CFO optimism down sharply

Inflation, supply chain and labor issues are top concerns

Net optimism is down 12%, from 69% to 57%, while net pessimism has almost doubled, from 11% to 21%.

While CFOs on balance remain more optimistic than pessimistic when asked about the outlook for the U.S. economy over the next six months, net optimism is down 12%, from 69% to 57%, while net pessimism has almost doubled, from 11% to 21%. Inflation is one major cause for concern.

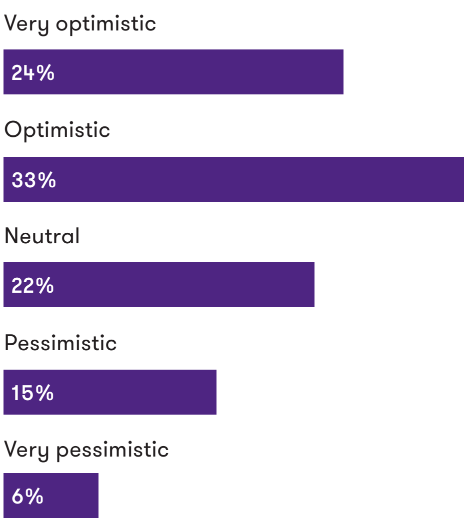
It is worth noting that the Q4 survey was completed just as news of the Omicron variant was breaking and likely doesn't fully reflect its effect on CFO outlook. The number of businesses expecting a negative impact from a new COVID-19 variant was essentially unchanged (52% in Q3 versus 51% in Q4), but Omicron may well have further eroded CFO optimism.

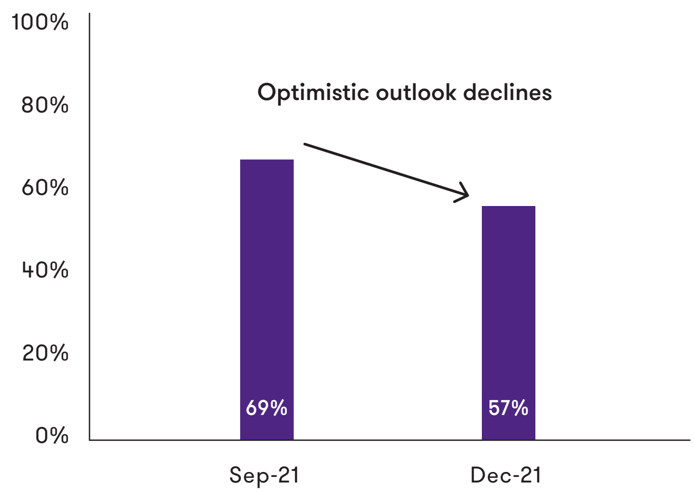
"In Q1 and Q2, with vaccines being rolled out and COVID numbers falling, there was a sense we would put the pandemic behind us more quickly," says Enzo Santilli, National Managing Partner of Transformation at Grant Thornton LLP. "CFOs now see the fallout from the pandemic dragging on for far longer and are adjusting both their outlook and their responses accordingly."

Q4 results reflect those adjustments. When asked what actions they will pursue to address evolving disruptions, 52% of CFOs chose increased focus on cash flow, liquidity and bolstering cash reserves as their first choice — up from 35% in Q3. Almost all other options, like new or updated disruption scenarios (down 11 points), changes to operating models (down 7 points) and changes to debt or capital structure (down 7 points), declined.

