CFO Signals™

What North America's top finance executives are thinking—and doing
3rd quarter 2022

Dear CFOs,

As promised, we are following up with the second part of the 3Q22 *CFO Signals* report, which covers the results of the special topic on work, workforce, and workplace, starting on page 17. For your convenience, we've combined the survey results from part one and the special topic.

Highlights from Part 2 on work, workforce, and workplace

Work—Many of the CFOs surveyed have taken several steps in the past year to alter, reduce, or streamline the types of work their finance teams perform, notably driving digital transformation and/or automation; leveraging technology and/or transforming ERP; improving and/or standardizing processes. The top three most significant impacts of the steps taken are more time spent on higher-value activities; greater use of technology and automation; deeper insights into the business.

Workforce—When asked which capabilities within finance require greater investment, more than half of CFOs pointed to financial planning & analysis and information technology, and nearly one-third said transformation-related capabilities, while more than one-quarter cited business unit finance. Amid today's talent challenges, 71% of CFOs said providing flexibility for work location was the most effective action for retaining talent, followed by 63% who cited providing career development and more clarity in growth opportunities, and 62% who cited increasing salaries. If CFOs could make one change to increase the effectiveness of their finance organization, driving digital transformation/automation, offering a flexible environment, and upskilling/reskilling talent were cited most often.

Workplace—Hybrid is the workforce model that most CFOs' organizations plan to use in 2023, cited by 86% of respondents; on-site and off-site were noted by 12% and 2% of CFOs, respectively. When it comes to their own finance teams, 47% of CFOs said they expect the majority to work on-site three days per week, and 22% indicated two days a week. Twelve percent said they expect the majority of their finance teams to work on-site four or more days per week, while 6% indicated just one day per week and 7% indicated zero days.

Highlights from Part 1 on perceptions of regional economies, capital markets, and risks

Economic outlook—Nearly half of CFOs (46%) expect the North American economy to be in a recession by 2023, while 39% expect the economy to hit a period of stagflation and 15% anticipate the economy to grow with moderate inflation. Persistent inflation worries CFOs (73%) more than a recession (27%). Still, some CFOs are preparing for a recession by reducing or closely managing operating expenses; controlling headcount, limiting hiring, and boosting productivity; conserving or strengthening liquidity; and reprioritizing or deferring capital expenditures. CFOs' net optimism for their own companies' financial prospects stayed in negative territory. Looking 12 months out, a higher proportion of CFOs expect the regional economies, except for South America, to improve; 29% of CFOs anticipate North America's economy to be better, up from 18% in 2Q22. Meanwhile, 38% of CFOs say now is a good time to take greater risk, up slightly from 35% in 2Q22.

Growth expectations for key metrics—CFOs have lower expectations for year-over-year (YOY) growth for key metrics, except for dividends, which stayed flat at 4.0%. Revenue growth is pegged at 6.2% this quarter, down from 7.8% in 2Q22; earnings growth expectations are at 6.4%, a decline from 8.4% in the prior quarter; and capital spending growth at 4.3% is also down from 2Q22's 11.2%. Amid their concerns, CFOs also cut their growth expectations for domestic wages/salaries and domestic hiring—both at 5.3% last quarter—to 4.8% and 2.6%, respectively.

Internal and external risks—Talent and related challenges sum up CFOs' top internal risks, from hiring to retention, to addressing low employee morale. Getting people back to the workplace—another concern—might be even harder, given that 86% of CFOs expect their organizations to use a hybrid work model for 2023. CFOs also express concerns over prioritizing and executing on strategies and other efforts, as well as managing costs, including wages and salaries. Looking at external risks, CFOs cite inflation most frequently; geopolitics, particularly China and the Russia/Ukraine war; policies and regulations, recession; supply chain challenges; and interest rates.

I thank you again for taking time to participate in *CFO Signals,* and I hope you will register for our next CFO 4Sight webcast on October 13 to hear an economic update with more survey results and a conversation with a guest CFO.

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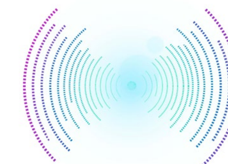

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Reading the Signals: Ira Kalish, Chief Economist, Deloitte Global

Like the broader economy, CFOs who participated in the Q3 2022 *CFO Signals* survey are sending out mixed signs.

Forty-six percent of surveyed CFOs expect the North American economy to be in a recession by 2023. Economists are also divided. On the positive side, the most recent data show consumer prices rising at a slower pace, just 0.1% in August, compared to July. Consumer prices rose 8.3%, year-over-year.[1] That ought to be received as good news—though not as good as expected, perhaps—to the 73% of surveyed CFOs who say they are more concerned about persistent inflation than about a recession.

August's 0.2% rise in the unemployment rate is also encouraging, given the accompanying increase in the labor participation rate.[2] That ought to make it easier for companies to hire and retain employees. While GDP has posted negative growth for two consecutive quarters—which is not the formal definition of a recession, despite what some have suggested—the Q2 decline reflected businesses reducing their investments in inventory, winding down the massive inventory[3] they had accumulated during the pandemic. In other words, it was not an indication of weak demand.

Recession concerns among surveyed CFOs may stem from their worries that the Federal Reserve will tighten credit very aggressively in its effort to slow the economy enough to tame inflation. Presumably preparing for a hard landing, surveyed CFOs have lowered their expectations for year-over-year growth in almost all key metrics. The fact that 24% of CFOs consider US equities undervalued—the highest proportion since the Q1 2016 survey—is a bit perplexing, given that interest rates remain at historic lows and companies generally have plenty of cash on hand.[4] The only place where higher interest rates have had a significant impact is the housing market, where mortgage rates have risen. The fact that asset prices have fallen isn't good, but such deceleration may also create opportunities.

Hardy hiring numbers and low employment don't point to a looming recession, which can only be officially declared by the National Bureau of Economic Research. Rising rates could eventually lead CFOs to reduce investments in buildings and equipment, in addition to slowing the pace of hiring.

If enough CFOs, among others, think a recession is around the corner—and their decisions change to reflect that belief—then they may help induce a recession. But CFOs should not confuse a less-than-robust rebound with a recession.

Dr. Ira Kalish
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Deloitte Touche Tohmatsu Limited

Sources:

1. "Consumer Price Index Summary," U.S. Bureau of Labor Statistics, Sept. 13, 2022.
2. "The Employment Situation—August 2022," U.S. Bureau of Labor Statistics, Sept. 2, 2022.
3. "Gross Domestic Product and Corporate Profits, Second Quarter 2022," Bureau of Economic Analysis, August 25, 2022.
4. "United States Fed Funds Rate," Trading Economics, accessed Sept. 15, 2022.

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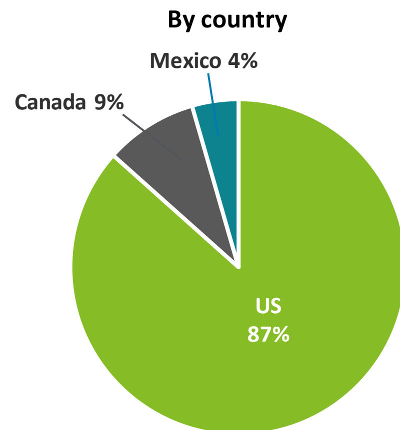
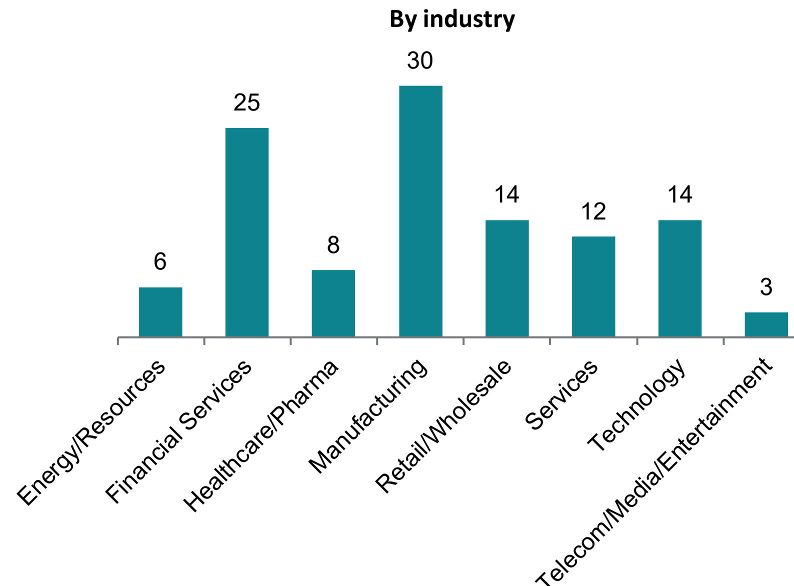
Participation: A total of 112 CFOs participated: 74% from public companies and 26% from privately held firms. More than one-third (36%) of CFOs have more than 10 years' experience, and another 28% have 5 to 10 years' experience, while the remainder have less than five years' experience. Respondents are from the US, Canada, and Mexico, and the vast majority are from companies with more than $1 billion in annual revenue. The 3Q22 *CFO Signals* survey was open August 1-15, 2022. For other information about the survey, please contact nacfosurvey@deloitte.com.

