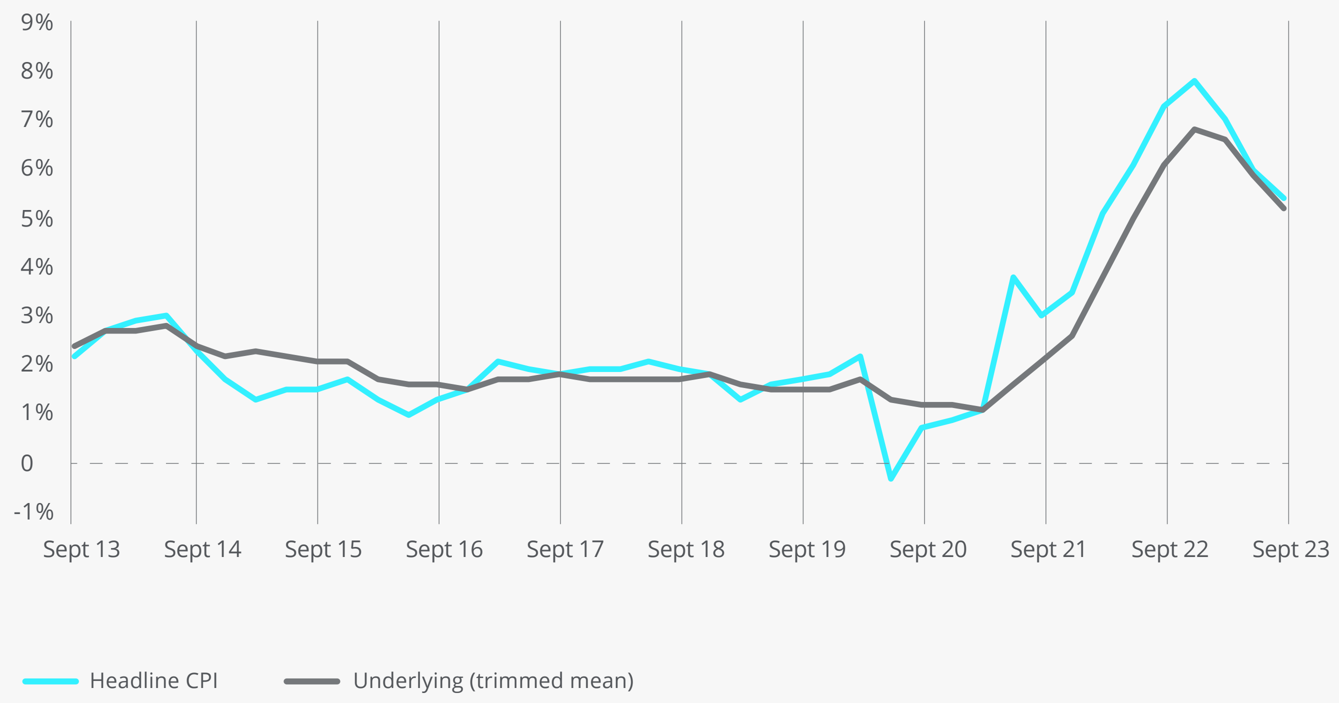
While trending downwards, inflation is proving persistent. Annual Consumer Price Index (CPI) inflation was 5.4% in the year to September 2023, down from a peak of 7.8% in the year to December 2022. Quarterly inflation exceeded expectations in the September quarter, rising to 1.2% in a signal the system is still somewhat volatile – in this case due to fuel prices. The road back to the Reserve Bank of Australia's (RBA) 2–3% target will still take some time, with the RBA forecasting a return to this level only by the end of 2025.

Inflation in Australia has become more broad-based, with annual services inflation now exceeding annual goods inflation. However, there are still volatile factors, including petrol prices in the September quarter (+7.2%) driven by supply side constraints after an agreement between OPEC and Russia to cut oil production. Rents, up 2.2% in the September quarter, show Australia is dealing with a housing crisis that's unlikely to be solved anytime soon. Record low vacancies and the recent strength of population growth suggest further increases in rental prices to come. New dwelling prices (+1.3%) were also a key contributor to inflation this quarter, while electricity prices continue to face price pressure (+4.2%) despite Energy Bill Relief rebates for households.

The increase in quarterly CPI led to a quick response from the RBA, which increased the cash rate by 25 basis points in November to 4.35% after four months of no movement. With cost-of-living pressures already acute, consumer confidence was hit once again by the latest rate rise.

Chart 1: CPI Inflation

Annual change in inflation



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Economic update

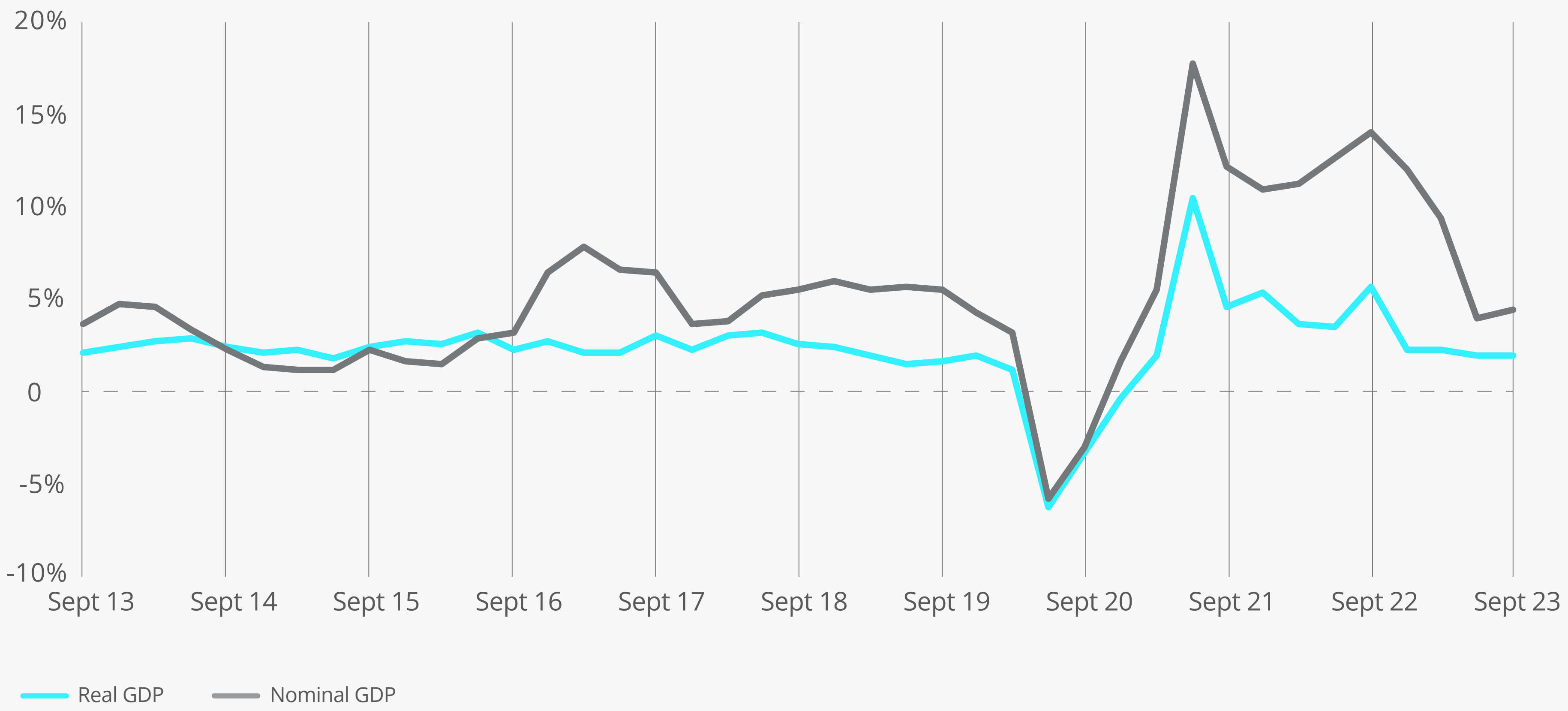
Economic growth and consumer spending

Economic growth was 2.1% in the year to September 2023. Despite growth remaining positive, strong net overseas migration is propping up the economy. On a per capita basis, Australia is in recession: data has confirmed Gross Domestic Product (GDP) growth was less than population growth over the first three quarters of 2023. The consumer has led this downturn, with real retail spending tracking backwards over the past year (even before population growth is taken into account). Retail businesses have responded with more significant discounting to entice people to spend.

But there are some green shoots. After three years of real wages going backwards (the cost-of-living crisis in a nutshell), quarterly real wage growth was positive in September 2023. As price inflation moderates going forward, albeit slowly, real wage growth will provide some welcome support for consumers, though it will take time for consumers to regain the purchasing power they've lost.

Real wage growth – combined with an end to interest rate rises, legislated tax cuts to be delivered in July 2024 and strong ongoing population growth – are expected to drive a pick-up in Australia's economic growth through the course of 2024.

Chart 2: Economic Growth
Australian GDP growth



Economic update

Labour market and migration

Population growth in Australia continues to boom. Australia's population grew by 2.2% in the year to March 2023, the equal fastest annual growth on record.

The post-pandemic return of international students drove record levels of net overseas migration, which increased by 454,000 in the year to March 2023. Natural population growth saw a marginal increase in March but remains at its lowest annual level since the 1980s.

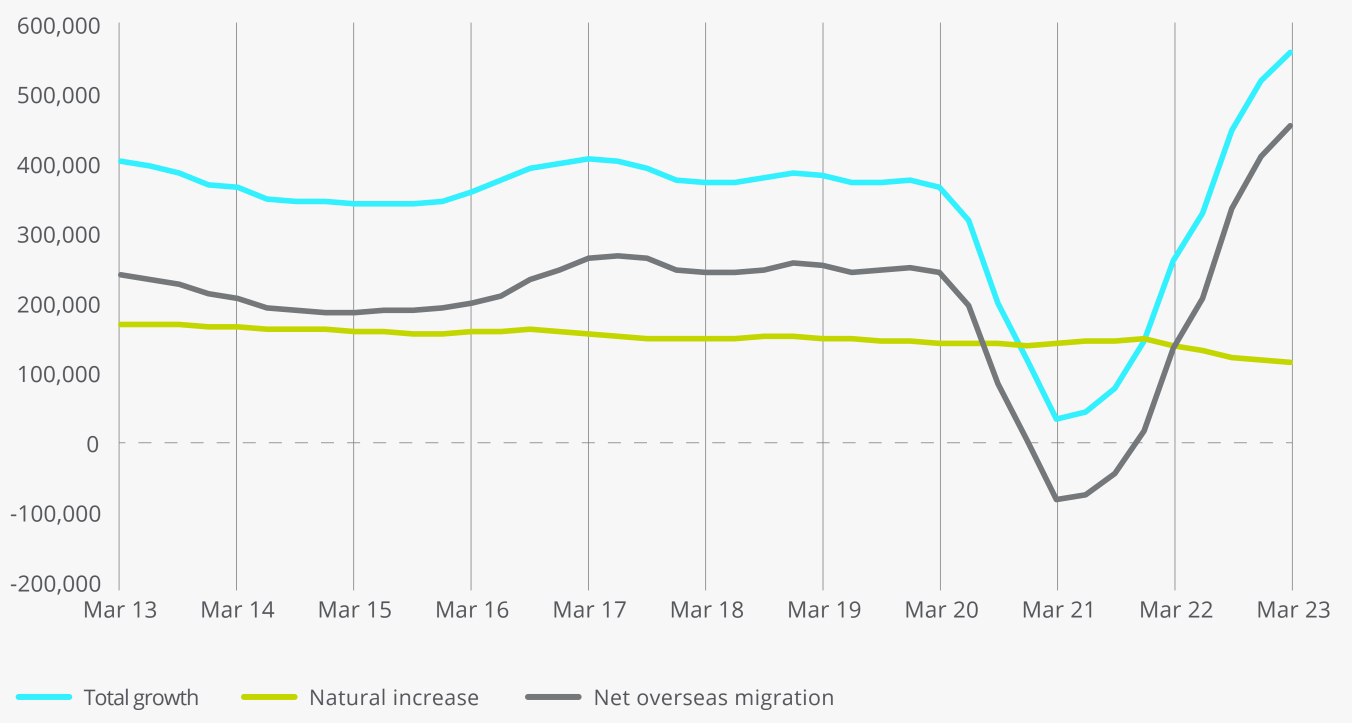
A by-product of the strong migration rebound has been extra pressure on the already strained housing market. Australia is in a housing crisis, and while population growth remains strong and new housing supply remains subdued, this pressure will build – particularly in the rental market.