Economic outlook: CFO outlook declining sharply

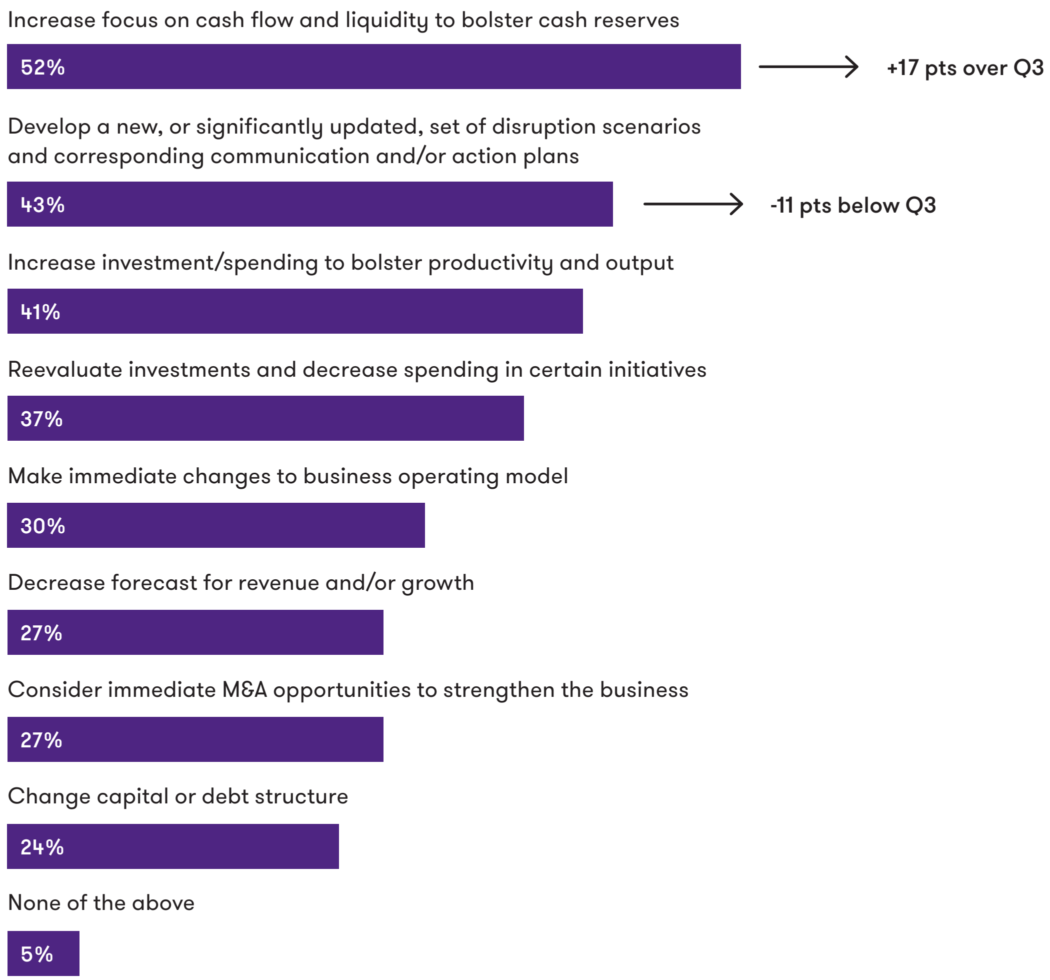
Generally speaking, how would you classify your outlook regarding the U.S. economy over the next 6 months?





Mitigating disruptions

What actions do you plan to take to mitigate the negative impacts from disruptions?



CFOs see inflation as persistent threat

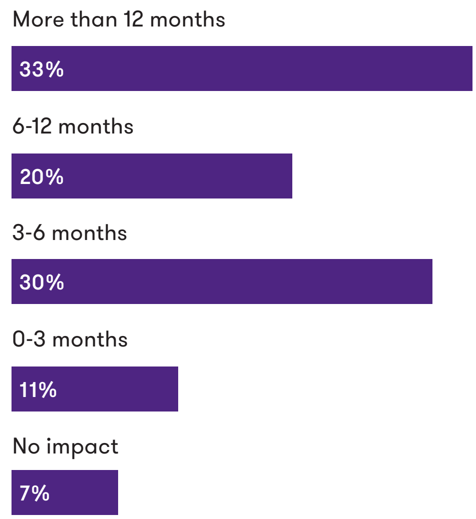
Largest companies are the most concerned

Most CFOs no longer see inflation as a short-term reaction to pandemic disruptions. More than half (53%) expect inflation to continue to impact their businesses for at least six months, while 33% expect it to persist for more than a year. Larger companies (respondents with more than $1 billion in revenue) are most concerned about inflation, with 41% expecting it to continue for more than 12 months.