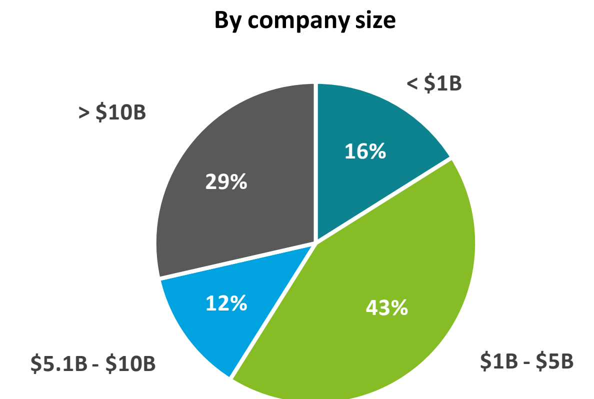
By country



By industry



By company size



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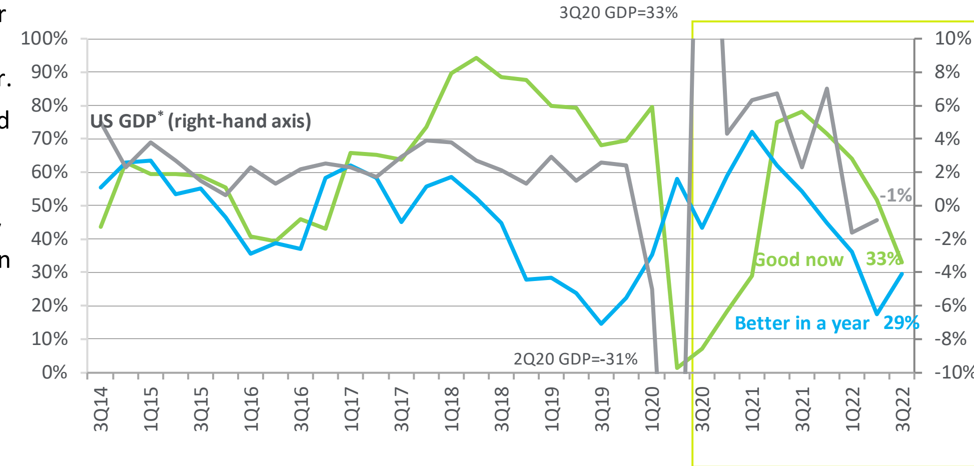
3Q22 LONGITUDINAL BUSINESS OUTLOOK HIGHLIGHTS

Compared to 2Q22, CFOs' sentiment toward the *current conditions* in the five economic regions covered in *CFO Signals* fell this quarter. With regard to *future conditions* in North America, more than one-quarter (29%) of CFOs expect improvement in 12 months. Although that figure is an increase from 18% in the prior quarter, it stands well below the two-year average of 47%. CFOs' net optimism for their own companies stayed in negative territory for the second quarter in a row.

Economic assessment by region

- **North America:** 33% of CFOs rate the current economy as good or very good, a marked decline from 52% in 2Q22; 29% indicate conditions will improve in a year, up from 18% in the prior quarter.
- **Europe:** 7% of CFOs consider current economic conditions as good or very good, down slightly from 9% in 2Q22; a year out, 11% of CFOs see the economy improving, climbing from 7% in 2Q22.
- **China:** 7% of CFOs also view the current economy as good or very good, down from 12% in 2Q22; 27% anticipate better conditions in a year, up from 19% in 2Q22.
- **Asia, excluding China:** 17% of CFOs view the current economy as good or very good, down from 20% in 2Q22; 25% indicate improvement a year out, compared to 16% in 2Q22.
- **South America**: 7% of CFOs rate the current economy as good or very good, down from 11% in 2Q22; the percentage of CFOs expecting improvement 12 months is the same as in 2Q22, at 10%.

Views on North America's economy



Economy optimism

	Good now	Better in a year	Last quarter	2-yr. avg
North America	↘ 33%	↗ 29%	52/18	53/47
Europe	↘ 7%	↗ 11%	9/7	17/31
China	↘ 7%	↗ 27%	12/19	37/42
Asia, excl. China	↘ 17%	↗ 25%	20/16	NA**
South America	↘ 7%	↔ 10%	11/10	NA**

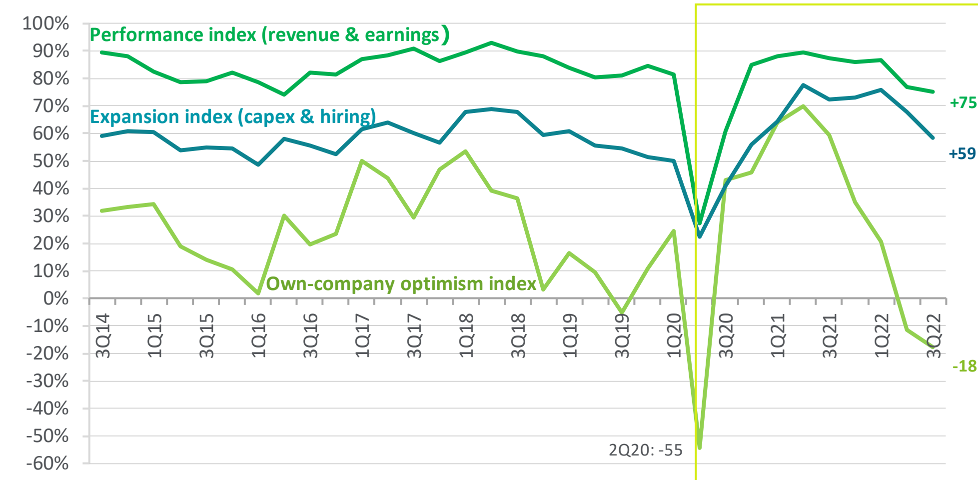
*US GDP = percent change from preceding quarter in real US gross domestic product (source: Bureau of Economic Analysis table 1.1.1)

**Two-year average comparisons are not available because 3Q21 was the first time *CFO Signals* asked CFOs for their assessments of the economies of Asia, excluding China, and of South America.

Company outlook

- The **own-company optimism index** (percent of CFOs citing rising optimism regarding their companies' prospects minus the percent citing falling optimism) dropped to -18 from -11 in 2Q22. Services, Technology, and Telecom/Media/Entertainment CFOs are the most optimistic; Manufacturing, Retail/Wholesale, and Healthcare/Pharma CFOs are the least optimistic.
- The **performance index** (average of percentages of CFOs citing positive year-over-year (YOY) revenue and earnings growth) fell slightly, to +75 from +77 in 2Q22. The Energy/Resources industry leads the index.
- The **expansion index** (average of percentages of CFOs citing positive YOY growth in capital spending and domestic hiring) decreased to +59 from +68 in 2Q22. The Energy/Resources industry ranks highest on this index.

Company indexes



Company optimism and growth

	This quarter	Last quarter	2-yr. avg.
Own-company optimism (net)	↘ -18	-11	33
Revenue growth (YOY)	↘ 6.2%	7.8%	8.1%
Earnings growth (YOY)	↘ 6.4%	8.4%	10.8%
Capital investment growth (YOY)	↘ 4.3%	11.2%	9.7%
Dividend growth (YOY)	↔ 4.0%	4.0%	3.7%
Domestic wage growth (YOY)	↘ 4.8%	5.3%	4.2%
Domestic personnel growth (YOY)	↘ 2.6%	5.3%	4.0%

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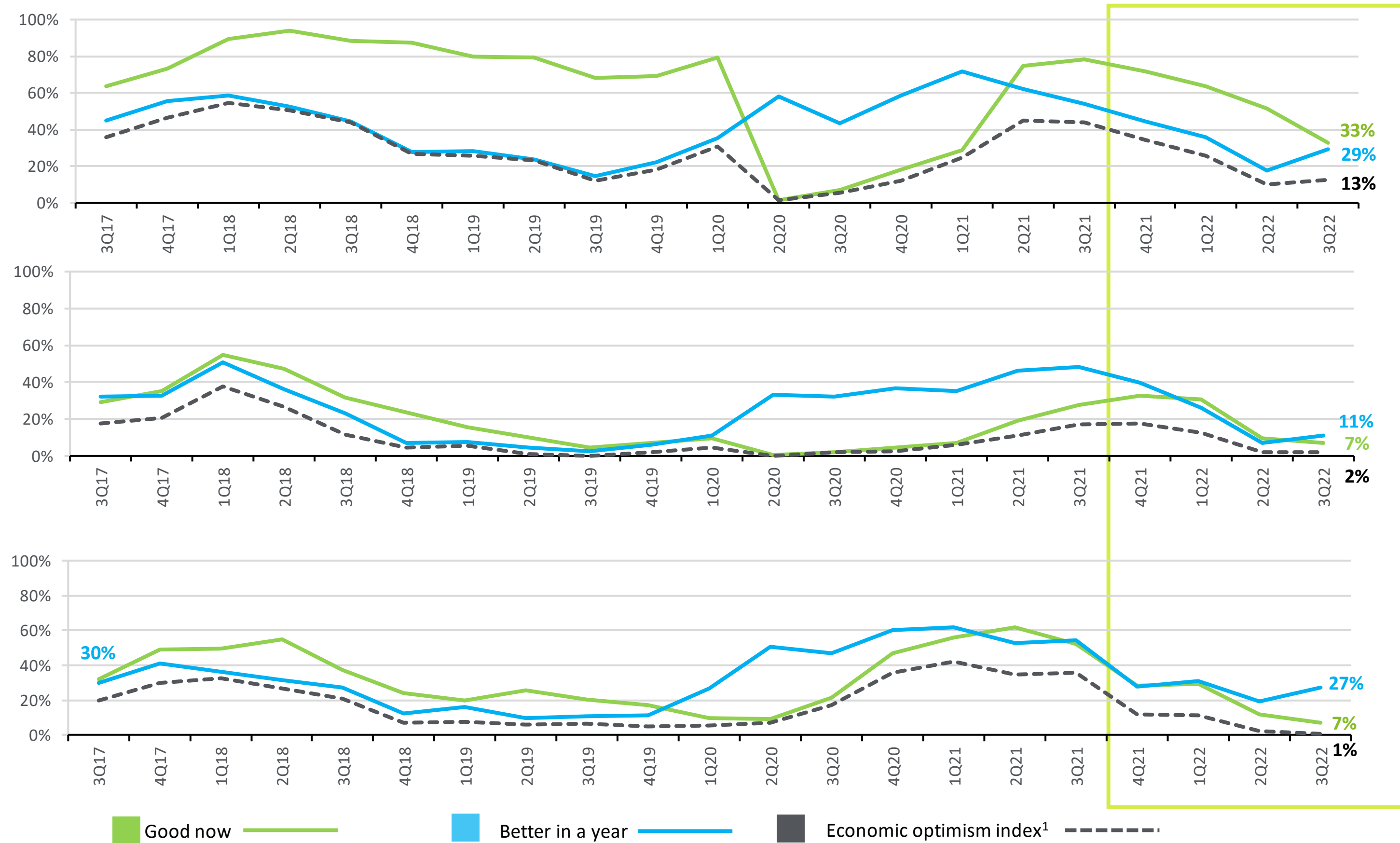
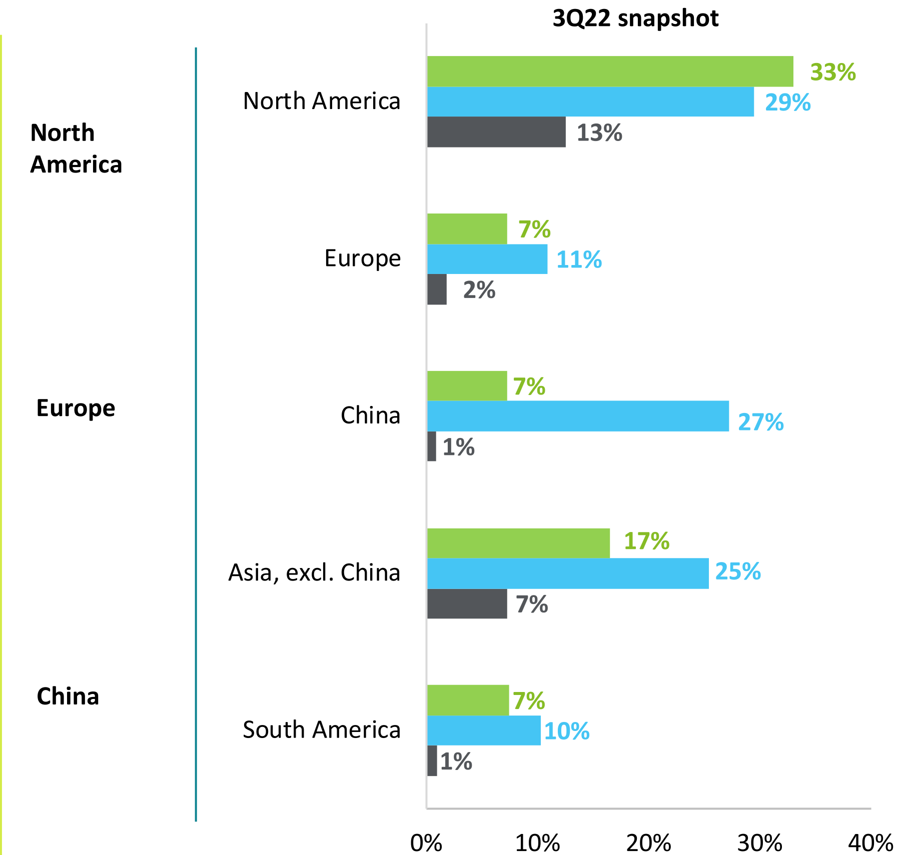
ASSESSMENTS OF REGIONAL ECONOMIES