The labour market is beginning to feel the effects of the economic slowdown with the unemployment rate ticking up to 3.7% in October 2023. Though very low by historic standards, many labour market indicators suggest a tipping point. The youth unemployment rate rose to 9.2%, its highest level since the back end of 2021, while the rate of underutilisation has also been rising.

Job vacancies are now 15% lower than a year ago, indicating lower demand for labour. Deloitte Access Economics suspects a degree of labour hoarding has been at play: real output growth has slowed a lot quicker than employment growth, suggesting employers may have hung on to staff even when not fully utilised. But some of this may unwind as difficult economic conditions persist, suggesting the unemployment rate could move up to 4.5% by the middle of 2024.

Chart 3: Population Growth

Components of annual population change



Economic update

Global economic pressures remain

Economies around the globe are starting to see inflation fall back towards target levels, though economic growth is also slowing because of central bank actions. Over the last two years, many have grappled with the task of balancing interest rate rises with sustained economic growth. While the impacts of rate increases are materialising in many countries, the good news is that labour markets are broadly proving resilient and wages are showing robust growth.

In the ***United States***, economic activity has stayed relatively robust. Real GDP in the first half of the year increased 2.1% over the same period in the previous year, beating forecasts by a considerable margin. Labour market resilience continues with participation rising and employment growing fast enough to keep the unemployment rate near historic lows. Headline inflation has decelerated from its peak in July 2022 and core inflation also continues to slow. It remains possible to achieve the prized soft landing: a scenario in which inflation returns to target range with neither a significant spike in unemployment nor a broad-based dip in economic activity.

In ***China***, concerns are rising over the state of the economy. Consumer sentiment is low, demand is relatively weak and the economy experienced deflation in the year to October 2023. The troubled property sector, which accounts for almost 30% of total output, is likely to keep unwinding as state policy pivots away from growth to focus on correcting imbalances and building resilience. The People's Bank of China (PBOC) shaved policy interest rates in August to support the economy, but monetary policy remains constrained by a widening interest rate differential with the US which has seen the yuan sliding considerably relative to the dollar. Despite the weak yuan, exports are under pressure due to slowing global demand. Large-scale fiscal expansion remains unlikely given China's internal dynamics, but a hard landing is also an unlikely outcome.

Economic output in the ***Eurozone*** has flattened since the September quarter of 2022. Much of the weakness is rooted in Germany, the Eurozone's largest economy. Germany's economy saw just one quarter of growth in the year to September 2023. Elevated costs and weak global demand have weighed on its manufacturing sector, which accounts for a fifth of overall output. The overall growth outlook for the Eurozone remains soft. Rising long-term bond yields are likely to exacerbate fiscal shortfalls, but weak growth and a gloomy outlook are yet to weigh on the labour market. Unemployment remains historically low and the tight labour market has kept nominal wage growth at record high rates. Headline inflation has also cooled, supporting real wages.

In the ***United Kingdom***, wage growth and core inflation remain above rates in the Eurozone and the US. Annual growth in regular pay (excluding bonuses) accelerated in the June quarter of 2023, rising at the fastest pace on record. This contrasts with the Eurozone and the US, where wage growth is flattening. Headline inflation continues to cool in the UK as the effect of supply-side shocks fade. As a result, real average weekly earnings have started to grow. The labour market is still tight despite unemployment edging up, while a significant number of people remain inactive (through long-term sickness) since the pandemic. Core inflation, driven by core services inflation, has slowed but remains well above target.

"There is a risk the current economic malaise sends businesses into cost-cutting mode, but it's vital they don't do so at the expense of the growth opportunities coming in 2024."

David Rumbens
Partner, Deloitte Access Economics
Deloitte Australia

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"Economic headwinds continue to provide challenges for CFOs. It is clear that high inflation and interest rates are biting on business, and CFOs are responding with an increased focus on cost control. This points to a continued period of caution and financial discipline."

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

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Key policy measures

Policy dilemmas as the RBA continues its war on inflation

After four consecutive holds, the RBA increased the cash rate in November after CPI exceeded expectations in the September quarter. It signals a commitment to rein in inflation by any means necessary, contrasting with other central banks that have largely held rates in recent months. The RBA's tool is a blunt one in an economy where rents, electricity and petrol prices are driving inflation over its target. And as the labour market begins to cool, it will be increasingly difficult to address inflation without adversely impacting the economy.

In the back half of the year, the federal government has revaluated its Infrastructure Investment Plan (IIP) in response to tight fiscal conditions and uncertainty around funding. 50 projects have been pulled from the $120 billion infrastructure pipeline following $32.8 billion in cost overruns driven by inflation, worker shortages and supply chain constraints – helping transition to a more sustainable project pipeline.

The transition to net zero continues to be a growing focus. A recent inquiry into Australia's transition to net zero found the economy is well placed to lead the charge and become a green energy superpower. Australia benefits from access to critical minerals, an abundant supply of renewable resources and a growing skilled green energy workforce. As such, the economy stands to be $435 billion better off by capitalising on the global race to achieve net zero emissions.

Federal and state governments must act to unlock this potential, as well as businesses. A significant boost in investment is likely needed for the federal government to achieve its goal of 82% renewable energy generation by 2030, and some $120 billion worth of capital investment could be needed to competitively decarbonise and capture $255 billion in associated economy-wide export opportunities[1].

Elsewhere, making the most of the current strength in the labour market is a key focus of the federal government's recently released *Employment White Paper*. This builds on the themes of last year's Jobs and Skills Summit and puts forward a roadmap for more Australians to access secure, well-paid jobs. The result is two key objectives: sustained full employment (using macroeconomic policy to reduce volatility during economic cycles) and inclusive full employment (broadening labour market opportunities for all).

The *Employment White Paper* presents 31 future reform directions with a focus on investing in education to build a higher-skilled workforce, tackling systemic disadvantage, effectively targeting skilled migration and reducing disincentives to work. Some policy changes are immediate, such as extending the Work Bonus for older pensioners and eligible veterans and increasing the take-up of higher apprenticeships. The broader objectives represent a multi-year ambition.

[1]All systems go: Powering ahead - Deloitte Access Economic (2023)

Confidence low amid economic headwinds

Sentiment dips around own business prospects, but still positive

Australian CFOs are having a bruising time of it. Six months ago, we saw a sharp drop in CFO optimism about their own company's financial prospects in the weakening economic climate. The latest survey shows the picture remains bleak: ***net optimism (optimism less pessimism) has fallen two percentage points to 27% in the second half of 2023.***

The economic gloom is testing the natural positivity CFOs have about the prospects for their own business. While the optimists (47%) still outweigh the pessimists (20%), it's the lowest net optimism in recent history – well below the 39% seen at the peak of the pandemic.

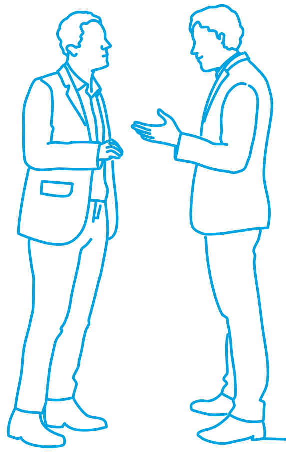
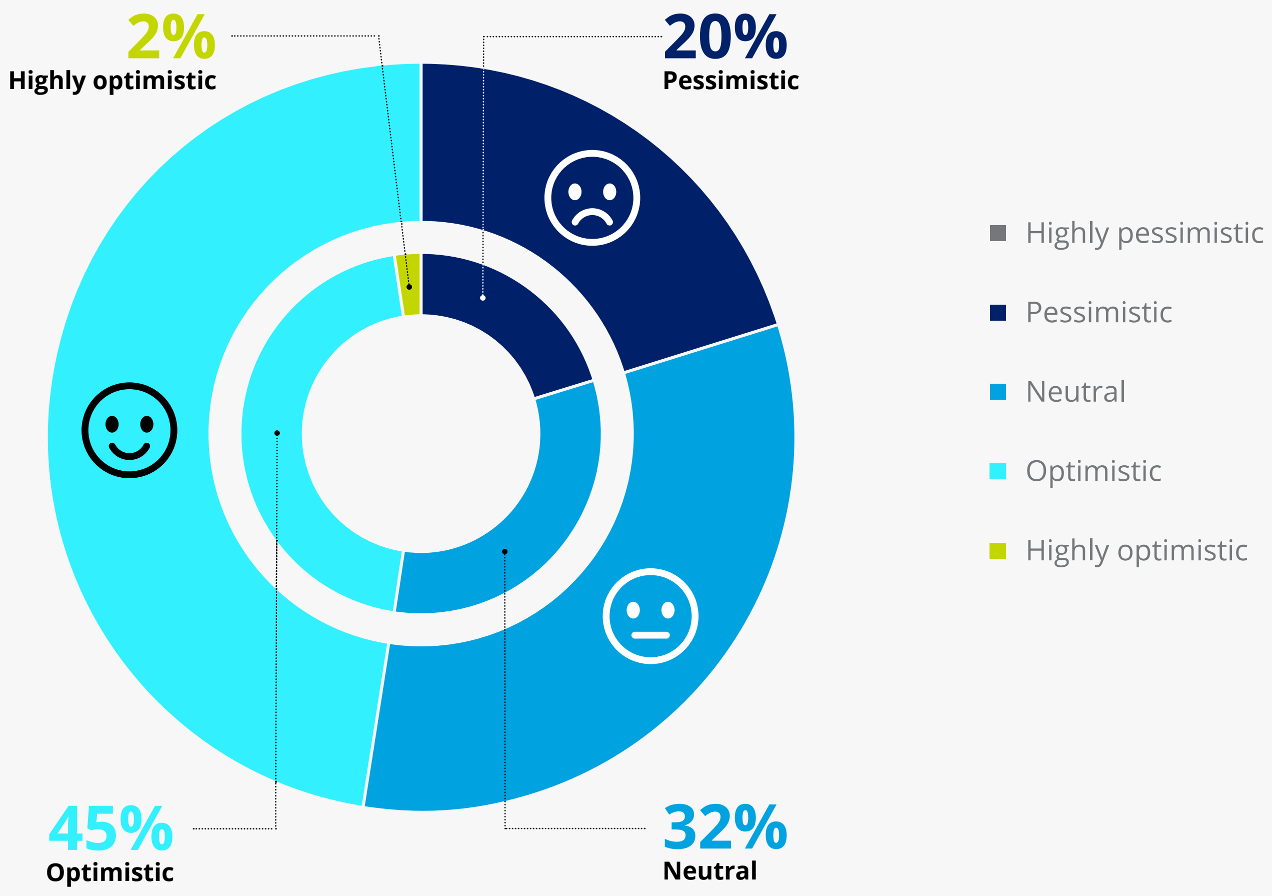


Chart 4: Optimism about own business

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



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Confidence low amid economic headwinds