Grant Thornton Chief Economist Diane Swonk thinks businesses need to brace for the Fed's reaction to inflation. "In December, the Consumer Price Index was up 7% from one year ago, the biggest jump since June 1982," says Swonk. "The Fed and other central banks now view variants as inflationary rather than disinflationary given the havoc they wreak on supply chains. Economic growth for 2021 will easily come in at the fastest pace since 1984, with inflation also back to 1980s levels. This is the first time since the 1980s that the Fed has chased inflation instead of trying to preempt it. CFOs should be prepared for rate hikes starting as soon as March."

"We're seeing inflation at rates we haven't seen in 40 years," notes Santilli. "Most CFOs, in fact most executives and managers at all levels, have gone their entire careers without having to model the effect of inflation on pricing and profits. CFOs will have to play a role in managing cost structures and effectively addressing and communicating potential margin erosion as people and material costs skyrocket."

Inflation outlook:
How long, if at all, do you anticipate inflation to have an impact your business?



Supply chain now CFOs' top challenge

Workforce remains key concern

In our Q4 survey, when we asked CFOs for the three biggest challenges facing their business, supply chain jumped 14 points from 24% to 40%, taking over from cybersecurity risks as CFOs' top concern. And, when asked which business issue was most likely to have a negative impact on their business, supply chain edged into a tie with workforce shortages, with both at 53%.

"A few companies have made national news by pulling creative end runs around some supply chain issues by taking exceptional measures such as buying their own container ships and starting to manufacture their own containers, but the vast majority of businesses are settling into a new reality that requires some very hard choices," says Ben YoKell, Grant Thornton's National Sourcing & Supply Chain Transformation Practice Leader. Some businesses are pushing prices through to customers as inflationary and wage pressures become unavoidable impacts to profitability and cash flow. Some are diversifying their suppliers in order to mitigate supply disruption risk. Others are increasing inventories. "Businesses aren't going to completely abandon just-in-time inventory practices," adds YoKell, "but some are redefining 'just' in order to build some resiliency and hedge for the now-known unknowns."

While re-shoring production and supply back into the U.S. has been evaluated and adopted to a degree, it has not been as significant as many expected during the initial shock to global supply chains. Instead, some businesses are moving toward "friend shoring" — maintaining a global supply chain for cost leverage, buffering with slightly more inventory to mitigate supply risk, but diversifying their supply base away from less friendly or less stable low-cost locations to nations with which the U.S. has better and more stable trade relations. That's one way to still provide quality supply while maintaining some cost advantages.