Although CFOs' assessments of regions' current economic conditions declined, a growing number of CFOs expect most regions to show improvement in a year. The exception was South America, where CFOs don't expect any change. CFOs were most positive about North America's and China's economic outlook 12 months out.

- **North America:** 33% of CFOs noted current economic conditions as good or very good, down from 52% in the prior quarter. Those expecting improved conditions a year out rose to 29% from 18% in 2Q22.
- **Europe:** 7% of CFOs viewed Europe's current conditions as good or very good, a slight decrease from 9% in 2Q22. Only 11% of CFOs said they expect better conditions in a year, up from 7% in 2Q22.
- **China:** 7% of CFOs indicated current conditions as good or very good, down from 12% in 2Q22. The percentage of CFOs expecting China's economy to improve in a year jumped to 27% from 19% in 2Q22.
- **Asia, excluding China:** 17% of CFOs noted current conditions as good or very good, down from 20% in 2Q22, while 25% said they expect conditions to improve 12 months out, a rise from 16% in 2Q22.
- **South America:** 7% of CFOs assessed current conditions as good or very good, down from 11% in 2Q22, and 10% noted they expect conditions to be better in a year, level with the expectations from 2Q22.

How do you regard the current and future status of North America; Europe; China; Asia, excluding China; and South America?





[1] Indexes reflect the percentage of respondents who rate current economic conditions as "good" or "very good" and who also expect "better" or "much better" conditions in a year.

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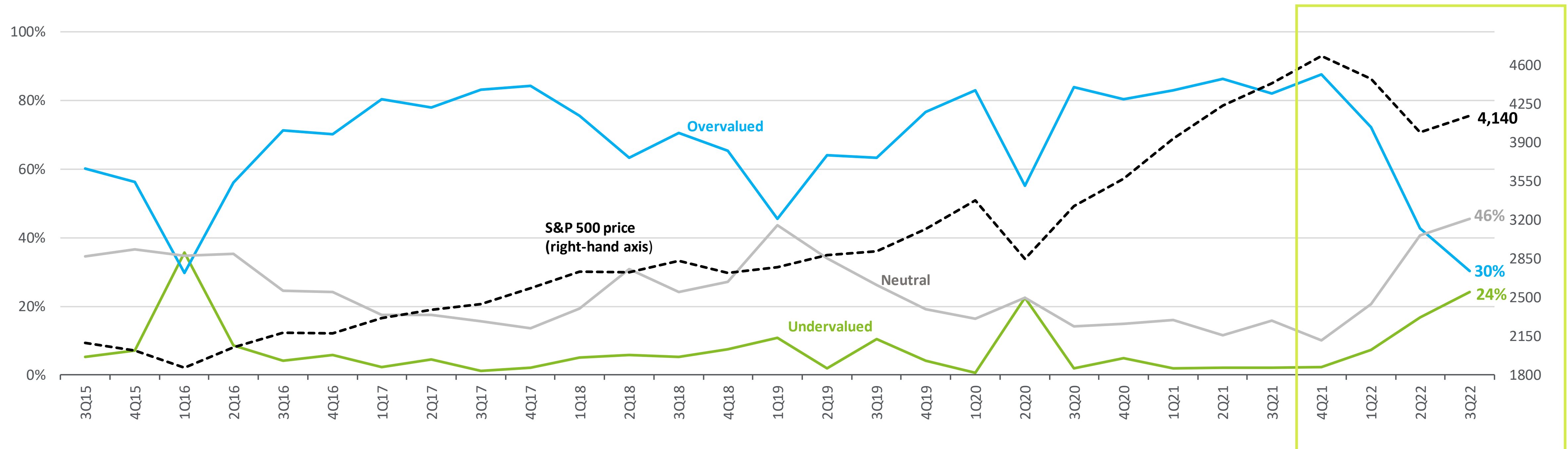
ASSESSMENTS OF CAPITAL MARKETS AND RISK: VALUATION OF US EQUITY MARKETS

The proportion of CFOs who considered US equities overvalued in this quarter's survey fell to 30% from 43% in the prior quarter. Almost half (46%) of CFOs indicated US equities were neither overvalued nor undervalued, while 24% regarded them as being undervalued.

- The 24% of CFOs considering US equities undervalued is the highest this figure has reached since the 1Q16 *CFO Signals* survey, when 36% of CFOs saw US equities as undervalued. Similarly, the 30% of CFOs considering US equities overvalued was the lowest percentage since 1Q16, when the same percentage of CFOs (30%) saw US equities as overvalued.
- Industries that were most likely to view markets as overvalued were Telecom/Media/Entertainment (67%) and Services (42%). The industry most likely to view the markets as undervalued was Energy/Resources (50%).
- The S&P 500 stood at 4,140 at the midpoint of our 3Q22 survey data collection on August 8, 2022, an increase from the 2Q22 survey midpoint of 3,991 on May 9, 2022.

How do you regard US equity markets valuations? (N=112*)
Percent of CFOs saying US equity markets are overvalued, undervalued, or neither (responses are compared to S&P 500 at survey midpoint)



*112 (100%) of respondents across eight industries answered.

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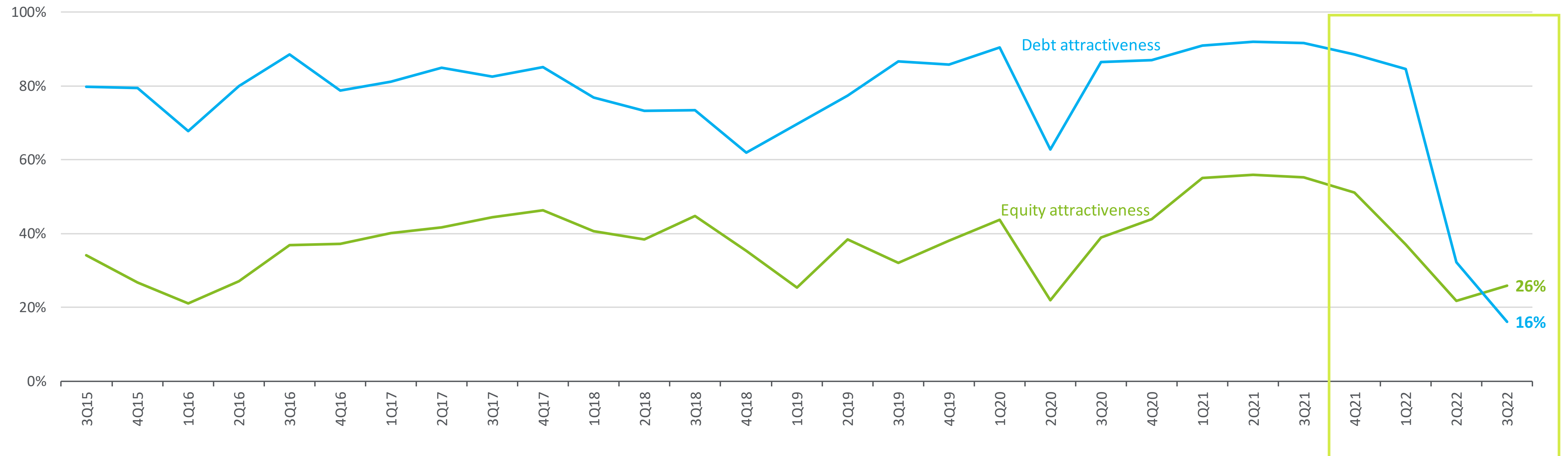
ASSESSMENTS OF CAPITAL MARKETS AND RISK: ATTRACTIVENESS OF DEBT AND EQUITY FINANCING

Fewer CFOs this quarter found debt financing as attractive than in 2Q22: Just 16% indicated that debt financing is attractive, a sizable decline from 32% in the prior quarter. Record levels of inflation and fears of a potential recession may have fueled the drop. Meanwhile, the attractiveness of equity financing among CFOs rose slightly, to 26% from 22% in 2Q22.

- Twelve percent of public company CFOs viewed debt financing as attractive, significantly down from 30% in 2Q22. Among private companies, 28% of CFOs considered debt financing as attractive, compared to 38% in the prior quarter.
- Twenty three percent of public company CFOs regarded equity financing as attractive, a slight increase from 21% in the prior quarter. Among private companies, 35% of CFOs considered equity financing as attractive, an increase from 23% in 2Q22.
- Among industries, Manufacturing (63%) CFOs found debt financing less attractive than CFOs in other industries, while Telecom/Media/Entertainment CFOs (67%) found equity financing less attractive than their counterparts in other industries. Energy/Resources CFOs were most likely to view both debt (50%) and equity (50%) financing as more attractive compared to CFOs in other industries.