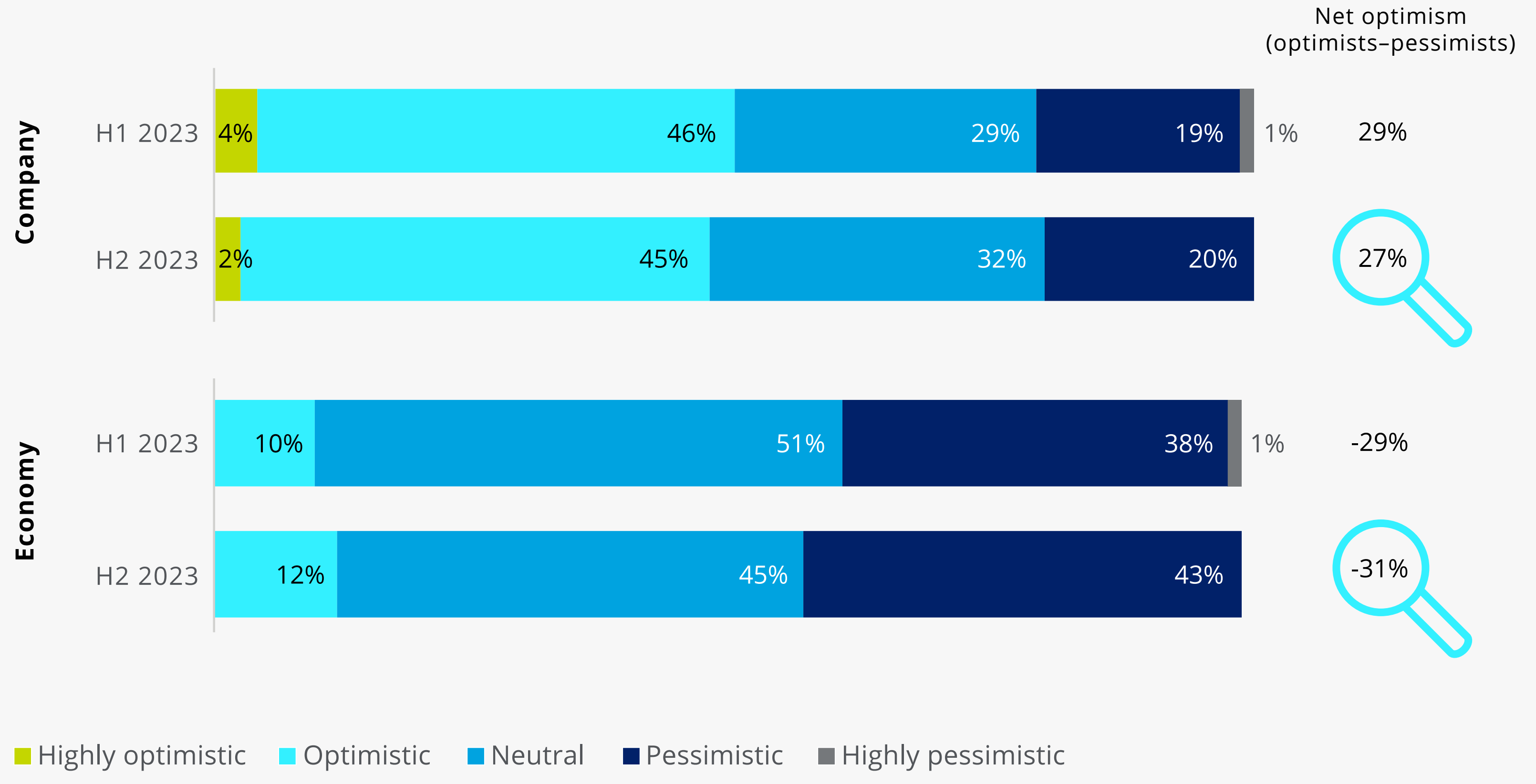
Sentiment around economic performance is deeply negative

CFOs continue to feel Australia's economic prospects are weak, with net optimism in this measure falling to -31%.

The economic climate remains challenging for CFOs, who are bracing for a difficult period ahead. The bearish sentiment seen six months ago continues as the economic outlook remains gloomy. There's no doubt businesses are feeling the effects of the slowdown, and CFOs are taking action to best insulate theirs from the difficult economic conditions.

Chart 5: Optimism about own business

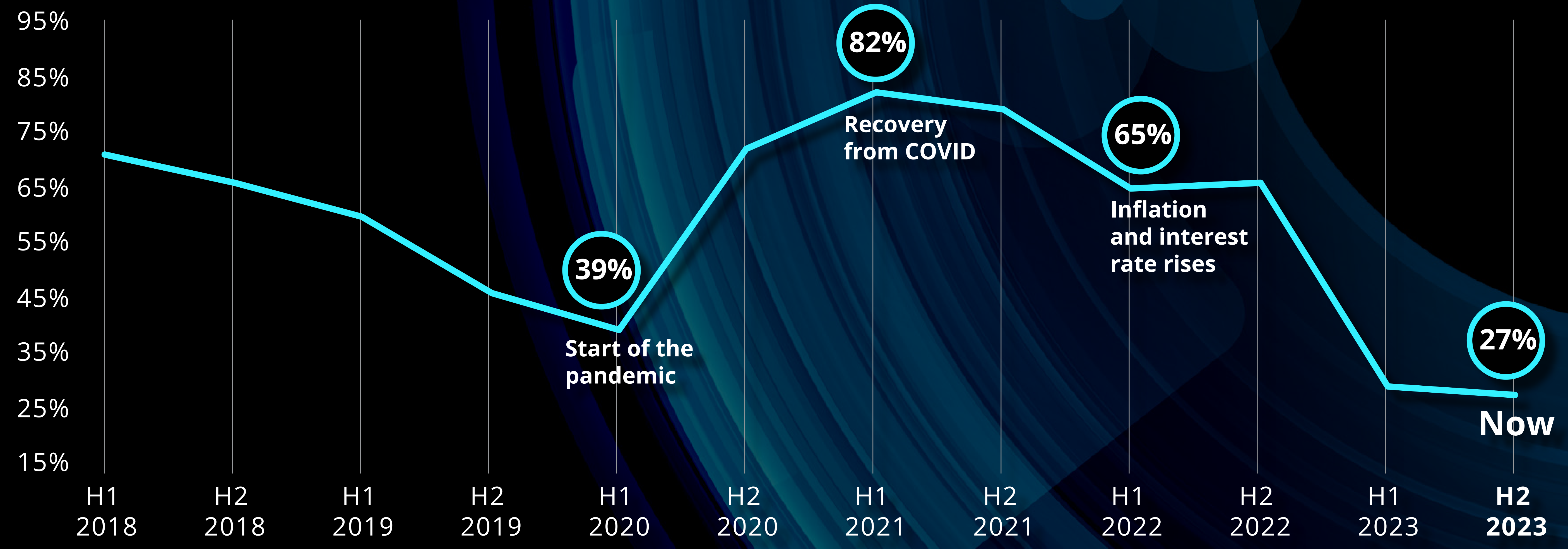
How do you feel about the financial prospects of your company and the Australian economy going forward?



Confidence low amid economic headwinds

Chart 6: Business confidence over time

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



External factors now the biggest concern

Risk appetite falls to new low

79% of CFOs rate external financial and economic uncertainty as higher than normal. While this is down six percentage points from six months ago, it remains well above pre-pandemic levels. Volatility has become the new normal for CFOs: net uncertainty has now exceeded 75% for nine straight surveys since 2019.

Risk appetite continues to fall with just 14% of CFOs believing now is a good time to take on risk – the lowest in more than a decade. This is understandable given rising interest rates have increased the cost of raising capital, while the weak external economic environment may have reduced the expected short-term returns for many projects.

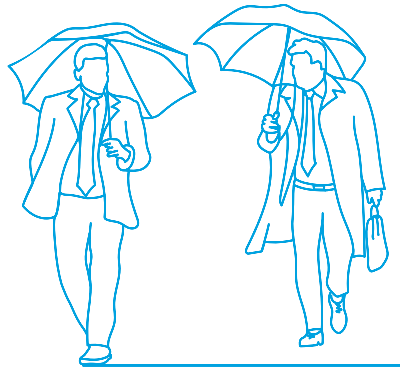
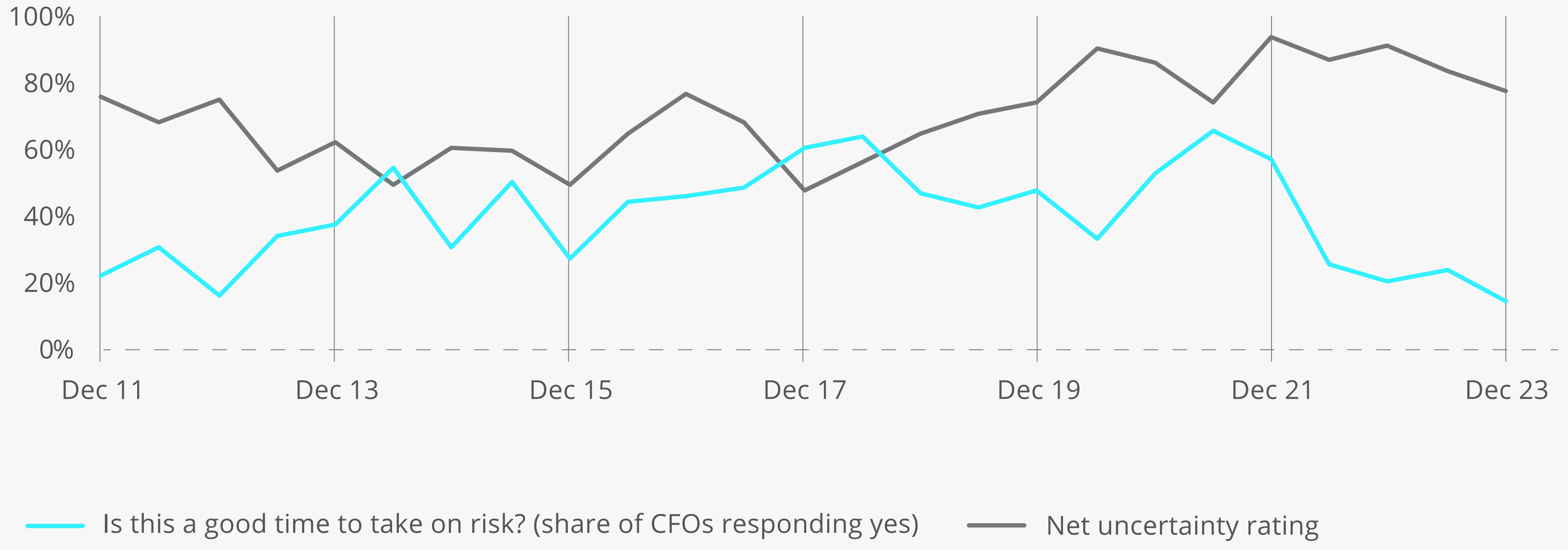


Chart 7: Balance sheet risk and uncertainty

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



External factors now the biggest concern

External factors top of mind as labour market turns

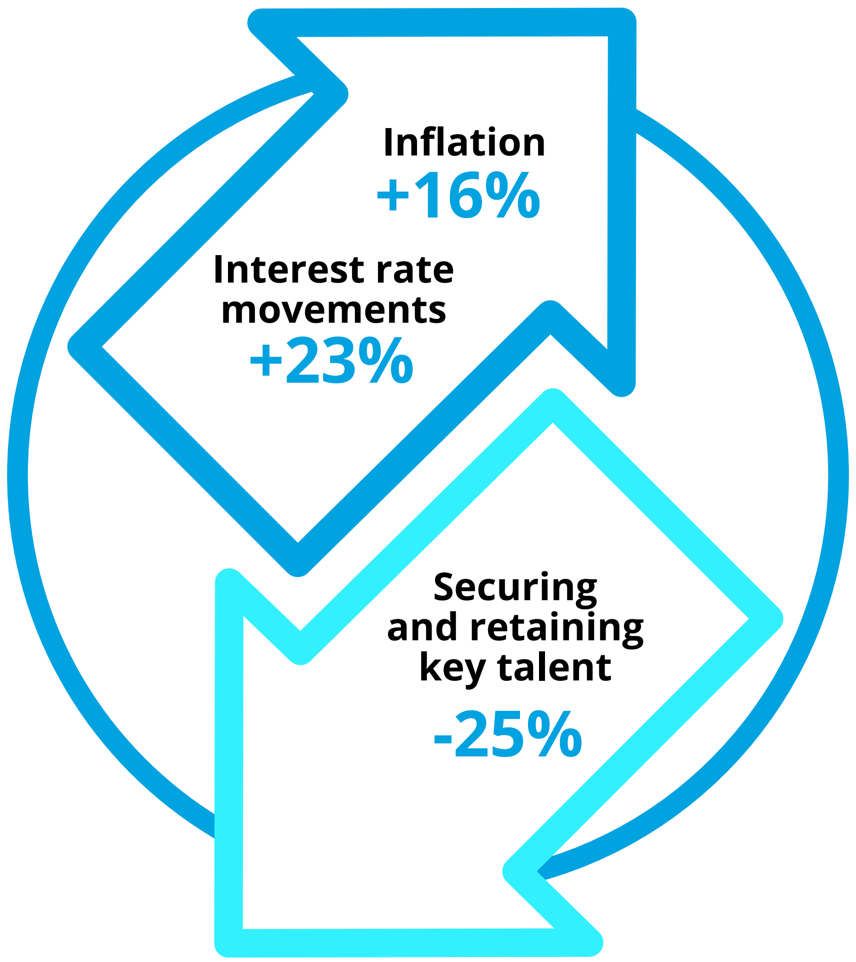
CFOs now rank inflation and interest rate movements as the biggest risks to their business over the next 12 months. Both are external factors, showing Australia's deteriorating economic outlook is weighing on their minds. 67% say inflation is among their biggest concerns, up from 51% six months ago. Those who selected interest rate movements also increased to 51%, up from 28%. Interestingly, changing demand for services and products also ranks highly with 49% of CFOs naming this among their biggest concerns – a sign that falling demand is a big worry for businesses.