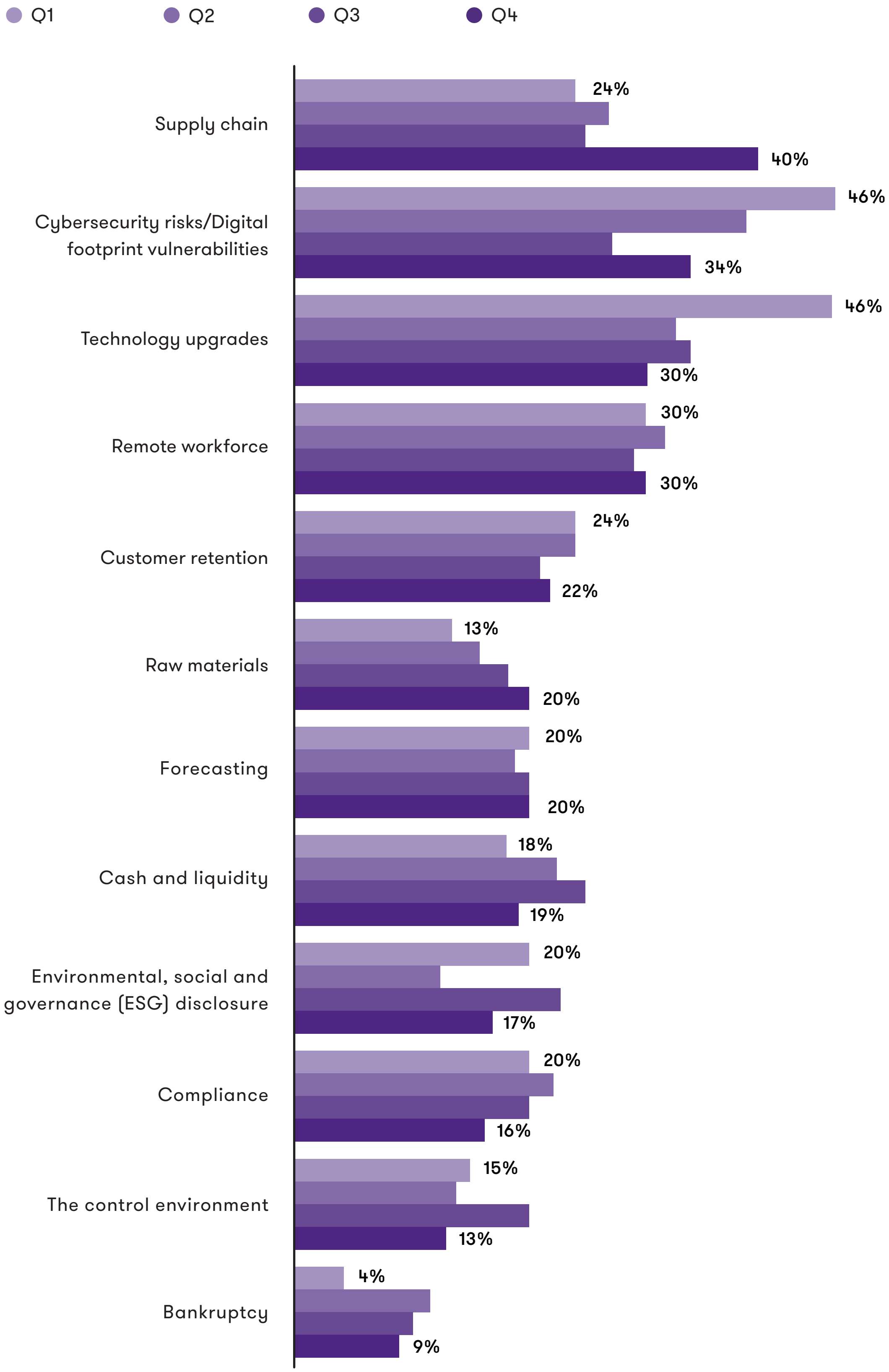
Workforce shortages are part of the supply chain problem. "Transportation companies can't find enough drivers, warehouse workers and other employees to keep materials moving. In addition to hiring, the focus needs to be on the retention of their employees. Wages are of course an important factor, but data reflects that wages are not the only driver of turnover. Career development, training and opportunities are also significant drivers," observes Angela Nalwa, Grant Thornton Managing Director and HR Transformation Leader. She expects workforce challenges to continue to confront companies for the foreseeable future.

The voluntary separations driving the Great Resignation continued to increase in December, and employment numbers don't yet reflect the full impact of the Omicron variant. "You also have some companies with calendar year ends that will begin paying out bonuses in the next several months. Some employees have probably been hanging on for those before they make a move. Attrition could easily rise after bonuses are paid," warns Tim Glowa, Grant Thornton Principal of Human Capital Services.

"All of this contributes to inflation concerns," points out Santilli. "Supply chain issues are driving up costs for businesses, and employers are having to increase pay and implement creative, often more expensive, benefits programs to compete for workers."