How do you regard debt/equity financing attractiveness? (N=112*)

Percent of CFOs citing debt and equity attractiveness (both public and private companies)



*112 (100%) of respondents across eight industries answered.

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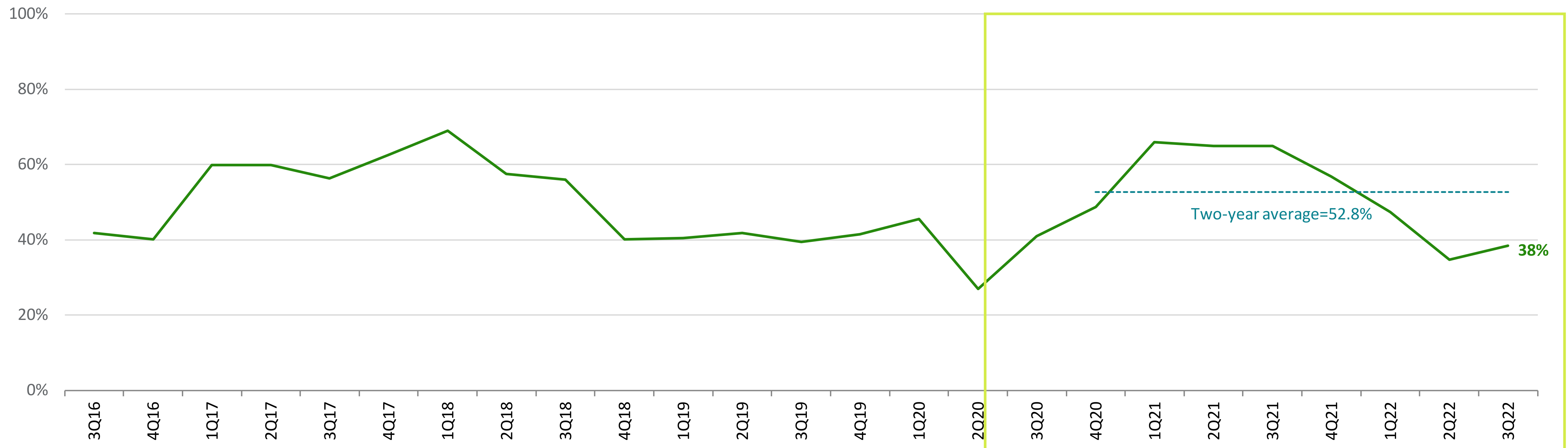
ASSESSMENTS OF MARKETS AND RISK: RISK APPETITE

This quarter's survey revealed a slight uptick in the percentage of CFOs saying now is a good time to be taking greater risks, at 38%, compared to 35% in 2Q22. CFOs' appetite for risk-taking remained significantly below the two-year average of 52.8% and the level of CFOs' risk appetite a year ago, when it was 65%, just before the Russia-Ukraine war broke out.

- CFOs in the Telecom/Media/Entertainment industry were most inclined toward risk-taking (100%), while CFOs in Financial Services were the most inclined to say now is not a good time to be taking greater risks (76%).
- The 62% of CFOs who said *now is not a good time* to be taking greater risks could be taking into account continued—albeit declining—inflation; major increases in interest rates; the ongoing impacts of the Russia-Ukraine war and other geopolitical issues, such as China-Taiwan tensions; and fears of a possible recession.

Risk appetite: Is this a good time to be taking greater risks? (N=112*)
Percent of CFOs saying it is a good time to be taking greater risks



*112 (100%) of respondents across eight industries answered.

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ASSESSMENTS OF MARKETS AND RISK: MOST WORRISOME INTERNAL RISKS

Talent, especially retention issues, continued to dominate CFOs' list of internal worries. Although fewer CFOs than in recent quarters expressed worries over COVID-19, they remained concerned about the pandemic's impact on working arrangements. Workforce and other challenges also have taken a toll on their ability to prioritize initiatives and execute on their organizations' strategies—another set of internal concerns.

Managing costs and strengthening financial performance, particularly in today's economic environment, were also often-cited as internal risks. Other concerns CFOs mentioned included the ability to make continuous improvements and keeping pace with technology and innovation.

Which internal risk worries you most? (Key themes)

Sample themes, subthemes, and comments for CFOs' internal risk worries (While we have attempted to display CFOs' verbatim comments wherever possible, we have abbreviated some comments in the interest of space and participant confidentiality.)

Retention & related challenges (35)

- *Attrition in key positions.*
- *High staff turnover.*
- *Leadership and workforce turnover. Difficult and expensive to attract and retain quality talent.*
- *Loss of key talent to market/competition.*
- *Lower bonuses affecting employee retention.*
- *Post-pandemic fatigue and trauma.*
- *Stamina. It has been a long 2 years of significant change. I worry about the ability to power through the next disruption.*

Talent (26)

- *Ability to hire key talent.*
- *Availability of qualified people.*
- *Compensation expectations, title changes.*
- *Having appropriate staffing to grow the business.*
- *Hybrid work from home adjustment.*
- *Resource availability.*
- *Unionization pressures.*
- *Workforce engagement.*

Prioritization & execution (20)

- *Ability to maintain momentum on long-term growth initiatives in the face of lower near-term demand and cost actions taken in response.*
- *Focus on execution of margin expansion initiatives (i.e., what we can control).*
- *Our ability to ruthlessly prioritize and make progress on our strategy.*
- *Recognition of future change and status quo never stays.*
- *Speed to adapt to changing market needs.*

Cost management (13)

- *Ability to reduce SG&A as we face lower revenues.*
- *Cost cutting, leading to higher operational risk.*
- *Increased cost of capital.*
- *Managing costs in an inflationary environment.*
- *Managing rising wage costs which could be followed closely by a recession.*
- *Pressure on costs.*

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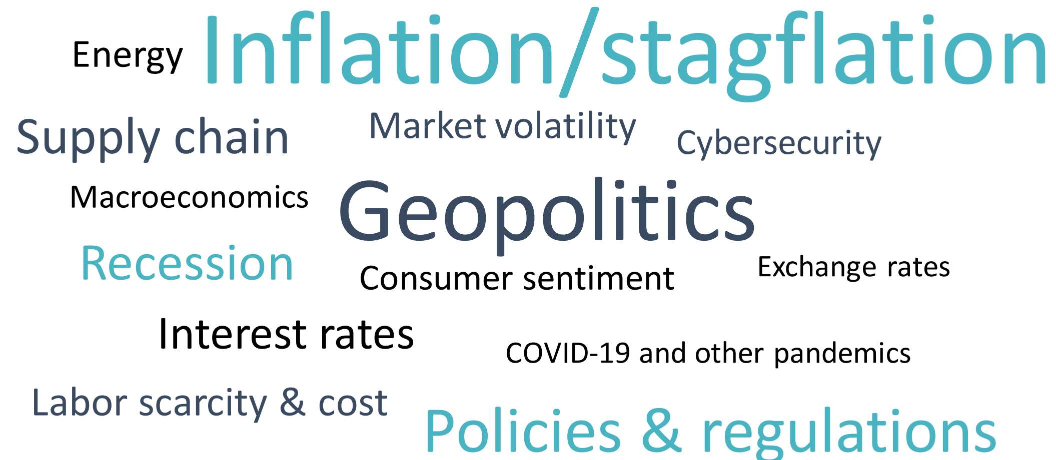
ASSESSMENTS OF MARKETS AND RISK: MOST WORRISOME EXTERNAL RISKS

Inflation—and to a lesser extent stagflation—and geopolitics stood out most prominently among CFOs' long list of external risks. This quarter, there were more mentions of policies and regulations as a significant concern, while some also noted recession and higher interest rates as their most worrisome risks.

CFOs also cited this quarter supply chain challenges, market volatility, cybersecurity, and notably energy as their top external risks, possibly because of the ongoing Russia-Ukraine war and other geopolitical developments.

Which external risk worries you most? (Key themes)



Sample themes, subthemes, and comments for CFOs' external risk worries (While we have attempted to display CFOs' verbatim comments wherever possible, we have abbreviated some comments in the interest of space and participant confidentiality.)

Inflation/stagflation (55)

- *Continued inflation.*
- *Continuing inflation pressure on healthcare costs.*
- *Inflation (including diesel costs).*
- *Inflation pressures on labor and supply costs.*
- *Overall macro conditions, including inflation and consumer spending.*
- *Persistent inflation with rising interest rates*
- *Stagflation*

Geopolitics (39)

- *China/US relations.*
- *Geopolitical (Russia/China) which can lead to higher inflation (and inability to control it).*
- *Geopolitical-based attacks.*
- *Geopolitical conflicts, particularly two or more regions at once (e.g., Ukraine and Taiwan).*
- *Global wars—Russia escalating beyond Ukraine. China pursuing Taiwan. Iran getting nuclear weapons.*
- *Potential global food shortage which can negatively impact the economy.*

Policies & regulations (21)

- *Fed actions.*
- *Fiscal and taxation policy.*
- *Government and NGO overreach.*
- *Government regulation.*
- *Higher corporate tax rates in the US and globally.*
- *Regulation and federal policies.*
- *Tougher regulatory environment.*
- *Unclear ESG regulations.*

Recession (18)

- *Broad economic downturn that is meaningful enough to impact residential fixed investment despite an overall shortage of housing units.*
- *Demand weakening due to recession.*
- *Possible recession.*
- *Recession in Europe.*
- *Recessionary pressures.*

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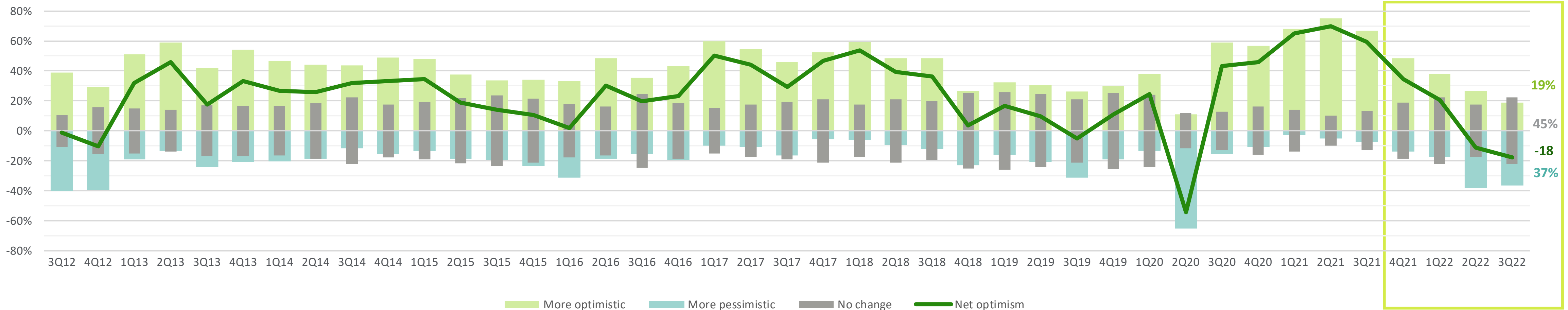
EXPECTATIONS FOR OWN COMPANY'S FINANCIAL PROSPECTS

Compared to the previous quarter, the percentage of CFOs expressing more optimism for their companies' financial prospects fell to 19% from 27%. This figure is the lowest it has been since the 2Q20 survey, when the COVID-19 pandemic was sweeping across the world.