These results mark a major shift in risk perception and suggest CFOs are increasingly concerned inflation could persist longer than thought six months ago. They are clearly wary of how this could affect interest rates and economic conditions moving forward.

Meanwhile, ***far fewer CFOs rank securing and retaining key talent among their top risks.*** This had topped CFO risk agendas for the last five surveys since mid-2020, but has now dropped to 46%, down from 71% six months ago.

This concern was expected to ease to some extent given economic trends, but the speed and strength of the change is notable. While the labour market traditionally loosens in a downturn as business activity slows and labour demand weakens, past surveys showed Australia's labour market remained extremely tight following the pandemic. But these results suggest we may soon see a rapid turn in the labour market with businesses less focused on hiring new talent, while strong net overseas migration has played a big role in supporting labour supply over the past year.

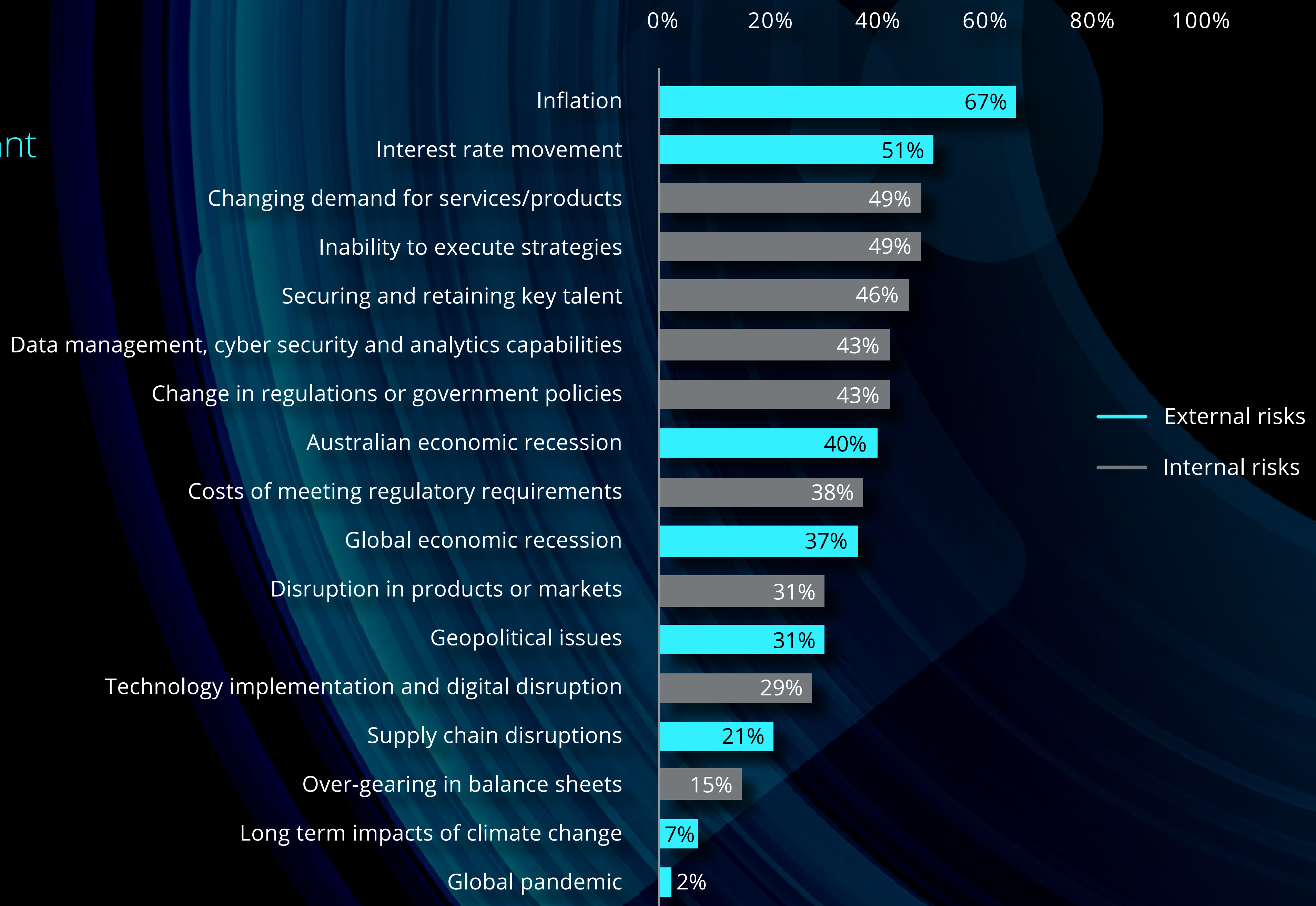
CFO risk factors: change in top risks reported by CFOs compared to six months ago



External factors now the biggest concern

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

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



External factors now the biggest concern

Cost control is a significant priority for CFOs

Cost control is the priority for CFOs with 61% naming this one of their top three areas of focus for the next year. Revenue growth is the other clear target, selected by 51% of CFOs – up from 29% six months ago.

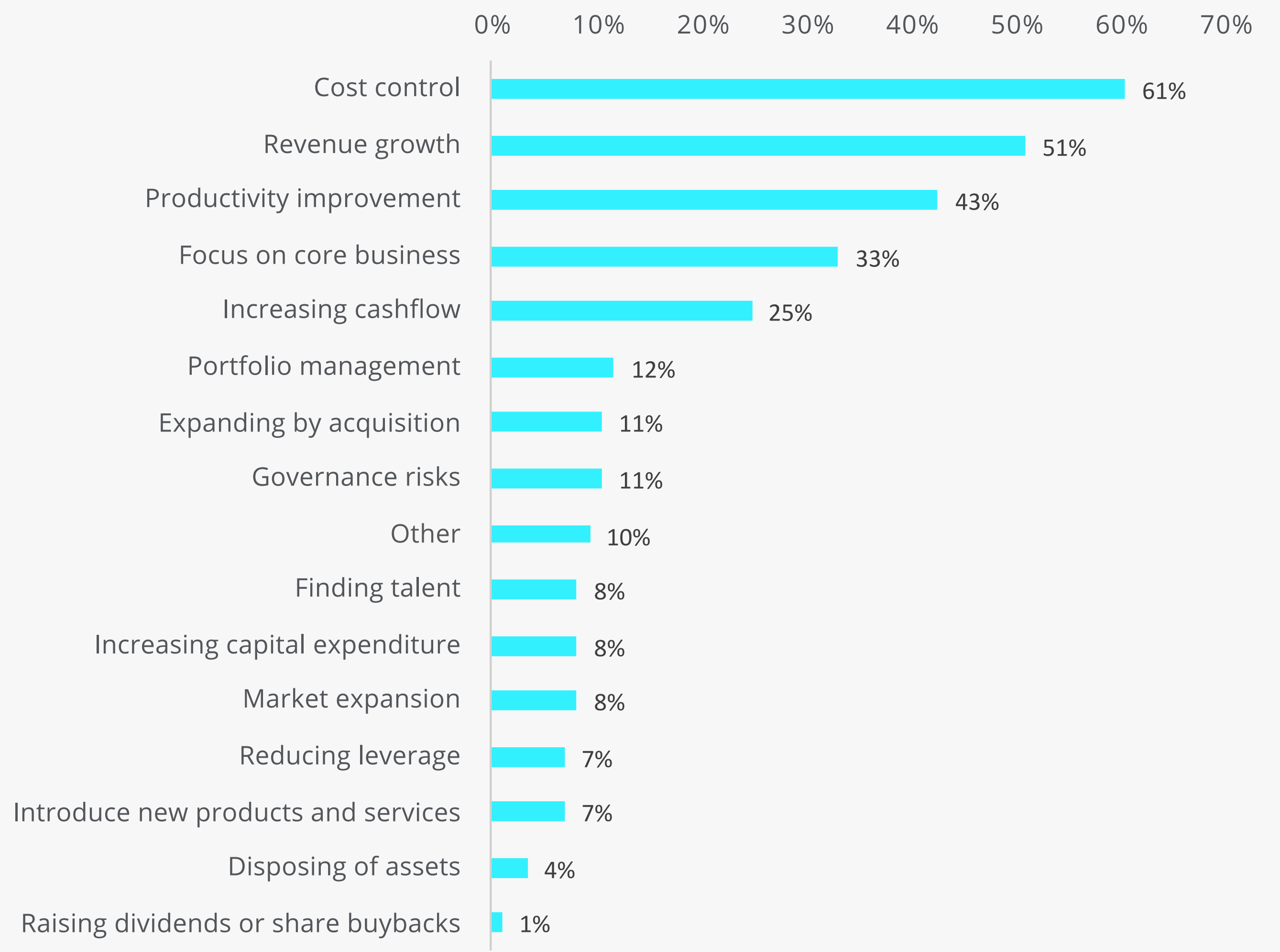
This combination is unsurprising. Rising costs have pressured operating margins, leaving CFOs with two broad solutions to maintain profitability: clamp down on cost increases or increase sales volumes or prices to offset them. Considering wider market trends, both are easier said than done. The key driver of inflation is supply-side shocks, which are difficult to get around, while pressure on household finances makes increasing sales a challenge.

Broadly, the results reflect a focus on basic financial disciplines relative to growth initiatives. Four of the top five areas of focus for CFOs are typically considered core profit and loss items. In contrast, growth areas such as market expansion and acquisitions are much lower on CFO agendas, which is likely to continue in the near term.

At an industry level, construction and infrastructure CFOs are concerned about cash flow with over half (53%) prioritising this amid elevated levels of insolvencies in the sector. Meanwhile, portfolio management is of relatively greater importance to energy and resource firms as they deal with short-term volatility in global energy markets alongside long-term challenges like the transition to net zero.

Chart 9: CFO priorities

As a CFO, what are your top three areas of focus over the year ahead?



Headcount and spending intentions fall

CFOs are taking action to protect their businesses

Most CFOs expect both revenue and operating expenses to increase over the next 12 months, but they are divided on how this will impact profit margins. 60% expect revenue to increase over the next year, while 64% believe operating expenses will rise. In turn, 42% think profit margins will stay the same over the next year, while slightly more expect them to decrease (30%) than increase (29%).

In further evidence the labour market may have turned, an increasing number of CFOs expect to reduce headcount in the next year. 40% expect to do so over the next 12 months, up from 26% six months ago. As a result, net headcount expectations (share of CFOs expecting an increase, less the share expecting a decrease) have fallen to -10% compared to +10% in the last survey.

