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CFO Signals™

What leading CFOs are thinking and doing

In 4Q21, CFOs raised their growth expectations for capital spending, domestic personnel, and wages/salaries, while lowering their expectations for growth in revenue, earnings, and dividends, compared to the prior quarter.

- Seventy-two percent of the surveyed CFOs rate the current North American economy as good, down from 78% in 3Q21; 45% expect conditions to be better a year out, a decline from 54% in the prior quarter and 62% in 2Q21. More than one-quarter (28%) of CFOs expect China's economy to be better a year out, a decline from 55% in 3Q21.
- Almost half (49%) of CFOs express more optimism about their companies' financial prospects, down from 66% in 3Q21.
- Compared to 3Q21, CFOs have lower expectations for growth in revenue (7.8%), earnings (9.6%), and dividends (3.7%). They have higher growth expectations for capital spending (11.5%), domestic hiring (5.8%), and wages/salaries (5.2%).
- Talent/labor concerns continue to dominate internal risks, while inflation and supply chain issues rank as their chief external risk concerns.
- Three-quarters of CFOs expect the Federal Reserve to raise the target interest rate for US federal funds to range between .26% and 1.0%. Nearly half of CFOs expect the rate increase to occur in the second quarter of 2022, while 23% each indicate the first and third quarter.
- The four C-suite relationships most important to CFOs' personal success are the CEO, Business Unit leaders or presidents, the Chief Operations Officer, and the Chief Technology/Information Officer.

Perceptions of the future status of regional economies: Forty-five percent of CFOs expect North America's economy to be better or much better a year from now, down from 54% in the prior quarter. Forty percent of CFOs believe Europe's economy will be better or much better in 12 months, a decline from 48% in 3Q21. CFOs' assessment of China's economy a year out also declined, with 28% expecting it to be better or much better, compared to 55% in the prior quarter. More than one-third of CFOs (37%) expect Asia's economy, excluding China, to improve in 12 months, down from 53% in 3Q21. Just 12% of CFOs expect South America's economy to improve in the same time period.

CFOs' views on risk appetite and the capital markets: More than half (57%) of surveyed CFOs say now is a good time to take on greater risk. That's a drop from 65% in the two prior quarters, but still above the two-year average of 51.7%*.

Growth expectations for key operating metrics over the next 12 months*: CFOs indicate lower expectations for year-over-year growth for revenue (7.8%), earnings (9.6%), and dividends (3.7%), compared to the prior quarter. They have higher growth expectations for capital spending (11.5%), domestic hiring (5.8%), and wages/salaries (5.2%), compared to 3Q21.

CFOs' sentiment for their companies' financial prospects compared to three months ago: About half of the surveyed CFOs (49%) express more optimism for their companies' financial prospects compared to the three months prior to the survey launch, a notable decline from 66% in the prior quarter and the prior year's fourth-quarter tally of 57%.

Most worrisome internal and external risks: Attracting and retaining talent/labor and wage inflation, along with strategy execution and the pace of technology developments and innovation, are the internal risks that worry CFOs most. Inflation, supply chain challenges, potential policy and regulatory changes, as well as COVID-19 and its variants, rank among CFOs' top external worries.

Monetary and tax developments: Thirty-eight percent of CFOs expect the target interest rate for US federal funds to range between .51% and 1.0%, while 37% believe it could land between .26% and .50%. And 18% expect the target interest rate to range between 1.1% and 3.0%. The bulk of CFOs (96%) are not making plans to adjust their offshoring arrangements as a result of the global tax agreement spearheaded by the Organisation for Economic Co-operation and Development, which set a minimum corporate tax rate of 15%.

Top priorities for 2022: Talent/labor, financial performance, and growth are the top three priorities CFOs identified for 2022, followed by strategy setting, cost management, capital allocation, and IT infrastructure.

Expectations for the North American macroeconomic environment in 2022: For the most part, CFOs agree that demand will pick up, particularly in consumer spending and business investment. They also believe that input costs—from talent/labor, oil/fuel prices, materials, supply chain, and inflation—will increase. CFOs (97%) were especially in agreement that talent/labor costs will substantially increase in 2022.

CFOs expectations for their companies in 2022: CFOs indicate several actions they plan to take in 2022 with respect to capital, growth, and operations. For example, 79% intend to allocate or reallocate capital to new business investments. Nearly three-quarters of CFOs (72%) say their organizations' range of products and services will expand, and 67% plan to pursue M&A and joint venture opportunities. An overwhelming 92% of CFOs expect to embed more technologies and automation into their operations, and 88% say their organizations will use a hybrid work model consisting of on-site and work from home.

C-suite relationships: CFOs consistently rank the top four C-suite relationships that are most important to their personal success and those that have the most impact on their company, whether financial or nonfinancial: the CEO, Business Unit leaders or presidents, the Chief Operations Officer, and the Chief Information/Technology Officer. One-quarter of CFOs name Business Unit leaders or presidents as the C-suite relationship they would like to improve to be more effective; 21% indicate the CEO and 16% the Chief Information/Technology Officer.

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* Averages have been adjusted to eliminate the effects of stark outliers.