- Overall, CFOs' level of net optimism (percent of CFOs citing rising optimism regarding their companies' prospects minus the percent citing falling optimism) declined this quarter to -18 from -11 in 2Q22, as 37% of CFOs indicated declining optimism and 19% expressed rising optimism.
- Net optimism among US CFOs fell noticeably, dropping to -22 in 3Q22 from -10 in 2Q22.
- Among CFOs of Canadian companies, net optimism slightly increased to -10 from -13 last quarter. The majority of Canadian respondents (50%) indicated their level of optimism was broadly unchanged; that compares to 63% in 2Q22. The net optimism among CFOs of Mexican companies rose markedly to +40 from -33 in 2Q22. *Note: Only 9% and 5% of participants were from Canada and Mexico, respectively, so the sample size was much smaller than for the US.*
- Services, Technology, and Telecom/Media/Entertainment industries indicated an overall neutral net optimism, which was the most optimistic of the eight industries represented. The lowest levels of net optimism were in Manufacturing, Retail/Wholesale, and Healthcare/Pharma at -33, -36, and -38, respectively. *Note: Keep in mind that the number of respondents varies by industry, and certain industries have a smaller respondent pool.*

Compared to three months ago, how do you feel now about the financial prospects for your company? (N=112*)

Percent of CFOs citing higher optimism (green bars), lower optimism (blue bars), and no change (gray bars); net optimism (line) is the difference between the green and blue bars.



Net optimism by country and industry

Total	US	Mexico	Canada	Energy/Resources	Financial Services	Healthcare/ Pharma	Manufacturing	Retail/Wholesale	Services	Technology	Telecom/Media/ Entertainment
-18	-22	+40	-10	-17	-4	-38	-33	-36	+0	+0	+0

*112 (100%) of respondents across eight industries answered.

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EXPECTATIONS FOR GROWTH IN KEY METRICS, YEAR OVER YEAR

For the second quarter in a row CFOs lowered their YOY growth expectations for revenue, earnings, and capital spending from the prior quarter. They also reduced their growth expectations for both domestic wages/salaries and domestic hiring—the first noticeable decrease since the 2Q20 *CFO Signals* survey.

- **Revenue growth** decreased to 6.2% from 7.8% in 2Q22. CFOs in Technology, Energy/Resources, and Services reported the highest expectations, at 10.1%, 8.3%, and 8.2%, respectively.
- **Earnings growth** also declined, to 6.4% from 8.4% in 2Q22. Retail/Wholesale, Services, and Technology had the highest expectations, at 11.8%, 9.4% and 9.2%, respectively. Financial Services (1.9%) and Telecom/Media/Entertainment (0.3%) reported the lowest expected earnings growth.
- **Capital spending growth** expectations fell to 4.3% from 11.2% in 2Q22. Services (11.9%) and Healthcare/Pharma (7.2%) indicated the highest expectations, while Retail/Wholesale (1.0%) and Financial Services (1.7%) noted the lowest expectations.
- **Dividend growth** remained flat on a quarter-to-quarter basis, at 4.0%. Industries expecting the greatest growth in dividends were Healthcare/Pharma and Retail/Wholesale, at 7.2% and 6.2% respectively.
- **Domestic wages/salaries growth** expectations decreased to 4.8% from 5.3% in 2Q22. CFOs' growth expectations ranged from 4.5% to 6.7% across the eight industries represented in this survey.
- **Domestic hiring growth** fell as well, to 2.6% from 5.3% in 2Q22. Growth expectations ranged from zero percent in Telecom/Media/Entertainment to 3.8% in Retail/Wholesale.

Performance and investment expectations

Compared to the past 12 months, how do you expect key metrics to change over the next 12 months? (N=112)*

Growth expectations by country and industry

	Total	US	Mexico	Canada	Energy/ Resources	Financial Services	Healthcare/ Pharma	Manufacturing	Retail/ Wholesale	Services	Technology	Telecom/Media/ Entertainment
Revenue	6.2%	6.6%	5.2%	2.5%	8.3%	3.4%	5.5%	5.3%	7.5%	8.2%	10.1%	4.3%
Earnings	6.4%	7.1%	4.8%	0.1%	8.8%	1.9%	6.3%	5.1%	11.8%	9.4%	9.2%	0.3%
Capital spending	4.3%	3.9%	10.7%	4.3%	2.2%	1.7%	7.2%	4.9%	1.0%	11.9%	4.4%	5.0%
Dividends	4.0%	3.7%	13.0%	2.2%	4.2%	3.9%	7.2%	4.1%	6.2%	3.7%	1.3%	0.7%
Domestic wages	4.8%	4.7%	6.5%	4.6%	4.8%	4.7%	4.6%	4.5%	5.3%	5.0%	4.5%	6.7%
Domestic hiring	2.6%	2.6%	4.0%	1.0%	1.2%	2.3%	2.5%	2.7%	3.8%	2.6%	2.5%	0.0%

*112 (100%) of respondents across eight industries answered.

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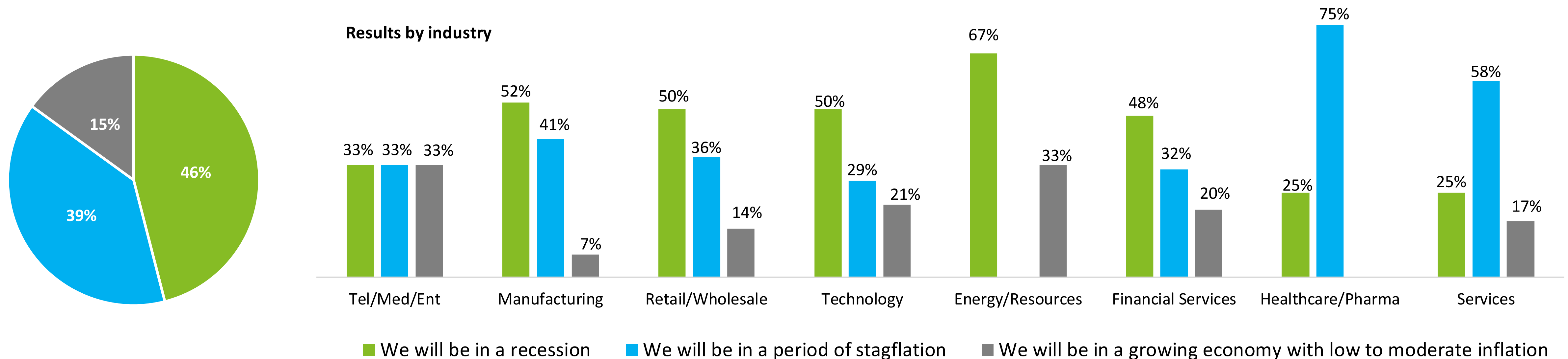
RECESSION, STAGFLATION, OR GROWTH WITH SOME INFLATION?

Just under half (46%) of the surveyed CFOs said they expect the North American economy to be in a recession by 2023. Many are taking steps to recession-proof their organizations (see page 16 for examples).

Slightly more than one-third of CFOs (39%) noted they expect the North American economy to be in a period of stagflation by 2023. Another 15% expressed a more optimistic outlook, indicating they expect the region's economy to be growing with low to moderate inflation by the time the New Year rolls in.

Where do you expect the North American economy to be by 2023? (N=111*)



*111 (99%) of respondents across eight industries answered.

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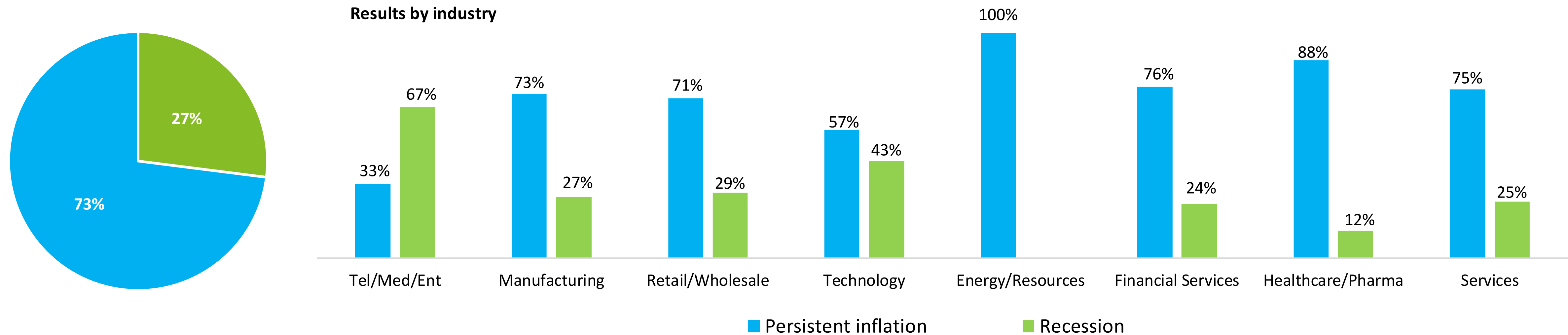
WHAT CONCERNS CFOS MOST: RECESSION OR PERSISTENT INFLATION?

CFOs' concerns over persistent inflation outweighed angst over the possibility of a recession nearly three to one. Results varied by industry. For example, CFOs in Energy/Resources (100%) were most concerned about persistent inflation, as were more than three-quarters (88%) of CFOs in Pharma/Healthcare. CFOs in the Telecom/Media/Entertainment industry showed most concern about a recession, at 67%, compared to 33% who were most concerned about persistent inflation.

At the time of releasing these survey results, inflation was hovering at around 8.5%, and the Inflation Reduction Act had been recently signed into law.

What are you most concerned about – recession or persistent inflation? (N=112*)



*112 (100%) of respondents across eight industries answered.