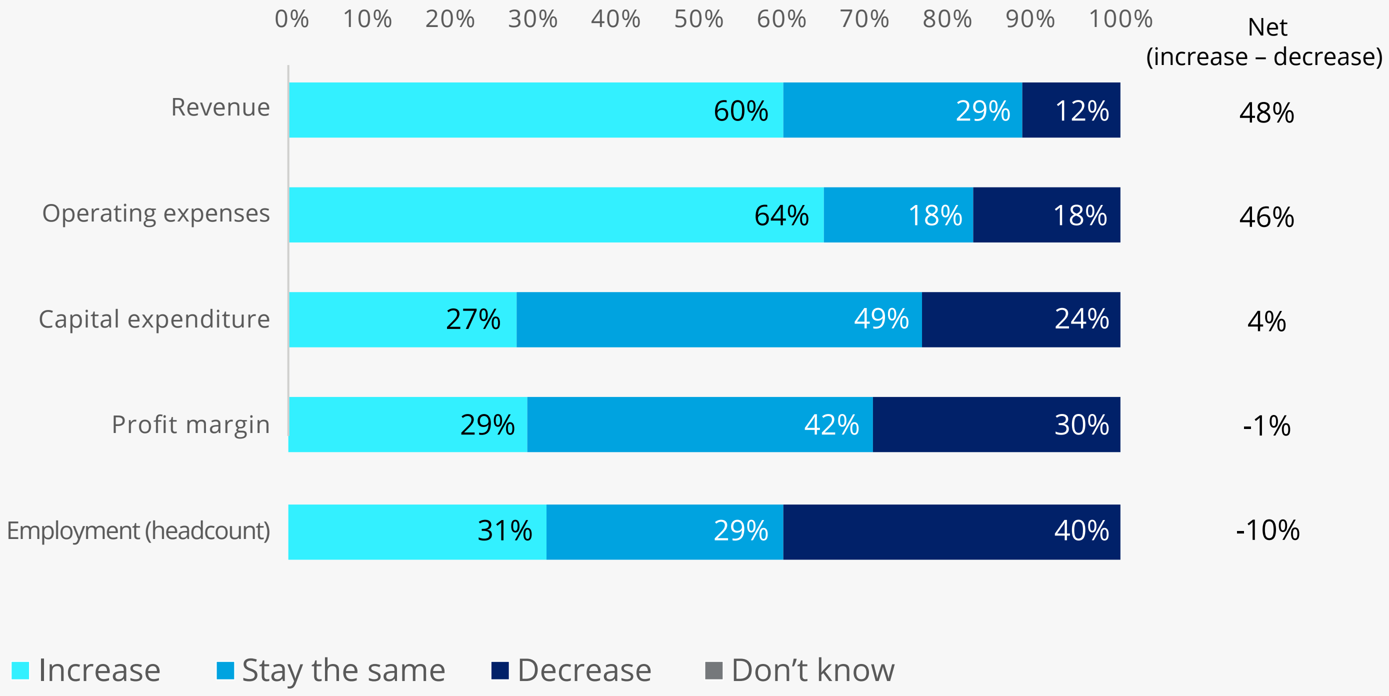
While net expectations for capital expenditure remain positive, they have fallen sharply to +4% from +42% six months ago. It's a worrying trend: Australia needs business investment to help boost long-term productivity and economic growth, but current intentions suggest many businesses aren't willing to take on the risk.

Indeed, CFOs face the unenviable task of managing short-term financial pressures while responding to energy transition, cybersecurity threats, shifts in global supply chains, digital transformation, the emergence of generative artificial intelligence (AI) and other major structural changes. While the trade-offs are difficult, history suggests the firms that adapt and innovate during a crisis emerge stronger on the other side.

More broadly, investing in these areas can support growth and productivity in the Australian economy in the short and long term.

Chart 10: Outlook for key business metrics

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



Headcount and spending intentions fall

Chart 11: Change in outlook for employment (headcount)

Compared to the past 12 months, how do you expect employment (headcount) to change over the next 12 months?

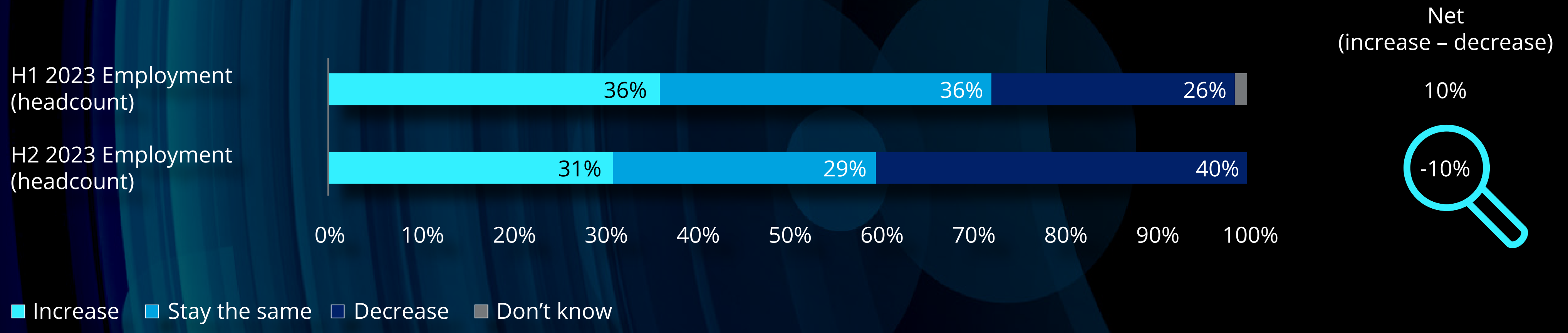
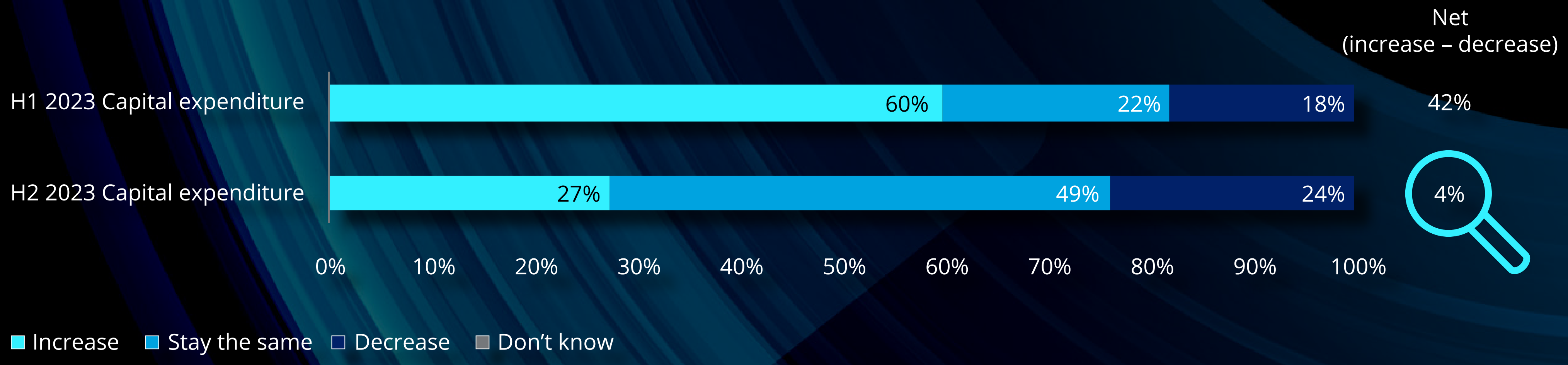


Chart 12: Change in outlook for capital expenditure

Compared to the past 12 months, how do you expect capital expenditure to change over the next 12 months?



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Generative AI to transform business, but investment needed

Opportunities abound from generative AI

The recent boom in AI capabilities is beginning to reach the workplace. Generative AI is disrupting many industries either directly or through new software that leverages the technology, such as Microsoft Copilot. CFOs are weighing up their choices given the opportunities and risks ahead. While current economic conditions aren't favourable for investment, there's a promise of large benefits to those who act.

DEFINITIONS
Generative AI: *artificial intelligence that creates original content across various modalities (e.g., text, images, audio, code, voice, video) that would have previously taken human skill and expertise to create. Examples of Generative AI tools include ChatGPT, Google Bard and Bing Chat.*

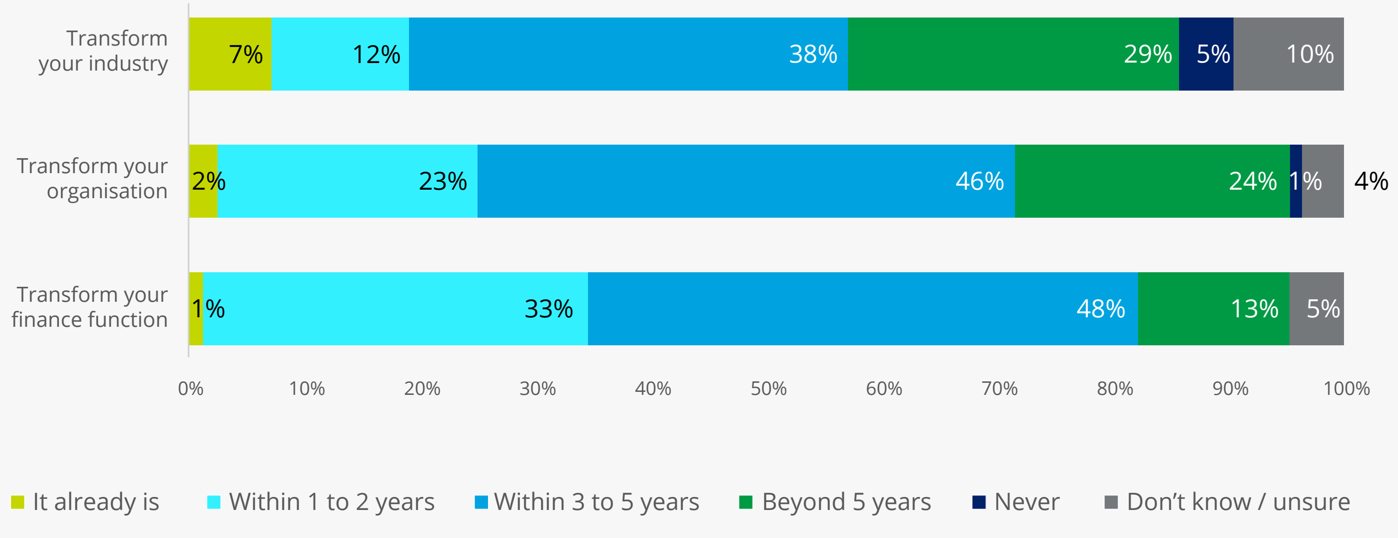
CFOs understand the disruptive capabilities of generative AI. Over half (57%) believe it will transform their industry within the next five years, while just 5% believe it will never impact theirs. Interestingly, CFOs are confident their own organisations will drive adoption with 71% believing their own business will be transformed over the next five years.

It's no surprise CFOs in the technology, media and telecommunications (TMT) sector are the most confident about the transformative power of generative AI. 70% of the sector's CFOs believe the technology will transform their industry within the next two years, compared to just 6% in energy and resources.

There's a clearer understanding that generative AI will transform the finance function: more than 80% of CFOs think it will do so within five years, with over a third believing it will happen within two years. The immediate power of AI in this space lies in its ability to replicate and automate straightforward but essential tasks such as collecting data and summarising documents.

Chart 13: Generative AI transformational power

In your opinion, when will generative AI likely substantially transform your industry, organisation and your finance function, if at all?



Generative AI to transform business, but investment needed

Businesses lag in adoption of generative AI

CFOs perceive that employees are leading the charge on generative AI for businesses. More than three quarters of CFOs believe the technology is at least some level of priority for C-suite members and staff. For employees in particular, this may be because they are the most likely to leverage it day to day.