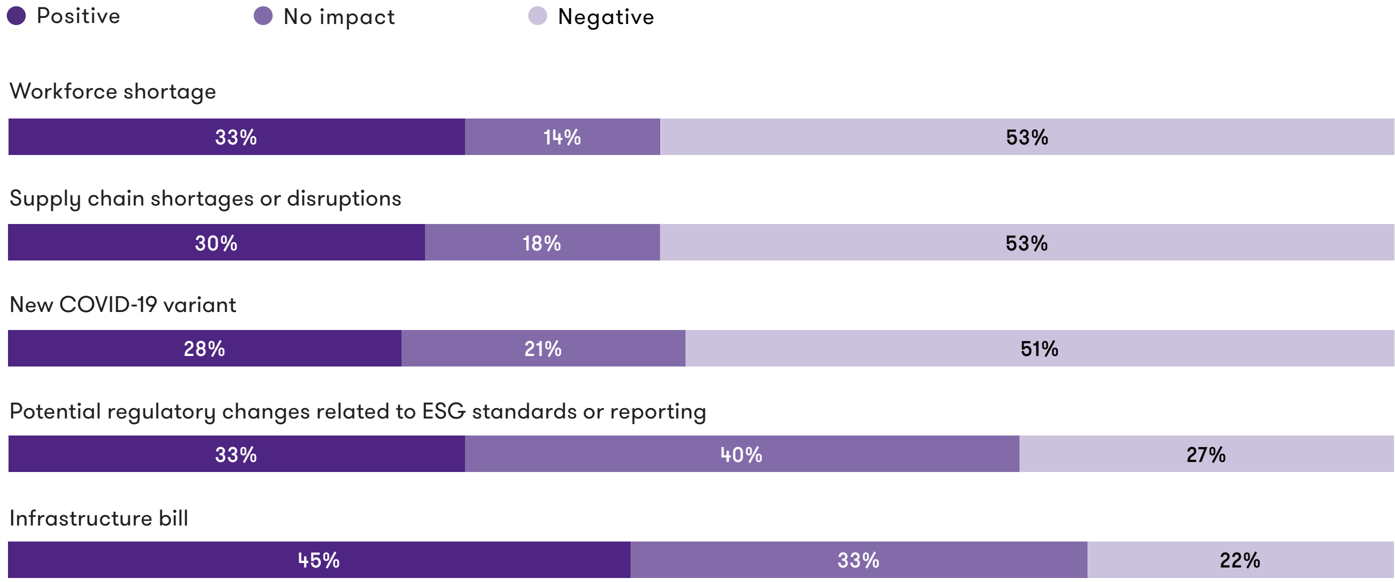
Top challenges: CFOs face challenges

Which of the following, if any, do you think are the top 3 biggest challenges your business will be facing in the remainder of 2021?



Future impact

Based on the list below, please rate how you expect the following to impact your business, if at all.



Technology investments underscore the move toward enterprise cloud transformation

Front office, back office and infrastructure all play key roles

We took a closer look at technology investments in our Q4 survey and found overall investment nearly evenly divided among front office, back office and infrastructure.

"Businesses are going to get the biggest revenue lift out of improved front office capabilities," says Rich Sittema, Principal in Grant Thornton's Transformation practice, "but it is a three-legged stool. You need to have the infrastructure and back office capabilities in place to realize that value. What this tells me is businesses are pretty evenly distributed along various stages of their transformation process because no one layer is grabbing the majority of tech spend."

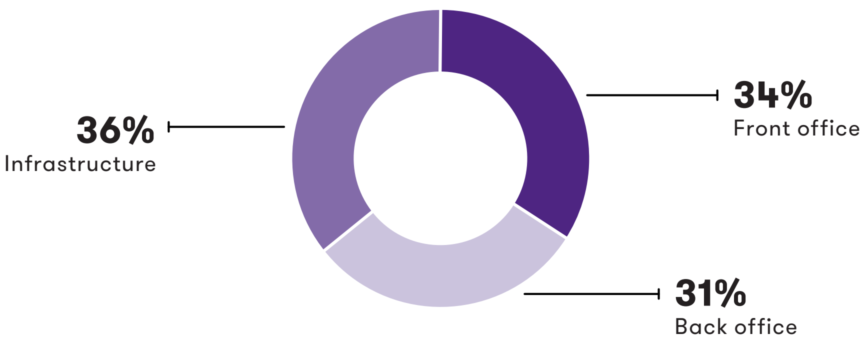
Sittema points out that a closer look at the data underscores that businesses are moving toward enterprise cloud transformation. "If you look at what respondents ranked first in each of the categories — business intelligence and analytics for front office, cost structure improvement in the back office and security for infrastructure — it all points to cloud transformation. Companies want a secure, single source of truth for their data. That empowers the kind of customer-focused customer and product level profitability analytics on the front office side that will drive growth, and it will also result in process and cost improvements in back office and infrastructure."