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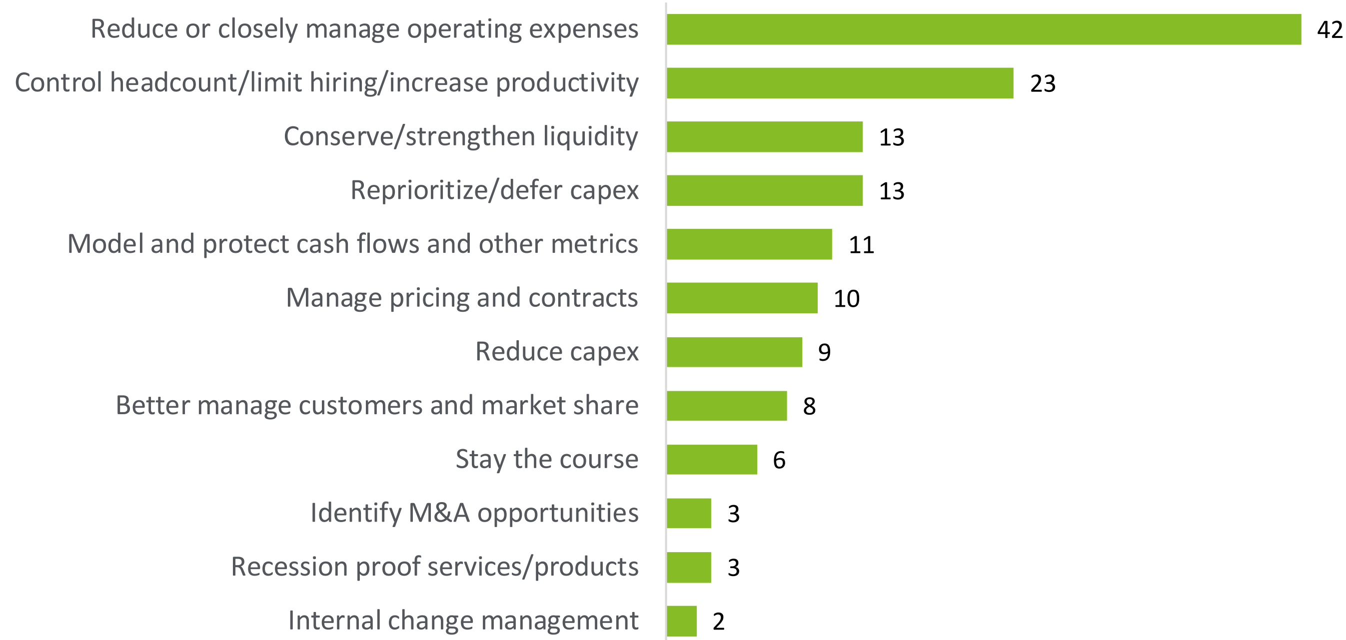
ACTIONS SOME CFOS ARE TAKING TO PREPARE FOR THE POSSIBILITY OF A RECESSION

Those CFOs who anticipate a recession are taking a number of actions to get prepared. The most-often cited step is reducing or closely managing operating expenses. Actions some CFOs are taking to prepare for a possible recession revolve around talent—controlling headcount, limiting hiring, and increasing productivity, for example. A number of CFOs are revising their capital expenditures to determine whether any could be reprioritized, deferred, or reduced. In addition, several CFOs are evaluating their customers, services, and/or products to identify opportunities to help recession proof their organizations. M&A is another strategy a handful of CFOs are considering to defend against a possible recession.

If you anticipate a recession, what actions are you taking to prepare? (N=81*)
Most frequently cited comments by category (number of CFOs citing each category)**



*81 respondents (72% of total). Total number of comments is more than the total number of respondents because some CFOs cited multiple actions.

**Note, these categories were developed based on responses to open-ended text questions.

Sample comments (While we have attempted to display CFOs' verbatim comments wherever possible, we have abbreviated some comments in the interest of space and participant confidentiality.)

- *Hiring restrictions, less pay increases (especially given wage inflation of past couple of years).*
- *Accelerated commercial contract negotiations.*
- *Recession resilient customer segments and how we serve them better.*
- *We are beginning to limit hiring of salaried headcount and only replacing essential roles.*
- *Ensuring we have significant financial liquidity to enable us to make opportunistic acquisitions.*
- *Closely monitoring forecast scenarios (internally-developed) for rate of top-line growth relative to expense levels.*
- *Our balance sheet is very strong so we will look to capitalize on the opportunities that a recession may present. As a retailer, we are mindful of the need to change our pricing/promotion strategy to maintain market share.*
- *Ensuring we are invested in good quality companies with good management teams so we can ride out a potential recession.*
- *Reassessing which markets we are targeting and aggressively pursuing the capture of market share.*
- *Optimizing existing asset utilization and employee efficiency.*
- *Focus on our internal transformation.*

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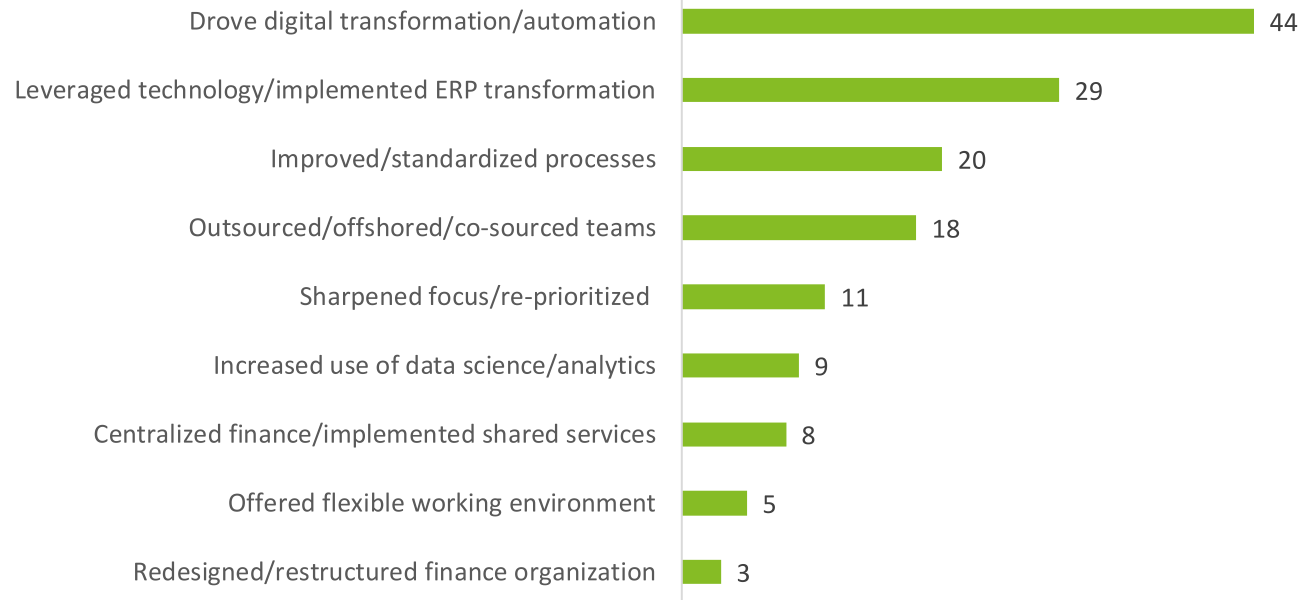
SPECIAL TOPIC: WORK,WORKFORCE,WORKPLACE

In recent years, many CFOs have sought to elevate their finance organizations' ability to serve a broadening set of business needs. To meet increasing demands, CFOs have often had to alter, reduce, streamline—and even redesign—the work their teams perform. And the challenge has not necessarily been doing more with less, but rather, doing higher-value work in a smarter way, particularly in light of the Great Resignation.

So this quarter, we asked CFOs what actions, if any, have they taken regarding the types of work their finance organizations perform. The responses fell into nine broad categories as depicted below. Driving digital transformation and/or automation; leveraging technology and/or transforming ERP; and improving and/or standardizing processes were cited most frequently. Mentioned less frequently were centralizing finance and/or adopting a shared services model; providing a flexible work environment (although 71% of CFOs said providing workplace flexibility was among the top three actions they found to be most effective in retaining talent at their organization—see page 20 for details); and organizational redesign or restructuring.

If you have taken any steps in the past year to alter, reduce, or streamline the types of work your finance organization does, please describe the actions you've taken? (N=89*)



*89 respondents (80% of total respondents). Total number of comments is more than the total number of respondents because some CFOs cited multiple actions.

**Note, these categories were developed based on responses to open-ended text questions.

Sample comments

- *Have tried to tier up talent levels to more high-value activities.*
- *Moved to more digitization, continually seeking ways to automate the routine, eliminating unnecessary tasks or outsourcing routine work if possible.*
- *Reduced layers, increased span of control, and invested in data science/automation.*
- *Narrowed focus to most critical improvement projects and proactively stopped all others to help ensure alignment on what matters most.*
- *We have invested extensively in new and upgraded finance systems to increase efficiency and accuracy, while reducing costs. Rather than reducing finance labor, we are redeploying human capital to more value-added work.*
- *We have co-sourced work in lower-cost markets and have continued to standardize processes across our various businesses.*
- *After never offshoring administrative jobs, we have begun building out a team in offshore to alleviate lower value-add work from junior positions in our local offices.*

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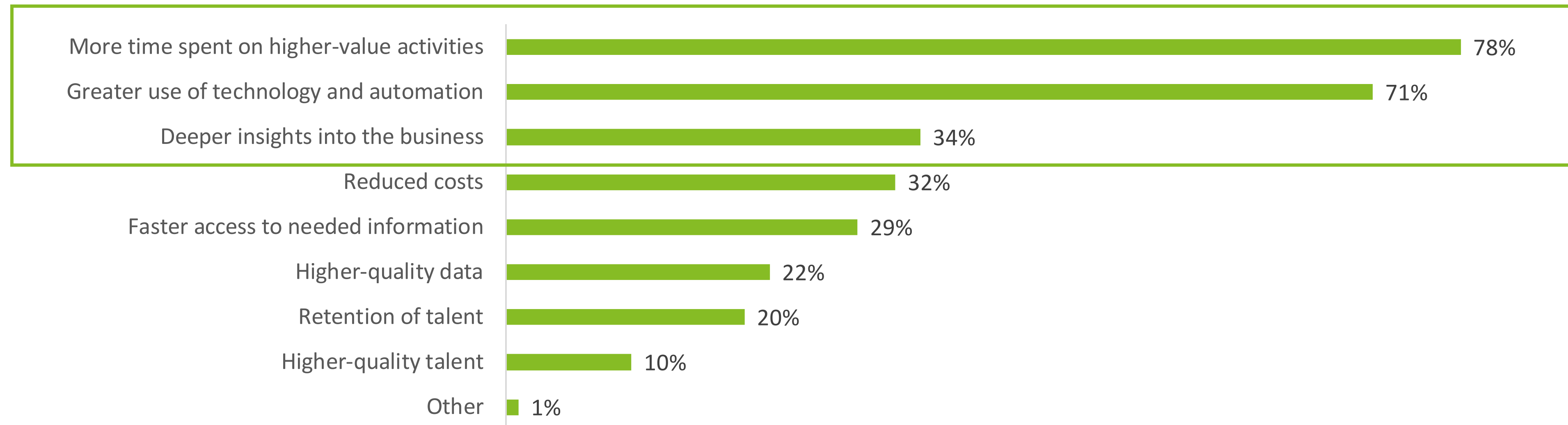
Those CFOs who took steps to alter, reduce, or streamline the types of work their finance organizations perform noted several benefits. More than three-quarters of CFOs said their finance organizations have been able to spend more time on higher-value activities as a result, and 71% of CFOs reported they have been able to increase their teams' use of technology and to automate various tasks.