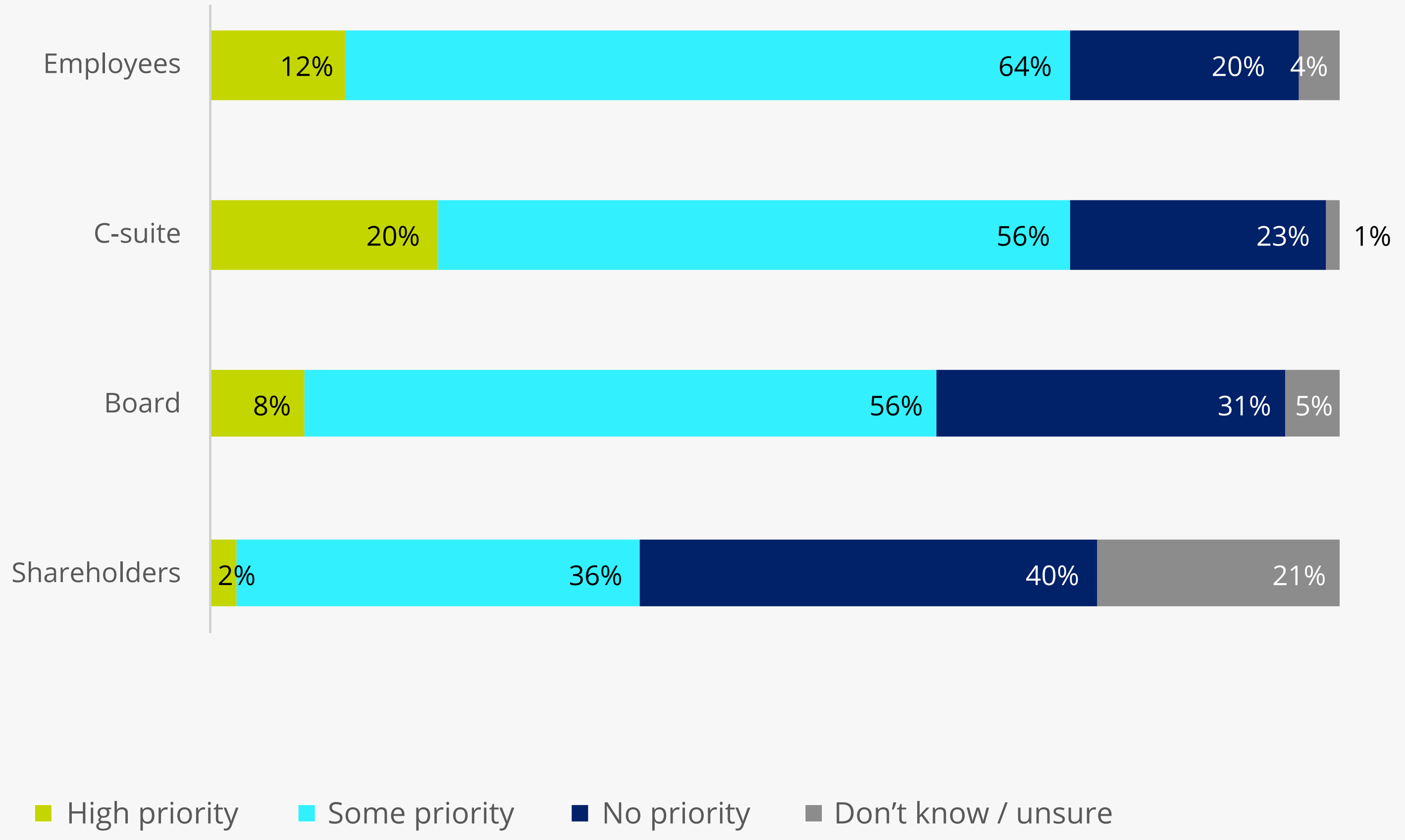
However, CFOs believe generative AI is a lower priority for shareholders, with 40% believing it doesn't register at all. Current economic conditions may be diverting focus to financials and keeping the business afloat in the short term, but it's a concerning trend given CFOs believe in the transformational potential of generative AI.

This may be driving a lag in adoption of generative AI, particularly in finance functions. While half of CFOs see at least pockets of use within their firms, just 15% say it's being used within their finance function. Surprisingly, 39% say they have no plans to implement it. Given most CFOs believe generative AI will transform their finance function within five years, the lack of adoption to date represents a call to action.

This low uptake may signal that businesses need to reframe what problems are best suited for generative AI and invest in a holistic AI vision and strategy. Those that think big and make this broad cultural leap are much more likely to drive value from this technology than those who focus on niche use cases.

Chart 14: Generative AI perceived priority level for different stakeholders

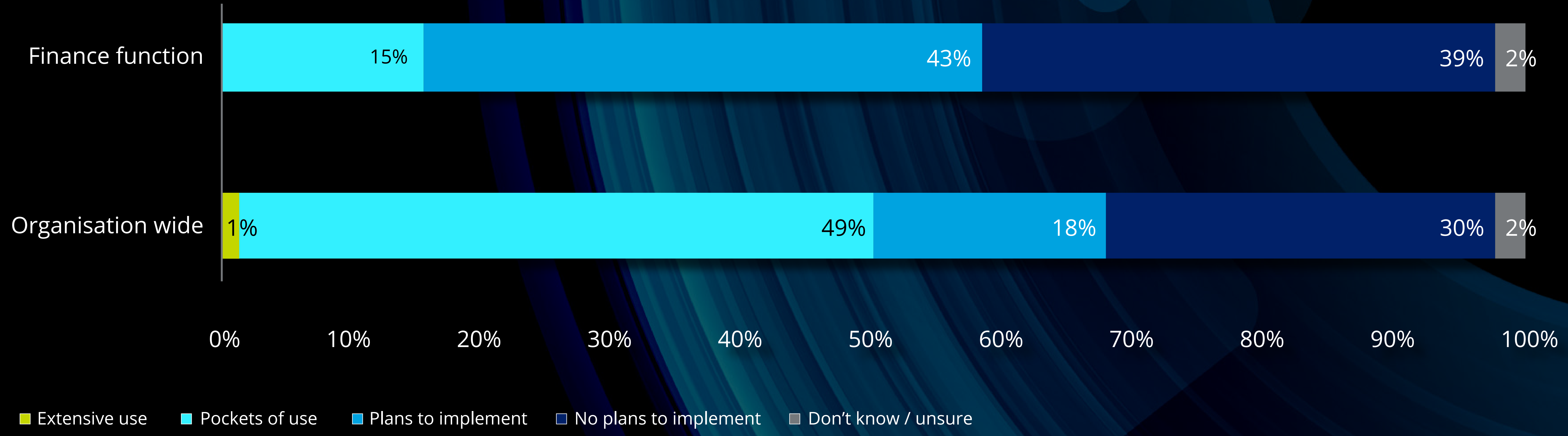
To what extent is generative AI a priority for the following groups in your organisation?



Generative AI to transform business, but investment needed

Chart 15: Generative AI adoption level

What is your current adoption level of generative AI across the organisation and in the finance function?



Generative AI to transform business, but investment needed

Efficiency and insights ranked as top benefits

CFOs see a wide range of benefits from generative AI, but improving efficiency is a standout. 95% say efficiency is what they hope to leverage from the technology, showing its potential to break through the current productivity slump. CFOs are also confident generative AI could uncover new ideas and insights for their business, with 63% seeing this as a potential benefit.

Reflective of the economic environment, 39% of CFOs believe generative AI will let them reduce headcount. While it's encouraging that productivity and insights rank higher, this speaks to concerns that AI could replace jobs. There's no doubt this shift will require new skills and ways of working with implications for workforce dynamics. But generative AI, like humans, has limitations.

Maximising the value of both in the modern workplace by designing systems in which humans and machines function collaboratively will be key to realising the full benefits.

Interestingly, CFOs aren't convinced generative AI will increase revenue (7%) or help create new products (5%). The latter may be on the backburner given the strained economic environment, while CFOs appear to see greater potential for AI in business workflows than revenue.

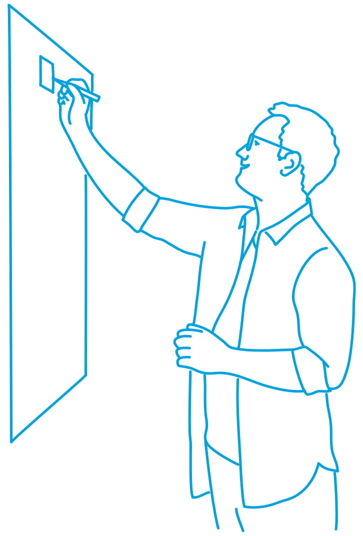
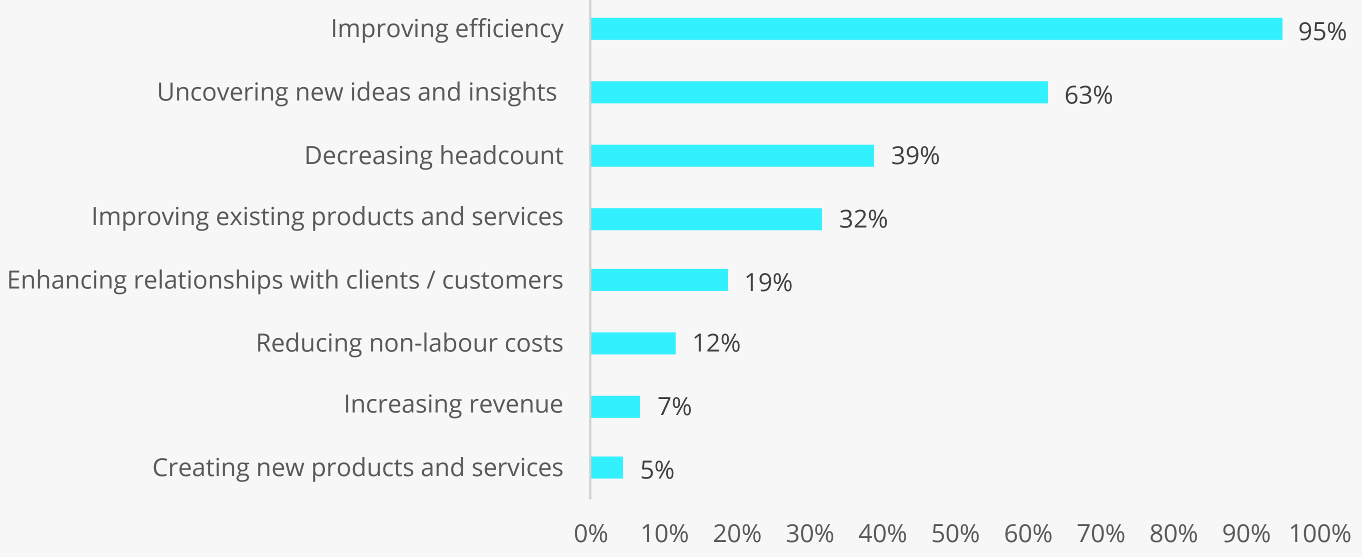


Chart 16: The value of generative AI

In general, what types of value are you most hoping to achieve through your projects leveraging generative AI tools / applications?



Generative AI to transform business, but investment needed

Business capabilities hinder generative AI deployment

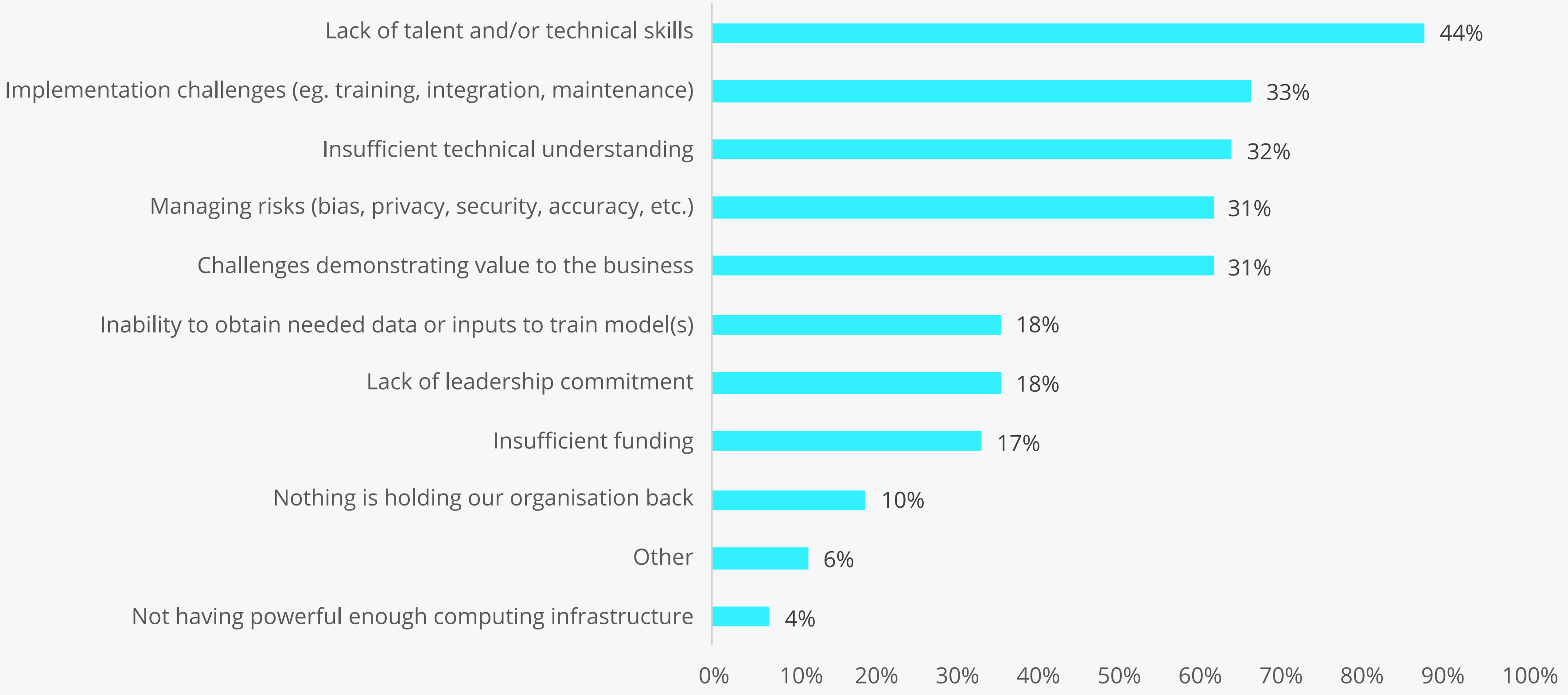
CFOs believe internal capability is impeding adoption of generative AI in their organisation. 44% of CFOs blame a lack of talent and/or technical skills and 32% a lack of technical understanding. This suggests businesses may be underinvesting in generative AI capabilities, particularly given the benefits and transformational potential of the technology.