The increasing challenges around supply chain underscore the importance of these capabilities. "Most enterprise solutions have analytics for supply chain built in and will help you analyze and improve those capabilities," says Sittema. "But for entities that are still running their supply chains and don't have enterprise solutions, supply chain optimization in the near term is going to be difficult."

"The pandemic chaos and remote work over the past couple of years have accelerated digital transformation efforts at many companies," explains Santilli. "Being able to conduct business with customers and internally using digital means has never been more important."

Tech investment nearly evenly split

How do you plan on allocating technology investment for CY2022 among these three categories?

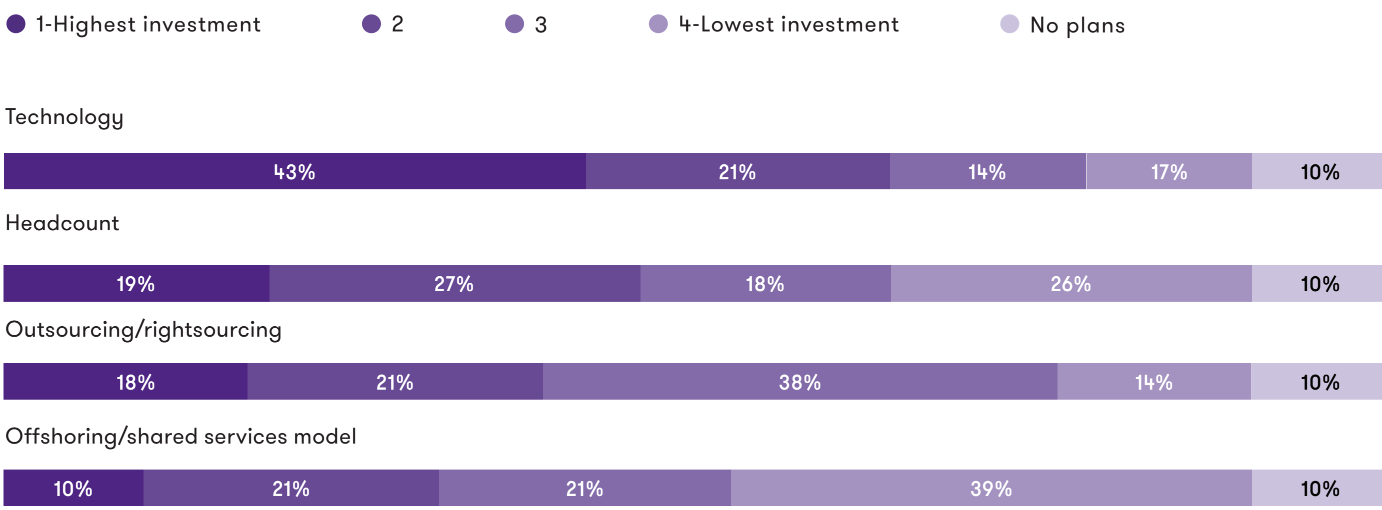


CFOs' focus on technology to improve tax function

One interesting area of note for CFOs: When asked specifically about areas of investment in tax compliance and planning, technology (43%) was the clear winner. Headcount (19%), outsourcing/rightsourcing (18%) and offshoring/shared service models (10%) trailed significantly.

Investment in tax tech

From a tax compliance and planning perspective, please rank the following investment areas for 2022



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