About one-third of CFOs reported that their finance organizations have been able to gain deeper insights into the business as a result of the actions they have taken to reshape the work their finance teams perform. Cost reductions, faster access to information, and higher-quality data were also noted. Interestingly, a smaller percentage of CFOs indicated they were able to retain talent (20%) and attract higher-quality talent (10%) as a result of their efforts to change the type of work their finance organizations perform.

The one other impact that was cited was "ability to grow the business without adding resources."

If you have taken steps to alter, reduce, or streamline the types of work your finance organization performs, what have been the top three most significant impacts of those changes? (N=97*)



*97 respondents (87% of total).

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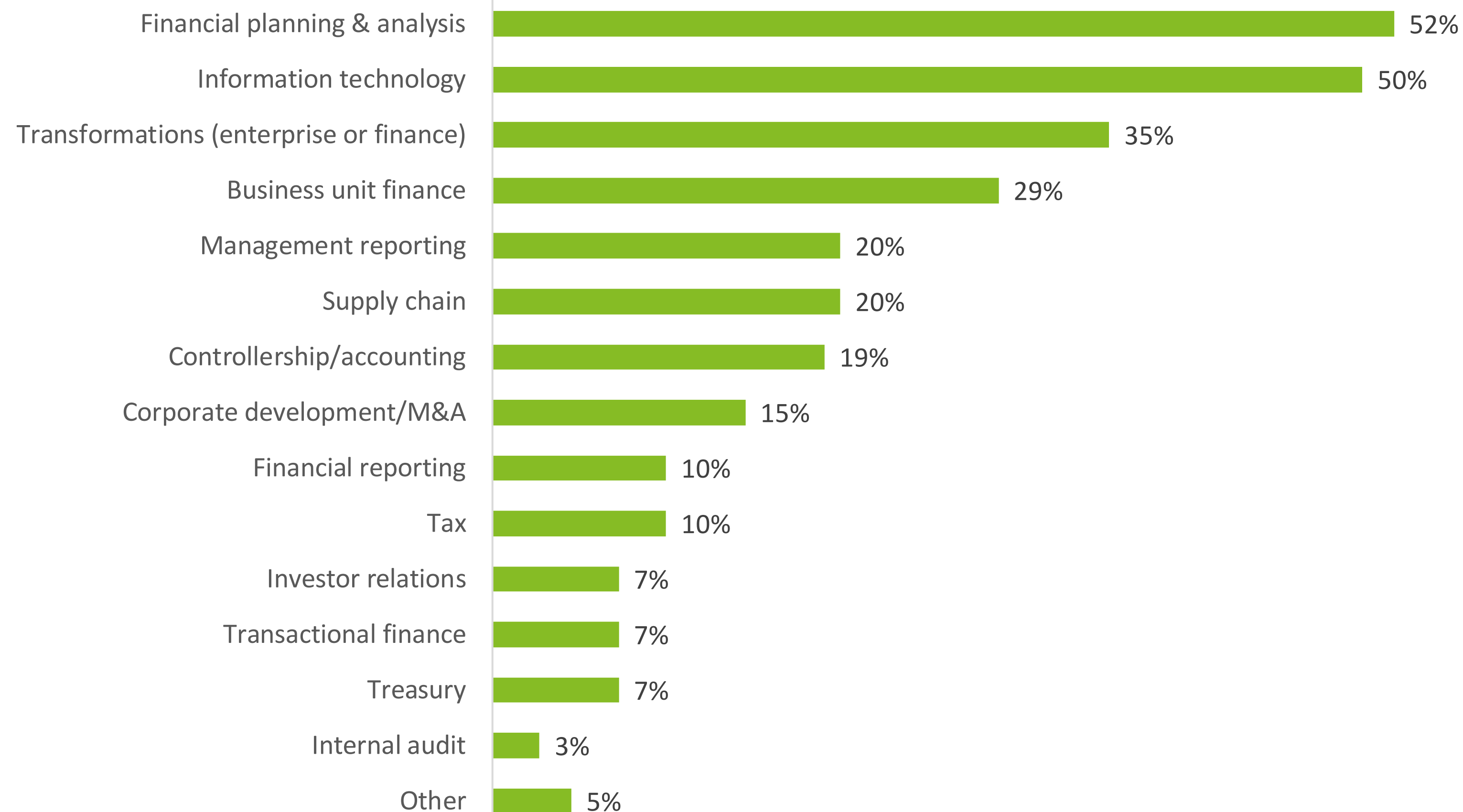
SPECIAL TOPIC: WORK,WORKFORCE,WORKPLACE

More than half of CFOs cited financial planning and analysis (52%) and information technology (50%) as the capabilities that most require greater investment in their finance organizations. More than one-third of CFOs (35%) indicated that capabilities to manage transformations—whether enterprise-wide or finance specific—most require greater investment, while 29% pointed to business unit finance as the capabilities most requiring greater investment. These results align with findings in previous *CFO Signals* surveys. In 1Q21 CFOs cited FP&A as the area they would most like to improve. When we asked CFOs in 1Q22 what three things their IT function could improve to get more value they most frequently cited speed, agility, and innovation; governance, accountability, and transparency; talent, skills, and business acumen; and digitization. In 2Q21, 72% of CFOs said their finance organizations would need to provide better decision support as a result of their organizations' transformations. And in our 4Q21 report, CFOs ranked business unit leaders or presidents second to CEOs as having the greatest impact on their organizations and on their personal success.

Which capabilities most require greater investment in your finance organization? (N=110*)



*110 respondents (99% of total).

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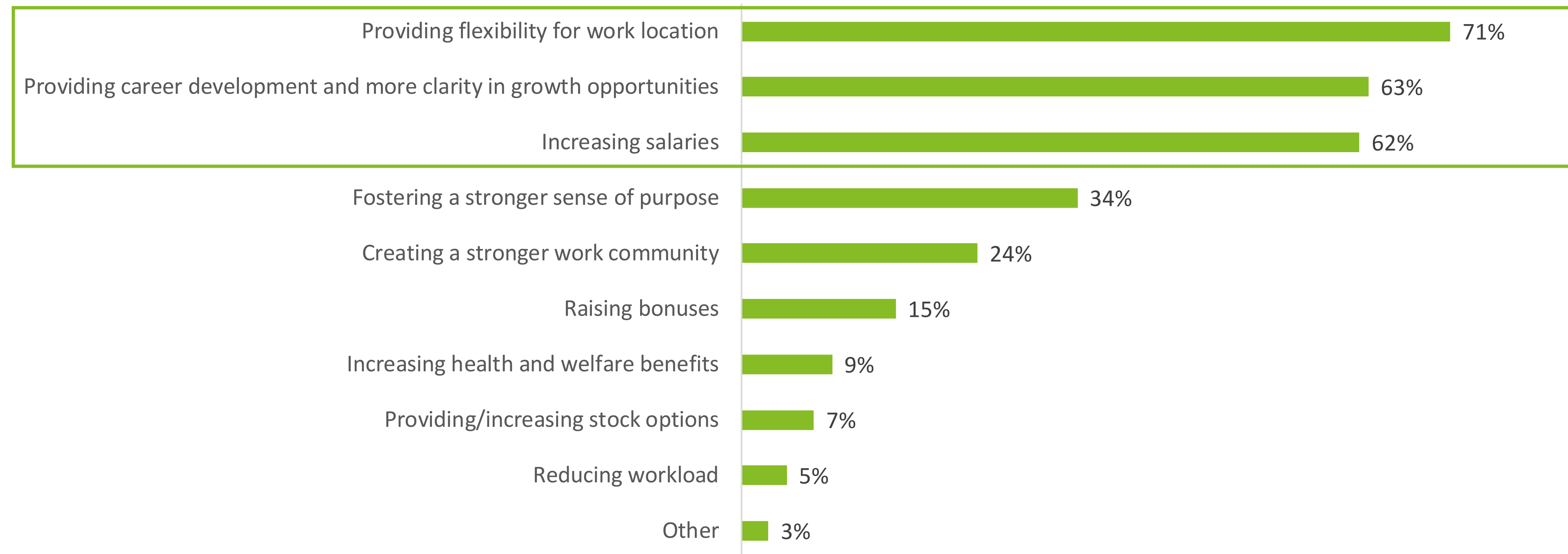
SPECIAL TOPIC: WORK, WORKFORCE, WORKPLACE

Nearly three-quarters of CFOs indicated that providing work location flexibility has been the most effective action in retaining talent not just in finance, but more broadly. This result could help explain why 86% of CFOs said their organizations plan to use the hybrid workplace model for 2023 (see page 22 for details).

Providing career development, as well as more clarity in growth opportunities (63% of CFOs), and increasing salaries (62% of CFOs) were cited as the next two most effective actions in retaining talent. More than one-third of CFOs (34%) found fostering a stronger sense of purpose to be effective in retaining talent, and nearly one-quarter (24%) said creating a stronger work community has been a valuable tool in talent retention.

Interestingly, raising bonuses, increasing health and welfare benefits, providing or increasing stock options, and reducing workload appeared to be less effective in retaining talent.

Which three actions have you found to be most effective in retaining talent at your organization? (N=110*)



*110 respondents (98% of total).