Implementation challenges (33%) and managing risks (31%) are also preventing some CFOs from reaping the benefits of generative AI, showing businesses are still grappling with how to use it practically and securely. Trouble demonstrating value to the business (31%) is also a concern, indicating an opportunity to partner with institutions who can help identify potential use cases and implementation strategies.

Interestingly, only 10% of CFOs believe there's nothing preventing their business from deploying generative AI tools.

Chart 17: Generative AI barriers

What, if anything, has most held your organisation back in developing and deploying generative AI tools / applications?



Opportunities to innovate financial reporting

CFOs still transitioning to new financial reporting methods

The corporate reporting landscape is also changing at pace. Specifically, the emergence of digital and integrated reporting, alongside supporting software like Workiva, brings new ways for CFOs to report on their business' activity.

DEFINITIONS

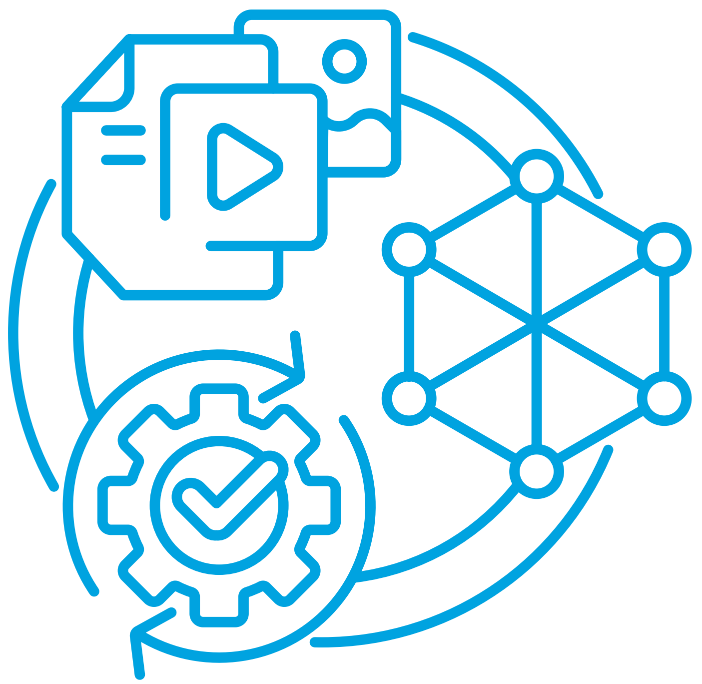
Digital reporting: *the filing of external corporate reporting obligations using eXtensible Business Reporting Language (XBRL) and a common tagging taxonomy to provide greater efficiency and comparability.*

Integrated reporting: *Adopting a formal integrated reporting framework or exploring the consistency with which similar or related reporting requirements are addressed in external reports.*

Most CFOs surveyed are yet to implement digital reporting. Just 12% are adopting or piloting digital reporting, while 25% are currently evaluating their plans and 20% remain unsure. This indicates many CFOs are still educating themselves about the potential opportunities to their business.

Concerningly, 43% of CFOs say they currently have no plans to implement digital reporting. This suggests many aren't convinced the move would help their organisation, perhaps because many of the benefits rely on broad participation. CFOs may therefore be tentative to pioneer it, instead waiting for greater uptake and evidence before making the transition.

There is greater uptake of integrated reporting, but businesses are still transitioning. Over half of CFOs (52%) are at least evaluating plans to implement integrated reporting, suggesting businesses see its opportunities amid increasing regulatory requirements on financial reporting. Despite this, there are still many CFOs who either have no plans or are unsure about integrated reporting, showing there's work to do to realise the full benefits.



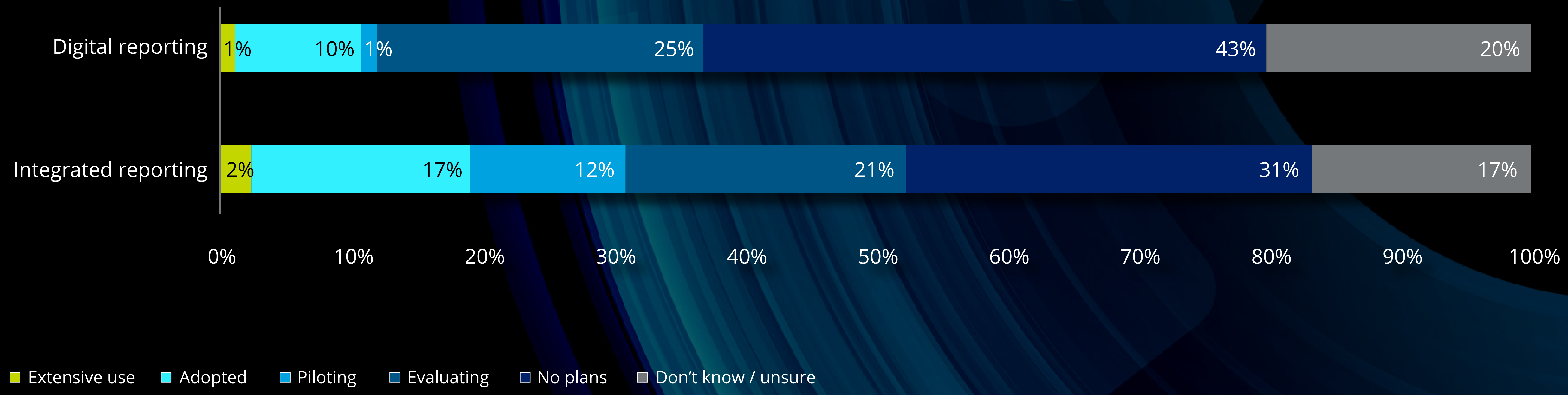
52%

of CFOs are at least evaluating plans to implement integrated reporting

Opportunities to innovate financial reporting

Chart 18: Digital and integrated reporting plans

In light of the current environment, to what extent are you embracing integrated reporting and digital reporting?



Opportunities to innovate financial reporting

Widespread benefits possible from innovating reporting methods

CFOs see a range of potential benefits from transitioning to digital and integrated reporting. 29% rate automation and the reduction of manual processes as the biggest benefit to digital reporting, while 23% chose improved accuracy and consistency.

Similarly, 23% of CFOs say improved accuracy and consistency is the main benefit of integrated reporting, and 20% favour its ability to integrate ESG reporting.

While many remain tentative about adopting new reporting methods, research suggests the benefits to businesses will outweigh the costs. Research commissioned by the SEC shows the costs of implementation are immaterial, while the benefits are significant for those that invest.

Future technological developments, including the emergence of generative AI, could also help drive the automation of new reporting methods.

Chart 19: Digital reporting benefits

Where do you see the biggest benefits of digital reporting?

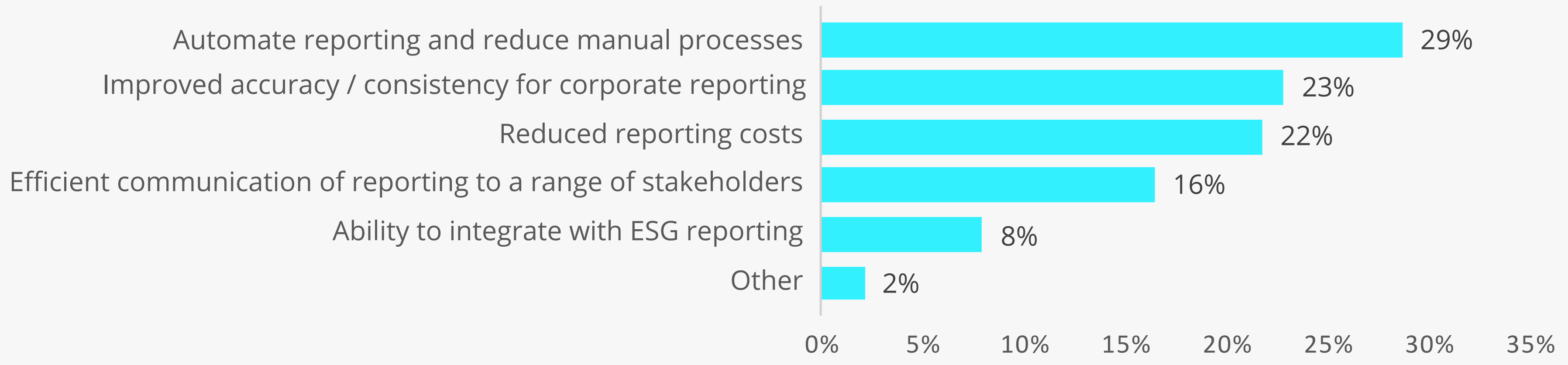
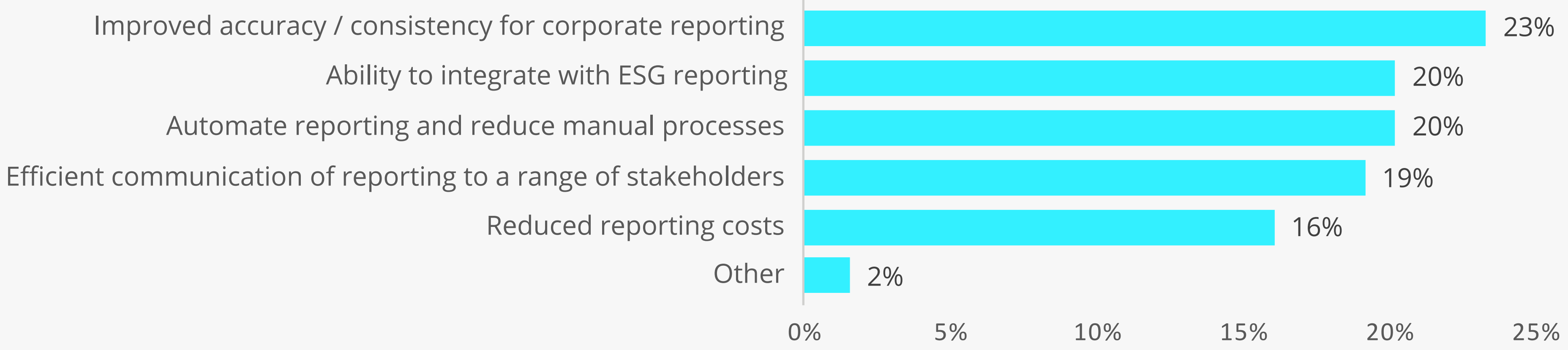


Chart 20: Integrated reporting benefits

Where do you see the biggest benefits of integrated reporting?



Looking ahead

CFOs expect interest rates to stay higher for longer

CFOs are more pessimistic about the outlook for interest rates compared to six months ago. While inflation is trending downward, the increase in quarterly inflation in September 2023 suggests the return to more typical rates of price rises may take longer than previously thought. Combined with the RBA's seemingly low tolerance for a longer period of above-target inflation, this has clearly impacted CFO expectations for the future of interest rates.

56% of CFOs believe rates will be around the same level in 12 months' time, up from 39% six months ago. Importantly, fewer CFOs (38%) believe they will be lower, down from 49% in the previous survey. This signals CFOs increasingly expect interest rates will stay higher for longer in Australia.

These expectations are slightly more pessimistic than Deloitte Access Economics' macroeconomic forecasts. Deloitte Access Economics expects interest rates to begin to trend downwards in 2024 as inflation is brought under control. While the exact timing remains uncertain, annual headline inflation has peaked and is moderating. That trend is likely to continue with domestic demand now heavily subdued after so many rate rises in quick succession. Consumers have slashed their discretionary purchases and retailers are increasingly discounting, likely setting the scene for a turning point in interest rates in 2024.

Chart 21: Interest rate expectations

Where do you see interest rates in 12 months time?

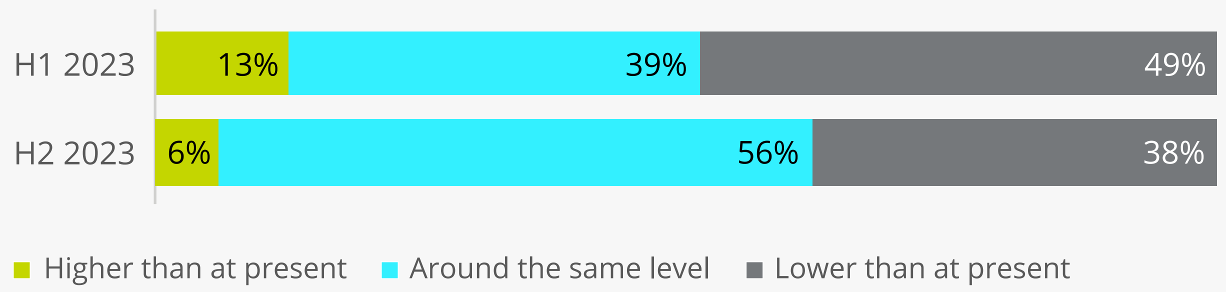
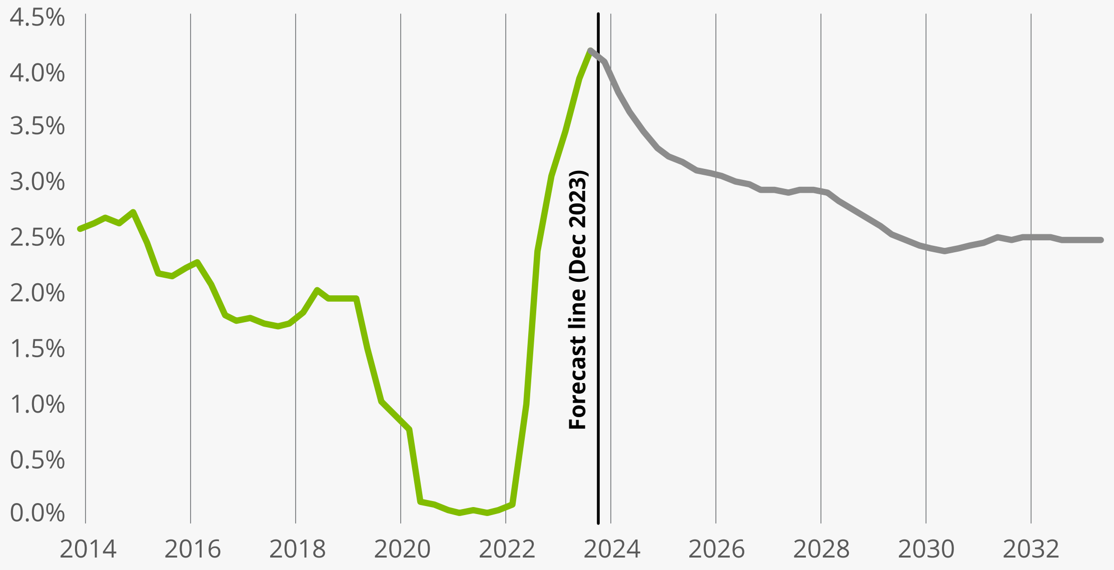


Chart 22: Deloitte Access Economics 90-day bank bill rate forecast

Quarterly average



Looking ahead

Most predict a similar exchange rate in 12 months' time

As for the Australian dollar, most surveyed CFOs believe it will sit around its current value in 12 months' time. However, 15% believe it will strengthen, up from 10% six months ago. This in part reflects that the Australian dollar has weakened a little through the course of 2023 before potentially coming back into favour as the global economy starts improving through 2024.

Deloitte Access Economics forecasts the Australian dollar will be around the same level this time next year. Relatively strong economic growth in the US sees downward pressure on the Australian dollar in the short term; however, it's increasingly likely this will be offset as the Federal Reserve holds interest rates amid falling inflation expectations. A modest outlook for commodity prices given the lack of impetus from China's economy may also work to limit any rises in the Australian dollar.

Chart 23: Australian dollar expectations

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

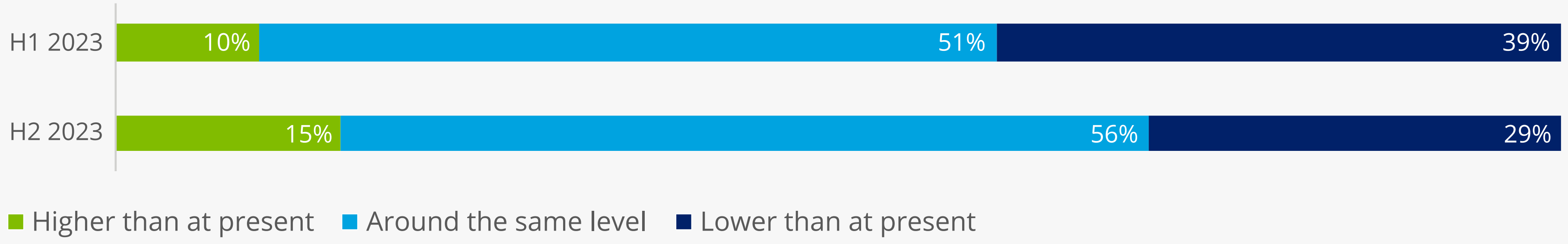
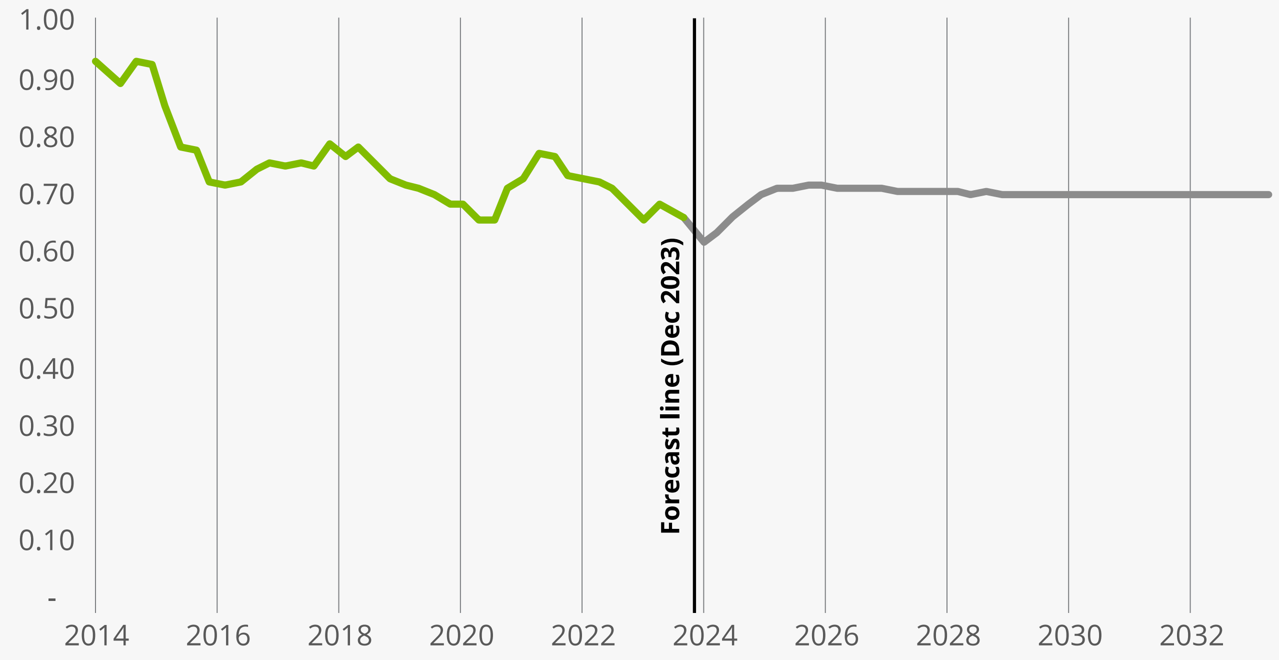


Chart 24: Deloitte Access Economics' $US per $A forecast

Quarterly average



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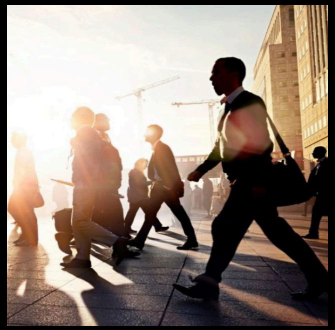
More publications for Australian CFOs



Deloitte Access Economics Employment Forecasts: Cool summer

The Australian economy has endured a difficult 2023. The Reserve Bank raised the cash rate 425 basis points in 18 months to try to curb inflation.

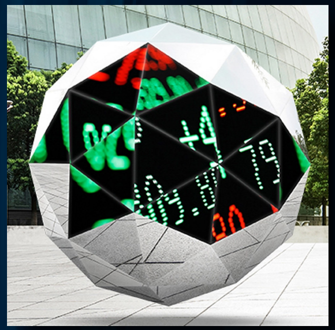
This has weighed heavily on household spending and dwelling investment. As a result, we head into the summer months with extremely fragile consumer confidence, and business confidence is also starting to give way.

Crunch time series for CFOs: Novel and exponential technologies in finance

Generative AI, language models, machine learning, augmented reality, quantum computing: these hot topics are everywhere, and they aren't likely to go away.

Generation AI: Ready or not, here we come!

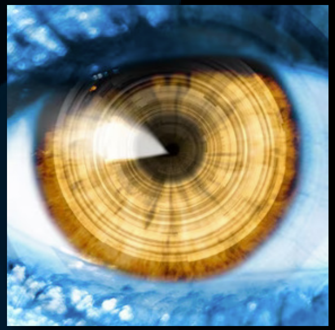
Our new report Generation AI: Ready or not, here we come! uncovers insights and actionable advice from the Deloitte AI Institute and Deloitte Access Economics, following in-depth research with over 2500 Australian students and employees, in addition to academic research reviews.



Embracing the power of digital corporate reporting. Is your business ready?

Every year, businesses spend hundreds of hours on reporting, planning, data gathering, fact checking, writing, editing, error fixing and the list goes on.

It's a mammoth task not only for those producing, but also for the investors, auditors and regulators sifting through countless pages for key information.



The incalculable potential – and potential pitfalls – of the quantified organization

In this issue of CFO Insights, we examine the rise of the "quantified organization" – what it is, the potential impacts on businesses, and what it could mean for chief financial officers.

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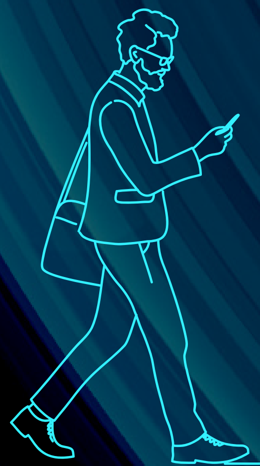

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