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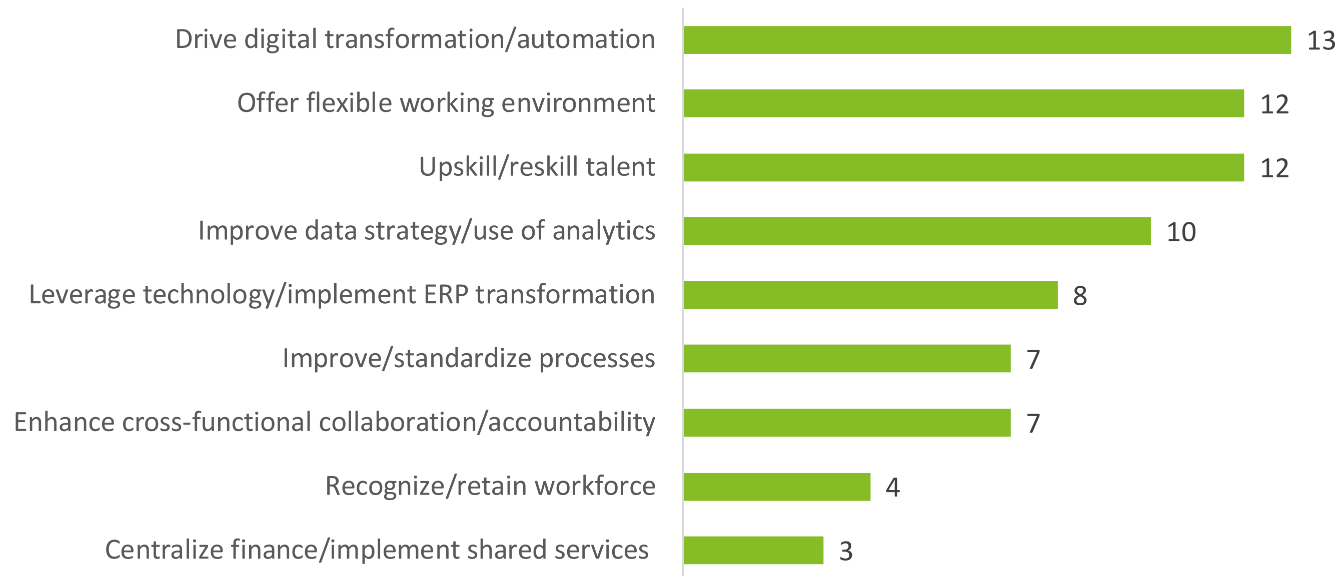
SPECIAL TOPIC: WORK, WORKFORCE, WORKPLACE

If CFOs could make one change to increase the effectiveness of their finance workforce, it would be driving digital transformation/automation, which was the most often-cited category of desired changes. Offering a flexible environment and upskilling/reskilling talent followed closely behind. These latter two change categories align with the actions CFOs said they had found to be most effective in retaining talent at their organizations: Providing flexibility in work location and providing career development and more clarity in growth opportunities.

Other changes CFOs said they would make to increase the effectiveness of their finance workforce model included improving data strategy/use of analytics and leveraging technology/implementing ERP transformation. To a lesser extent, CFOs also cited improving/standardizing processes and enhancing cross-functional collaboration and accountability as changes they would make. A few CFOs said no change was needed.

What one change, if any, would you make to your finance workforce model to increase its effectiveness? (N=71*)
Most frequently cited comments by category (number of CFOs citing each category)**



*71 respondents (63% of total). Total number of comments is more than the total number of respondents because some CFOs cited multiple actions.)

**Note, these categories were developed based on responses to open-ended text questions.

Sample comments

- *Accelerate automation and data science capabilities.*
- *Broadly upgrade talent.*
- *Career development and clarity in opportunities.*
- *Improve systems to allow talent to focus more on value-add work.*
- *Improve collaboration with business leaders around value creation opportunities.*
- *Regain focus and streamlining routine processes to enable people to expand roles (and limit external hiring requirements by promoting from within).*
- *Better cross-functional capability, e.g., accounting and FP&A; for example, the ability to analyze, synthesize, and advise on financial outcomes is critical in virtually every role that is not simply transactional.*
- *Continued investment in higher talent levels. Although more expensive, the productivity, innovation, and value added through more talented and seasoned people make up for the higher costs.*

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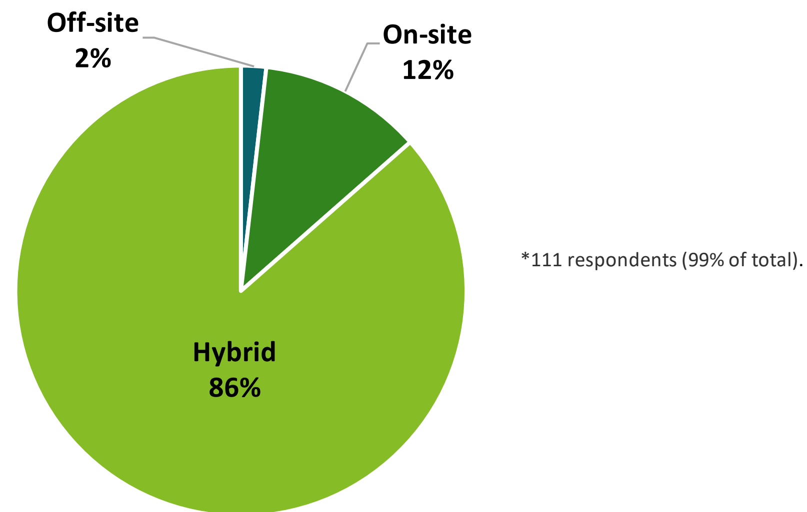
SPECIAL TOPIC: WORK, WORKFORCE, WORKPLACE

Hybrid took top place for the workplace model CFOs said their overall enterprise—not just their own finance organization—will use in 2023, assuming COVID-19 or other events do not preclude working on-site. While industries varied in their expectations, a collective 86% of CFOs pointed to hybrid, compared to 12% who said that their enterprises expect their workforce to be on-site in 2023. Only 2% of CFOs indicated off-site as their enterprises' workplace model in 2023, and those were primarily in Services. So at least for the foreseeable future, it appears that hybrid is going to be the preferred workplace model.

Which of the following workplace models do you expect your overall enterprise to use in 2023, assuming COVID-19 cases or other events do not preclude on-site work? (N=111*)



*111 respondents (99% of total).

Results by industry	Financial Services	Manufacturing	Energy/Resources	Healthcare/ Pharma	Retail/Wholesale	Services	Technology	Tel/Med/Ent
Hybrid	88%	83%	83%	88%	92%	92%	86%	67%
On-site	12%	13%	17%	13%	8%	0%	14%	33%
Off-site	0%	3%	0%	0%	0%	8%	0%	0%
Sample (N)	*25*	*30*	*6*	*8*	*13*	*12*	*14*	*3*

Note that the sum of percentages within certain industries do not add to 100% due to rounding.

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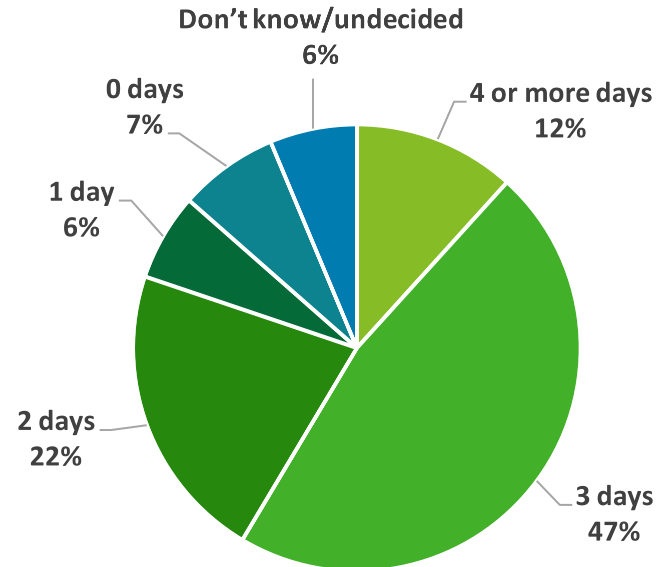
SPECIAL TOPIC: WORK,WORKFORCE,WORKPLACE

Nearly half of CFOs (47%) said they expect the majority of their own finance teams to work on-site three days per week, and more than one-fifth (22%) indicated two days a week. A smaller percentage—12%—said they expect the majority of their finance teams to work on-site four or more days per week, while 6% indicated just one day per week. Seven percent of CFOs, primarily in the Telecom/Media/Entertainment, Services, and Healthcare/Pharma industries, indicated zero days for the majority of their finance teams to work on-site.

How many days per week do you expect the majority of your finance team to work on-site? (N=111*)

*111 respondents (99% of total).



Results by industry	Financial Services	Manufacturing	Energy/Resources	Healthcare/ Pharma	Retail/ Wholesale	Services	Technology	Tel/Med/Ent
4 or more days	12%	7%	33%	25%	15%	0%	14%	0%
3 days	44%	67%	33%	13%	31%	75%	29%	33%
2 days	28%	13%	33%	38%	23%	8%	21%	33%
1 day	12%	0%	0%	0%	8%	0%	21%	0%
0 days	4%	7%	0%	13%	8%	17%	0%	33%
Don't know/undecided	0%	7%	0%	13%	15%	0%	14%	0%
Sample (N)	*25*	*30*	*6*	*8*	*13*	*12*	*14*	*3*

Note that the sum of percentages within certain industries do not add to 100% due to rounding. Green highlights indicate the option selected most frequently within the industry.

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Important notes about this survey report

The Deloitte North American *CFO Signals™* survey is a quarterly survey of CFOs from large, influential companies across North America. Each quarter since 2Q10, *CFO Signals* has tracked the thinking and actions of CFOs representing many of North America's largest and most influential companies. All respondents are CFOs from the US, Canada, and Mexico, and the vast majority are from public and private companies, predominantly with more than $1 billion in annual revenue. Participation is open to all industries except for public sector entities.

The purpose of the survey is to provide these CFOs with quarterly information regarding the perspectives and actions of their CFO peers across four areas: business environment, company priorities and expectations, finance priorities, and CFOs' personal priorities. Participating CFOs have agreed to have their responses aggregated and presented. At the opening of each survey period, the CFOs receive an email containing a link to an online survey hosted by a third-party service provider. The response period is typically two weeks, and CFOs receive a summary report generally two to three weeks after the survey closes.

As a "pulse survey," *CFO Signals* is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population, but does not necessarily indicate economy- or industry-wide perceptions or trends.

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